

VOLUME 6B, CHAPTER 4: “BALANCE SHEET”**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue and underlined font**.

The previous version dated January 2006 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Reworded and reformatted chapter for clarity. Added electronic links.	Revision/Addition
Multiple	Added an Overview section.	Addition
Multiple	Incorporated guidance for preparing Balance Sheets as prescribed by OMB Circular A-136 and the Treasury Financial Manual, Volume 1, Part 2, Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government.	Revision
Multiple	Deleted requirement to provide beginning balance, acquisitions, transfers, sales, disposals, revaluations and prior period adjustments for inventory, general property, plant and equipment, environmental and lease liabilities, which are no longer required for Governmentwide financial statement reporting.	Deleted
040305.E	Added additional reporting requirements for the recognition of a liability and related expense for friable and nonfriable asbestos cleanup costs when both probable and reasonably estimable in accordance with FASAB Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs.	Addition
Figure 4-2	Deleted Figure 4-2, Consolidating Balance Sheet illustrative example as this is no longer a requirement in the current OMB Circular A-136 guidance on financial statement presentation.	Deleted

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CHAPTER 4

BALANCE SHEET***0401 OVERVIEW**

040101. Purpose

This chapter prescribes policy for preparing the Department of Defense (DoD) Balance Sheet. It provides details as to the formatting used in various versions of the Balance Sheet including line by line instructions for preparing the asset, liability, and net position sections thereof.

040102. General

The Balance Sheet presents, as of a specific time, amounts of economic resources owned or managed by a reporting entity (assets), amounts owed by the entity (liabilities), and amounts that comprise the difference between assets and liabilities (net position). Guidance from the *Office of Management and Budget Circular A-136*, Financial Reporting Requirements, and the *Treasury Financial Manual, Volume 1, Part 2, Chapter 4700*, Agency Reporting Requirements for the Financial Report of the United States Government (TFM) 2-4700, have been incorporated throughout this chapter.

0402 FORMATS FOR THE BALANCE SHEET

040201. Format for the Balance Sheet

The format presented in Figure 4-1 shall be used for the consolidated Balance Sheet. The working versions of all statements and notes shall include line numbers as shown. All amounts shall be in dollars and cents in the working versions of the statements and notes in order to improve communication among the preparers, the reviewers, and the auditors during the financial statement preparation process and minimize the additional time and workload required to round and reconcile dollar amounts.

040202. Final Published Balance Sheet Format

The final DoD wide published statements and the notes to the principal statements shall display dollars rounded to millions with one decimal point. All DoD Component statements shall display dollar amounts rounded to the nearest whole thousand on the final published principal statements and in the tables/schedules contained in the notes to the principal statements. Dollar amounts in note narratives shall be reported with a maximum of three position integers and a single decimal value followed by an identifier, such as millions, billions, etc. (e.g. \$340.1 million, not \$340,100 thousand). The line numbers shown in Figure 4-1 on the statements are not required for the final published version but are for reference purposes only. These line number references shall not be included on the final published statements.

***0403 INSTRUCTIONS FOR PREPARATION OF THE BALANCE SHEET**

040301. General Instructions

The Balance Sheet presents, as of a specific time, amounts of future economic benefits owned or managed by the reporting entity (assets), amounts owed by the entity (liabilities), and amounts which comprise the difference (net position). Although the value of stewardship assets does not appear on the face of the Balance Sheet, stewardship assets are disclosed in the Property, Plant and Equipment (PP&E) Note to the Balance Sheet. Formats are displayed using notional data to assist the user. The Balance Sheet shall use post closing balances for all amounts. Individual statement crosswalks are prepared from information utilizing the Department of Treasury United States Standard General Ledger (USSGL) guidance crosswalks found at <http://www.fms.treas.gov/ussgl> under "USSGL TFM." The crosswalk for each line of the Balance Sheet statement is incorporated into the Defense Departmental Reporting System, [\(DDRS\) Audited Financial Statements \(AFS\)](#) and can be accessed with proper authorization by selecting "Query" from the main DDS AFS menu, option Referential Data, option Report Map.

***040302. Definition of Terms Used on the Assets Section of the Balance Sheet**

Assets are tangible or intangible items owned by the DoD Component, which have probable economic benefits that can be obtained or controlled by a DoD Component. The intragovernmental assets of a DoD Component are reported separately on the face of the Balance Sheet. Intragovernmental assets arise from transactions among federal entities. Nonentity assets, which may be intragovernmental or nonfederal, are disclosed separately in the notes. Guidance concerning the preparation of the notes is contained in Chapter 10. Entity, nonentity, and intragovernmental assets are defined below in accordance with the Statement of Federal Financial Accounting Standards, [\(SFFAS\) Number 1, Accounting for Selected Assets and Liabilities](#).

A. Entity Assets. These are assets that the reporting entity has authority to use in its operations. The authority to use funds in an entity's operations means that the entity's management has the authority to decide how funds are used, or management is legally obligated to use funds to meet entity obligations, e.g., repay loans from Treasury.

B. Nonentity Assets. These are assets that are held by an entity but are not available to the entity. An example of nonentity assets is income tax receivables, which the Internal Revenue Service collects for the Federal Government but has no authority to spend.

C. Display of Entity and Nonentity Assets. The face of the Balance Sheet combines entity and nonentity assets, e.g., entity intragovernmental accounts receivable and nonentity intragovernmental accounts receivable are combined and reported as a single intragovernmental accounts receivable line item on the face of the Balance Sheet. Nonentity assets are disclosed in Note 2. Guidance concerning the preparation of the notes to the financial statements is contained in Chapter 10.

D. Intragovernmental Assets. Intragovernmental assets arise from transactions among federal entities. Intragovernmental assets are claims of a federal entity against other federal entities. They are reported separately from transactions with nonfederal entities, the Federal Reserve, and government sponsored enterprises (i.e., federally chartered but privately owned and operated entities). The term “nonfederal entity” encompasses domestic and foreign persons and organizations outside the U.S. Federal Government.

040303. Line Item Instructions for the Preparation of the Asset Section of the Balance Sheet

A. Intragovernmental Assets

1. Fund Balance with Treasury (FBWT), Line 1.A.1. The FBWT line reflects the Department’s general ledger account balance with the Department of the Treasury and is the net effect of all collections and disbursements. It represents the aggregate amount for which the entity is authorized to make expenditures and pay liabilities. DoD entities shall explain in Note 3 any differences between the fund balance with the U.S. Treasury in the reporting entity’s general ledger accounts and the balance in the U.S. Treasury accounts. This account includes clearing account balances and the dollar equivalent of foreign currency account balances. Foreign currency account balances reported on the Balance Sheet shall be translated into U.S. dollars at exchange rates determined by the Department of the Treasury and are effective at the financial reporting date. If the reporting entity maintains fund balances in deposit accounts that are not available to finance the entity’s activities, then those balances are also reported and disclosed in Note 2 as nonentity assets. Suspense and clearing accounts are entity accounts. FBWT accounts are disclosed by fund types, including appropriated funds, revolving funds, trust funds, special funds, and other fund types. Other fund types should include balances in deposit accounts, such as for collections pending litigation or being held by the entity in the capacity of a banker or agent of others. The FBWT does not include any amounts for which the Department of the Treasury is willing to accept corrections to cancelled appropriation accounts, in accordance with [SFFAS Number 1](#). The amount reported must include extended obligation authority for obligations incurred in closing and closed accounts.

2. Investments, Line 1.A.2. This line identifies investments in federal securities which must be reported separately from investments in nonfederal securities. Investments in federal securities include nonmarketable par value Treasury securities, market based Treasury securities, marketable Treasury securities, and securities issued by other federal entities. Nonfederal securities include those issued by state and local governments, government sponsored enterprises, and other private corporations. Investments are normally reported at their acquisition cost or amortized acquisition cost. The components of investments, including the market value of market based and marketable Treasury securities, shall be disclosed in Note 4. See [SFFAS Number 1](#) for further information on investments in par value Treasury securities and in marketable and market based securities expected to be held to maturity. Reporting entities with material investments in Treasury securities attributable to earmarked funds are required to prepare a note disclosure within Note 4 in accordance with [SFFAS Number 27, Identifying and Reporting Earmarked Funds](#). Earmarked funds are specific revenues and other financing sources required by statute to be used for designated benefits, activities, or purposes and must be

accounted for separately. Refer to [SFFAS Number 27](#) for complete definition and criteria for earmarked funds. Additional required disclosures for earmarked funds are reported in Note 23.

3. Accounts Receivable, Line 1.A.3. Federal entity claims for payment from other federal entities are recorded as accounts receivable. Note 5 includes both entity and nonentity receivables. Receivables related to direct or guaranteed loans are not included on this line. These amounts are reported in Note 8. Refunds receivable are included in USSGL account 1310, "Accounts Receivable." No allowance for estimated uncollectible amounts is recognized for intragovernmental receivables because they are considered collectible. Accounts receivable shall be adjusted for supported undistributed collections. Unsupported undistributed collections are to be included in USSGL account 2400, Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections. See Chapter 13 for accounts receivable elimination requirements. Additional information regarding accounts receivable is disclosed in Note 5.

4. Other Assets, Line 1.A.4. Other Assets shall include assets that are not reported in a separate category on the face of the Balance Sheet. Other intragovernmental advances and prepayments to other federal entities are reported on this line. The amount and nature of the advances and prepayments are disclosed in Note 6. Material disclosures for this line will be provided in Note 6 along with the separation of the amounts for intragovernmental and nonfederal assets. Advances are cash outlays made by a federal entity to other federal entities as advance payments for the costs of goods and services the entity receives. Prepayments are payments made by a federal entity to cover certain periodic expenses before those expenses are incurred. See Chapter 13 for elimination requirements.

5. Total Intragovernmental Assets, Line 1.A.5. This line is the sum of Lines 1.A.1 through Line 1.A.4.

B. Cash and Other Monetary Assets, Line 1.B. This line includes the total of all cash resources and all other monetary assets.

1. Cash consists of:
 - a. Coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit.
 - b. Amounts on demand deposit with banks or other financial institutions.
 - c. Cash held in imprest funds.
 - d. Foreign currencies, which, for accounting purposes, shall be translated into U.S. dollars at the exchange rate on the financial statement date.
2. Other monetary assets also include gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. The amount of cash and other monetary

assets that the reporting entity holds and is authorized to spend is entity cash. The assets under this category that a federal entity collects and holds on behalf of the U.S. Federal Government or other entities are nonentity cash and other monetary assets, both of which shall be reported on this line. The DoD disbursing officer's cash reported on the [Standard Form \(SF\) 1219, Statement of Accountability](#), is reported on this line. Additional information is included in the [DoD Quarterly Financial Statement Guidance](#). This line also includes the total U.S. dollar equivalent of foreign currencies held in special program foreign currency (97X7000) fund accounts. The components of cash and other monetary assets are disclosed in Note 7. Any restrictions on cash must be disclosed.

C. Accounts Receivable, Net, Line 1.C. This item represents federal entity claims for payments due from nonfederal entities, net of an allowance for estimated uncollectible amounts. For example, this line **includes** amounts due from former service members who must refund amounts issued as reenlistment bonuses. This line also includes interest receivable from nonfederal entities. No interest shall be recognized as revenue on accounts receivable that are determined to be uncollectible until the interest is collected. Accrued interest on uncollectible accounts receivable shall be disclosed until the **DoD Component waives the** requirement to pay **the** interest or the related bad debt is written off. Interest Receivable related to direct loans and acquired defaulted guaranteed loans should be reported as a component of loans receivable on Line 1.D. Accounts receivable shall be adjusted for supported undistributed collections. Unsupported undistributed collections are to be included in USSGL account 2400, Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections. Additional information regarding Accounts Receivable shall be disclosed in Note 5.

D. Loans Receivable, Net, Line 1.D. This item represents the net value of assets **prior** to 1992 and **after** 1991 direct loans receivable and acquired defaulted guaranteed loans receivable. The net value of credit program receivables and related foreclosed property **is** considered an entity asset. The entity **must have** the authority to determine the use of the funds collected or the entity **must be** legally obligated to use the funds to meet entity obligations, e.g., loans payable to the Treasury. **If** the reporting entity administers a loan guarantee program and forecloses on property, **then see [SFFAS Number 2, Accounting for Direct Loans and Loan Guarantees](#), for detailed requirements.** When a loan guarantee program, which is generating negative subsidy, guarantees a loan and the lender has not disbursed the loan as of the Balance Sheet date, a proprietary receivable from borrowings should not be reported. It is sufficient to report the undelivered order which **is** recorded to obligate the funds and which **is** disclosed as part of the total undelivered orders. The components of this line **are disclosed** in Note 8.

E. Inventory and Related Property, Net, Line 1.E. **This line** includes inventory, operating materials and supplies (OM&S), and stockpile materials. Disclosure requirements are identified in Note 9, as prescribed in Chapter 10. The total amounts of inventory and other related property **are summarized and** reported in Note 9. The categories listed below make up this line.

1. Inventory

- a. Inventory is tangible personal property that is:

- (1) Held for resale, including raw materials.
- (2) In the process of production for sale.
- (3) To be consumed in the production of goods for sale or in the provision of services for a fee.
- (4) To be transferred to entities within or outside of the Federal Government.

b. The amount reported on this line is disclosed in Note 9 in the following categories.

- (1) Available and Purchased for Resale.
- (2) Held for Repair.
- (3) Excess, Obsolete, and Unserviceable.
- (4) Raw Materials.
- (5) Work in Process.

c. Inventory **Work in Process** includes all amounts that represent work in process at a depot maintenance or research and development activity. Work in process is recorded as inventory because the USSGL does not contain an account for work in process that is not inventory.

2. **Operating Materiel and Supplies (OM&S).** OM&S are tangible personal property to be consumed in normal operations. OM&S consist of secondary supply items and munition items that a logistics activity holds in stock, pending issue, without reimbursement, to the unit or organization that will consume the item in normal operations. If the amounts are significant, then the items traditionally held by depot maintenance activities that will be consumed in, or become part of, the repair or production of secondary or end items are included in this category. Inventory items held for sale and equipment (as in PP&E) are excluded from OM&S, even when those items are held in stock. DoD Components shall use the most reliable source of information available as a means of reporting the value of OM&S or inventory in the possession of contractors. The amount reported on this line should be broken into the following categories in Note 9:

- a. Held for use.
- b. Held for repair.
- c. Excess, obsolete and unserviceable.

Material portions of the amount reported on these lines are disclosed in Note 9. **Materiel** is defined as any component of OM&S that represents more than 10 percent of the value of OM&S. The quantity of secondary supply items held to meet the approved acquisition objective or held for economic retention or contingency retention are considered to be held for current use. Munitions in stock to satisfy training needs or held to satisfy operational or military contingency needs are considered to be held for current use. The recurring high dollar value of OM&S in need of repair is material and is reported as a separate reporting category. The DoD often relies on OM&S no longer in production and encourages the repair and rebuilding of certain OM&S. Condemned materiel or repairable items that are surplus are considered to be excess, obsolete, and unserviceable. Based on the criteria in [SFFAS Number 3](#), Accounting for Inventory and Related Property, the DoD policy is to use the consumption method of accounting for the recognition of OM&S expenses. Current systems that cannot fully support the consumption method, may use the purchase method, in which materials and supplies are expensed when purchased.

3. Stockpile Materiels. Stockpile Materiels, only applicable to and reported by the Defense Logistics Agency (DLA), are strategic and critical materiels held due to statutory requirements for use in national defense, conservation or national emergencies; e.g., pursuant to the [Strategic and Critical Materials Stock Piling Act](#). Within the Department, management of the Stockpile Materiels was assigned to the DLA National Defense Stockpile Center. Only the DLA National Defense Stockpile Transaction Fund is authorized to use this inventory category and the associated accounts. Included are critical materiels held as reserves or stockpiles. They are not held with the intent of selling in the ordinary course of business. Material portions of the amount reported on this line are disclosed in Note 9. **Materiel** is defined as any component of Stockpile **Materiels** that represents more than 10 percent of the value of Stockpile **Materiels**.

* F. General Property, Plant and Equipment, Net (PP&E), Line 1.F. General PP&E is defined as any capitalizable PP&E used in providing goods and services, or in support of an entity's mission. General PP&E includes the amount of real and personal property, e.g., land, land rights, buildings, structures and facilities, **military equipment**, construction in progress, software, **other equipment**, and related improvements that have been capitalized, net of any accumulated depreciation. The General PP&E line includes the value of all assets that meet the requirement for capital leases as described in [SFFAS Number 6](#), Accounting for Property, Plant and Equipment, and property owned by the reporting entity irrespective of whether it is in the hands of the reporting entity or contractors. The elements of PP&E, as well as information regarding any depreciation practices, are disclosed in Note 10. DoD Components shall use the most reliable source of information available as a means to report the value of General PP&E in the possession of its contractors. The value of Base Realignment and Closure real property, once the mission of that installation has been terminated or transferred, shall be recorded in USSGL account 1890, "Other General Property, Plant and Equipment." This account shall be crosswalked to the General Property Plant and Equipment line. See Volume 4, Chapter 6 for the detailed policy in regard to General PP&E. [SFFAS Number 23, "Eliminating the Category National Defense Property, Plant, and Equipment,"](#) classifies military equipment as PP&E, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. Further guidance on this can be found in [SFFAS Number 6](#), as

amended by [SFFAS Number 11](#), Amendments to Accounting for PP&E: Definitional Changes, [SFFAS Number 23](#), Eliminating the Category National Defense PP&E, and [SFFAS 29](#), Heritage Assets and Stewardship Land.

1. General PP&E Characteristics. General PP&E has one or more of the following characteristics.

a. It is primarily used to produce goods or services, or to support the mission of the entity. PP&E could be used for alternative purposes (e.g., by other federal programs, state, or local governments, or nongovernmental entities).

b. It is used in a significantly self sustaining activity which finances its continuing cycle of operations through the collection of revenue (business type activities).

c. It is used by entities in activities whose costs can be compared to other entities performing similar activities.

2. Working Capital Fund (WCF) PP&E. For entities operating as business type activities (WCF Activities), all PP&E used in the performance of their mission shall be categorized as General PP&E whether or not it meets the definition of other PP&E categories (e.g., heritage assets). Land and land rights acquired for, or in connection with, General PP&E shall be included in General PP&E.

* 3. Internal Use Software. If the costs of software, whether commercial off the shelf, internally developed or contractor developed, meets the DoD capitalization criteria for General PP&E, then these costs shall be capitalized and depreciated. Refer to [SFFAS Number 10](#), Accounting for Internal Use Software; [Federal Financial Accounting and Auditing Technical Release 5: Implementation Guidance on Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software](#) and Volume 4, Chapter 6 for further guidance on internal use software.

4. Depreciation. The expense associated with the use of General PP&E, known as depreciation, shall be calculated through the systematic and rational allocation of the cost, less its estimated salvage/residual value, over the estimated useful life of the General PP&E. Depreciation shall be recognized on all General PP&E, except land and land rights of unlimited duration.

* 5. Multi Use Heritage Assets. Heritage assets predominantly used in general government operations (e.g., buildings, such as the Pentagon which is used as an office building) are classified as multi use heritage assets. As required by [SFFAS Number 29](#), the cost of acquiring, bettering, and reconstructing all multiuse heritage assets shall be capitalized as General PP&E and depreciated.

6. Construction in Progress (CIP). Progress payments based on the percentage of completion of fixed-price contracts for construction (as defined in FAR 36.102), shipbuilding, and ship conversion, alteration, or repair are reported as CIP.

G. Investments, Line 1.G. Investments in nonfederal securities shall be reported separately from investments in federal securities. This line represents other DoD investments as allowed by public laws. Specifically, Public Law 104-106, Section 2801 allows the DoD to enter into limited partnerships in support of the Military Housing Privatization Initiative. Additional information regarding investments is disclosed in Note 4 as prescribed in Chapter 10.

* H. Other Assets, Line 1.H. Other Assets shall include assets that are not reported in a separate category on the face of the Balance Sheet. This line includes those assets that are not classified as intragovernmental and are not included on the lines in Section 040303, A - H of this Chapter. If any of the components of Other Assets represent more than 10 percent of the value of the line, then separately disclose those components in Note 6. This amount represents the values of all advances and prepayments made to nonfederal entities. This line includes the value of outstanding civilian and military pay and travel advances. This line also includes the value of contract financing payments made to contractors prior to acceptance of goods or services. The balance of outstanding contract financing payments also includes estimated future payments to the contractor upon delivery and government acceptance of a satisfactory product on contracts utilizing progress payments based on cost. This line does not include invoice payments, to include payments for partial deliveries or lease and rental payments. Also, the DoD does not make contract financing payments in the form of progress payments based on a percentage or stage of completion. Specifically, within DoD, progress payments based on the percentage of completion are only authorized for fixed-price contracts for construction (as defined in FAR 36.102), shipbuilding, and ship conversion, alteration, or repair. Progress payments under such contracts are not advances or prepayments, and are not contract financing payments. These progress payments based on a percentage or stage of completion instead are classified as Construction in Progress and are reported in the PP&E line on the Balance Sheet.

I. Total Assets, Line 2. This line is the sum of Lines 1.A.5. and Lines 1.B. through 1.H.

* J. Stewardship PP&E, Line 3. Assets whose physical properties resemble those of General PP&E, that are capitalized in financial statements under most circumstances, are classified as Stewardship PP&E. The DoD Component must be able to demonstrate accountability over these assets by reporting on their existence and condition. Stewardship PP&E includes:

* 1. Heritage Assets. Heritage assets consist of collection type assets, (i.e., objects gathered and maintained for exhibition) and noncollection type heritage assets, (i.e., parks, memorials, monuments, and buildings). These assets are preserved for an indefinite period of time. Heritage PP&E are unique for one or more of the following:

- a. Historical or natural significance.
- b. Cultural, educational, or artistic importance.
- c. Significant architectural characteristics.

* 2. Stewardship Land. Stewardship land is land and land rights owned by the DoD Component but not acquired for or in connection with items of General PP&E. Examples of stewardship land include land used as forests and parks, and land used for wildlife and grazing.

* K. SFFAS Number 29, Heritage Assets and Stewardship Land, reclassified heritage assets and stewardship land information as basic information with the exception of condition reporting, which is considered Required Supplemental Information (RSI). Specifically, this standard requires that entities reference a note on the Balance Sheet that discloses information about heritage assets and stewardship land, but no asset dollar amount is shown on the Balance Sheet. DoD does not present this information in a separate note. DoD discloses this information in Note 10.

040304. General Instructions for the Preparation of the Liabilities Section of the Balance Sheet

A. Definition. A liability is a probable future outflow or other sacrifice of resources as a result of past transactions or events. Financial statements shall recognize probable and measurable future outflows or other sacrifices of resources arising from:

1. Past exchange transactions.
2. Government related events.
3. Government acknowledged events.
4. Nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date.

B. Liability Recognition

* 1. SFFAS Number 5, Accounting for Liabilities of the Federal Government, describes the general principles governing the recognition of a liability. The concept of a liability includes not only those liabilities routinely recurring in normal operations, such as accounts payable, but also includes contingent liabilities resulting from an existing condition that involve uncertainty as to possible loss.

* 2. Liabilities resulting from normal operations shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources. This requirement includes liabilities related to appropriations canceled under "M" account

legislation [Title 31, United States Code, section 1552, Procedure for Appropriation Accounts Available for Definite Periods](#). Contingent liabilities shall be recognized when a past event or exchange transaction has occurred that results in a probable, measurable future outflow of resources. If a specific amount of the contingent liability cannot reasonably be estimated, but a range of amounts can, then the contingent liability should be recognized. If some amount within the range is a better estimate than any other amounts within the range, then that amount should be recognized. If no amount within the range is a better estimate than any other amounts, then the minimum amount of the range should be recognized and the range disclosed in Note 15. [A contingent liability that results from a past event or exchange transaction that results in a reasonably possible, measurable future outflow of resources is disclosed in Note 16.](#)

C. Liabilities Covered and Not Covered by Budgetary Resources. Liabilities covered by budgetary resources and liabilities not covered by budgetary resources are combined on the face of the Balance Sheet. For example, intragovernmental accounts payable covered by budgetary resources and intragovernmental accounts payable not covered by budgetary resources shall be combined and reported as a single intragovernmental accounts payable line item on the face of the Balance Sheet.

1. Liabilities Covered by Budgetary Resources

a. These are liabilities incurred which are covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include:

- (1) New budget authority.
- (2) Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year.
- (3) Spending authority from offsetting collections (credited to an appropriation or fund account)
- (4) Recoveries of unexpired budget authority through downward adjustments of prior year obligations.

b. Liabilities are considered covered by budgetary resources when they are funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the Balance Sheet date. The resources must be apportioned by OMB without further action by the Congress and without a contingency having to be met first.

2. Liabilities Not Covered by Budgetary Resources. This category is for liabilities which are not covered by budgetary resources, as provided in the previous paragraph. Liabilities not covered by budgetary resources are disclosed separately in Note 11.

040305. Instructions for the Preparation of the Liabilities Section of the Balance Sheet

This line includes those liabilities incurred as of the reporting date.

A. Intragovernmental Liabilities. These liabilities are claims against the entity by other federal entities. Intragovernmental liabilities **are reported separately** from claims against the reporting entity by nonfederal entities, including government sponsored enterprises, and the Federal Reserve System.

1. Accounts Payable, Line 4.A.1. Accounts payable are the amounts owed by a federal entity for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other federal entities. Accounts payable shall be adjusted for supported undistributed disbursements. Unsupported undistributed disbursements are to be recorded in the USSGL account 2120, Disbursements in Transit. Required disclosures relating to accounts payable, intragovernmental and nonfederal payables are listed separately in Note 12. **Eliminations impact** intragovernmental accounts payable. Refer to Chapter 13.

2. Debt, Line 4.A.2. This item represents the amounts of borrowings from the Treasury, the Federal Financing Bank, or other federal agencies under general or specific financing authority (e.g., Treasury bills, notes, bonds and Federal Housing Administration debentures). The breakdown of debt is disclosed in Note 13. All debt is classified as not covered by budgetary resources, except for direct loan and guaranteed loan financing account debt to Treasury and that portion of other debt which is covered by budgetary resources at the Balance Sheet date. The breakdown of debt held by the **DoD Component** is disclosed in Note 13 of the Balance Sheet.

* 3. Other Liabilities, Line 4.A.3. This item represents intragovernmental liabilities that are not recognized in specific categories. This line includes the total amount due to federal entities for liabilities owed by other federal entities that are not included on lines **in Section 040305, A. 1- 2 of this Chapter**. This amount includes, but is not limited to: deferred credits, advances and prepayments received from other federal entities for goods to be delivered or services to be performed, deposit fund amounts held in escrow, and capital leases. **Note 15 shall be used to report separately the current and noncurrent portion of other intragovernmental liabilities**. Current liabilities represent amounts owed by a federal entity, which need to be paid within the fiscal year following the reporting date. Further disclosure may be appropriate for separate categories within other intragovernmental liabilities when the amounts are material. Material amounts are defined as any component of the other liabilities line that represents more than 10 percent of the value of the line. This line includes the pecuniary liability to the Treasury for the DoD disbursing officer's cash reported on **SF 1219**. If the amounts are significant to the Balance Sheet, **then separate reporting of items within other liabilities is appropriate**.

4. Total Intragovernmental Liabilities, Line 4.A.4. This is the sum of Lines 4.A.1 through 4.A.3.

B. Accounts Payable, Line 4.B. These are the amounts owed by the reporting entity for goods and services received from nonfederal entities, progress in contract performance made by other nonfederal entities, and rents due to nonfederal entities. Interest payable as a component of the accounts payable shall be reported [on this line](#). Accrued interest payable is also included in this line as detailed by the [Prompt Payment Act](#). Accounts payable should be adjusted for supported undistributed disbursements. Unsupported undistributed disbursements are to be recorded in the USSGL account 2120, Disbursements in Transit. Note 12 is used for required accounts payable [disclosures](#).

C. Military Retirement and Other Federal Employment Benefits, Line 4.C. Entities that are responsible for the administration for pensions, other retirement benefits, [including, health benefits](#) for retirees, and other post-employment benefits shall calculate and report these liabilities and related expenses in accordance with [SFFAS Number 5](#). Liabilities for federal employee and veterans' benefits include the actuarial portion of these benefits. They do not include liabilities related to ongoing continuous expenses such as employee accrued salary and accrued annual leave, which are reported in the Other Liabilities line item. The major assumptions used to derive the present value calculations for the actuarial liabilities not covered by budgetary resources, including [any](#) related net assets, are disclosed in Note 17. Liabilities, assumptions used, and the components of expense for the period for pensions, other retirement benefits, and other post employment benefits are [disclosed](#). In the case of a retirement plan that uses assumptions that differ from those used by primary plans, the pension plan using the different assumptions [must](#) disclose how and why the assumptions used differ from those of the primary plans. This line is applicable within the Department to military retirement pension benefits, retired military health benefits, and other employment related actuarial liabilities for civilian and military personnel. See Note 17 of Chapter 10 for required Military Retirement and Other Federal Employment Benefit disclosures.

* D. Environmental and Disposal Liabilities, Line 4.D. Environmental and disposal liabilities include the costs to remove, contain, and/or dispose of hazardous waste from property, plant and equipment; as well as the costs to remove, contain, and/or dispose of materiel and/or property that is deemed to be hazardous waste at a permanent or temporary closure or shutdown of associated PP&E. [SFFAS Number 5](#) provides criteria for recognizing a contingent liability and such criteria shall be applied to determine when cleanup costs are recognized as liabilities and/or disclosed in the notes. [SFFAS Number 6](#) supplements the liability standard by providing guidance for recording cleanup costs related to General PP&E and Stewardship PP&E used in federal operations. The guidance applies to cleanup costs from federal operations known to result in hazardous waste that the DoD Components are required to clean up by federal, state, or local statutes or regulations. Environmental conditions that result from current operations and require immediate cleanup, e.g. an oil spill or routine hazardous waste disposal, are not considered environmental liabilities and should be recognized as a current operating expense, assuming the DoD Component completes the cleanup, closure and/or disposal action in the current reporting period. Additional information can be found within [FASAB Technical Bulletin 2006-1, "Recognition and Measurement of Asbestos-Related Cleanup Costs,"](#) and [Federal Financial Accounting And Auditing Technical Release 2: "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government."](#) The

elements of environmental cleanup are disclosed in Note 14 of Chapter 10. See Volume 4 Chapter 13 for additional guidance on environmental liabilities.

Technical Bulletin 2006-1 was issued on September 28, 2006 and is effective for periods beginning after September 30, 2009. Technical Bulletin 2006-1 affects all federal entities that own tangible property, plant, and equipment (PP&E) that contain asbestos. The focus of Technical Bulletin 2006-1 is the recognition of a liability and related expense for friable and nonfriable asbestos cleanup costs when both probable and reasonably estimable consistent with SFFAS No. 5, SFFAS No. 6, and Technical Release No. 2. Liabilities deemed probable, but not reasonably estimable, should be disclosed in the notes to the financial statements. Earlier adoption is encouraged.

E. Loan Guarantee Liability, Line 4.E. This line includes the present value of the estimated net cash flows to be paid as a result of loan guarantees [after 1991](#). For loan guarantees [prior to 1992](#), the amount of known and estimated losses to be payable shall be included. This information is reported in Note 8 of the financial statement. When the total loan guarantee liability for all credit programs of a reporting entity is negative, it should be reported as an asset. If a loan guarantee liability is the result of both positive and negative amounts for the various components, then the total will be shown as a liability, and negative components disclosed.

F. Other Liabilities, Line 4.F

1. This line includes the total amount due to the public for other liabilities that are not included on other lines [in Section 040305, A - F of this Chapter](#). This amount includes, but is not limited to, liabilities related to, deferred credits, accrued liabilities related to ongoing continuous expenses such as federal employee salaries and accrued employee annual leave, capital leases, advances and prepayments received from other nonfederal entities for goods to be delivered or services to be performed, deposit fund amounts held in escrow, and estimated losses for commitments and contingencies [when all of the following criteria are met](#):

a. A past event or exchange transaction has occurred (e.g., a federal entity has breached a contract with a nonfederal entity) as of the date of the statements.

b. A future outflow or other sacrifice of resources is probable.

c. The future outflow or sacrifice of resources is measurable (e.g., the amount can be reasonably estimated).

* 2. Cleanup costs [are not included](#). They are reported as environmental and disposal costs.

3. If the amounts are significant to the Balance Sheet, [then separate reporting of items within other liabilities is appropriate](#). Any component of this line that represents more than 10 percent of the value of the line [is disclosed separately in Note 15](#) along with any additional information needed to understand the liability. Note 15 is used to report

separately the current and noncurrent portion of other nonfederal liabilities. Current liabilities represent amounts owed by a federal entity, which need to be paid within the fiscal year following the reporting date.

4. Accrued Entitlement Benefits. Accrued entitlements benefits include:

a. Salaries and wages which represent the estimated liability for salaries and wages of civilian personnel that have been earned, but are unpaid, and the estimated military personnel funded compensation earned, but unpaid, as of the end of the current accounting month.

b. Both funded and unfunded accrued annual leave which represent the accrued leave for civilians and military personnel that has been earned and is expected to be paid in the future.

* 5. Commitments and Contingencies. A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. A contingent liability must be recorded when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. SFFAS Number 5, as amended by SFFAS Number 12, contains the criteria for recognition and disclosure of contingent liabilities. Also, OMB Circular A-136, Section 3, Financial Section - Balance Sheet, *Commitments and Contingencies* states: **“In addition to the contingent liabilities required by SFFAS No. 5, the following shall also be disclosed: (1) an estimate of obligations related to canceled appropriations for which the reporting entity has a contractual commitment for payment, and (2) amounts for contractual arrangements which may require future financial obligations.”** Additional information regarding commitments and contingencies to be recorded as “Other Liabilities”, and those that are to be disclosed on Line 6, “Commitments and Contingencies” can be found in Chapter 10, Section 1018. In regard to pending or threatened litigation and unasserted claims, the contingent liability is recognized when the future outflow or other sacrifice of resources is “likely to occur” as detailed by SFFAS Number 12. If a contingency exists for clean up costs related to Stewardship PP&E, then probable and measurable liabilities shall be recognized when the Stewardship PP&E is placed in service. SFFAS Number 5, and SFFAS Number 6 contain the criteria for Stewardship PP&E. In addition, FASAB Technical Release (TR) Number 2, contains guidance on estimating obligations for which the reporting entity accepts financial responsibility and has a contractual commitment for payment. Examples of commitments and contingencies for which the estimated losses would be reported on this line are:

a. Indemnity agreements, i.e., reimbursements due to licensees or contractors for losses incurred in support of federal government activities.

b. Nonadjudicated claims, i.e., claims against the DoD Component that are in the process of judicial proceedings.

c. Commitments to international institutions, i.e., payments due to international financial institutions.

* d. Litigation addressing claims for equity relief or nonmonetary judgments, i.e., claimants are seeking specific actions by a DoD Component.

e. Estimated contractor-incurred costs in excess of authorized progress payments based on cost.

6. Lease Liabilities. The liability for capital leases is reported on this line. Capital leases entered into prior to FY 1992 and lease purchases made prior to FY 1991 were funded on a fiscal year basis. Capital leases and lease purchases entered into during FY 1992 and thereafter are fully funded in the first year of the lease. The components of and other information about the capital lease liability, are disclosed in Note 15.

Total Liabilities, Line 5. This line is the sum of Lines 4.A through 4.F.

040306. Instructions for Preparation of the Net Position Section of the Balance Sheet

Net Position is comprised of unexpended appropriations and cumulative results of operations. Earmarked funds are financed by identified revenues, are required by statute to be used for designated activities or purposes, and must be accounted for separately from the DoD Component's general revenues. SFFAS Number 27 requires disclosure of all earmarked funds for which the reporting entity has program management responsibility. This information is presented in Note 23. The elements of net position are classified as follows:

A. Unexpended Appropriations, Earmarked Funds, Line 6.A. This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances related to earmarked funds. Unexpended appropriations attributable to earmarked funds should be shown separately on the face of the Balance Sheet. The prior period columns of the basic financial statements and related disclosures should not be restated in the year earmarked funds are initially reported by an entity.

B. Unexpended Appropriations, Other Funds, Line 6.B. This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances that do not relate to earmarked funds.

C. Cumulative Results of Operations, Earmarked Funds, Line 6.C. This line reports the net results of operations since inception, plus the cumulative amount of prior period adjustments related to earmarked funds. The cumulative results of operations attributable to earmarked funds must be shown separately on the face of the Balance Sheet and reported in accordance with the provisions of SFFAS Number 27. The prior period columns of the basic financial statements and related disclosures should not be restated in the year earmarked funds are initially reported by an entity.

* D. Cumulative Results of Operations, Other Funds, Line 6.D. This line reports the net results of operations since inception plus the cumulative amount of prior period adjustments that do not relate to earmarked funds. This includes the cumulative amount of donations and transfers of assets in and out without reimbursement.

* E. Total Net Position, Line 7. This line is the sum of Lines 6.A through 6.D.

* F. Total Liabilities and Net Position, Line 8. This line is the sum of Lines 5 and 7.

Figure 4-1. Department of Defense (Reporting Entity) Balance Sheet

DEPARTMENT OF DEFENSE (REPORTING ENTITY)			
BALANCE SHEET			
As of Fiscal Year 20XX			
(Amounts in thousands)		(Current FY)	(Prior FY)
1. ASSETS (Note 2):			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)		xxx	xxx
2. Investments (Note 4)		xxx	xxx
3. Accounts Receivable (Note 5)		xxx	xxx
4. Other Assets (Note 6)		xxx	xxx
5. Total Intragovernmental Assets	\$	xxx	\$ xxx
B. Cash and Other Monetary Assets (Note 7)	\$	xxx	\$ xxx
C. Accounts Receivable, Net (Note 5)		xxx	xxx
D. Loans Receivable (Note 8)		xxx	xxx
E. Inventory and Related Property (Note 9)		xxx	xxx
F. General Property, Plant and Equipment, Net (Note 10)		xxx	xxx
G. Investments (Note 4)		xxx	xxx
H. Other Assets (Note 6)		xxx	xxx
2. TOTAL ASSETS	\$	xxx	\$ xxx
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)			
4. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	\$	xxx	\$ xxx
2. Debt (Note 13)		xxx	xxx
3. Other Liabilities (Note 15 & 16)		xxx	xxx
4. Total Intragovernmental Liabilities	\$	xxx	\$ xxx
B. Accounts Payable (Note 12)	\$	xxx	\$ xxx
C. Military Retirement and Other Federal Employment Benefits (Note 17)		xxx	xxx
D. Environmental and Disposal Liabilities (Note 14)		xxx	xxx
E. Loan Guarantee Liability (Note 8)		xxx	xxx
F. Other Liabilities (Notes 15 & 16)		xxx	xxx
5. TOTAL LIABILITIES	\$	xxx	\$ xxx
6. NET POSITION			
A. Unexpended Appropriations – Earmarked Funds (Note 23)	\$	xxx	\$ xxx

B. Unexpended Appropriations – Other Funds	xxx	xxx
C. Cumulative Results of Operations – Earmarked Funds (Note 23)	xxx	xxx
D. Cumulative Results of Operations – Other Funds	xxx	xxx
7. TOTAL NET POSITION	\$ xxx	\$ xxx
8. TOTAL LIABILITIES AND NET POSITION	<u>\$ xxx</u>	<u>\$ xxx</u>