



## Chapter 2 Balance Sheet

The balance sheet presents amounts of future economic benefits owned or managed by the reporting entity exclusive of items subject to stewardship reporting (assets), amounts owed by the entity (liabilities), and amounts which comprise the difference (net position). Presentation of segment data is optional, but preferred and is presented as Other Supplementary Information.

Specific balance sheet line items and disclosures requiring special emphasis are presented below.

### A. Assets

Assets are tangible or intangible items owned by the Federal Government that have probable economic benefits that can be obtained or controlled by a federal government entity.

#### 1. Asset Classifications

*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 entity 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.

*Non-Entity Assets:* These are assets that are held by an entity but are not available to the entity. An example of non-entity assets is income tax receivables, which the Internal Revenue Service collects for the U.S. Government but has no authority to spend. Note that an amount or amounts equal to non-entity assets should be recognized as a liability (due to Treasury or other entities) in the financial statements

- Combine entity and non-entity assets on the face of the balance sheet. Disclose both entity and non-entity assets in the footnotes. (Due to Custodial Activity, MMS may continue to report these separately on the face of the statements.)

*Restricted Assets:* Restricted Assets is a disclosure used within Interior beyond the scope of the SFFAS #1 requirements to disclose large amounts of total assets, primarily consisting of Fund Balance and Investments, which technically meet the definition of an "entity asset" but which are not currently available for Department use. These assets are essentially a subset of entity assets (entity-restricted). There are five types of Restricted Assets within the Department:

- (1) Land and Water Conservation Fund



- (2) **Historic Preservation Fund**
- (3) Reclamation Fund
- (4) Environmental Improvement and Restoration Fund
- (5) Aquatic Resources Trust Fund

Note: A portion of the Aquatic Resources Trust Fund is specifically earmarked for other federal agencies, thus, this portion would be non-entity.

- Ensure appropriate subtotals exist in Hyperion for properly accumulating this data.

*Intra-governmental Assets:* These assets arise from transactions among Federal entities. These assets are claims of a Federal entity against other Federal entities. Intra-governmental assets include an entity's fund balance with Treasury, investments in Treasury securities, accounts and interest receivable from federal entities, and advances and prepayments to federal entities.

- Report intra-governmental assets separately from transactions with non-Federal entities, the Federal Reserve, and government-sponsored enterprises (i.e., Federally chartered but privately owned and operated entities).
- Ensure federal versus public breakouts does not present negative balances.

*Governmental Assets:* These assets arise from transactions with non-federal entities, e.g., persons, governments and organizations outside that are not part of the U.S. Government. The term public is also used to refer to non-federal entities. Government assets include cash, accounts and interest receivable from non-federal entities, and advances and prepayments made to non-federal entities.

## 2. **Property, Plant and Equipment**

### a. ***General Property, Plant and Equipment***

The Statement of Federal Financial Accounting Standards (SFFAS) #6, "Accounting for Property, Plant and Equipment provides accounting requirements for federally owned property, plant and equipment. Areas with particular Departmental guidance are noted below.

Physical count:

- Conduct inventories in accordance with guidance from property office.



- For financial reporting purposes, real property should be inventoried on the cyclical basis over a 5-year period or on a valid statistical basis but not necessarily 100% every year.
- Property reconciliation must be completed for the third quarter and year-end for FY2002 and completed quarterly during FY2003.
  - Ensure subsidiary ledger has been tied to general ledger.
  - Ensure any reconciliation items are supported.

**Thresholds:**

- Capitalization thresholds must be disclosed in the footnotes.
- For capitalization threshold for real property, the Bureaus will use the thresholds established in the Real Property Financial Management Policy issued April 30, 2003 and the Real Property Guide issued May 15, 2003.
- For capitalization threshold for personal property, the Bureaus will continue to use the thresholds established in prior years.

**Depreciation:**

- Depreciation calculation method must be disclosed in the footnotes.

**Useful life:**

- Refer to GSA schedule or IRS schedule or any reliable independent source, or document the rationale.

**Transfers:**

- Transfer of property, plant and equipment between Government Agencies must be at net book value unless unattainable, otherwise record the fair market value.

**Obsolete property, plant and equipment:**

- Remove obsolete property, plant and equipment from the accounting records.

**Internal Use Software**

- SFFAS #10 states the net book value will be used Government-wide. If the net book value is over \$100,000, then it should be capitalized. The useful life is 2-5 years.

**See Appendix B for Standard for Capitalizing the Cost of**



### Internal Use Software Memo.

#### b. *Leases*

The SFFAS #6 requires recognition of capital leases as well as disclosures related to capital and operating leases.

*Capital Leases:* These are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lessee should classify the lease as a capital lease.

- (1) The lease transfers ownership of the property to the lessee by the end of the lease term.
- (2) The lease contains an option to purchase the leased property at a bargain price.
- (3) The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- (4) The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.

- Bureaus should review their records for capital leases and record in accounting system before KPMG review.
- If capital and operating leases are determined to be immaterial, Bureaus should document this conclusion in work papers and make this analysis available to the auditors, if requested.

*Operating Leases:* These are leases that do not meet any of the above criteria.

- Disclosure should discuss:
  - (1) Property leases from GSA
  - (2) Other leases for real property
  - (3) Personal property.
- PFM will estimate GSA leases in a consistent manner based on data provided from GSA. **Bureaus must use these estimates.**
- Bureaus will be responsible for estimating other real property and personal property leases.
- Bureaus should estimate future lease payments for each of the next



5 years and a lump sum estimate of future years after the five years for all three types of leases.

- For non-GSA leases, Bureaus should contact the appropriate office within the bureau that maintains these leases.
- For non-GSA leases, the actual lease amount should be used as a basis to estimate the out years.

A file titled **Determination of Capital Leases** has been placed on the “XA” server: [\burinfo\2002-reports](#) to assist bureaus in determining if a lease should be classified as a capital lease.

**See Appendix C: SAMPLE – Determination of Capital Leases**

c. *Deferred Maintenance*

The Statement of Federal Financial Accounting Standards #6, “Accounting for Property, Plant and Equipment,” requires annual disclosure of the estimated cost to remedy accumulated deferred maintenance on Interior plant, property, and equipment (PP&E) beginning in 1998. Both General PP&E and Stewardship PP&E are included. At a bureau option, the deferred maintenance cost may be further divided between “critical” and “non-critical.”

The Department has developed a Five-Year Plan that provides a framework for improved planning and management to maintenance and construction programs and better defines accumulated deferred maintenance funding needs. In developing the Five-Year Plan, the Department established uniform criteria critical health and safety and resource protection projects, and through rigorous screening, prioritized the projects based on these criteria. Maintenance and Construction projects in the Five-Year Plan are ranked in accordance with established criteria, with greatest emphasis applied to deferred maintenance needs in critical health and safety and resource protection. Deferred maintenance reported for financial statement purposes should be reported consistent with the information in section (3.c.) below. This information should not include annual maintenance or capital improvements as defined in the Department’s Budget Request Formulation Guidance. Bureaus not covered by the Interior and Related Agencies Appropriations must still accumulate data in accordance with this guidance for purposes of inclusion of deferred maintenance information in annual Financial reports.

FASAB requires that all deferred maintenance be reported regardless of when it might be performed, not just that included in the Five-year Plans.



The long-term goal is to have deferred maintenance backlog information based on condition assessments recorded in a facilities maintenance management information system. However, bureaus that do not currently have that capability should report based on the following.

To comply with this requirement and the associated audit, all deferred maintenance should be disclosed including deferred maintenance identified in the Five-year Plans, and any other deferred maintenance needs and/or projects to be performed in years beyond the Five-Year Plans.

When projects on the Five-Year plan lists contain both deferred maintenance and capital improvement work, it is important to only report the estimated cost of the deferred maintenance.

(1) Categories of Deferred Maintenance

The deferred maintenance categories in the Five-Year Plan are as follows:

- (a) **Critical Health and Safety Deferred Maintenance:** A facility deferred maintenance need that poses a serious threat to public or employee safety or health.

Examples:

- A public building that is diagnosed to be at high risk for structural failure.
- Compliance with Notices of Violation (OSHA, EPA, etc.)
- Implementation of court-ordered repair or clean-up schedules.
- Safety deficiencies at “High Hazard” and “Significant Hazard” dams that if not corrected may cause the structure to fail, resulting in public or employee injury or death.
- Road projects (non-ISTEA eligible) to correct serious safety deficiencies.
- Repair of a failing fire alarm and/or existing sprinkler system.

- (b) **Critical Resource Protection Deferred Maintenance:** A facility deferred maintenance need that poses a serious threat to natural or cultural resources.

Examples:



- Deficiencies that poses the risk of serious decline in a fish or wildlife resource.
  - Repairs to a building housing a museum collection that is threatened because of the poor building condition.
  - Repair of a sewage system that has breached and is leaking into a perennial stream system.
  - Repairs to cultural/historic facilities and/or fabric to prevent loss.
- (c) Critical Mission Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to a bureau's ability to carry out its assigned mission.

Examples:

- Deficiency in electrical power generation capacity resulting from deferred maintenance.
  - Repair of deferred maintenance items at a visitor center or other public facility that if not accomplished will quickly compromise the public's investment in the structure
- (d) Compliance and other Deferred Maintenance: A facility deferred maintenance need that will improve public or employee safety, health, or accessibility; compliance with codes, standards, laws, complete unmet programmatic needs and mandated programs; protection of natural or cultural resources to a bureau's ability to carry out its assigned mission.

Examples:

- Providing universal ADA accessibility.
- Compliance with Federal, state, and/or local building codes.
- Facility repair or rehabilitation to increase program efficiency.
- Energy conservation projects.



Note: Needs identified under this category should be coded to enable retrieval of those needs addressing health, safety, accessibility, and other code compliance requirements (“unfunded requirements”).

As a general rule, deferred maintenance is not estimated on equipment. However, if the nature of operations is such that deferred maintenance on equipment is considered to be significant and meaningful, the bureau may report this information. In this case, deferred maintenance on equipment should be separately disclosed.

(2) Condition Assessment

The assessment of deferred maintenance for the Department is dependent upon the bureaus having accurate and complete facilities information. In order to ensure that the most critical needs are being addressed, it is essential that the bureaus have a complete inventory of their constructed assets and identify the cost of correcting the deferred maintenance needs associated with those assets. The Department’s Five Year Deferred Maintenance and Capital Improvement Plan covers deferred maintenance including all unfunded work required to bring a facility and its collateral equipment to a condition that meets accepted codes, laws, and standards (e.g. life safety code, ADA, environmental regulations, etc.); and to preserve the facility so that it continues to provide acceptable services and achieves its expected life.

In addition, accumulation of facility data will provide the necessary information for compliance with the Federal Accounting Standard that requires annual reporting of deferred maintenance of fixed assets (FASAB #6, Accounting for Property, Plant and Equipment). Interior has chosen condition assessment as the method to be used for determining the deferred maintenance for each class of constructed asset.

The following steps are required to achieve Interior-wide consistency in determining the physical condition of constructed assets:

- (b) Initiate a uniform methodology and a core data set for the facility condition assessments so as to ascertain the deferred maintenance and repair needs of all existing facilities and validate facility inventories.





- (c) Ensure competent and qualified personnel using uniform, comprehensive survey criteria conduct the condition assessments.
- (d) Develop automated systems that accurately document facilities' needs; can be easily reviewed and updated by field and regional staffs; and are capable of being aggregated to any bureau and Department level. Documentation should include standard need descriptions and associated cost estimating procedures.
- (e) Establish for each bureau a cyclic/recurring condition assessment process where qualified personnel conduct on-site inspections at a minimum every five years to determine the condition and accuracy of the inventory and deferred maintenance needs.

It is understood that it will take a multi-year effort for the bureaus to accomplish complete condition assessments on all of their constructed assets. However, over time the process of cyclic condition assessments will greatly improve the quality of the Five-year Plans as annual updates are made with better facility needs data.

(3) Definitions (Source: 2003 Budget Request Formulation Guidance)

(a) Deferred Maintenance

Deferred maintenance is defined in SFFAS #6 as maintenance that was not performed when it should have been or when it was scheduled and which, therefore, was put off or delayed for a future period.

- 1) Deferred maintenance needs may be further categorized in two tiers, critical and non-critical. Delaying correction of non-critical needs may result in their becoming critical facility or equipment deficiencies at a future time.
- 2) Code compliance (e.g. life safety, ADA, OSHA, environmental, etc.) and other regulatory or Executive Order compliance requirements not met on schedule are considered deferred maintenance. Construction of new facilities would be expected to comply with all codes and other requirements, as would major expansions of existing facilities.



## 3) Deferred Maintenance Backlog

The accumulated unfunded or otherwise delayed work required to bring facility or item of equipment to a condition that meets accepted codes, laws, and standards and preserves the facility or equipment so that it continues to provide acceptable services and achieves its expected life.

## 4) Facility or Equipment Deficiency

Defects occur when maintenance is not performed in a timely manner. Deficiencies may or may not have immediately observable physical consequences, but when allowed to accumulate, they inevitably lead to deterioration of performance or loss of asset value or both. An accumulation of such uncorrected deficiencies is a backlog that represents impairment (in both physical and financial terms).

## 5) Health and Safety Deficiency

A facilities or equipment deficiency that poses a threat to human safety and health (e.g. violations of National Fire Protection Association 101 Life Safety Code or appropriate Health Code) that requires immediate interim abatement and/or long-term permanent abatement.

## (b) Repair

Work to restore a damaged, broken, or worn-out facility, facility component, or item of equipment to normal operating condition.

- Repairs are either annual maintenance or deferred maintenance activities. Repairs are usually smaller in scope than rehabilitations.

## (c) Rehabilitation (without expansion or change of function)

Renovation of an existing facility or any of its components in order to restore and/or extend the life of the facility. Because there is no expansion or change of function, the



work primarily addresses deferred maintenance.

(d) Replacement

Substitution or exchange of one existing facility, facility component, or item of equipment for another having the capacity to perform the same function.

- Replacement is considered maintenance because the deferred maintenance needs for the replaced facility or item of equipment are eliminated. The decision to replace a facility or item of equipment usually is reached when replacement is more cost effective or in the best interest of the government rather than repair or rehabilitation. The size of the existing facility is not expanded in a replacement. Replacement of an item of equipment usually occurs when it has exceeded its useful life.

(f) Demolition and Disposal

Dismantling and removal, or surplus of a deteriorated or otherwise unneeded facility or item of equipment, including necessary clean-up work. This generally would not be considered deferred maintenance.

(f) Condition Assessment

Periodic inspection by qualified personnel to fully determine and document the condition of a facility or item of equipment and identify maintenance needs.

Facilities and items of equipment are categorized according to condition using codes such as those shown below:

*Good* - Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition.

*Fair* - Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy.



*Poor/Unsatisfactory* - Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases this includes condemned or failed facilities. Based on periodic condition assessments, and indicator of condition is the percent of facilities and items of equipment in each of the good, fair, or poor categories.

(4) Disclosures

- (a) The SFFAS#6 require that deferred maintenance information be disclosed as required supplemental information (RSI). Thus, a line for “deferred maintenance” is no longer required on the Statement of Net Cost with a reference to a note disclosure to the financial statements.
- (b) The SFFAS #8 require stewardship assets be reported as required supplemental stewardship information. Thus, deferred maintenance related to general PP&E and to stewardship assets must also be disclosed separately.
- (c) Stratification between “critical deferred maintenance” and “non-critical deferred maintenance” is considered an optional disclosure. These terms used in the FY2001 Budget Guidance may not necessarily have the same meaning as SFFAS#6. Therefore, if Bureaus elect to differentiate between critical and noncritical deferred maintenance, the disclosure shall include the definition of these categories.
- (d) Additional disclosure information
- 1) Disclosures should also include information to disclose the imprecise nature of the estimate. For example, the estimate may be imprecise due to:
- Age of original estimate
  - Lack of condition assessments
  - Lack of documentation - reliance (by necessity) on professional judgment of numerous, varied individuals throughout the organization
  - Lack of existing system to track deferred maintenance estimates, thus items of deferred



- maintenance may be excluded or double counted
  - Factors outside of management control - e.g. finding different situation once construction begins
  - The quality and availability of data may vary according to different types of property
  - Etc.
- 2) A detailed breakout by type of property can either imply precision or be used as a basis for describing varying levels of precision (imprecision) for different types of activity. Thus, use any breakdowns of the dollars to communicate varying levels of precision. Use a limited number of categories.
- 3) Include a summary of the bureau's plans to improve the process for collecting deferred maintenance data. For example, "a major initiative is underway to..." or "we have begun a multi-year effort to..."
- 4) Sample Deferred Maintenance Disclosures
- Discussion of deferred maintenance condition assessment process with a brief explanation of the categories and definitions used.
  - Bureau owns/purchases/constructs assets such as...
  - These assets are used to (examples of supporting the mission)...
  - There is, however, a significant maintenance backlog relative to these assets, arising from...
  - The estimated amount necessary to correct this backlog ranges from \$x to \$y. Since the actual cost of correcting deferred maintenance will not be known until the work is performed, this range is by necessity an estimate. The following factors were considered in arriving at this estimate:
    - (a) This estimate includes property such as...
    - (b) This estimate excludes property such as...
    - (c) This estimate includes items such as (overhead, internal employee costs, etc.)



- This estimate excludes items such as (routine maintenance, etc.)...
- The Bureau's plans for periodic condition assessments are...these have begun / will begin when. In the meantime, the Bureau used...to estimate condition and deferred maintenance.
- The scope and nature of certain property, such as..., is such that annual condition assessments will never be feasible (e.g. each BLM employee would have to review thousands of acres of land per year, etc.)
- Other factors considered by the Bureau in determining the estimate include...

(5) Submission of Data

**See Appendix D for Deferred Maintenance Data Request.**

3. **Other Assets**

Other Assets includes those assets not reported in a separate category on the face of the balance sheet.

- Bureaus should include a description or schedule of other assets in the footnotes.

**B. Liabilities**

A liability is a probable future outflow or other sacrifice of resources as a result of past transactions or events.

1. **Liability Classifications**

Liabilities are recognized when they are incurred regardless of whether they are covered by available budgetary resources. This includes liabilities related to appropriations canceled under "M" account legislation.

*Liabilities Covered by Budgetary Resources:* Liabilities are considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law as of the balance sheet date provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met.



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) spending authority from offsetting collections (credited to an appropriation or fund account), (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by OMB without further action by the Congress or without a contingency having to be met first.

- Post the primary portion of accrued funded payroll SGL Account 2210 *Accrued Funded Payroll and Leave*.
- Post the tax portion of accrued funded payroll to SGL Account 2213 *Employer Contributions and Payroll Taxes Payable*.

*Liabilities Not Covered by Budgetary Resources:* These are liabilities not considered to be covered as described in the paragraph above.

- Use SGL Account 2400 *Liability for Deposit Funds, Clearing Accounts and Undeposited Collections* only in clearing or deposit accounts.
- Adjust unfunded accrued annual leave to include payroll taxes payable and the related taxes to be posted to SGL Account 2290 *Other Unfunded Employment Related Liability* with the appropriate trading partner of G.99
- Combine liabilities covered and not covered by budgetary resources on the face of the balance sheet. Disclose liabilities not covered by budgetary resources in the footnotes.

*Intra-governmental Liabilities:* These liabilities are claims against the entity by other Federal entities. Intra-governmental liabilities include accounts and interest payable to federal entities and other current liabilities due to federal entities, such as receipt of federal advances and prepayments.

- Report intra-governmental liabilities separately from claims against the reporting entity by non-Federal entities, the Federal Reserve, and government-sponsored enterprises.
- Ensure federal versus public breakouts does not present negative balances.



*Governmental Liabilities:* These liabilities are claims against the entity by other non-federal entities, e.g. persons, governments and organizations outside that are not part of the U.S. Government. Governmental liabilities include accounts and interest payable to non-federal entities, other liabilities due to non-federal entities, and advances and prepayments received from non-federal entities.

## 2. **Funded and Unfunded Liabilities**

The amount of Funded and Unfunded Liabilities must be disclosed in the notes to the financial statements. Liabilities are recognized when they are incurred regardless of whether they are covered by available budgetary resources. This includes liabilities related to appropriations canceled under “M” account legislation.

*Funded Liabilities:* These are liabilities that are covered by budgetary resources as of the balance sheet date.

- Post the primary portion of accrued funded payroll SGL Account 2210 *Accrued Funded Payroll and Leave*.
- Post the tax portion of accrued funded payroll to SGL Account 2213 *Employer Contributions and payroll Taxes Payable*.

*Unfunded Liabilities:* These are liabilities that are not covered by budgetary resources as of the balance sheet date.

- Use SGL Account 2400 *Liability for Deposit Funds, Clearing Accounts and Undeposited Collections* only in clearing or deposit accounts.
- Adjust unfunded accrued annual leave to include payroll taxes payable and the related taxes to be posted to SGL Account 2290 *Other Unfunded Employment Related Liability* with the appropriate trading partner of G.99.

## 3. **Current and Non-Current Liabilities**

*Current Liabilities:* Probable future outflow or other sacrifice of resources as a result of past transactions or events whose liquidation is reasonably expected to occur within a relatively short period of time, usually 12 months.

*Non-Current Liabilities:* Probable future outflow or other sacrifice of resources as a result of past transactions or events whose liquidation is reasonably expected to occur beyond one year.





- ❑ *SGL Account 2225.G Unfunded FECA Liability as a Department is expected to be 40% Current and 60% Non-Current, based on analysis.*
- ❑ *Each bureau is expected to analyze other SGL Accounts and determine the current and non-current portions. As a rule, it is not reasonable to disclose that certain SGL Accounts are always current or non-current.*

#### 4. **Accruals and Estimates**

In order for the financial statements to be properly stated at year end, all financial events that occur on or before September 30 must be recognized in the financial statements, regardless of whether supporting documentation (e.g. invoices) has been received or sent as of September 30. This is accomplished by the recognition of accruals at year end.

##### Common types of accruals:

- a. Recognition of expenses and/or assets and a related liability for goods or services received on or before September 30 but not yet paid for, even if the invoice for payment has not yet been received, for example:
  - (1) Services performed by employees, contractors, other Government accounts, vendors, carriers, grantees, lessors, and other payees
  - (2) Goods and other tangible property received prior to yearend
  - (3) Other routine transactions such as utility charges and Federal Express bills
- b. Recognition of revenue and a related receivable where services have been provided to customers or goods has changed hands as of September 30.

The use of unbilled receivables should be monitored, as the customer will need information about services provided by the bureau but not yet billed in order to properly present their own financial statements.

Accruals are estimates. Preparing an accrual requires professional judgment and should take into account the nature of the underlying transactions, information collected from the field, data available as of the cutoff date for the accrual, and historical knowledge of the types of transactions for which documentation is not received by year end. For example, accruals for goods received as of September 30 could be based on the actual bill received in October or estimated using comparable bills from prior months. However, additional procedures might be needed for accruals for services provided by agencies known to bill months or



years after the service is provided. Therefore, it is necessary for the bureau to perform an analytic review to ensure that the accruals are reasonable and appropriately covers all expense, revenue and other types of transactions.

A normal audit test to determine the reasonableness of accruals is to review transactions occurring in the first few months of the following fiscal year, data that is not available at the time the accrual must be estimated. Ideally, this test would demonstrate that the estimated accruals recognized by the bureau are large enough to cover transactions related to the prior year that came in the first months of the year, both individually and in total, and that all significant types of activity were considered in developing the accrual.

- Accruals are required for quarterly reporting.
- Estimates must be developed for the following categories:
  - ❖ OPM
  - ❖ DOL
  - ❖ Revenue
  - ❖ Unpaid Payroll
  - ❖ Receivables
    - Interest
    - Loans
    - Accounts
    - Allowance for Doubtful Accounts
    - Revenue
  - ❖ Reimbursables
  - ❖ Property
    - Depreciation
  - ❖ Inventory
    - Allowance for Depletion, Spoilage, etc.
  - ❖ Unfunded Leave
  - ❖ ECL and Contingencies
  - ❖ Payables
    - Accounts
    - Grants
  - ❖ IPAC Billing
- The following components are required in developing estimates:
  1. Document methods and assumptions for the estimate
  2. Assure the methodology is reasonable. The methodology may include historical trend analysis, application of ratios, stratification, etc.
  3. Analyze and support assumptions
  4. Define data elements that are key to the methodology
  5. Test assumptions periodically by comparing actual results to



assumptions

6. Test actual data to estimates periodically
7. Identify exceptions to the assumptions by considering any subsequent events
8. Include any known or projected program fluctuations and increase the range of historical data if large fluctuations are anticipated or occur
9. Assess the validity of historical data
10. Determine which estimates must be process-specific
11. Demonstrate that the aggregate values below any established threshold are immaterial.

- Bureaus should consider using SGL Account 2190 *Other Accrued Liabilities* for accruals to facilitate reconciliation of subsidiary ledgers but may also use SGL Account 2110 *Accounts Payable*.

**See Appendix E for the Accrual, Estimates and Undelivered Orders Policy.**

## 5. Judgment Fund

In 1956, the Congress enacted a permanent, indefinite appropriation, known as the Judgment Fund, for the payment of final judgments, which cannot legally be paid from any existing appropriation or fund. This fund was intended to provide a mechanism that would alleviate the procedural burdens of judgment payment, allow for prompter payments, and reduce the assessment of interest against the United States (where such was allowed by law) during the period between the rendering and payment of an award. The Judgment Fund is available for most court judgments and Justice Department compromise settlements of actual or imminent lawsuits against the government.

Disbursements from the Judgment Fund are not attributed to or accounted for by the agencies whose activities give rise to awards paid.

- Disbursements made from the following Treasury funds are not required to be reimbursed: 20X1740, 20X1741, 20X1742
- Reimbursement is required for disbursements made from Treasury fund 20X1743.

Each bureau is responsible for reviewing all communication from Treasury (Internet and Hardcopy) related to the Judgment Fund. A liability must be posted unless the item(s) cannot be validated.

- Record Judgment Fund transactions originating as **unfunded** as follows:



(DR) SGL Account 6800 *Future Funded Expenses*  
(CR) SGL Account 299J *Other Liabilities – Judgment Fund*

- Record the reversal of the above entry once the payable becomes funded (billed by Treasury via IPAC) as follows:

(CR) SGL Account 299J *Other Liabilities – Judgment Fund*  
(DR) SGL Account 6800 *Future Funded Expenses*  
(DR) SGL Account 610A *Operating Expenses/Program Costs*  
(CR) SGL Account 1015 *SF224 Disbursements*  
(DR) SGL Account 4610 *Allotments – Realized Resources*  
(CR) SGL Account 4902 *Delivered Orders – Obligations, Paid*  
(DR) SGL Account 3103 *Unexpended Appropriations – Transfers-Out* (if applicable)  
(CR) SGL Account 570A *Appropriations Used – Operating Expense* (if applicable)

- Record Judgment Fund transactions originating as funded as follows:

SGL Account 299F *Other Liabilities*.

See Chapter 6 for Judgment Fund reconciliation process.

## 6. Environmental Clean-Up Liabilities & Other Contingent Liabilities

Statement of Federal Financial Accounting Standard #5, “*Accounting for Liabilities of the Federal Government*” requires the recognition and/or disclosure of contingent liabilities, including liabilities for environmental cleanup. Guidance for determining when an environmental liability is probable and reasonably estimable is available on the AAPC page on the FASAB website.

Contingent Liability disclosures should state the facts in general terms. It is important to ensure that the wording of the contingency disclosure does not compromise the government’s position with regard to any ongoing litigation or dispute. Bureaus should consider:

- Presenting summarized information on a number of similar contingent situations so that confidential information about any one situation is not disclosed; and
- Obtaining Solicitor’s Office review of disclosures prior to finalizing them.

The Solicitor’s Office will be asked to use a dollar threshold such as \$1 million for preparation of the legal response in order to limit its scope to significant items. This dollar level is somewhat arbitrary and should not be interpreted as a “materiality” level



for individual bureau reporting. Rather, bureaus should consider the facts and circumstances of the individual cases and the body of outstanding issues as a whole in determining dollar amounts to be recognized on the financial statements and disclosures to be reported in the notes.

See memorandum from the Assistant Secretary, Policy, Management and Budget requesting information on legal claims and assessments for Annual Financial Statements and also memorandum from the Director, Office of Financial Management requesting the updated list of sites with potential environmental liability. (**Appendices F and G, respectively**).