

From: Palmer, Katherine (SES)
Sent: Wednesday, September 28, 2011 11:51 AM
To: Parlow, Eileen W
Cc: Shea, James (Jerry); Jones, Wesley E. (VACO)
Subject: RE: VA's FASAB Response to Earmarked Funds ED

Good morning,

Attached are the VA's comments on the

Exposure Draft: *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.*

I know that Mr. Shea enjoys working with you. I remember meeting you and appreciate your willingness to take our comments, albeit a little late.

Regards, Katherine Palmer

Katherine Palmer
ADAS for Financial Policy

Questions for Respondents [Word Version of Questions to Facilitate Responses]

Exposure Draft: *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27.*

Organization Represented: Department of Veterans Affairs (VA)

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

VA agrees with the proposed amendment to Statement of Federal Financial Accounting Standard (SFFAS) No. 27. Rationale: There are two good reasons why a reporting entity would separate, and thereby highlight, the reporting of earmarked funds: 1) the fact that the source of the “specifically identified revenues or other financing sources” in paragraph 11 of SFFAS No. 27 is external to the federal government and 2) this helps to clarify the distinction between earmarked funds and the general fund. The reporting requirements contribute to the Board’s stated goal of emphasizing the actual level of funding required to finance the government as a whole, given the restrictions of earmarked funds usage.

Q2. 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.

VA agrees. Rationale: These funds for former employees represent liabilities, and accounting for that category is guided by SFFAS No. 5, “Accounting for Liabilities of the Federal Government.” VA also agrees that the large negative balances of some of these funds mask the otherwise positive value of earmarked funds and, therefore, interfere with the reporting objective of clarifying the actual level of funding required to finance the government as a whole.

Q3. The Board is proposing that component entities would have the option to continue to use the existing format of separate lines or columns to display information on earmarked funds on the face of the balance sheet and statement of changes in net position, or to use an alternative format. Some members question the need for component entities to display information on earmarked funds on the face of the

balance sheet and statement of changes in net position. The Board is also proposing that the component entity level reporting should be at a sufficient level of detail to support the U.S. government-wide financial statements. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A17 - A20 and the proposed amendments in paragraph 11. Illustrative financial statements may be found in Appendix F.

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

VA agrees with the option for an alternative format for reporting earmarked funds. Rationale: It should be left to the agency to decide whether to use the traditional reporting format on the balance sheet and the statement of changes in net position or the alternative. An agency should be free to use whichever format better displays the earmarked funds, especially considering that the amount of earmarked funds may be relatively small compared to the Other Funds presented.

(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.

VA agrees with the Board members who believe that earmarked funds could be simply disclosed in the notes, rather than be mandated to be included on the balance sheet and the statement of changes in net position. Rationale: Some reporting agencies may only have a small amount of earmarked funds and note disclosure would be sufficient.

(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.

VA agrees that the component entity reporting level should be in sufficient detail to fully support the government-wide reporting requirements. Rationale: VA fully supports the government-wide objective to have meaningful reporting in the Consolidated Financial Report of the United States Government.

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

VA agrees with rescinding the guidance on eliminations. Rationale: If combined or consolidated amounts are permitted and labeled accordingly, this would preclude confusion in the reporting process.

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

VA agrees with replacing the term “earmarked funds” with “funds from dedicated collections.” Rationale: The proposed new wording would eliminate confusion regarding use of a term commonly understood to refer to money set aside in congressional appropriations for specific projects in congressional districts.

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

VA agrees with the proposed guidance on mixed funds. Rationale: The designation as an “earmarked fund” or as a “fund from dedicated collections” should be limited to the case where the amount collected from external sources is meaningful, i.e. the amount from external sources should be either the predominate source of the mixed fund or at least material to that individual fund for the reporting agency.

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

VA agrees with the proposed effective date. Rationale: It is close to year end already and an effective date beginning after September 30, 2011 gives an agency more time to implement any necessary changes in reporting.