



## OFFICE OF THE UNDER SECRETARY OF DEFENSE

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COMPTROLLER

AUG 22 2011

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6K17V  
Washington, DC 20548

Dear Ms. Payne:

The Department of Defense (DoD) appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27. The DoD has reported substantial Earmarked Funds in the past and, as a result, was very interested in the revisions proposed by the Board. In general, DoD agrees with the majority of the proposals. However, DoD feels that Earmarked Funds should only be reported in the notes to the financial statements, and not on the face of the Balance Sheet and Statement of Changes in Net Position.

Responses to specific questions are enclosed. My contact is Ms. Maryla E. Engelking. She can be reached at [maryla.engelking@osd.mil](mailto:maryla.engelking@osd.mil) or 703-602-0155.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton", is written over a horizontal line.

Mark E. Easton  
Deputy Chief Financial Officer

Enclosure:  
As stated

**Department of Defense Responses:****Questions for Respondents [Word Version of Questions to Facilitate Responses]**

Exposure Draft: *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.*

**Responses are requested by August 22, 2011.**

Q1. 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.

R1: The Department of Defense (DoD) agrees with the proposal to explicitly clarify that revenues or other financing sources for Earmarked Funds must be external to the Federal Government. The definition found in the original Standard was ambiguous. The DoD and many other Federal Agencies, therefore, reported Earmarked Funds that were funded by the General Fund of the U.S. Government. Reporting these funds abated the goals of the Standard of highlighting future financing needs and restrictions due to Earmarked Funds.

Q2. 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.

R2: The DoD agrees that funds established to account for pensions, other retirement benefits, other post-employment benefits and other employee benefits should not be reported as Earmarked Funds. Within DoD, sources for these funds are primarily the General Fund of the U.S. Government. Additionally, these funds recognize long term actuarial liabilities, which offset most of the positive net position of true Earmarked Funds.

Q3. 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.

- (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.

R3(a): The DoD disagrees with the proposal allowing an alternative format for the presentation of Earmarked Funds on the face of the Balance Sheet and Statement of Changes in Net Position. (1) The alternative format is confusing and hard to read, especially on the Statement of Changes in Net Position. (2) The use of alternative formats will hinder the compilation of the Financial Report of the U.S. Government by requiring the Department of the Treasury to realign both methodologies into one for their report. (3) The alternative proposal would require Federal Agencies to reprogram their reporting systems to allow computation within columns which were programmed to only include text, which may prove costly. (4) One standard format would be easier to read and understand by the public.

- (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.

R3(b): The DoD agrees that entities should not be required to display information on Earmarked Funds on the face of the financial statements, but disclosure should be made within the notes to the financial statements. Reporting this information in a note will make the financial statements less confusing and easier to understand by the general public. However, the face of the financial statement should direct the reader to a note discussing Earmarked Funds. Preparation of financial statements is a time-consuming process and streamlining the preparation would adhere to the current efficiency and effectiveness goals of the Office of Management and Budget (OMB).

- (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.

R3(c): The DoD agrees that component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements. This can be accomplished by developing a standard format for the Earmarked Funds note schedule and narrative, which should be disseminated in OMB Circular A-136.

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.

R4: The DoD agrees with the proposal to rescind the confusing guidance related to eliminations and allow components to report Earmarked Funds as either combined or consolidated, as long as they are labeled accordingly. There are many instances of Earmarked Fund entities working with non-Earmarked Fund entities within the DoD. The resulting eliminations have caused disconnects between what is reported on the face of the Balance Sheet and what is reported on the face of the Statement of Changes in Net Position. In total, Net Position equal, but the components of Earmarked and non-Earmarked do not always agree. Presenting Earmarked Funds as Combined will eliminate this issue for DoD. Additionally, the focus of Earmarked Funds should be on individual funds rather than on a consolidated group of funds.

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.

R5: The DoD agrees to the replacing of the term "Earmarked Funds" with "Funds from Dedicated Collections". Earmarked Funds have been continually confused with Congressional Earmarks. The DoD has received several inquiries questioning the amounts reported in its financial statements as Earmarked due to this misunderstanding. The name, "Funds from Dedicated Collections" is also a more accurate description of these funds.

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.

R6: - The DoD disagrees with the proposed guidance regarding mixed funding sources, as it adds a contingency to guidance that should be straight-forward and easily understood. If federal and public funds are comingled, provisions of footnote 5 (from

the exposure draft) should apply without regard to the materiality of the non-federal amount: (1) long-term expectations about funding sources or (2) 36-month averages. Method (2) should be required if data is available to avoid confusion and prevent selective application of one method or another. Changes in classification of funds from year to year should be avoided. Provisions need to be included that specify what circumstances would drive a switch and how it would be presented, such as requiring the component to present the change as a prior period adjustment for change in accounting principal.

**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.

R7: DoD agrees that the best time to make a change is at the beginning of a fiscal year, pending publication of the revised standard and allowing components adequate time for system changes and procedural training. Clarification is needed on whether reclassification of funds to or from Earmarked Funds will be labeled as a change in accounting principle or as an accounting error. Paragraph 26, states that components are not required to restate when there is a change in the treatment of a fund previously deemed Earmarked and vice versa. However, under the Implementation Guidance paragraph on page 19, components are required to restate prior period amounts displayed on the face of the financial statements and notes.