Service (FMS) is the Secretary's representative in all matters concerning this part, unless otherwise specified.

State means a State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, American Samoa, Guam, the Virgin Islands, and an agency, instrumentality, or fiscal agent of a State so defined, but does not mean a local government or an Indian tribal government.

(1) A State agency or instrumentality is any organization of the primary government of the State financial reporting entity, as defined by Generally Accepted Accounting Principles, excluding institutions of higher education, hospitals, and nonprofit organizations.

(2) A fiscal agent of a State is an entity that pays, collects, or holds Federal funds on behalf of the State in furtherance of a Federal program, excluding private nonprofit community organizations.

Trust fund for which the Secretary is the trustee means a trust fund administered by the Secretary.

[57 FR 60676, Dec. 21, 1992, as amended at 59 FR 28262, June 1, 1994]

Subpart A—Negotiation of Intergovernmental Agreements for Financing Federal Assistance Programs—Interest Liabilities on Intergovernmental Funds Transfers

§ 205.4 Scope of subpart.

(a) *Initial programs.* From the later of July 1, 1993, or the first day of a State's 1994 fiscal year, to the end of a State's 1994 fiscal year, this subpart applies, at a minimum, to the following programs, provided they meet the threshold for major Federal assistance programs in the State:

Alcohol and Drug Abuse and Mental Health Services Block Grant (CFDA 93.992);
Chapter 1 Programs—Local Educational Agencies (CFDA 84.010);
Child Support Enforcement (CFDA 93.023);
Family Support Payments to States (CFDA 93.020);
Foster Care—Title IV–E (CFDA 93.658);
Highway Planning and Construction (CFDA 20.205);
Job Opportunities and Basic Skills Training (CFDA 93.021)
Job Training Partnership Act (CFDA 17.250);
Low-Income Home Energy Assistance (CFDA 93.028);
Medical Assistance Program (CFDA 93.778);
National School Lunch Program (CFDA 10.555);
Nutrition Assistance for Puerto Rico (CFDA 10.566).
Pell Grant Program (CFDA 84.063);
Rehabilitation Services—Basic Support (CFDA 84.126);
Social Services Block Grant (CFDA 93.667);
Special Education—State Grants (CFDA 84.027);
Special Supplemental Food Program for Women, Infants, and Children (CFDA 10.557);
State Administration Matching Grants—Food Stamp Program (CFDA 10.561);
Supplemental Security Income (CFDA 93.807);
Unemployment Insurance (CFDA 17.225);

(b) *Threshold of materiality.* From the later of July 1, 1994, or the beginning of a State's 1995 fiscal year, and thereafter, this subpart applies, at a minimum, to all programs that meet the threshold for major Federal assistance programs in a State.

(c) *Determining major Federal assistance programs.* Unless otherwise specified in a Treasury-State Agreement, major Federal assistance programs will be determined from the most recent Single Audit data available from the U.S. Bureau of the Census and, if necessary, other data from the most recent fiscal year for which funding can be documented.

(d) *Covering additional programs.* A State and the FMS may agree, in a Treasury-State Agreement, to cover additional programs under this subpart. However, the FMS has unilateral authority to require a State and a Federal agency to cover additional programs under this subpart if a State or a Federal agency fails to comply with subpart B of this part, as set forth in §§ 205.22 and 205.23.

(e) *Programs not covered by this subpart*. Programs in the Catalog of Federal Domestic Assistance that are not covered by this subpart are subject to subpart B of this part.

(f) *Grace period for colleges and universities*. Unless otherwise specified in a Treasury-State Agreement, this subpart does not apply to a State institution of higher education prior to a State's 1995 fiscal year, notwithstanding any other provision of this section.

[57 FR 60676, Dec. 21, 1992, as amended at 59 FR 51855, Oct. 13, 1994]

§ 205.5 [Reserved]

§ 205.6 Funding techniques.

(a) *Zero balance accounting*. Zero balance accounting is a method of transferring Federal funds to a State based on the actual amount of funds that are paid out by the State each day after a disbursement. Neither the Federal Government nor a State will incur an interest liability when this funding technique is properly applied.

(b) *Estimated clearance*. Estimated clearance is a method of transferring Federal funds to a State based on the estimated amount of funds that are paid out by the State each day after a disbursement. Neither the Federal Government nor a State will incur an interest liability when this funding technique is properly applied.

Example: A State mails $1 million in checks to benefit recipients under a Federally funded program. The State has developed the following clearance pattern for the program, based on when checks historically have been presented for payment:

Day	Percentage of dollars paid out
0 (checks mailed)	0
1	0
2	0
3	0
4	40
5	30
6	15
7	10
8	5

On Day 3, the State requests 40 percent of the funds disbursed, or $400,000, and the Federal agency deposits funds in the State account on Day 4 to coincide with the expected presentment of 40 percent of the total disbursement. On Day 4, the State requests 30 percent of the funds to pay for checks presented on Day 5, and so on. Furthermore, if the State draws down $400,000 to pay for checks presented on Day 4, neither the State nor the Federal Government will incur an interest liability if the amount of checks actually presented is more or less than $400,000. Over the long term, the amounts drawn down and the amounts of checks presented for payment will converge to the historical clearance pattern.

(c) *Pre-issuance funding*. Pre-issuance funding is a method of transferring Federal funds to a State prior to the day the State issues checks or initiates EFT payments. When this funding technique is applied, a State will incur an interest liability to the Federal Government from the day Federal funds are credited to a State account to the day the State pays out the funds for programs purposes.

Example: Three business days before a State issues $1 million in checks, it requests $1 million from a Federal agency, which deposits the funds in a State account the next day. The State has developed the following clearance pattern, based on when the State's checks historically have been presented for payment:

Day	Percent of dollars paid out
0 (funds deposited)	0
1	0
2 (checks issued)	0
3	0
4	0
5	40
6	30
7	15
8	10
9	5

The State will owe the Federal Government 5 days of interest on 40 percent of the funds, or $400,000, since that amount will be paid out for checks presented 5 days after Federal funds are deposited in a State account. The State will owe 6 days of interest on 30 percent of the funds, or $300,000, 7 days of interest on 15 percent of the funds, and so on.

(d) *Average clearance*. Average clearance is a method of transferring funds to a State based on the dollar-weighted average number of days required for funds to be paid out by the State after a disbursement. Neither the Federal Government nor a State will incur an