Interpretation of Federal Financial Accounting Standards 10, Clarification of Non-federal Non-entity FBWT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31

Status

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<th>May 10, 2021</th>
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<td>Effective Date</td>
<td>Effective upon issuance.</td>
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<td>Affects</td>
<td>This Interpretation clarifies SFFAS 1, paragraph 31.</td>
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Summary

This Interpretation clarifies the classification and presentation of non-federal non-entity Fund Balance with Treasury (FBWT) in paragraph 31 of Statement of Federal Financial Accounting Standards (SFFAS) 1, Accounting for Selected Assets and Liabilities. This guidance provides that amounts received in deposit funds from non-federal sources in anticipation of an order (that is, an advance) should be classified as intragovernmental on component reporting entity financial statements.

SFFAS 1, paragraph 31 was amended by SFFAS 31, Accounting for Fiduciary Activities, to clarify the definition and reporting for fiduciary amounts on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from federal component reporting entities’ FBWT. While making this distinction, the amendment added the phrase "other non-federal non-entity FBWT." This Interpretation clarifies 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 comparable to fiduciary activities that SFFAS 31 had not identified specifically. This Interpretation clarifies that the Federal Accounting Standards Advisory 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 amounts received for unfilled orders that are reflected in FBWT should be reported as an intragovernmental asset of the component reporting entity.
Materiality

The provisions of this Interpretation need not be applied to information if the effect of applying the provision(s) is immaterial.¹ 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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INTERPRETATION

Scope

1. This Interpretation applies when a component reporting entity is presenting general purpose federal financial reports (GPFFRs) 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*, 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*, to clarify the definition and reporting for fiduciary amounts on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from federal component reporting 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 may have led to a 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 comparable to fiduciary activities that SFFAS 31 had not identified specifically. The Board did not intend to require similar treatment for activities explicitly excluded from the provisions of SFFAS 31.

6. Federal reporting entities often receive amounts in advance from customers—both federal and non-federal—for unfilled orders including amounts a customer advances for orders that may be placed in the future or deposits made as part of a bid or settlement process. Once received, the funds are deposited into the General Fund of the U.S. Government. 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 amounts received for unfilled orders (including amounts a customer advances for orders that may be placed in the future or deposits made as part of a bid or settlement process) 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

8. The requirements of this Interpretation are effective upon issuance.
The provisions of this Interpretation 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. 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 amounts 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 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. The primary rationale for treating these advance payments as intragovernmental assets is based on the notion that these deposited amounts 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 subsequent sections, the proper classification of this line item is important to ensure there is no double counting of amounts 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 amount received 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 amounts 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 amounts received in deposit funds from non-federal sources in anticipation of an order 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.

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 comparable to
fiduciary activities that SFFAS 31 had not identified specifically. 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.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. 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 may have led 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 reporting 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.

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 concluded this Interpretation is 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 amounts in advance from customers-both federal and non-federal—for unfilled orders including amounts a customer advances for orders that may be placed in the future or deposits made as part of a bid or settlement process. 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 amounts 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 fulfil
the non-entity orders. This presentation is also consistent with guidance provided by OMB Circular A-136, *Financial Reporting Requirements*.

**Summary of Outreach Efforts and Responses**

A24. FASAB issued the exposure draft (ED), *Clarification of Non-federal Non-entity FBWT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*, on October 29, 2020, with comments requested by January 6, 2021.

A25. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, FASAB newsletter, the *Journal of Accountancy*, *the Chief Financial Officers Council*, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).

A26. To encourage responses, a reminder notice was provided to FASAB’s subscription email list.

A27. FASAB received 16 comment letters from preparers, auditors, professional associations, and users of federal financial information. The Board considered responses to the ED at its February 2021 meeting. The Board did not rely on the number in favor of or opposed to a given position. The Board considered each response and weighed the merits of the points raised. The respondents' comments are summarized below.

A28. Respondents generally agreed with the Interpretation. Specifically, respondents generally agreed the Interpretation clarified that non-federal non-entity amounts received for unfilled orders that are reflected in FBWT should be reported as an intragovernmental asset of the component reporting entity. Certain respondents provided minor editorial clarifications that were carefully considered and adopted.

A29. Although the respondents were in agreement with the proposal, two respondents suggested defining other non-federal non-entity FBWT and one respondent suggested providing examples. The Board considered this beyond the scope of the Interpretation.

**Board Approval**

A30. This Interpretation was approved for issuance by all members of the Board.
Appendix B: Abbreviations

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<td>FASAB</td>
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