FASAB

Federal Accounting Standards Advisory Board

October 7, 2011

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **Earmarked Funds: Comment Letters Received through September 30[1] – Tab E**

## MEETING OBJECTIVE

To review responses to the exposure draft, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27* and make decisions on issues raised. Decisions made at the meeting will enable staff to develop a pre-ballot draft final standard for your consideration.

### BRIEFING MATERIAL

**Staff Summary**: This memorandum provides the staff summary. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. The summary presents:



**Attachment 1** provides the full text of each comment letter.
**Attachment 2** provides an overall summary of responses and a list of issues identified with staff analysis and recommendations.
**Attachment 3** provides the original Exposure Draft for reference.

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


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## BACKGROUND

## SUMMARY OF OUTREACH EFFORTS

The exposure draft, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*, was issued June 21, 2011, with comments requested by August 22, 2011. Upon release of the exposure draft, notices and press releases were provided to:

a) The Federal Register;
b) *FASAB News;*
*c)* The *Journal of Accountancy, AGA Today,* the *CPA Journal, Government Executive,* and the *CPA Letter;*
d) The CFO Council, the Council of the Inspectors General on Integrity and Efficiency, and the Financial Statement Audit Network; and
e) Committees of professional associations generally commenting on exposure drafts in the past.

This broad announcement was followed by direct mailings of the exposure draft to the members of the Earmarked Funds Task Force. A list of the participating agencies is provided at Appendix C of the exposure draft:.

To encourage responses, a notice was sent to the FASAB's ListServ and to the FASAB's Twitter followers. In addition, a reminder was provided on August 16, 2011, to our Listserv. We also contacted affected agencies directly if a response had not been received by the date requested.

## RESULT

As of September 30, 2011, we have received 23 responses from the following sources:

| | **FEDERAL (Internal)** | **NON-FEDERAL (External)** |
|---|---|---|
| Users, academics, others | | 3 |
| Auditors | 2 | 1 |
| Preparers and financial managers | 17 | |

The full text of the comment letters is provided as attachment 1. Attachment 1 includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before you read the staff summary below.

## A. Tally of Responses By Question

| QUESTION | YES/AGREE | NO/DISAGREE | NO COMMENT/OTHER |
|---|---|---|---|
| 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. Do you agree or disagree with the proposed amendment? | 22 | 0 | 1 |
| 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. Do you agree or disagree with this exclusion? | 21 | 0 | 2 |
| 3. (a) 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. Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds? | 14 | 8 | 1 |
| 3. (b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient? | 11 | 9 | 3 |
| 3.(c) Do you agree or disagree with the proposal that the component entity level reporting should be in sufficient detail to | 16 | 5 | 2 |

**STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question**

| QUESTION | YES/AGREE | NO/DISAGREE | NO COMMENT/OTHER |
|---|---|---|---|
| fully support the government-wide reporting requirements? | | | |
| 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. Do you agree or disagree with this proposed amendment? | 17 | 5 | 1 |
| 5. The Board proposes to replace the term “earmarked funds” with “funds from dedicated collections.” Do you agree or disagree with the Board’s proposal to rename “earmarked funds” and make conforming grammatical changes in SFFAS 27? | 21 | 0 | 2 |
| 6. 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. Do you agree or disagree with the proposed guidance on funds with such sources of funding? | 18 | 2 | 3 |
| 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? | 15 | 4 | 4 |

## B. Quick Table of Responses By Question

| RESPONDENT | 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. Do you agree or disagree with the proposed amendment? | 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. Do you agree or disagree with this exclusion? | 3. (a) 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. (a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds? | 3. (b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient? | 3.(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 ? | 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. Do you agree or disagree with this proposed amendment? | 5. The Board proposes to replace the term "earmarked funds" with "funds from dedicated collections." Do you agree or disagree with the Board's proposal to rename "earmarked funds" and make conforming grammatical changes in SFFAS 27? | 6. 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. Do you agree or disagree with the proposed guidance on funds with such sources of funding? | 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? |
|---|---|---|---|---|---|---|---|---|---|
| 1. SSA | Agree | Agree | Agree | Agree | Agree | Agree | Agree | Agree | Agree |
| 2. RRB | Agree | Agree | Agree | Agree | **Disagree** | **Disagree** | Agree | **Disagree** | Agree |
| 3. USDA | Agree | Agree | **Disagree** | Agree | Agree | Agree | Agree | Agree | Agree |
| 4. DOC | Agree | Agree | Agree | **Disagree** | Agree | Agree | Agree | Agree | Agree |
| 5. EPA | Agree | Agree | Agree | **Disagree** | Agree | Agree | Agree | Agree | Agree |
| 6. OPM | Agree | Agree | Agree | **Disagree** | Agree | Agree | Agree | Agree | **Disagree** |
| 7. AGA | Agree | Agree | Agree | **Disagree** | Agree | Agree | Agree, but | Agree | Agree |

## STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

| **RESPONDENT** | 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. Do you agree or disagree with the proposed amendment? | 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. Do you agree or disagree with this exclusion? | 3. (a) 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. (a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds? | 3. (b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient? | 3.(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 ? | 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. Do you agree or disagree with this proposed amendment? | 5. The Board proposes to replace the term "earmarked funds" with "funds from dedicated collections." Do you agree or disagree with the Board's proposal to rename "earmarked funds" and make conforming grammatical changes in SFFAS 27? | 6. 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. Do you agree or disagree with the proposed guidance on funds with such sources of funding? | 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? |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | edit name | | |
| 8. DOT | Agree | Agree | Agree | **Disagree** | Agree | Agree | Agree | Agree | Agree |
| 9. GWSCPA | Agree | Agree | **Disagree** | Split | Agree | **Disagree** | Agree | Agree | Agree |
| 10. HUD | Agree | Agree | **Disagree** | **Disagree** | Agree | Agree | Agree | Agree | Split |
| 11. DOI | Agree | Agree | Agree | Agree | Agree | Agree | Agree | Agree | Agree |
| 12. DOJ OIG | Agree | Agree | **Disagree** | **Disagree** | Agree | Agree | Agree | Agree | Agree |
| 13. DoD | Agree | Agree | **Disagree** | Agree | Agree | Agree | Agree | **Disagree** | **Disagree** |
| 14. DOE | Agree | Agree | Agree | **Disagree** | Agree | Agree | Agree | Agree | Agree |
| 15. DOL | Agree | Agree | Agree | Agree | **Disagree** | Agree | Agree | Agree | **Disagree** |

## STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

| **RESPONDENT** | 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. Do you agree or disagree with the proposed amendment? | 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. Do you agree or disagree with this exclusion? | 3. (a) 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. (a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds? | 3. (b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient? | 3.(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 ? | 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. Do you agree or disagree with this proposed amendment? | 5. The Board proposes to replace the term "earmarked funds" with "funds from dedicated collections." Do you agree or disagree with the Board's proposal to rename "earmarked funds" and make conforming grammatical changes in SFFAS 27? | 6. 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. Do you agree or disagree with the proposed guidance on funds with such sources of funding? | 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? |
|---|---|---|---|---|---|---|---|---|---|
| 16. GSA | Agree | Agree | **Disagree** | Agree | **Disagree** | Agree | Agree | Agree | Agree |
| 17. KPMG | Agree | Agree | **Disagree** | Agree | **Disagree** | **Disagree** | Agree | Agree | Agree |
| 18. DOL OIG | Agree | Agree | **Disagree** | Agree | **Disagree** | **Disagree** | Agree | Agree | No Comment |
| 19. C. Johnson | No Comment | No Comment | No Comment | No Comment | No Comment | No Comment | No Comment | No Comment | No Comment |
| 20. Treasury | Agree | Agree | Agree | Agree | Agree | **Disagree** | Agree | Agree | Agree |
| 21. HHS CMS | Agree | No Comment | Agree | No Comment | No Comment | Agree | Agree | No Comment | No Comment |
| 22. VA | Agree | Agree | Agree | Agree | Agree | Agree | Agree | Agree | Agree |

# STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

| **RESPONDENT** | 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. Do you agree or disagree with the proposed amendment? | 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. Do you agree or disagree with this exclusion? | 3. (a) 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. (a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds? | 3. (b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient? | 3.(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 ? | 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. Do you agree or disagree with this proposed amendment? | 5. The Board proposes to replace the term "earmarked funds" with "funds from dedicated collections." Do you agree or disagree with the Board's proposal to rename "earmarked funds" and make conforming grammatical changes in SFFAS 27? | 6. 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. Do you agree or disagree with the proposed guidance on funds with such sources of funding? | 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? |
|---|---|---|---|---|---|---|---|---|---|
| 23. SEC | Agree | Agree | Agree | Agree | Agree | Agree | Agree | Partially Agree | **Disagree** |

## C. Full Text of Answers and Comments by Question and by Respondent

| **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. Do you agree or disagree with the proposed amendment?** | |
|---|---|
| 1. Social Security Administration | 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. |
| 2. Railroad Retirement Board | Agree, this clarifies funds from dedicated collections. Footnote 3a is good in that it answers the question when another agency collects the funds. |
| 3. Dept. of Agriculture | 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. |
| 4. Dept. of Commerce | 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. |
| 5. Environmental Protection Agency | 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. |
| 6. Office of Personnel Management | 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. |
| 7. Association of Government Accountants | 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 |

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| Financial Management Standards Board | for in a way that is clear and transparent. |
| 8. Dept. of Transportation | 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. |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | 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. |
| 10. Dept. of Housing and Urban Development | 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. |
| 11. Dept. of the Interior | DOI agrees with the proposal to add such clarification. |
| 12. Dept. of Justice, Office of the Inspector General | Agree<br>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. |
| 13. Dept. of Defense | 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 |
| 14. Dept. of Energy | DOE agrees with the proposed amendments. |
| 15. Dept. of Labor | 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 |

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| | 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 |
| 16. General Services Administration | 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 GSA, this program had been interpreted to meet the earmarked fund criteria under SFFAS 27, and clearly operates from dedicated collections available for a very specific purpose stated in statute. |
| 17. KPMG LLP | We generally agree with the proposed amendment. However, we have the following comments:<br>– 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.<br>– 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 |

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| | of financing; however, the other two paragraphs 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:<br>"[11.] Funds from dedicated collections are financed by specifically identified revenues <u>and other financing sources</u>, provided to the government by non-federal sources, often supplemented by other financing sources <u>provided by the federal government</u>, …." |
| 18. Dept. of Labor OIG | 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. |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | Agree. This distinction will standardize SFFAS reporting practices. |
| 21. Dept. of Health and Human Services, Centers for Medicare and Medicaid Services | As long as the FICA and SECA taxes are considered financing sources external to the federal government, then we can agree. |
| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and Exchange Commission | 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 |

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| | following alternative language in paragraph 6:<br><br>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.<br><br>(Note: See response to Q5 for our opinion on the term "Dedicated Revenue Funds" rather than "funds from dedicated collections." |

| **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. Do you agree or disagree with this exclusion?** | |
|---|---|
| 1. Social Security Administration | 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. |
| 2. Railroad Retirement Board | 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. |
| 3. Dept. of Agriculture | 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. |
| 4. Dept. of Commerce | 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 |
| 5. Environmental Protection Agency | 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. |

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| 6. Office of Personnel Management | 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. |
| 7. Association of Government Accountants Financial Management Standards Board | 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. |
| 8. Dept. of Transportation | DOT agrees. A distinction must be made between fiduciary activities and dedicated collections due to the different nature of the transactions. |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | 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. |
| 10. Dept. of Housing and Urban Development | 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. |
| 11. Dept. of the Interior | DOI agrees with this exclusion based on the rationale provided in the ED. |
| 12. Dept. of Justice, Office of the Inspector General | Agree<br><br>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 |

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| | 11 and 13. |
| 13. Dept. of Defense | 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. |
| 14. Dept. of Energy | DOE agrees with the exclusion and that these types of funds should not be lumped with earmarked funds. |
| 15. Dept. of Labor | 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.<br>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. |
| 16. General Services Administration | 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. |
| 17. KPMG LLP | 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. |

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| 18. Dept. of Labor OIG | 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 |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | 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. |
| 21. Dept. of Health and Human Services, Centers for Medicare and Medicaid Services | N/A to CMS |
| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and Exchange Commission | 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. |

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| **3. (a) 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** | |

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| **balance sheet and statement of changes in net position, or to use an alternative format. (a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds?** | |
| 1. Social Security Administration | 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.<br>SSA will continue using the current format for its financial statements and is primarily concerned with maintaining our ability to use this format. |
| 2. Railroad Retirement Board | Agree, each agency's financial statements are different and providing options allows agencies to tailor their statements to/for their readers. |
| 3. Dept. of Agriculture | USDA disagrees with an option for an alternative format because same information would be reported differently across federal government. |
| 4. Dept. of Commerce | 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. |
| 5. Environmental Protection Agency | 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. |
| 6. Office of Personnel Management | 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 |
| 7. Association of Government Accountants Financial Management Standards Board | We agree with the proposal to provide an option for alternative component entity reporting of funds from dedicated sources. |

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| 8. Dept. of Transportation | 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. |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | 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. |
| 10. Dept. of Housing and Urban Development | 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. |
| 11. Dept. of the Interior | 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. |
| 12. Dept. of Justice, Office of the Inspector General | Disagree<br><br>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. |
| 13. Dept. of Defense | 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 |

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| | 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. |
| 14. Dept. of Energy | 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. |
| 15. Dept. of Labor | 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. |
| 16. General Services Administration | 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. |
| 17. KPMG LLP | 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. |
| 18. Dept. of Labor OIG | 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. |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | 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 |

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| | 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. |
| 21. Dept. of Health and Human Services, Centers for Medicare and Medicaid Services | 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. |
| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and Exchange Commission | 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.<br><br>We believe the proposed flexibility will improve financial reporting. |

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| **3. (b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient?** | |

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| 1. Social Security Administration | 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. |
| 2. Railroad Retirement Board | Agree, too much information on the face of the financial statements makes them unreadable, footnotes are an acceptable alternative. |
| 3. Dept. of Agriculture | USDA agrees that disclosure in the notes is sufficient. |
| 4. Dept. of Commerce | 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. |
| 5. Environmental Protection Agency | 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. |
| 6. Office of Personnel Management | 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. |
| 7. Association of Government Accountants Financial Management Standards Board | 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. |

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| 8. Dept. of Transportation | 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. |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | 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. |
| 10. Dept. of Housing and Urban Development | 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. |
| 11. Dept. of the Interior | 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. |
| 12. Dept. of Justice, Office of the Inspector General | Disagree<br><br>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. |
| 13. Dept. of Defense | 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 |

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| | 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). |
| 14. Dept. of Energy | DOE doesn't have an issue with displaying information on earmarked funds on the faces of the statements. |
| 15. Dept. of Labor | 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. |
| 16. General Services Administration | 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 segregation of fund on the financial statements. In some instances, only a portion of balances reported on a statement are even sufficient to warrant disclosure, such as Fund Balance with Treasury, Non-Exchange Revenues, and in some instances Net Position. In those instances, only those significant balances should be required for disclosure. |
| 17. KPMG LLP | 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 |

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| | 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. |
| 18. Dept. of Labor OIG | 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. |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | 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. |
| 21. Dept. of Health and Human Services, Centers for Medicare and Medicaid Services | I have no opinion as long as the guidance is clear as to whether or not Medicare Trust funds are funds from dedicated collections |
| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and Exchange Commission | 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. |

## STAFF SUMMARY OF RESPONSES – Table C: Full Text of Answers and Comments by Question

| **3.(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?** | |
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| 1. Social Security Administration | 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. |
| 2. Railroad Retirement Board | 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. |
| 3. Dept. of Agriculture | USDA agrees that the component entity level reporting should be in sufficient detail to fully support the governmentwide reporting requirements. |
| 4. Dept. of Commerce | The Department of Commerce agrees with this proposal. Detailed note disclosures (descriptive rather than analytical) will provide sufficient information at the component level. |
| 5. Environmental Protection Agency | 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. |
| 6. Office of Personnel Management | 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. |
| 7. Association of Government Accountants Financial Management Standards Board | We agree with the exposure draft. We support this because it will facilitate consolidation and analysis. |
| 8. Dept. of Transportation | 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. |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | The FISC agrees that component entity level reporting should be in sufficient detail to fully support the government-wide reporting requirements. |

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| 10. Dept. of Housing and Urban Development | 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. |
| 11. Dept. of the Interior | 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. |
| 12. Dept. of Justice, Office of the Inspector General | Agree<br><br>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. |
| 13. Dept. of Defense | 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. |
| 14. Dept. of Energy | DOE thinks it should be sufficient. |
| 15. Dept. of Labor | 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."<br><br>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. |
| 16. General Services | We believe that further clarity is needed in this regard. As Treasury has the responsibility |

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| Administration | 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 component entity statements if not otherwise warranted. |
| 17. KPMG LLP | 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:<br>"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~~)~~." |
| 18. Dept. of Labor OIG | 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. |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | Agree. Component entity level reporting should be sufficient detail to support the government-wide reporting. |
| 21. Dept. of Health and Human Services, Centers for Medicare and | I have no opinion as long as the guidance is clear as to whether or not Medicare Trust funds are funds from dedicated collections |

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| Medicaid Services | |
| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and Exchange Commission | 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. |

| **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. Do you agree or disagree with this proposed amendment?** | |
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| 1. Social Security Administration | 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). |
| 2. Railroad Retirement Board | 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. |
| 3. Dept. of Agriculture | USDA agrees with removal of existing requirements for eliminations. |
| 4. Dept. of Commerce | The Department of Commerce agrees with the proposed amendment. Because net |

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| | position is not affected by eliminations, presentation of eliminations at the component entity level is not necessary. |
| 5. Environmental Protection Agency | 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. |
| 6. Office of Personnel Management | 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. |
| 7. Association of Government Accountants Financial Management Standards Board | We agree with the exposure draft and support this change for the reasons cited in Appendix A: Basis for Conclusions, paragraphs A22 and A23. |
| 8. Dept. of Transportation | 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 |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | 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. |
| 10. Dept. of Housing and Urban Development | HUD agrees with rescinding confusing guidance on eliminations and permitting combined or consolidated amounts and labeling these amounts accordingly. |

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| 11. Dept. of the Interior | DOI agrees with the proposed amendment and agrees that consolidated amounts should be presented and labeled accordingly. |
| 12. Dept. of Justice, Office of the Inspector General | Agree<br><br>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. |
| 13. Dept. of Defense | 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. |
| 14. Dept. of Energy | DOE agrees with this amendment. |
| 15. Dept. of Labor | 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." |
| 16. General Services Administration | 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. |
| 17. KPMG LLP | We disagree with the proposal to provide an option to present amounts as combined and |

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| | we recommend that the financial information related to earmarked funds be presented on a consolidated basis for the following reasons:<br>– 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 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.<br>– We believe that the presentation of combined balances on a consolidated statement will be confusing. |
| 18. Dept. of Labor OIG | 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 |

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| | 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.<br><br>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 |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | 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. |
| 21. Dept. of Health and Human Services, Centers for Medicare and Medicaid Services | Agree – Eliminations for earmarked have always been difficult to report on government-wide statements. |
| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and Exchange Commission | 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. |

| **5. The Board proposes to replace the term "earmarked funds" with "funds from dedicated collections." Do you agree or disagree with the Board's proposal to rename "earmarked funds" and make conforming grammatical changes in SFFAS 27?** | |
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| 1. Social Security Administration | 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." |
| 2. Railroad Retirement Board | Agree, this will clarify the funds use. |
| 3. Dept. of Agriculture | USDA agrees to replace the term "earmarked funds" with "funds from dedicated collections" will eliminate confusion. |
| 4. Dept. of Commerce | 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. |
| 5. Environmental Protection Agency | We agree with the replacement of the term" earmarked funds" with "funds from dedicated collections". The rationale is to avoid confusion between earmarking and earmarked funds. The earmarking 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 |
| 6. Office of Personnel Management | 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. |
| 7. Association of Government Accountants Financial Management Standards Board | 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. |

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| 8. Dept. of Transportation | DOT agrees. The term ‘earmarked funds’ is confused with Congressional earmarks. The revised term provides a distinction between funds dedicated for a specific purpose. |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | The FISC agrees with the proposed change in terminology. |
| 10. Dept. of Housing and Urban Development | 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. |
| 11. Dept. of the Interior | DOI agrees with the proposal to rename “earmarked funds” |
| 12. Dept. of Justice, Office of the Inspector General | Agree<br><br>Changes would eliminate confusion over the term "Earmarking” as used in the legislative appropriation process. |
| 13. Dept. of Defense | 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. |
| 14. Dept. of Energy | DOE agrees with the new name change. It should decrease confusion with budgetary spending earmarks. |
| 15. Dept. of Labor | 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. |
| 16. General Services Administration | 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 |

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| | seem to be more appropriate to describe a type of cash flows rather than a class of fund accounts. |
| 17. KPMG LLP | We agree. |
| 18. Dept. of Labor OIG | 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. |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | Agree. By changing the terminology to "funds from dedicated collections" it helps avoid the confusion between earmarked funds and earmarked spending. |
| 21. Dept. of Health and Human Services, Centers for Medicare and Medicaid Services | Agree with the renaming as 'earmarked funds' is confusing. |
| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and Exchange Commission | 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.) |

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| **6. 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. Do you agree or disagree with the proposed guidance on funds with such sources of funding?** | |
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| 1. Social Security Administration | SSA agrees with the definition change. This change will allow for easier determinations of earmarked and non-earmarked fund classifications. |
| 2. Railroad Retirement Board | Disagree, footnotes can be used to clarify a fund's sources. The character of the fund shouldn't change from year to year. |
| 3. Dept. of Agriculture | USDA agrees with the proposed guidance on funds with such sources of funding to minimize reporting burdens. |
| 4. Dept. of Commerce | 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 |
| 5. Environmental Protection Agency | We agree with the proposed guidance on funds with such sources of funding. This guidance meets the criteria of SFFAS 27 |
| 6. Office of Personnel Management | 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 nonfederal, 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. |
| 7. Association of Government Accountants Financial Management Standards Board | We agree with the exposure draft. |
| 8. Dept. of Transportation | 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 |

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| | funds from dedicated collections. |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | 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? |
| 10. Dept. of Housing and Urban Development | 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 |
| 11. Dept. of the Interior | 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. |
| 12. Dept. of Justice, Office of the Inspector General | Agree<br><br>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). |
| 13. Dept. of Defense | 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 commingled, 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. |
| 14. Dept. of Energy | DOE agrees with this proposed guidance. There has to be some deciding factor for funds with mixed funding sources. |
| 15. Dept. of Labor | 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 |

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| | the fund that are material to the reporting entity. |
| 16. General Services Administration | 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. |
| 17. KPMG LLP | 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:<br>"[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:<br><br>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;<br><br>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<br><br>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.~~

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| | ~~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.~~" |
| 18. Dept. of Labor OIG | 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.<br><br>Additionally, we believe it would be helpful to numerically define "predominant," perhaps with suggested percentage ranges, to promote consistency in application of the requirement.<br><br>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. |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | Agree. Proposed guidance does not impose reporting burdens in excess of any benefits. |
| 21. Dept. of Health and Human Services, Centers for Medicare and Medicaid Services | I have no opinion as long as the guidance is clear as to whether or not Medicare Trust funds are funds from dedicated collections |
| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and | We agree with the proposed language that indicates that the predominant source of funds |

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| Exchange Commission | should be from non-federal sources, and that the agency should be given some flexibility in applying this requirement.<br><br>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:<br><br>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.<br><br>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.<br><br>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. |

| **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?** | |
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| 1. Social Security Administration | 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. |
| 2. Railroad Retirement Board | Agree, this date should not be a problem. |
| 3. Dept. of Agriculture | USDA agrees with an effective date after September 30, 2011 |

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| 4. Dept. of Commerce | 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. |
| 5. Environmental Protection Agency | 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. |
| 6. Office of Personnel Management | 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. |
| 7. Association of Government Accountants Financial Management Standards Board | We agree with the exposure draft. Early adoption could present problems in compiling the consolidated financial report and in comparison across entities. |
| 8. Dept. of Transportation | DOT agrees, as it will allow enough time for agencies to make the minor revisions that this revised standard will address. |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | The FISC agrees that the proposed effective date allows adequate time for implementation of the necessary changes. |
| 10. Dept. of Housing and Urban Development | 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. |
| 11. Dept. of the Interior | DOI agrees with the proposed effective date. |
| 12. Dept. of Justice, Office of the Inspector General | Agree<br><br>Component entities have enough time to review their earmarked funds. Also, these amendments do not require significant changes to the component financial statements. |

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| 13. Dept. of Defense | 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. |
| 14. Dept. of Energy | DOE agrees with a FY12 implementation. It is too late to implement for FY11. |
| 15. Dept. of Labor | 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. |
| 16. General Services Administration | 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. |
| 17. KPMG LLP | We agree. |
| 18. Dept. of Labor OIG | 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. |
| 19. Carol S. Johnson | No Comment |
| 20. Treasury Dept. | 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. |
| 21. Dept. of Health and Human Services, Centers for Medicare and Medicaid | I have no opinion as long as the guidance is clear as to whether or not Medicare Trust funds are funds from dedicated collections. |

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| 22. Dept. of Veterans Affairs | 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. |
| 23. Securities and Exchange Commission | 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.<br><br>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. |

## D. Listing Of Additional Comments from Respondents

| **Respondent** | **Comment** |
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| 7. Association of Government Accountants Financial Management Standards Board | 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.<br>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.) [Staff note: See responses to Question 5, comment letters 7, 10, 16 and 18, for additional suggested edits.]<br>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; <u>or at levels commensurate with the amount of identified revenues</u>; " |
| 9. Greater Washington Society of CPAs Federal Issues and Standards Committee | We recommend that the Board consider the following additional matters:<br>• 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.<br>• 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? |

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| 13. Dept. of Defense | 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. |
| 15. Dept. of Labor | Below please find our comments on other aspects of the exposure draft.<br>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. |
| 17. KPMG LLP | – 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:<br>"Funds from dedicated collections are financed by specifically identified revenues, <u>originally</u> provided to the <u>federal</u> government by non-federal sources, often supplemented by other financing sources."<br>– 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:<br>"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 <u>separately</u> from the <u>federal g</u>~~G~~overnment's general revenues."<br>– We recommend updating the summary section and appendices of SFFAS No. 27 to reflect the proposed changes in this ED. |
| 19. C. Johnson | 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.<br>I am thinking that it might be nice to explain what the number represents both |

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| | 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."<br><br>If everyone thinks that the non-earmarked funds line is self-explanatory, then please disregard my comment. Many thanks. |
| 20. Treasury Dept. | Possible misconnect when looking at Appendix B: Text of SFFAS Accounting Standards with Proposed Amendments<br><br>Paragraph 11 (page 29)<br><br>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.<br><br>Paragraph 19 (page 32)<br><br>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.<br><br>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? |