Federal Accounting Standards Advisory Board

February 3, 2012

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Earmarked Funds Preballot Draft Statement of Federal Financial Accounting Standards – **Tab A - Response Requested by February 15, 2012**[1]

PRE-MEETING OBJECTIVES

The attached preballot draft Statement of Federal Financial Accounting Standards (SFFAS) reflects the following edits, which were supported by a majority of members:

- language to require certain component entities to continue to report on the face of the statement of changes in net position, and
- a requirement for a reference to the note on dedicated collections on the face of the statement of changes in net position for component entities that are not required to report on the face of the statement of changes in net position.

The attached preballot draft also includes an effective date of FY 2013 with no early implementation permitted.

Members are requested to respond to the preballot draft SFFAS by February 15, 2012, so that a ballot draft can be presented at the February Board meeting. Thank you.

BRIEFING MATERIAL

This memorandum contains a discussion of edits to the draft SFFAS, "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, *Identifying and Reporting Earmarked Funds.*" The edits are based on members' responses to questions in the January 9, 2012 memorandum to members.

[1] 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.

Attachment 1 is a Preballot Draft SFFAS, "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, *Identifying and Reporting Earmarked Funds*," with tracked changes.

BACKGROUND

On January 9, 2012, staff requested Board approval for three edits to the draft SFFAS. Those edits, based upon Board discussion at the December 2011 Board meeting, were:

1. The following additional language added to paragraph 19 of SFFAS 27 to require certain component entities to continue to report on the face of the statement of changes in net position:

> Non-exchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections should be shown separately on the statement of changes in net position if:
>
> 1. dedicated collections are the predominant source of revenue and other financing sources for the component entity, or
> 2. one or more of the entity's funds from dedicated collections
> a. is of immediate concern to constituents of the fund,
> b. is politically sensitive or controversial,
> c. is accumulating large balances, or
> d. the information provided in the financial statements would be a primary source of financial information for the public.
>
> For example, the Social Security and Medicare programs are of immediate concern to constituents of those programs; both programs have a direct current or future impact on the majority of the general public.

A majority of members (Messrs. Dacey, Granof, McCall, Reger, Schumacher, Showalter, and Steinberg) approved the above recommended edit. No members objected to the edit.

2. The following language added to require a note reference on the face of the statement of changes in net position for component entities not required to report on the face of the statement. This language will be added as new paragraph 19b.

> Component entities that do not separately show amounts from dedicated collections on the statement of changes in net position should refer on the face of the statement of changes in net position to the note on funds from dedicated collections.

A majority of members (Messrs. Dacey, Granof, McCall, Schumacher, Showalter, and Steinberg) approved the above recommended edit. Mr. Reger had questions about the edit. No members objected to the edit.

3. Per the Board's request, staff contacted the agencies most likely to be impacted by the new standard and asked for comments on the implementation burden to implement in FY 2012 if the new standard is not issued until June 2012 or a subsequent date.

   Because of the required 90-day review period, it will not be feasible for FASAB to issue the new SFFAS earlier than June 2012.

   Representatives from the Office of Personnel Management and the Department of Defense provided informal comments that they would be able to implement in FY 2012.

   The Office of Management and Budget (OMB) indicated that it would not be feasible to update Circular A-136 for FY 2012 if the new SFFAS is effective in FY 2012 and issued in June 2012 or a subsequent date. However, it would be feasible to update Circular A-136 for FY 2012 if
   a) the effective date is FY 2013, with early implementation permitted for optional combined (versus consolidated) amounts for earmarked funds reporting, and
   b) the new SFFAS is issued no later than June 2012.

   Because the option to report combined amounts for earmarked funds is intended to eliminate confusing guidance and to reduce reporting burden, staff recommended an effective date of FY 2013, with early implementation permitted for reporting combined amounts if (and only if) the new SFFAS is approved in time for issuance by June 2012. If the new SFFAS were to be issued subsequent to June 2012, staff recommended an effective date of FY 2013 with no early implementation permitted.

   However, only four members (Messrs. Granof, McCall, Schumacher and Steinberg) approved an effective date of FY 2013 with early implementation for optional combined amounts. Messrs. Reger and Showalter objected to the partial early implementation. Messrs. Dacey and Allen and the Office of Management and Budget did not provide a response.

   Accordingly, the preballot draft SFFAS includes an implementation date of FY 2013, with no early implementation permitted.

4. One member asked whether the changes since the exposure draft had been evaluated to determine if re-exposure would be necessary. Staff identified the following differences between the exposure draft (ED) and the preballot draft SFFAS as the most significant technical changes:

1. Later effective date

   The ED proposed an effective date of fiscal year (FY) 2012 ("periods beginning after September 30, 2011"). Because it took longer than anticipated to finalize the SFFAS, the effective date in the preballot draft SFFAS is FY 2013.

2. Option for some component entities to report on dedicated collections for amounts relating to the statement of changes in net position in a note, with a reference to the note on the face of the statement.

   The ED included note-only reporting as a minority view, with a discussion in the Basis for Conclusions and the following question for respondents:

   3(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.

   The preballot draft SFFAS includes a compromise: reporting is required (a) on the face of the balance sheet for all component entities, and (b) on the face of the statement of changes in net position for some component entities (see amendments to paragraph 19 of SFFAS 27. Component entities that are permitted to report in a note and take that option are required to include a reference to the note on the face of the statement of changes in net position.

Staff analysis and recommendation: The above items were exposed in the ED and staff believes that the above items do not need re-exposure.