



Federal Accounting Standards Advisory Board

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October 2, 2020

Memorandum

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

*Monica R. Valentine*

Through: Monica R. Valentine, Executive Director

Subj: Technical Clarifications of Existing Standards—**Non-Federal, Non-Entity Fund Balance With Treasury— Tab C<sup>1</sup>**

**MEMBER ACTIONS REQUESTED:**

- **Respond to staff questions on p. 4 by October 13<sup>th</sup>**

**MEETING OBJECTIVES**

The objective of this session is to consider an updated draft interpretation exposure draft (ED), *Clarification of Non-Federal Non-entity FBWT Classification (SFFAS 1 Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*. As you may recall the Board reviewed a first draft interpretation ED at the June 2020 Board meeting.

**PHASE**

This project is in the development phase. Specifically, staff has provided an updated draft interpretation ED.

**BRIEFING MATERIAL**

The staff analysis is attached along with questions for the Board on page 4. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

**Attachment A** - Staff Analysis

**Attachment B** - Draft Interpretation ED, *Clarification of Non-Federal Non-entity FBWT Classification (SFFAS 1 Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31 (MARKED VERSION)*

**Attachment C** - Draft Interpretation ED, *Clarification of Non-Federal Non-entity FBWT Classification (SFFAS 1 Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31 (CLEAN VERSION)*

## **BACKGROUND**

As noted, the objective of the session is to consider an updated draft interpretation exposure draft, *Clarification of Non-Federal Non-entity FBWT Classification (SFFAS 1 Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*. At the December 2019 meeting, staff presented the issue regarding SFFAS 1, *Accounting for Selected Assets and Liabilities*, paragraph 31, which pertains to non-entity fund balance with Treasury (FBWT) and the request for clarification that had been received through a technical inquiry. The issue relates to how monies received in deposit funds from non-federal sources in anticipation of an order should be classified and presented on the financial statements. The Board agreed that an Interpretation would be the appropriate generally accepted accounting principles vehicle to address the issue. At the August 2020 Board meeting, the Board reviewed an initial draft interpretation. Member comments were incorporated into this version for the October 2020 Board meeting.

## **NEXT STEPS**

The next steps will depend on the comments received on the updated draft interpretation ED. Considering comments received from members on the initial draft ED at the August meeting were minimal, staff believes there is a strong likelihood the document may be ready to advance to a ballot. If comments are minimal, the Board may wish to move to a ballot at the October meeting or shortly thereafter electronically. As such, time has been allowed on day two of the agenda for the Board to consider changes to the document. Alternatively, if comments are more substantial or if members identify areas that require additional technical research, the document will be brought back in December.

## **MEMBER FEEDBACK**

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-5976 or by e-mail at [batchelorm@fasab.gov](mailto:batchelorm@fasab.gov) with a cc to [valentinem@fasab.gov](mailto:valentinem@fasab.gov).

## Attachment A- Staff Analysis

Staff first presented this issue to the Board along with another topic at December 2019 Board meeting. The topic was submitted to staff via a Technical Inquiry and is related to Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, par. 31.

SFFAS 1, par. 31 provides:

A federal entity's fund balance with the Treasury (FBWT) is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. **FBWT is an intragovernmental item, except for fiduciary or other nonfederal non-entity FBWT.** From the reporting entity's perspective, the reporting entity's FBWT is an asset because it represents the entity's claim to the federal government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.

### *Background*

In summary, FASAB received a technical inquiry after the 2018 audit cycle from two federal reporting entities. The issue related to how monies received in deposit funds from non-federal sources in anticipation of an order (an advance) should be classified and presented on the financial statements. The parties agree that the deposits are nonfederal non-entity assets.<sup>2</sup> The question is are the deposits an intragovernmental (FBWT) asset, or should they be reclassified to a nonfederal line on the balance sheet.

### *December 2019 Board Meeting*

At the December 2019 Board meeting, staff presented the issue to the Board and noted that guidance was necessary to resolve ambiguity in paragraph 31 of SFFAS 1 regarding the presentation of deposits that are nonfederal non-entity FBWT. Staff explained that SFFAS 31, *Accounting for Fiduciary Activities* amended SFFAS 1 and may have contributed to the lack of clarity. Staff believed an Interpretation would resolve the ambiguity in the most efficient way. An Interpretation would be applicable to all reporting entities, but staff did not believe it would affect current practice. In fact, reporting entities are presenting the information in the same manner that the Interpretation would clarify. Current reporting and the proposed interpretation are

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<sup>2</sup>"Entity assets are those assets which the reporting entity has authority to use in its operations. Non-entity assets are those assets that are held by an entity but are not available to the entity." (SFFAS 1, par. 25)

consistent with requirements to show non-entity assets separately. Par. 26 of SFFAS 1 provides “Non-entity assets recognized on an entity’s balance sheet should be segregated from entity assets. An amount equal to non-entity assets should be recognized as a liability (due to Treasury or other entities) recognized on the balance sheet.” OMB’s Form and Content directs that the distinction be disclosed in the notes, and not on the face of the Balance Sheet.

After considering the issue at the December Board meeting, the Board agreed that the issue should be resolved through an Interpretation.

### *August 2020 Board Meeting*

Staff prepared a first draft of an interpretation to address the issue and shared it with the reporting entities, respective OIG and IPA firms. In summary, the parties conveyed that the draft Interpretation’s reasoning and conclusion adequately addresses the issue. Specifically, paragraph 7 of the interpretation would resolve any differences in application that exist. One comment conveyed was whether the Board considered either defining the term “other nonfederal non-entity FBWT” in the future, providing examples, or deleting the reference from SFFAS 1. Staff believed removing the reference may not be appropriate because staff had identified potential examples and discussed them briefly with the Board. However, staff offered an option to include a question for respondents in the ED to identify items that may fall into this category. After considering the discussion, the Board determined that including a question to seek feedback on other examples was not necessary.

All Board members agreed with the staff draft Interpretation and requested an updated draft at the October 2020 Board meeting.

[For additional background, see the project page that contains summaries of all prior meetings and accompanying briefing materials on the topic at <https://fasab.gov/projects/active-projects/Non-Federal-FBWT/> ]

### **QUESTIONS FOR THE BOARD:**

- 1. Does the Board have any suggestions or comments on the draft interpretation?** *Staff always requests comments and suggested edits prior to the Board meeting, but it is especially important if the Board wishes to advance to a ballot version at the October 2020 meeting.*
- 2. Does the Board wish to move to a ballot ED at the October 2020 meeting?** *If a majority of the Board indicates a preference to move forward, staff will provide an updated version (with member comments) and a ballot just before the October 2020 meeting.*

**ATTACHMENT B-**

Draft Interpretation ED, *Clarification of Non-Federal Non-entity  
FBWT Classification (SFFAS 1 Paragraph 31): An Interpretation  
of SFFAS 1 and SFFAS 31* (MARKED VERSION)



**CLARIFICATION OF NON-FEDERAL  
NON-ENTITY FBWT CLASSIFICATION  
(SFFAS 1, PARAGRAPH 31):**  
AN INTERPRETATION OF SFFAS 1 AND SFFAS 31

[Attachment B- Marked Version](#)

**Interpretation of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by [TBD-XX January 6, 2020](#)

[November 6 TBD-XX, 2020](#)

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB 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.

Accounting standards are 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. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. 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 standards 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 and other items of interest are available at [www.fasab.gov](http://www.fasab.gov):

- [Memorandum of Understanding](#) among the Government Accountability 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](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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### Contact Us

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## Federal Accounting Standards Advisory Board

~~TBD-XX~~ November 6, 2020

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Interpretation, entitled *Clarification of Non-federal Non-entity FBWT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*. Specific questions for your consideration appear on page TBD, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by ~~January 6~~ TBD-XX, 2020~~1~~.

All comments received by FASAB are considered public information. Those comments ~~may~~ will be posted to [FASAB's website](#) and will be included in the project's public record.

~~Mail delivery is delayed by screening procedures.~~ Please provide your comments by email to [fasab@fasab.gov](mailto:fasab@fasab.gov). We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. ~~If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements. We encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:~~

~~\_\_\_\_\_ Monica R. Valentine, Executive Director  
\_\_\_\_\_ Federal Accounting Standards Advisory Board  
\_\_\_\_\_ 441 G Street, NW, Suite 1155  
\_\_\_\_\_ Washington, D.C. 20548~~

~~We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received.~~

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A. Scott

Chair

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) was asked to review/clarify paragraph 31 of Statement of Federal Financial Accounting Standards (SFFAS) 1, Accounting for Selected Assets and Liabilities, and clarify due to ambiguity regarding the classification and presentation of non-federal non-entity Fund Balance with Treasury (FBWT). The request for guidance relates to how monies received in deposit funds from non-federal sources in anticipation of an order (i.e. that is, an advance) should be presented (i.e. that is, classification between intragovernmental and governmental) on component entity financial statements. Once received, the non-federal non-entity funds are held in deposited into at the General Fund of the U.S. Government.

SFFAS 1, par. agraph 31 was amended by SFFAS 31, Accounting for Fiduciary Activities, in an effort to clarify the definition and reporting for fiduciary cash that is on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from Federal component entities” FBWT. While making this distinction, the amendment added the phrase “other non-federal non-entity FBWT.” The Board acknowledges that the amendments standards do not define the phrase “other non-federal non-entity FBWT” and inclusion of an undefined phrase within SFFAS 31 and the added phrase contributed to the lack of clarity regarding classification and presentation of non-federal non-entity FBWT. Due to the narrow scope, the Board believes an interpretation would be the best vehicle to clarify the classification.

This proposed Interpretation would clarify the classification by explaining that the inclusion of the undefined phrase “other non-federal non-entity FBWT” in paragraph 31 of SFFAS 1 was intended to provide for similar treatment for of activities that are were comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. This proposed interpretation clarifies that the Board did not intend to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.

Although amounts received in deposit accounts may come from non-federal non-entity sources for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically excludes unearned revenue from fiduciary activity reportingies. Therefore, it would be inconsistent to apply the undefined phrase “other non-federal non-entity” to unearned revenue, including or amounts received in deposit accounts from non-federal sources for unfilled orders. Hence, non-federal non-entity monies received for unfilled orders that are reflected in FBWT held on deposit in the U.S. Treasury General Fund should be reported as an intragovernmental asset of the component reporting entity.

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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This proposal would facilitate consistent reporting of intragovernmental assets and liabilities. Proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in Statement of Federal Financial Accounting Concepts No. 2, Entity and Display.

## MATERIALITY

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The provisions of this [Interpretation] need not be applied to immaterial items. A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.



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## QUESTIONS FOR RESPONDENTS

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Interpretation before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Interpretation. Because FASAB may modify the proposals before a final Interpretation is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by email, [please contact 202-512-7350](tel:202-512-7350), [please fax your responses to 202-512-7366](tel:202-512-7366). Alternatively, you may mail your responses to:

~~Monica R. Valentine, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Washington, D.C. 20548~~

All responses are requested by [January 6, ~~TBD-XX, 2029~~](#).

Q1. Statement of Federal Financial Accounting Standards (SFFAS) 1, Accounting for Selected Assets and Liabilities, par-agraph 31 provides:

A federal entity’s fund balance with the Treasury (FBWT) is the aggregate amount of funds in the entity’s accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT. From the reporting entity’s perspective, the reporting entity’s FBWT is an asset because it represents the entity’s claim to the federal government’s resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.

**SFFAS 1, par-agraph 31 was amended by SFFAS 31, Accounting for Fiduciary Activities, in an effort to clarify the definition and reporting for fiduciary cash that is on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from Federal component entities’<sup>2</sup> FBWT. While making this distinction, the amendment added the phrase “other non-federal non-entity FBWT.”** →The Board acknowledges that

the amendments ~~and inclusion of an undefined~~ **did not define the** phrase “other non-federal non-entity FBWT” ~~within SFFAS 31 and the added phrase~~ contributed to the lack of clarity regarding classification ~~and presentation of non-federal non-entity FBWT~~. ~~This~~ proposed Interpretation would clarify the classification ~~of non-federal non-entity FBWT~~ by explaining ~~that the inclusion of the undefined phrase “other non-federal non-entity FBWT”~~ **“other non-federal non-entity FBWT”** ~~was intended to provide for similar treatment of activities that are comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. was to provide similar treatment for activities that are comparable with fiduciary activity. This interpretation clarifies that~~ **the Board did not intend to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31. Although amounts received in deposit accounts may come from non-federal non-entity sources for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically excludes unearned revenue from fiduciary activity reportingies. Therefore, it would be inconsistent to apply the undefined phrase “other non-federal non-entity” to unearned revenue, including or amounts received in deposit accounts from non-federal sources for unfilled orders. Hence, non-federal non-entity monies received for unfilled orders that are reflected in FBWT held on deposit in the U.S. Treasury General Fund should be reported as an intragovernmental asset of the component reporting entity.**

- a. Do you agree or disagree with the **proposed** guidance? Please provide the rationale for your answer.

~~Q2. The proposed interpretation clarifies that the inclusion of “other non-federal non-entity FBWT” was to provide similar treatment for activities that are comparable with fiduciary activity. However, no definition was provided in SFFAS 31 nor was one determined necessary for the purposes of this proposed interpretation. The Board also did not believe it practical to remove the undefined phrase because the previous Board added the phrase for similar type activities. As part of the upcoming Reexamination project, the Board may consider this further, and any additional information would be helpful. Do you have specific examples of “other non-federal non-entity FBWT” or activities that may fit this description? Alternatively, do you believe the phrase should be removed if no actual examples can be provided when the Board considers SFFAS 1 and/or SFFAS 31 in the Reexamination project?~~

~~Q3. Please provide the rationale for your answer.~~

## PROPOSED INTERPRETATION

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### SCOPE

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1. This Interpretation applies when a reporting entity is presenting general purpose federal financial reports (GPFRRs) in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### INTERPRETATION

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2. SFFAS 1, *Accounting for Selected Assets and Liabilities*, par-~~agraph~~ 31 provides:

A federal entity's fund balance with the Treasury (FBWT) is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT. From the reporting entity's perspective, the reporting entity's FBWT is an asset because it represents the entity's claim to the federal government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.

3. SFFAS 1, par-~~agraph~~ 31 was amended by SFFAS 31, *Accounting for Fiduciary Activities*, in an effort to clarify the definition and reporting for fiduciary cash that is on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from federal component entities' FBWT. While making this distinction, the amendment added the phrase "other non-federal non-entity FBWT." The Federal Accounting Standards Advisory Board (FASAB or "the Board") acknowledges that the amendments did not define the phrase "other non-federal non-entity FBWT" made to SFFAS 1 by SFFAS 31 and the inclusion of an undefined phrase within SFFAS 31, and the added phrase contributed to the lack of clarity and ambiguity regarding classification and presentation of non-federal non-entity FBWT.
4. ~~A review of the SFFAS 31 amendments to SFFAS 1, amended~~ par-~~agraph~~ 31 of SFFAS 1 as follows (amendments are shown in bold and underscored):

A federal entity's fund balance with the Treasury (**FBWT**) is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. **FBWT** is an intragovernmental item, **except for fiduciary or other non-federal non-entity FBWT**. From the reporting entity's perspective, **the reporting entity's FBWT** is an asset because it represents the entity's claim to the federal government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment

to make resources available to federal departments, agencies, programs and other entities, it is not a liability. **In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.**

5. SFFAS 1, par. ~~agraph~~ 31 provides that “FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT.” The ~~inclusion of the undefined standards do not define the~~ phrase ~~from~~ “other non-federal non-entity FBWT.” ~~This interpretation clarifies that the inclusion of “other non-federal non-entity FBWT” in paragraph 31 of SFFAS 1 was to provide for similar treatment for of activities that were comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. This interpretation clarifies it~~ was not intended to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.
6. Federal reporting entities often receive monies in advance from customers—both federal and non-federal—for unfilled orders. Although amounts received in deposit accounts may come from non-federal non-entity sources for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically **excludes** unearned revenue from fiduciary activity ~~reporting~~ies (see par. 13 of SFFAS 31). ~~Therefore, it~~ would be inconsistent to apply the ~~undefined~~ phrase “other non-federal non-entity” to ~~this activity or~~ amounts received in deposit accounts from non-federal sources for unfilled orders.
7. Hence, non-federal non-entity monies ~~received for unfilled orders and held on~~ deposited into the ~~General Fund of the U.S. Government~~ U.S. Treasury General Fund should be reported as an intragovernmental asset ~~by the component reporting entity~~.

## EFFECTIVE DATE

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8. The requirements of this Interpretation are effective upon issuance.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Interpretation. 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 Interpretation—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Interpretation may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent pronouncements that amend this Interpretation. Within the text of the documents, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement or other pronouncement for the rationale for each amendment.

### BACKGROUND

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- A1. ~~Based on the request of s~~Stakeholders (more than one federal reporting entity) requested the Federal Accounting Standards Advisory Board (FASAB) was asked to review paragraph 31 of SFFAS 1, ~~Accounting for Selected Assets and Liabilities~~ and clarify the classification and presentation of non-federal non-entity Fund Balance with Treasury (FBWT). The request relates to how monies received in deposit funds from non-federal non-entity sources in anticipation of an order (~~i.e. that is,~~ an advance) should be reported classified and presented on the financial statements. The non-federal non-entity funds are ~~held in~~ deposited at into the General Fund of the U.S. Government.
- A2. There were questions regarding the presentation of the asset on the balance sheet. While the stakeholders and others agreed that it is a non-entity asset, there were differing views regarding whether it should be classified and presented as an intragovernmental (~~FBWT~~) asset (FBWT) or a non-federal asset (governmental) on the balance sheet. As discussed later under the section GAAP Guidance, the questions regarding classification came up after the issuance of SFFAS 31, ~~Accounting for Fiduciary Activities~~ and the resulting amendments to SFFAS 1.
- A3. Proper classification among intragovernmental and governmental assets is very important. The primary rationale for treating these advance payments as intragovernmental assets is based on the notion that these deposited monies are owed by the General Fund of the U.S. Government General Fund (FBWT) to the entity responsible for the execution of the underlying agreement or transaction. As discussed in the sections s below, the classification of this line item is important to ensure there is no double counting of cash at the government-wide level.

### Prevalent Practice

- A4. Most reporting entities (even those that did not request guidance on the issue) report the deposit funds as intragovernmental FBWT on the balance sheet and disclose the portion that is non-entity in the notes to the financial statements. This is consistent with requirements to show non-entity assets separately. Par-~~agraph~~ 26 of SFFAS 1 provides, “Non-entity assets recognized on an entity’s balance sheet should be segregated from

entity assets. An amount equal to non-entity assets should be recognized as a liability (due to Treasury or other entities) recognized on the balance sheet.” [Office of Management and Budget \(OMB\) Circular A-136, Financial Reporting Requirements](#), directs that the distinction be disclosed in the notes, ~~and~~ not on the face of the Balance Sheet.

- A5. ~~The Department of the~~ Treasury’s, Bureau of the Fiscal Service (Fiscal Service) is responsible for prescribing the accounting posting logic for the agencies through the Treasury Financial Manual. Fiscal Service is also responsible for ensuring proper application of intragovernmental eliminations at the government-wide financial reporting level.
- A6. Fiscal Service representatives agreed that non-federal, non-entity funds ~~held on~~ deposited into the General Fund of the U.S. Government ~~U.S. Treasury General Fund~~ should be reported as an intragovernmental asset because agencies are not holding the funds. The funds are being held by the General Fund of the U.S. Government. The General Fund is now a stand-alone reporting entity in the government. As more fully discussed in the next paragraph, ~~by standing up with~~ the General Fund’s reporting, the accounting model was made complete for the federal government.
- A7. Simply put, a component reporting entity’s FBWT is eliminated with the General Fund’s liability for FBWT. As a result, the cash is reported in the General Fund’s financial statements ~~is where the true cash is reported~~ as an asset for the government via the consolidation of the Department of Treasury’s financial statements to the government-~~wide~~ financial statements, ~~and~~ it is reported as Cash and Other Monetary Assets. Alternatively, if a reporting entity reported these monies on a non-~~federal~~ line on the balance sheet, ~~then~~ the asset would be double counted on the government-~~wide~~ financial statements.
- A8. If the activity was fiduciary in nature, ~~then~~ the General Fund identifies the fiduciary deposit funds and records a liability, ensuring that it is not eliminated and is, therefore, reported on the government-~~wide~~ financial statements.

## GAAP Guidance

A8-A9. As noted previously, SFFAS 1, par. ~~agraph~~ 31 provides:

A federal entity’s fund balance with the Treasury (FBWT) is the aggregate amount of funds in the entity’s accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. FBWT is an intragovernmental item, except for fiduciary or other non-~~federal~~ non-entity FBWT. From the reporting entity’s perspective, the reporting entity’s FBWT is an asset because it represents the entity’s claim to the federal government’s resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.

~~A9-A10.~~ As noted, the issue relates to how monies received in deposit funds from non-federal sources in anticipation of an order should be ~~reported~~classified and presented on the financial statements. The non-entity funds are ~~held in~~deposited at~~into~~ the General Fund of the U.S. Government.

~~A10-A11.~~ The Board acknowledges that the lack of clarity in SFFAS 1 is due to the amendments resulting from SFFAS 31, ~~Accounting for Fiduciary Activities~~. In addition, ~~the standards do not define the inclusion of the undefined~~ phrase “other non-federal non-entity FBWT” ~~and that the added phrase~~ led to ambiguity regarding classification ~~and presentation of non-federal non-entity FBWT~~.

~~A11-A12.~~ SFFAS 31 amended par~~agraph~~ 31 of SFFAS 1 as follows (amendments are shown in bold and underscored):

A federal entity’s fund balance with the Treasury (**FBWT**) is the aggregate amount of funds in the entity’s accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. **FBWT** is an intragovernmental item, **except for fiduciary or other non-federal non-entity FBWT**. From the reporting entity’s perspective, **the reporting entity’s FBWT** is an asset because it represents the entity’s claim to the federal government’s resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. **In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.**

~~A12-A13.~~ ~~In regards to~~Regarding the intragovernmental classification, the differing views relate to the ~~undefined~~ phrase “or other non-federal non-entity FBWT.” The inclusion of “other non-federal non-entity ~~deposit funds~~**FBWT**” in paragraph 31 of SFFAS 1 was to provide ~~for~~ similar treatment ~~for~~of activities that were comparable with fiduciary activity ~~but that had not been identified specifically in SFFAS 31~~. As evident in providing for specific exclusions ~~in SFFAS 31~~, the Board did not want similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.

~~A13-A14.~~ ~~The amendment to SFFAS 1 emphasizes aspects of the then new fiduciary activity reporting requirements by using the term “non-federal beneficiaries” and referring to the SFFAS 31 requirement that a liability be reported on the government-wide balance sheet for all fiduciary deposits.~~ SFFAS 31 provides for certain exclusions from the reporting requirements for fiduciary activities. For example, amounts related to unpaid payroll withholdings and garnishments are excluded from fiduciary reporting. In addition, unearned revenue should not be reported as fiduciary activity.

A15. While the amounts received in deposit accounts (by reporting entities that submitted the request for guidance) are from a non-federal fund source and deposited for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically excludes unearned revenue from fiduciary activity ~~reporting~~ies (par. 13 of SFFAS 31). In this case, it would be inconsistent to apply the ~~undefined~~ phrase “other non-federal non-entity deposit funds” to this activity. As noted, paragraph 13 of SFFAS 31 provides for this exclusion and specifically states:

Unearned revenue should not be reported as fiduciary activity and should be recognized as a liability in accordance with existing standards.<sup>8</sup> Assets collected or received by a Federal entity that represent prepayments or advance payments for which the Federal component entity is expected to provide goods or services should not be classified as fiduciary activity. This exclusion applies broadly and applies to amounts a customer advances for orders that may be placed in the future or deposits made as part of a bid or settlement process, even if these amounts are not specifically classified as “unearned revenue” by the entity due to uncertainty about the ultimate realization of the revenue.

FN8 See SFFAS 1, paragraph 85 and SFFAS 7, *Accounting for Revenue and Other Financing Sources*, paragraph 37.

~~A14.~~A16. ~~Paragraph 49, in T~~he basis for conclusions of SFFAS 31, ~~par. 49~~ addresses the specific topic of advances:

Similarly, Federal component entities may hold advances received from customers for future sales of goods or services. Such advances represent unearned revenue. One Federal agency, in its written response and oral testimony, noted that certain advances received appear to meet the definition of fiduciary activity. However, this standard excludes unearned revenue from the fiduciary reporting requirements because unearned revenue is a routine operational activity and the Board believes that fiduciary reporting of unearned revenue is not warranted.

A17. The Board acknowledges that the amended wording ~~and undefined phrases from SFFAS 31~~ contributed to the ambiguity that currently exists. However, this ~~i~~nterpretation clarifies that the underlying goals as intended are consistent regarding FBWT. Specifically, one should consider how FBWT is viewed from the component entity and government-wide perspective in considering how these relationships are inter~~t~~wined. In this relationship, FBWT is an intragovernmental asset for the component reporting entity because it represents the entity’s claim to the federal government’s resources. From the perspective of the federal government as a whole, it is not an asset in that intragovernmental amounts are eliminated in consolidation, and thus, would not appear on the government-wide balance sheet. Accordingly, it is important that the classification is proper.

-

### **Clarification of Non-federal Non-entity FBWT Classification and Presentation**

~~A15.~~A18. ~~The Board acknowledges that the lack of clarity in SFFAS 1 is due to the amendments resulting from SFFAS 31. The standards do not define the phrase “other non-federal non-entity FBWT” and that the added phrase led to ambiguity regarding classification and presentation of non-federal non-entity FBWT. SFFAS 1, par. 31 was amended by SFFAS 31. The Board acknowledges that the amendments and inclusion of an undefined phrase within SFFAS 31 contributed to the lack of clarity regarding classification.~~ The Board believes this ~~i~~nterpretation would be the best vehicle to clarify the classification.

A19. SFFAS 1, par. ~~agraph~~ 31 describes a federal entity's FBWT as the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. ~~The paragraph~~ also ~~says~~states, "FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT."

A16-A20. ~~This interpretation clarifies that T~~he inclusion of ~~the undefined phrase~~ "other non-federal non-entity FBWT" in paragraph 31 of SFFAS 1 was intended to provide for similar treatment ~~for~~of activities that were comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. This ~~interpretation~~ clarifies that it was not intended to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.

A17-A21. Federal reporting entities often receive monies in advance from customers—both federal and non-federal—for unfilled orders. Although amounts received in deposit accounts may come from non-federal non-entity sources for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically excludes unearned revenue from fiduciary activity reportingies (see par. 13 of SFFAS 31). Therefore, it would be inconsistent to apply the ~~undefined~~ phrase "other non-federal non-entity" to this activity or amounts received in deposit accounts from non-federal sources for unfilled orders.

A22. Therefore, non-federal non-entity monies for unfilled customer orders held on deposited into the General Fund of the U.S. Government ~~U.S. Treasury General Fund~~ should be reported as an intragovernmental asset by the component reporting entity.

A18-A23. FBWT is an intragovernmental aggregate account between federal agencies and the General Fund of the U.S. Government. It is where funds are keptrecorded until needed to fulfil the non-entity orders. This presentation is also consistent with guidance provided by OMB Circular A-136, *Financial Reporting Requirements*.

## APPENDIX B: ABBREVIATIONS

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FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance <del>With</del> <u>with</u> Treasury
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards

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**ATTACHMENT C-**

Draft Interpretation ED, *Clarification of Non-Federal Non-entity  
FBWT Classification (SFFAS 1 Paragraph 31): An Interpretation  
of SFFAS 1 and SFFAS 31 (CLEAN VERSION)*



**CLARIFICATION OF NON-FEDERAL  
NON-ENTITY FBWT CLASSIFICATION  
(SFFAS 1, PARAGRAPH 31):**  
AN INTERPRETATION OF SFFAS 1 AND SFFAS 31

**Interpretation of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by **January 6, 2021**

**November 6, 2020**

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB 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.

Accounting standards are 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. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. 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 standards 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 and other items of interest are available at [www.fasab.gov](http://www.fasab.gov):

- [Memorandum of Understanding](#) among the Government Accountability 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](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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## Federal Accounting Standards Advisory Board

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November 6, 2020

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Interpretation titled *Clarification of Non-federal Non-entity FBWT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*. Specific questions for your consideration appear on **page TBD**, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by January 6, 2021.

All comments received by FASAB are considered public information. Those comments will be posted to [FASAB's website](#) and will be included in the project's public record.

Please provide your comments by email to [fasab@fasab.gov](mailto:fasab@fasab.gov). We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A. Scott  
Chair

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) was asked to clarify paragraph 31 of Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, due to ambiguity regarding the classification and presentation of non-federal non-entity Fund Balance with Treasury (FBWT). The request for guidance relates to how monies received in deposit funds from non-federal sources in anticipation of an order (that is, an advance) should be presented (that is, classification between intragovernmental and governmental) on component entity financial statements. Once received, the non-federal non-entity funds are deposited into the General Fund of the U.S. Government.

SFFAS 1, paragraph 31 was amended by SFFAS 31, *Accounting for Fiduciary Activities*, in an effort to clarify the definition and reporting for fiduciary cash that is on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from federal component entities’ FBWT. While making this distinction, the amendment added the phrase “other non-federal non-entity FBWT.” The Board acknowledges the standards do not define the phrase “other non-federal non-entity FBWT” and the added phrase contributed to the lack of clarity regarding classification and presentation of non-federal non-entity FBWT. Due to the narrow scope, the Board believes an Interpretation would be the best vehicle to clarify the classification.

This proposed Interpretation would clarify the classification by explaining that the inclusion of “other non-federal non-entity FBWT” in paragraph 31 of SFFAS 1 was intended to provide for similar treatment of activities that were comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. This proposed Interpretation clarifies that the Board did not intend to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.

Although amounts received in deposit accounts may come from non-federal non-entity sources for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically excludes unearned revenue from fiduciary activity reporting. Therefore, it would be inconsistent to apply the phrase “other non-federal non-entity” to unearned revenue, including amounts received from non-federal sources for unfilled orders. Hence, non-federal non-entity monies received for unfilled orders that are reflected in FBWT should be reported as an intragovernmental asset of the component reporting entity.

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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This proposal would facilitate consistent reporting of intragovernmental assets and liabilities. Proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in Statement of Federal Financial Accounting Concepts 2, *Entity and Display*.

## MATERIALITY

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The provisions of this Interpretation need not be applied to immaterial items. A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

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## QUESTIONS FOR RESPONDENTS

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Interpretation before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Interpretation. Because FASAB may modify the proposals before a final Interpretation is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by email, please contact 202-512-7350.

All responses are requested by January 6, 2021.

- Q1. Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, paragraph 31 provides:

A federal entity’s fund balance with the Treasury (FBWT) is the aggregate amount of funds in the entity’s accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT. From the reporting entity’s perspective, the reporting entity’s FBWT is an asset because it represents the entity’s claim to the federal government’s resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.

**SFFAS 1, paragraph 31 was amended by SFFAS 31, *Accounting for Fiduciary Activities*, in an effort to clarify the definition and reporting for fiduciary cash that is on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from federal component entities’ FBWT. While making this distinction, the amendment added the phrase “other non-federal non-entity FBWT.” The Board acknowledges that the amendments did not define the phrase “other non-federal non-entity FBWT” and the added phrase contributed to the lack of clarity regarding classification and presentation of non-federal non-entity FBWT. The proposed Interpretation would clarify the classification by explaining the inclusion of the phrase “other non-federal non-entity FBWT” was intended to provide for similar treatment of activities that are comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. The Board did not intend to require similar**

**treatment for activities that were explicitly excluded from the provisions of SFFAS 31. Although amounts received in deposit accounts may come from non-federal non-entity sources for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically excludes unearned revenue from fiduciary activity reporting. Therefore, it would be inconsistent to apply the phrase “other non-federal non-entity” to unearned revenue, including amounts received from non-federal sources for unfilled orders. Hence, non-federal non-entity monies received for unfilled orders that are reflected in FBWT should be reported as an intragovernmental asset of the component reporting entity.**

- a. Do you agree or disagree with the proposed guidance? Please provide the rationale for your answer.**

## PROPOSED INTERPRETATION

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### SCOPE

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1. This Interpretation applies when a reporting entity is presenting general purpose federal financial reports (GPFRRs) in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### INTERPRETATION

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2. SFFAS 1, *Accounting for Selected Assets and Liabilities*, paragraph 31 provides:

A federal entity's fund balance with the Treasury (FBWT) is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT. From the reporting entity's perspective, the reporting entity's FBWT is an asset because it represents the entity's claim to the federal government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.

3. SFFAS 1, paragraph 31 was amended by SFFAS 31, *Accounting for Fiduciary Activities*, in an effort to clarify the definition and reporting for fiduciary cash that is on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from federal component entities' FBWT. While making this distinction, the amendment added the phrase "other non-federal non-entity FBWT." The Federal Accounting Standards Advisory Board (FASAB or "the Board") acknowledges that the amendments did not define the phrase "other non-federal non-entity FBWT" within SFFAS 31, and the added phrase contributed to the lack of clarity regarding classification and presentation of non-federal non-entity FBWT.
4. SFFAS 31 amended paragraph 31 of SFFAS 1 as follows (amendments are shown in bold and underscored):

A federal entity's fund balance with the Treasury (**FBWT**) is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. **FBWT** is an intragovernmental item, **except for fiduciary or other non-federal non-entity FBWT**. From the reporting entity's perspective, **the reporting entity's FBWT** is an asset because it represents the entity's claim to the federal government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other

entities, it is not a liability. **In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.**

5. SFFAS 1, paragraph 31 provides that “FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT.” The standards do not define the phrase “other non-federal non-entity FBWT.” This Interpretation clarifies that the inclusion of “other non-federal non-entity FBWT” in paragraph 31 of SFFAS 1 was to provide for similar treatment of activities that were comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. It was not intended to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.
6. Federal reporting entities often receive monies in advance from customers—both federal and non-federal—for unfilled orders. Although amounts received in deposit accounts may come from non-federal non-entity sources for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically **excludes** unearned revenue from fiduciary activity reporting (see par. 13 of SFFAS 31). It would be inconsistent to apply the phrase “other non-federal non-entity” to amounts received in deposit accounts from non-federal sources for unfilled orders.
7. Hence, non-federal non-entity monies received for unfilled orders and deposited into the General Fund of the U.S. Government should be reported as an intragovernmental asset by the component reporting entity.

#### EFFECTIVE DATE

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8. The requirements of this Interpretation are effective upon issuance.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Interpretation. 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 Interpretation—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Interpretation may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent pronouncements that amend this Interpretation. Within the text of the documents, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement or other pronouncement for the rationale for each amendment.

### BACKGROUND

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- A1. Stakeholders (more than one federal reporting entity) requested FASAB to review paragraph 31 of SFFAS 1 and clarify the classification and presentation of FBWT. The request relates to how monies received in deposit funds from non-federal non-entity sources in anticipation of an order (that is, an advance) should be classified and presented on the financial statements. The non-federal non-entity funds are deposited into the General Fund of the U.S. Government.
- A2. There were questions regarding the presentation of the asset on the balance sheet. While the stakeholders and others agreed that it is a non-entity asset, there were differing views regarding whether it should be classified and presented as an intragovernmental asset (FBWT) or a non-federal asset (governmental) on the balance sheet. As discussed later under the section GAAP Guidance, the questions regarding classification came up after the issuance of SFFAS 31 and the resulting amendments to SFFAS 1.
- A3. Proper classification among intragovernmental and governmental assets is very important. The primary rationale for treating these advance payments as intragovernmental assets is based on the notion that these deposited monies are owed by the General Fund of the U.S. Government (FBWT) to the entity responsible for the execution of the underlying agreement or transaction. As discussed in the sections below, the classification of this line item is important to ensure there is no double counting of cash at the government-wide level.

### Prevalent Practice

- A4. Most reporting entities (even those that did not request guidance on the issue) report the deposit funds as intragovernmental FBWT on the balance sheet and disclose the portion that is non-entity in the notes to the financial statements. This is consistent with requirements to show non-entity assets separately. Paragraph 26 of SFFAS 1 provides, “Non-entity assets recognized on an entity’s balance sheet should be segregated from entity assets. An amount equal to non-entity assets should be recognized as a liability (due to Treasury or other entities) recognized on the balance sheet.” Office of

Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, directs that the distinction be disclosed in the notes, not on the face of the Balance Sheet.

- A5. The Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) is responsible for prescribing the accounting posting logic for the agencies through the Treasury Financial Manual. Fiscal Service is also responsible for ensuring proper application of intragovernmental eliminations at the government-wide financial reporting level.
- A6. Fiscal Service representatives agreed that non-federal non-entity funds deposited into the General Fund of the U.S. Government should be reported as an intragovernmental asset because agencies are not holding the funds. The funds are being held by the General Fund of the U.S. Government. The General Fund is now a standalone reporting entity in the government. As more fully discussed in the next paragraph, with the General Fund's reporting, the accounting model was made complete for the federal government.
- A7. Simply put, a component reporting entity's FBWT is eliminated with the General Fund's liability for FBWT. As a result, the cash is reported in the General Fund's financial statements as an asset for the government via the consolidation of the Department of Treasury's financial statements to the government-wide financial statements. It is reported as Cash and Other Monetary Assets. Alternatively, if a reporting entity reported these monies on a non-federal line on the balance sheet, the asset would be double counted on the government-wide financial statements.
- A8. If the activity was fiduciary in nature, the General Fund identifies the fiduciary deposit funds and records a liability, ensuring that it is not eliminated and is, therefore, reported on the government-wide financial statements.

## **GAAP Guidance**

- A9. As noted previously, SFFAS 1, paragraph 31 provides:

A federal entity's fund balance with the Treasury (FBWT) is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT. From the reporting entity's perspective, the reporting entity's FBWT is an asset because it represents the entity's claim to the federal government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.

- A10. As noted, the issue relates to how monies received in deposit funds from non-federal sources in anticipation of an order should be classified and presented on the financial statements. The non-entity funds are deposited into the General Fund of the U.S. Government.

- A11. The Board acknowledges that the lack of clarity in SFFAS 1 is due to the amendments resulting from SFFAS 31. In addition, the standards do not define the phrase “other non-federal non-entity FBWT” and the added phrase led to ambiguity regarding classification and presentation of non-federal non-entity FBWT.
- A12. SFFAS 31 amended paragraph 31 of SFFAS 1 as follows (amendments are shown in bold and underscored):

A federal entity’s fund balance with the Treasury (**FBWT**) is the aggregate amount of funds in the entity’s accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. **FBWT** is an intragovernmental item, **except for fiduciary or other non-federal non-entity FBWT**. From the reporting entity’s perspective, **the reporting entity’s FBWT** is an asset because it represents the entity’s claim to the federal government’s resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. **In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.**

- A13. Regarding the intragovernmental classification, the differing views relate to the phrase “or other non-federal non-entity FBWT.” The inclusion of “other non-federal non-entity FBWT” in paragraph 31 of SFFAS 1 was to provide for similar treatment of activities that were comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. As evident in providing for specific exclusions in SFFAS 31, the Board did not want similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.
- A14. SFFAS 31 provides for certain exclusions from the reporting requirements for fiduciary activities. For example, amounts related to unpaid payroll withholdings and garnishments are excluded from fiduciary reporting. In addition, unearned revenue should not be reported as fiduciary activity.
- A15. While the amounts received in deposit accounts (by reporting entities that submitted the request for guidance) are from a non-federal fund source and deposited for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically excludes unearned revenue from fiduciary activity reporting (par. 13 of SFFAS 31). In this case, it would be inconsistent to apply the phrase “other non-federal non-entity deposit funds” to this activity. As noted, paragraph 13 of SFFAS 31 provides for this exclusion and specifically states:

Unearned revenue should not be reported as fiduciary activity and should be recognized as a liability in accordance with existing standards.<sup>8</sup> Assets collected or received by a Federal entity that represent prepayments or advance payments for which the Federal component entity is expected to provide goods or services should not be classified as fiduciary activity. This exclusion applies broadly and applies to amounts a customer advances for orders that may be placed in the future or deposits made as part of a bid or settlement process, even if these amounts are not specifically classified as “unearned revenue” by the entity due to uncertainty about the ultimate realization of the revenue.

- A16. Paragraph 49, in the basis for conclusions of SFFAS 31, addresses the specific topic of advances:

Similarly, Federal component entities may hold advances received from customers for future sales of goods or services. Such advances represent unearned revenue. One Federal agency, in its written response and oral testimony, noted that certain advances received appear to meet the definition of fiduciary activity. However, this standard excludes unearned revenue from the fiduciary reporting requirements because unearned revenue is a routine operational activity and the Board believes that fiduciary reporting of unearned revenue is not warranted.

- A17. The Board acknowledges that the amended wording contributed to the ambiguity that currently exists. However, this Interpretation clarifies that the underlying goals as intended are consistent regarding FBWT. Specifically, one should consider how FBWT is viewed from the component entity and government-wide perspective in considering how these relationships are intertwined. In this relationship, FBWT is an intragovernmental asset for the component reporting entity because it represents the entity's claim to the federal government's resources. From the perspective of the federal government as a whole, it is not an asset in that intragovernmental amounts are eliminated in consolidation, and thus, would not appear on the government-wide balance sheet. Accordingly, it is important that the classification is proper.

### **Clarification of Non-federal Non-entity FBWT Classification and Presentation**

- A18. The Board acknowledges that the lack of clarity in SFFAS 1 is due to the amendments resulting from SFFAS 31. The standards do not define the phrase "other non-federal non-entity FBWT" and the added phrase led to ambiguity regarding classification and presentation of non-federal non-entity FBWT. The Board believes this Interpretation would be the best vehicle to clarify the classification.
- A19. SFFAS 1, paragraph 31 describes a federal entity's FBWT as the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. The paragraph also states, "FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT."
- A20. This Interpretation clarifies that the inclusion of "other non-federal non-entity FBWT" in paragraph 31 of SFFAS 1 was intended to provide for similar treatment of activities that were comparable with fiduciary activity but that had not been identified specifically in SFFAS 31. This Interpretation clarifies that it was not intended to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.
- A21. Federal reporting entities often receive monies in advance from customers—both federal and non-federal—for unfilled orders. Although amounts received in deposit accounts may come from non-federal non-entity sources for unfilled orders, these amounts do not qualify as fiduciary activity because SFFAS 31 specifically **excludes** unearned revenue from fiduciary activity reporting (see par. 13 of SFFAS 31). Therefore, it would be inconsistent

to apply the phrase “other non-federal non-entity” to this activity or amounts received in deposit accounts from non-federal sources for unfilled orders.

- A22. Therefore, non-federal non-entity monies for unfilled customer orders deposited into the General Fund of the U.S. Government should be reported as an intragovernmental asset by the component reporting entity.
- A23. FBWT is an intragovernmental aggregate account between federal agencies and the General Fund of the U.S. Government. It is where funds are recorded until needed to fulfill the non-entity orders. This presentation is also consistent with guidance provided by OMB Circular A-136, *Financial Reporting Requirements*.

## APPENDIX B: ABBREVIATIONS

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FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards

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