

From: Bergin, Christopher C
Sent: Monday, August 22, 2011 4:26 PM
To: Earmarked
Cc: SIDARI, David P; Vaiana, Jerome A; Tucker, Gerald A
Subject: FASAB Requests Comments Regarding Amendments to SFFAS 27--Earmarked Funds

Thank you for the opportunity to provide comments on the above exposure draft. Attached are the Department of Housing and Urban Development's comments for this exposure draft. Please direct any questions concerning our response to me at the number listed below.

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U.S. Department of Housing and Urban Development**Response to FASAB Exposure Draft – Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27**

	Questions for Respondents	Recommendation
Q1	<p>The Board is proposing amendments to state explicitly that the source of the “specifically identified revenues or other financing sources” in paragraph 11 of SFFAS 27 must be external to the federal government, and to clarify the distinction between earmarked funds and the general fund. This issue is discussed in paragraphs A11 - A12 of the Basis for Conclusions. The proposed amendment to paragraph 11.1 of SFFAS 27 can be found in paragraph 6 of this exposure draft. Do you agree or disagree with the proposed amendment? Please provide the rationale for your answer.</p>	<p>HUD agrees. Explicitly stating that earmarked funds are revenues or other financing sources external to the federal government clears up confusion about the revenue source of earmarked funds.</p>
Q2	<p>The Board believes that funds established to account for pensions, other retirement benefits, other post-employment benefits, and other employee benefits provided to federal employees (civilian and military) should not be reported as earmarked funds and is proposing that such funds should be excluded from the category of earmarked funds. This issue is discussed in the Basis for Conclusions, paragraphs A15 - A16. The proposed amendment to paragraph 18 of SFFAS 27 can be found in paragraph 10 of this exposure draft. Do you agree or disagree with this exclusion? Please provide the rationale for your answer.</p>	<p>HUD agrees. These funds are already accounted as liabilities under SFFAS 5. The exclusion removes the large negative balances in these funds, which distort the reporting of net position of earmarked funds.</p>

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Q3	<p>The Board is proposing that component entities would have the option to continue to use the existing format of separate lines or columns to display information on earmarked funds on the face of the balance sheet and statement of changes in net position, or to use an alternative format. Some members question the need for component entities to display information on earmarked funds on the face of the balance sheet and statement of changes in net position. The Board is also proposing that the component entity level reporting should be at a sufficient level of detail to support the U.S. government-wide financial statements. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A17 - A20 and the proposed amendments in paragraph 11. Illustrative financial statements may be found in Appendix F.</p>	See Q3 (a), (b) and (c) on following pages.
Q3 (a)	<p>(a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds? Please provide the rationale for your answer.</p>	<p>HUD disagrees with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds. HUD considers it important to retain the existing format for consistency and to ease preparation and consolidation of agency wide and governmentwide financial statements. Further, we recommend reference to a detailed discussion of funds from dedicated collections in the notes, wherein a clear explanation of the change in terms from “earmarked funds” to “funds from dedicated collections” should be set forth to avoid confusion by the general public with the change in terminology.</p>

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Q3 (b)	(b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient? Please provide the rationale for your answer.	HUD disagrees with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient. HUD considers it important to display information in the existing format for consistency and to facilitate the consolidation from component entities to departmental entities.
Q3 (c)	(c) Do you agree or disagree with the proposal that the component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements? Please provide the rationale for your answer.	HUD agrees that component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements, particularly since earmarked fund information is more meaningful at the government wide level.
Q4	The Board proposes to rescind potentially confusing guidance on eliminations for component entities and instead provide that combined or consolidated amounts are permitted and that amounts be labeled accordingly. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A21 - A25 and the proposed amendments in paragraphs 11 - 12. Do you agree or disagree with this proposed amendment? Please provide the rationale for your answer.	HUD agrees with rescinding confusing guidance on eliminations and permitting combined or consolidated amounts and labeling these amounts accordingly.

U.S. Department of Housing and Urban Development

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Q5.	The Board proposes to replace the term “earmarked funds” with “funds from dedicated collections.” This issue is addressed in the Basis for Conclusions, paragraphs A6 - A8 and the proposed amendments in paragraphs 4 - 5. To facilitate review, Attachment B displays the text of SFFAS 27 with proposed amendments, including the new term. Do you agree or disagree with the Board’s proposal to rename “earmarked funds” and make conforming grammatical changes in SFFAS 27? Please provide the rationale for your answer.	HUD agrees with the proposal to replace the term “earmarked funds” with “funds from dedicated collections.” This term better identifies the funds and avoids the frequent confusion between “earmarked funds” and “earmarking funds.” We also suggest that the Board consider a shorter term for these funds, such as dedicated collections.
Q6	The following question applies to funds with a combination of (a) revenues and other financing sources that meet the criteria in paragraph 11 of SFFAS 27 (“non-federal”) and (b) general fund appropriations (“federal”). The Board proposes that to be classified as an earmarked fund, a fund should be predominantly funded by revenues from non-federal sources or have non-federal revenues supporting the fund that are material to the reporting entity. The Board has also proposed guidance for situations where the proportion of funding sources may change from year to year. This issue is discussed in the Basis for Conclusions, paragraphs A13 - A14. The proposed revised guidance is in paragraph 7. Do you agree or disagree with the proposed guidance on funds with such sources of funding? Please provide the rationale for your answer.	HUD agrees with the proposed guidance on funds with a combination of non-federal and federal revenue and other sources. The proposed guidance avoids overstatement of restricted revenue in component entity reports while minimizing reporting burdens. The Medicare Parts B and D example is especially helpful in applying the guidance.

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Q7	The Board is proposing that the amendments to SFFAS 27 have an effective date of periods beginning after September 30, 2011. Do you agree or disagree with this effective date? Please provide the rationale for your answer.	HUD is already following the existing format, which HUD intends to maintain. Thus, the effective date is not an issue for HUD. However, for agencies considering a change from the existing format to Option B, we expect that it would be difficult for such agencies to complete the implementation of the change in FY 2012.