

VA Financial Policies and Procedures
Earmarked Funds

CHAPTER 4

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0401 OVERVIEW

This chapter prescribes the Department of Veterans Affairs (VA) financial policies and procedures relating to earmarked funds. Earmarked funds represent 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.

An earmarked fund may be classified in a statute, unified budget, or both, as a trust, revolving fund or special fund. VA's earmarked funds fall within these three fund classifications. The term "earmarked funds" is used in a number of ways, such as set-asides of appropriations for specific purposes. This chapter addresses earmarked funds as defined in [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 27, Identifying and Reporting Earmarked Funds](#). The Financial Accounting Standards Advisory Board (FASAB) intends for the term "earmarked fund" to be applied based on the substance of the statute and consistency with the criteria below.

Per SFFAS No. 27, earmarked funds must meet all three of the following criteria:

- A. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
- B. Explicit authority for the earmarked funds 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
- C. A requirement to account for and report on the receipt, use and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

The following chart displays the earmarked funds groups used in Federal reporting to the Department of the Treasury Financial Management Service (Treasury FMS) and the Office of Management and Budget (OMB) and the correlation to SFFAS No. 27 reporting requirements for specific funds.

Fund Groups Used In Federal Reporting

Fund Groups and Major Classes	Generally Subject to SFFAS No. 27 Reporting Requirements
Revolving Funds4000-4999 <i>Public Enterprise Funds:</i> All Other Public Enterprise Funds	Yes
Special Funds5000-5999	Yes
Trust Funds8000-8999	Yes

Revolving Funds

Revolving funds are authorized by specific provisions of law to finance a continuing cycle of business-type operations. The receipts are credited directly to the revolving fund as offsetting collections and are available for expenditure without further action by Congress. Treasury FMS classifies the receipts as: (1) intragovernmental funds, where receipts come primarily from other appropriations or funds between Federal agencies or (2) public enterprise funds, where receipts come primarily from sources outside the Government. Of these two types of receipts, some, but not all, of the public enterprise funds are earmarked funds.

Special Funds

Special funds consist of receipt and expenditure accounts, authorized for use for special purposes. The receipt account represents collections earmarked by law and are not generated from a continuing cycle of business-type operations. These collections are presented in the Budget of the United States Government as either Governmental (budget) receipts or offsetting receipts. The expenditure account is an appropriation account that records appropriations, obligations and outlays financed by the proceeds of special fund receipts.

Trust Funds

Trust funds account for the receipt and expenditure of monies by the Government for carrying out specific purposes and programs in accordance with the terms of a statute that designated the fund as either a trust fund or a vehicle for carrying out the stipulations of a trust agreement where the nation is the beneficiary. Like special funds and certain public enterprise revolving funds, trust funds earmark collections for specific spending purposes. The Federal budget meaning of the term “trust,” as applied to trust fund accounts, differs significantly from its private sector usage. In the private sector, the beneficiary of a trust usually owns the trust’s assets, which are managed by a trustee who must follow the trust stipulations. In contrast, the Federal Government owns the assets of most Federal trust funds and can raise or lower future trust fund collections and payments or change the purposes for which the collections are to be used by changing laws.

Trust funds normally consist of one or more receipt accounts to record receipts and an expenditure account to record the use of the receipts. Similar to special funds, large trust funds may have multiple expenditure accounts. A few trust funds, however, such as the Veterans Special Life Insurance fund, are established as revolving funds.

Treasury FMS credits trust fund receipt accounts with receipts generated by the terms of a trust agreement or statute that designates the fund as a trust fund. At the point of collection, these receipts are either available immediately or unavailable for expenditure, depending on statutory requirements. Treasury FMS establishes trust fund expenditure accounts to record amounts appropriated from trust fund receipts. VA may expend these receipts for specific purposes or programs according to the terms of a trust agreement or statute.

Earmarked funds may have a permanent indefinite appropriation, often enacted by Congressional legislation. If not, an appropriation provided in annual appropriation acts is necessary to make expenditures. Whether the appropriation is provided by authorizing legislation or by annual appropriations, the cumulative results of operations arising from earmarked funds are reserved or restricted to the designated activity, benefit or purpose.

Earmarked funds are financed by specifically identified revenues and other financing sources (such as appropriations) and serve a variety of purposes. Revenue sources may be identified as exchange or nonexchange, and include but not be limited to payroll taxes, excise taxes, customs duties, fees, user charges, sales of goods and services and interest earned. 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.

A. Exchange revenue results from business-type activities; hence, it includes most user charges. The standards require that financial statements recognize exchange revenue at the time that a Federal entity provides goods or services, valued at the price likely to be received.

B. Non-exchange revenue includes inflows of resources arising from the Government's sovereign power to tax, as well as from voluntary donations. These revenues are recognized when the collection is probable (i.e., a reporting entity has established a specifically identifiable, legally enforceable claim to cash or assets) and the amount can reasonably be estimated.

VA's earmarked funds are No-Year Appropriations as indicated by the X symbol in the VA account number. These funds are available for incurring obligations for an indefinite period of time.

0402 POLICIES

040201 VA, when authorized, will invest in Treasury securities, which are assets of earmarked funds. These investments are available for authorized expenditures when redeemed. Refer to Volume V, Chapter 5 for additional information relating to VA Investments.

040202 VA will report earmarked non-exchange revenue and other financing sources, including appropriations and net cost of operations, separately on the Statement of Changes in Net Position. SFFAS No. 27 is silent on any requirement to show exchange revenue for earmarked funds separately.

040203 VA will report the portion of cumulative results of operations attributable to earmarked funds separately on both VA's Balance Sheet and the Statement of Changes in Net Position.

040204 VA will disclose all earmarked funds for which it has program management responsibility, either by a list, an official title or a statement indicating where the information can be obtained. The total cumulative results of operations of all earmarked funds shown in the note disclosure must agree with the cumulative results of operations of earmarked funds shown on the face of VA's Balance Sheet and the Statement of Changes in Net Position.

040205 VA will disclose condensed information on assets, liabilities and changes in fund balances for all earmarked funds. Such information on funds can be presented in the aggregate rather than individually. VA will disclose this condensed information in the aggregate and by applicable lines of business, such as insurance, medical care, benefits and burial.

040206 VA will present condensed net cost information in a footnote disclosure under earmarked funds, but will not separately report earmarked funds on the Statement of Net Cost.

040207 VA will provide reports and information about the financial condition and operations of its earmarked fund accounts to the Department of the Treasury (Treasury), as required by the Secretary of the Treasury.

040208 VA will record earmarked fund transactions using the United States Standard General Ledger (USSGL) accounting entries for receipts and collections, expenditure transfers, non-expenditure transfers and exchange/non-exchange transactions.

040209 VA will not use the 3100 series, Unexpended Appropriations – Cumulative or the 5700 series, Expended Appropriations, for its earmarked funds.¹

¹See paragraphs 040617 and 040605 for definitions of these two USSGL accounts.

0403 AUTHORITY AND REFERENCES

- 040301 31 U.S.C. 1341, Limitation on Expending and Obligating Amounts
- 040302 31 U.S.C. 1535, Agency Agreements
- 040303 Office of Management and Budget (OMB) Circular A-11, Preparation, Submission and Execution of the Budget
- 040304 OMB Circular A-136, Financial Reporting Requirements - Revised
- 040305 Statement of Federal Financial Accounting Standards (SFFAS), No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting
- 040306 SFFAS No. 27, Identifying and Reporting Earmarked Funds
- 040307 Treasury Financial Management Service (Treasury FMS), Federal Trust Fund Accounting Guide
- 040308 Treasury FMS, Intragovernmental Payment and Collection (IPAC) System
- 040309 Treasury, Federal Account Symbols and Titles (FAST) Book
- 040310 Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 1500, Description of Accounts Relating to Financial Operations
- 040311 U.S. Standard General Ledger (USSGL), Supplement No. 2, TFM, Part 1 and Part 2, Fiscal 2008 and 2009 Reporting

0404 ROLES AND RESPONSIBILITIES

040401 The Assistant Secretary for Management/Chief Financial Officer (CFO), as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309, oversees all financial management activities relating to the Department's programs and operations. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

040402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

040403 The Office of Financial Policy (OFP), under the CFO's direction, provides Departmentwide financial policy and guidance. Among its responsibilities, OFP develops, coordinates, issues, evaluates and reviews VA financial policies, including those that impact financial systems, and procedures for compliance with all financial laws and regulations.

0405 PROCEDURES

040501 Presentation of Financial Statements

- A. VA will separately report earmarked non-exchange revenue and other financing sources in the Statement of Changes in Net Position.
- B. VA will report the portion of cumulative results of operations attributable to earmarked funds on the Balance Sheet and on the Statement of Changes in Net Position.
- C. VA's earmarked funds will not be reported separately on the Statement of Net Cost.
- D. Most earmarked revenues and other financing sources are in the financial statements of the entity carrying out the program and responsible for administration of the fund (e.g., Veterans Health Administration, Veterans Benefits Administration or National Cemetery Administration). 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. If separate portions cannot be identified, the component entity with program management responsibility should report the fund.²
- E. Earmarked fund information from each Administration will be aggregated in VA's consolidated financial statements and shown as a footnote disclosure. VA will include a note disclosure summary of financial information on earmarked funds on a comparative basis in its consolidated financial statements. Appendix A illustrates how VA reflects this financial information in its annual Performance and Accountability Report.

040502 Disclosure Requirements

- A. SFFAS No. 27 requires VA to disclose all earmarked funds under its program management responsibility. However, SFFAS No. 27 provides an exception in information reporting to allow for aggregate reporting, if an entity has numerous individual earmarked funds.
- B. VA will reflect the following information for earmarked funds as a disclosure:

²To determine program management/accounting responsibility, VA should review the legislation authorizing the program, the Memorandum of Understanding that establishes responsibilities and the provisions of [Statement of Federal Financial Accounting Concepts \(SFFAC\) No. 2, Entity and Display](#).

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 revenues, net cost, non-exchange revenues and other financing sources and change in net position.
 3. A description of the purpose of each fund, how the entity accounts for and reports the fund and its authority to use those revenues and other financing sources.
 4. The sources of revenue or other financing for the period and an explanation of the extent to which they are non-Governmental inflows of resources or the result of intragovernmental flows.
 5. Any change in legislation, during or subsequent to the reporting period and before the issuance of the financial statements, that significantly alters the purpose of the fund or redirects a material portion of the accumulated balance.
- C. The condensed information shown in a note disclosure should be in a comparative form for both current and prior year balances. The total cumulative results of operations of all earmarked funds shown in the note disclosure should agree with the cumulative results of operations of earmarked funds shown on the face of VA's Balance Sheet and the Statement of Changes in Net Position.
- D. The information for earmarked funds must be disclosed in the notes accompanying the basic financial statements. The net position shown in the note disclosure must agree with the portion of net position attributable to earmarked funds shown on the face of the Statement of Change in Net Position.
- E. Selecting earmarked funds presented individually requires judgment, and the preparer should consider both qualitative and quantitative criteria as described in SSFAS No. 27, paragraph 24.

040503 If VA 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 the change in a note. This applies if VA does not report an earmarked fund or portion thereof that it reported in the prior year. It also applies if VA reports an earmarked fund or portion thereof that it did not report in the prior year.

040504 Although special earmarked funds are usually the responsibility of a single entity, management responsibility for some special funds is shared by two or more entities. Under such circumstances, VA still must identify all special funds for which it has management responsibility, either by a list, official title or a statement, indicating where the information can be obtained. VA will provide specific information on special funds, including revenue sources, assets and liabilities and changes in net position.

040505 Note on Investments

A. VA's investments in Treasury securities for earmarked funds will be accompanied by a note explaining the following issues:

1. Treasury does not set aside assets to pay future expenditures associated with earmarked funds. Instead, the cash generated from earmarked funds is used by Treasury for general Government purposes.
2. Treasury securities are issued to the earmarked fund as evidence of earmarked receipts and provide the fund with the authority to draw upon Treasury for future authorized expenditures (although for some funds, this is subject to future appropriation).
3. Treasury securities held by an earmarked fund are an asset of the fund and a liability of Treasury, so they are eliminated in consolidation for the U.S. Governmentwide financial statements.
4. When VA redeems its earmarked fund Treasury securities to make expenditures, Treasury will finance those expenditures in the same manner in which it finances all other expenditures.

040506 Accounting and Budgetary Requirements

Processing Earmarked Fund Receipts and Expenditures

A. Illustrative general ledger treatment for these receipt and expenditure transactions is contained in the [Department of the Treasury's Financial Standards and Reporting's Federal Trust Fund Accounting Guide, June 2001](#) and [USSGL Accounting Guidance \(inclusive of the USSGL Search Tool\)](#). Specifically, they provide transactions that illustrate basic accounting for receipts and collections, expenditure transfers, non-expenditure transfers and exchange/non-exchange transactions.

B. The following guidance from the above accounting guide explains the appropriate accounts to use for recording some earmarked fund transactions:

1. The 3100 series, Unexpended Appropriations, and the corresponding 5700 series, Expended Appropriations, are not recorded by earmarked fund appropriation fund symbols.
2. Earmarked funds are to use USSGL account 4114, Appropriated Trust or Special Fund Receipts, for appropriated receipts in the same way that Federal funds (with the exception of certain special funds) are to use USSGL budgetary account 4119, Other Appropriations Realized, for appropriations received. In lieu of account 5700, earmarked fund receipts will be recorded in account 4450, Unapportioned Authority,

prior to being apportioned, or account 4620, Unobligated Fund not Subject to Apportionment.

0406 DEFINITIONS

040601 Earmarked. Statutory dedication of specifically identified revenues and other financing sources to designated activities, benefits or purposes.

040602 Earmarked Funds. Funds financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time and meet the three criteria described in the SFFAS No. 27, paragraph 11 (also shown in the Overview of this chapter). 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.

040603 Entity. 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.

040604 Exchange Revenues. Inflows of resources to VA that have been earned. They arise from exchange transactions which occur when one party to the transaction sacrifices value and the other party receives value in return.

040605 Expended Appropriations (USSGL Account 5700). This account is the amount of appropriations used during the fiscal year when goods and services are received or benefits are provided.

040606 Fund. 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.

040607 Intragovernmental Revolving Funds. Accounts whose receipts come primarily from other Federal appropriations or funds.

040608 Non-exchange Revenues. Inflows of resources that the Federal Government is able to demand or receive due to its sovereign powers, such as taxes.

040609 Public Enterprise Funds. Accounts where receipts come primarily from sources outside the Government.

040610 Revolving Fund. A fund established by Congress to finance a cycle of business-like operations through amounts received by the fund. A revolving fund charges for the sale of products or services and uses the proceeds to finance its spending, usually on a self-sustaining basis. A revolving fund is a form of permanent appropriation.

040611 Statements of Federal Financial Accounting Standards (SFFAS). Accounting standards for the Federal Government recommended by the Federal Accounting Standards Advisory Board and approved by the Director of OMB, the Secretary of Treasury and the Comptroller General.

040612 Special Fund Expenditure Account. An appropriation account established to record appropriations, obligations and outlays financed by the proceeds of special fund receipts.

040613 Special Fund Receipt Account. A receipt account credited with collections earmarked by law but included in the Federal funds group rather than classified as trust fund collections because the collections are not generated from a continuing cycle of business-type operations. These collections are presented in the Budget of the United States Government as either Governmental (budget) receipts or offsetting receipts.

040614 Trust Fund. A type of account, designated by law as a trust fund, for receipts and/or offsetting receipts earmarked for specific purposes and for the expenditure of these receipts.

040615 Trust Revolving Funds. Funds having no receipt account and whose collections are credited directly to an expenditure account.

040616 Unexpended Appropriations – Cumulative (USSGL Account 3100). This account contains the amount of unexpended appropriations after fiscal year-end closing. The balance in this account remains the same during the fiscal year. Activity to increase or decrease unexpended appropriations is reflected in other USSGL accounts in the 3100 series. At year end, the nominal USSGL accounts in the 3100 series are closed to this USSGL account, including special and trust funds which receive appropriations from the General Fund of the Treasury. During the fiscal year, the net of debit and credit balances in the 3100 series accounts reflects the total remaining balance of unused appropriations.

040617 Unified Budget. The term refers to the combined on-budget and off-budget items. Most spending, including interest on the public debt, is on-budget; while spending on programs with dedicated taxes is considered off-budget, the largest being Social Security.

040618 U.S. Standard General Ledger. A uniform chart of accounts and technical guidance to be used in standardizing Federal agency accounting.

0407 QUESTIONS

Questions concerning these financial policies and procedures should be directed as shown below:

VHA

VBA

All Others

VHA Accounting Policy (Outlook)

VAVBAWAS/CO/FINREP (Outlook)

OFP Accounting Policy (Outlook)

APPENDIX A

NOTE DISCLOSURE SUMMARY OF FINANCIAL INFORMATION

	<u>ABC Fund</u>	<u>CDE Fund</u>	<u>Other Earmarked Funds</u>	<u>Eliminations</u>	<u>Total Earmarked Funds</u>
Balance Sheet as of September 30					
ASSETS					
Fund Balance with Treasury	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Investments with Treasury	XXX	XXX	XXX	XXX	XXX
Taxes and Interest Receivable			XXX	XXX	XXX
Other Assets	XXX	XXX	XXX	XXX	XXX
Total Assets	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
LIABILITIES					
Payables to Beneficiaries	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Other Liabilities	XXX	XXX	XXX	XXX	XXX
Total Liabilities	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Unexpended Appropriations	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Cumulative Results of Operations	XXX	XXX	XXX	XXX	XXX
Total Liabilities and Net Position	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Statement of Net Cost for the Year Ended September 30					
Gross Program Costs	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Less Earned Revenues			XXX		XXX
Net Program Costs	XXX	XXX	XXX	XXX	XXX
Costs Not Attributable to Program Costs	XXX	XXX	XXX	XXX	XXX
Less Earned Revenue Not Attributable to Program Costs	XXX	XXX	XXX	XXX	XXX
Net Cost of Operations	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Statement of Changes in Net Position For the Year Ended September 30					
Net Position Beginning of Period	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Taxes and Non-Exchange Revenue	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Budgetary and Other Financing Sources	XXX	XXX	XXX	XXX	XXX
Net Cost of Operations	XXX	XXX	XXX	XXX	XXX
Change in Net Position	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Net Position End of Period	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX

APPENDIX B

**VA EARMARKED FUND ACCOUNTS
MAINTAINED CURRENTLY BY TREASURY**

SPECIAL FUNDS

- 36X5287 Medical Care Collections Fund, Veterans Affairs (VHA)
- 36X5392 National Cemetery Administration Facilities Operation Fund, Veterans Affairs (NCA)

REVOLVING FUNDS

- 36X4009 Servicemen's Group Life Insurance Fund, Veterans Affairs (VBA)
- 36X4010 Veterans Reopened Insurance Fund, Veterans Affairs (VBA)
- 36X4012 Service-Disabled Veterans Insurance Fund, Veterans Affairs (VBA)
- 36X4014 Canteen Service Revolving Fund, Veterans Affairs (VHA)

TRUST FUNDS

- 36X8129 Department of Veterans Affairs Cemetery Gift Fund, Veterans Affairs (NCA)
- 36X8132 National Service Life Insurance Fund, Veterans Affairs (VBA)
- 36X8133 Post-Vietnam Era, Veterans Education Account, Veterans Affairs (VBA)
- 36X8150 United States Government Life Insurance Fund, Veterans Affairs (VBA)
- 36X8180 General Post Fund, National Homes, Veterans Affairs (VHA)
- 36X8455 Veterans Special Life Insurance Fund, Trust Revolving Fund, Veterans Affairs (VBA)