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WASHINGTON, DC 20301-1 1 00**

December 14, 2020

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

Dear Ms. Valentine:

The Department of Defense is pleased to submit the enclosed comments on the Federal Accounting Standards Advisory Board (FASAB) Exposure Draft (ED) of the proposed interpretation of Statement of Federal Financial Accounting Standards (SFFAS) 1, "Accounting for Selected Assets and Liabilities," as amended by SFFAS 31, "Accounting for Fiduciary Activities." The Department agrees with the proposed ED. A detailed response to FASAB's question and supporting details are provided in the enclosure.

Thank you for considering the Department's contribution.

Sincerely,

Douglas A. Glenn
Assistant Deputy Chief Financial Officer

Enclosure:
As stated

*Clarification of Non-federal Non-entity FBWT Classification (SFFAS 1, Paragraph 31):
An Interpretation of SFFAS 1 and SFFAS 31*

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
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Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
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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 amounts on deposit in the U.S. Treasury and to distinguish fiduciary FBWT from federal

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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 amounts received for unfilled orders that are reflected in FBWT should be reported as an intragovernmental asset of the component reporting entity.

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

DoD Response: Agree. We agree with the proposed guidance. DoD has implemented the recognition criteria of SFFAS No. 1, "Accounting for Selected Assets and Liabilities," to report advances and prepayments. DoD's other assets include advances and prepayments permitted by law, legislative action, or presidential authorization as mandated by Title 31, U.S.C 3324. When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet.

- The Department's presentation, as promulgated by the Office of Management and Budget (OMB) Circular A-136 "*Financial Reporting Requirements*," section II.3.2.3 Assets, states that non-fiduciary deposit funds controlled by the Government and the FBWT should be reported as "intragovernmental." Examples provided by OMB Circular A-136 include deposit funds that are used to hold unpaid payroll withholdings, unearned revenues, and certain collections that may be distributed to non-federal parties after further research or legal or agency judgment.
- OMB Circular A-11 "*Preparation, Submission, and Execution of the Budget*," Part 1, Section 20 "Terms and concepts" defines advances as amounts of money prepaid to a Federal Government account for the later receipt of goods, services, or other assets, or as matching funds. Furthermore, when an advance is required, the order's budgetary resource is equal to the cash accompanying the order. The advance, per se, is not available for obligation. If both the order and the advance were available for obligation, budgetary resources would be double-counted. OMB Circular A-11 requires deposit advances with orders to be recorded in

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the appropriate appropriation/fund or receipt account. Lastly, deposit advances without orders in advance from a non-Federal source should be recorded in the deposit fund account (6500).

In conclusion, although this exposure draft does not define the phrase “other non-federal non-entity FBWT,” it is consistent with DoD’s current application of advances from non-federal non-entity sources.

Additional Guidance to Support DoD Conclusion

SFFAS 1 “Accounting for Selected Assets and Liabilities”

- Paragraph 60 states, advances and prepayments paid out by an entity are assets of the entity. ***On the other hand, advances and prepayments received by an entity are liabilities of the entity (see the recommended standard for other current liabilities).*** In financial reports of an entity, advances and prepayments the entity paid out (assets) should not be netted against advances and prepayments that the entity received (liabilities).
- Paragraph 61 states, advances and prepayments made to federal entities ***are intragovernmental*** items and should be accounted for and reported separately from those made to nonfederal entities.

SFFAS 7 “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting”

- Paragraph 37, states “When advance fees or payments are received, such as for large-scale, long-term projects, revenue should not be recognized until costs are incurred from providing the goods and services (regardless of whether the fee or payment is refundable). An increase in cash and an increase in liabilities, such as “unearned revenue,” should be recorded when the cash is received. ***“Unearned revenue”*** should also be recorded if an agency requests advances or progress payments prior to the receipt of cash and records the amount.
- Paragraph 50 states, “Cash collections should be based on amounts actually received during the fiscal period, including withholdings, estimated payments, final payments, and collections of receivables. Cash collections include any amounts paid in advance of due dates unless they are deposits.”

SFFAS 31 “Accounting for Fiduciary Activities”

Paragraph 31, **Exclusions**

The following are excluded from the reporting requirements for fiduciary activities, and should be recognized in the principal financial statements of the Federal component entity and not in the fiduciary note disclosure:

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- Amounts related to unpaid¹ **payroll withholdings** and **garnishments**² are excluded from the reporting requirements of this standard. Liabilities for unpaid payroll withholdings and garnishments should be recognized as accounts payable in accordance with existing standards.³
- **Unearned revenue** should not be reported as fiduciary activity and should be recognized as a liability in accordance with existing standards.⁴ 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.*

¹ Unpaid” means that amounts withheld or garnished have not been paid to the designated recipient of the amounts withheld or garnished.

² Examples of garnishments include amounts withheld from an individual’s salary or tax refund for payments of child support or to another third party in compliance with a statute or court order.

³ See SFFAS 1, Accounting for Selected Assets and Liabilities, paragraphs 74-86.

⁴ See SFFAS 1, paragraph 85 and SFFAS 7, Accounting for Revenue and Other Financing Sources, paragraph 37.