From: Krabbe, Carla
Sent: Tuesday, August 16, 2011 11:56 AM
To: Earmarked
Cc: Molander, Chris; Dushel, Annette; Kolb, Kristen; Silvestri, Mark; Hull, Stephen
Subject: FASAB Requests Comments Regarding Amendments to SFFAS 27--Earmarked Funds - SSA COMMENTS

Wendy,

Attached are SSA's comments on the Exposure Draft *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.* Thank you for the opportunity to provide input. Staff questions can be directed to Annette Dushel at 410-965-0073.

Carla Krabbe
Deputy CFO
Social Security Administration

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.

SSA's response:

SSA agrees with the proposal to amend the definition. We believe that this amendment will clarify the distinction between funds required by statue to be used for designated activities and the Government's general revenues.

Q2. The Board believes that funds established to account for pensions, other retirement benefits, other postemployment 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.

SSA's response:

SSA agrees. The amendment will eliminate the impact of the large negative net position that offsets the generally positive net position of other funds received from dedicated collections on the government's financial report.

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.

SSA's response:

SSA agrees with the proposal. While we don't believe the alternative presentation is the best approach, as long as entities are reporting the information required for the government-wide statements, we believe there should be flexibility in the reporting methods used.

SSA will continue using the current format for its financial statements and is primarily concerned with maintaining our ability to use this 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.

SSA's response:

SSA agrees with this proposal as long as the information provided in the note disclosure meets the requirements of the government-wide financial report. Again, SSA will continue with the current format of breaking out the information on the face of the Balance Sheet and Statement of Changes in Net Positions. We believe that showing the information on the statements provides quick access to the amounts reported as earmarked/dedicated and the detail can be seen and reconciled in the footnote.

(c) Do you agree or disagree with the proposal that the component entity level reporting should be in sufficient detail to fully support the governmentwide reporting requirements? Please provide the rationale for your answer.

SSA's response:

SSA agrees with this proposal. The government-wide statements report the breakout of Earmarked and Non-Earmarked funds and therefore entities should provide the breakout of their balances for the government's financial report.

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.

SSA's response:

SSA agrees that removing the confusing language would be helpful. However, we believe that the proposed guidance is still slightly confusing. It discusses the removal of earmarked disclosure eliminations and the replacement of this information with labeling. How would agencies label this information on the statements/note disclosure? We strongly suggest that the final standard provide examples on how an entity would label whether amounts are consolidated or combined. The exposure draft focuses on the eliminations between Net Position activities, but SSA displays earmarked eliminations on the balance sheet in our disclosure (Note 24).

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.

SSA's response:

SSA agrees that changing the terminology from "earmarked funds" to "funds from dedicated collections" will eliminate the confusion of what is meant by the term "earmarked."

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.

SSA's response:

SSA agrees with the definition change. This change will allow for easier determinations of earmarked and non-earmarked fund classifications.

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.

SSA's response:

SSA agrees with an effective date to begin after September 30, 2011. This will avoid possible presentation changes in the last quarter of the fiscal year and allow for consistency in FY 2011 financial reporting. It will also prevent possible presentation issues with the auditors.

From: Fleming, Edmund T.
Sent: Tuesday, August 16, 2011 3:34 PM
To: Earmarked
Cc: Govan, George V.; Walter, John; Wilke, Alvin J.
Subject: SFFAS 27

The following are responses from the Railroad Retirement Board's (RRB) Bureau of Fiscal Operations to the questions provided concerning FASAB's exposure draft entitled *Revisions to Identifying and Reporting Earmarked Funds: Statement of Federal Financial Accounting Standards 27.* If you have any questions or require additional information, please contact John Walter (email: John.Walter@rrb.gov, telephone 312-751-4308) or Ed Fleming (email: Edmund.Fleming@rrb.gov, telephone: 312-751-7120).

Regards,

George V. Govan
Chief financial Officer
Railroad Retirement Board
844 North Rush Street
Chicago, IL 60611-2092
Telephone:312-751-4931
Email: George.Govan@rrb.gov

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.

Response: Agree, this clarifies funds from dedicated collections. Footnote 3a is good in that it answers the question when another agency collects the funds.

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.

Response: Agree, the actuarial long term liability can distort the true values of the other funds. The actuarial liability can be reported on the Statement of Social Insurance.

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.

Response: Agree, each agency's financial statements are different and providing options allows agencies to tailor their statements to/for their readers.

(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.

Response: Agree, too much information on the face of the financial statements makes them unreadable, footnotes are an acceptable alternative.

(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.

Response: Disagree, we already have GFRS for the FR report of the Federal government. Treasury doesn't use the (P&AR) financial statements for the FR.

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.

Response: Disagree, only the SBR should be on a combined basis. If you start allowing other footnotes or statements to be on a combined basis, this will lead to confusion.

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.

Response: Agree, this will clarify the funds use.

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.

Response: Disagree, footnotes can be used to clarify a fund's sources. The character of the fund shouldn't change from year to year.

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.

Response: Agree, this date should not be a problem.

From: Cenci, Melanie
Sent: Thursday, August 18, 2011 3:14 PM
To: Earmarked
Cc: Close, Kevin (CFO); Constance, Connie
Subject: ED Comments-Revisions to Identifying & Reporting Earmarked Funds

On behalf of The US Department of Agriculture, Office of the Chief Financial Officer, attached are our comments on exposure draft , “Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27”.

Melanie R. Cenci
Office of the Chief Financial Officer
US Dept. of Agriculture

FASAB Exposure Draft
Revisions to Identifying and Reporting Earmarked Funds:
Amending Statement of Federal Financial Accounting
Standards 27

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.

USDA agrees that to meet the criteria in paragraph 11 of SFFAS 27, specifically identified revenues or other financing sources should be from a source external to the federal government.

Q2. The Board believes that funds established to account for pensions, other retirement benefits, other postemployment 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.

USDA agrees these funds should be excluded because the large negative net position offsets much of the generally positive net position of other funds from dedicated collections.

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.

USDA disagrees with an option for an alternative format because same information would be reported differently across federal government.

(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.

USDA agrees that disclosure in the notes is sufficient.

(c) Do you agree or disagree with the proposal that the component entity level reporting should be in sufficient detail to fully support the governmentwide reporting requirements? Please provide the rationale for your answer.

USDA agrees that the component entity level reporting should be in sufficient detail to fully support the governmentwide 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.

USDA agrees with removal of existing requirements for eliminations.

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.

USDA agrees to replace the term “earmarked funds” with “funds from dedicated collections” will eliminate confusion.

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.

USDA agrees with the proposed guidance on funds with such sources of funding to minimize reporting burdens.

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.

USDA agrees with an effective date after September 30, 2011.

UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D.C. 20230

AUG 19 2011

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft – Statement of Federal Financial Accounting Standards, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27,* dated June 22, 2011.

Please find enclosed answers to the seven questions that were asked of the respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov or Atisha Burks at (202) 482-2715 or aburks@doc.gov.

Sincerely,

Gordon T. Alston
Deputy Director for Financial Management

Enclosure

cc: Lisa Casias
Diane Marston
Tony Akande
Atisha Burks

Department of Commerce Response
FASAB Exposure Draft, Statement of Federal Financial Accounting Standards – *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*

Prepared by: Department of Commerce, Office of Financial Management
Date Prepared: August 10, 2011

Questions and Answers

1. 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.

   Department of Commerce Response:
   The Department of Commerce agrees with the proposed amendment as this will provide a clear definition of earmarked funds and will clarify the difference between earmarked funds and the general fund. The intent of an earmarked fund is to raise an expectation on the part of the public that the Government will use the amounts collected from specific sources and accumulated in earmarked funds for their stated purposes. In order to ensure that funds reported as earmarked are those where a public expectation exists, the source of the specifically identified revenues or other financing sources must be external to the federal government.

2. 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.

   Department of Commerce Response:
   The Department of Commerce agrees with the proposed amendment. These funds should be excluded because they account for employer-employee transactions and are guided by separate requirements.

3. 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.

Department of Commerce Response:
The Department of Commerce agrees with the proposed change. Providing an option for an alternative format for component entity will allow for flexibility in reporting. The current format requires several columns and can be cluttered and confusing. In addition, it may prevent the display of comparative financial statements on the same page.

(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.

Department of Commerce Response:
The Department of Commerce disagrees with this view. Users of financial information may be misled if a component entity has no information on the face of the basic financial statements about the magnitude of earmarked funds that are reserved for use for designated activities, benefits, or purposes. However, component entities should be allowed to decide on the format for displaying this information.

(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.

Department of Commerce Response:
The Department of Commerce agrees with this proposal. Detailed note disclosures (descriptive rather than analytical) will provide sufficient information at the component level.

4. 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.

   Department of Commerce Response:
   The Department of Commerce agrees with the proposed amendment. Because net position is not affected by eliminations, presentation of eliminations at the component entity level is not necessary.

5. 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.

   Department of Commerce Response:
   The Department of Commerce agrees with the proposed change. This will provide a clarification to its nature since the term "earmarked funds" can be confusing as it is similar to the term "earmarked spending" used for budgetary reporting. The new term "funds from dedicated collections" will not be confused with other commonly used terms and will properly show that these funds are collections which are distinct from the government's general revenues and are dedicated for a specific purpose.

6. 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.

   Department of Commerce Response:
   The Department of Commerce agrees with the proposed guidance as this approach will be cost effective and consistent with the intragovernmental elimination guidance. This would be considered a dedicated collection because it is not from a federal source. Conceptually, the earmarked portion should be separately

identified; however, separately accounting for the earmarked portion of these funds would impose reporting burdens and would not be cost effective.

7. 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.

Department of Commerce Response:
The Department of Commerce agrees with the proposed effective date because implementing these amendments after September 30, 2011 will allow sufficient time for the agencies to prepare. This type of reporting change can be completed in a short amount of time and will provide an earlier benefit to the government-wide report. The proposed amendments would eliminate some funds that are being reported as earmarked instead of requiring an additional reporting burden for funds to be added.

From: Miller.Dale@epamail.epa.gov [mailto:Miller.Dale@epamail.epa.gov]
Sent: Friday, August 19, 2011 4:30 PM
To: Earmarked
Cc: Jones.Anita@epamail.epa.gov; Anthony.Sherri@epamail.epa.gov; Whitsell.Stella@epamail.epa.gov; Dax.Susan@epamail.epa.gov; Conklin.Jeanne@epamail.epa.gov; Proctor.Sheldonna@epamail.epa.gov; Jassal.Simranjeet@epamail.epa.gov
Subject: EPA Response - Exposure Draft: Revisions to Identifying and Reporting Earmarked Funds: Amending SFFAS 27

Attached is EPA's response to Exposure Draft: Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.

Please let us know if you have any questions.

(See attached file: EPA Response to FASAB Exposure Draft Revisions to Identifying and Reporting Earmarked Funds.docx)

Thanks!
Dale Miller
Associate Director
Financial Policy and Planning Staff
Office of Financial Management
Environmental Protection Agency

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.

Ans. We agree with the proposed amendment. The rationale for this is to keep the distinction between earmarked fund and the general fund. The proposed amendment distinctly identifies the intent of SFFAS 27.

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.

Ans. We agree with this exclusion. The rationale for this is that these funds recognize long term liability and the large negative net position of this fund offsets the positive net position of other earmarked funds. This is causing for the earmarked revenues to not be used for the intended purposes.

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.

Ans.(a) We agree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds. The rationale for this is to give the opportunity to component entity for different reporting formats.

Ans.(b) We 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. The rationale for this is the users will get misleading numbers regarding the funds from the dedicated collections and their purpose.

Ans.(c) We agree with the proposal that the component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements. The rationale for this is to identify the use of the funds.

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.

Ans.(4) **We agree with the proposal 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 rationale for this answer is to meet the objectives of SFFAS27 which relates to special accountability and intre-governmental borrowing.**

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.

Ans.(5) We agree with the replacement of the term" earmarked funds" with "funds from dedicated collections". The rationale is to avoid confusion between earmaking and earmarked funds. The earmaking refers to earmarking spending for a specific purpose whereas SFFAS27 focuses on collections that are distinct from general purposes and 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.

Ans.(6)We agree with the proposed guidance on funds with such sources of funding. This guidance meets the criteria of SFFAS 27

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.

Ans.(7) We agree with the date being after September 30, 2011 so that the amendments to SFFAS 27 can be in effective in new fiscal year. Three Quarters have been already for this year.

From: Wilbur, Cynthia P
Sent: Monday, August 22, 2011 10:31 AM
To: Parlow, Eileen W
Cc: Dean, Emily; Farington, Kim; Joe, William
Subject: FW: FASAB Requests Comments Regarding Amendments to SFFAS 27--Earmarked Funds
Importance: High

Good morning, Eileen – FYI – I am sending you OPM's comments regarding Amendments to SFFAS 27--Earmarked Funds. Please see attached file. Thank you for the opportunity to comment.

Best regards,
Cynthia

Cynthia Wilbur
U.S. Office of Personnel Management
Financial Reporting & Analysis
FS/CFO

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.

Q1 Response: Agree. Since the intent of SFFAS 27 was that the specifically identified revenues and other financing sources required to meet the criteria in paragraph 11 of SFFAS 27 for an earmarked fund should be from a source that is nonfederal, then the proposed amendment is appropriate.

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.

Q2 Response: Agree with rationale presented for the amendment: Since funds established to account for pensions, other retirement benefits, other postemployment benefits, and other employee benefits provided to federal employees (civilian or military) should not be classified as funds from dedicated collections because such funds account for employer-employee transactions and requirements tailored to those transactions are provided by SFFAS 5, *Accounting for Liabilities of the Federal Government,* paragraphs 56-96.[6a] In addition, because these funds recognize significant long-term liabilities, the large negative net position offsets much of the generally positive net position of other funds from dedicated collections.

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.

Q3.(a) Response: Agree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds, such as Option B. However, there should only be the two options. This will enable the component entity level reporting to be consistent in presentation, and have sufficient detail to fully support the government-wide reporting requirements.

(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.

Q3.(b) Response: 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. Rationale: The component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements.

(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.

Q3.(c) Response: Yes, agree with the proposal that the component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements as supporting government-wide reporting requirements is an important purpose.

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.

Q4 Response: Agree with proposal 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, until such time the board completes the broader study of fund reporting as described in paragraph A25 and

determines whether consolidated or combined amounts are more useful when reporting on a specific class 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.

Q5 Response: Agree with proposal to replace the term “earmarked funds” with “funds from dedicated collections. Rationale: new term eliminates confusion and provides a more accurate description.

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.

Q6. Response: Agree. 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. Rationale: Since the intent of SFFAS 27 was that the specifically identified revenues and other financing sources required to meet the criteria in paragraph 11 of SFFAS 27 for an earmarked fund should be from a source that is <u>nonfederal</u>, then the proposed amendment is appropriate. Agree with Board’s proposed guidance for situations where the proportion of funding sources may change from year to year to allow for flexibility.

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.

Q7. Response: Disagree as more time is needed for agencies to adhere to the amendments to SFFAS 27. Propose an effective date of periods beginning after September 30, 2012.

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August 22, 2011

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,

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

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

Association of Government Accountants
Financial Management Standards Board

July 2011 – June 2012

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Donna J. Walker
Stephen B. Watson
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Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)
Steven E. Sossei, Staff Liaison, AGA

From: Wendy.Calvin@dot.gov [mailto:Wendy.Calvin@dot.gov]
Sent: Monday, August 22, 2011 2:40 PM
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.

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,

Andrew C. Lewis
FISC Chair

From: Bergin, Christopher C
Sent: Monday, August 22, 2011 4:26 PM
To: Earmarked
Cc: SIDARI, David P; Vaiana, Jerome A; Tucker, Gerald A
Subject: FASAB Requests Comments Regarding Amendments to SFFAS 27--Earmarked Funds

Thank you for the opportunity to provide comments on the above exposure draft. Attached are the Department of Housing and Urban Development's comments for this exposure draft. Please direct any questions concerning our response to me at the number listed below.

Chris Bergin
Financial Policy and Procedures Division
Office of the Assistant CFO for Financial Management
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410

U.S. Department of Housing and Urban Development

Response to FASAB Exposure Draft – *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*

	Questions for Respondents	Recommendation
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.	HUD agrees. Explicitly stating that earmarked funds are revenues or other financing sources external to the federal government clears up confusion about the revenue source of earmarked funds.
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.	HUD agrees. These funds are already accounted as liabilities under SFFAS 5. The exclusion removes the large negative balances in these funds, which distort the reporting of net position of earmarked funds.

U.S. Department of Housing and Urban Development

Response to FASAB Exposure Draft – *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*

	Questions for Respondents	Recommendation
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.	See Q3 (a), (b) and (c) on following pages.
Q3 (a)	(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.	HUD disagrees with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds. HUD considers it important to retain the existing format for consistency and to ease preparation and consolidation of agency wide and governmentwide financial statements. Further, we recommend reference to a detailed discussion of funds from dedicated collections in the notes, wherein a clear explanation of the change in terms from "earmarked funds" to "funds from dedicated collections" should be set forth to avoid confusion by the general public with the change in terminology.

U.S. Department of Housing and Urban Development

Response to FASAB Exposure Draft – *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*

	Questions for Respondents	Recommendation
Q3 (b)	(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.	HUD disagrees 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. HUD considers it important to display information in the existing format for consistency and to facilitate the consolidation from component entities to departmental entities.
Q3 (c)	(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.	HUD agrees that component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements, particularly since earmarked fund information is more meaningful at the government wide level.
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.	HUD agrees with rescinding confusing guidance on eliminations and permitting combined or consolidated amounts and labeling these amounts accordingly.

U.S. Department of Housing and Urban Development

Response to FASAB Exposure Draft – *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*

	Questions for Respondents	Recommendation
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.	HUD agrees with the proposal to replace the term "earmarked funds" with "funds from dedicated collections." This term better identifies the funds and avoids the frequent confusion between "earmarked funds" and "earmarking funds." We also suggest that the Board consider a shorter term for these funds, such as dedicated collections.
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.	HUD agrees with the proposed guidance on funds with a combination of non-federal and federal revenue and other sources. The proposed guidance avoids overstatement of restricted revenue in component entity reports while minimizing reporting burdens. The Medicare Parts B and D example is especially helpful in applying the guidance.

U.S. Department of Housing and Urban Development

Response to FASAB Exposure Draft – *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*

	Questions for Respondents	Recommendation
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.	HUD is already following the existing format, which HUD intends to maintain. Thus, the effective date is not an issue for HUD. However, for agencies considering a change from the existing format to Option B, we expect that it would be difficult for such agencies to complete the implementation of the change in FY 2012.

From: King, Ed
Sent: Monday, August 22, 2011 5:13 PM
To: Earmarked
Subject: DOI Response to Earmarked Funds Exposure Draft

Ms. Payne,

Please find attached DOI's response to the above referenced Expose Draft. FASAB staff may feel free to contact me with any questions.

Thanks,
Ed

Edward King
Chief, Financial Reporting Division
Office of Financial Management
US Department of the Interior

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.

DOI agrees with the proposal to add such clarification.

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.

DOI agrees with this exclusion based on the rationale provided in the ED.

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.

DOI agrees with the proposal to add an option for alternative formatting as long as it remains an option and preparers are free to choose the optional format that best meets their needs.

(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.

DOI agrees that component entities should not be required to display information on earmarked funds on the face of the financial statements and that note disclosure is sufficient.

(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.

DOI agrees with the proposal. There are several components with material earmarked fund activity. Sufficient detail on these funds will be necessary to present fairly on a government-wide basis.

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.

DOI agrees with the proposed amendment and agrees that consolidated amounts should be presented and labeled accordingly.

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.

DOI agrees with the proposal to rename “earmarked funds”.

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.

DOI agrees with the proposed guidance. Funds that originate from other federal sources, usually the general fund of the US Treasury, do not meet the definition of an earmarked fund and therefore should not be included.

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.

DOI agrees with the proposed effective date.

From: Holdaway, Grace (OIG)
Sent: Monday, August 22, 2011 5:13 PM
To: Earmarked
Subject: Department of Justice OIG Response

Please find attached the Department of Justice OIG response to the Exposure Draft on earmarked funds.

Thank you.

Grace Holdaway
Assistant Director
Financial Statement Audit Office/Audit Division
DOJ OIG

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.

Agree

For transparency purposes, funds from dedicated collections should be clearly segregated and reported to include only non-federal sources. The amount reported should accurately reflect the sources of funding represented in the required note disclosure describing the fund and its purpose.

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[i] 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.

Agree

This exclusion further strengthens the specific definition and the intended purpose of earmarked funds, which among other things must be intended to benefit members of the general public (rather than military or civilian federal employees). While the *recipients* of pensions, other retirement benefits, other post-employment benefits, and other employee benefits are non-federal, the sources of funding are *both* federal and non-federal, with the federal portion being more material; that would be counter to the definitions in paragraphs 11 and 13.

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.

Disagree

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 is user friendly in terms of the presentation. The display of the alternative format on the balance sheet is cluttered and confusing. In addition, component entities using one standardized format will help the public users to understand component financial information and facilitate government-wide reporting processes.

(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.

Disagree

These dedicated revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. The balance sheet and the statement of changes in net position provide a transparent medium to display this information. Also, displaying this information on the balance sheet and the statement of changes in net position will facilitate financial reporting at the consolidated and government-wide level.

(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.

Agree

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, component entity level reporting should be in sufficient detail to fulfill the government's duty to be transparent and publicly accountable, and can be used to assess: (1) the government's accountability; (2) its efficiency and effectiveness, and (3) the economic, political, and social consequences of the allocation and various uses of federal resources.

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.

Agree

SFFAS 27 provided confusing guidance on eliminations for component entities by implying that the earmarked funds disclosure should include eliminations between earmarked funds and non-earmarked funds. This requirement does not provide any added value to the financial statement user. The elimination of this confusing guidance is welcomed.

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.

Agree

Changes would eliminate confusion over the term "Earmarking" as used in the legislative appropriation process.

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.

Agree

The language for the proposed guidance is clear as it relates to funds with mixed sources of funding (i.e., only partially funded by 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.

Agree

Component entities have enough time to review their earmarked funds. Also, these amendments do not require significant changes to the component financial statements.

[i] We will be consistent with the use of the term "earmarked fund", as used by the Board for purposes of this Exposure Draft.

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

AUG 22 2011

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

Dear Ms. Payne:

The Department of Defense (DoD) appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27. The DoD has reported substantial Earmarked Funds in the past and, as a result, was very interested in the revisions proposed by the Board. In general, DoD agrees with the majority of the proposals. However, DoD feels that Earmarked Funds should only be reported in the notes to the financial statements, and not on the face of the Balance Sheet and Statement of Changes in Net Position.

Responses to specific questions are enclosed. My contact is Ms. Maryla E. Engelking. She can be reached at maryla.engelking@osd.mil or 703-602-0155.

Sincerely,

Mark E. Easton
Deputy Chief Financial Officer

Enclosure:
As stated

Department of Defense Responses:

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.

R1: The Department of Defense (DoD) agrees with the proposal to explicitly clarify that revenues or other financing sources for Earmarked Funds must be external to the Federal Government. The definition found in the original Standard was ambiguous. The DoD and many other Federal Agencies, therefore, reported Earmarked Funds that were funded by the General Fund of the U.S. Government. Reporting these funds abated the goals of the Standard of highlighting future financing needs and restrictions due to Earmarked Funds.

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.

R2: The DoD agrees that funds established to account for pensions, other retirement benefits, other post-employment benefits and other employee benefits should not be reported as Earmarked Funds. Within DoD, sources for these funds are primarily the General Fund of the U.S. Government. Additionally, these funds recognize long term actuarial liabilities, which offset most of the positive net position of true Earmarked Funds.

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.

R3(a): The DoD disagrees with the proposal allowing an alternative format for the presentation of Earmarked Funds on the face of the Balance Sheet and Statement of Changes in Net Position. (1) The alternative format is confusing and hard to read, especially on the Statement of Changes in Net Position. (2) The use of alternative formats will hinder the compilation of the Financial Report of the U.S. Government by requiring the Department of the Treasury to realign both methodologies into one for their report. (3) The alternative proposal would require Federal Agencies to reprogram their reporting systems to allow computation within columns which were programmed to only include text, which may prove costly. (4) One standard format would be easier to read and understand by the public.

(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.

R3(b): The DoD agrees that entities should not be required to display information on Earmarked Funds on the face of the financial statements, but disclosure should be made within the notes to the financial statements. Reporting this information in a note will make the financial statements less confusing and easier to understand by the general public. However, the face of the financial statement should direct the reader to a note discussing Earmarked Funds. Preparation of financial statements is a time-consuming process and streamlining the preparation would adhere to the current efficiency and effectiveness goals of the Office of Management and Budget (OMB).

(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.

R3(c): The DoD agrees that component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements. This can be accomplished by developing a standard format for the Earmarked Funds note schedule and narrative, which should be disseminated in OMB Circular A-136.

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.

R4: The DoD agrees with the proposal to rescind the confusing guidance related to eliminations and allow components to report Earmarked Funds as either combined or consolidated, as long as they are labeled accordingly. There are many instances of Earmarked Fund entities working with non-Earmarked Fund entities within the DoD. The resulting eliminations have caused disconnects between what is reported on the face of the Balance Sheet and what is reported on the face of the Statement of Changes in Net Position. In total, Net Position equal, but the components of Earmarked and non-Earmarked do not always agree. Presenting Earmarked Funds as Combined will eliminate this issue for DoD. Additionally, the focus of Earmarked Funds should be on individual funds rather than on a consolidated group 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.

R5: The DoD agrees to the replacing of the term "Earmarked Funds" with "Funds from Dedicated Collections". Earmarked Funds have been continually confused with Congressional Earmarks. The DoD has received several inquiries questioning the amounts reported in its financial statements as Earmarked due to this misunderstanding. The name, "Funds from Dedicated Collections" is also a more accurate description of these funds.

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.

R6: - The DoD disagrees with the proposed guidance regarding mixed funding sources, as it adds a contingency to guidance that should be straight-forward and easily understood. If federal and public funds are comingled, provisions of footnote 5 (from

the exposure draft) should apply without regard to the materiality of the non-federal amount: (1) long-term expectations about funding sources or (2) 36-month averages. Method (2) should be required if data is available to avoid confusion and prevent selective application of one method or another. Changes in classification of funds from year to year should be avoided. Provisions need to be included that specify what circumstances would drive a switch and how it would be presented, such as requiring the component to present the change as a prior period adjustment for change in accounting principal.

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.

R7: DoD agrees that the best time to make a change is at the beginning of a fiscal year, pending publication of the revised standard and allowing components adequate time for system changes and procedural training. Clarification is needed on whether reclassification of funds to or from Earmarked Funds will be labeled as a change in accounting principle or as an accounting error. Paragraph 26, states that components are not required to restate when there is a change in the treatment of a fund previously deemed Earmarked and vice versa. However, under the Implementation Guidance paragraph on page 19, components are required to restate prior period amounts displayed on the face of the financial statements and notes.

From: Carr, Jeffrey
Sent: Monday, August 22, 2011 2:12 PM
To: Parlow, Eileen W
Cc: Loyd, Rick; Wall, John F; Ammons, Deanna; Williams, Bethany; Marshall, Wendy; David C - FRS-2' 'Coseo
Subject: RE: Earmarked Funds ED issued - comments due Aug 22

Eileen,
Attached is the Department of Energy's responses.

Jeff

Jeffrey Carr, CPA, CMA, CGFM
U.S. Department of Energy
Office of the CFO
Office of Financial Control & Reporting
Director, Financial Reporting Division

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.

DOE agrees with the proposed amendments.

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.

DOE agrees with the exclusion and that these types of funds should not be lumped with earmarked funds.

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.

DOE agrees it is fine for agencies to have an option. However, we plan to continue using the existing format of separate lines or columns to display information on earmark funds.

(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. DOE doesn't have an issue with displaying information on earmarked funds on the faces of the statements.

(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. DOE thinks it should be sufficient.

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. DOE agrees with this amendment.

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. DOE agrees with the new name change. It should decrease confusion with budgetary spending earmarks.

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. DOE agrees with this proposed guidance. There has to be some deciding factor for funds with mixed funding sources.

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. DOE agrees with a FY12 implementation. It is too late to implement for FY11.

From: Jones, Cynthia - OCFO
Sent: Monday, August 22, 2011 2:24 PM
To: FASAB
Cc: Albayrak, Yoko - OCFO; Karczewski, Stanley - OCFO; Gabel, David - OCFO; Sacchetti, Dylan M - OCFO; Polen, Chris P - OCFO; Koh, David - OCFO; Beckman, Robert - OCFO; Simpson, Cynthia - OCFO
Subject: FASAB Requests Comments Regarding Amendments to SFFAS 27--Earmarked Funds

Good Afternoon:

Please find attached comments from the Department of Labor, Office of the Chief Financial Officer, on the exposure draft, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*. Comments were requested by today, August 22, 2011.

Please let me know if you have any questions or require additional information

Cynthia Jones
Director, Financial Policy Division
Office of the Chief Financial Officer
Office of Fiscal Integrity

COMMENTS Exposure Draft, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*

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.

Comment: We agree with the proposed amendments in paragraph 6 on Pages 12—13 of the exposure draft. With regard to paragraph A11 on Pages 22—23 of the exposure draft and certain earmarked funds with negative net positions, the net position of a particular fund may be negative in some years and positive in other years. For example, the net position of the Unemployment Trust Fund may be negative during periods of sustained high unemployment and may be positive during other periods.

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.

Comment: The Unemployment Trust Fund includes the Federal Employees Compensation Account, whereby States provide for unemployment benefits to former Federal employees, and which is funded by, among other things, reimbursements from Federal agencies and general fund appropriations. DOL currently includes the Unemployment Trust Fund in its entirety as an earmarked fund.

DOL agrees 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 because Footnote 6a on Page 15 of the proposed standard allows DOL to continue classifying the entire Unemployment Trust Fund as an earmarked fund.

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.

Comment: DOL currently displays earmarked funds information on the face of the balance sheet and statement of changes in net position, as well as discloses information in the notes, on a consolidated basis. We agree with the proposed standard because it would allow DOL to continue its current presentation and disclosure and would also allow an alternative.

(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.

Comment: DOL currently displays earmarked funds information on the face of the balance sheet and statement of changes in net position, as well as discloses information in the notes, on a consolidated basis. We agree with the proposed standard because it would allow DOL to continue its current presentation and disclosure and would also allow an alternative.

(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.

Comment: We disagree with the proposal that the component entity level reporting should be required to report "in sufficient detail to fully support the government-wide reporting requirements."

We believe that the information needed to support the government-wide reporting requirements could be collected by means other than general purpose financial reports, such as through the Governmentwide Financial

Report System (GFRS) and financial management policies and procedures of the U.S. Department of the Treasury, Financial Management Service. Furthermore, we believe that this language, which is meant to assist the U.S. Department of the Treasury in complying with paragraphs 29—33 of SFFAS 27, sounds open ended and undefined as it is written and compliance with such an accounting standard may be difficult to audit.

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.

Comment: DOL currently displays earmarked funds information on the face of the balance sheet and statement of changes in net position, as well as discloses information in the notes, on a consolidated basis. We agree with the proposed standard because it would allow DOL to continue its current presentation and disclosure by labeling the financial statements as "consolidated."

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.

Comment: DOL agrees with the Board's proposal to rename "earmarked funds" as "funds from dedicated collections." We agree with the Board's basis for conclusions as described in paragraphs A7 and A8 on pages 21--22.

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.

DOL agrees with the proposed criteria that an earmarked 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.

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.

Comment: DOL disagrees with the required effective date of FY 2012. We believe that a required effective date of FY 2012 is too soon to implement changes for interim reporting because paragraph 15 on Page 19 requires that in the year the standard becomes effective, entities should restate prior period amounts displayed on the face of the financial statements. The first quarter interim financial statements for FY 2012 are prepared as comparative statements and are due to the Office of Management and Budget on January 23, 2012. Therefore, we believe that FASAB should delay the required effective date to FY 2013.

Comments on Other Aspects of the Exposure Draft

Below please find our comments on other aspects of the exposure draft.

With regard to paragraph 15 on page 19, we noted that the implementation guidance would require changes in the financial statements and the notes. In the implementation guidance, the Board may wish to include required supplementary information and required supplementary stewardship information as well.

Edits for Clarification

Below please find our suggestions on edits.

a. Paragraph A14, Page 24. Please place a period at the end of the paragraph.
b. Paragraph B25, Page 34. Please remove the extra period at the end of the paragraph.

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From: Alexis Stowe
Sent: Saturday, August 20, 2011 12:10 PM
To: FASAB
Subject: GSA Comments on FASAB ED Amending SFFAS 27

Dear FASAB,

Attached are the General Services Administration's (GSA's) comments on the FASAB Exposure Draft amending SFFAS 27. Thank you for the opportunity to provide comments.

Alexis M. Stowe
Director of Financial Policy and Operations (BC)/ Deputy CFO
Office of the Chief Financial Officer
General Services Administration
1275 First St. NE, Washington, D.C. 20417

GSA Consolidated Comments and Recommendations on
Amending FASAB SFFAS 27 - Revisions to Identifying and Reporting Earmarked Funds

Question #	Para No.	SUBJECT/TITLE (FASAB Exposure Draft on Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27)	Yes	No	RECOMMENDATIONS/COMMENTS
Q1	6 & A11-A12	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.	Y		Yes, we agree that further distinction is appropriate and provides a much greater focus on funding sources being from the non-Fed collections as discussed in the basis for conclusions. However, with the insertion of the word "originally" into the first criteria under paragraph 11 (and further discussed in the footnote 3a), it is unclear whether this is also intended to imply that funds collected need to have originated from non-federal sources. This can be relevant in an instance of a special fund GSA operates, which receives collections from non-federal vendors that are refunds of federal overpayments. The related program only exists to recover these overpayments from transportation carriers who operate on complex tariff and freight shipping terms, with invoicing that is prone to erroneous payment. As the source of funds collected originated from Federal agencies payments, it could be argued that the new language excludes such a fund from SFFAS 27 reporting requirements, even though its nature is otherwise like funds with dedicated collections covered by the standard. Though immaterial to G

GSA Consolidated Comments and Recommendations on
Amending FASAB SFFAS 27 - Revisions to Identifying and Reporting Earmarked Funds

Question #	Para No.	SUBJECT/TITLE (FASAB Exposure Draft on Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27)	Yes	No	RECOMMENDATIONS/COMMENTS
Q2	10 & A15-A16	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.	Y		We concur that the current reporting requirements related to earmarked funds are not appropriate for these funds. However, we believe the underlying nature of many of these funds, relying significantly on dedicated non-Federal collections; with clear limitations surrounding their use does warrant unique disclosure, and likely line item presentation in the display of statements of these funds.

GSA Consolidated Comments and Recommendations on
Amending FASAB SFFAS 27 - Revisions to Identifying and Reporting Earmarked Funds

Question #	Para No.	SUBJECT/TITLE (FASAB Exposure Draft on Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27)	Yes	No	RECOMMENDATIONS/COMMENTS
Q3	11 & A17-A20	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.		N	Disagree. We prefer a standard way to present dedicated collections if material to the financial statements; however, we request flexibility be provided to permit presentation of such data in the footnote disclosures.

GSA Consolidated Comments and Recommendations on
Amending FASAB SFFAS 27 - Revisions to Identifying and Reporting Earmarked Funds

Question #	Para No.	SUBJECT/TITLE (FASAB Exposure Draft on Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27)	Yes	No	RECOMMENDATIONS/COMMENTS
Q3	11 & A17-A20	(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.	Y		We concur with the task force positions stated in paragraph A17, believing that in many cases, dedicated collections information is best presented in a footnote disclosure rather than the face of the financial statements. The normal reader of financial statements may or may not understand what is truly being presented. We recommend that the current SFFAS 27 requirements for segregation on earmarked funds in statement presentation be removed. We believe the nature of these funds with dedicated collections should be a significant element of management consideration in determining display; however it should just be one of the factors, such as materiality of balances and public interest that traditionally drive decisions on sub-entity presentation of statements and line item segregation of balances. Clearly, there are very significant Federal programs and funds with dedicated collections that do warrant unique presentation. However, there are many funds that will meet the definitions prescribed in the draft, but do not carry balances significantly material, nor a constituency of readers to warrant

GSA Consolidated Comments and Recommendations on
Amending FASAB SFFAS 27 - Revisions to Identifying and Reporting Earmarked Funds

Question #	Para No.	SUBJECT/TITLE (FASAB Exposure Draft on Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27)	Yes	No	RECOMMENDATIONS/COMMENTS
Q3	11 & A17-A20	(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.		N	We believe that further clarity is needed in this regard. As Treasury has the responsibility for government-wide reporting, they place reporting requirements on agencies to provide data in support of materiality at the government-wide level. In many cases, items at the government-wide level may be material, but could be very insignificant at a component level. It has been argued that agency component financial statement presentations and disclosures must contain all data that might need to be an element of government-wide reporting, resulting in the government-wide statement being the driver for making determinations regarding the presentation of component-level statements and disclosures, regardless of materiality. This position creates undue hardships on agencies to maintain records and provide displays and disclosures of immaterial items irrelevant to its readers. Accordingly, requirements in this area should be limited to requiring agencies to capture necessary detail for reporting to Treasury, however it should not create a separate reporting requirement for co

GSA Consolidated Comments and Recommendations on
Amending FASAB SFFAS 27 - Revisions to Identifying and Reporting Earmarked Funds

Question #	Para No.	SUBJECT/TITLE (FASAB Exposure Draft on Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27)	Yes	No	RECOMMENDATIONS/COMMENTS
Q4	11-12 & A21-A25	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.	Y		We agree with the Board proposal, as there has been great confusion in this regard, and further believe combined presentation of balances is more appropriate than consolidating, as the concepts, purposes, and resulting data supporting eliminations of earmarked fund activity is not well understood, or effects comprehended by normal readers of financial statements.
Q5	4-5 & A6-A8	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.	Y		We agree that providing a new title will help prevent confusion with the other budgetary usage of the earmarked term. We further suggest that "Funds With Dedicated Collections" may be more appropriate to define a fund or group of fund accounts (generally identified as unique TAS accounts). The term funds from dedicated collections seem to be more appropriate to describe a type of cash flows rather than a class of fund accounts.

GSA Consolidated Comments and Recommendations on
Amending FASAB SFFAS 27 - Revisions to Identifying and Reporting Earmarked Funds

Question #	Para No.	SUBJECT/TITLE (FASAB Exposure Draft on Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27)	Yes	No	RECOMMENDATIONS/COMMENTS
Q6	7 & A13-A14	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.	Y		Yes, we agree with the proposal as it addresses year-to-year changes that could create undue inconsistencies in report presentation, create significant confusion to readers, and add significant additional work on financial statement preparers and the audit community. This issue further provides another reason to support presenting dedicated collection data in footnote disclosures rather than the financial statements. Without having read the footnote disclosure to determine what funds are new to the classification or are no longer considered dedicated collection funds, comparable data will be difficult to interpret accurately. If all presented together as a footnote, the reader would have all necessary information readily available.
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.	Y		Yes, agree. We do not believe this to be a significant impact to GSA for FY 2012 as today our dedicated collection balances are immaterial.

KPMG LLP
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August 25, 2011

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board (FASAB)
441 G Street, NW, Suite 6814
Mailstop 6K17V
Washington, DC 20548

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Statement of Federal Financial Accounting Standards, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27* – the exposure draft (ED). We support the Board's efforts to improve federal financial reporting of earmarked funds by clarifying the criteria for determining whether a fund should be classified as an earmarked fund and providing further guidance on the reporting requirements.

In the remainder of this letter we provide our responses to the questions posed in the ED and other comments. Where applicable, proposed language revisions have been provided with added text underscored and deleted text ~~struck through~~.

1. 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.

   KPMG Response: We generally agree with the proposed amendment. However, we have the following comments:

   - Paragraph 11.1 uses the term "other financing sources" to refer to certain financing sources other than revenue provided by non-federal sources. If it is the Board's intention to use this term consistent with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, we recommend providing other examples of "other financing sources" from non-federal sources in addition to the example in SFFAS No. 7 of "seigniorage". If it is not the Board's intention to use the term consistent with SFFAS No. 7, we recommend changing it throughout the ED to, for example, "other resources", to avoid confusion.

   - We also noted that the placement of the phrase clarifying that the fund is financed by non-federal sources is not consistent between paragraphs 11, 11.1, 13.1 and 13.2. In paragraph 11, the phrase only identifies revenue as the non-federal source of financing; however, the other two paragraphs

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refer to revenue and other financing sources. We recommend paragraph 11 be modified as follow for consistency, taking into consideration other recommended changes presented in other parts of this letter:

> "[11.] Funds from dedicated collections are financed by specifically identified revenues and other financing sources, provided to the government by non-federal sources, often supplemented by other financing sources provided by the federal government, …."

2. 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.

   KPMG Response: We do not object to excluding these funds from earmarked funds because the required disclosures for pensions, other retirement benefits, other post-employment benefits, and other employee benefits provided to federal employees under SFFAS No. 5, *Accounting for Liabilities of the Federal Government* and SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* continue to be retained.

3. 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.

   KPMG Response: We disagree with the proposal to provide options for component entity reporting of earmarked funds. Given the alternatives, we would prefer that the Board adopt the display of information on earmarked funds parenthetically in the narrative describing key line items as the required display. However, see our response to item 3(b) below.

   (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.

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KPMG Response: We agree that disclosure in the notes is sufficient. We prefer this approach as the footnote already exists. However, consistent with our position in (a) above and the qualitative characteristic of information in financial reports related to comparability discussed in Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, *Objectives of Federal Financial Reporting*, we recommend that the Board adopt specific presentation rather than providing options for presentation.

(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.

KPMG Response: We agree that the preparers' of the U.S. Government-wide financial statements need sufficient information for the preparation of those financial statements. However, we do not believe that the evaluation of the sufficiency of this information can be done by the preparer and auditor of the component entity's financial statements. We recommend the following revision to the proposed sentence to remind preparers that the information is used by the preparer of the U.S. Government-wide financial statements:

> "The information is intended to provide ~~must be in sufficient~~ detail to support reporting requirements for the U.S. Government-wide financial statements described in ~~(see~~ paragraph 29~~)~~."

4. 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.

KPMG Response: We disagree with the proposal to provide an option to present amounts as combined and we recommend that the financial information related to earmarked funds be presented on a consolidated basis for the following reasons:

- Presenting the components of net position on the balance sheet on a combined basis, as illustrated in option A of Appendix F, means that assets and liabilities would have to be presented on a combined basis in order for the statement to balance. Assume an entity has only two earmarked funds (fund A and fund B) and elects to present the combined earmarked fund information. Fund A provided services to fund B but has not been reimbursed at the balance sheet close so fund A reports the exchange revenue and an accounts receivable balance and fund B reports the cost and an accounts payable balance. Without the elimination entries for intra-entity activities (consolidation), the assets and liabilities on the balance sheet of the component entity will be overstated. SFFAC No. 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, paragraph 18, defines an asset as a resource that embodies economic benefits or services that the federal government controls and paragraph 39, defines a liability as a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand. The asset

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and liability balances resulting from the example activity above do not meet these definitions because they are intra-entity balances. The asset does not represent an economic benefit to the entity and the liability does not represent an obligation to provide assets or services to another entity.

- We believe that the presentation of combined balances on a consolidated statement will be confusing.

5. 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.

   KPMG Response: We agree.

6. 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.

   KPMG Response: We generally agree. However, we recommend the following revisions to the proposed amendment to paragraphs 11 and 13 of SFFAS No. 27, taking into consideration other recommended changes presented in other parts of this letter:

   "[11.] Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources and may be~~, often~~ supplemented by other financing sources~~, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues~~. The determination of whether a fund should be classified as a fund from dedicated collections is done at the individual fund level. The three required criteria for a fund from dedicated collections are:

   1. A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the federal government by a non-federal source only for designated activities, benefits or purposes;

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2. Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and

3. A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Government's general revenues.

In certain circumstances, a fund may be financed by a combination of both federal and non-federal sources. Such a fund should be classified as a fund from dedicated collections if the fund meets the above three criteria and

- Its predominant sources of revenue and other financing sources are non-federal sources, or

- its non-federal sources of revenue and other financing sources are material to the reporting entity.

For example, as currently funded, Medicare Parts B and D meet the first three criteria. Medicare Parts B and D's predominant sources of revenue and other financing sources are federal sources. However, Medicare Parts B and D have non-federal revenue and other financing sources that are material to the reporting entity. Therefore, Medicare Parts B and D should be classified as funds from dedicated collections.

[13] **Fund** in this statement's definition of funds from dedicated collections refers to a "fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations." ~~Classification and reporting should be made at the level of an individual fund. A fund should be classified as a "fund from dedicated collections" if it meets the criteria in paragraphs 11.2 and 11.3 and either:~~

~~1. its predominant sources of revenue and other financing sources are nonfederal sources meeting the paragraph 11.1 criterion, or~~

~~2. it has non-federal sources of revenue and other financing sources meeting the paragraph 11.1 criterion 5a that are material to the reporting entity.~~

~~For example, as currently funded, Medicare Parts B and D do not have nonfederal sources as described in paragraph 11 as their predominant revenue and other financing sources. However, Medicare Parts B and D do have revenue and other financing sources material to the reporting entity that meet the criteria in paragraph 11. Therefore, Medicare Parts B and D should be classified as funds from dedicated collections.~~"

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7. 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.

   KPMG Response: We agree.

Other Comments:

- We recommend the following changes to the proposed amendment to paragraph 11 to be consistent with the proposed amendment to paragraph 11.1, taking into consideration other recommended changes presented in other parts of this letter:

  "Funds from dedicated collections are financed by specifically identified revenues, originally provided to the federal government by non-federal sources, often supplemented by other financing sources."

- We recommend the following change to the proposed amendment to paragraph 11.3, taking into consideration other recommended changes presented in other parts of this letter:

  "A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources of ~~that distinguishes~~ the fund separately from the federal g~~G~~overnment's general revenues."

- We recommend the following change to the proposed amendment to paragraph 22:

  "...The total net position shown in the note disclosure should agree with the total net position for ~~earmarked~~ funds from dedicated collections shown on the face of the component entity's basic financial statements."

- We recommend the following change to the proposed amendment to paragraph 25:

  "The total net position of all ~~earmarked~~ funds from dedicated collections shown in the note disclosure should agree with the net position of ~~earmarked~~ funds from dedicated collections shown on the face of the component entity's Balance Sheet and the Statement of Changes in Net Position."

- We recommend that paragraphs 15, 16, 17, 27, 28, 29, 31, 32, 33, 34, and footnote 9 of SFFAS No. 27 are updated to replace the term "earmarked funds" with the new term "funds from dedicated collections".

- We recommend updating the summary section and appendices of SFFAS No. 27 to reflect the proposed changes in this ED.

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If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or aenelson@kpmg.com.

Very truly yours,

KPMG LLP

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814 (Mailstop 6k17V)
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Office of Audit (OA), Office of Inspector General (OIG), U.S. Department of Labor, please find enclosed responses to questions related to a proposed Statement of Federal Financial Account Standards entitled "Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27."

The OA/OIG is in general agreement with the proposed revisions to Statement of Federal Financial Account Standards 27. We believe the revisions will provide important guidance for the proper accounting, presentation, and disclosure of earmarked funds in financial statements.

Thank you for the opportunity to provide comments. If you have any questions or need additional information, please contract Joseph L. Donovan, Jr. at 202-693-5248.

Sincerely,

Elliot P. Lewis
Assistant Inspector General for Audit

Enclosure

Department of Labor
Office of Inspector General
Office of Audit

Questions for Exposure Draft:

Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.

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. Paragraph A12 of the exposure draft states that the intent of Statement of Federal Financial Accounting Standards (SFFAS) 27 was that specifically identified revenues and other financing sources should be from a nonfederal source to meet the criteria for an earmarked fund. Therefore, we believe the proposed amendment would clarify this requirement.

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 this exclusion. As noted in paragraphs A15 and A16 of the exposure draft, these funds are used to account for employee-employer transactions and do not support the intent of SFFAS 27 to highlight the cumulative amount to be repaid by the general fund in order for earmarked revenues to be used for their intended purposes. Therefore, we believe it would be appropriate to exclude funds established to account for those activities from the category of earmarked funds.

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 an alternative for component entity reporting of earmarked funds. Providing such an option would allow components to determine the best method for presenting its information to increase the understandability of component entity level reporting for its users. However, we believe that there should only be two options for the reporting of earmarked funds: (1) the existing format and (2) notes-only presentation. The proposed parenthetical disclosure option reduces the understandability and "readability" of the statements.

(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.

We agree that the disclosure of information for earmarked funds in notes is sufficient. Statement of Federal Financial Accounting Concepts (SFFAC) 2: Entity and Display states that "Financial information is also conveyed with accompanying footnotes, which are an integral part of the financial statements." Because the notes are considered integral to the financial statements, we believe the disclosure of earmarked funds in this manner is sufficient and would still provide readers the necessary information. Further, as the notes to the financial statements are subject to audit, the information disclosed in the notes should be as reliable as the information presented in the financial statements.

(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.

Although we are not opposed to component entities reporting in sufficient detail to fully support the government-wide reporting requirements, we do not believe it would be beneficial. The information used to support the government-wide reporting requirements is currently not derived from the component entities' financial statements; therefore, we do not understand the need for this requirement.

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 disagree with the proposal to permit component entities to present earmarked information as either combined or consolidated amounts. SFFAC 1: Objectives of Federal Financial Reporting states "Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting procedures or practices." If component entities are permitted to present their earmarked information using different methods, it would affect the comparability of the information for users of the financial statements. Further, users would have to interpret each component entity's information differently depending on the method chosen by the component entity. As such, we believe the proposed standard should only include one option for presenting information for earmarked funds.

Additionally, we believe the earmarked funds information should be reported as consolidated amounts because the Statement of Changes in Net Position (SOCNP) is a consolidated statement. If information related to earmarked funds is permitted to be presented on a combined basis, it would result in inconsistent methods being applied on the SOCNP as other funds are presented on a consolidated basis. Information on individual funds in the notes to the financial statements can be used to display the "pre-consolidated" amounts for each fund.

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 proposal to rename "earmarked funds" as it would better distinguish it from congressional earmarking and avoid potential confusion to the users. However, we suggest using the term "funds with dedicated collections" to more clearly demonstrate that other sources of inflows may be included in the funds and to preserve the term "funds" as a fiscal and accounting entity vs. a resource.

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 proposed guidance. However, we do not believe that funds that are not predominantly funded by non-federal sources should be classified as "earmarked." We believe the determination of whether a fund is classified as earmarked should be based on fund activity only rather than the financial statements as a whole since it is at the fund level that the label of "earmarked" is ultimately applied.

Additionally, we believe it would be helpful to numerically define "predominant," perhaps with suggested percentage ranges, to promote consistency in application of the requirement.

We agree with the language in proposed footnote 5a to provide for reporting consistency from year to year when sources of funding fluctuate frequently. However, we suggest adding a requirement to disclose the method used to make such determinations in these cases.

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.

As auditors, we have no comment on this matter. This question is more appropriate for agencies (i.e., the accountants) to respond to, as it relates to the timing of federal agencies' ability to implement the proposed requirements.

From: Johnson, Carol S.
Sent: Friday, September 02, 2011 01:46 PM
To: Payne, Wendolyn M
Subject: Earmarked Funds Standard

Hi Wendy:

I know the deadline for comments on the earmarked funds standard has passed, but I am wondering whether it would be possible to add to the standard a requirement that the government-wide financial report include a footnote that explains the non-earmarked funds (or non-dedicated collections) total on the balance sheet. I think this might help the lay reader understand the significance of what is currently the largest negative number on the balance sheet.

I am thinking that it might be nice to explain what the number represents both mathematically and conceptually. Maybe the footnote could say something along the following lines. “The non-earmarked funds [non-dedicated collections] balance is the Government’s net position less the balances of funds that receive dedicated collections. It represents the cumulative results of operations plus future program commitments for certain/all [whichever word is accurate] non-exchange programs that receive dedicated collections.”

If everyone thinks that the non-earmarked funds line is self-explanatory, then please disregard my comment. Many thanks.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 6, 2011

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

Thank you for the opportunity to provide comments on the June 21, 2011 Exposure Draft (ED) titled "Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27." Our comments, in response to the questions in the ED are attached.

Again, we appreciate the opportunity to comment on this Exposure Draft. If we can be of further assistance, please contact Marilyn Evans at (202) 622-0807.

Sincerely,

For Robert Faber

Carole Y. Banks
Director, Accounting
and Internal Control

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.

Agree. This distinction will standardized SFFAS reporting practices.

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.

Agree. This amendment would bring the standard more in line with its original intent by not allowing the large negative net position balances created by long-term pension liabilities to offset the positive net position of all other earmarked funds. Even though the standard specifies federal employees, Department of the Treasury will apply this to DC Pensions as the majority of the funds for this fund are federal funds and to be consistent with apply SFFAS 33.

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.

Agree. However, Treasury will not be following the alternative format for the following reasons (1) our financial statements are automated. In order to produce the alternative format we would have to produce our financial statements, obtain the amount for earmarked, revised our crosswalk, have our programmers hardcode the amount (high risk for us) in the title line, and rerun the financial statements in the alternative format. (2) this is more confusing as we now have dollar amounts in the title line. (3) we will now need auditor coverage over title lines.

(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.

Agree. This would be consistent with the Non-Entity/Entity note which explains the breakout of the assets or the Covered/Uncovered note which provides further information on the liabilities. The financial statements would provide the general information and if the reader was interested would go to the note for the details. We could then provide side by side comparisons.

(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.

Agree. Component entity level reporting should be sufficient detail to support the government-wide 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.

Disagree. If rescinded, can we make the assumption that the eliminations all pertain to All Other Funds. This way we will be able to tie the condensed version of the Statement of Changes in Net Position section of the earmark note to the Statement of Changes in Net Position.

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.

Agree. By changing the terminology to "funds from dedicated collections" it helps avoid the confusion between earmarked funds and earmarked spending.

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.

Agree. Proposed guidance does not impose reporting burdens in excess of any benefits.

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.

Agree. Changes might not be made for 1st Quarter submission to OMB due to new FACTS II requirements but will be in place for the 2nd Quarter.

Possible misconnect when looking at Appendix B: Text of SFFAS Accounting Standards with Proposed Amendments

Paragraph 11 (page 29)
Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time.

Paragraph 19 (page 32)

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.

Misconnect – Paragraph 11 says revenues and paragraph 19 says non-exchange revenue. Are current earmarked funds that receive their revenue from exchange revenue now considered not earmarked funds?

From: Irving, Patricia (HHS/ASFR)
Sent: Monday, September 19, 2011 11:43 AM
To: Parlow, Eileen W
Subject: FW: FASAB Requests Comments Regarding Amendments to SFFAS 27--Earmarked Funds

Eileen,

These are the responses that I received from the Division of Financial Reporting, Policy, and Oversight at CMS.

Patricia

_____

Patricia Irving
Team Leader/Audit Liaison
Office of Finance
Department of Health and Human Services

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.

As long as the FICA and SECA taxes are considered financing sources external to the federal government, then we can agree.

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.

N/A to CMS

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.

CMS would probably continue with the current format and as long as it is clear what is needed for the U.S. government-wide financial statements, we should have no problem.

(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.

I have no opinion as long as the guidance is clear as to whether or not Medicare Trust funds are funds from dedicated collections

(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.

I have no opinion as long as the guidance is clear as to whether or not Medicare Trust funds are funds from dedicated collections

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.

Agree – Eliminations for earmarked have always been difficult to report on government-wide statements.

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.

Agree with the renaming as ‘earmarked funds’ is confusing.

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.

I have no opinion as long as the guidance is clear as to whether or not Medicare Trust funds are 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.

I have no opinion as long as the guidance is clear as to whether or not Medicare Trust funds are funds from dedicated collections

From: Palmer, Katherine (SES)
Sent: Wednesday, September 28, 2011 11:51 AM
To: Parlow, Eileen W
Cc: Shea, James (Jerry); Jones, Wesley E. (VACO)
Subject: RE: VA's FASAB Response to Earmarked Funds ED

Good morning,

Attached are the VA's comments on the

Exposure Draft: *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.*

I know that Mr. Shea enjoys working with you. I remember meeting you and appreciate your willingness to take our comments, albeit a little late.

Regards, Katherine Palmer

Katherine Palmer
ADAS for Financial Policy

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.*

Organization Represented: Department of Veterans Affairs (VA)

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.

> VA agrees with the proposed amendment to Statement of Federal Financial Accounting Standard (SFFAS) No. 27. Rationale: There are two good reasons why a reporting entity would separate, and thereby highlight, the reporting of earmarked funds: 1) the fact that the source of the "specially identified revenues or other financing sources" in paragraph 11 of SFFAS No. 27 is external to the federal government and 2) this helps to clarify the distinction between earmarked funds and the general fund. The reporting requirements contribute to the Board's stated goal of emphasizing the actual level of funding required to finance the government as a whole, given the restrictions of earmarked funds usage.

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.

> VA agrees. Rationale: These funds for former employees represent liabilities, and accounting for that category is guided by SFFAS No. 5, "Accounting for Liabilities of the Federal Government." VA also agrees that the large negative balances of some of these funds mask the otherwise positive value of earmarked funds and, therefore, interfere with the reporting objective of clarifying the actual level of funding required to finance the government as a whole.

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.

> VA agrees with the option for an alternative format for reporting earmarked funds. Rationale: It should be left to the agency to decide whether to use the traditional reporting format on the balance sheet and the statement of changes in net position or the alternative. An agency should be free to use whichever format better displays the earmarked funds, especially considering that the amount of earmarked funds may be relatively small compared to the Other Funds presented.

(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.

> VA agrees with the Board members who believe that earmarked funds could be simply disclosed in the notes, rather than be mandated to be included on the balance sheet and the statement of changes in net position. Rationale: Some reporting agencys may only have a small amount of earmarked funds and note disclosure would be sufficient.

(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.

> VA agrees that the component entity reporting level should be in sufficient detail to fully support the government-wide reporting requirements. Rationale: VA fully supports the government-wide objective to have meaningful reporting in the Consolidated Financial Report of the United States Government.

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.

VA agrees with rescinding the guidance on eliminations. Rationale: If combined or consolidated amounts are permitted and labeled accordingly, this would preclude confusion in the reporting process.

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.

VA agrees with replacing the term “earmarked funds” with “funds from dedicated collections.” Rationale: The proposed new wording would eliminate confusion regarding use of a term commonly understood to refer to money set aside in congressional appropriations for specific projects in congressional districts.

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.

VA agrees with the proposed guidance on mixed funds. Rationale: The designation as an “earmarked fund” or as a “fund from dedicated collections” should be limited to the case where the amount collected from external sources is meaningful, i.e. the amount from external sources should be either the predominate source of the mixed fund or at least material to that individual fund for the reporting agency.

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.

VA agrees with the proposed effective date. Rationale: It is close to year end already and an effective date beginning after September 30, 2011 gives an agency more time to implement any necessary changes in reporting.

From: Fleming, William
Sent: Wednesday, September 28, 2011 7:44 PM
To: Payne, Wendolyn M; Parlow, Eileen W
Subject: SEC Comments Earmarked Funds ED (3)

<<SEC Comments Earmarked Funds ED (3).doc>>

Wendy and Eileen

Please find our comments on the Earmarked Document
Thanks,

Bill Fleming

Branch Chief, Financial Reporting and Policy Branch
SEC

Questions for Respondents

Exposure Draft: *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.*

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.

A. We agree with the proposed guidance. The clarification reinforces the basic intent that funds collected from the public for a designated purpose should be accounted for in a manner that is transparent to the public. Also, stating that earmarked funds are "often" supplemented by other financing sources may not be correct. For clarity, we suggest the following alternative language in paragraph 6:

> Dedicated Revenue Funds ~~from dedicated collections~~ are financed by specifically identified revenues~~,~~ that are provided to the government by non-federal sources~~,~~ ~~often supplemented by other financing sources,~~ and which remain available over time. The revenues from non-federal sources may be supplemented by other financing sources.

(Note: See response to Q5 for our opinion on the term "Dedicated Revenue Funds" rather than "funds from dedicated collections."

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.

A. We agree with the proposed guidance. Pension funds, and similar employee benefit funds, are fundamentally different from funds collected from the general public for a stated purpose. In addition, other disclosure requirements exist to communicate the status of pension-type funds to the public.

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.***

A. We agree that agencies should be given the flexibility to display information on earmarked funds in a manner that best communicates the information to the reader. This is especially true for agencies with very small or very large earmarked funds in comparison to other activities. For example, the SEC is funded almost entirely with earmarked funds, but occasionally receives minor amounts of appropriated funds. The option to disclose these immaterial amounts in the Notes to the Financial Statements improves the overall clarity of the disclosure while simplifying the presentation of the basic financial statements. On the other hand, agencies with relatively small earmarked were faced with reporting the largest portion of Net Position as "Cumulative Results of Operations – Other," contrary to standard practice that "Other" is reserved for immaterial line items.

We believe the proposed flexibility will improve financial reporting.

> ***(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. As noted in the reply to Question 3(a), we believe that the option to present information on earmarked fund in the Notes to the Financial Statements will significantly improve the clarity of disclosures for certain agencies.

> ***(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.***

A. We agree that component agency financial information must support government-wide reporting requirements. However, presentation of earmarked disclosures in the Notes to the Financial Statements of an agency does not prevent the roll-up of government-wide information. In addition, as the quality of Federal financial reporting improves, it is hoped that the support for government-wide reporting can rest more heavily on agency trial balances, rather than on highly summarized published

data. This will reduce the expectation that financial disclosures of relatively small, single mission agencies should mirror the complex disclosures needed for government-wide 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.

A. We agree with the flexibility provided by the Exposure Draft. We agree that if an agency presents a disclosure of earmarked funds, this disclosure may be either combined or consolidated. However, if the reporting entity presents columns for earmarked and non-earmarked funds adding up to agency-wide totals, the total column should agree to the principal financial statements to prevent confusion. In this case, a consolidating statement with a single elimination column would be necessary.

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.

A. We strongly agree that the term "earmarked funds" should be discontinued, as this term has created excessive confusion due to its similarity to the budgetary term "earmarks." While "Dedicated Collections" is an acceptable alternative, we believe that the term "Dedicated Revenues" would be clearer to those outside the Federal financial community. (Budgetary accounting tends to use the term "collections" while proprietary accounting uses "revenue." Revenue is a more widely understood concept in the private sector.)

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.

A. We agree with the proposed language that indicates that the predominant source of funds should be from non-federal sources, and that the agency should be given some flexibility in applying this requirement.

However, we do not agree with the inference in revised paragraph [26] that the reporting of an individual fund as earmarked or not-earmarked could change from year to year. Paragraph [23], item 3 includes the following disclosure requirement:

> 3. Any change in legislation during or subsequent to the reporting period and before the issuance of the financial statements that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.

Earmarked funds are normally driven by legislative requirements for the use of the revenues. The underlying legislative requirements normally remain stable. The reporting entity should be required to review legislative intent, funding sources and other information, identify a fund as either earmarked or not-earmarked in the long-term, and continue with that reporting.

The presentation of a fund as earmarked or non-earmarked should change only if the nature or use of the fund changes as a result of legislative action or other significant events. This change should be treated as a change in accounting. The principle of consistency requires consistent presentation from year to year. For a fund to frequently switch between earmarked and non-earmarked due to relatively minor variations in fund activities would not benefit the user of financial information.

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.

A. While we expect to be able to implement the proposed changes quickly, we do not agree with the proposed effective date. An effective date of “periods beginning after September 30, 2011” would require application of these requirements in the first quarter 2012 financial statements due to the Office of Management and Budget in mid January, 2012. Implementation by this date is not feasible. The implementation date selected should allow time for the issuance of the standard by the Board, issuance of preliminary guidance by OMB and Treasury, and careful review of reporting options by agencies.

We recommend that that the effective date be changed to “periods beginning after September 30, 2012, with early implementation permitted.” This will give agencies with numerous and complex earmarked funds adequate time to review disclosure options.