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To: Earmarked

Subject: DOT comments on FASAB 27 revisions.doc

DOT RESPONSES -- ON DRAFT REVISIONS TO FASAB #27**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.

DOT agrees. The criteria as stated specifies the conditions that must exist to classify funds from dedicated sources and provides clarity that did not exist in SFFAS 27 previously

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.

DOT agrees. A distinction must be made between fiduciary activities and dedicated collections do to the different nature of the transactions.

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. –

DOT agrees with the option for an alternative format for component entity reporting as long as it remains optional. The optional format is favorable as long as it does not increase the level of information that would be required in the notes. It should also be consistent to maintain the integrity of financial statements among Federal agencies. The board should clarify in the amendments the disclosure that would be required in the notes and how the notes would change from the current format.

(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.

DOT disagrees. Displaying such funds on the face of the Balance Sheet and Statement of Changes in Net Position provides transparency for agencies that have earmarks and other funds. The current presentation permits agencies to make comparisons between fiscal years in any given month and reduces the need to rely on additional information contained in the notes. The optional format would provide agencies and users of the financial statements with information on the source of all funding.

(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.

DOT agrees only if the component level amounts are easily identifiable and material in amount, then the component level should report the activity. However, if they are not easily identifiable and not material, the entity that manages the program may be responsible for 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.

DOT agrees. Certain funds may contain transactions that are not easily identifiable for elimination purposes. Additionally, the amounts for eliminations may be generated from multiple sources 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.

DOT agrees. The term ‘earmarked funds’ is confused with Congressional earmarks. The revised term provides a distinction between funds dedicated for a specific purpose.

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.

DOT agrees. Non-federal revenue that is substantial in nature and material to the organization are factors that should be considered in determining whether to classify as funds from dedicated collections.

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.

DOT agrees, as it will allow enough time for agencies to make the minor revisions that this revised standard will address.