



April 5, 2011

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **Revised Preballot Draft Exposure Draft: Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27 – Comments Requested by April 19, 2011 – Tab J<sup>1</sup>**

#### OBJECTIVE

Your comments are requested by April 19, 2011 on the attached revised preballot draft exposure draft proposing amendments to SFFAS 27, *Identifying and Reporting Earmarked Funds* so that a ballot draft ED and ballots can be presented at the April Board meeting. [Note: If an extension is needed due to a government shutdown following the end of the current continuing resolution on April 8<sup>th</sup>, we will modify the due date for comments.]

Please send comments to [ParlowE@fasab.gov](mailto:ParlowE@fasab.gov) with a cc to [PayneW@fasab.gov](mailto:PayneW@fasab.gov). If you have any questions or wish to discuss the preballot draft please call Eileen Parlow at 202-512-7356 or Wendy Payne at 202-512-7357.

#### REVISIONS TO PREBALLOT DRAFT DATED MARCH 14, 2011

All revisions to the March 14, 2011 preballot draft are marked with tracked changes on the attached revised draft. Most are editorial in nature, except for a new minority proposal and a question seeking input on it. The proposal was made by Bob Dacey.

Mr. Dacey's proposal is that component entities display separate amounts for key line items parenthetically on the face of the balance sheet and statement of changes in net position. Question 3 and paragraph A19 address his proposal. In discussing the proposal with staff, Mr. Dacey expressed concern that nothing would alert a reader to the existence of the earmarked funds note. As a result, staff has modified paragraph 11 of the ED (amending par. 21 of SFFAS 27) to require that component entities include a reference to the earmarked funds note on the

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations

face of both statements. The reference would appear with the net position line items. These two changes are the only technical changes to the draft but they are significant enough to warrant another review before we request your vote on a ballot draft.

**The full text of the proposed edits is shown below and in the attached preballot draft ED:**

Q3. The Board is proposing that component entities may report all information regarding earmarked funds in a note rather than being required to display some of the information on the face of the statements. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A17-A19 and the proposed amendments in paragraph 11.

- a. Do you agree or disagree with the proposed amendment? Please provide the rationale for your answer.
- b. One member supports display of certain minimum information parenthetically on the face of the component entity balance sheets and statements of changes in financial position (see paragraph A19). Do you agree or disagree with the member's suggestion? Please provide the rationale for your answer.

**Comment:** Bob Dacey edits – add narrative and separate question b.

Paragraph 11: see highlighted sentence

[21.] A component entity should disclose<sup>8</sup> the portions of beginning and ending net position, non-exchange revenue and other financing sources, including appropriations, and net costs of operations attributable to earmarked funds from dedicated collections and to all other funds. A reference to the disclosure should be included with each line item presenting net position on the balance sheet and statement of changes in net position. Entities may present combined or consolidated amounts but must label the amounts accordingly. In addition, a component entity should disclose all earmarked funds from dedicated collections for which it has program management responsibility by either a list, by official title, or a statement indicating where the information can be obtained. A fund from dedicated collections should not be characterized as a “trust” in general purpose external financial reports of Federal entities. (The use of the term “trust fund” is acceptable only in the fund’s official title.)

**Comment:** Staff edit to partially address Bob Dacey concern (see par. A19)

**Comment:** Per Woody Jackson re “accordingly”- see comment on page 1 of Exec. Summary

Basis for Conclusions – new paragraph

[A19] One member expressed concerns that users may be misled if a component entity has no information on the face of the basic financial statements about the magnitude of funds from dedicated collections that are reserved for use for designated activities, benefits, or purposes. This member believes that, at a minimum, the balance sheets and statements of changes in net position should parenthetically disclose for key line items (such as net position, total financing sources, net cost, and changes in net position) the dollar amounts associated with funds from dedicated collections.

**Comment:** New paragraphs proposed by Bob Dacey