



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

AUG 19 2011

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

Dear Ms. Payne:

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "G. Alston", written over a horizontal line.

Gordon T. Alston  
Deputy Director for Financial Management

Enclosure

cc: Lisa Casias  
Diane Marston  
Tony Akande  
Atisha Burks

**Department of Commerce Response****FASAB Exposure Draft, Statement of Federal Financial Accounting Standards – *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*****Prepared by: Department of Commerce, Office of Financial Management****Date Prepared: August 10, 2011**

## Questions and Answers

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

**Department of Commerce Response:**

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

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

**Department of Commerce Response:**

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

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

**Department of Commerce Response:**

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

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

**Department of Commerce Response:**

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

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

**Department of Commerce Response:**

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

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

**Department of Commerce Response:**

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

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

**Department of Commerce Response:**

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

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

**Department of Commerce Response:**

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

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

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

**Department of Commerce Response:**

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