Federal Accounting Standards Advisory Board

Revisions to Identifying and Reporting Earmarked Funds:

Amending Statement of Federal Financial Accounting Standards 27

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by August 22, 2011

June 22, 2011

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."

- "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

June 22, 2011

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*. Specific questions for your consideration appear on page 8 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by August 22, 2011.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to earmarked@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

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

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen
Chairman

Executive Summary

What is the Board proposing?

The Board is proposing to modify the definition of earmarked funds by clarifying that (1) at least one source of funds external to the federal government must exist for a fund to qualify as earmarked, and (2) a specific exclusion is proposed for any funds that are established to account for pensions, other retirement benefits, other postemployment or other benefits provided for federal employees (civilian and military).

The Board also 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. In addition, component entities would be permitted to report either consolidated or combined information and would be required to label the information accordingly.

The Board also is proposing to require explicitly that component entities report information in sufficient detail to support government-wide reporting requirements.

The Board is also proposing to change the term “earmarked funds” to “funds from dedicated collections.”

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

The earmarked funds reporting requirements were intended to meet two goals—(1) highlighting the financing that will be needed by the government as a whole when earmarked funds use their accumulated revenues in the future, and (2) enhancing awareness of the restrictions on the use of earmarked revenues. Federal departments and agencies have classified over 500 funds as earmarked and provided detailed information on the most significant of these funds since reporting requirements were implemented in fiscal year 2006. This proposal improves federal financial reporting and contributes to meeting the earmarked funds reporting objectives by removing certain funds from the category of earmarked funds and adjusting the reporting requirements so that the resultant reporting is more meaningful to users, and by resolving implementation issues.

The Board did not intend that the primary source of the "specifically identified revenues" in the definition should include transfers-in of general fund appropriations. However, SFFAS 27 did not explicitly state this and accordingly SFFAS 27 did not sufficiently clarify the distinction between dedicated collections and the general fund. By changing the criteria for what is an earmarked fund, the

Board is also proposing to exclude such funds from the category of earmarked funds.

The Board also believes that funds established to account for pensions, other retirement benefits, other postemployment benefits, and other employee benefits provided to federal employees (civilian and military) were not intended to be and should not be reported as earmarked funds because such funds account for employee-employer transactions and requirements tailored to those transactions are provided by Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government,* paragraphs 56 -96. Such funds account for intra-governmental amounts and any employee contributions toward the cost of future benefits. SFFAS 5 addressed accountability for these transactions and any resulting liability. In addition, because these funds recognize significant long-term liabilities, the large negative net position of these funds offsets much of the generally positive net position of other earmarked funds. The result at the government-wide level is that the large negative net position of these funds obscures the large cumulative amount that needs to be repaid by the general fund in order for the earmarked revenues to be used for their intended purposes. By changing the criteria for what is an earmarked fund, the Board is proposing to exclude such funds from the category of earmarked funds, and thus the large negative balances associated with those funds will not be masking the large positive balances in the funds whose balances result from dedicated collections.

The Board also believes that the goal of highlighting the financing effects of earmarked funds can best be accomplished through the government-wide reports and that displaying eliminations for earmarked funds on the face of component entity financial statements may be confusing. In addition, the second goal – awareness of restrictions on the use of earmarked funds – is best accomplished by disclosing information about individual funds. Therefore, the Board is proposing that amounts may be either consolidated or combined and that the information be labeled accordingly.

The Board believes that guidance is needed for funds with a combination of (a) revenues and other financing sources that meet the criteria in paragraph 11 of SFFAS 27 ("non-federal") and (b) general fund appropriations ("federal"). The Board is proposing 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 is also proposing guidance for situations where the proportion of funding sources may change from year to year.

The Board is also proposing an explicit requirement that component level funds from dedicated collections should be reported in sufficient detail to support the government-wide reporting requirements.

The Board believes that the term “earmarked funds” has become confusing to readers because of the increased focus on a similar term, “earmarking,” which refers to earmarked spending. Earmarking occurs when legislation designates appropriations for a specific purpose. In contrast, the reporting requirements of SFFAS 27 are focused on collections that are distinct from the government’s general revenues and are dedicated for a specific purpose. The Board is proposing a new term, “funds from dedicated collections.” The Board believes that this is a unique and descriptive term that will not be confused with other commonly used terms.

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve Federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to earmarked@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

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

All responses are requested by August 22, 2011.

Q1. The Board is proposing amendments to state explicitly that the source of the "specifically identified revenues or other financing sources" in paragraph 11 of SFFAS 27 must be external to the federal government, and to clarify the distinction between earmarked funds and the general fund. This issue is discussed in paragraphs A11 - A12 of the Basis for Conclusions. The proposed amendment to paragraph 11.1 of SFFAS 27 can be found in paragraph 6 of this exposure draft. Do you agree or disagree with the proposed amendment? Please provide the rationale for your answer.

Q2. The Board believes that funds established to account for pensions, other retirement benefits, other postemployment benefits, and other employee benefits provided to federal employees (civilian and military) should not be reported as earmarked funds and is proposing that such funds should be excluded from the category of earmarked funds. This issue is discussed in the Basis for Conclusions, paragraphs A15 - A16. The proposed amendment to paragraph 18 of SFFAS 27 can be found in paragraph 10 of this exposure draft. Do you agree or disagree with this exclusion? Please provide the rationale for your answer.

Q3. The Board is proposing that component entities would have the option to continue to use the existing format of separate lines or columns to display information on earmarked funds on the face of the balance sheet and statement of changes in net position, or to use an alternative format. Some members question the need for component entities to display information on earmarked funds on the face of the balance sheet and statement of changes in net position. The Board is also proposing that the component entity level reporting should be at a sufficient level of detail to support the U.S. government-wide financial statements. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A17 - A20 and the proposed amendments in paragraph 11. Illustrative financial statements may be found in Appendix F.

(a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds? Please provide the rationale for your answer.

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

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

Q4. The Board proposes to rescind potentially confusing guidance on eliminations for component entities and instead provide that combined or consolidated amounts are permitted and that amounts be labeled accordingly. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A21 - A25 and the proposed amendments in paragraphs 11 - 12. Do you agree or disagree with this proposed amendment? Please provide the rationale for your answer.

Q5. The Board proposes to replace the term “earmarked funds” with “funds from dedicated collections.” This issue is addressed in the Basis for Conclusions, paragraphs A6 - A8 and the proposed amendments in paragraphs 4 - 5. To facilitate review, Attachment B displays the text of SFFAS 27 with proposed amendments, including the new term. Do you agree or disagree with the Board’s proposal to rename “earmarked funds” and make conforming grammatical changes in SFFAS 27? Please provide the rationale for your answer.

Q6. The following question applies to funds with a combination of (a) revenues and other financing sources that meet the criteria in paragraph 11 of SFFAS 27 ("non-federal") and (b) general fund appropriations ("federal"). The Board proposes that to be classified as an earmarked fund, a fund should be predominantly funded by revenues from non-federal sources or have non-federal revenues supporting the fund that are material to the reporting entity The Board has also proposed guidance for situations where the proportion of funding sources may change from year to year. This issue is discussed in the Basis for Conclusions, paragraphs A13 - A14. The proposed revised guidance is in paragraph 7. Do you agree or disagree with the proposed guidance on funds with such sources of funding? Please provide the rationale for your answer.

Q7. The Board is proposing that the amendments to SFFAS 27 have an effective date of periods beginning after September 30, 2011. Do you agree or disagree with this effective date? Please provide the rationale for your answer.

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Introduction

Purpose

1. The Board is evaluating existing standards to identify areas for improvement. Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*, has been in effect since fiscal year (FY) 2006. The review considered the results of the reporting requirements as well as the challenges inherent in presenting understandable information.

Materiality

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Proposed Standard

Scope

3. The Statement amends Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*.

Amendments

Term "earmarked funds"

4. The title of SFFAS 27 is amended as follows: SFFAS 27, *Identifying and Reporting Funds from ~~Earmarked Funds~~* ***Dedicated Collections.***[1]

5. The term "earmarked funds" is changed to "funds from dedicated collections" in the accounting standards of SFFAS 27 and conforming grammatical changes are made throughout SFFAS 27.[2] Paragraphs amended for terminology are: 11 – 18, 20 – 24, 26 – 34, and 39. To facilitate review, the entire text with proposed amendments is presented in Appendix B without strikeouts and deletions.

Definition: Non-federal funding source

6. SFFAS 27, paragraph 11 is amended to provide that a non-federal source of revenue or other financing source must exist if a fund is to be classified as a fund from dedicated collections (formerly called an "earmarked fund"). Changes to paragraph 11 are:

   [11.] ~~Earmarked funds~~ 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. 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 three required criteria for a~~n~~ ~~earmarked~~ fund from dedicated collections are:

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1 Terms appearing in bold for the first time are defined in the Glossary.

2 For example, in places the adjective "earmarked" has been changed to "such" funds, for example in paragraph 24 of SFFAS 27.

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[3a] only for designated activities, benefits or purposes;

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

3. A requirement to account for and report[4] on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the ~~earmarked~~ fund from the Government's general revenues.

Footnote 3a: In some cases, specifically identified revenues or other financing sources are collected from a non-federal source by one agency and transferred or appropriated to another. For example, Social Security taxes are collected from non-federal entities (employees and employers) by the Internal Revenue Service. Those amounts are subsequently appropriated and transferred to the Social Security Administration. This internal process does not change the nature of the revenue or other financing source (i.e., specifically identified revenues or other financing sources originally collected from a non-federal source).

Footnote 4: A "report" may be something other than stand-alone financial statements for the ~~earmarked~~ fund from dedicated collections.

Predominant Source of Funds

7. To distinguish the definition from explanatory text relating to its application, a new subheading – "Application of the Definition" – is inserted in SFFAS 27 before paragraph 12.

8. SFFAS 27, paragraph 13 is amended as follows:

[13] **Fund** in this statement's definition of ~~earmarked~~ 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."[5] 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 non-federal sources meeting the paragraph 11.1 criterion, or

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

For example, as currently funded, Medicare Parts B and D do not have non-federal 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.

Footnote 5: National Council on Governmental Accounting Statement 1, par. 16.

Footnote 5a: In situations where there is a mixed source of funding (so that not all of the revenue and other financing sources meet the criteria in paragraph 11) and the proportion and/or amounts vary from year to year so that it is difficult to determine a predominant source and/or assess materiality, acceptable options for classification include but are not limited to:

1. long-term expectations rather than periodic results that may fluctuate
2. 36-month averages

Changes in classification of funds from year to year should be disclosed.

9. SFFAS 27, paragraph 14 is amended for clarity.

[14] Whereas ~~earmarked~~ funds from dedicated collections are financed by specifically identified revenues and other financing sources, the general fund is financed by receipts not ~~earmarked~~ dedicated by law for a specific purpose and by the proceeds of general borrowing. Although there are exceptions, funding decisions regarding activity financed from general receipts usually govern one fiscal year and are made as part of the process of enacting one of the annual appropriations acts. In contrast, legislation establishing ~~earmarked~~ funds from dedicated collections reflects a longer (if not indefinite) Government commitment to collect, hold and spend identified revenues for a designated activity, benefit or purpose. ~~Earmarked f~~Funds from dedicated collections may ~~have~~ be given authority to make expenditures by means of a permanent indefinite appropriation, often enacted by authorizing legislation. If not, an appropriation provided in annual appropriation acts is necessary to make expenditures. Whether the ~~appropriation~~ budget authority is provided by authorizing legislation or annual appropriations acts, the ~~cumulative results of operations~~ ~~earmarked~~ funds ~~is~~ are reserved or restricted to the designated activity, benefit or purpose.

Funds Excluded

10. SFFAS 27, paragraph 18 is amended to exclude funds established to account for pensions, other retirement benefits, other postemployment benefits and other employee benefits for federal employees (civilian and military) from the category of funds from dedicated collections. Changes to paragraph 18 are:

[18.] Certain categories of funds are excluded from the reporting requirements of this standard. Intragovernmental funds are excluded because they are revolving funds that conduct business primarily within and between Government agencies. Credit financing accounts are also excluded. Credit financing accounts are nonbudgetary funds that do not accumulate results of operations; they primarily serve as clearing accounts for cash activity relating to Federal credit programs. Fiduciary funds, which are not Government-owned, are also excluded. 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. The result at the government-wide level is that the large negative net position of these funds obscures the large cumulative amount that needs to be repaid by the general fund in order for the dedicated collections to be used for their intended purposes.

Footnote 6a: Because classification and reporting should be made at the level of an individual fund, portions of funds, such as the Federal Employees Compensation Account portion of the Unemployment Trust Fund, should not be excluded because of this provision.

Component Entity: Disclosures and Eliminations

11. SFFAS 27, paragraphs 19 and 20 through 24 and paragraph 26 and related headings are amended to (a) permit an alternative format for reporting information on the face of the financial statements for **component entities**, (b) remove existing requirements for eliminations, (c) provide that either combined or consolidated amounts may be presented and that amounts are to be labeled accordingly, and (d) make related conforming changes for clarity. Changes are:

Financial Statement Presentation and-Disclosures for Component Entities

Financial Statement Presentation

[19.] ~~Earmarked~~ ~~n~~Non-exchange revenue and other financing sources, including appropriations, and net cost of operations for ~~earmarked~~ funds from dedicated collections should be shown separately on the Statement of Changes in Net Position. Also, the portion of cumulative results of operations and unexpended appropriations attributable to ~~earmarked~~ funds from dedicated collections should be shown separately on both the Statement of Changes in Net Position and the Balance Sheet. Amounts shown separately may be presented parenthetically in the narrative describing key line items[6b] or in separate lines or columns. Entities may present combined or consolidated amounts and must label the amounts accordingly. This standard does not require ~~earmarked~~ funds from dedicated collections to be separately shown on the Statement of Net Cost. ~~(See Appendix C: Pro Forma Illustrations for examples of accounting entries and financial reporting.)~~ (See Appendix F: Illustrations of Component Entity Reporting on the Face of the Financial Statements.)

Footnote 6b: Key line items for parenthetical display for the Statement of Changes in Net Position are: Cumulative Results of Operations; beginning balance, total financing sources, net cost of operations, and ending balance; Unexpended Appropriations: beginning balance, total budgetary financing sources, and ending balance. Key line items for parenthetical display for the Balance Sheet are Cumulative Results of Operations, Unexpended Appropriations and Total Net Position.

[20.] Most ~~earmarked~~ revenues and other financing sources that are dedicated collections are reported in the basic financial statements of the entity carrying out the program and responsible for administration of the fund. If more than one component entity is responsible for carrying out the program financed with ~~earmarked revenues and other financing sources~~ revenues and other financing sources that are dedicated collections, and the separate portions of the program can be clearly identified with a responsible component entity, then each component entity should report its portion in accordance with the requirements of this standard. If separate portions cannot be identified, the component entity with program management responsibility should report the fund.[7]

Footnote 7: To determine program management/accounting responsibility, agencies should consider the legislation authorizing the program; the Memorandum of Understanding that establishes responsibilities; and the provisions of SFFAC 2, *Entity and Display,* as amended by this standard.

Disclosure

[21.] A component entity should disclose[8] all ~~earmarked~~ funds from dedicated collections for which it has program management responsibility by either a list~~,~~ (by official title~~,~~) or a statement indicating where the ~~information~~ list can be obtained (e.g., a website reference or contact information). A fund from dedicated collections should not be characterized as a "trust" in general purpose external financial reports of Federal entities. (The use of the term "trust fund" is acceptable only in the fund's official title.)

Footnote 8: Disclosure is reporting information in notes or narrative regarded as an integral part of the basic financial statements.

[22.] ~~The following~~ Information should be disclosed for each individual ~~earmarked~~ fund~~s~~ from dedicated collections. An exception is provided for component entities having numerous individual ~~earmarked~~ funds from dedicated collections. Paragraph 24 discusses criteria to consider in selecting individual funds for disaggregated disclosure. Entities may present combined or consolidated amounts and must label the amounts accordingly. The following information should be disclosed for selected individual ~~earmarked~~ funds from dedicated collections, ~~and~~ in aggregate for all remaining ~~earmarked~~ funds from dedicated collections, and in total for all the entity's ~~earmarked~~ funds from dedicated collections:

1. Condensed information about assets and liabilities showing investments in Treasury securities, other assets, liabilities due and payable, other liabilities, cumulative results of operations and net position.

2. Condensed information providing gross cost, exchange revenue, net cost, nonexchange revenues by major type and all other, other financing sources by major type and all other,, and change in net position.

The information required by this paragraph ~~for earmarked funds~~ may be presented separately on the face of the entity's basic financial statements or disclosed in the accompanying notes. The information must be in sufficient detail to support reporting requirements for the U.S. Government-wide financial statements (see paragraph 29). Information for funds not presented individually may be aggregated. The total ~~cumulative results of operations~~ net position shown in the note disclosure should agree with the ~~cumulative results of operations~~ total net position for earmarked funds shown on the face of the component entity's basic financial statements~~.~~[9] ~~(See Appendix D: Examples of Note Disclosure of Summary Financial Information for an illustration of the disclosure required by this paragraph.)~~

~~Footnote 9: For the U.S. Treasury and any other component entity where earmarked fund investments are eliminated within the component entity, the note disclosure should include eliminations, similar to the note disclosure provided by the U.S. Government-wide financial statements as described in paragraph 30.~~

[23.] The following information should be disclosed for each individually reported ~~earmarked~~ fund from dedicated collections, or portion thereof, for which a component entity has program management responsibility (see paragraph 24).

1. A description of each fund's purpose, how the entity accounts for and reports the fund, and its authority to use those revenues and other financing sources.

2. The sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the Government or the result of intragovernmental flows.

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.

[24.] Selecting ~~earmarked~~ funds from dedicated collections to be presented individually requires judgment. The preparer should consider both quantitative and qualitative criteria. Acceptable criteria include but are not limited to: quantitative factors such as the percentage of the reporting entity's ~~earmarked~~ revenues from dedicated collections or cumulative results of operations from ~~earmarked~~ such funds; and qualitative factors such as whether a~~n~~ ~~earmarked~~ fund from dedicated collections is of immediate concern to constituents of the fund, whether it is politically sensitive or controversial, whether it is accumulating large balances, or whether the information provided in the financial statements would be the primary source of financial information for the public.

[25.] The total ~~cumulative results of operations~~ net position of all earmarked funds shown in the note disclosure should agree with the ~~cumulative results of operations~~ net position of earmarked funds shown on the face of the component entity's Balance Sheet and the Statement of Changes in Net Position.

[26.] In accordance with the provisions of paragraph 20, if a component entity reports a different portion of a~~n~~ ~~earmarked fund~~ program funded by dedicated collections than it reported in prior years, it should not restate its prior year financial statements. It should disclose the change~~ in a note~~. This applies if a component entity does not report a~~n~~ ~~earmarked~~ fund from dedicated collections, ~~or portion thereof,~~ that it reported in the previous year. It also applies if a component entity ~~does~~ reports a~~n~~ ~~earmarked~~ fund from dedicated collections~~, or portion thereof,~~ that it did not report in the previous year.

Financial Statements and Disclosures for the U.S. Government-wide Financial Statements

12. Requirements for the U.S. Government-wide Financial Statements are amended as follows:

[30] Specific information should be disclosed for selected ~~earmarked~~ funds from dedicated collections. Paragraph 24 discusses criteria to consider in selecting individual funds for disaggregated disclosure. The following information should be provided for selected individual ~~earmarked~~ funds from dedicated collections ~~and~~, in aggregate for all remaining ~~earmarked~~ funds from dedicated collections, and in total for all funds from dedicated collections. ~~with eliminations necessary to produce the Government-wide total of earmarked funds:~~. The disclosure may present combined or consolidated amounts but must label the amounts accordingly.

1. Condensed information about assets, liabilities and net position.
2. Condensed information on gross cost, exchange revenue, net cost, nonexchange revenues and other financing sources, and change in net position.

Updates for Subsequent Issuances

13. Footnote 6 of SFFAS 27, which refers to the exposure draft for SFFAS 31, is updated to refer to SFFAS 31.

14. Paragraph 37 of SFFAS 27 is updated as follows:

    [Paragraph 37 was superseded by paragraph 34 of SFFAS 31, which rescinded paragraphs 83 through 87 of SFFAS 7.]

Implementation Guidance

15. In the year this standard becomes effective, entities should restate prior period amounts displayed on the face of the financial statements and disclosed in notes.

Effective Date

16. These standards are effective for periods beginning after September 30, 2011. Early adoption is not permitted.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

Note: Although the Board is proposing to change the term "earmarked funds" to "funds from dedicated collections," this appendix generally uses the existing term, "earmarked funds," to facilitate review.

Project Background

A1. SFFAS 27 was established to distinguish between earmarked funds and all other funds. Earmarked funds have characteristics that justify special accountability. An explicit commitment associated with the statutory establishment of earmarked funds is created that raises 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 purpose. Resource inflow is accounted for separately from general tax receipts, allowing the program's status to be more easily examined.

A2. SFFAS 27 became effective in fiscal year 2006. It required each component entity to display nonexchange revenue and other financing sources, and net cost of operations attributed to earmarked and all other funds separately on the Statement of Changes in Net Position. The component entity also displays the portions of cumulative results of operations attributable to earmarked funds and all other funds separately on the Statement of Changes in Net Position and on the Balance Sheet. The government-wide financial statements display revenue, other financing sources and net cost of operations attributed to earmarked and all other funds separately on the U.S. Government Statement of Operations and Changes in Net Position. The U.S. Government Balance Sheet displays separately the portions of net position attributable to earmarked and all other funds.

A3. The Board is reviewing SFFAS 27 to determine if the intended objectives have been achieved. Following an initial review by staff, a task force that included representatives from 23 federal agencies was formed. The task force assisted the Board by identifying concerns, testing alternatives, and reviewing proposals.

Outcome of Task Force Evaluation

A4. The following four major issues were identified by FASAB staff and the Task Force:

a. **Term “Earmarked”** –Competing meanings of the term “earmarked” are causing confusion.

b. **Appropriateness of Classifications** – The appropriateness of certain types of funds being classified as earmarked funds was questioned for the following reasons:

i. no non-federal (external) source of funding exists for some funds reported as earmarked funds, and

ii. classification of funds with mixed sources of funding where the predominant source is general fund appropriations may be misleading.

c. **Understandability** – Presenting earmarked funds information on the face of component-level financial statements may not be the most understandable format for financial statement readers.

d. **Eliminations** – There is confusion over whether and how to perform and disclose eliminations at the component entity level.

A5. These issues are discussed in more detail in the sections that follow.

Terminology – “Earmarked Funds”

A6. Although this ED is proposing to change the term “earmarked funds” to “funds from dedicated collections,” this Basis for Conclusions generally uses the term “earmarked funds” to avoid confusion.

A7. The Board believes that the term “earmarked funds” has become confusing to readers because of the increasing focus on a similar term, “earmarking,” which refers to earmarked spending. Earmarking occurs when congressional direction (provided in legislation, report language or other communication) designates appropriations for a specific purpose. In contrast, the reporting requirements of SFFAS 27 are focused on collections that are distinct from the government’s general revenues and are dedicated for a specific purpose.

A8. The Board believes that the proposed new term, "funds from dedicated collections," is a unique and descriptive term that will not be confused with other commonly used terms. In addition, it explicitly states the reason for separate reporting (dedicated collections).

Appropriateness of Classifications

A9. A primary objective of SFFAS 27 was that "under this standard the financial statements would thus present – in a transparent manner – the cumulative financing provided by earmarked funds to the general fund that will need to be repaid in order to use earmarked funds for the designated activities, purposes or benefits."[3] The need for greater transparency was explained as follows:

> …the consolidated net position of the Federal Government reported on the U.S. Government-wide financial statements does not include the effect of the claim on the U.S. Treasury that the various funds hold, just as the consolidated net position does not include the effect of other intragovernmental claims. Instead, the U.S. Government-wide financial statements include the cumulative results of operations of earmarked funds – currently a large positive balance – as an offset against the cumulative results of operations of the general fund – currently a large negative balance. The result is that the financing provided by earmarked fund operations to general fund operations – which would otherwise be financed through the issuance of debt to the public, tax increases or other financing sources – is not shown on the face of the U.S. Government Balance Sheet.[4]

A10. By providing separate presentation of the cumulative results of operations attributable to earmarked funds, the commitment to restrict the use of net position, or "net assets," accumulated in earmarked funds would be apparent. In developing SFFAS 27, the Board noted that a 2001 report "identified three hundred and ninety-two possible earmarked funds. Annual revenues and other financing sources for those earmarked funds range from negligible amounts to over half a trillion dollars. Accumulated balances range from zero to over a trillion dollars."[5] However, upon implementation in 2006, five of the sixteen largest earmarked funds reported a negative net position.

A11. Not previously having been aware of earmarked funds with negative net positions, staff questioned whether these funds are appropriately included as earmarked funds. Further research showed that some of the funds with negative net positions did not receive any non-federal sources

[3] SFFAS 27, Basis for Conclusions, paragraph 63.
[4] SFFAS 27, Basis for Conclusions, paragraph 62.
[5] SFFAS 27, Basis for Conclusions, paragraph 3.

of funds. For example, the Medicare Eligible Retiree Health Care Fund receives income from three sources: an annual Treasury payment made on behalf of the military services at the beginning of the year based on average budgeted force strengths, annual payments from the Treasury to amortize the unfunded liability, and investment income on Treasury securities.

A12. 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 non-federal – that is, a source that is external to the federal government. Evidence of that intent is found in the SFFAS 27 explanation that earmarked funding "raises 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 purpose."[6] However, SFFAS 27 did not explicitly state that a non-federal source of funds was required and current reporting practices vary. To ensure that funds reported as earmarked funds are those where such a public expectation exists, the Board is proposing amendments to explicitly state that the source of the specifically identified revenues or other financing source must be external to the federal government, and clarify the distinction between earmarked funds and the general fund.

Funds with Mixed Sources of Funding

A13. In implementing SFFAS 27, agencies classified numerous funds primarily funded by general fund appropriations as earmarked funds. The Board believes that guidance is needed for funds with mixed sources of funding (that is, a combination of (a) revenues and other financing sources that meet the criteria in paragraph 11 of SFFAS 27 ("non-federal") and (b) general fund appropriations ("federal")). In some such cases, the funding from non-federal sources is insignificant both to the component entity and the government as a whole. The Board believes that because a "fund" (usually associated with a Treasury account fund symbol) is the smallest accounting unit in the federal government, a fund with mixed sources of funding including earmarked receipts presents special challenges in meeting the objectives of SFFAS 27. Conceptually, the earmarked portion should be separately identified. In the Board's view, separately accounting for the earmarked portion of these funds would impose reporting burdens in excess of any benefits. However, classifying both earmarked receipts and general fund appropriations as "earmarked

6 SFFAS 27, Basis for Conclusions, paragraph 54.

revenues" would overstate restricted revenue in component entity reports.

A14. To avoid such overstatements while minimizing reporting burdens, the Board believes that to be classified as an earmarked fund, a fund should be predominantly funded by revenues from non-federal sources. However, if the non-federal revenues supporting the fund are material to the reporting entity, the Board believes that the fund should be classified as earmarked even if the non-federal revenues are not the predominant source of inflows of the fund for which they are collected. The Board believes that this approach will result in a cost-effective solution. Material non-federal revenues that meet the definition and criteria in paragraph 11 of SFFAS 27 will be disclosed and costs will not be incurred to provide special accountability for immaterial amounts of non-federal revenue that meet the criteria but are commingled with other financing sources provided through general fund appropriations. The Board has accordingly proposed an exception to the "predominant source of funds" principle in cases where the revenue that meets the criteria of paragraph 11 of SFFAS 27 is material to the reporting entity, In such cases, such as Medicare Parts B and D, the entire fund should be included,

Funds Excluded

A15. The Board believes that funds established to account for pensions, other retirement benefits, other postemployment benefits, and other employee benefits provided to federal employees (civilian and military) should not be reported as earmarked funds because such funds account for employee-employer transactions and requirements tailored to those transactions are provided by SFFAS 5, *Accounting for Liabilities of the Federal Government*, paragraphs 56-96. SFFAS 5 addresses accountability for intra-governmental and employee contributions toward the cost of employee benefits and any resulting liabilities.

A16. 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 earmarked funds. The result at the government-wide level is that these funds reduce the cumulative amount to be repaid by the general fund in order for the earmarked revenues to be used for their intended purposes. Accordingly, the Board is proposing that such funds should be excluded from the category of earmarked funds.

Understandability

A17. Members of the task force expressed concerns regarding the understandability of the display of separate amounts on the face of the component entity financial statements for earmarked and all other funds, as currently required by SFFAS 27. They believed that users would find the display cluttered and confusing. Illustration 1, Example Statement of Changes in Net Position, shows that four columns may be needed to convey information as required. The task force believes that this adds complexity to an already challenging financial presentation. Further, it may prevent display of comparative financial statements on the same page. The task force believes that all information concerning earmarked funds in the component entity financial statements should be disclosed in the notes.

Illustration 1: Example Statement of Changes in Net Position <u>in Accordance with Existing Provisions of SFFAS 27</u>

Statement of Changes In Net Position
For the Year Ended September 30, 20XX
(In dollars/thousands/millions)

	FY 20XX (CY)			
	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results Of Operations:				
1. Beginning Balances	$ xxx	$ xxx	$ xxx	$ xxx
2. Adjustments:				
2A. Changes in accounting principles	xxx	xxx	xxx	xxx
2B. Corrections of errors	xxx	xxx	xxx	xxx
3. Beginning balance, as adjusted	xxx	xxx	xxx	xxx
Budgetary Financing Sources:				
4. Other adjustments	xxx	xxx	xxx	xxx
5. Appropriations used	xxx	xxx	xxx	xxx
6. Non-exchange revenue	xxx	xxx	xxx	xxx
7. Donations and forfeitures of cash and cash equivalents	xxx	xxx	xxx	xxx
8. Transfers in/out without reimbursement	xxx	xxx	xxx	xxx
9. Other	xxx	xxx	xxx	xxx
Other Financing Sources (Non-Exchange):				
10. Donations and forfeitures of property	xxx	xxx	xxx	xxx
11. Transfers in/out without reimbursement	xxx	xxx	xxx	xxx
12. Imputed financing	xxx	xxx	xxx	xxx
13. Other	xxx	xxx	xxx	xxx
14. Total Financing Sources	xxx	xxx	xxx	xxx
15. Net Cost of Operations	xxx	xxx	xxx	xxx
16. Net Change	xxx	xxx	xxx	xxx
17. Cumulative Results of Operations	**xxx**	**xxx**	**xxx**	**xxx**
Unexpended Appropriations:				
18. Beginning Balance	xxx	xxx	xxx	xxx
19. Adjustments:	xxx	xxx	xxx	xxx
19A. Changes in accounting principles	xxx	xxx	xxx	xxx
19B. Corrections of errors	xxx	xxx	xxx	xxx
20. Beginning Balance, as adjusted	xxx	xxx	xxx	xxx
Budgetary Financing Sources:				
21. Appropriations received	xxx	xxx	xxx	xxx
22. Appropriations transferred in/out	xxx	xxx	xxx	xxx
23. Other adjustments	xxx	xxx	xxx	xxx
24. Appropriations used	xxx	xxx	xxx	xxx
25. Total Budgetary Financing Sources	xxx	xxx	xxx	xxx
26. Total Unexpended Appropriations	xxx	xxx	xxx	xxx
27. Net Position	xxx	xxx	xxx	xxx

The accompanying notes are an integral part of these statements.

A18. The Board believes that component entity financial statements need not display earmarked and all other fund totals separately on each line item, provided that certain key data remains on the face of the statements. Component entity financial statements must be read with the understanding that they provide information about a single component of the federal government. Each component acts as an agent of that government and restrictions are placed on the use of most funds available to agencies whether earmarked or not. While special accountability for the use of funds can be conveyed through component entity reports by presenting information on significant individual funds, the cumulative financial implications of total earmarked funds are best understood from the government-wide perspective since the focus is on intra-governmental borrowing.

A19. However, the Board believes that users may be misled if a component entity has no information on the face of the basic financial statements about the magnitude of funds from dedicated collections that are reserved for use for designated activities, benefits, or purposes. The Board believes that, at a minimum, the balance sheets and statements of changes in net position should parenthetically disclose for key line items (such as net position, total financing sources, net cost, and changes in net position) the dollar amounts associated with funds from dedicated collections. Component entities may either continue the current presentation under SFFAS 27, or adopt the alternative parenthetical presentation of dollar amounts for these key line items on the face of the financial statements. Illustrative financial statements may be found at Appendix F.

A20. Some members believe that presentation on the face of the component entity financial statements is not necessary. They believe that information concerning earmarked funds in the component entity financial statements should be disclosed in the notes. These members agree with the task force conclusions presented at paragraph A17 and have requested comments on this view.

Component Entity Eliminations

A21. 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. Practice has varied as a result. The proposed amendments eliminate the confusing guidance and instead provide that combined or consolidated totals are permitted so long as they are properly labeled.

A22. The primary objective of SFFAS 27 relates to intra-governmental borrowing/investing:

> Under this standard the financial statements would thus present- in a transparent manner- the cumulative financing provided by earmarked funds to the general fund that will need to be repaid in order to use earmarked funds for the designated activities, purposes or benefits.[7]

A23. Another objective of SFFAS 27 relates to special accountability:

> All earmarked funds have characteristics that justify special accountability. While many Government programs raise implied commitments for the future, there is a more explicit commitment associated with the statutory establishment of earmarked funds. The Government raises 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 purpose.[8]

A24. The above objectives of SFFAS 27 focus primarily on the accumulated net position of earmarked funds. Because net position is not affected by eliminations, presentation of eliminations at the component entity level is not necessary to meet the objectives of SFFAS 27. In addition, because the focus of special accountability is necessarily on individual funds (or programs) – members question whether the consolidated total is useful for assessing the status of earmarked funds available for the individual purposes established in law.

A25. Members believe that a broader study of fund reporting is needed. Specifically, a fund reporting project would address the question of whether consolidated or combined amounts are more useful when reporting on a specific class of funds. Until such a study is completed, the Board believes it is acceptable to report either consolidated or combined amounts so long as the amount is labeled accordingly.

Support for Government-wide Reporting

A26. To address concerns expressed by representatives of the Department of the Treasury, the ED also proposes amendments to explicitly require that component entity reporting should fully support the required government-wide reporting on earmarked funds in accordance with paragraphs 29 – 33 of SFFAS 27.

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7 SFFAS 27, Basis for Conclusions, paragraph 63.
8 SFFAS 27, Basis for Conclusions, paragraph 54.

Appendix B: Text of SFFAS 27 Accounting Standards with Proposed Amendments

Definition of Funds from Dedicated Collections

11. 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. 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 three required criteria for a fund from dedicated collections are:

    1. A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the federal government by a non-federal source[3a] only for designated activities, benefits or purposes;
    2. Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
    3. A requirement to account for and report[4] on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Government's general revenues.

Footnote 3a: In some cases, specifically identified revenues or other financing sources are collected from a non-federal source by one agency and transferred or appropriated to another. For example, Social Security taxes are collected from non-federal entities (employees and employers) by the Internal Revenue Service. Those amounts are subsequently appropriated and transferred to the Social Security Administration. This internal process does not change the nature of the revenue or other financing source (i.e., specifically identified revenues or other financing sources originally collected from a non-federal source).

Footnote 4. A "report" may be something other than stand-alone financial statements for the fund from dedicated collections.

Application of the Definition

12. The requirement to account for revenues and other financing sources that are statutorily available only for designated activities, benefits or purposes is usually created by statute. A fund from dedicated collections may be classified in the statute, the unified budget, or both, as a trust, special, or public enterprise fund. Application of this standard, however, shall not be based on how a statute or the unified budget labels the fund. Rather, the Board intends that the term "funds from dedicated collections" be applied

based on the substance of the statute and consistent with the three criteria described above.

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."[5] Classification is 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 non-federal sources meeting the paragraph 11.1 criterion, or

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

    For example, as currently funded, Medicare Parts B and D do not have non-federal 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.

Footnote 5: National Council on Governmental Accounting Statement 1, par. 16.

Footnote 5a: In situations where there is a mixed source of funding (so that not all of the revenue and other financing sources meet the criteria in paragraph 11) and the proportion and/or amounts of funding sources vary from year to year so that it is difficult to determine a predominant source and/or assess materiality, acceptable options for classification include but are not limited to:

1. long-term expectations rather than periodic results that may fluctuate
2. 36-month averages

Changes in classification of funds from year to year should be disclosed.

Distinct from the General Fund

14. Whereas funds from dedicated collections are financed by specifically identified revenues and other financing sources, the general fund is financed by receipts not dedicated by law for a specific purpose and the proceeds of general borrowing. Although there are exceptions, funding decisions regarding activity financed from general receipts usually govern one fiscal year and are made as part of the process of enacting one of the annual appropriations acts. In contrast, legislation establishing funds from dedicated

collections reflects a longer (if not indefinite) Government commitment to collect, hold and spend identified revenues for a designated activity, benefit or purpose. Funds from dedicated collections may be given authority to make expenditures by means of a permanent indefinite appropriation, often enacted by authorizing legislation. If not, an appropriation provided in annual appropriation acts is necessary to make expenditures. Whether the budget authority is provided by authorizing legislation or annual appropriations acts, the funds are reserved or restricted to the designated activity, benefit or purpose.

Distinct from Fiduciary Activities

15. The activity of funds from dedicated collections differs from fiduciary activities primarily in that in funds from dedicated collections, fund assets are Government-owned. A fiduciary activity is the collection or receipt, management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold.[6] Therefore, even though a fund from dedicated collections is designated exclusively for a specific activity, benefit or purpose, the Federal Government does not have a fiduciary relationship with the individuals or groups who potentially will benefit from the fund.

Footnote 6 See SFFAS 31, Accounting for Fiduciary Activities, for more on fiduciary activity in the Federal Government and the differences between private trust funds and Federal government trust funds.

Distinct from Private Sector Trust Funds

16. Although funds from dedicated collections are predominantly in funds that are designated by law as trust funds, the meaning of the term “trust” in the Federal Government differs significantly from its meaning in the private sector. Whereas funds from dedicated collections in the Federal Government are distinct from fiduciary activities, a trust in the private sector necessarily involves a fiduciary relationship.

17. A fund from dedicated collections should not be characterized as a “trust” in general purpose external financial reports of Federal entities. (The use of the term “trust fund” is acceptable only in the fund’s official title.)

Exclusions from Reporting Requirements

18. Certain categories of funds are excluded from the reporting requirements of this standard. Intragovernmental funds are excluded because they are revolving funds that conduct business primarily within and between Government agencies. Credit financing accounts are also excluded. Credit financing accounts are nonbudgetary funds that do not accumulate results of

operations; they primarily serve as clearing accounts for cash activity relating to Federal credit programs. Fiduciary funds, which are not Government-owned, are also excluded. 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 requirement tailored to those transactions are provided by SFFAS 5, *Accounting for Liabilities in 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. The result at the government-wide level is that the large negative net position of these funds obscures the large cumulative amount that needs to be repaid by the general fund in order for the dedicated collections to be used for their intended purposes.

Footnote 6a: Because classification and reporting should be made at the level of an individual fund, portions of funds, such as the Federal Employees Compensation Account portion of the Unemployment Trust Fund, should not be excluded because of this provision.

Reporting for Funds from Dedicated Collections

Financial Statement Disclosures for Component Entities
Financial Statement Presentation

19. 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. Also, the portion of cumulative results of operations and unexpended appropriations attributable to funds from dedicated collections should be shown separately on both the Statement of Changes in Net Position and the Balance Sheet. Amounts shown separately may be presented parenthetically in the narrative describing key line items[6b] or in separate lines or columns. Entities may present combined or consolidated amounts and must label the amounts accordingly. This standard does not require funds from dedicated collections to be separately shown on the Statement of Net Cost. (See Appendix F: Illustrations of Component Entity Reporting on the Face of the Financial Statements.)

Footnote 6b:_Key line items for parenthetical display for the Statement of Changes in Net Position are: Cumulative Results of Operations; beginning balance, total financing sources, and ending balance; Unexpended Appropriations: beginning balance, total budgetary financing sources, and ending balance. Key line items for parenthetical display for the Balance Sheet are Cumulative Results of Operations, Unexpended Appropriations and Total Net Position.

20. Most revenues and other financing sources that are dedicated collections are reported in the basic financial statements of the entity carrying out the program and responsible for administration of the fund. If more than one component entity is responsible for carrying out the program financed with revenues and other financing sources that are dedicated collections, and the separate portions of the program can be clearly identified with a responsible component entity, then each component entity should report its portion in accordance with the requirements of this standard. If separate portions cannot be identified, the component entity with program management responsibility should report the fund.[7]

Footnote 7 To determine program management/accounting responsibility, agencies should consider the legislation authorizing the program; the Memorandum of Understanding that establishes responsibilities; and the provisions of SFFAC 2, *Entity and Display,* as amended by this standard.

Disclosure

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

Footnote 8 Disclosure is reporting information in notes or narrative regarded as an integral part of the basic financial statements.

22. Information should be disclosed for each individual fund from dedicated collections. An exception is provided for component entities having numerous individual funds from dedicated collections. Paragraph 24 discusses criteria to consider in selecting individual funds for disaggregated disclosure. Entities may present combined or consolidated amounts and must label the amounts accordingly. The following information should be disclosed for selected individual funds from dedicated collections, in aggregate for all remaining funds from dedicated collections, and in total for all the entity’s earmarked funds from dedicated collections:

    1. Condensed information about assets and liabilities showing investments in Treasury securities, other assets, liabilities due and payable, other liabilities, cumulative results of operations and net position.

    2. Condensed information providing gross cost, exchange revenue, net cost, nonexchange revenues by major type and all

other, other financing sources by major type and all other, and change in net position.[9]

The information required by this paragraph for earmarked funds may be presented separately on the face of the entity's basic financial statements or disclosed in the accompanying notes. The information must be in sufficient detail to support reporting requirements for the U.S. Government-wide financial statements (see paragraph 29). Information for funds not presented individually may be aggregated, but must be provided even if the aggregate total is immaterial. The total net position shown in the note disclosure should agree with the total net position for earmarked funds shown on the face of the component entity's basic financial statements

Footnote 9 was rescinded by SFFAS XX, *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 2.7*

23. The following information should be disclosed for each individually reported fund from dedicated collections for which a component entity has program management responsibility (see paragraph 24).

    1. A description of each fund's purpose, how the entity accounts for and reports the fund, and its authority to use those revenues and other financing sources.

    2. The sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the Government or the result of intragovernmental flows.

    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.

24. Selecting funds from dedicated collections to be presented individually requires judgment. The preparer should consider both quantitative and qualitative criteria. Acceptable criteria include but are not limited to: quantitative factors such as the percentage of the reporting entity's revenues from dedicated collections or cumulative results of operations from such funds; and qualitative factors such as whether a~~n~~ fund from dedicated collections is of immediate concern to constituents of the fund, whether it is politically sensitive or controversial, whether it is accumulating large balances, or whether the information provided in the financial statements would be the primary source of financial information for the public.

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

26. In accordance with the provisions of paragraph 20, if a component entity reports a different portion of a program funded by dedicated collections than it reported in prior years, it should disclose the change. This applies if a component entity does not report a fund from dedicated collections that it reported in the previous year. It also applies if a component entity reports a fund from dedicated collections that it did not report in the previous year.

Note on Investments

27. Investments in Treasury securities for funds from dedicated collections should be accompanied by a note that explains the following issues:

- The U.S. Treasury does not set aside assets to pay future expenditures associated with funds from dedicated collections. Instead, the cash generated from such funds is used by the U.S. Treasury for general Government purposes.

- Treasury securities are issued to the fund as evidence of dedicated collections and provide the fund with the authority to draw upon the U.S. Treasury for future authorized expenditures (although for some funds, this is subject to future appropriation).

- Treasury securities held by a fund from dedicated collections are an asset of the fund and a liability of the U.S. Treasury, so they are eliminated in consolidation for the U.S. Government-wide financial statements.

- When the fund from dedicated collections redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.

28. Below is one example of a note that addresses the points in paragraph 27 above.

Intra-governmental Investments in Treasury Securities

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections (or name/s of fund/s). The dedicated cash receipts collected from the public into the fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the (component entity) as evidence of its receipts. Treasury securities are an asset to the (component entity) and a liability to the U.S. Treasury. Because the (component entity) and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide the (component entity) with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the (component entity) requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Financial Statement Presentation and Disclosures for the U.S. Government-wide Financial Statements

Financial Statement Presentation

29. Funds from dedicated collections should be shown separately on the U.S. Government Statement of Operations and Changes in Net Position. The portion of Net Position attributable to funds from dedicated collections should be shown separately on the U.S. Government Balance Sheet.[10] (See Appendix C: Pro Forma Illustrations for examples of accounting entries and financial reporting.)

Footnote 10 Net Position is composed of unexpended appropriations and cumulative results of operations for component entities. Since unexpended appropriations are not applicable at the U. S. Government-wide level, net position equals cumulative results of operations

Disclosure

30. Specific information should be disclosed for selected funds from dedicated collections. Paragraph 24 discusses criteria to consider in selecting individual funds for disaggregated disclosure. The following information should be provided for selected individual funds from dedicated collections, in aggregate for all remaining funds from dedicated collections, and in total for all funds from dedicated collections. The disclosure may present combined or consolidated amounts but must label the amounts accordingly.

    1. Condensed information about assets, liabilities and net position.
    2. Condensed information on gross cost, exchange revenue, net cost, nonexchange revenues and other financing sources, and change in net position.

31. The information for funds from dedicated collections should be disclosed in the notes accompanying the basic financial statements. Information for funds not shown individually may be aggregated (see paragraph 24). A total column should be presented that relates the disaggregated data to the data on the

face of the principal financial statements. The net position shown in the note disclosure should agree with the portion of net position attributable to funds from dedicated collections shown on the face of the balance sheet.

32. A note disclosure should provide a reference to component reports for additional information about individual funds from dedicated collections.

33. A note disclosure should provide a general description of funds from dedicated collections and an explanation of how the Federal Government as a whole could provide the resources represented by the balance in Treasury securities held by funds from dedicated collections.

34. A fund from dedicated collections should not be characterized as a "trust" in general purpose external financial reports of Federal entities. (The use of the term "trust fund" is acceptable only in the fund's official title.)

Basis of Accounting

35. All amounts reported and disclosed in the reporting entity's basic financial statements or the notes thereto, as required in paragraphs 20 through 34, should be recognized and measured using the standards provided in generally accepted accounting principles applicable to the Federal Government.

Effective Date and Implementation

36. This standard is effective for periods beginning after September 30, 2005. Early adoption is not permitted. In the year this standard becomes effective, entities should not restate the prior period columns of the basic financial statements and related disclosures.

Effect on Existing Standards

37. [Paragraph 37 was superseded by paragraph 34 of SFFAS 31, which rescinded paragraphs 83 through 87 of SFFAS 7.]

38. This standard amends Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display" footnote 3, as follows:

> For some trust funds, the collection of the revenues is performed by an organizational entity acting in a custodial capacity that differs from the organizational entity that administers the trust fund. In those instances, the organizational entity that collects the revenue would be responsible for reporting only the collection and subsequent disposition of the funds. The organizational entity responsible for carrying out the program(s) financed by a trust fund, ~~or in the case of multiple responsible entities, the entity with the preponderance of fund activity,~~ will report all assets, liabilities, revenues and expenses of the fund,

notwithstanding the fact that another entity has custodial responsibility for the assets. In the case of multiple responsible entities, if the separate portions of the program can be clearly identified with a responsible component entity, then each component entity should report its portion in accordance with the requirements of SFFAS 27, *Identifying and Reporting Funds from Dedicated Collections*. If separate portions cannot be identified, the component entity with program management responsibility should report the fund.

39. This standard amends SFFAC 3, Management's Discussion and Analysis-Concepts, paragraph 26 as follows:

Financial Results, Position and Condition-MD&A should help those who read it to understand the entity's financial results and financial position and the entity's effect on the financial position and condition of the Government. It should give readers the benefit of management's understanding of the significance and potential effect from both a short- and a long-term perspective of:

- the variations discussed in paragraph 14 in terms of major changes in types or amounts of assets, liabilities, costs, revenues, obligations and outlays;

- particular balances and amounts shown in the basic financial statements, including the notes, such as those dealing with ~~earmarked funds~~ dedicated collections, if relevant to important financial management issues and concerns; and

- the entity's required supplementary stewardship information (because RSSI describes economic conditions that cannot be expressed in the basic financial statements).

The provisions of this statement need not be applied to immaterial items.

Appendix C: Earmarked Funds Task Force Participating Agencies

U.S. Department of Agriculture
Department of Commerce
Commodity Futures Trading Commission
Department of Defense
Department of Energy
Environmental Protection Agency
Federal Communications Commission
Government Accountability Office
Department of Health and Human Services
Department of Homeland Security
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Office of Management and Budget
Office of Personnel Management
Railroad Retirement Board
Securities and Exchange Commission
Social Security Administration
State Department
Department of Transportation
Treasury Department (main Treasury and CFR reporting)
Department of Veterans Affairs

Appendix D: Abbreviations

FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

Appendix E: Glossary

Component entities - The term “component entity” is used to distinguish between the U.S. federal government and its components. The U.S. federal government as a whole is composed of organizations that manage resources and are responsible for operations, i.e., delivering services. These include major departments and independent agencies, which are generally divided into suborganizations, i.e., smaller organizational units with a wide variety of titles, including bureaus, administrations, agencies, and corporations. (SFFAC No. 2, Entity and Display, pars. 11-12). Use of “component entity” in this standard is only intended to distinguish between the U.S. federal government’s consolidated financial statements and financial statements of its components.

Dedicated Collections - Dedicated collections are specifically identified revenues, provided to the government by non-federal sources, 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 three required criteria for funds from dedicated collections are:

1. A statute committing the Federal Government to use specifically identified revenues and or other financing sources that are originally provided to the federal government by a non-federal source* only for designated activities, benefits or purposes;
2. Explicit authority for the fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the fund from the Government’s general revenues.

*In some cases, specifically identified revenues or other financing sources are collected from a non-federal source by one agency and transferred or appropriated to another. For example, Social Security taxes are collected from non-federal entities (employees and employers) by the Internal Revenue Service. Those amounts are subsequently appropriated and transferred to the Social Security Administration. This internal process does not change the nature of the revenue or other financing source (i.e., specifically identified revenues or other financing sources originally collected from a non-federal source).

Appendix F: Illustrative Component Entity Financial Statements

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 (Option A), or to use an alternative format (Option B).

The following examples are illustrative only and are intended to show how the information required in paragraph 19 might be displayed.

Note: Component entities may also opt to report consolidated amounts for the breakout between funds from dedicated collections and all other funds.

Option A: Illustrative Balance Sheet with Amounts in Separate Lines

	FY 2XX1	FY 2XX0
Entity assets:		
Fund balance with Treasury	$xxx	$xxx
Cash (and other monetary assets)	xxx	xxx
Investments:		
Intragovernmental	xxx	xxx
With the public	xxx	xxx
Receivables:		
Intragovernmental	xxx	xxx
With the public	xxx	xxx
Inventories and related properties	xxx	xxx
Physical assets	xxx	xxx
Total entity assets	**xxx**	**xxx**
Non-entity assets:		
Fund balance with Treasury	xxx	xxx
Cash	xxx	xxx
Receivables:		
Intragovernmental	xxx	xxx
With the public	xxx	xxx
Total non-entity assets	**xxx**	**xxx**
Total assets	**$xxx**	**$xxx**

LIABILITIES:

Liabilities covered by budgetary resources:

Intragovernmental liabilities:		
Payables	$xxx	$xxx
Governmental liabilities:		
Payables	xxx	xxx
Total liabilities covered by budgetary resources	**xxx**	**xxx**
Liabilities not covered by budgetary resources:		
Intragovernmental liabilities:		
Payables	xxx	xxx
Governmental liabilities:		
Payables	xxx	xxx
Amounts held for others	xxx	xxx
Total liabilities not covered by budgetary resources	**xxx**	**xxx**
Total liabilities	**xxx**	**xxx**
NET POSITION		
Unexpended appropriations - Funds from Dedicated Collections (Combined Totals)– See Note X	xx	xx
Unexpended appropriations – All Other Funds (Combined Totals)	xx	xx
Cumulative results of operations - Funds from Dedicated Collections (Combined Totals) – See Note X	xx	xx
Cumulative results of operations – All Other Funds (Combined Totals)	xx	xx
Total Net Position – Funds from Dedicated Collections (Combined Totals) – See Note X	xx	xx
Total Net Position – All Other Funds (Combined Totals)	xx	xx
Total Net Position		
Total liabilities and net position	**$xxx**	**$xxx**

Option B: Illustrative Balance Sheet with Parenthetical Amounts

	FY 2XX1	FY 2XX0
Entity assets:		
Fund balance with Treasury	$xxx	$xxx
Cash (and other monetary assets)	xxx	xxx
Investments:		
Intragovernmental	xxx	xxx
With the public	xxx	xxx
Receivables:		
Intragovernmental	xxx	xxx
With the public	xxx	xxx
Inventories and related properties	xxx	xxx
Physical assets	xxx	xxx
Total entity assets	**xxx**	**xxx**
Non-entity assets:		
Fund balance with Treasury	xxx	xxx
Cash	xxx	xxx
Receivables:		
Intragovernmental	xxx	xxx
With the public	xxx	xxx
Total non-entity assets	**xxx**	**xxx**
Total assets	**$xxx**	**$xxx**
LIABILITIES:		
Liabilities covered by budgetary resources:		
Intragovernmental liabilities:		
Payables	$xxx	$xxx
Governmental liabilities:		
Payables	xxx	xxx
Total liabilities covered by budgetary resources	**xxx**	**xxx**
Liabilities not covered by budgetary resources:		
Intragovernmental liabilities:		
Payables	xxx	xxx
Governmental liabilities:		
Payables	xxx	xxx
Amounts held for others	xxx	xxx

Total liabilities not covered		
Total liabilities	**xxx**	**xxx**
NET POSITION		
Unexpended appropriations (Includes Funds from Dedicated Collections of $XX in FY 2XX1 and $XX in FY 2XX0 (Combined Totals) – See Note X)	xxx	xxx
Cumulative results of operations (Includes Funds from Dedicated Collections of $XX in FY 2XX1 and $XX in FY 2XX0 (Combined Totals) - See Note X)	xxx	xxx
Total net position (Includes Funds from Dedicated Collections of $XX in FY 2XX1 and $XX in FY 2XX0 (Combined Totals) - See Note X)	**xxx**	**xxx**
Total liabilities and net position	**$xxx**	**$xxx**

.

Option A: Illustrative Statement of Changes in Net Position with Amounts in Separate Columns

FY 2XX1	Funds from Dedicated Collections (Combined Totals) (See Note X)	All Other Funds (Combined Totals)	Eliminations	Consolidated Totals
Cumulative Results of Operations:				
Beginning balance, as adjusted	xxx	xxx	x	xxx
Budgetary Financing Sources:				
Other adjustments	xxx	xxx	x	xxx
Appropriations used	xxx	xxx		xxx
Non-exchange revenue	xxx	xxx	x	xxx
Donations and forfeitures of cash and cash equivalents	xxx	xxx		xxx
Transfers in/out without reimbursement	xxx	xxx	x	xxx
Other	xxx	xxx	x	xxx
Other Financing Sources (Non-				
Donations and forfeitures of property	xxx	xxx		xxx
Transfers in/out without reimbursement	xxx	xxx	x	xxx
Imputed financing	xxx	xxx	x	xxx
Other	xxx	xxx	x	xxx
Total Financing Sources	xxx	xxx	x	xxx
Net Cost of Operations	xxx	xxx	x	xxx
Net Change	xxx	xxx	x	xxx
Cumulative Results of Operations	xxx	xxx	x	xxx
Unexpended Appropriations:				
Beginning Balance	xxx	xxx	x	xxx
Budgetary Financing Sources:				
Appropriations received	xxx	xxx	x	xxx
Appropriations transferred in/out	xxx	xxx	x	xxx
Other adjustments	xxx	xxx	x	xxx
Appropriations used	xxx	xxx		xxx
Total Budgetary Financing Sources	xxx	xxx	x	xxx
Total Unexpended Appropriations	xxx	xxx	x	xxx
Net Position	xxx	xxx	x	xxx

Option B: Illustrative Statement of Changes in Net Position with Parenthetical Amounts

	FY 2XX1	FY 2XX0
Cumulative Results Of Operations:		
Beginning balance, as adjusted (includes Funds from Dedicated Collections of of $XX in FY XXXX and $XX in FY XXXX (Combined Totals) - See Note X)	xxx	xxx
Budgetary Financing Sources:		
Other adjustments	xxx	xxx
Appropriations used	xxx	xxx
Non-exchange revenue	xxx	xxx
Donations and forfeitures of cash and cash equivalents	xxx	xxx
Transfers in/out without reimbursement	xxx	xxx
Other	xxx	xxx
Other Financing Sources (Non-Exchange):		
Donations and forfeitures of property	xxx	xxx
Transfers in/out without reimbursement	xxx	xxx
Imputed financing	xxx	xxx
Other	xxx	xxx
Total Financing Sources (includes Funds from Dedicated Collections of $XX in FY XXXX and $XX in FY XXXX (Combined Totals) - See Note X)	xxx	xxx
Net Cost of Operations (includes Funds from Dedicated Collections of $XX in FY XXXX and $XX in FY XXXX (Combined Totals) – See Note X)	xxx	xxx
Net Change	xxx	xxx
Cumulative Results of Operations (includes Funds from Dedicated Collections of $XX in FY XXXX and $XX in FY XXXX (Combined Totals) - See Note X)	xxx	xxx
Unexpended Appropriations:		
Beginning Balance (includes Funds from Dedicated Collections of $XX in FY XXXX and $XX in FY XXXX (Combined Totals) – See Note X)	xxx	xxx
Budgetary Financing Sources:		
Appropriations received	xxx	xxx
Appropriations transferred in/out	xxx	xxx
Other adjustments	xxx	xxx
Appropriations used	xxx	xxx
Total Budgetary Financing Sources (includes Funds from Dedicated Collections of $XX in FY XXXX and $XX in FY XXXX (Combined Totals) - See Note X)	xxx	xxx
Total Unexpended Appropriations (includes Funds from Dedicated Collections of $XX in FY XXXX and $XX in FY XXXX (Combined Totals) - See Note X)	xxx	xxx
Net Position	xxx	xxx

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