

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

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

Substantive revisions are denoted by an asterisk (*) 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 **May 2009** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Restructured and renamed sections and paragraphs to align with the Balance Sheet and for clarity purposes.	Revision/ Addition
Multiple	Deleted duplicative information related to the content and presentation of the notes required for the Balance Sheet; the information removed is appropriately contained and explained in Chapter 10.	Deletion
040102	Revised the “Purpose” paragraph to clarify that this chapter only presents the form and content of the Department of Defense (DoD) Balance Sheet; it does not provide line-by-line instructions for preparing the asset, liability, and net position sections of the Balance Sheet.	Revision
040202	Added a paragraph clarifying that separate reporting on the Balance Sheet is appropriate if the amounts are significant.	Addition
040302.F	Revised the “General Property, Plant and Equipment (PP&E)” subparagraph by further delineating the components or elements of General PP&E into ten subparagraphs. In addition, added policy requiring DoD reporting entities to recognize impairments of General PP&E that will remain in use in accordance with Statements of Federal Financial Accounting Standards (SFFAS) 44, “Accounting for Impairment of General Property, Plant and Equipment Remaining in Use”, include Contractor Financing Payments in construction-in-process, and report land in accordance with SFFAS 6, “Accounting for Property, Plant and Equipment (PP&E)”, as amended by SFFAS 50, “Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35”.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
040303.F	Added a definition for “Contingent Liability”.	Addition
040303.H	Added a definition for “Interest Payable” and clarified that DoD reporting entities must report interest payable as a component of the appropriate liability accounts.	Addition
040304.F	Added policy requiring DoD reporting entities to report cleanup costs related to hazardous waste, if immaterial, as other liabilities on the Balance Sheet in accordance with the Office of Management and Budget (OMB) Circular A-136. In addition, added policy requiring DoD reporting entities to recognize a contingent liability for contingencies not related to pending or threatened litigation when the future outflow or other sacrifice of resources is measurable and “more likely than not to occur” in accordance with SFFAS 12.	Addition
040304.H	Added policy requiring DoD reporting entities to disclose on Line 6 of the Balance Sheet and in Note 16 any contingencies that do not meet any of the conditions for liability recognition and for which there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with OMB Circular A-136.	Addition
040305	Revised the “Net Position” paragraph by changing all references of earmarked funds to funds from dedicated collections in accordance with OMB Circular A-136.	Revision
040305.A through 040305.D	Revised the paragraphs related to net position by changing all references of earmarked funds to funds from dedicated collections in accordance with OMB Circular A-136.	Revision

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CHAPTER 4

BALANCE SHEET

0401 GENERAL

040101. Overview

The Balance Sheet is a statement of financial position required to be completed by the Department of Defense (DoD) reporting entities (i.e., those entities identified in Chapter 1). It is a principal financial statement that presents comparative fiscal year data (i.e., current and preceding), as of a specific time. Moreover, it reports amounts of future economic benefits owned or managed by reporting entities (assets), amounts owed by the entities (liabilities), and amounts which comprise the difference (net position). In addition, note disclosures supplement or enhance the Balance Sheet. Notes to the Balance Sheet are required to clarify or provide additional, more detailed information on the individual asset, liability, and net position line items reported on the face of the Balance Sheet.

*040102. Purpose

This chapter presents the form and content of the DoD Balance Sheet. It identifies general requirements for each asset, liability, and net position line item, and related note disclosures, reported on the Balance Sheet. This chapter does not address the accounting requirements for each asset or liability line reported on the Balance Sheet. For detailed accounting policy, please see the individual asset and liability chapters published in Volume 4. Moreover, this chapter does not address Balance Sheet schedules/timelines or the format, content, preparation, and presentation of the specific notes required for the Balance Sheet. For detailed information regarding schedules/timelines and/or specific notes, please see the Defense Finance and Accounting Service (DFAS) Annual and Quarterly Financial Statement Guidance, hereafter referred to as *DFAS A&OFS Guidance*, and/or Chapter 10.

040103. Authoritative Guidance

A. Federal Accounting Standards Advisory Board (FASAB) *Statement of Federal Financial Accounting Standards (SFFAS)*. These statements are the accounting standards for the United States (U.S.) government and serve as the authoritative source of generally accepted accounting principles (GAAP) for federal entities.

B. Office of Management and Budget (OMB) *Circular A-136*, “Financial Reporting Requirements”. This Circular is the central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements.

C. U.S. Department of the Treasury (Treasury) U.S. Standard General Ledger (USSGL) Supplement Part 2, Section II: “Accounts and Definitions”. This section provides basic information about each USSGL account, including Account Title, Account Number, Normal Balance of the Account (Debit or Credit), and Account Definition.

D. U.S. Treasury USSGL Supplement Part 2, Section V: “USSGL Crosswalks to Standard External Reports...”, Balance Sheet. This section uses crosswalks to map USSGL accounts to the specific asset, liability, and net position line items on the Balance Sheet in accordance with reporting guidance from OMB and FASAB.

E. DFAS A&QFS Guidance. This guidance provides annual and quarterly financial statement reporting requirements as well as quarterly and year-end reporting schedules.

0402 BALANCE SHEET FORMAT

040201. General

The Balance Sheet should present summary or detailed information necessary to make the statement most useful to readers. However, DoD reporting entities must avoid placing substantial detail on the Balance Sheet thereby rendering it incomprehensible to readers. Accordingly, the Balance Sheet should only contain summary information; where substantial detail is required to properly explain specific line items, the detail must be reported in the notes. For instructions regarding the preparation and presentation of notes for each specific line item on the Balance Sheet, please see OMB Circular A-136 and Chapter 10. Individual statement crosswalks are prepared using the Bureau of the Fiscal Service, Treasury USSGL. The crosswalk for each line of the Balance Sheet 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 DDRS AFS menu, then selecting option “Referential Data” and option “Report Map.”

*040202. Significant Amounts

Separate reporting of items on the Balance Sheet is appropriate if the amounts are significant to the Balance Sheet. Significant is defined as any item (i.e., asset or liability) that represents more than 10 percent of the value of total assets or total liabilities. If an item is determined to be significant, DoD reporting entities may report the item separately on the face of the Balance Sheet.

040203. Final Published Balance Sheet

The format presented in Figure 4-1 will be used for the final DoD-wide consolidated Balance Sheet. The final DoD-wide consolidated Balance Sheet and notes will display dollars rounded to millions with one decimal point. All DoD reporting entity Balance Sheets and notes must display dollar amounts rounded to the nearest whole thousand. Dollar amounts in note narratives must be reported with a maximum of three position integers and a single decimal value followed by an identifier, such as millions or billions (e.g., \$340.1 million, not \$340,100

thousand). Foreign currency account balances reported on the Balance Sheet must be translated into U.S. dollars at exchange rates determined by Treasury and which are effective at the financial reporting date. Additionally, the Balance Sheet will use pre-closing balances for all amounts. The line numbers shown in Figure 4-1 (e.g., 1.A.1) will not be included on the final published versions (i.e., DoD-wide or reporting entity) of the Balance Sheet. The line numbers are for reference purposes only.

0403 THE BALANCE SHEET

040301. Definitions and Concepts in the Assets Section

A. Assets. Assets are tangible or intangible items owned by DoD, which have probable economic benefits that can be obtained or controlled by a DoD reporting entity. Assets are defined in accordance with SFFAS 1, “Accounting for Selected Assets and Liabilities.”

B. Entity Assets. Assets a 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.

C. Nonentity Assets. Assets held by an entity, but not available to the entity. An example of nonentity assets is payroll income tax receipts pending remittance to the Internal Revenue Service, which the entity collects for the U.S. Federal Government but has no authority to spend.

D. Disclosure of Entity and Nonentity Assets. The Balance Sheet combines entity and nonentity assets. For example, entity intragovernmental accounts receivable and nonentity intragovernmental accounts receivable are combined and reported as a single intragovernmental accounts receivable line item on the Balance Sheet. However, DoD reporting entities must separately disclose nonentity assets in Note 2 to the financial statements.

E. Intragovernmental Assets. Intragovernmental assets arise from transactions within or between federal entities. Intragovernmental assets are claims by a DoD reporting entity against other federal entities. DoD reporting entities must report intragovernmental assets separately from nonfederal assets on the Balance Sheet. Nonfederal includes domestic and foreign persons and organizations outside the U.S. Federal Government. DoD reporting entities must classify Foreign Military Sales (FMS) Trust Fund assets (accounts receivable) as intragovernmental. DoD reporting entities should review the TFM, Volume 1, Part 2, Chapter 4700, Appendix 10, “Intragovernmental Transaction (IGT) Guide” for guidance on the accounting, reporting, and reconciliation of IGT activity with their federal trading partners.

040302. Assets

A. Intragovernmental Assets.

1. Fund Balance with Treasury (FBWT), Line 1.A.1. FBWT is the aggregate amount of funds (i.e., entity and nonentity) in a DoD reporting entity's accounts with Treasury for which the reporting entity is authorized to make expenditures and pay liabilities. FBWT is an asset account because it represents an entity's claim to the U.S. Federal Government's resources. FBWT is disclosed in Note 3 to the financial statements. Reporting entities, who maintain deposit accounts not available for use, must report and disclose such accounts in Note 2 as nonentity assets (Note: Clearing and suspense accounts are entity assets). FBWT meeting the definition of fiduciary FBWT is not recognized on the Balance Sheet, but should be separately disclosed in accordance with the provisions of SFFAS 31, "Accounting for Fiduciary Activities". It does not include any amounts for which Treasury is willing to accept corrections to cancelled appropriation accounts, in accordance with SFFAS 1. The amount reported must include extended obligation authority for obligations incurred in closing and closed accounts.

Note: For a detailed definition and accounting policy regarding FBWT, please see Volume 4, Chapter 2.

2. Investments, Line 1.A.2. Intragovernmental investments are federal securities. Federal securities include nonmarketable par value Treasury securities, market-based Treasury securities expected to be held to maturity, marketable Treasury securities expected to be held to maturity, and securities issued by other federal entities. Investments are disclosed in Note 4 to the financial statements. DoD reporting entities must report their investments on the Balance Sheet at their acquisition cost, adjusted for amortization of a premium or discount, if appropriate.

3. Accounts Receivable, Line 1.A.3. Intragovernmental accounts receivable are DoD claims to cash or other assets due from other federal entities. Accounts receivable are disclosed in Note 5 to the financial statements. Receivables related to direct or guaranteed loans are not included on this line. DoD reporting entities must report receivables related to direct or guaranteed loans in Note 8. No allowance for estimated uncollectible amounts is recognized for intragovernmental receivables because they are considered collectible. For accounts receivable elimination requirements, please see Chapter 13.

4. Other Assets, Line 1.A.4. Intragovernmental other assets are assets not reported in a separate category under the Intragovernmental Assets section of the Balance Sheet. This line reports other intragovernmental advances and prepayments, including advance payments, and other intragovernmental assets that are immaterial to an entity and do not warrant separate reporting. Other assets are disclosed in Note 6 to the financial statements. For other assets elimination requirements, please see Chapter 13.

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

B. Cash and Other Monetary Assets, Line 1.B. This line reports entity and nonentity cash and other monetary assets. The amount of cash and other monetary assets that the DoD reporting entity holds and is authorized to spend is entity cash. The assets under this category that a DoD reporting entity collects and holds on behalf of the U.S. Federal Government or other entities are nonentity cash and other monetary assets; report both on this line. This line also includes DoD disbursing officers' cash from the Standard Form 1219 "Statement of Accountability" and the total U.S. dollar equivalent of foreign currencies held in special program foreign currency fund accounts. Cash and other monetary assets are disclosed in Note 7 to the financial statements.

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 including nonconfirmed collections and disbursements;
 - c. Cash held in imprest funds;
 - d. Foreign currencies translated for accounting purposes into U.S. dollars at the exchange rate on the financial statement date; and
 - e. Investments held outside of Treasury.
2. Other Monetary Assets include:
 - a. Gold;
 - b. Special drawing rights; and
 - c. U.S. Reserves in the International Monetary Fund.

C. Accounts Receivable, Net, Line 1.C. This line reports DoD claims to cash or other assets due from nonfederal entities, net of an allowance for estimated doubtful amounts. It also includes interest receivable from nonfederal entities and supported undistributed collections. However, DoD reporting entities must report interest receivable related to direct loans and acquired defaulted guaranteed loans as a component of loans receivable on Line 1.D. Accounts receivable, net, are disclosed in Note 5 to the financial statements.

D. Loans Receivable, Net, Line 1.D. This line reports the net value of direct loans receivable (i.e., prior to 1992 and post-1991) and acquired defaulted guaranteed loans receivable. The net value of credit program receivables and related foreclosed property are considered entity assets if the entity has the authority to determine the use of the funds collected or is legally obligated to use the funds to meet entity obligations (e.g., loans payable to the Treasury). If a DoD reporting entity administers a loan guarantee program and forecloses on property, then refer to SFFAS 2, “Accounting for Direct Loans and Loan Guarantees” for detailed requirements. When a loan guarantee program (generating a 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. The undelivered order recorded to obligate the funds is sufficient disclosure when reported as part of the total undelivered orders. Loans receivable, net, are disclosed in Note 8 to the financial statements.

E. Inventory and Related Property, Line 1.E. This line includes inventory, operating materiel and supplies (OM&S), and stockpile materiel. Inventory and related property are disclosed in Note 9 to the financial statements. The following categories make up this line:

1. Inventory. Inventory is tangible personal property that is:
 - a. Held for sale, including raw materials and work in process,
 - b. In the process of production for sale,
 - c. To be consumed in the production of goods for sale or in the provision of services for a fee; and
 - d. To be transferred to entities within or outside of the U.S. Federal Government.

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.

3. Stockpile Materiel. Stockpile materiel is strategic and critical materiel held due to statutory requirements for use in national defense, conservation, or national emergencies as required by the Strategic and Critical Materials Stock Piling Act. Specifically, this line reports only materiel applicable to and reported by the Defense Logistics Agency (DLA). The DLA National Defense Stockpile Center manages DoD stockpile materiel and only the DLA National Defense Stockpile Transaction Fund is authorized to use this inventory category and associated accounts.

Note: For accounting policy regarding inventory, please see Volume 4, Chapter 4, including applicable Policy Memoranda related to this chapter (on the DoD Financial Management Regulation website).

* F. General Property, Plant and Equipment (PP&E), Net, Line 1.F. This line reports all PP&E (net of accumulated depreciation) as defined in SFFAS 6, “Accounting for Property, Plant and Equipment (PP&E)” and Volume 4, Chapter 6, including applicable Policy Memoranda related to this chapter. DoD reporting agencies must recognize impairments of General PP&E that will remain in use by the entity, in accordance with SFFAS 44, “Accounting for Impairment of General Property, Plant and Equipment Remaining in Use”. General PP&E, Net, is disclosed in Note 10 to the financial statements. Moreover, although the value of stewardship assets does not appear on the Balance Sheet, it is also disclosed in Note 10 to the financial statements. General PP&E, Net, includes:

1. Capitalized PP&E. Capitalized PP&E includes general and personal property and any related modifications, modernizations, upgrades, and improvements whose values or costs meet or exceed the capitalization thresholds established by the Department. For additional policy regarding capitalization, please see Volume 4 and applicable Policy Memoranda related to this volume.

2. Real Property. Real property includes buildings, structures, linear structures, facilities, installed building equipment (e.g., control systems, heating, cooling, electrical, and emergency lighting), and related capital improvements. Moreover, DoD reporting entities must record the value of Base Realignment and Closure real property (once the mission of that installation terminates or transfers) in USSGL account 189000, “Other General Property, Plant and Equipment”. This account is reported as General PP&E.

3. Assets Acquired through Capital Leases, including Leasehold Improvements. Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. For additional policy regarding capital leases, please see SFFAS 6. DoD reporting entities must separately disclose capital leases in Note 10.

4. Government Furnished Equipment (GFE) and Contractor Acquired Property (CAP). GFE is property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract. CAP means property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the Government has title. DoD reporting entities must use the most reliable source of information available as a means to report the value of GFE and CAP. For additional policy regarding GFE and CAP, please see Volume 4, Chapter 6, including applicable Policy Memoranda related to this chapter.

5. Working Capital Fund (WCF) PP&E. DoD WCF reporting entities operate as business-type activities. DoD WCF reporting entities must categorize all PP&E used in the performance of their missions as General PP&E, whether or not it meets the definition of other PP&E categories.

6. Internal Use Software. DoD reporting entities must capitalize, as an asset (under General PP&E), the cost of software, whether commercial off-the-shelf, internally developed, or contractor-developed, that meets the DoD capitalization criteria for General PP&E. For further policy on internal use software, please see SFFAS 10, “Accounting

for Internal Use Software”; Federal Financial Accounting and Auditing [Technical Release 16](#), and Volume 4, Chapter 6, including applicable Policy Memoranda related to this chapter.

7. Depreciation. Depreciation is the expense associated with the use of General PP&E. It is a contra-asset account that reduces the amount reported for PP&E. DoD reporting entities must recognize depreciation on all General PP&E, except land and land rights of unlimited duration. For additional policy regarding depreciation, please see Volume 4, Chapter 6, including applicable Policy Memoranda related to this chapter.

8. 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 29](#), “Heritage Assets and Stewardship Land”, DoD reporting entities must capitalize as General PP&E and depreciate the cost of acquiring, improving, and reconstructing all multi-use heritage assets.

9. Construction-in-Progress (CIP). CIP is a temporary asset account in which DoD reporting entities must record the costs of constructing real property and general equipment. CIP accounts include all costs incurred to bring the asset to a form and condition suitable for its intended use. Capital expenditures or Contract Financing Payments (CFPs), coinciding with the portion of the work completed for real property and/or general equipment, must be recorded in a CIP account. For additional policy regarding CIP and/or CFPs, please see Volume 4, Chapters 5 and 6, including applicable Policy Memoranda related to these chapters.

10. Land. General PP&E includes land and land rights acquired for or in connection with other General PP&E. Acquired for or in connection with other General PP&E is defined as land acquired with the intent to construct General PP&E and land acquired in combination with General PP&E, including not only land used as the foundation, but also adjacent land considered to be the General PP&E’s common grounds. DoD reporting entities that have not yet undergone a financial statement audit where they received an unmodified audit opinion must exclude (or adjust their land and land rights opening balances to zero) the value of land and land rights from opening balances of General PP&E on their balance sheets in accordance with SFFAS 6, as amended by [SFFAS 50](#), “Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35”. Moreover, these entities must continue to exclude and expense future land and land rights acquisitions. Conversely, DoD reporting entities that have received an unmodified audit opinion will continue to account for land and land rights in accordance with SFFAS 6. All DoD reporting entities must disclose, in Note 10, with a reference on the balance sheet, the number of acres of General PP&E land and land rights held as of the period of its first audited financial statement. DoD reporting entities must report this acreage amount separately from Stewardship Land. There are no disclosure requirements for General PP&E land rights not measured in acres in establishing opening balances.

Note: For accounting policy regarding General PP&E, please see Volume 4, Chapter 6, including applicable Policy Memoranda related to this chapter.

G. Investments, Line 1.G. This line reports investments in nonfederal securities. DoD reporting entities must report investments in nonfederal securities separately from investments in federal securities. Nonfederal securities include those issued by state and local governments, government-sponsored enterprises, and other private corporations. Nonfederal securities are reported at acquisition cost or amortized acquisition cost (less an allowance for losses, if any). This line represents other DoD investments as allowed by public law. Specifically, Public Law 104-106, Section 2801 authorizes DoD to enter into limited partnerships in support of the Military Housing Privatization Initiative. Investments are disclosed in Note 4 to the financial statements.

H. Other Assets, Line 1.H. Other assets are nonfederal assets that are not reported in a separate category on the Balance Sheet. Other assets are disclosed in Note 6 to the financial statements.

1. Other assets reports the values of all advances and prepayments made to nonfederal entities, and includes travel advances and those assets that are immaterial to the entity and do not warrant separate reporting.

2. This line does not include invoice payments, to include payments for partial deliveries or lease and rental payments. In addition, CFPs are not Other Assets. DoD reporting entities must record CFPs in a CIP account and report them on the General PP&E line of the Balance Sheet.

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

J. Stewardship PP&E, Line 3. Stewardship PP&E consists of assets whose physical properties resemble those of General PP&E. However, due to their unique nature, stewardship assets are not capitalized and carry no book value. DoD reporting entities must 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 non-collection type heritage assets (i.e., parks, memorials, monuments, and buildings). These assets are preserved indefinitely. Heritage PP&E are unique for one or more of the following reasons:

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

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

3. SFFAS 29. This standard reclassified heritage assets and stewardship land information as basic information, with the exception of condition reporting, which is considered Required Supplemental Information (RSI). Specifically, it requires reporting entities to reference a note on the face of the Balance Sheet that discloses information about heritage assets and stewardship land, but report no asset dollar amount. Rather than use a separate note, DoD discloses Stewardship PP&E in Note 10 to the financial statements.

040303. Definitions and Concepts in the Liabilities Section

A. Liability. A liability is a probable future outflow or other sacrifice of resources resulting from past transactions or events. Financial statements must 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; and
4. Nonexchange transactions that are unpaid amounts due as of the reporting date.

B. Liability Recognition.

1. SFFAS 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 that routinely recur in normal operations and are due within a fiscal year (e.g., accounts payable, as outlined in SFFAS 1), but also contingent liabilities resulting from an existing condition that involve uncertainty as to possible loss.

2. DoD reporting entities must recognize liabilities resulting from normal operations 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 included in Title 31, United States Code, section 1552 “Procedure for Appropriation Accounts Available for Definite Periods”.

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 Balance Sheet. For example, intragovernmental accounts payable covered by budgetary resources and intragovernmental accounts payable not covered by budgetary resources are combined and reported as a single intragovernmental accounts payable line item on 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); and
- (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.** DoD policy is to classify custodial liabilities as “covered” by the assets that are collected and held for eventual transfer to other entities.

2. Liabilities Not Covered by Budgetary Resources. This category is for liabilities that are not covered by budgetary resources, as provided in paragraph 040303.C.1.b. **DoD reporting entities must disclose liabilities not covered by budgetary resources separately in Note 11.**

D. Current Liability. An amount that is due to be paid within 12 months of the Balance Sheet date.

E. Noncurrent Liability. An amount that is due to be paid beyond 12 months of the Balance Sheet date.

* F. Contingent Liability. A potential liability that may occur, depending on the outcome of an uncertain future event. A contingent liability is recorded if the contingency is probable and the amount of the liability can be reasonably estimated.

G. Intragovernmental Liabilities. Intragovernmental liabilities arise from transactions within or between federal entities. Intragovernmental liabilities are claims against a DoD reporting entity by other federal entities. DoD reporting entities must report intragovernmental liabilities separately from nonfederal liabilities, including government-sponsored enterprises and the Federal Reserve System, on the Balance Sheet. Liabilities with the FMS Trust Fund are classified as intragovernmental.

* H. Interest Payable. Interest payable is a current liability that is used to report the amount of interest incurred, but not paid by DoD reporting entities as of the date of the Balance Sheet. DoD reporting entities must report interest payable as a component of the appropriate liability accounts. Interest payable to federal entities is an intragovernmental liability and must be accounted for separately from interest payable to nonfederal entities (or the public).

040304. Liabilities

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

A. Intragovernmental Liabilities.

1. Accounts Payable, Line 4.A.1. Intragovernmental accounts payable are amounts owed by a DoD reporting entity for goods and services received from other federal entities. They include payables for progress made in contract performance by other federal entities and rents due to other federal entities. DoD reporting entities must adjust accounts payable for undistributed disbursements. Accounts payable are disclosed in Note 12 to the financial statements. For intragovernmental accounts payable elimination requirements, please see Chapter 13.

2. Debt, Line 4.A.2. This line reports 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). DoD reporting entities must classify all debt not covered by budgetary resources, except for direct loan and guaranteed loan financing account debt to Treasury, and that portion of other debt covered by budgetary resources, at the Balance Sheet date. Debt is disclosed in Note 13 to the financial statements.

3. Other Liabilities, Line 4.A.3. Intragovernmental other liabilities are liabilities not reported in a separate category under the Intragovernmental liabilities section of the Balance Sheet. This line reports the total amount due (i.e., current and noncurrent) to federal entities for liabilities owed by DoD reporting entities that are not included on lines 4.A.1 and 4.A.2. 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. This line also includes pecuniary liability to the Treasury for DoD disbursing officer's cash reported on FMS 1219. Other liabilities are disclosed in Note 15 to the financial statements.

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. Accounts payable are amounts owed by a DoD reporting entity for goods and services received from nonfederal entities. They include payables for progress made in contract performance by nonfederal entities and rents due to nonfederal entities. DoD reporting entities must report interest payable as a component of the accounts payable on this line. Accrued interest payable is also included in this line as detailed by the Prompt Payment Act. DoD reporting entities must adjust accounts payable for undistributed disbursements. Accounts payable are disclosed in Note 12 to the financial statements.

C. Military Retirement and Other Federal Employment Benefits, Line 4.C. This line is applicable to and reports military retirement pension benefits, retired military health benefits, and other employment related actuarial liabilities for civilian and military personnel.

1. DoD reporting entities responsible for the administration of pensions, other retirement benefits, including health benefits for retirees and other post-employment benefits, must calculate and report these liabilities and related expenses in accordance with SFFAS 5 and SFFAS 33, “Pensions, Other Retirement Benefits, and Other Post-Employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates”. Liabilities for federal employee and veterans’ benefits include the actuarial portion of these benefits. They do not include liabilities related to ongoing continuous expenses (e.g., employee accrued salary and accrued annual leave), which are reported on the Other Liabilities line.

2. Military retirement and other federal employment benefits are disclosed in Note 17 to the financial statements.

D. Environmental and Disposal Liabilities, Line 4.D. Environmental and disposal liabilities include the costs to remove, contain, and dispose of hazardous waste from General PP&E; as well as the costs to remove, contain, and dispose of materiel and property that is deemed to be hazardous waste at a permanent or temporary closure or shutdown of associated General PP&E. SFFAS 5 provides criteria for recognizing a contingent liability and DoD reporting entities must apply such criteria to determine when cleanup costs are recognized as liabilities and disclosed in the notes. SFFAS 6 supplements the liability standard by providing policy for recording cleanup costs related to General PP&E and Stewardship PP&E used in federal operations. Environmental and disposal activities are disclosed in Note 14 to the financial statements.

Note: For accounting policy regarding Environmental and Disposal Activities, please see Volume 4, Chapter 13, including applicable Policy Memoranda related to this chapter.

E. Loan Guarantee Liability, Line 4.E. This line reports 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 must be included. When the total loan guarantee liability for all credit programs of a DoD reporting

entity is negative, [the entity must report the loan](#) as an asset. If a loan guarantee liability is the result of both positive and negative amounts for the various [components](#), then the total [must](#) be shown as a liability and negative [components](#) disclosed. [Liabilities for loan guarantees are disclosed in Note 8 to the financial statements.](#)

* F. Other Liabilities, Line 4.F.

1. Included Amounts. This line reports the total amount due (i.e., current and noncurrent) to nonfederal entities for other liabilities owed by DoD reporting entities that are not included on lines 4.A through 4.E. This amount includes, but is not limited to, liabilities related to deferred credits [from nonfederal entities](#), accrued liabilities related to ongoing continuous expenses, such as federal employee salaries, 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 contingencies. [In addition, cleanup costs are reported as other liabilities if they are not material to the Balance Sheet. Cleanup costs that exceed the materiality threshold are reported separately as environmental and disposal liabilities. Other liabilities are disclosed in Note 15 to the financial statements.](#)

2. 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; and

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

3. 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. [DoD reporting entities must recognize](#) a contingent liability 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. [Contingencies that do not meet any of the conditions for liability recognition and there is at least a reasonable possibility that a loss or an additional loss may have been incurred, must be disclosed in a separate note \(i.e., Note 16\). For additional policy regarding contingent liabilities, please see SFFAS 5, as amended by SFFAS 12, and Volume 4, Chapter 12.](#)

b. DoD reporting entities must also disclose, in Note 16, the following commitments:

(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 that may require future financial obligations.

c. DoD reporting entities must recognize a contingent liability for pending or threatened litigation and unasserted claims when the future outflow or other sacrifice of resources is measurable and "likely to occur" as detailed by SFFAS 12.

d. DoD reporting entities must recognize a contingent liability for contingencies not related to pending or threatened litigation when the future outflow or other sacrifice of resources is measurable and "more likely than not to occur" as detailed in SFFAS 12. If a contingency exists for clean-up costs related to Stewardship PP&E, DoD reporting entities must recognize a contingent liability when the Stewardship PP&E is placed in service. DoD reporting entities must report such liability on Line 4.D.

4. Lease Liabilities. DoD reporting entities must report the liability for nonfederal capital leases, including those capital leases entered into during Fiscal Year 1992 and thereafter, and required to be fully funded in the first year of the lease. DoD reporting entities must disclose capital lease liabilities in Note 15.

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

* H. Commitments and Contingencies, Line 6. DoD reporting entities must disclose on Line 6 and in Note 16 any contingencies that do not meet any of the conditions for liability recognition and for which there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

*040305. Net Position

Net Position is comprised of unexpended appropriations and cumulative results of operations, including those attributable to funds from dedicated collections. Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. SFFAS 27, as amended by SFFAS 43, requires disclosure of all funds from dedicated collections for which the reporting entity has program management responsibility. Funds from dedicated collections are disclosed in Note 23 to the financial statements. The elements of net position are classified as follows:

* A. Unexpended Appropriations, Dedicated Collections, Line 7.A. This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances related to [funds from dedicated collections](#). DoD reporting entities must report unexpended appropriations attributable to [funds from dedicated collections](#) separately on the Balance Sheet. The prior period columns of the basic financial statements and related disclosures must not be restated in the year [funds from dedicated collections](#) are initially reported by an entity.

* B. Unexpended Appropriations, Other Funds, Line 7.B. This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances that do not relate to [funds from dedicated collections](#). The amount of unexpended appropriations (including the amount of dedicated collections) reported on the Balance Sheet should equal the amount of unexpended appropriations reported on the Statement of Changes in Net Position (SCNP).

* C. Cumulative Results of Operations, Dedicated Collections, Line 7.C. This line reports the net results of operations since inception, plus the cumulative amount of prior period adjustments related to [funds from dedicated collections](#). DoD reporting entities must report the cumulative results of operations attributable to [funds from dedicated collections](#) separately on the Balance Sheet and in accordance with SFFAS 27, as amended by SFFAS 43. The prior period columns of the basic financial statements and related disclosures must not be restated in the year [funds from dedicated collections](#) are initially reported by an entity.

* D. Cumulative Results of Operations, Other Funds, Line 7.D. This line reports the net results of operations since inception plus the cumulative amount of prior period adjustments that do not relate to [funds from dedicated collections](#). This includes the cumulative amount of donations and transfers of assets in and out without reimbursement. The amount of cumulative results of operations (including the amount of dedicated collections) reported on the Balance Sheet should equal the amount of cumulative results of operations reported on the SCNP.

E. Total Net Position, Line 8. This line is the sum of Lines 7.A. through 7.D.

F. Total Liabilities and Net Position, Line 9. This line is the sum of Lines 5 and 8.

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, Net (Note 8)		xxx		xxx
E. Inventory and Related Property, Net (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. COMMITMENTS AND CONTINGENCIES (Note 16)				
7. NET POSITION				
A. Unexpended Appropriations, Dedicated Collections (Note 23)	\$	xxx	\$	xxx
B. Unexpended Appropriations, Other Funds		xxx		xxx
C. Cumulative Results of Operations, Dedicated Collections (Note 23)		xxx		xxx
D. Cumulative Results of Operations, Other Funds		xxx		xxx
8. TOTAL NET POSITION	\$	xxx	\$	xxx
9. TOTAL LIABILITIES AND NET POSITION	\$	xxx	\$	xxx