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December 19, 2003

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

Dear Ms. Comes:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft: *Identifying and Reporting Earmarked Funds*. This proposed standard defines and addresses earmarked funds, eliminates the term "dedicated collections", and differentiates between earmarked funds and fiduciary activity. The 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.

The FMSB, comprised of 20 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB would like to offer the following responses to the specific questions included in the Exposure Draft:

- 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.**



Yes, the FMSB considers the definition appropriate. However, there may be a problem with criterion 10.3. on page 13 of the exposure draft. We concur with the first two criteria, but the third criterion - that there be a “required accounting mechanism to account for, report on, and support the administration - raises the question of the meaning of “*required* accounting mechanism”. Does this mean that it must be required by statute or some other law or regulation that the funds be separately accounted for or is it a more general meaning such as required by accounting standards due to the nature of the funds? There may be situations where funds meet the first two criteria but because they fail to meet the third, they will not be considered earmarked funds. The FMSB was not aware of specific situations at the federal level where this might create a problem.

- 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.**

The FMSB was not aware of any earmarked funds that would be inappropriately excluded from the coverage based upon this definition.

- 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.**

The FMSB was not aware of any earmarked funds that would be inappropriately excluded from the coverage based upon this definition.

- 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.

The FMSB agrees with the accounting treatment of earmarked funds at the component entity level.

- 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.**

Yes, Congress and other users of the financial statements will benefit from the segregation of earmarked funds by better understanding the limitations placed on an entity's funds.

- 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.**

Yes, this presentation informs users of the magnitude of earmarked funds for a particular component entity.

- 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.**

Yes, this will provide the users the necessary background detail regarding the provisions for the component entity's earmarked funds.

- 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.

Yes, however the FMSB would encourage more specific guidance than “a significant portion”, such as at least a specified % change (i.e. 20%) as the threshold.

- 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.**

Yes, the specified note disclosure would be helpful and is appropriate for the circumstances.

- 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?**

The FMSB considers the language in paragraph 23 as “specific” rather than a set of “guidelines” since paragraph 24 essentially mirrors paragraph 23. Since paragraph 24 was set as an example, it seems more appropriate as an appendix to the final statement. But overall, we agree with providing guidelines and an example rather than prescribing specific language.

- g. Do you agree that 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, each entity should report its portion? See paragraph 17 for the accounting standard and paragraph 57 in the Basis for Conclusions for the rationale.**

Yes. This would establish some degree of accountability to the specific unit if just their portion of the program were reported.

- 3. Do you agree with the reporting requirements for the U.S. Government-wide financial statements? See paragraphs 25 through 29 for the accounting standard. 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.**

Yes, the FMSB agrees with the requirements and have no suggested changes.

- a. Do you agree that earmarked revenue and other financing sources should be shown separately on the U.S. Government Statement of Operations and Changes in Net Position? See paragraph 25 for the accounting standard and paragraph 53 in the Basis for Conclusions for the rationale.**

Yes, due to the increase in earmarked funds as outlined in paragraphs 46 and 47, the FMSB Believes that reporting the earmarked revenue and other financing sources is appropriate.

- b. Do you agree that the portion of Net Position attributable to earmarked funds should be shown on the U.S. Government Balance Sheet? See paragraph 25 for the accounting standard and paragraphs 46 through 52 in the Basis for Conclusions for the rationale.**

Yes.

- c. Do you agree that condensed information, as described in paragraph 26, 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?**

Yes, however the FMSB suggests that the FASAB provide more guidance as to what "significant" means.

- d. Do you agree that a note disclosure should provide a general reference to component reports for additional information**

about individual earmarked funds? See paragraph 28 for the accounting standard.

Yes.

- e. Do you agree that a note 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? See paragraph 29 for the accounting standard, and paragraph 46 through 52 in the Basis for Conclusions for the rationale.**

Yes.

- 4. Does the proposed accounting standard provide preparers with sufficient guidance on the required accounting and reporting treatment? Does it clearly explain the requirements for each situation? If you believe that it does not give sufficient guidance, please describe, in as much detail as possible, the issues that are inadequately addressed and explain where expanded or clarifying guidance is needed.**

Yes, we believe it gives sufficient guidance on the required accounting and reporting treatment.

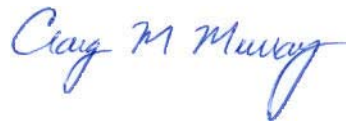
- 5. The proposed accounting standard uses the term "significant" in paragraphs 20 and 26 to describe the earmarked funds for which a reporting entity should provide additional information. In Board discussions various alternatives were considered for defining "significant." One alternative considered was to define "significant" on a strictly financial basis, such as a percentage of the reporting entity's revenues or 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”.

Yes, we agree that the preparer should be allowed to use judgment in deciding whether an earmarked fund is significant for purposes of determining whether additional information is required. The FASAB may also want to consider the GASB’s Statement 34 for guidance, which outlines certain financial criteria for “major” funds, yet also provides for additional reporting based upon non-financial factors.

Again, the FMSB appreciates the opportunity to provide comments on this Exposure Draft. Should you have any questions, or desire further details on the FMSB’s position, please contact me at MurrayC@michigan.gov or (517) 334-8050 or the FASAB facilitator, Barry Snyder, at barry.snyder@frb.gov or (202) 973-5003.

Sincerely,

A handwritten signature in blue ink that reads "Craig M Murray". The signature is written in a cursive style with a large, looped "M".

Craig M. Murray, CPA, CIA, Chair
AGA Financial Management Standards Board

cc: Mr. Jullin Renthrope, CGFM
AGA National President