

# Federal Accounting Standards Advisory Board

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## NEWS RELEASE

### **FASAB PUBLISHES STATEMENT OF FEDERAL FINANCIAL ACCOUNTING STANDARDS 27, *IDENTIFYING AND REPORTING EARMARKED FUNDS***

The Chairman of the Federal Accounting Standards Advisory Board, David Mosso, announced today that the FASAB has issued Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*. A primary objective of this project is to clarify the meaning of the term “trust fund.”

According to Chairman Mosso, “Trust funds’ included in the Federal budget normally are not of a fiduciary nature. Most of the assets held by such ‘trust funds’ represent Government-owned assets earmarked to finance or help to finance specific Federal programs. This proposal distinguishes earmarked funds from traditional trust or fiduciary activities and requires that financial statements present the cumulative amount earmarked for specific Federal programs.”

The standard defines earmarked funds as being financed by statutorily dedicated revenues, often supplemented by other financing sources, which remain available over time. These dedicated revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government’s general revenues.

By statutorily dedicating these funds for specific purposes, Congress creates the expectation that the funds actually will be used for those specific purposes. Many of these funds have investment authority that permits the accumulation of large interest earning balances. The total of these balances has grown approximately twelve-fold over the past two decades.

The standard requires that component federal entities show nonexchange revenue and other financing sources, including appropriations, and net cost of operations attributable to earmarked funds separately on the Statement of Changes in Net Position. Component federal entities also will show separately the portion of cumulative results of operations attributable to earmarked funds on the Statement of Changes in Net Position and the Balance Sheet. At the government-wide reporting level, earmarked revenue, other financing sources and net cost of operations will be shown separately on the U.S. Government Statement of Operations and Changes in Net Position. The

U.S. Government Balance Sheet will show separately the portion of net position attributable to earmarked funds.

Required note disclosures at the component entity level will clarify the nature of investments in Treasury securities that are held by earmarked funds by explaining that:

- The U.S. Treasury does not set aside assets to pay future expenditures associated with earmarked funds.
- 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.
- 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 expenditures, the U.S. Treasury will finance 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.

At the Government-wide level, a note disclosure will provide a general description of earmarked funds and an explanation of how the Federal Government as a whole could provide the resources represented by the earmarked funds' balance in Treasury securities. These note disclosures will assist the users of financial statements in understanding the Government's commitments regarding earmarked funds.

The standards prescribed in SFFAS 27 are effective for periods beginning after September 30, 2005. The statement is available on the FASAB Web site at [www.fasab.gov](http://www.fasab.gov). The FASAB has discontinued printing hard copies.

## **ABOUT FASAB**

The mission of the FASAB is to promulgate federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to assess (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources.

For more information on FASAB, please visit our website: [www.fasab.gov](http://www.fasab.gov).