



August 22, 2011

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

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its June 21, 2011 exposure draft entitled Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27. This exposure draft proposes, among other changes, modification to the definition of earmarked funds and to exclude from this designation any pension and other post-employment benefits provide for federal employees.

The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

General Comments

We are in general agreement with the positions and views expressed in the exposure draft and especially found the clarifications contained in the draft to be helpful. However, we recommend that the Board consider the following changes as a means of improving its final pronouncement.

In the exposure draft, FASAB proposes to replace the term “earmarked funds” with the term “funds from dedicated collections”. According to the Executive Summary, the reason behind this change is to avoid confusion with the term “earmarked” that is associated with legislatively designated appropriations for specific purposes. We agree with the rationale for this change but we believe that there may be better terminology than “funds from dedicated collections”. We believe that a better option might be to use the term “dedicated collection funds” or “dedicated revenue funds”. (We prefer the latter term, “dedicated revenue funds”, as this term would be more readily understood by those familiar with GASB pronouncements.)



We also feel that the FASAB could improve the criteria used to determine a non-federal funding source. Paragraph 6 of the exposure draft has three required criteria that must be met in order for something to be classified as “funds from dedicated sources”. However, none of the criteria appear to explicitly address the circumstance where the level of spending from the fund may be a function of the revenues collected from the non-federal sources. Criteria number 1 might be modified to incorporate this concept as follows, “... benefits or purposes; or at levels commensurate with the amount of identified revenues;”

We offer the following answers to the questions posed in the exposure draft:

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.

We agree with the proposed amendment in this regard. The clarification is useful and aligns with the basic intent that funds collected for a specific purpose should be accounted for in a way that is clear and transparent.

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.

We agree with the proposed change. The nature of pension, employee benefit and other post employment funds are significantly different from other non-federal source funds. These funds are collected based upon an obligation from employment agreements and not from laws enacted to collect funds from non-federal sources.

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.

We agree with the proposal to provide an option for alternative component entity reporting of funds from dedicated sources.

- (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.

A majority of the FMSB members disagree with the views of some of the members that component units should not be required to display information on earmarked funds on the face of the balance sheet and the statement of changes net position. Our disagreement is based on the rationale that reporting should be comparable for all entities. However, one member of the FMSB supported this option, if the amounts were not significant to understanding the financial position of the component entity.

- (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.

We agree with the exposure draft. We support this because it will facilitate consolidation and analysis.

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.

We agree with the exposure draft and support this change for the reasons cited in Appendix A: Basis for Conclusions, paragraphs A22 and A23.

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.

We agree with the exposure draft that the term “earmarked funds” should be eliminated but we disagree with the use of the term “funds from dedicated collections”. As provided in our overall comments, we believe that a better, more explicit term would be to use either “dedicated collection funds” or “dedicated revenue funds”. We believe that the latter term “dedicated revenue funds” would be most descriptive of the fund.

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.

We agree with the exposure draft.

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.

We agree with the exposure draft. Early adoption could present problems in compiling the consolidated financial report and in comparison across entities.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA's staff liaison for the FMSB, at ssossei@agacgfm.org or at 703-684-6931, extension 307.

Sincerely,

A handwritten signature in black ink, appearing to be 'EB', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Richard O. Bunce, Jr., CGFM, CPA
AGA National President

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