



Greater Washington Society of CPAs and GWSCPA Educational Foundation

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August 22, 2011

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

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes 26 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED questions follow.

- 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.
- A1. The FISC agrees with the proposed amendment. We concur that the proposed language helps to achieve the Board's stated objectives. However, we encourage the Board to consider using terminology other than the phrase “general fund” throughout the ED when referring to funds from other than dedicated collections. The use of the term “general fund” and its associated meaning is currently the subject of ongoing debate and discussion, and including the term “general fund” in a final Standard may lead to confusion in later years once the meaning of the term “general fund” has been resolved.
- 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.

A2. The FISC agrees with the proposed exclusion. Accounting for pensions, other retirement benefits, and other post-retirement benefits is adequately covered in SFFAS 5. In addition, the employee-employer nature of pension-related transactions seems contrary to the types of transactions the Board intended to cover in SFFAS 27.

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.

(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.

(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.

A3. (a) The FISC does not agree with the inclusion of an alternative format for component entity reporting of earmarked funds. Providing options for an alternative format may increase reader confusion, add to the already existing complexity of financial reporting, and reduce comparability of financial information between component entities.

(b) Similar to the members of the FASAB board, the members of the FISC were also split in our views on the presentation of funds from dedicated collections. Some supported the views in paragraph 19 of the ED that if dedicated collections are significant enough to be reported, then those funds should be presented on the face of the financial statements. Others supported the views of the Task Force, as presented in paragraph A-17 of the ED, that disclosure in the notes to the financial statements should be sufficient to inform the reader of the component entity's funds from dedicated collections.

(c) The FISC agrees that component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements.

- 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.
- A4. The FISC agrees that the potentially confusing guidance should be removed from the Standard. The FISC does not agree that options should be provided for reporting combined or consolidated amounts. As noted in our response to Q3, providing options for alternative reporting may increase reader confusion, and reduce comparability of financial information between component entities. Of the two options presented, we support reporting on a consolidated basis of accounting. Such a basis provides more meaningful information to an outside reader since intra-entity transactions would have been eliminated, and only activity net of those adjustments would be presented to the reader.
- 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.
- A5. The FISC agrees with the proposed change in terminology.
- 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.
- A6. The FISC agrees that funds from dedicated collections should come predominantly from non-federal sources. However, we suggest that the term “predominantly” be further defined. Is it the Board’s intention that the term “predominantly” refer to more than 50%, more than 75%, or to some other measure?
- 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.
- A7. The FISC agrees that the proposed effective date allows adequate time for implementation of the necessary changes.

Other Comments

We recommend that the Board consider the following additional matters:

- In paragraph 25 of the ED, two instances of the phrase “earmarked funds” should be changed to “funds from dedicated collections.”
- The Board should consider further discussing its decision to return to the term “dedicated collections,” why the term “earmarked funds” was preferred in SFFAS 27, and what has changed to return to the term “funds from dedicated collections” in the ED.
- In paragraphs A-13 and A-14, could other examples, in addition to Medicare Parts B and D, be provided to inform readers of the Board’s intent in these two paragraphs?

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in black ink, appearing to read "Andrew Lewis", with a stylized flourish at the end.

Andrew C. Lewis
FISC Chair