

From: Wilbur, Cynthia P
Sent: Monday, August 22, 2011 10:31 AM
To: Parlow, Eileen W
Cc: Dean, Emily; Farington, Kim; Joe, William
Subject: FW: FASAB Requests Comments Regarding Amendments to SFFAS 27--
Earmarked Funds
Importance: High

Good morning, Eileen – FYI – I am sending you OPM's comments regarding Amendments to SFFAS 27--Earmarked Funds. Please see attached file. Thank you for the opportunity to comment.

**Best regards,
Cynthia**

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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.

Q1 Response: Agree. Since the intent of SFFAS 27 was that the specifically identified revenues and other financing sources required to meet the criteria in paragraph 11 of SFFAS 27 for an earmarked fund should be from a source that is nonfederal, then the proposed amendment is appropriate.

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.

Q2 Response: Agree with rationale presented for the amendment: Since funds established to account for pensions, other retirement benefits, other postemployment benefits, and other employee benefits provided to federal employees (civilian or military) should not be classified as funds from dedicated collections because such funds account for employer-employee transactions and requirements tailored to those transactions are provided by SFFAS 5, *Accounting for Liabilities of the Federal Government*, paragraphs 56-96.^{6a} In addition, because these funds recognize significant long-term liabilities, the large negative net position offsets much of the generally positive net position of other funds from dedicated collections.

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.

Q3.(a) Response: Agree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds, such as Option B. However, there should only be the two options. This will enable the component entity level reporting to be consistent in presentation, and have sufficient detail to fully support the government-wide reporting requirements.

(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.

Q3.(b) Response: 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. Rationale: The component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements.

(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.

Q3.(c) Response: Yes, agree with the proposal that the component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements as supporting government-wide reporting requirements is an important purpose.

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.

Q4 Response: Agree with proposal 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, until such time the board completes the broader study of fund reporting as described in paragraph A25 and

determines whether consolidated or combined amounts are more useful when reporting on a specific class 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.

Q5 Response: Agree with proposal to replace the term “earmarked funds” with “funds from dedicated collections. Rationale: new term eliminates confusion and provides a more accurate description.

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.

Q6. Response: Agree. 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. Rationale: Since the intent of SFFAS 27 was that the specifically identified revenues and other financing sources required to meet the criteria in paragraph 11 of SFFAS 27 for an earmarked fund should be from a source that is nonfederal, then the proposed amendment is appropriate. Agree with Board’s proposed guidance for situations where the proportion of funding sources may change from year to year to allow for flexibility.

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.

Q7. Response: Disagree as more time is needed for agencies to adhere to the amendments to SFFAS 27. Propose an effective date of periods beginning after September 30, 2012.