



Federal Accounting Standards Advisory Board

August 6, 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 B**¹

MEMBER ACTIONS REQUESTED:

- **Respond to staff questions on p. 6 by August 17th**

MEETING OBJECTIVES

The objective of this session is to consider a draft interpretation, *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 first discussed this topic at the December 2019 Board meeting. The Board agreed that an Interpretation would be the appropriate generally accepted accounting principles vehicle to address issue. The objective for this session will also be to gather the Board's feedback on the draft.

PHASE

This project is in the development phase. Specifically, staff developed a draft of an interpretation exposure draft.

BRIEFING MATERIAL

The briefing material includes this memo, which presents background information and a summary of next steps. The Staff Analysis, immediately following this memo, includes

¹ 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.

questions for the Board on page 6. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

Attachment A - Staff Analysis

Attachment B - Draft Interpretation of Federal Financial Accounting Standards, Clarification of Non-Federal Non-entity FBWT Classification (SFFAS 1 Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31

Attachment C – Excerpt from December 2019 Board Materials that pertains to Non-Federal, Non-Entity Fund Balance with Treasury

BACKGROUND

As noted, the objective of the session is to consider a draft interpretation, *Clarification of Non-Federal Non-entity FBWT Classification (SFFAS 1 Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*. As you recall 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—see Attachment C- Excerpt from December 2019 Board Materials that pertains to Non-Federal, Non-Entity Fund Balance With Treasury. The issue relates to how monies received in deposit funds from non-federal sources in anticipation of an order should be reported and presented on the financial statements. The Board agreed that an Interpretation would be the appropriate generally accepted accounting principles vehicle to address the SFFAS 1, paragraph 31 non-entity FBWT issue.

NEXT STEPS

The next steps next steps will depend on the feedback received from the Board. Staff is prepared to take member feedback and move forward to a revised draft and then pre-ballot. Staff notes there is also the option to have an electronic version between meetings that would allow for moving the document along quicker if the Board agrees

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 with a cc to valentinem@fasab.gov.

Attachment A- Staff Analysis

Nonfederal, Non-entity FBWT, SFFAS 1, paragraph 31

As noted in the background memo, staff presented the issue in December 2019. 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

Please see **Attachment C- Excerpt from December 2019 Board Materials that pertains to Non-Federal, Non-Entity Fund Balance with Treasury** that provides a comprehensive overview of the background of this topic. 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 reported and presented on the financial statements. The parties agree that the deposits are nonfederal non-entity assets.²

The question pertains to the presentation of the asset on the balance sheet. The question is are the deposits an intragovernmental (FBWT) asset, or should they be reclassified to a nonfederal line on the balance sheet.

FASAB staff researched the issue, met with all pertinent parties in March 2019 to discuss the topic. FASAB staff provided them with a staff paper that detailed the history of paragraph 31 and what appeared to be the Board's intent in hopes of resolving the

²⁴Entity 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)

issue. Unfortunately, FASAB staff could not resolve the issue and the findings were repeated in the FY 2019 audit. The auditors did not accept the staff paper as resolution because the staff position paper does not constitute GAAP.

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 the guidance was necessary to resolve the ambiguity in SFFAS 1 because paragraph 31 of SFFAS 1 is not clear and has resulted in different application.

Staff explained that SFFAS 31, *Accounting for Fiduciary Activities* may have contributed to the lack of clarity and differences regarding application of the intragovernmental classification.

Staff believed an Interpretation would resolve the ambiguity in the most efficient way. As noted during the December meeting, 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. Staff notes that several other agencies have somewhat similar type scenarios and they 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. For example, Department of Commerce and the Security and Exchange Commission do so.

Current reporting and the proposed interpretation are 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.

Draft Interpretation and Outreach

Staff completed a first draft of an interpretation to address the issue and shared it with the reporting entities, respective OIG and IPA firms. Staff requested that the review focus on whether the draft interpretation would resolve FBWT issue that exists. Staff also welcomed any other comments that the teams would like to offer.

In summary, staff was pleased with the responses received because it appears the draft interpretation would resolve the issue. Staff received several small edits from the parties that were incorporated into the document. 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.

There was one comment conveyed by several parties, and that 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 explained that this did not seem necessary for the interpretation. Further, it may be premature to remove. These options can be considered in a full reexamination of SFFAS 1 or SFFAS 31. However, staff did consider whether this was an area the Board would want to gain feedback on during due process. Therefore, staff has drafted a question in an effort to identify items that may fall into this category.

One other item that was brought up during our outreach to the parties was the timing of due process. The IPA firm mentioned that their policy is that pronouncements are not final until issued. With a November 15th deadline for component audits—that would require the interpretation to be issued by November 15th. Staff believes this would be very difficult even if we considered a short 30-day exposure period for the interpretation. Once approved by the Board, interpretations are submitted to the members representing Treasury, OMB, and GAO. If, within 45 days after its submission, none of these members object, then it shall be announced in the Federal Register and issued by FASAB. Therefore, one must include a minimum of 45 days after Board approval, which would be after the October Board meeting. Therefore, it is unlikely the interpretation will be available for the FY 2020 audit cycle.

QUESTIONS FOR THE BOARD:

- 1. Does the Board agree with staff's recommendations for the proposed interpretation? If not, please explain or provide alternatives.**
- 2. Does the Board agree with staff's proposed questions? For example, do members agree with Question #2 to seek feedback on the undefined phrase other nonfederal non-entity FBWT? Please feel free to offer other edits or changes to the questions.**
- 3. Does the Board have suggestions regarding the timing of the draft interpretation?**
- 4. Does the Board have any other suggestions or comments on the draft interpretation?**



**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 **TBD XX, 2020**

TBD XX, 2020

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:

- [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](#)

Copyright Information

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

Contact Us

Federal Accounting Standards Advisory Board
441 G Street, NW
Suite 1155
Washington, D.C. 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov



Federal Accounting Standards Advisory Board

TBD XX, 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 TBD XX, 2020.

All comments received by FASAB are considered public information. Those comments may 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. If you are unable to email your responses, 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

WHAT IS THE BOARD PROPOSING?

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

SFFAS 1, par. 31 was amended by SFFAS 31, *Accounting for Fiduciary Activities*. The Board acknowledges that the amendments and inclusion of an undefined phrase within SFFAS 31 contributed to the lack of clarity regarding classification. 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” was to provide similar treatment for activities that are comparable with fiduciary activity. 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 activities. Therefore, it would be inconsistent to apply the undefined phrase “other non-federal non-entity” to unearned revenue or amounts received in deposit accounts from non-federal sources for unfilled orders. Hence, non-federal non-entity monies held on deposit in the U.S. Treasury General Fund should be reported as an intragovernmental asset.

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

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

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.

TABLE OF CONTENTS

Executive Summary	4
WHAT IS THE BOARD PROPOSING?	4
HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?	4
MATERIALITY.....	4
Questions for Respondents	6
Proposed Interpretation	8
SCOPE	8
INTERPRETATION	8
EFFECTIVE DATE	9
Appendix A: Basis for Conclusions	10
BACKGROUND.....	10
Appendix B: Abbreviations	15

QUESTIONS FOR RESPONDENTS

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 <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 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 **TBD XX, 2020**.

Q1. SFFAS 1, *Accounting for Selected Assets and Liabilities* 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.

SFFAS 1, par. 31 was amended by SFFAS 31, *Accounting for Fiduciary Activities*. The Board acknowledges that the amendments and inclusion of an undefined phrase “other non-federal non-entity FBWT” within SFFAS 31 contributed to the lack of clarity regarding classification. 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” 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 activities. Therefore, it would be inconsistent to apply the undefined phrase “other non-federal non-entity” to unearned revenue or amounts received in deposit accounts from non-federal sources for unfilled orders. Hence, non-federal non-entity monies held on deposit in the U.S. Treasury General Fund should be reported as an intragovernmental asset.

- a. Do you agree or disagree with the 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?

- a. Please provide the rationale for your answer.**

Q3.

PROPOSED INTERPRETATION

SCOPE

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

2. SFFAS 1, *Accounting for Selected Assets and Liabilities* 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.

3. SFFAS 1, par. 31 was amended by SFFAS 31, *Accounting for Fiduciary Activities*. The Board acknowledges that the amendments made to SFFAS 1 by SFFAS 31 and the inclusion of an undefined phrase within SFFAS 31 contributed to the lack of clarity and ambiguity regarding classification of non-federal non-entity FBWT.
4. A review of the SFFAS 31 amendments to SFFAS 1, par. 31 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. 31 provides that “FBWT is an intragovernmental item, except for fiduciary or other nonfederal non-entity FBWT.” The inclusion of the undefined phrase from “other non-federal non-entity FBWT” in paragraph 31 of SFFAS 1 was to provide similar treatment for activities that were comparable with fiduciary activity. 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 activities (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 held on deposit in the U.S. Treasury General Fund should be reported as an intragovernmental asset.

EFFECTIVE DATE

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

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

- A1. Based on the request of stakeholders (more than one federal reporting entity) the Federal Accounting Standards Advisory Board (FASAB) was asked to review paragraph 31 of SFFAS 1, *Accounting for Selected Assets and Liabilities*. The request relates to how monies received in deposit funds from non-federal non-entity sources in anticipation of an order (i.e. an advance) should be reported and presented on the financial statements. The nonfederal non-entity funds are held in deposit at 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 as an intragovernmental (FBWT) asset or a nonfederal asset (governmental) on the balance sheet. As discussed later under 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 (FBWT) to the entity responsible for the execution of the underlying agreement or transaction. As discussed in the section 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. 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 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. 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 deposit in the U.S. Treasury General Fund should be reported as intragovernmental 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 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 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 is reported as Cash and Other Monetary Assets. Alternatively, if a reporting entity reported these monies on a nonfederal 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

- A9. 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.

- 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 and presented on the financial statements. The non-entity funds are held in deposit at 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, *Accounting for Fiduciary Activities*. In addition, inclusion of the

undefined phrase “other non-federal non-entity FBWT” led to ambiguity regarding classification.

- A12. SFFAS 31 amended par. 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. In regards to 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” in paragraph 31 of SFFAS 1 was to provide similar treatment for activities that were comparable with fiduciary activity. As evident in providing for specific exclusions, the Board did not want similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.

- 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 activities (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.⁸ 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.

- A16. The 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 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.

Clarification of Non-federal Non-entity FBWT Classification

- A18. 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 interpretation would be the best vehicle to clarify the classification.
- A19. SFFAS 1, par. 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. It also says "FBWT is an intragovernmental item, except for fiduciary or other nonfederal non-entity FBWT." The inclusion of the undefined phrase "other non-federal non-entity FBWT" in paragraph 31 of SFFAS 1 was to provide similar treatment for activities that were comparable with fiduciary activity. This interpretation clarifies that it was not intended to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.
- A20. Federal reporting entities often receive monies in advance from customers—both federal and nonfederal 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 activities (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.
- A21. Therefore, non-federal non-entity monies held on deposit in the U.S. Treasury General Fund should be reported as an intragovernmental asset. FBWT is an intragovernmental aggregate account between federal agencies and the General Fund of the U.S. Government. It is where funds are kept until needed to fulfil the non-entity orders. This presentation is also consistent with guidance provided by OMB Circular A-136, Financial Reporting Requirements.

A22.

APPENDIX B: ABBREVIATIONS

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

FASAB Members

George A. Scott, Chair

R. Scott Bell

Gila J. Bronner

Robert F. Dacey

Sallyanne Harper

Patrick McNamee

Terry K. Patton

Graylin E. Smith

Timothy F. Soltis

FASAB Staff

Monica R. Valentine, Executive Director

Melissa L. Batchelor, Assistant Director

Federal Accounting Standards Advisory Board

441 G Street, NW

Suite 1155

Washington, D.C. 20548

Telephone 202-512-7350

Fax 202-512-7366

www.fasab.gov