



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 6, 2011

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

Dear Ms. Payne:

Thank you for the opportunity to provide comments on the June 21, 2011 Exposure Draft (ED) titled "Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27." Our comments, in response to the questions in the ED are attached.

Again, we appreciate the opportunity to comment on this Exposure Draft. If we can be of further assistance, please contact Marilyn Evans at (202) 622-0807.

Sincerely,

For Robert Faber

Carole Y. Banks
Director, Accounting
and Internal Control

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.

Agree. This distinction will standardized SFFAS reporting practices.

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.

Agree. This amendment would bring the standard more in line with its original intent by not allowing the large negative net position balances created by long-term pension liabilities to offset the positive net position of all other earmarked funds. Even though the standard specifies federal employees, Department of the Treasury will apply this to DC Pensions as the majority of the funds for this fund are federal funds and to be consistent with apply SFFAS 33.

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.

Agree. However, Treasury will not be following the alternative format for the following reasons (1) our financial statements are automated. In order to produce the alternative format we would have to produce our financial statements, obtain the amount for earmarked, revised our crosswalk, have our programmers hardcode the amount (high risk for us) in the title line, and rerun the financial statements in the alternative format. (2) this is more confusing as we now have dollar amounts in the title line. (3) we will now need auditor coverage over title lines.

- (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.

Agree. This would be consistent with the Non-Entity/Entity note which explains the breakout of the assets or the Covered/Uncovered note which provides further information on the liabilities. The financial statements would provide the general information and if the reader was interested would go to the note for the details. We could then provide side by side comparisons.

- (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.

Agree. Component entity level reporting should be sufficient detail to support the government-wide reporting.

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.

Disagree. If rescinded, can we make the assumption that the eliminations all pertain to All Other Funds. This way we will be able to tie the condensed version of the Statement of Changes in Net Position section of the earmark note to the Statement of Changes in Net Position.

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.

Agree. By changing the terminology to “funds from dedicated collections” it helps avoid the confusion between earmarked funds and earmarked spending.

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.

Agree. Proposed guidance does not impose reporting burdens in excess of any benefits.

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.

Agree. Changes might not be made for 1st Quarter submission to OMB due to new FACTS II requirements but will be in place for the 2nd Quarter.

Possible misconnect when looking at Appendix B: Text of SFFAS Accounting Standards with Proposed Amendments

Paragraph 11 (page 29)

Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time.

Paragraph 19 (page 32)

Non-exchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections should be shown separately on the Statement of Changes in Net Position.

Misconnect – Paragraph 11 says revenues and paragraph 19 says non-exchange revenue. Are current earmarked funds that receive their revenue from exchange revenue now considered not earmarked funds?