



Federal Accounting Standards Advisory Board

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Identifying and Reporting Earmarked Funds

**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

*Written comments are requested by December 17, 2003*

**16 October 2003**

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### **THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**

*The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General in October 1990. It 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 standard is 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 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:*

- *"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"*

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## Federal Accounting Standards Advisory Board

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October 16, 2003

TO: HEADS OF FEDERAL AGENCIES AND ALL OTHERS 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 accounting standards, *Identifying and Reporting Earmarked Funds*. Specific questions for your consideration begin 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 within sixty days after the release date.

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 [comesw@fasab.gov](mailto:comesw@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. Comes, Executive Director  
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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.

David Mosso  
Chairman

## Executive Summary

**What is the Board Proposing?**

This exposure draft proposes standards that define and address “earmarked funds”. Note that this standard uses the term “earmarked” only as it is defined below. This standard does not use the term “earmarked” as it is sometimes used to refer to set-asides of appropriations for specific purposes.

The Board's proposed standard for "Fiduciary Activities" and this proposed standard on "Earmarked Funds" together address all activities or funds considered "dedicated collections" by SFFAS 7. If adopted, these standards would result in the rescission of the "dedicated collections" provisions in SFFAS 7.

Earmarked funds are financed by specifically identified revenues, 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 an earmarked fund are:

1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
2. Explicit authority for the earmarked 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 required accounting mechanism to account for, report on, and support the administration of the receipt, use, and retention of the revenues and other financing sources that is distinct from the accounting mechanism for the Government's general revenues.

Although most of the revenues that an earmarked fund will receive each year will be from specific taxes, fees, custom duties, sales of goods or services or similar sources that a statute designates for a particular purpose, those revenues may be supplemented by other financing sources, such as earned interest or appropriations from general revenues. Typically, the authorizing statute addresses whether the earmarked fund is authorized to invest the revenues and other financing sources not needed to finance current operations in Treasury securities, maintain a credit balance with the U.S. Treasury (e.g. Fund Balance With Treasury), or use some other means to accumulate assets that can be used to finance the designated activities, benefits or purposes.

The accounting mechanism used to account for revenues and other financing sources that are statutorily available only for designated activities, benefits or purposes -- the “earmarked fund” -- is usually created by statute. A fund, as used here, means 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.<sup>1</sup>

The accounting mechanism may be classified in the unified budget as a trust, special, or public enterprise fund. Application of this standard, however, should not be based on whether a statute or the unified budget labels the accounting mechanism as a certain type of fund. Rather, the Board intends that the term earmarked fund be applied based on the substance of the statute and accounting mechanism consistent with the three criteria set forth in the standard.

This proposed standard would require that the component entity show earmarked revenue and other financing sources separately on the Statement of Changes in Net Position. At the Government-wide level, earmarked revenue and other financing sources would be shown separately on the Statement of Operations and Changes in Net Position. This proposed standard also would require the component entity to show, on the Statement of Changes in Net Position and on the Balance Sheet, the portion of cumulative results of operations attributable to earmarked funds. The U.S. Government-wide financial statements would be required to show the portion of net position (rather than cumulative results of operations) attributable to earmarked funds. (Net position at the component level is composed of unexpended appropriations and cumulative results of operations. Since unexpended appropriations are not applicable at the Government-wide level, net position equals cumulative results of operations.)

Below is an example of how the net position of earmarked funds could be shown separately on the U.S. Government-wide financial statements.

#### Net Position

|                            |                   |
|----------------------------|-------------------|
| Other than Earmarked Funds | -9,284.5          |
| Earmarked Funds            | <u>2,462.0</u>    |
| Total Net Position         | <u>\$-6,820.5</u> |

This proposed standard would require that every component entity disclose the earmarked fund(s) for which it has program management responsibility. It would also require condensed information on assets, liabilities and cost for all funds, although it would permit information on immaterial funds to be aggregated. In addition, it would require disclosure of any legislation that changed the purpose of or redirected a significant portion of a significant fund.

#### **Why is the Board making this proposal?**

The objectives of this standard include:

- defining “earmarked funds”,
- differentiating earmarked funds from fiduciary activities and from private sector trust funds,

<sup>1</sup> National Council on Governmental Accounting Statement 1, par. 16.

- identifying earmarked revenue and other financing resources separately from revenue and other financing sources used for the general purposes of the Government,
- identifying the portion of cumulative results of operations attributable to earmarked funds separately from cumulative results of operations attributable to operations financed from other government funds, and
- clarifying the accounting guidance on disclosure for earmarked funds.

Earmarked funds have unique characteristics that necessitate additional explanation and disclosure in the basic financial statements<sup>2</sup>. By statutorily dedicating these funds for a specific purpose, Congress creates the expectation in members of the public, especially among contributors and recipients, that the funds actually will be used for that specific, designated purpose.

Furthermore, many of these funds have investment authority that permits the accumulation of large balances. The total of these balances has grown approximately tenfold over the past two decades.

By requiring reporting entities to show separately the portions of cumulative results of operations or net position attributable to earmarked funds, this proposed standard would assist the users of basic financial statements in understanding the Government's commitments regarding earmarked funds and the intra-governmental financing provided by earmarked funds to the general purposes of the Government. Absent segregation of cumulative results of operations reserved or restricted to future use to finance designated activities, benefits or purposes, the intra-governmental financing would appear – at the Government-wide reporting level – to be a permanent financing source for general fund operations. In fact, it is a financing source available only until the resources are required for designated activities, benefits or purposes.

Required disclosures at the component entity level would also clarify the fact that investments in Treasury securities held by the component entity are not assets for the Government as a whole. That is, the investments in Treasury securities are available to program managers for authorized expenditures and are thus assets of the managing component entity. However, financing would be needed by the Government as a whole when those investments in Treasury securities are redeemed to make an expenditure.

This proposed standard would also ensure that the financial statements provide full disclosure on the status of all significant earmarked funds. Additional note disclosure requirements would ensure that no earmarked fund is omitted from the financial statements and that users can more easily locate information on a specific earmarked fund and determine its status.

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<sup>2</sup> As used in SFFAS 7, the basic financial statements are those on which an auditor would normally be engaged to express an opinion.

In addition, this proposed standard addresses those situations where several component entities each have program management responsibility for separate, identifiable portions of the earmarked fund. By requiring each component entity to report on only its portion of the earmarked fund, the standard would assist report users in evaluating the service efforts, costs and accomplishments of the component entity.

#### **How would this proposal improve federal financial reporting?**

This proposed standard would clarify accounting and reporting requirements for earmarked funds. It would differentiate them from funds used for the general purposes of the Government, from Government fiduciary funds and from private sector trust funds, and would clarify guidance on their disclosure. By requiring recognition of the earmarked funds' impact on cumulative results of operations, it would enhance the report user's ability to assess the impact of earmarked funds on the financial condition of the Federal Government as a whole.

#### **How would this proposal contribute to meeting the federal financial reporting objectives?**

This proposed standard primarily addresses three of the reporting objectives of Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*; budgetary integrity, operating performance, and stewardship. Information on earmarked funds would help the user assess the source and adequacy of budget resources, and would help identify potential funding problems. By ensuring that all earmarked funds are identified and their status disclosed by the entity responsible for the fund, the standard would assist report users to evaluate the component entity's service efforts, costs and accomplishments. By showing the effect of earmarked funds on the cumulative results of operations, this proposed standard would assist users to assess the impact of earmarked funds on the overall financial condition and future financing needs of the Federal Government.

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**Request for Comments**

1. Do you agree with the definition of earmarked funds? See paragraph 10 for the definition, and paragraphs 44 and 45 in the Basis for Conclusions for the rationale.
  - a. Do you know of any earmarked fund that would be excluded from coverage based on the definition in the standard but that you think should be included? Please identify the fund(s), give the reasons you believe it would be excluded under the proposed definition and explain why you think it should be included.
  - b. Do you know of any earmarked fund that would be covered by this standard based on the definition in the standard but that you think should not be included? Please identify the fund(s), give the reasons you believe it would be included under the proposed definition and explain why you think it should not be included.
2. Do you agree with the accounting treatment of earmarked funds at the component entity level? See paragraphs 16 - 24 for the accounting and reporting requirements. If you disagree with the accounting treatment, or know of specific ways in which you believe it can be improved, please provide a thorough analysis with specific examples if possible.
  - a. Do you agree that the flow of earmarked funds should be shown separately on the Statement of Changes in Net Position? See paragraph 16 for the accounting standard and paragraph 53 in the Basis for Conclusions for the rationale.
  - b. Do you agree that the cumulative results of operations for earmarked funds should be separately identified from the cumulative results of operations for other funds on the Statement of Changes in Net Position and on the Balance Sheet? See paragraph 16 for the accounting standard and paragraphs 46 through 52 in the Basis for Conclusions for the rationale.
  - c. Do you agree that a component entity should either identify, by title, all earmarked funds for which it is responsible, or state where this information can be found? See paragraph 18 for the accounting standard and paragraph 54 in the Basis for Conclusions for the rationale.
  - d. Do you agree that a component entity should disclose any legislation that significantly changes the purpose of the fund or that redirects a significant portion of the accumulated balance of a significant earmarked fund? See paragraph 20.3 for the accounting standard and paragraph 56 in the Basis For Conclusions for the rationale.
  - e. Do you agree that component entities with intragovernmental investments shown on the balance sheet should include a note disclosure addressing the issues in paragraph 23? See paragraph 50 in the Basis for Conclusions for the rationale.
  - f. Do you agree that the standard should provide guidelines and an example for a note disclosure on investments, as is now done in paragraphs 23 and 16, or do you think that the standard should prescribe specific language for the note?



cumulative results of operations. Another alternative the Board considered was whether the term “significant” could be defined as the largest three or four earmarked funds of a reporting entity, as defined by some financial measure such as revenue. The Board also discussed using qualitative factors as criteria, such as: whether an earmarked fund is material to a Government program; 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 sole source of financial information for the public. The consensus of the Board was that the preparer should be allowed to decide whether or not an earmarked fund is “significant”. Do you agree, or do you believe that the standard should provide additional guidance defining the term “significant”? If you believe that further guidance is needed, please explain what criteria you would use to define “significant”.

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## Introduction

1. This proposed standard would amend Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources*. This proposed standard defines and addresses **earmarked funds**<sup>3</sup>, eliminates the term “dedicated collections”, and differentiates between earmarked funds and **fiduciary activity**. This proposed standard would require that earmarked revenue and other financing sources and the portion of cumulative results of operations attributable to earmarked funds be identified and shown as separate line items on the financial statements. It also would require that the component entity identify all earmarked funds and provide specific information on earmarked funds including revenue sources, assets and liabilities, and changes in net position.
2. Earmarked revenue and **other financing sources** are accounted for in earmarked funds with widely disparate characteristics. In a 2001 report, the General Accounting Office identified three hundred and ninety-two earmarked funds.<sup>4</sup> Annual revenues and other financing sources for those earmarked funds range from negligible amounts to over half a trillion dollars. Accumulated balances range from approximately a half million dollars to over a trillion dollars.
3. Earmarked funds receive revenue from a variety of sources and serve a variety of purposes. Revenue sources include payroll taxes, excise taxes, customs duties, fees, user charges, and sales of goods and services. Other financing sources include appropriations and interest earned. In addition, although earmarked funds are usually the responsibility of a single entity, management responsibility for some earmarked funds is shared by two or more entities
4. The purpose of earmarked funds ranges from the long-term commitments financed by social insurance taxes, such as Social Security, to business-type activities financed mainly by exchange transactions, such as the Employees Life Insurance Fund. Every department and many independent agencies have at least one earmarked fund. Therefore, earmarked funds affect a wide array of programs, including commerce, income security, natural resources, administration of justice, agriculture, education, science and technology, the environment, healthcare, housing credit and insurance.
5. Despite the differences among earmarked funds they do share certain characteristics. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time, 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.
6. The following chart shows fund types in the Federal Budget. It is intended only to show the general relationship between fund groups and earmarked funds as classified in this statement.

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<sup>3</sup> Words first appearing in **boldface** are defined in Appendix B: Glossary.

<sup>4</sup> GAO, *Federal Trust and Other Earmarked Funds*, January 2001, GAO-01-199SP, p. 12.

Fund Types in the Federal Budget

|                      | Not Earmarked                           | Earmarked  |
|----------------------|---|--|
| <i>Federal Funds</i> | General Fund<br>Intragovernmental Funds | Special Funds<br>Public Enterprise Funds           |
| <i>Trust Funds</i>   |   | Non-revolving Trust Funds<br>Revolving Trust Funds |

7. Funds that receive earmarked revenue and other financing sources include special funds, trust funds -- both revolving and non-revolving -- and public enterprise funds. The **general fund** is used to carry out the general purposes of Government rather than being restricted by law to a specific program. It consists of all collections not earmarked by law to finance other funds, including virtually all income taxes and many excise taxes, and all expenditures financed by these collections and by general U.S. Treasury borrowing.<sup>5</sup> While **intragovernmental funds**, which are revolving funds that conduct business-type operations primarily within and between Government agencies, share the characteristics of an earmarked fund, they are specifically excluded from this proposed standard.

### Scope

8. This proposed statement provides accounting and reporting standards for earmarked funds in the general purpose financial statements of reporting entities and the U.S. Government-wide Financial Report. The standard does not affect reporting in the *Budget of the United States Government* or any other type of report.

### Effective Date

9. This proposed amendment is effective for periods beginning after September 30, 2005. Early adoption is not permitted.

<sup>5</sup> Analytical Perspectives, Budget of the United States Government, Fiscal Year 2004. p. 369.

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## Accounting Standard

### Earmarked Funds

#### Definition

10. Earmarked funds are financed by specifically identified revenues, 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 an earmarked fund are:
  1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
  2. Explicit authority for the earmarked 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 required accounting mechanism to account for, report on, and support the administration of the receipt, use, and retention of the revenues and other financing sources that is distinct from the accounting mechanism for the Government's general revenues.
11. The accounting mechanism used to account for revenues and other financing sources that are statutorily available only for designated activities, benefits or purposes, or the "earmarked fund," is usually created by statute. The accounting mechanism may be classified in the statute, the unified budget, or both, as a trust, special, or public enterprise fund. Intragovernmental funds, which are revolving funds that conduct business-type operations primarily within and between Government agencies, are specifically excluded from this proposed standard. Application of this standard, however, shall not be based on whether a statute or the unified budget labels the accounting mechanism as a fund. Rather, the Board intends that the term "earmarked fund" be applied based on the substance of the statute and accounting mechanism consistent with the three criteria described above.
12. **Fund** in this definition refers to a "fiscal and accounting entity with a self-balancing set of accounts recording cash and other assets, 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."<sup>6</sup>

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<sup>6</sup> National Council on Governmental Accounting Statement 1, par. 16.

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Distinct from the General Fund

13. Whereas earmarked funds are financed by specifically identified revenues and other financing sources, the general fund is financed by receipts not earmarked 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 regular appropriations acts. In contrast, legislation establishing earmarked funds reflects a longer (if not indefinite) Government commitment to collect, hold and spend identified revenues for a designated activity, benefit or purpose. Although appropriation legislation is necessary to make expenditures from some earmarked funds, the cumulative results of operations arising from earmarked funds is reserved or restricted to the designated activity, benefit or purpose.

Distinct from Fiduciary Activities

14. The activity of earmarked funds differs from fiduciary activities primarily in that earmarked 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.<sup>7</sup> Therefore, even though an earmarked fund 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.

Distinct from Private Sector Trust funds

15. Although earmarked monies 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 earmarked funds in the Federal Government are distinct from fiduciary activities, a trust in the private sector necessarily involves a fiduciary relationship. SFFAS *Accounting for Fiduciary Activities*, paragraph 15, requires that an earmarked fund financed by Government-owned receipts not be characterized as a “trust” in general purpose external financial reports of Federal entities. (The use of the word “trust” is acceptable only in the fund’s official title.)

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<sup>7</sup> See the FASAB exposure draft of March 2003, *Accounting for Fiduciary Activities*, Basis for Conclusions, particularly pars. 46-49 and pars. 62-74 for more on fiduciary activity in the Federal Government and the differences between private trust funds and government trust funds.

## Reporting for Earmarked Funds

### Financial Statement Presentation and Disclosures for Component Entities

#### Financial Statement Presentation

16. Earmarked revenue and other financing sources should be shown separately on the Statement of Changes in Net Position. Also, the portion of cumulative results of operations attributable to earmarked funds should be shown separately on both the Statement of Changes in Net Position and the Balance Sheet. (See Appendix C: Pro Forma Illustrations for examples of accounting entries and financial reporting.)
17. Most earmarked revenues and other financing sources are 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, 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.

#### Disclosure

18. A component entity should disclose<sup>8</sup> either a list, by official title, of all earmarked funds for which it has program management responsibility or provide a statement indicating where the information can be obtained.
19. The following information should also be provided for each earmarked fund.
  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 on gross cost, exchange revenue, net cost, nonexchange revenues and other financing sources, and change in net position.

The information required by paragraphs 18 and 19 for earmarked funds may be presented separately on the face of the entity's basic financial statements or disclosed in the accompanying notes. Information for immaterial funds may be aggregated, but must be provided even if the aggregate total is immaterial.

(See Appendix D: Examples of Note Disclosure of Summary Financial Information for an illustration of the disclosure required by this paragraph.)

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

20. For all significant earmarked funds, or portions thereof, for which a component entity has program management responsibility, the following information shall also be disclosed.
  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 that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.
21. The total cumulative results of operations of all earmarked funds shown in the note disclosure must agree with cumulative results of operations of earmarked funds shown on the face of the component entity's basic financial statements.<sup>9</sup>
22. If a component entity reports a different portion of an earmarked fund than it reported in prior years, it should not restate its prior year financial statements. It should disclose in a note, for all prior periods presented, the effect on net position if the change had been applied retroactively. This applies if a component entity does not report an earmarked fund, or portion thereof, that it reported in the previous year. It also applies if a component entity does report an earmarked fund, or portion thereof, that it did not report in the previous year.

#### Note on Investments

23. Investments in Treasury securities for earmarked funds 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 earmarked funds. Instead, the cash generated from earmarked funds is used for general Government purposes.
  - Treasury securities are issued to the earmarked fund as evidence of earmarked receipts 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 an earmarked fund 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 earmarked fund redeems its Treasury securities to make an expenditure, the U.S. Treasury will finance that expenditure in the same manner that it finances all other expenditures.
24. Below is one example of a note that addresses the points in paragraph 23 above.

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<sup>9</sup> The element "cumulative results of operations" appears in both the Balance Sheet and the Statement of Changes in Net Position. For brevity, the standard simply refers to basic financial statements since that term encompasses the two affected statements.

**Intragovernmental Investments in Treasury securities.**

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds (or name/s of fund/s). The cash receipts collected from the public for an earmarked 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 an expenditure, 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**

25. Earmarked revenue and other financing sources should be shown separately on the U.S. Government Statement of Operations and Changes in Net Position. The portion of Net Position attributable to earmarked funds should be shown separately on the U.S. Government Balance Sheet.<sup>10</sup> (See Appendix C: Pro Forma Illustrations for examples of accounting entries and financial reporting.)

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<sup>10</sup> Net Position is composed of unexpended appropriations and cumulative results of operations. Since unexpended appropriations are not applicable at the U. S. Government-wide level, net position equals cumulative results of operations.

## Disclosure

26. The following information should be provided for each significant fund and in aggregate for all remaining funds with eliminations necessary to produce the Government-wide total of earmarked funds:
  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.
27. The information for earmarked funds should be disclosed in the notes accompanying the basic financial statements. The net position shown in the note disclosure should agree with the portion of net position attributable to earmarked funds shown on the face of the balance sheet.
28. A note disclosure should provide a general reference to component reports for additional information about individual earmarked funds.
29. A note disclosure should provide a general description of earmarked funds and an explanation of how the Federal Government as a whole would provide the resources represented by the earmarked funds' balance in Treasury securities.

## Basis of Accounting

30. All amounts reported and disclosed in the reporting entity's basic financial statements or the notes thereto, as required in paragraphs 16 through 29, should be recognized and measured using the standards provided in generally accepted accounting principles applicable to the Federal Government.

## Implementation

31. This amendment is effective for periods beginning after September 30, 2005. Early adoption is not permitted.

## Effect on Existing Standards

32. This standard amends Statement of Federal Financial Accounting Concept (SFFAC) No. 3, Management's Discussion and Analysis – Concepts, paragraph 26 as follows:

**SFFAC 3, par. 26.** 26. 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 ~~dedicated collections or trust funds~~ earmarked funds, 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).
33. This standard affects existing standards dealing with “dedicated collections” in SFFAS 7, *Revenue and Other Financing Sources*. In paragraphs 13 and 105 the term “dedicated collections” is replaced with “earmarked funds”. Paragraphs 83 through 87 are rescinded and replaced by this standard.

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**Appendix A: Basis for Conclusions**

34. This appendix discusses 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 or other appendices– should govern the accounting for specific transactions, events or conditions.

**Existing Accounting Standard Needs Clarification**

35. The objective of this proposed standard is to define earmarked funds and provide accounting and reporting guidance for them. In the existing standard, SFFAS 7, *Revenue and Other Financing Sources*, paragraphs 83 through 87, the term “dedicated collections” includes revenue earmarked or dedicated to finance or help finance specific Federal programs as well as revenue being held for the exclusive benefit of specific, identifiable non-Federal parties.<sup>11</sup>
36. The existing standard does not differentiate between (a) Government-owned revenue and other financing sources earmarked to finance or help finance specific Federal programs (earmarked funds) and (b) cash and other assets being held for the exclusive benefit of specific, identifiable non-Federal parties who have ownership interest in the assets (fiduciary activities). The Board believes separate standards based on the unique characteristics of these two types of “dedicated collections” are needed. In April 2003 the Board issued an Exposure Draft of a proposed standard, *Accounting for Fiduciary Activities*, that would address those activities relating to the collection or receipt, management, protection, accounting, investment and disposition by the Federal Government of cash or assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold.
37. The Board's proposed standard for "Fiduciary Activities" and this proposed standard on "Earmarked Funds" together address all activities or funds considered "dedicated collections" by SFFAS 7. If adopted, these standards would result in the rescission of the "dedicated collections" provisions in SFFAS 7.
38. SFFAS 7 classifies funds as “dedicated collections” based on the term “trust” as used in the U.S. Government Budget. It states that the standard covered “all funds within the budget classified as trust funds, “ and “those funds within the budget that are classified as "special funds" but that are similar in nature to trust funds”<sup>12</sup>. The Board found this definition was insufficiently precise to ensure that all earmarked funds were reported as intended. The definition proposed in this standard would provide a substantive basis for classifying funds instead of relying on terms used in the budget.<sup>13</sup>

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<sup>11</sup> SFFAS No 7, par. 83.

<sup>12</sup> Ibid.

<sup>13</sup> The Exposure Draft, *Accounting for Fiduciary Activities*, par. 46-49 discusses the differences between private trust funds, Federal government trust funds designated as trusts by Congress, and fiduciary funds.

## Special Accountability

39. Although the Federal Government does not have a fiduciary relationship (as defined by the proposed standard, *Accounting for Fiduciary Activities*<sup>14</sup>) with the potential beneficiaries of earmarked funds, the unique nature of earmarked funds necessitates additional explanation and disclosure in the basic financial statements. In SFFAS 7, *Accounting for Revenue and Other Financing Sources*, special accountability reporting provisions were applied to all “dedicated collections” regardless of whether or not they involved Government-owned funds or private funds. The concept of special accountability applies to earmarked funds.

### Nature of the Promise

40. 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. There is often a direct link between the source of fund revenues and designated activities, benefits or purposes in an effort to charge beneficiaries or users for benefits received. Resource inflow is accounted for separately from general tax receipts, allowing the program’s status to be more easily examined. Many earmarked funds receive permanent appropriations in an amount equal to these inflows that become available without recurrent action by Congress through annual appropriations.
41. Earmarked funds are of interest to a universe of contributors, taxpayers and recipients who have an expectation that earmarked revenues will be used for the purposes specified in the law authorizing the collection of the revenues. For example, current contributors to Social Security programs may assume that their earmarked taxes in excess of payments to current recipients will be available to fund future social security benefits. The likelihood of the public making this assumption may reasonably be expected when the Federal Government issues projections of the availability of accumulated balances for future payments.
42. In the case of another earmarked fund, the Nuclear Waste Fund, the contributors of the revenue are also the ones who rely on the designated activity being accomplished. The act establishing the fund states that one purpose of the act is “to establish a Nuclear Waste Disposal Fund, composed of payments made by the generators and owners of such waste and spent fuel, that will ensure that the costs of carrying out activities relating to the disposal of such waste and spent fuel will be borne by the persons responsible for generating such waste and spent fuel.”<sup>15</sup>
43. In some cases the link between contributors of earmarked revenue and the users or recipients may not be as clear; nevertheless it exists. In 1935 a law was

<sup>14</sup> *Accounting for Fiduciary Activities*, par. 13.

<sup>15</sup> 42 U.S.C. §10131(b)(4) (2000).

enacted stating that “an amount equal to 30 per centum of the gross receipts from duties collected under the customs laws ...shall be maintained in a separate fund and shall be used by the Secretary of Agriculture” to encourage exportation and domestic consumption of agricultural products and re-establish farmer’s purchasing power.<sup>16</sup> This law, and its amendments, informs importers, and ultimately the general public, that a significant portion of the custom duties they pay are required by law to be used to support the nation’s agricultural industry.

### Identifying Earmarked Funds

44. The Board considered whether any substantive difference exists between earmarked funds that are designated as “trusts” and those that are not. It also considered whether any substantive difference exists between earmarked funds that conduct business-type operations and those that do not. The Board did not find a substantive difference in either case. Therefore, all earmarked funds that meet the special accountability criteria in paragraph 10 of the standard would be subject to the provisions of the proposed standard, regardless of whether they are trusts or not and regardless of whether they conduct business-type operations or not.
45. The Board also considered whether intragovernmental funds should be considered earmarked funds. Although intragovernmental funds may meet the criteria of the definition of an earmarked fund, the Board does not believe Intragovernmental funds warrant special accountability to the public because these funds conduct business-type operations primarily within and between Government agencies.

### Reporting Treatment

#### Effect on Net Position

46. Special accountability for earmarked funds is of increasing importance because the amount of revenue directed to earmarked funds has increased dramatically over the past two decades. It now constitutes a much greater proportion of the Federal budget. Just those earmarked funds designated as “trusts” by Congress alone accounted for about forty percent of receipts from the public in 2002.
47. In addition, the invested balances of earmarked funds have grown significantly over the past two decades. Debt held by Government accounts was approximately \$2,660 billion in 2002, a ten-fold increase from 1982.
48. Most of these balances are invested in Treasury securities. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to the earmarked fund 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

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<sup>16</sup> Act of August 24, 1935, 74 P.L. 320, §32, 49 Stat. 774, as amended (codified at 7 U.S.C. §612c).

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.

49. 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 an expenditure, 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.
50. The investments in Treasury securities (an asset) held by the various earmarked funds and the liability of the U.S. Treasury to redeem the securities are treated as intragovernmental eliminations when the consolidated Government-wide financial statements are prepared. Therefore, the 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 it 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-wide Balance Sheet.
51. This proposed standard would require component entities to show the total amount of cumulative results of operations attributable to earmarked funds on the Statement of Changes in Net Position and on the Balance Sheet. The U.S. Government-wide financial statements are subject to the same requirement, except that Net Position is shown instead of earmarked funds. Net position at the component level is composed of unexpended appropriations and cumulative results of operations. Since unexpended appropriations are not applicable at the Government-wide level, net position equals cumulative results of operations. Under this proposed 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 make good on the explicit promises to use earmarked funds for the designated activities, purposes or benefits.
52. This proposed standard would also require that component level financial statements include an explanation of earmarked fund investments in Treasury securities similar to the one given in paragraphs 23 and 24. The U.S. Government-wide financial statements would be required to include an explanation of how the Government as a whole would provide the resources represented by the earmarked funds' balance in Treasury securities.

Effect on Flows

53. Earmarked revenue and other financing sources are also required to be shown separately in the financial statements. The Board believes that it is equally important to show the inflow of revenue and other financing sources to earmarked funds as it is to show the cumulative results of operations. Each gives a different and complementary perspective on the proportion of activity financed by general versus earmarked resources: the cumulative results of operations show the effect of all reporting periods up to a single point in time, whereas revenue and other financing sources show the activity during the reporting period. The relative importance indicated by each measure may differ because of trends in financing or special timing needs.

#### Disclosure

54. The Board determined that a number of earmarked funds were not being reported as intended under the existing standard. Therefore, in addition to clarifying the definition of earmarked funds, the proposed standard requires that each component provide either a list of all earmarked funds for which it has program management responsibility or a statement as to where the information can be obtained. This requirement would ensure that no earmarked fund is omitted from the financial statements and that users could more easily locate information on a specific earmarked fund and determine its status. This information would not be required at the Government-wide level since program management responsibility does not reside at that level.
55. This proposed standard requires condensed information on all “significant” earmarked funds, with aggregate condensed information required for all others. The Board does not envision that applying the criteria of “significant” will result in a greater number of earmarked funds being reported, either at the component or Government-wide level. However, additional funds may be reported as a result of component entities recognizing earmarked funds under the proposed revised definition of earmarked funds that they did not recognize under the existing standard’s definition of “dedicated collections”.
56. A component entity is required to disclose any change in legislation that significantly changes the purpose of the fund or that redirects a significant portion of the accumulated balance. In the opinion of the Board, the characteristic of special accountability requires that any significant change in the legislation governing the earmarked fund be disclosed in order to provide greater accountability for the earmarked revenues.

#### Other Changes

57. If more than one component entity is responsible for carrying out the program financed with earmarked revenues and other financing sources, and the separate portions of the program can be clearly identified with the responsible component entity, then each component entity should report its portion. In the existing standard, SFFAS 7, paragraph 87, requires that “If more than one component entity is responsible for carrying out the program financed with the dedicated collections, then the entity with the largest share of the activity should be responsible for reporting all revenues, other financing sources, assets, liabilities,

and costs of the fund.”<sup>17</sup> The Board believes that this revision will assist users to evaluate the service efforts, costs and accomplishments of the component entity with actual program management responsibility, by relating relevant costs directly to the associated mission and performance.

58. Paragraph 86 of SFFAS 7 would be rescinded. In the opinion of the Board, the necessary guidance is provided in the proposed standard in paragraph 30.

### **Implementation**

59. Early implementation of this standard is not permitted because of the difficulties that might arise when component financial statements are consolidated into the Government-wide financial statements. For example, a problem might arise if a component entity, which had previously reported all of the activity of an earmarked fund based on the requirements of the existing standard, decided upon early implementation of the proposed standard, which allows it to report only that portion of the earmarked fund for which it has program management responsibility. This choice would cause portions of the earmarked fund not to be reported in the consolidated financial statements unless the component entities with management responsibility for the other portions of the earmarked fund also chose early implementation of the proposed standard.

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<sup>17</sup> SFFAS 7, Accounting for Revenue and Other Financing Sources.

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**Appendix B: Glossary**

**Component Entity** -- A “component entity” that prepares financial statements is a unit of the Government. The 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 sub-organizations, i.e., smaller organizational units with a wide variety of titles, including bureaus, administrations, agencies, and corporations. “Component entity” is used in this standard to distinguish between the Financial Report of the United States Government’s consolidated financial statements and financial statements of its components.

Also see “Entity.”

**Earmarked** – Statutory dedication of specifically identified revenues and other financing sources to designated activities, benefits or purposes.

**Earmarked Fund** -- Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues 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 an earmarked fund are:

- A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
- Explicit authority for the earmarked funds to retain revenues and other financing sources not used in the current period for the future benefit of the designated activities, benefits, or purposes; and
- A required accounting mechanism to account for, report on, and support the administration of the receipt, use, and retention of the revenues and other financing sources that is distinct from the accounting mechanism for the government’s general revenues.

**Entity** – An entity may be the Government as a whole or a unit of the Federal Government, such as a department, agency, bureau, or program, for which a set of financial statements would be prepared. Entity also encompasses a group of related or unrelated commercial functions, revolving funds, “trust funds,” and/or other accounts for which financial statements will be prepared in accordance with OMB guidance. Also see “Component Entity.”

**Fiduciary Activity** – An activity that relates to 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. Non-Federal parties must have an ownership interest in cash or other assets held by the Federal entity under provision of law, regulation, or other fiduciary arrangement, usually including an ownership interest in any related income generated. For there to be a fiduciary activity under this standard, there must be a fiduciary relationship based on statutory or other legal authority and evidence that the Government activity is in furtherance of that relationship. The ownership interest must be enforceable against the Federal Government. Judicial remedies must be available for the breach of the fiduciary obligation.

**Fiduciary Relationship** – An authorized agent or entity of the Government has custody of, accepts, recognizes, agrees to or consents to undertake fiduciary activity. A fiduciary relationship is based on statutory or other legal authority and evidence that the Government activity is in furtherance of that relationship. A fiduciary relationship may be implied from the

actions of Federal parties acting within the scope of general operational authority.

**Fund** – “Fund” has more than one meaning. Depending on the context it may mean merely a resource as in “funds” available to pay an obligation. Or, for budgetary accounting, it may mean “Federal funds” or “trust funds,” the two major groups of funds in the budget. The Federal funds include all transactions not classified by law as being in trust funds. The main financing component of the Federal funds group is referred to as the “General Fund,” which is used to carry out the general purposes of Government rather than being restricted by law to a specific program and consists of all collections not earmarked by law to finance other funds.

A fund can also mean 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. Fund financial statements can be used to report additional and detailed information.

The term “fund” is used in this standard to refer to a fiscal and accounting entity.

**General Fund** – The General Fund accounts for receipts not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these monies. General Fund receipts constitutes the greater part of the budget, e.g., almost all income tax receipts are General Fund receipts. General Fund appropriations draw from General Fund receipts and borrowing collectively and, therefore, are not specifically linked to earmarked receipts. [See *The Budget of the United States FY 2004, The Budget System and Concepts and Glossary.*]

**Intragovernmental Fund** – Revolving funds that conduct business-type operations primarily within and between Government agencies.

**Non-Federal Individuals or Entities** – Individuals and entities acting in their private capacities outside of the authority and control of the Federal Government. Federal employees are “non-Federal individuals” when acting in their private capacities, e.g., with respect to their private retirement assets managed by a Federal plan.

**Other Financing Sources** – Inflows of resources that increase net position of a reporting entity during the reporting period but that are not revenues or gains. They include appropriations used, transfers of assets from other Government entities, and financing imputed with respect to any cost subsidies. Financing outflows may result from transfers of the reporting entity’s assets to other Government entities or from exchange revenues earned by the entity but required to be transferred to the General Fund or another Government entity. Unexpended appropriations are recognized separately in determining net position but are not financing sources until used.

**Appendix C: Pro Forma Illustrations**

Table of Illustrations

**Transactions – Component Entity Receives Revenue and Purchases Securities**

- 1.A. Entry recording receipt of earmarked revenue by the U.S. Treasury
- 1.B. Entry recording receipt of earmarked revenue by Component Entity
- 1.C. Entries recording the Component Entity’s purchase of Treasury Securities

**Pro Forma Statements showing effect on Component Entity’s basic financial statement reporting:**

- 1.D.(1). Component Entity Statement of Changes in Net Position
- 1.D.(2) Component Entity Balance sheet

**Pro Forma Statements showing effect on U.S. Government-wide Financial Report reporting:**

- 1.E (1) U.S. Government-Wide Financial Report Consolidation Worksheet:
- 1.E (2) U.S. Government-Wide Financial Report Statement Of Operations and Changes In Net Position
- 1.E (3) U.S. Government-Wide Financial Report Balance Sheet

**Transaction– Component Entity Receives Revenue and Purchases Securities**

**1. A. Entry recording receipt of earmarked revenue by the U.S. Treasury:**

|   | DR    | CR    |
|---|-------|-------|
| <u>Treasury</u>                                     |       |       |
| Treasury General Fund Receipt Account               | 1,000 |       |
| Treasury’s Liability for Fund Balance with Treasury |       | 1,000 |
| <i>To record earmarked revenue</i>                  |       |       |

**1. B. Entry recording receipt of earmarked revenue by Component Entity**

| <u>Component Entity</u>                               |       |       |
|---|-------|-------|
| Fund Balance with Treasury (FBWT)                     | 1,000 |       |
| Tax revenue   |       | 1,000 |
| <i>To record receipts credited to earmarked fund.</i> |       |       |

**1.C. Entries recording the Component Entity purchase of Treasury securities:**

|   | DR    | CR    |
|---|-------|-------|
| <u>Component Entity</u>                         |       |       |
| Investments in Treasury Securities              | 1,000 |       |
| Fund Balance with Treasury                      |       | 1,000 |
| <i>To record Treasury securities purchased.</i> |       |       |

Treasury

|                               |       |
|-------------------------------|-------|
| Treasury's Liability for FBWT | 1,000 |
| Intragovernmental Holdings    | 1,000 |
| To record sale of securities. |       |

**Pro Forma Statements showing effect on Component Entity's basic financial statement reporting:**  
(This is only one example of how the required information could be displayed.)

**1.D. (1).****Statement of Changes in Net Position**

|   | <u>Cumulative Results<br/>Of Operations</u> |                            |
|---|---|----------------------------|
|   | <u>Other Funds</u>                          | <u>Earmarked<br/>Funds</u> |
| Beginning balance of net position                   | \$ -  | \$ -                       |
| Budgetary financing sources:                        |   |                            |
| Non-exchange revenue                                |   | 1000                       |
| Net cost of operations [from statement of net cost] | -   | -                          |
| Change in net position                              | \$ -  | \$ 1000                    |
| Ending balance of net position                      | \$ -  | \$ 1000                    |

**1.D. (2)****Balance sheet**

|                                    | <u>Other Funds</u> | <u>Earmarked<br/>Funds</u> |
|------------------------------------|--------------------|----------------------------|
| <b>ASSETS</b>                      |                    |                            |
| Fund balance with Treasury         | \$ -               | \$ -                       |
| Investments in Treasury Securities | -                  | 1000                       |
| Total assets                       | -                  | \$ 1000                    |
| <b>LIABILITIES</b>                 |                    |                            |
|                                    | \$ -               | \$ -                       |
| <b>NET POSITION</b>                |                    |                            |
| Unexpended Appropriations          | \$ -               | \$ -                       |
| Cumulative Results of Operations   | -                  | 1000                       |
| <b>Total Net Position</b>          | -                  | \$ 1000                    |
| Total liabilities and net position | \$ -               | \$ 1000                    |

**Pro Forma Statements showing effect on U.S. Government-wide financial reporting:****1.E. (1) U.S. Government-wide Financial Report consolidation worksheet:**

|   | Treasury |          |              | Gov't-<br>wide |
|---|----------|----------|--------------|----------------|
|   | RE       | Dept.    | Eliminations |                |
| <b>ASSETS</b>                           |          |          |              |                |
| Fund balance with Treasury              | \$ -     | \$ -     | \$ -         | \$ -           |
| Investments in Treasury Securities      | 1,000    |          | -1,000       | 0              |
| Treasury's General Fund receipt account |          | 1,000    |              | 1,000          |
| Total assets                            | \$ 1,000 | \$ 1,000 | \$ -1,000    | \$ 1,000       |
| <b>LIABILITIES</b>                      |          |          |              |                |
| Treasury's liability for FBWT           | \$ -     | \$ -     | \$ -         | \$ -           |
| Intragovernmental Holdings              |          | 1,000    | -1,000       | 0              |
| Total Liabilities                       |          | 1,000    | \$ -1,000    | 0              |
| <b>NET POSITION</b>                     |          |          |              |                |
| Net Position of Other Funds             | \$ 1,000 |          |              | \$ 1,000       |
| Net Position of Earmarked Funds         | -        | -        | -            | -              |
| Net Position of Earmarked Funds         | \$1,000  |          |              | \$1,000        |

**1.E (2) U.S. Government-wide Financial Report Statement of Operations and Changes in Net Position**

## Revenue:

|  |          |
|--|----------|
| Earmarked                              | \$ 1,000 |
| Other                                  | -        |
| Total revenue                          | \$ 1000  |
| Less net cost of Government operations |          |
| Earmarked                              |          |
| Other                                  |          |
| Total cost of Government operations    | -        |
| Net operating cost                     |          |
| Net position , beginning of period     |          |
| Earmarked Funds                        |          |
| Other Funds                            |          |
| Net Position, end of period            |          |
| Earmarked Funds                        | \$ 1000  |
| Other Funds                            | -        |

**1.E (3) U.S. Government-wide Financial Report Balance Sheet**

|   |          |
|---|----------|
| ASSETS                                  |          |
| Treasury's Government-wide Cash Account | \$ 1,000 |
| Total assets                            | \$ 1,000 |
| LIABILITIES                             |          |
| Intragovernmental Holdings              | \$ -     |
| NET POSITION                            |          |
| Other Funds                             | -        |
| Earmarked Funds                         | 1,000    |
| Total liabilities and net position      | \$ 1,000 |

## Appendix D: Example of Note Disclosure Summary Financial Information

The following illustrates the summary financial information required in paragraph 19, subparagraphs 1 and 2 of the standard, accounting for earmarked funds. (The illustration has been simplified by not showing prior year comparative statements.)

|   | <u>ABC Fund</u> | <u>CDE Fund</u> | <u>MISC Funds</u> |
|---|-----------------|-----------------|-------------------|
| <b>Balance Sheet as of September 30</b>                                     |                 |                 |                   |
| (In thousands)  |                 |                 |                   |
| <b>ASSETS</b>   |                 |                 |                   |
| Fund balance with Treasury  | \$ 20,635       | \$ 15,000       | \$ 5,000          |
| Investments   | \$ 1,364,823    | \$ 9,000,000    | \$ 350,000        |
| Taxes and Interest Receivable   |                 |                 | \$ 10,000         |
| Total Assets  | \$ 1,385,458    | \$ 9,015,000    | \$ 365,000        |
| <b>LIABILITIES and NET POSITION</b>   |                 |                 |                   |
| Cumulative Results of Operations  | \$ 1,385,458    | \$ 9,015,000    | \$ 365,000        |
| <b>Statement of Net Cost For the Year Ended September 30</b>                |                 |                 |                   |
| Program Costs   | \$ 383,547      | \$ 450,000      | \$ 247,000        |
| Less Earned Revenues  | \$ -            |                 | \$ 5,000          |
| Net Program Costs   | \$ 383,547      | \$ 450,000      | \$ 242,000        |
| Less Earned Revenues not Attributable to Programs                           | \$ -            |                 |                   |
| Net Cost of Operations  | \$ 383,547      | \$ 450,000      | \$ 242,000        |
| <b>Statement of Changes in Net Position For the Year Ended September 30</b> |                 |                 |                   |
| Net Cost of Operations  | \$ 383,547      | \$ 450,000      | \$ 242,000        |
| Taxes (and Other Nonexchange Revenue)                                       | \$ 451,245      | \$ 750,000      | \$ 320,000        |
| Transfers-in  | \$ -            |                 |                   |
| Transfers-out   | \$ -            |                 |                   |
| Net Results of Operations   | \$ 67,698       | \$ 300,000      | \$ 78,000         |
| Change in Net Position  | \$ 67,698       | \$ 300,000      | \$ 78,000         |
| Net Position Beginning of Year  | \$ 1,317,760    | \$ 8,715,000    | \$ 287,000        |
| Net Position End of Year  | \$ 1,385,458    | \$ 9,015,000    | \$ 365,000        |

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