



DEPARTMENT OF WAR

FINANCIAL MANAGEMENT REGULATION

VOLUME 4: “ACCOUNTING POLICY”

**UNDER SECRETARY OF WAR
(COMPTROLLER)**

Table of Contents

1.0	GENERAL.....	3
2.0	FINANCIAL CONTROL OF ASSETS	3
3.0	ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY	4
4.0	INVESTMENTS AND OTHER ASSETS	10
5.0	RECEIVABLES	13
6.0	INVENTORY AND RELATED PROPERTY	22
7.0	GENERAL AND RIGHT-TO-USE PROPERTY, PLANT AND EQUIPMENT (GPP&E) 34	
8.0	ADVANCES	81
9.0	LIABILITIES	84
10.0	ACCOUNTS PAYABLE	84
11.0	PERSONNEL RELATED LIABILITIES.....	88
12.0	COMPONENT DEBT.....	91
13.0	OTHER LIABILITIES.....	92
14.0	ENVIRONMENTAL AND DISPOSAL LIABILITIES.....	94
15.0	PAYMENT INTEGRITY	100
16.0	REVENUE AND OTHER FINANCING SOURCES, GAINS AND LOSSES.....	104
17.0	EXPENSES AND MISCELLANEOUS ITEMS	108
18.0	MANAGERIAL COST ACCOUNTING	112
19.0	NET POSITION.....	121

VOLUME 4**ACCOUNTING POLICY****1.0 GENERAL****1.1 Purpose**

Volume 4 provides accounting policies, general guidance on supporting material, and specific guidance by appropriations, programs, and activities for the Office of the Secretary of War (OSW). Accounting policy memoranda issued throughout the year, special instructions, and nonrecurring requirements unique to that year's budget cycle will provide any necessary changes or revisions to this standing document. The provisions of Volume 4 apply to the OSW, the Military Departments, the Defense Agencies, the Combatant Commands, and any other Defense Field Offices or Activities (hereafter referred to as "Components") that manage programs. Volume 4 Supplemental contains corresponding instructions and procedures.

1.2 Authoritative Guidance

Refer to the Volume 4 authoritative guidance document on the FMR webpage.

1.3 Definitions

Refer to the Glossary on the FMR webpage.

1.4 Procedures

Refer to the Supplemental document listed throughout this volume.

2.0 FINANCIAL CONTROL OF ASSETS**2.1 Asset Characteristics**

An asset has two essential characteristics: it embodies probable future economic benefits or services, and the Department of War (DoW) owns or controls access to these benefits, allowing it to obtain, deny, or regulate access for other entities. The Component must record entries for accounting events for assets simultaneously in both the proprietary and budgetary accounts.

2.2 Noncash Assets

Noncash assets are valued promptly, once DoW acquires, takes possession, or exercises accounting control. For purposes of this paragraph, promptly means by the entity's fiscal year-end.

2.3 Entity Versus Non-Entity Assets

DoW Components report entity assets separately from non-entity assets in the financial statements. DoW Components use entity assets in their operations. The DoW Component determines how entity assets are used and must use them to meet statutory obligations. DoW Components may hold non-entity assets but not use them in their operations. A DoW Component may act as a fiduciary by maintaining non-entity assets for the Treasury, other government agencies, or non-federal entities. DoW Components must report both entity and custodial or managed non-entity assets in the financial statements. However, DoD Components must not recognize fiduciary non-entity assets on the Balance Sheet, according to SFFAS 31; refer to the Volume 4 Supplemental for more information.

2.4 Intragovernmental Versus Public Transactions

Transactions with other Non-DoW Federal Agencies and other DoW Components create intragovernmental assets. Similarly, transactions with non-federal entities create public assets, where "public" refers to domestic and foreign persons and organizations outside the U.S. Government.

3.0 ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY

3.1 Cash

Recognize cash, including imprest funds, as an asset in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 1. The Component must translate foreign currencies into U.S. dollars at the exchange rate on the financial statement date. Use the appropriate accounts to record transactions for Fund Balance with Treasury (FBwT) or foreign currency transactions. Refer to the USSGL Treasury Financial Manual (TFM) Supplement and the DoW USSGL Transaction Library.

3.2 Funds Held Outside of Treasury (FHOT)

Cash and Investments Held Outside of the Treasury (CIHO), also known as FHOT. Report entity and non-entity cash in accordance with SFFAS 1. Deposit funds from non-federal sources in anticipation of an order (that is, an advance) should be classified in accordance with SFFAS 31.

3.3 Restricted Cash

Laws, regulations, or agreements impose cash deposit restrictions. All non-entity cash has restrictions. Entity cash may also be subject to restrictions for specific purposes, and financial reports must disclose the reasons and nature of these restrictions.

3.4 Foreign Currency

Account for foreign currencies in subsidiary accounts separate from U.S. currency.

Report foreign currencies at the U.S. dollar equivalent using the exchange rates prescribed by the Secretary of the Treasury. Disclose in the financial statement notes that foreign currency is

not freely exchangeable. Accounting entities may prepare financial statements for their use. These entity-level statements will be translated into U.S. dollars when used to prepare departmental financial statements. See Volume 6 for additional foreign currency information.

3.5 Reconciliation

3.5.1. All federal agencies must reconcile their FBwT account with the detailed transactions posted to the general ledger on a regular and recurring basis. Additionally, all federal agencies must compare the FBwT balance with the available funds recorded on the Central Accounting Reporting System (CARS) Account Statement. This ensures all disbursements, collections, and intragovernmental transactions in CARS have supporting Agency Location Code (ALC)/ Disbursing Station Symbol Numbers (DSSN) details. This policy ensures the integrity and accuracy of the FBwT balance, which represents the available funds authorizing an entity to make expenditures and pay liabilities. Agencies must promptly disclose, identify, resolve, and correct all errors, losses, and gains. They can consider the reconciliation complete only after they identify all differences, assign accountability, explain any differences, and record the necessary adjustments.

3.5.2. Undistributed amounts are amounts reported to the Treasury that have not been posted to the appropriate obligation in a Component's general ledger or vice versa. Undistributed amounts can result from timing, invalid LOA, or invalid TAS information, among other reasons. Unsupported undistributed amounts are not yet researched/reconciled to supporting documentation. A "forced balance entry" made into a suspense account to match the Treasury's control total cannot be considered by an agency as an adequate reconciliation of the FBwT USSGL accounts 101000 and 109000. Policy strictly requires that personnel research all differences at the detail-voucher level to identify the underlying causes. For further guidance, refer to the Financial Audit Manual, Volume 2; Office of Management and Budget (OMB) Circular No. A-136; and the Volume 4 Supplemental.

3.6 Universe of Transactions (UoT)

The FBwT UoT comprises all valid funding, disbursements, collections, and transfers within a specific period. These transactions directly affect appropriation account balances as reported to Treasury, recorded in the entity's general ledger, and presented in its financial reports.

3.7 Deposit Fund Activity

Deposit fund activities are external to the budget process and are reviewed by Auditors during the DoW's FBwT reconciliation. Collections for these funds originate from the public and are unrelated to prior U.S. Government obligations. The DoW Treasury Index (TI) (defined in the Federal Account Symbols and Titles (FAST Book) designates the entity responsible for reporting the deposit fund liability, irrespective of the funds' source. To support accurate DoW financial statements and prevent commingling of rights or obligations, the Treasury component holding the funds must report the liability.

3.8 TI-97 Deposit Fund Liabilities Account

DoW Components must review deposit fund accounts quarterly to ensure the funds align with legal authority and maintain a positive balance, taking corrective action when necessary. If a disbursing officer over-disburses a fund, they must promptly report an Antideficiency Act (ADA) violation to OMB. When establishing deposit accounts with the Treasury, the responsible DoW entity must track, reconcile, and report all activity on the standalone financial statements of TI-97 Components. This requirement applies if the activity meets Treasury criteria, is material to a Component that prepares standalone financial statements (per OMB Bulletin 24-01 or statute), and has support from a unique statutory authorization. The DoW Office of Inspector General (OIG) will track, reconcile, report, and audit any deposit fund activity not meeting these criteria as part of the DoW consolidated audit. Refer to the Volume 4 Supplemental for more information.

3.9 Accounting for Cash and Investments Held Outside of Treasury

DoW policy, guided by TFM Chapter 3400 (FHOT), dictates the accounting and reporting for all CIHO. Components may temporarily hold cash using any DoW Treasury Appropriation Fund Symbol, subject to the restrictions noted in TFM Chapter 3400 and Volume 5. They must record all CIHO transactions, including Burden Sharing funds, using USSGL transaction code B150 and the FHOT Business Event Type Code, and report them on financial statements per Volume 6. Components are responsible for the oversight and monitoring of all FHOT. In this reconciliation, the Component must align the cash it reports on the Statement of Accountability with the CARS Account Statement and its own internal accounting records and financial statements. Component-level Standard Operating Procedures (SOPs) must detail the roles of service providers.

3.10 Cash Audits and Reviews

Managers supervising personnel who handle cash must maintain appropriate accounting and internal controls to ensure that all disbursements and collections are lawful, proper, and accurate. Policy requires auditors to conduct both announced and unannounced audits to verify personnel properly account for funds, do not exceed requirements, and protect them from loss or misuse. It is management's responsibility to assess vulnerability and determine audit frequency in accordance with DoD Instruction (DoDI) 5010.40. Furthermore, policy mandates that managers must investigate and report any unauthorized use, irregularity, or improper accounting for a cash fund.

3.11 Defense Revolving Fund

The Defense Working Capital Funds (DWCF) FBwT (account 097X4930) is an intragovernmental revolving fund with five Treasury sub-accounts. Each sub-account entity and the activities below it must report their FBwT. The Defense-wide DWCF centralizes funds for Defense Agencies: entities with excess collections contribute to the pool, while those with excess disbursements draw from it. Additional cash management policy is in Volume 2. Program Managers may realign DWCF balances to activity or installation levels but are strictly prohibited from transferring more than the available balance at the transferring DWCF Sub-Allocation Holder Identifier (SAHI). Cash at the Treasury account level must always be sufficient to pay liabilities.

Revolving fund cash management responsibilities are detailed in Volume 2. Personnel must immediately investigate and report any transaction causing a negative balance as a possible ADA violation as prescribed in Volume 14 and 31 United States Code (U.S.C.) § 1341.

3.12 FBwT Transactions

3.12.1. The current FBwT equals the fiscal year's (FY) opening balance plus cumulative collections, appropriations, and transfers-in, minus cumulative withdrawals, transfers-out, and disbursements. Record a collection or disbursement when documentary evidence, such as a Treasury Statement of Differences (SOD) or a voucher, provides support. For Revolving Fund activities, 10 U.S.C. § 2208(m) mandates that Components segregate cash collections and disbursements between operating programs and capital programs. (Refer to Volume 2 for more details).

3.12.2. Record customer advances or prepayments as a liability, per SFFAS 1 and OMB Circular No. A-11. Offsetting collections credited to expenditure accounts automatically offset outlays and budget authority. For more information, refer to Volume 3.

3.13 Reconciliation Roles and Responsibilities.

3.13.1. Under Secretary of War (Comptroller) (OUSW(C)) ODCFO, Financial Systems Modernization and Innovation (FSM&I) Directorate is responsible for the design, development, operation, and maintenance of the Advana FBwT application (see Volume 1).

3.13.2. Defense Finance and Accounting Service (DFAS) is responsible for ensuring the accuracy and integrity of FBwT reporting and reconciliation. This includes a policy mandate for DFAS to ensure that information submitted to Treasury on the Standard Form (SF) 224 and SF 1219 for ALC/DSSNs where DFAS is the Designated Agent matches Treasury records. A key policy is that all Cash Management Report (CMR) reconciling items and variances must be cleared within 60 business days unless they are deemed immaterial in total, with materiality being defined by SFFAS 1 as an omission or misstatement likely to influence a reasonable person's judgment.

3.13.3. Components are responsible for the accurate management of their FBwT. This includes ensuring the accuracy of transaction information reported to Treasury on forms such as the SF 224 and SF 1219 for ALCs that serve as the Designated Agent. A fundamental policy is to ensure a valid LOA is present on all original obligating documents throughout the procure-to-pay process. Furthermore, the relationship between Components, FSM&I, and DFAS must be formalized through documented support agreements, such as Memorandums of Agreement (MOAs) or Service Level Agreements, in accordance with DoDI 4000.19.

3.13.4. Reconciliation Requirements

3.13.4.1. Treasury requires monthly reconciliation of FBwT accounts to Treasury-reported as outlined in TFM Volume I, Part 2, Chapter 5100 and its Supplement. At the same time,

audit issue guidance is provided in the Government Accountability Office (GAO)/ Council of the Inspectors General on Integrity and Efficiency Financial Audit Manual.

3.13.4.2. DoW Components, in conjunction with DFAS, must perform detailed monthly reconciliations of their FBwT accounts (USSGL 101000 and 109000). This reconciliation must be comprehensive, performed at the voucher level, and encompass all fiscal years, all fund types, all TI-097 SAHIs, and all activity, including suspense accounts. Policy dictates that Components acting as ALC Designated Agents are responsible for correcting any differences between their submissions to Treasury and DFAS within 15 business days of being notified. Furthermore, a key policy is that both DFAS and DoW Components must demonstrate they have effective controls in place to ensure that amounts reported to Treasury reconcile with both disbursing and accounting systems.

3.13.5. Treasury Budget Clearing (Suspense) Accounts

Budget Clearing Accounts are temporary TAS established by the Bureau of the Fiscal Service (BFS) to temporarily hold unidentified transactions with a reasonable presumption that the funds belong to a federal agency. A critical policy is that effective FBwT reconciliations depend on the timely clearing of these Treasury suspense accounts. Policy also dictates that DoW Components are ultimately responsible for maintaining transaction records in general ledgers.

3.13.6. Reconciliation of FBwT for Comparison of Transactions

3.13.6.1. The DoW must compare transactions at a detailed level sufficient to specifically identify differences when reconciling FBwT to support accurate FBwT general ledger accounts and Treasury totals.

3.13.6.2. Components must comply with all operational requirements and deadlines for transaction reconciliation. A monthly, voucher-level reconciliation is mandatory, with a strict deadline of 30 calendar days following the end of the month being reconciled. Policy requires that Components have established processes to assign, track, age, research, and resolve all differences monthly at the voucher-level detail. A key policy is that all undistributed amounts, suspense items, and SOD balances must be cleared within 60 business days. For any items exceeding this timeframe, it is policy that the reason for the delay must be investigated and documented. Finally, policy mandates that both Service Provider supervisory and Component reviews and approvals must be completed within 10 business days after all identified differences are resolved.

3.13.6.3. Components are required to address all critical areas and key control points in the end-to-end FBwT reconciliation process. A key performance indicator for this policy is that Components must achieve a 99 percent complete match rate each month for each of these key control points.

3.13.7. FBwT – CARS Account Statement Reconciliation

Component must reconcile transactions to the beginning balance, net activity, and ending balance on the CARS Account Statement. However, this specific policy requirement does not

currently apply to Defense Agencies and Field Activities that are part of shared TAS. For those TI-97 components, the policy is that they must reconcile their FBwT balances individually to the internal TI-97 CMR, with support from DFAS as their service provider. It is DFAS's responsibility under this policy to reconcile the totals of all TI-97 components to the Treasury.

3.13.8. Undistributed Collections and Undistributed Disbursements

3.13.8.1. Undistributed collections and undistributed disbursements must be recorded and reported at the lowest organizational level.

3.13.8.2. Undistributed transactions at the sub-account level must be researched and cleared within 60 business days, with no unidentified balances remaining at year-end. Policy also dictates that Component-level undistributed adjustments should be limited at year-end by completing all necessary research and reconciliation.

3.13.8.3. It is the policy of the DoW that DFAS must identify all collections and disbursements at the lowest identifiable level.

3.13.8.4. Undistributed collections and disbursements must accurately reflect the proper FBwT as contained in finance network reports.

3.13.9. Requirement for Written Procedures

Components must maintain current written SOPs, narratives, and process maps in accordance with the Managers' Internal Control Program (as outlined in DoDI 5010.40). This policy ensures the proper documentation of reconciliation processes. A key policy also requires that these SOPs include evidence of dated supervisory review and approval, certifying that it is correct and accurate. Furthermore, policy mandates that written procedures differentiate the journal entry for unsupported undistributed amounts from those that can be supported, as this practice is essential for efficient cash reconciliation management and audit support.

3.13.10. Expenditure and Receipt Accounts Annual Review

All expenditure and receipt accounts reported by the Treasury must be reviewed and validated annually to ensure the TAS are valid.

3.14 TI-97 Deposit Fund Liabilities

TI-97 Deposit Fund Liabilities Account Structures. Refer to the Volume 4 Supplemental.

3.15 FBwT Balances Brought Forward

Supporting FBwT Balances Brought Forward (formerly Annex 1). Refer to the Volume 4 Supplemental.

4.0 INVESTMENTS AND OTHER ASSETS

4.1 Accounting Policy for Investments and Other Assets

DoW investments and other assets must be recognized and recorded in accordance with SFFAS 1. Accounting events must be reported according to the requirements in TFM Chapter 4300 and OMB Circular A-136 using the accounting entries specified in the DoW Standard Chart of Accounts (SCOA) and Standard Financial Information Structure (SFIS) Transaction Library, unless otherwise stated.

4.2 Investments and Other Assets

DoW is authorized to invest in Federal securities, which include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. Use “Other Assets” to record the value of assets not otherwise classifiable to a specific asset account. Establish applicable subsidiary accounts as necessary to meet management and reporting needs. Source documents for entries to this account include receiving reports and journal vouchers.

4.3 Nonmarketable Par Value Treasury Securities

Nonmarketable par value Treasury securities are special-issue debt securities that the U.S. Treasury issues to federal entities at face value (par value).

4.4 Market-Based Treasury Securities Expected to Be Held to Maturity

Market-based Treasury securities expected to be held to maturity are debt securities that the U.S. Treasury issues to federal entities without statutorily determined interest rates. Their prices and interest rates mimic the terms of marketable Treasury securities.

4.5 Market-Based Treasury Securities

Marketable Treasury securities, including Treasury bills, notes, and bonds, are initially offered to the public by the Treasury and can then be bought and sold on securities exchanges. Their bid and ask prices are publicly quoted by the marketplace.

4.6 Recognition of Investments in Federal Securities

The policy for accounting for securities dictates that when an acquisition is made in exchange for nonmonetary assets, the acquired securities must be recognized at the fair market value (FMV) of either the securities acquired or the assets given up, whichever is more definitively determinable. If the acquisition cost differs from the security's face value, it must be recorded at the acquisition cost, with any premium or discount treated as a contra account to the debt security. Specifically, Treasury securities are to be carried at their acquisition cost, adjusted for any amortization as explained in SFFAS 1. For all other investments, the policy mandates they be carried on the Balance Sheet at acquisition cost adjusted for the amortization of any premium or

discount, with two exceptions: market value must be used if there is an intent to sell the securities before maturity or if there has been a reduction in value that is considered more than temporary.

4.7 Disposition of Treasury Securities

DoW Components must maintain a subsidiary account for each trust fund that invests in U.S. Treasury securities. The disposition of a U.S. Treasury security may result in a gain or loss. A comparison of principal proceeds, the book value of a U.S. Treasury security, and any remaining unamortized premium or discount will determine whether there is a gain or loss. Unless otherwise provided for by law, securities held by DoW trust funds are U.S. Treasury securities. The Treasury issues no certificates.

4.8 Interest and Amortization

The disposition of a U.S. Treasury security may result in a premium or discount. If a premium or discount exists, the carrying amount, or original purchase cost, of the investments must be adjusted in each reporting period to reflect the amortization of the premium or discount. Premiums and discounts must be amortized over the life of the Treasury security using the interest method. The amount of amortization of discount or premium is the difference between the effective interest recognized for the period and the nominal interest for the period as stipulated in the Treasury security. Income derived from U.S. Treasury securities other than Treasury bills must be the interest stated on the face of the securities adjusted for the amortized premium or discount. For Treasury bills, the difference between the purchase price and the price received at sale or maturity is income. Source documents for entries to this account must include amortization schedules and journal vouchers.

4.9 Use of Other Investments

4.9.1. When authorized, an investment under the provisions of 10 U.S.C § 2875 may take the form of an acquisition of a limited partnership interest, a purchase of stock or other equity instruments, a purchase of bonds or other debt instruments, or any combination of such forms of investment.

4.9.2. The DoW is authorized to invest in joint ventures with private developers for military housing construction and improvement under the Military Housing Privatization Initiative (MHPI), in accordance with 10 U.S.C § 2875. These long-term partnerships, known as Public-Private Partnerships (P3s) or Alternative Financing Arrangements, are defined as risk-sharing arrangements or transactions lasting more than five years between public and private sector entities.

4.10 Reporting Other Investments

P3s for the MHPI can be financed through appropriated funds, non-appropriated funds, third-party financing, or private capital. All MHPI financing events and relevant disclosures must be reported in the DoW financial statements to ensure transparency regarding project financial conditions.

4.11 Recognition and Measurement of Other Investments

4.11.1. A comprehensive evaluation of each operating agreement and a full assessment of the relationship with each partner organization must be conducted for MHPI agreements and P3s. The evaluation will support the determination of the appropriate accounting treatment for each MHPI project. A majority ownership interest exists when an organization has over 50 percent of the voting rights or net residual assets. If an entity is expected to assume more than 50 percent of another entity's expected losses or gains, it should either consolidate or disclose that entity. Refer to SFFAS 47. An entity that effectively controls another through investment decisions and economic benefits, yet is exposed to less than 50% of its losses or gains, is generally subject to disclosure rather than consolidation. Military Departments are responsible for monitoring, reporting on, and disclosing the financial condition and significant risks of their equity investments in MHPI entities. Per SFFAS 47, an organization is considered a consolidation entity based on a holistic assessment of four main characteristics: it is (1) financed by non-exchange revenue, (2) governed by Congress or the President, (3) imposes risks and rewards on the federal government, and (4) provides goods and services on a non-market basis. Not all characteristics must be met for this classification. Entities that are deemed consolidation entities are considered federal reporting entities and must apply GAAP as defined by SFFAS 34.

4.11.2. After applying SFFAS 47 guidelines, disclosures for MHPI projects must be evaluated under SFFAS 49. Their purpose is to help users understand the nature and risks of P3s, direct loans, and loan guarantees. Disclosures for reporting entities must detail the nature of their relationship, the relevant activities during the period, and their future exposure to risks and rewards. Disclosure entities, which often provide goods and services on a market basis (i.e., at prices set in a competitive marketplace between willing buyers and sellers), differ from consolidation entities. Although the GAAP hierarchy for federal reporting may not fully apply, information from disclosure entities remains crucial for accountability and federal financial reporting objectives. Refer to SFFAS 49 for guidance. The Military Departments and DFAS must use established accounting transaction codes in the DoW Transaction Library to record the primary accounting entries to recognize P3 contributions and any collections received upon dissolution of an arrangement that are not available for use without further Congressional action. Refer to the tables within the procedural guidance. The Military Department is required to obtain all agreements and supporting documentation for its equity investments in MHPI Limited Partnerships (LPs) and Limited Liability Companies (LLCs). This documentation is essential for supporting operating, lockbox, and revenue agreements, as well as transactions related to investment dissolution, the sale of government shares, or any other financial activities involving DoW equity investments. Additionally, the Military Departments must provide the DFAS with details of any other financially impactful transactions. Refer to Volume 4 Supplemental, Tables 4-3 to 4-8, for more details. Footnote disclosures are also required, including equity-method income/loss, descriptions of termination or default events, and supporting documentation for each disclosure.

4.12 Ground Lease

A ground lease may be provided with property and cash to an LP/LLC to facilitate property development. This ground lease is not treated as a separate transaction from the initial property transfer because they are highly interdependent; the project's success relies on the lease, and the

commitment to build is a material inducement for the lease, often for a nominal rent. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, because the property transfer and ground lease are not distinct services, no separate accounting entries are required for the ground lease. Instead, the FMV of the ground lease is considered an integral part of the property's total FMV.

4.13 Recognition and Measurement of Direct Loans

See Volume 12 for additional guidance on the recognition and measurement of direct loans, the liability associated with loan guarantees, and the cost of direct loans and loan guarantees.

5.0 RECEIVABLES

5.1 Recognition

Receivables must be recognized in accordance with SFFAS 1. The Component must establish a receivable when it does not receive payment in advance or at the time it recognizes revenue. Receivables must be recorded during the month they are earned from the sale of goods and services or when an event determines a debt is owed to DoW. Accounting records for receivables must include all transactions that occurred during the reporting period. Any events not previously recorded due to error or oversight must be recorded immediately. Accounts receivable and unfilled orders without an advance must be recognized as valid budgetary resources when they are from other federal entities. Conversely, policy dictates that absent specific statutory authority, accounts receivable and unfilled orders without an advance from public/non-federal entities must not be recognized as valid budgetary resources. Components must maintain all supporting documentation for receivables within the applicable accounting system, and these records must be retained in accordance with the guidance in their DoW Component records retention requirements.

5.2 Advance Payments

In general, an advance payment is required for public orders, including state and local governments, except for fuel, as the sale of petroleum products to the public is covered by fuel purchasing agreements. An advance equivalent to the actual or estimated cost of goods and services must accompany the order. If amounts are sufficient, Military Departments may use their own appropriated fund budgetary resources to perform a reimbursable order for a NAFI without an advance. However, they must not recognize budgetary resources for the order until the account receivable is paid. An advance payment from foreign governments for FMS is held and recorded in the FMS Trust Fund or investment accounts that can be drawn on to meet the foreign government's FMS obligations. Under the statutory authority of 22 U.S.C. § 2767, the DoW may record a budgetary resource for non-federal orders without an advance. However, a critical element of this policy is that Components must receive prior approval from the OUSW(C) before accepting the order and recording the budgetary resource. Additional information regarding budgetary resources may be found in Volumes 3, 4, and 11 for DWCF's policy on receipt of advances on orders from public/non-federal entities.

5.3 Collection of Receivables

Proactively pursue the collection of all receivables from DoW Components, federal agencies, and the public. A receivable is normally due 30 days from the date of the invoice or demand letter, unless a different due date is established by statute, contract, or a notice of indebtedness. The responsible office must initiate collection actions as soon as payment becomes due. For more information on due process, refer to Volume 16. Funds must be collected in the appropriation that earned the funds, or in the case of a refund, into the appropriation from which the excess payment was made, unless otherwise specified by law. In accordance with 42 U.S.C. § 2651, amounts recovered from a liable third party for a service member's injury or disease must be credited to current operating funds. Funds recovered for medical care are credited to the facility that provided the care or activity that provided the care and treatment, while funds recovered for loss of duty are credited to the service member's assigned command, activity, or unit. In accordance with 10 U.S.C. § 1095, collections from third parties for medical services must be recorded in the fiscal year they are received, regardless of when the service was provided. Any agency that receives collections after an appropriation has been canceled must deposit them into Treasury Account 3200.

5.4 Allowance Account and Aging

The Component must estimate and record an allowance for uncollectible accounts receivable for both public and intragovernmental customers. However, policy explicitly states that no such allowance will be recorded for non-loan interest, penalties, or administrative (IPA) charges. The aging of receivables (delinquency) begins one day after the due date for both public and intragovernmental receivables.

5.5 Interest Penalties, and Administrative Receivables

The DoW assesses IPA charges on delinquent debts. The full amount of a delinquent debt is defined as the sum of the principal, accrued program interest, and any other penalties or administrative charges. Per 31 U.S.C. § 3717, interest must be recognized on outstanding accounts receivable against persons and entities. Policy dictates that interest accrues from the first day of delinquency and continues to accrue until it is officially waived or the debt is closed. However, debts owed by other federal agencies are exempt from these IPA charges. All interest receivables are to be classified as non-entity receivables. It is also a key accounting policy that companies must record an interest receivable when they earn the income, not when they receive it. The detailed IPA policy can be found in Volume 16.

5.6 Payment Application

The Federal Claims Collection Standards, 31 Code of Federal Regulations (CFR) 901.9(f), mandate the application of partial or installment payments.

5.7 General Ledger Accounting

Receivables must be developed, maintained, and reported using USSGL accounts, with the first six digits conforming to the USSGL chart. DoW mandates the use of its SCOA, which, along

with accounting transactions for collections and receivables, is detailed in the DoW USSGL Transaction Library available on the [SFIS webpage](#).

5.8 Internal Controls

The DoW must adhere to the internal control standards prescribed in DoDI 5010.40 when establishing and collecting receivables. This includes maintaining major categories of receivables to ensure clear and full disclosure (debtor, amount, age, and type of debt). Policy requires that subsidiary records be reconciled to the control accounts monthly. Furthermore, it is policy that proper internal controls must ensure the accurate and timely recording of transactions, appropriate documentation and retention, authorization only by personnel acting within their scope of authority, and effective management. A critical policy mandates the separation of duties for authorizing, processing, recording, reviewing transactions, and handling related assets, ensuring no single individual controls all key aspects of a transaction.

5.9 Erroneous, Invalid, and Unsubstantiated Accounts Receivable

Adjust the accounting records and return any funds collected to the debtor if it is determined that no debt was owed and that it should not have been classified as accounts receivable. If a billing Component cannot produce the necessary evidence to establish a receivable and voluntary repayment is not obtained, it is policy to reverse the original entries. The Component must remove all erroneous, invalid, and unsubstantiated accounts receivable from the general ledger. Any internal control failures or process weaknesses identified during research must be addressed and corrected.

5.10 Canceled Appropriations

Accounts Receivable Offices (AROs) must retain all outstanding receivables in residual records even after an appropriation cancels. Even with canceled appropriations, the DoW must continue to pursue the collection of outstanding receivables. When a receivable is collected after its associated appropriation has canceled, the procedure dictates that the collection is recorded in Treasury miscellaneous receipt account 3200, "Collections of Receivables From Canceled Accounts."

5.11 Nonappropriated Fund Instrumentalities Receivables

Classify receivables from NAFIs as public transactions. A key policy is that, except for individual debt, delinquent NAFI debt will not be referred to the Debt Management Office (DMO) or to the Treasury for collection assistance. Refer to Volumes 13 and 16 for more information on NAFI debt.

5.12 Foreign Military Sales Receivables

Classify receivables from the FMS Trust Fund (appropriation 97 11X8242) as federal transactions, while other Security Assistance receivables, such as those from the Foreign Military Financing Program (appropriation 11(FY) 1082), are to be recorded and reported as

intragovernmental. A key policy is that delinquent FMS accounts receivable will not be referred to the DMO or Treasury for collection assistance. Refer to Volumes 15 and 16 for more information on FMS debt.

5.13 Non-FMS Foreign Government Receivables

The ARO will initiate initial billings for non-FMS foreign government accounts receivable. See Volume 16 for additional information.

5.14 Retention of Documentation

Supporting documentation for all actions taken on each accounts receivable must be maintained.

5.15 Undistributed Collection Balances

All undistributed collection balances held in Treasury suspense accounts F3875 and F3885 must be analyzed and reconciled monthly. Policy dictates that all differences must be cleared within 60 days, except for specific suspense accounts identified by Treasury as exempt from this requirement. For any items that remain unresolved beyond 60 days, it is policy to conduct an investigation and document the reason for the delay.

5.16 Public Receivables

Receivables due from the public are DoW claims (or claims from another federal entity) against non-federal entities, including individuals and organizations outside the U.S. Government. These receivables arise from sales of goods/services when no advance payment is received, or from refunds due to the DoW. Credit management and debt collection policies and procedures are delineated across several volumes of the DoW FMR. Specifically, Volume 16 addresses debt collection from individuals, and Volume 5 covers policies and procedures for the physical loss of funds, including investigations into accounts receivable resulting from improper payments. For collecting debts from military members or civilian employees through salary offset, refer to Volumes 7 and 8. These volumes also cover the collection of child support, alimony, or commercial debts via garnishment or involuntary offset. Commercial or contractor debt collection policies are in Volume 16 supplemented by the Federal Acquisition Regulation (FAR) Subpart 32.6, which prescribes procedures for contract debts, interest charges, deferrals, and compromises. Finally, policies for collecting debts from foreign entities are provided in Volume 16.

5.17 Receivables from the Sale of Goods and Services to the Public

Upon receiving a collection voucher, the ARO must record in accordance with the Volume 4 Supplemental.

5.18 Refunds Receivable

Refunds to appropriations represent amounts collected from outside sources for payments made in error, overpayments, or adjustments for previous amounts disbursed. These refunds must be directly related to previously recorded expenditures and serve as reductions to those expenditures. Policy dictates that there is no separate account for refunds receivable in the USSGL; instead, refunds receivable are treated as accounts receivable, and DoW Components must recognize and report them in their financial statements. Refunds received must be deposited to the credit of the appropriation or fund account that was charged with the original obligation. Examples of refunds receivable include, but are not limited to: salary overpayments; overpayments to commercial concerns due to erroneous billings, incorrect invoices, or contract default; amounts due for rejected/returned items; recovery due on canceled contractual services for unused portions; advance travel payments for canceled travel; amounts payable for "due U.S." travel vouchers; amounts due from advance payments for contractual purposes; and amounts due from employees on leave without pay for their share of benefits. Refer to OMB Circular A-11 for additional details.

5.19 Collection Actions

The DoW must age all accounts receivable to manage collection actions properly. A receivable is considered due 30 days from the date of the invoice or demand letter, unless a different due date is established by statute, contract, or a notice of indebtedness. Policy dictates that uncollected public vendor debts and individual out-of-service debts under \$25 are not referred for further collection action and must be collected or written off within one year of delinquency, unless mandated otherwise by public law. In accordance with the Debt Collection Improvement Act and the Digital Accountability and Transparency Act, all valid and legally enforceable public receivables over 120 days are delinquent to the Treasury for collection. Several exceptions to this requirement include debts that are in litigation, part of an asset sales program, with a private collection contractor, collected via internal offset, or foreign government or NAFI debts. Terminating a collection action on a debt returned by the Treasury as uncollectible for debts under \$100,000 requires coordination with the Fund Holder. For debts between \$100,000 and \$500,000, Treasury approval is required. For debts of \$500,000 or more, termination of collection action must be approved by the Department of Justice. For additional detailed guidance, refer to Volume 16.

5.20 Establishment of Allowance for Loss on Accounts Receivable

5.20.1. AROs must recognize and record projected debt losses for public and intragovernmental accounts receivable in the general ledger by setting up an allowance for uncollectible accounts. This policy ensures that receivables are recognized at their net realizable value (NRV) by accurately estimating potential losses.

5.20.2. An allowance for estimated uncollectible receivable amounts must be recognized when it is "more likely than not" (meaning more than a 50 percent chance of loss) that the receivables will not be totally collected, as required by SFFAS 1. This policy applies to both intragovernmental and nonfederal/public entity receivables, as clarified by Technical Bulletin (TB) 2020-1. Furthermore, an allowance for loss on accounts receivable must be re-estimated annually and whenever new information indicates that the latest estimate is no longer accurate.

5.20.3. Losses due to uncollectible receivables must be measured through a systematic methodology based on an analysis of groups of receivables, with the option to isolate individual receivables for a separate allowance calculation. The total allowance for loss on accounts receivable will be the sum of these individual and grouped calculations. Any provision to increase or decrease this allowance will result in an adjustment to nonexchange revenue rather than a bad-debt expense. For receivables under \$100,000, policy requires separating them into groups with similar risk characteristics. The methodology for determining the percentages applied to these groups must be based on the history of bad-debt expense over the last three years and applied consistently from year to year. Exceptions to this three-year average due to abnormal circumstances must be approved by the OUSW(C). For each receivable of \$100,000 or more, the policy mandates an individual analysis to determine the loss allowance. Components with a low number of receivables or a large number of small dollar receivables may lower the \$100,000 threshold for individual analysis, provided the methodology remains consistent.

5.20.4. For intragovernmental receivables, entities must not recognize an allowance for uncollectible accounts for debts up to and including two years delinquent. After two years, or if the debt is older, DoW policy mandates a 100 percent allowance for uncollectible intragovernmental accounts. For public debt, policy is to allow no allowance for uncollectible accounts (0 percent) for aging categories less than 90 days. Conversely, a 100 percent allowance is applied to public debt in aging categories with a maturity greater than 2 years. When one Component sub-allots funds to another, policy dictates that the Component executing the funds is responsible for establishing the allowance for loss on accounts receivable. Finally, it is policy that receivable write-offs must be processed through the allowance for uncollectible accounts.

5.21 Write-off and Close-Out of Public Accounts Receivable

According to governing policy, largely derived from OMB Circular A-129, any public delinquent debt that has not been collected within two years must be written off, unless a specific justification is documented and approved by OMB and Treasury. This policy strictly prohibits the write-off of intergovernmental receivables. To write off a public receivable, the Component must debit the allowance for uncollectible accounts and credit the receivable account; policy forbids a direct write-off. After a write-off, the debt must be classified as either "Currently Not Collectible" (CNC) or "Closed-Out." To be classified as CNC, a public debt must be \$25 or more, all prior collection actions must have been pursued, and it must be deemed cost-effective to continue collection efforts. CNC debts must be maintained in an inactive administrative file, remain eligible for Treasury's collection programs, and continue to be reported on the Treasury Report on Receivables (TROR). Once a debt is closed out, it is considered final and cannot be reactivated, barring any further administrative or legal action, though the government can still accept voluntary repayments. Furthermore, the DoW is responsible for reporting these canceled debts to the Internal Revenue Service when they meet reporting criteria, with the DFAS Enterprise Solutions and Standards Vendor Pay Tax Office handling this for vendor and contractor debts. Refer to Volumes 4 and 16 Supplemental documents.

5.22 Intragovernmental Receivables

5.22.1. Receivables due from DoW Components or other federal entities are intragovernmental receivables and must be reported separately from receivables due from public entities in the financial statements. All materials sold or services furnished between government entities must be formally authorized and documented in a support agreement. Any uncollected amounts from these reimbursable sales are to be recorded as accounts receivable. A key policy distinction for these intragovernmental transactions, governed by the Economy Act, is the handling of budgetary resources. Unlike orders from non-federal entities, DoW organizations with reimbursable authority may recognize a budgetary resource immediately upon accepting a funded order from another federal agency. This is because the customer agency obligates its own funds at the time of order placement. Consequently, this policy allows DoW organizations to incur obligations to fill such orders without requiring an advance payment or burdening their own budgetary resources. Refer to Volume 11 for more information on intragovernmental receivables.

5.22.2. DoW Performing Entity Responsibilities

The performing entity (seller) is fundamentally responsible for ensuring that all costs for completed work are promptly recorded as revenue and receivable, and that these amounts are quickly billed and collected from the ordering entity. This policy of timely recording is critical to enable Treasury to perform its required intragovernmental eliminations. Furthermore, a critical policy prohibits DoW activities from performing new reimbursable work for any federal agency that is 90 days or more in arrears on previous payments; however, this restriction can be waived by the OUSW(C) if deemed in the national interest. Policy also dictates that any disputed charges be reviewed promptly and that all obligations and accrued expenditures be supported by a reimbursable agreement or other proof of payment due. For detailed accounting guidance, personnel are directed to refer to official manuals such as the TFM Volume 1.

5.22.3. DoW Ordering Agency Responsibilities

The ordering agency has the primary responsibility for ensuring that all charges for a performing activity are valid. This means amounts due must directly correspond to the reimbursable orders and must be substantiated by a supporting order, contract, and evidence of performance. A key policy is that any identified internal control failures or process weaknesses discovered during research must be formally addressed and corrected to prevent future errors. All evidence from this research must be documented and maintained by the organization.

5.22.4. Management of Collection Actions

All aging accounts receivable transactions are eligible for collection actions, with the delinquency date set to one day after the initial due date. All charges from transactions within the DoW or with other federal agencies must be recorded as accounts receivable in the month they are earned. To streamline billing, DoW prohibits providers from accepting G-Invoicing Inter-Agency Agreement Forms 7600A/B if the interfund billing system can be used, and it forbids manual billing unless specifically approved by the Deputy Chief Financial Officer (DCFO). Regarding disputes, a buyer is generally prohibited from charging back or rejecting a charge unless authorized by the formal dispute resolution process. An exception exists for Intra-Governmental Payment

and Collection (IPAC) transactions, which can be rejected within 30 days, but only for four valid reasons: billing for more than the agreed amount, duplicate/erroneous billing, lack of supporting documentation, or an expired 7600A/B or appropriation. For transactions outside the DoW, IPAC is the preferred billing and collection method. If an IPAC transaction is rejected, policy requires that the receivable be reestablished and that adjustments be made to the appropriation's FBwT.

5.22.5. Non-Interfund Dispute Process

5.22.5.1. The ARO is responsible for managing all intragovernmental debt within the DoW, a process overseen by the OUSW(C). A critical policy is that this type of debt cannot be referred to an external debt collection activity. The full settlement of any disputed charge must be completed within a strict 180-day timeline from the date of the original charge. For disputed amounts of \$2,500 or less, the buyer may accept the charge without dispute or dispute it only if the process is cost-effective. For larger disputes, the buyer and seller work together for the first 60 days to find a solution, with assistance available from DFAS. If unresolved, the buyer assembles a formal dispute package for the seller with assistance from DFAS. If a dispute resolution concludes that the buyer does not have to pay, the seller must adjust their financial records accordingly: for current fiscal year activity, revenue must be decreased, expenses and direct obligations must be increased; for material receivables from a prior year, a prior period adjustment must be used; and for immaterial prior year receivables, current year revenues can be reduced.

5.22.5.2. Disputes between the DoW and other federal agencies must be handled in accordance with I-TFM-2-4700. Dispute resolution will involve the program offices, the accounting offices, the contracting officer, and the agency's CFO, as appropriate. A MOA will be signed by the CFOs of each department and agency to acknowledge that department's or agency's active participation in the dispute resolution process. All disputes must be documented in writing with clear reasoning. Trading partners are strictly prohibited from charging back or rejecting transactions that comply with I-TFM-2-4700, and they may not create new transactions to circumvent it. Disputes are categorized into two types: those arising from differing accounting treatments and those from contractual disagreements. A key policy for contractual disputes is that the buyer may establish a monetary threshold of no more than \$100,000 per order. If a disputed amount is under this threshold and the buyer chooses not to pursue the dispute, they are obligated to pay the amount. Missing indicative data (such as order numbers, TAS, BETC, amounts, or BPN numbers for both trading partners) on a transaction constitutes a valid cause for a contractual dispute.

5.22.5.3. DoDI 1015.15 requires certain categories of NAFIs to reimburse appropriated funds (APF) for goods and services provided. This relationship must be formalized in a reimbursement agreement, such as a Memorandum of Understanding, and signed by authorized representatives from both the APF and NAFI. At a minimum, this agreement must define either the fixed price for the goods and services or the methodology for determining that price. Policy dictates that the due date for any bill is 30 days from the bill's date. A key financial policy is that while Military Departments may use their own appropriated funds to perform work for a NAFI without an advance, they are prohibited from recognizing any budgetary resources for that order until the NAFI has actually paid the account receivable.

5.23 Reporting Receivables Due From the Public

Components must submit the quarterly TROR. The ARO, in conjunction with the Component, must report public receivables in accordance with the TROR guidance on the Treasury website.

5.24 Reporting Receivables in DoW Financial Statements

Accounts receivable must be reported on the quarterly financial statements. A key aspect of this policy is ensuring data integrity through reconciliation. Public accounts receivable balances reported on the financial statements must be reconciled with the corresponding balances in the Governmentwide Treasury Account Symbol (GTAS) system (non-Federal attribute). These balances must also be reconciled with the amounts reported on the TROR. Furthermore, a fundamental policy for consolidated reporting is that all intragovernmental accounts receivable balances must be eliminated.

5.25 Crediting and Accounting for Disputed Collections Under the Contract Disputes Act of 1978

5.25.1. When a contractor pays a debt but simultaneously disputes it (or indicates they will), that collected amount cannot be accounted for as a final settlement. As soon as a collection is made under a disputed status, interest, penalties, and any other administrative fees immediately cease to accrue. A designated Treasury deposit account must be credited with the collected funds and hold them pending the final disposition of the contractor's dispute. Furthermore, there must be continuous, mutual communication among the responsible disbursing officer, the DMO, the contracting officer, and any other relevant authorities regarding all actions affecting these disputed collections.

5.25.2. In accordance with 10 U.S.C. § 3863, disputed collections received and credited must be separately accounted for and remain available, regardless of the closing of an appropriation or fund account, for payment of any settlement of the claim by the parties, any judgment rendered in the contractor's favor on an appeal of the decision on the claim to the Armed Services Board of Contract Appeals (ASBCA), or any judgment rendered in the contractor's favor in an action on that claim in a court of the U.S. Availability of the disputed collection expires 90 days after the expiration of the period for bringing an action on that claim in the U.S. Court of Federal Claims under section 41 U.S.C. § 7104(a), if within those 90 days, no appeal on the claim is commenced at the ASBCA and that no action on the claim is commenced in a court of the U.S.

5.25.3. If not expiring, then availability of the disputed collected amounts expires in the case of a settlement of a claim, 90 days after the date of the settlement or in the case of a judgment rendered on the claim in an appeal to the ASBCA or an action in a court of the U.S., 90 days after the date on which the judgment becomes final and rendered not appealable.

5.25.4. While a disputed amount is being separately accounted for, it can only be obligated or expended for the purpose of settling that specific claim. If it is determined that all or part of the collection is repayable to the contractor, including payment or adjustment of interest or fees,

whether by settlement or judgment, that amount must be disbursed promptly to the contractor. This includes prompt reimbursement to the Treasury Judgment Fund, if applicable. The foregoing disbursed amounts must be charged to the deposit account X6501. A critical financial policy dictates the source of funds for interest payments: any interest that has accrued since the collection and is ordered to be paid as part of the final resolution must be charged to a currently available appropriation account.

5.25.5. Upon the expiration of the availability period for a disputed collection, any funds that have not been obligated or expended must be withdrawn and credited to the appropriate accounts. If an amount was credited to the deposit account for an appropriation or fund account that closed for reasons other than those described under 31 U.S.C. § 1552(a) or 31 U.S.C. § 1555, then the principal amount collected must be properly credited to that appropriation or fund account and an adjustment made of the amounts of the contract(s) for which the disputed collection arose. Any amounts for interest and fees must be credited to the appropriate Treasury Miscellaneous Receipts accounts. A core principle of this policy is that the records for the closed appropriation and any associated unclosed contracts must be adjusted to accurately reflect the outcome, ensuring that all obligated and unobligated balances are correct.

6.0 INVENTORY AND RELATED PROPERTY

This section provides DoW accounting guidance for inventory, Operating Materials and Supplies (OM&S), and stockpile materials. Management must ensure that all related transactions are recorded in the general ledger in accordance with requirements from the Department of the Treasury and other federal mandates. Furthermore, adequate supporting source documentation, such as contracts, invoices, and receiving reports, payment vouchers, material-return documents, transfer documents, inventory documents, issue and shipping documents, sales records, and documented gains and losses, must be retained for all entries. Tangible items with a useful life of two or more years not intended for consumption or sale in the ordinary course of operations and intended to be used or available for use are classified as General Equipment. Refer to Volume 6 for detailed requirements on preparing and presenting notes to the financial statements for Inventory and Related Property. Except for provisions related to the National Stockpile Fund (NSF), all of the provisions in this section apply to the Working Capital Fund (WCF). Except for provisions related to Inventory, Supply Management Activities, and Stockpile Materials, all provisions in this section apply to the General Fund (GF).

6.1 Valuation Concepts

6.1.1. Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring items to their current condition and location and excludes abnormal costs. Abnormal costs are expenses that significantly exceed the standard cost to purchase and place a new item with similar features and useful life into service (e.g., excessive handling, expedited delivery, and rework costs due to defects or errors). Expense abnormal costs in the period in which they are incurred. For donated, repaired, or remanufactured items, policy dictates that the Component must value them at their fair value when they become serviceable. Recognize differences between fair value and any amounts surrendered in exchange for the item as a gain or loss.

6.1.2. Inventory valuation requires that ending balances and the cost of goods sold must be determined by applying one of three cost flow assumptions: First-In, First-Out; Weighted Average Cost; or Moving Average Cost (MAC). As a policy alternative, any other valuation method compliant with Generally Accepted Accounting Principles (GAAP) is permissible, provided that its results reasonably approximate one of the three specified historical cost methods.

6.2 Net Realizable Value (NRV)

DoW Components must write down the value of any inventory, OM&S, or stockpile materials that are classified as Excess, Obsolete, and Unserviceable (EOU) to their expected NRV. Excess stock exceeds the demand or requirements for normal operations. Stock becomes obsolete when changes in technology, laws, customs, or operations make it unusable, while damaged stock is considered unserviceable if disposal is more economical than repair. In these cases, as well as for stockpile materials experiencing permanent decline, damage, or decay, DoW Components are required to write down their value to the estimated NRV. NRV is defined as the estimated recoverable amount from selling or disposing of an item, after accounting for any associated costs. It is also policy that when items are transferred to the Defense Logistics Agency (DLA) Disposition Services (except those handled through a Qualified Recycling Program), the NRV is generally considered to be zero, as no proceeds are typically received. Refer to Defense Logistics Manual 4000.25 for details on how to dispose of EOU using DLA Disposition Services.

6.3 Held for Repair

Inventory or OM&S Held for Repair may be accounted for using either the Allowance Method or the Direct Method. Regardless of the method chosen, a core policy is that management must retain supporting documentation for the estimated repair costs, in accordance with their DoW Component records retention requirements. Refer to Volume 4 Supplemental for information on the approved methods.

6.4 Alternative Valuation Methodologies for Establishing Opening Balances

6.4.1. An alternative valuation method, guided by SFFAS 48 and Technical Release (TR) 18, is available for establishing opening balances for Inventory, OM&S, and stockpile materials. However, this option can be used only once per line item for each reporting entity and is intended solely to establish and document those initial balances. For serially managed items, such as grocery and household product inventories, the specific identification method may be used. Using this method, the Component directly links each identifiable item to its precise cost. Before using this alternative method, a DoW Component must validate that it is fully prepared to comply with all accounting requirements, including the recognition, measurement, presentation, and disclosure rules outlined in SFFAS 3.

6.4.2. When a component cannot apply the historical cost approach outlined in SFFAS 3 to establish opening balances for inventory, OM&S, or stockpile materials, it is acceptable to use a "deemed cost" as a substitute for the reporting period. Deemed cost is an acceptable valuation method for the reporting period when the reporting entity makes an unreserved assertion that its financial statements, or one or more line items within inventory, OM&S, and stockpile materials,

are presently fairly in accordance with GAAP. An unreserved assertion is an unconditional statement. Deemed cost may be determined using a variety of methods, including Standard (Selling) Price, Fair Value, Latest Acquisition Cost, or Replacement Cost. It can also be based on an Estimated Historical Cost, which uses reasonable estimation techniques, or the Actual Historical Cost, which is the original price paid for the asset. See Volume 4 Supplemental for more information on these methodologies.

6.4.3. When using a deemed cost to establish opening balances, a component must identify and report all valuation methods in its financial statement notes and retain supporting documentation, including any necessary sampling techniques. A critical step is to adjust any existing gains or losses in related allowance accounts to zero. Once established, this new opening balance is considered consistent with SFFAS 3 requirements and is integrated into ongoing inventory calculations, such as a MAC, with no future distinction required. Record the difference between the prior value adjusted for any related allowance account value and the new deemed cost must be recorded as a prior period adjustment due to a change in accounting principles, with the adjustment made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made, in accordance with the reporting requirements under paragraph 13 of FASAB SFFAS 21. Finally, the nature of this change and its effect on balances in the current period must be disclosed in the financial statements, but this disclosure need not be repeated in subsequent periods unless the statements are presented for comparative purposes.

6.5 Inventory - (Applicable to WCF Only)

6.5.1. Recognition of Inventory

Components recognize inventory at the point they receive title or take delivery of the goods, as specified by the contract or agreement. Title may be received at the origin (FOB shipping point) upon shipment, or at the destination (FOB destination) upon physical delivery. Additionally, constructive delivery can occur when contract terms stipulate that title has been transferred to the recipient even before the physical items arrive.

6.5.2. Reconciliations

All Components are required to maintain accurate inventory records, necessitating a comprehensive reconciliation between their general ledger inventory line items and detailed inventory accountability records at least quarterly. This policy further dictates that all such reconciliations must encompass data from all relevant Enterprise Resource Management system modules (such as Warehouse, Inventory, and Financial Management) and extend to all inventory owned by the entity, irrespective of its physical custody (e.g., inventory managed by contractors or the DLA). A fundamental policy outcome is that any discrepancies identified must be researched and resolved in a timely manner, and that, subsequently, appropriate system and business process controls must be implemented to reduce future errors proactively.

6.5.3. Physical Inventory Counts

Activities are required to conduct physical counts of their inventories at least annually, generally as of the fiscal year-end, in accordance with the Defense Logistics Management Standards Volume 2. Note that auditors will likely attend and observe counts for any inventories that management has deemed material. Following the count, the general ledger must be adjusted to reflect any differences found between the ledger balances and the physical inventory. All adjustments must be supported by developed and maintained audit documentation. For inventory held by contractors, the necessary documentation, such as receipts, shipments, losses, and disposals, is available in the Procurement Integrated Enterprise Environment Government Furnished Property Module. Invoices occasionally list fewer or more items ordered than the actual count of inventory items received. If resolving the difference is not economical, record a loss or gain.

6.6 War Reserve Materiel (WRM)

WRM is a strategic stockpile of essential items and munitions intended to sustain military operations until resupply is available. This inventory includes operating and training stocks in addition to regular peacetime assets. Financially, WRM is primarily funded through direct appropriations to the WCF; however, critical items such as ammunition and major end items are funded through the procurement appropriations of the Components and Defense Agencies. Although it is held in reserve by DoW Components, its acquisition and storage are indistinguishable from regular inventory. The policy allows for this materiel to be transferred to the U.S. Armed Forces without reimbursement to meet mobilization needs, and it also permits DoW Components to sell WRM if authorized. The value of these reserve items is recorded using the same accounting principles as peacetime inventory.

6.7 Work-In-Process

WCF manufacturing activities must record all operating costs for tasks lasting more than one month in a "work-in-process" (WIP) account. This is required to accurately segregate long-term costs from current period expenses, ensuring compliance with GAAP. The inventory WIP account is used to accumulate all direct and indirect costs, including General & Administrative expenses, required to complete a job or customer order. Related costs attributed to an order include costs for additions, alterations, improvements, rehabilitations, and replacements of fixed assets; maintenance costs; manufacturing or fabricating costs for an end item or product; and costs of producing an output. Upon completion or termination of an order, all related costs must be transferred out of the WIP account, and billing must occur immediately, regardless of customer acceptance. A gain or loss must be recognized if the final costs differ from customer funding, and any probable losses must be recognized proportionally over the life of the contract. If an order terminates prior to completion, the Component must expense the accumulated costs.

6.8 Supply Management Activities - (Applicable to WCF Only)

6.8.1. Supply Management Activities manage inventory held for sale to other DoW Components or activities and items procured for sale to members of the Armed Forces and other individuals or organizations when authorized by legislation, including the Army, Navy, Air Force,

DLA, and the Defense Commissary Agency for commissary resale. This guidance also applies to DLA Disposition Services, which handles redistribution or disposal of items, including sales to the public and other Federal customers. Examples of items managed by supply management activities include food, military clothing, fuel, and preventive medicine. Supply Management Activities also cover Depot Maintenance or Industrial Operations activities that use items to produce goods or services for a fee. The USW(C) and the Under Secretary of War for Acquisition and Sustainment (USW(A&S)) may designate items for procurement by supply management and reassign management responsibility between DoW Components.

6.8.2. A supply management activity is authorized to sell items to a broad range of entities, including other federal government activities, DoW-sponsored nonappropriated funding programs, and State Department-sponsored employee commissaries located outside the U.S. Sales are also authorized for foreign governments with established contractual relationships, federal government contractors holding specific purchasing contracts or utilizing the Replenishment Parts Purchase or Borrow Program, and members of the Armed Forces and other individuals legally authorized to purchase commissary and clothing items. Additionally, the activity can sell to private-sector purchasers, state or local governments purchasing non-excess property, provided such sales are authorized by law, and to any other entity specifically authorized by duly appointed officials. Refer to 40 U.S.C. Chapter 5, Section 503.

6.9 Issues Without Reimbursement

6.9.1. Issue or Transfer. DoW Components may not issue or transfer a supply management activity item without a funded customer order unless specifically authorized in the following section. DoW Components will not account for these events in the same manner as a normal sale, except when they need to establish an allowance for loss on accounts receivable.

6.9.2. Domestic Civil Emergency. DoW officials may issue a supply management activity item without immediate reimbursement when they provide an immediate response to save lives, prevent human suffering, or mitigate great property damage within the U.S. by temporarily employing the resources under their control in accordance with DoD Directive (DoDD) 3025.18.

6.9.3. Civil Disturbances. Upon specific authorization by the President in accordance with applicable law, a supply management activity may issue an item without immediate reimbursement when action is taken to control a civil disturbance in accordance with the policies and procedures provided in DoDD 3025.18.

6.9.4. Foreign Disaster Relief (FDR). A supply management activity item may be issued without immediate reimbursement when the State Department is responsible for initiating and financing FDR efforts, as authorized by the Foreign Assistance Act of 1961. Within the DoW, the Director of the Defense Security Cooperation Agency (DSCA) serves as the lead for the FDR program's management and budget matters. Furthermore, the Commander of the U.S. Transportation Command is responsible for ensuring that DoW activities can support the transportation requirements of FDR operations. All procedures related to issuing supply management materiel for FDR are to be performed in accordance with DoDD 5100.46.

6.9.5. North Atlantic Treaty Organization (NATO) Country. A NATO country may receive a supply management activity item without reimbursement under a replacement-in-kind arrangement. Nonreimbursable issues under this authority are changed to a reimbursable activity within 12 months if not replaced by the NATO country.

6.9.6. Military Emergency. Under emergency provisions in 10 U.S.C. § 127, the Secretary of War (SecWar), the Inspector General of the DoW, or the Secretary of a military department (within their department) may issue a supply management activity item without immediate reimbursement. The issuing Secretary or the Inspector General may certify the amount of any advisable expenditure without specifying it, and this certificate suffices to cover the expenditure. The SecWar may waive the description requirement due to extraordinary circumstances affecting the national security of the U.S. When funding becomes available to cover the costs of the emergency, the supply management activity receives reimbursement for outstanding accounts receivable.

6.9.7. War Reserve Assets (WRA). A supply management activity may issue an item designated as WRA, without a funded customer order, when it has approved the issuance to satisfy the requirements for mobilizing the U.S. Armed Forces.

6.9.8. Deficiencies in War Reserve Requirements. A supply management activity item may be issued, without reimbursement, when an item is issued to satisfy war reserve requirement deficiencies or between activities within the supply management activity.

6.9.9. Items Nearing End of Shelf Life. If a supply management activity item is not a WRA, the personnel responsible may issue the item at any price or without reimbursement when the item has 6 months or less of remaining shelf life, and the item manager approves the item to be issued on a less-than-cost basis.

6.9.10. Logistical Management Transfers. Logistical management transfers or reassignments occur when funding appropriations for an item change.

6.9.11. Logistical Management Transfers Between Supply Management Activities. Supply management activities transfer inventory on hand without reimbursement. However, wholesale and retail supply activities are authorized to reimburse each other when on-hand retail inventory is transferred back to the wholesale item manager's inventory control points, in accordance with DoW credit policies.

6.10 Loans and Leases

6.10.1. Supply management activities may only lend or lease items specified in this section for the stated purpose. Accountability for inventory on loan remains with the activity that lends the material, and it is valued in the same manner as inventory on hand. The recipient must cover all transportation, packing, crating, and handling costs associated with borrowing or leasing the item. Additionally, the recipient must pay all costs necessary to restore the item to its original condition upon returning it, or pay for the item if it is not returned within the approved loan or lease period.

6.10.2. Property may be lent or leased to the following recipients:

6.10.2.1. DoW Funded Customers. Supply management activities may lend an item to a DoW funded customer for a maximum of 120 days to support an approved training exercise, a military emergency, or a natural disaster.

6.10.2.2. U.S. Secret Service. Supply management activities may lend an item to the U.S. Secret Service for a maximum of 120 days for purposes prescribed under the policies and procedures in DoDD 3025.13.

6.10.2.3. Civilian Law Enforcement Officials. DoDI 3025.21 prescribes the DoW regulations for supporting civilian law enforcement agencies, ensuring such support is consistent with military preparedness and legal limitations. The Under Secretary of War for Policy governs the defense support of civilian law enforcement agencies and coordinates policy with Federal departments and agencies, State, local, and tribal agencies, and DoW Components. Supply management activities may lend equipment, base facilities, or research facilities to a civilian law enforcement activity for up to 120 days for purposes prescribed by the policies and procedures in DoDI 3025.21.

6.10.2.4. State and Local Governments. Supply management activities may lend an item to a state or local Government for up to 120 days for a specific purpose, per DoDI 3025.21.

6.10.2.5. National Veterans' Organizations. Supply management activities may lend items (e.g., cots, blankets, pillows, mattresses, bed sacks, and other supplies) to a recognized national veterans' organization to support a national or state convention or a regional youth athletic or recreational tournament sponsored by the veterans' organization under the authority of 10 U.S.C. § 2551.

6.10.2.6. American National Red Cross. Supply management activities may lend an item to an organization formed by the American National Red Cross for instruction and practice needed to aid the Army, Navy, or Air Force in time of war under the authority of 10 U.S.C. § 2552. Supply management activities require the immediate return of equipment loaned.

6.10.2.7. Inaugural Committee. Supply management activities may lend an item to the Presidential and the congressional Joint Inaugural Committee to support an inauguration of the President of the United States for a maximum period of nine days beyond the inauguration ceremony under the authority of 10 U.S.C. § 2553.

6.10.2.8. Boy Scout Jamborees. Supply management activities may lend cots, blankets, commissary equipment, flags, refrigerators, and other equipment to the Boy Scouts of America for the use of Scouters and officials attending any national or world Boy Scout Jamboree under the authority of 10 U.S.C. § 2554. Services and expendable medical supplies may be furnished without reimbursement.

6.10.2.9. Shelter for the Homeless, Incidental Services. Under 10 U.S.C. § 2556, the Secretary of a Military Department may make installations available to shelter the homeless in

cooperation with state, local, and charitable organizations. Incidental services such as utilities, bedding, security, transportation, facility renovations, minor repairs, and property liability insurance can also be provided, provided they do not interfere with military preparedness. Excess DoW items can only be issued to shelters.

6.10.2.10. Humanitarian Relief. Supply management activities may make nonlethal excess supplies available for transfer to the Secretary of Homeland Security for its distribution for humanitarian relief, domestic emergency assistance, and homeless veterans' assistance under the authority of 10 U.S.C. § 2557.

6.10.2.11. Foreign Countries or International Organizations. Supply management activities may lease or loan an item to an eligible foreign country or international organization under the authority of the Arms Export Control Act. The Director, DSCA, oversees DoW's worldwide security cooperation efforts, ensuring the timely transfer of defense articles and services to meet strategic objectives. DSCA also holds fiduciary responsibility for the financial management of the FMS Trust Fund and reporting for its security cooperation programs. Refer to Volume 15 and DoDD 5105.65.

6.10.2.12. Other Leases. Supply management activities may lease or loan a non-excess supply management activity item to an organization when the SecWar or the Secretary of a Military Department has determined that the item is under control of the Secretary, not needed for DoW use during the proposed lease period, and the lease will promote the national defense or public interest under the authority of 10 U.S.C. § 2667. The lease may not exceed five years, unless the Secretary concerned determines that a lease for a longer period will promote national defense or be in the public interest. Additional lease conditions are covered within Volume 12.

6.11 Government Furnished Material (GFM)

GFM may be issued by the item manager to a contractor, another DoW, or a Federal government activity to be maintained as stock for issue, consumption, or repair. When the Component issues GFM to a contractor, the GFM becomes subject to the requirements of the FAR and Defense Federal Acquisition Regulation Supplement.

6.12 Supply Management Activity Transfers

6.12.1. Assistant Secretary of War for Sustainment oversees procedures to optimize supply support resources between providers and customers, establishes integrated materiel management processes to reduce redundant items, and provides timely support to customers.

6.12.2. Transfers In Without Reimbursement. A supply activity may assume management responsibility and capitalize supply inventories that were financed by other appropriations and funds as permitted by 10 U.S.C. § 2208 and DoD Manual (DoDM) 4140.26. A supply management activity may receive capital from the SecWar by capitalizing inventories but not make credits to an appropriation-funded activity for capitalized inventories as provided in 10 U.S.C. § 2208. However, stock withdrawal authorizations may be approved.

6.12.3. Transfers of Reimbursable Procurements. The supply management activity may record a liability for an item transferred from a non-WCF account only if (1) the item is undelivered at the time of the transfer, and (2) the transferring organization's obligation for the item resulted from a reimbursable order from a customer. The customer must transfer appropriated funds to the supply management activity to liquidate the liability.

6.12.4. Stock Withdrawal Authorizations. A transferring activity may not have funds to purchase an item after transferring an item from an appropriation-funded activity to a supply management activity. Therefore, the transferring activity may request that the USD(C) approve an authorization for issues without reimbursement, as part of the formal budget submission to Congress. The supply management activity must issue items on a reimbursable basis when the fiscal year has passed. The supply management activity must record a stock withdrawal authorization as a transfer-out, a reduction of inventory held for sale, and the difference is reported as a realization of holding gain/loss.

6.12.5. Logistical Management Transfers. Logistical management transfers occur when changes are made to the funding appropriation for an item.

6.13 Depot Level Repairables

6.13.1. Repairables are items that have reached the end of their lifecycle but can be restored or remanufactured. Repairables are considered when the computed inventory level requirements are met. The Department's depot-level repair program for inventory replenishment and resale acts as a remanufacturing process for financial management and accounting purposes.

6.13.2. Exchange Transaction. Many DoW Components obtain items for remanufacturing through an exchange transaction. In this transaction, they sell a serviceable item at the standard price in exchange for (1) cash and (2) an item that needs rebuilding or repair (carcass). The supply management team may record two separate transactions to represent the financial event or bill the customer at the exchange price, which is the standard price minus any credit if the requisitioning activity states that a repairable item will be returned. If the impaired item (carcass) has not been received at the time of the exchange, the organization records the item as "Inventory Held for Repair (Remanufacture Due In)." Serviceable Depot Level Repairables are recorded at historical cost. If the customer does not return a repairable item within 90 days of the exchange sale for continental United States (CONUS) customers or within 120 days for customers outside the continental United States (OCONUS), the supply management team must reverse the credit they previously allowed and bill the customer.

6.13.3. Supply management activities may place orders and obligate funds for repair/remanufacture work placed with a contractor or a government repair facility. The carcass will remain in the Supply Management activity "Inventory Held for Repair (Remanufacturing)" account while the item is repaired/remanufactured.

6.13.4. The Department's depot-level repair program for inventory replenishment and resale acts as a remanufacturing process for financial management and accounting purposes.

6.14 Return of Items to the Supply Management Activity

6.14.1. A customer within the Federal Government, including DoW contractors, may return an item to a supply management activity according to 22 U.S.C. § 2761. The proceeds will be credited to current applicable appropriations and will be available for expenditure for the same purposes as those appropriations. Customers cannot receive inventory credits for returns because inventory is capitalized.

6.14.2. The Arms Export Control Act permits the return of defense articles from a foreign country or international organization under specified conditions if the defense article was previously transferred to that country or organization under 22 U.S.C. § 2761, is not significant military equipment (as defined in 22 U.S.C. § 2794), and is fully functioning without needing repair or rehabilitation.

6.14.3. According to 10 U.S.C. § 2208(g), a department, activity, or agency may return supplies to working-capital funds, and it can charge the appraised value to that working-capital fund.

6.14.4. An item manager may grant credit for a returned item after receipt, inspection, and classification of the item. A return that stratifies to a war reserve inventory requirement does not qualify for credit. The amount of the credit for the return of a fully serviceable consumable or reparable item or the return of a carcass when not part of an exchange transaction and within the approved acquisition objective level must not exceed the current standard price of the returned item less the current fiscal year's approved cost recovery elements. If the supply management activity granted credit before taking ownership or receiving the returned item, and if the item is not received within 90 days from a CONUS customer or 120 days from an OCONUS customer, the supply management activity must bill the customer for the credit it previously recorded. Additionally, the stockage point may choose to bill the customer for costs incurred due to the non-receipt of the item. The supply management activity may grant a credit to a customer at standard price for defective items when a customer's quality deficiency report has been validated, including specification defects. Credits may be applied against future customer demands for items in the current fiscal year, or credited directly to the customer's current-year available funds.

6.14.5. The supply management activity must fund transportation and other shipping costs for items approved for return from customers. Shipping costs include packing, crating, handling, transportation, port loading, and unloading. The supply management activity must not fund shipping and transportation costs for items that have not been approved for customer return.

6.14.6. Return of an item, whether issuable or not issuable, reverses the sale's effect on the Cost of Goods Sold. Activities record receipt of a returned item regardless of whether the customer receives credit.

6.15 OM&S - (Applicable to General Fund (GF) and WCF)

6.15.1. OM&S Types

6.15.1.1. OM&S consists of tangible personal property that organizations consume in their normal operations. Title 41, section 101-8.705 of the CFR defines a normal operation as the “operation of a program or activity without significant changes that would inhibit meeting objectives”. OM&S applies to GF and WCF. OM&S includes Held for Use, Held in Reserve for Future Use, EOU, Held for Repair, In Development, In Transit, and Long Range Ballistic Missiles (LRBM). OM&S excludes inventory, stockpile materials, and items acquired for use in constructing real property or in assembling equipment. Refer to the supporting Volume 4 Supplemental for details supporting OM&S Types.

6.15.1.2. LRBMs, including Intercontinental Ballistic Missiles and Submarine Launched Ballistic Missiles, must be reported as OM&S for financial reporting purposes. These missiles are considered OM&S because they are frequently used, are consumable and cannot be reused after consumption, are similar in nature to other missiles classified as OM&S, and are broken down and stored as separate parts. Nuclear warheads remain the property of the Department of Energy (DOE). DOE reports the warheads as OM&S.

6.15.2. Recognition and Valuation of OM&S

The consumption method of accounting for the recognition of expenses must be applied for OM&S. If OM&S (1) are not significant amounts, (2) are in the hands of the end user for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method of accounting, then the purchases method may be applied to OM&S. An end user is any component of a reporting entity that obtains goods for direct use in the component’s normal operations. Generally, material at an end user is not transferred to another location for consumption. Components of a reporting entity, including contractors, that maintain or stock OM&S for future issuance are not end users.

6.15.2.1. Consumption Method. Recognize and report OM&S as assets on the balance sheet when produced or purchased. The contract between the buyer and the seller determines when title passes. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. The contract terms determine whether delivery is made or constructive delivery occurs. Under the Consumption method, OM&S are valued at historical cost or on a basis that reasonably approximates historical cost. Valuation must be adjusted for EOU or expected repair. In addition, alternative valuation methodologies may be used to establish beginning balances.

6.15.2.2. Purchases Method. Expense OM&S when produced or purchased. This method is an alternative to the consumption method and requires formal justification.

6.16 Stockpile Materials - (Applicable To Revolving Fund Only)

The National Defense Stockpile, authorized by the Strategic and Critical Stock Piling Act (50 U.S.C. Subchapter III), holds materials essential for national defense or conservation, to avoid

reliance on foreign sources during emergencies. While National Defense Authorization Acts permit the buying and selling of specific materials (including medicine) and set quantity and revenue levels for selling material, no new acquisitions are allowed if more than 99% of the current inventory is already authorized for sale.

6.16.1. Roles and Responsibilities

6.16.1.1. The DLA Strategic Materials Directorate administers the acquisition, storage, management, and disposal of inventory (including medicine) currently maintained in the National Defense Stockpile Transaction Fund (NDSTF). The NDSTF's Treasury Federal account symbol is 97X4555. The NDSTF is a continuing fund that finances the operations of the National Defense Stockpile and Defense National Stockpile Center (DNSC).

6.16.1.2. DLA records and reports stockpile materials within the NDSTF. The NDSTF's Treasury Federal account symbol is 97X4555.

6.16.1.3. The DFAS maintains accounting requirements and procedures, performs financial and general ledger accounting, and prepares external accounting reports for the NDSTF.

6.16.2. Recognition and Valuation of Stockpile Materials

Stockpile materials are accounted for using the consumption method and are reported as assets when produced or purchased.

6.16.3. Material Acquisition

All acquisitions of material for the National Defense Stockpile are proposed in the Annual Materials Plan, which is subject to approval by Congress and the subsequent authorization of funding. Material purchase contracts are recorded as obligations against the current-year acquisition program and reflect the contract date. Additional costs, including initial testing, increase the material's cost for inventory valuation purposes.

6.16.4. Material Upgrade

The Annual Material Plan includes the program for upgrading existing National Defense Stockpile material. Contractors perform the upgrade services, and DoW Components obligate funds from the current-year budget for the program.

6.16.5. Material Disposals

Various materials in the National Defense Stockpile may become obsolete or exceed current defense stockpiling needs. The National Defense Stockpile Act authorizes the disposal of such material within the Annual Material Plan and as authorized within the budget program for the NDSTF.

6.16.6. Exchange Transactions

Materials can be offered as like material, as payment in kind, or in exchange for other material, for amounts due for material upgraded or acquired. These transactions are accounted for as exchange disposals, and the original cost of the material is removed from inventory and recorded as the cost of exchange disposals. All sales and disposals are billed shortly after the sales agreement is made, or as of the scheduled delivery or pickup time for the material. Credits earned for material received and accepted by the DNSC are used to pay for material shipped when it is disposed of during an exchange settlement.

6.16.7. Inventory Adjustments

Inventory adjustments are made when necessary due to events such as physical counts, material movements, or disposals. All adjustments must be documented and approved by the appropriate authorities such as the DNSC Administrator, delegated inventory officials, or a board of survey, depending on the adjustment's nature and size, before they are recorded in the accounting system.

6.16.8. Research Grants

The NDSTF receives appropriations to award grants to universities, colleges, and research institutions.

6.16.9. Relationship of General Ledger Accounts to Logistic Supply Condition Codes and Stratifications. Refer to Volume 4 Supplemental section 6.16.9 for more information on supply condition codes.

7.0 GENERAL AND RIGHT-TO-USE PROPERTY, PLANT AND EQUIPMENT (GPP&E)

GPP&E consists of tangible assets that: have an estimated useful life of two years or more; are not intended for sale in the ordinary course of operations; and are acquired or constructed to be used or available for use by the entity. Account for GPP&E in accordance with FASAB SFFAS 6, "Accounting for Property, Plant, and Equipment."

7.1 REAL PROPERTY

The United States Standard General Ledger (USSGL) contains the real property general ledger accounts listed in Volume 1, and the DoW USSGL Transaction Library specifies the accounting entries. Unless otherwise stated, this section applies to all DoW Components, both GF and WCF activities.

7.1.1. Accounting for Real Property

7.1.1.1. Descriptions for real property refer to Volume 4 Supplemental.

7.1.1.2. Characteristics of Real Property

7.1.1.3. Real Property Assets (RPAs)

7.1.1.4. Inclusions

7.1.1.5. Exclusions

7.1.1.6. Valuation

7.1.1.6.1. Recorded cost includes all amounts paid to bring the asset to its form and location suitable for its intended use. The recorded cost for capitalized assets is depreciated or expensed depending on the acquisition cost. Non-capital assets are expensed when acquired and do not depreciate. Capitalization does not depend on whether the Component uses appropriated funds or WCFs.

7.1.2. Method of Acquisition or Transfer Determines Recorded Cost. Refer to Volume 4 Supplemental section 7.1.2 for more information.

7.1.3. Alternative Valuation for Establishing Opening Balances

7.1.3.1. Applicability and Considerations. This section applies for the reporting period when the reporting entity is presenting financial statements, or one or more line items, following GAAP promulgated by FASAB either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without using the alternative methods. The SFFAS 50 alternative valuation for establishing opening balances for General PP&E is available only once per line item to each reporting DoW Component. Therefore, prior to establishing opening balances, the DoW Components must validate that they are prepared to account for and comply with the SFFAS 6 recognition, measurement, presentation, and disclosure requirements for real property.

7.1.3.2. Deemed Cost - Existing real property assets (RPAs) with deemed cost equal to or over the current real property capitalization threshold and remaining book values are recorded as a part of the opening balance. DoW Components must apply the applicable capitalization threshold to their entire population of real property retroactively, irrespective of the capitalization thresholds in effect for years prior to October 1, 2013. DoW Components must include all relevant prior period adjustments and note disclosures in their annual financial statements in accordance with SFFAS 50. DoW Components must perform additional analytical procedures to identify assets that have been improperly capitalized or expensed. Examples include searching for RPAs with values of \$0 or \$1, or reviewing for an erroneous additional zero that incorrectly places the asset above the capitalization threshold. DoW Components using the deemed cost methodology must include a disclosure in their financial statements. The disclosure must describe the alternate valuation method used to establish the financial statement opening balances. Include an unreserved assertion that one or more line items are presented fairly in accordance with GAAP. The disclosure does not need to specifically identify the amount of the deemed cost of real property included in the opening balances.

7.1.4. Recognition

7.1.4.1. DoW Components must recognize Real Property Assets (RPAs) for financial statement accountability. RPAs that meet or exceed the established capitalization thresholds must be capitalized and depreciated/amortized. The DoW capitalization threshold for real property is \$15,000,000 for General Fund (GF) and \$1,000,000 for Working Capital Fund (WCF) activities. Transitional Guidance: Components adopting these thresholds must coordinate

with the ODCFO for specific application instructions. Components are eligible to retain existing balances below the Departments capitalization threshold, or apply a lower threshold for component-level reporting, with DCFO approval. Capitalization thresholds may be applied prospectively for components with established opening balances, whereas entities that establish opening balances using deemed cost must apply them retrospectively. Components must review Construction-in-Progress (CIP) projects and make appropriate adjustments during adoption.

7.1.4.2. Recognition Responsibility

7.1.4.2.1. DoW Components must report real property facilities located on their installations. Under 10 U.S.C. § 2682, the SecWar designates the military department's jurisdiction over real property facilities. DoW Components with jurisdiction over RPAs report the assets on the GF financial statements. (see FASAB TB 20172). 10 U.S.C. § 2674 and DoDD 5110.04 delegate jurisdiction over its facilities to Washington Headquarters Services (WHS). The DoW Components' WCF financial statements include real property if the WCF has jurisdiction over a specific installation. The RPA Command Claimant Code identifies the Service organization that has direct command authority over an RPA. This code must be reviewed whenever tenant agreements change. The RPA Financial Reporting Organization Code identifies the organization responsible for reporting and depreciating the original asset, capital improvement, or both on its financial statements.

7.1.4.2.2. The Host Installation must report real property on its financial statements where the RPA is located, or as identified on the OSW-approved Enduring Location Master List for real property outside the U.S. The OSW identifies jurisdiction in the consolidated real property database. The Office of the Assistant Secretary of War (OASW) Acquisition and Sustainment (A&S) (Energy, Installations and Environment) maintains and manages the database. The OASW A&S helps resolve financial reporting responsibility disputes between Host Installations. Non-DoW entities report their funded RPAs located on a DoW installation.

7.1.4.2.3. One reporting DoW Component must treat assets assigned to/from another reporting DoW Component as transfers of assets per SFFAS 7.

7.1.4.2.4. Financial reporting responsibility includes all aspects of financial reporting and disclosures, including footnote disclosures, Deferred Maintenance & Repair (DM&R), and other RSI.

7.1.4.2.5. Financial reporting documentation must establish the reporting entity's rights and obligations. Records reflecting the Host Installation jurisdiction, inter- and intra-agency agreements, and host-tenant relationships are examples.

7.1.4.2.6. The DoW's and the Federal Government's overall accounting records must not be duplicative. Where doubt exists as to which DoW Component recognizes the RPA, the DoW Components involved must reach agreement on which entity records the asset for financial reporting purposes. If an agreement cannot be reached, the involved parties must refer the matter to OASW (Sustainment) for resolution. Requesters must accompany requests for resolution with adequate supporting documentation and submit them through the DoW Component Financial Management and Comptroller.

7.1.5. Treatment. For the treatment of real property, refer to the Volume 4 Supplemental document.

7.1.6. Construction In Progress. The Funding DoW Components must report construction costs for a capital asset anticipated to meet the capitalization criteria of the Host Installation in CIP until the capital asset is complete. Once complete and placed in service, the Host Installation reports and depreciates the asset on the GF's financial statements. The WCF financial statements report real property if it has jurisdiction over a specific installation.

7.1.7. Intra-DoW Transfers. Both parties must agree to and document the transfer (e.g., DD Form 1354). The transferor must provide adequate and appropriate supporting documentation for financial statement reporting. Financial reporting information must be maintained with the asset throughout its lifecycle. When DoW Components have different capitalization thresholds, previously capitalized assets by the transferring DoW Component remain capitalized and will depreciate after transfer, regardless of the new financial reporting entity's capitalization threshold. Assets previously expensed by the transferring DoW Component must remain expensed within the new entity. The receiving DoW Components must include the assets in their Accountable Property System of Record (APSR) as accountable real property.

7.1.8. Memorandum of Agreement. All DoW Component tenants must have a MOA with the Host Installations. An MOA establishes rights and obligations between the Host Installation and the DoW Component using the RPA. All tenants must maintain a list of occupied real property facilities and facilities for which operations, maintenance, or improvement is the tenant's responsibility (see DoDI 4000.19 for DoW policy on intra-departmental support).

7.1.9. WCF Capital Recovery Rate and Accounting Treatment. Refer to the Volume 4 Supplemental.

7.1.10. Inter-Entity Costs

7.1.10.1. SFFAS 55 requires recognition of significant inter-entity costs among and between federal agencies by business-type activities (e.g., WCFs). Unless otherwise directed by the OMB, non-business-type activities may elect not to recognize inter-entity costs, but personnel benefits and U.S. Department of the Treasury (Treasury) Judgment Fund settlements must be recognized. DoD elected not to recognize imputed costs and corresponding financing, aside from the exceptions stated in this subparagraph.

7.1.10.2. WCFs or other business-like activities must impute costs. These imputed costs include depreciation expense, estimated depreciation expense for WCF-funded RPAs and improvements subsequently posted to the GF, and depreciation expense or other costs for assets not funded by the WCF. See the ODCFO SFIS webpage for imputed costs journal entries (transaction code E402). The decision tree in the Volume 4 Supplemental document illustrates what RPA-related costs must be imputed and reported by a DoW Component for business-type activity (e.g., WCF). Accounting for imputed costs in the decision tree applies only to business-type activities (e.g., WCFs).

7.1.11. Accounting for Real Property Outside of the U.S.

7.1.11.1. As used in this section, U.S. means the 50 States of the U.S., the District of Columbia, and the commonwealths, territories, and possessions of the U.S. DoW Components occupy and use real property facilities outside of the U.S. DoW's rights to real property outside of the U.S. are different from those within the U.S. For financial reporting purposes, a DoW Component that occupies and uses facilities outside of the U.S. is covered by paragraph 7.1.11.2 and the Supplemental.

7.1.11.2. The Host Installation financial statements report DoW real property that is not located on a DoW installation (including property located on an installation of a host nation) identified on the OSW-approved Enduring Location Master List (which the Office of the Under Secretary of War for Policy maintains and manages) when all of the criteria are met. See Volume 4 Supplemental for the required criteria in Section 7.1.11.

7.1.12. Disclosure Requirements for Land and Permanent Land Rights.

7.1.12.1. DoW Components must disclose, in the notes to their financial statements, referencing the Balance Sheet, the number of acres of General PP&E land and permanent land rights (where the types of land rights are conducive to measurement in acres) held as of the period of their first audited financial statement. This acreage amount must be reported separately from the DoW Component's Stewardship Land. There are no disclosure requirements for General PP&E land rights that are not measured in acres when establishing opening balances. The disclosure requirements for land and permanent land rights must be presented in accordance with SFFAS 59. Existing disclosures must continue.

7.1.12.2. DoW Components must disclose the number of acres of General PP&E land and land rights measured in acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period.

7.1.13. Capital Improvements. For Land and Permanent Land Rights, capital improvements are covered in the Volume 4 Supplemental document.

7.1.13.1. The DoW Component that reports the improved RPA reports capital improvements (including leasehold improvements).

7.1.13.2. Maintenance and repair costs are not considered capital improvements, regardless of the capitalization threshold.

7.1.14. Depreciation

7.1.14.1. The recorded cost of real property and capital improvements must be depreciated over the shorter of (1) the period benefited, or (2) the asset's useful life. Depreciation is the systematic and rational allocation of the recorded cost of an asset, less its estimated salvage/residual value, over its estimated useful life.

7.1.14.2. Capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, must be reflected in DoW financial statements. Recognize depreciation expense for all capitalized general PP&E. Estimates of useful life for RPAs must consider factors such as usage, physical wear and tear, and technological change. To compute depreciation on DoW RPAs, specific useful lives are prescribed.

7.1.14.3. The placed-in-service date (PISD) triggers the depreciation calculation (regardless of whether it is used). Depreciation is generally based on the Month Available for Service method. The month the asset was available for use is used to calculate depreciation expense for the first year.

7.1.14.4. Components must use only the straight-line method of depreciation for RPAs. Straight-line depreciation expense is calculated as the recorded cost (less salvage value, if applicable) divided by the asset's useful life based on the useful lives.

7.1.14.5. If an asset remains in use longer than its estimated useful life, it must be retained in the APSR, as well as the accounting records, and reflect both its recorded cost and accumulated depreciation until disposition of the asset.

7.1.14.6. WCF activities must depreciate RPAs in accordance with this section guidance, whether such assets are procured through the WCF activity's Capital Purchase/Investment Program budget or depreciation is included in rates charged to customers. The WCF activities may recognize and depreciate assets differently for financial statement reporting purposes than for WCF rate development and budget presentation. All WCF real property depreciation must be expensed on the Statement of Net Cost, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report (Monthly) 1307 (AR(M)1307)." Depreciation recorded on real property that was neither acquired nor replaced through the use of DWCF resources must be classified as non-recoverable for rate-setting purposes and reported on the AR(M)1307. DWCF rates charged to customers are based on guidance in Volume 2 and Volume 11.

7.1.14.7. Annex 1 Scenarios I and II in the Volume 4 Supplemental document illustrate the depreciation methodology for capital improvements and the underlying RPA.

7.1.14.8. Impairment. For more information on impairment, refer to the Volume 4 Supplemental document.

7.1.15. Removal/Disposal

7.1.15.1. FASAB TR 14 defines removal from service as an event that terminates the use of a real property asset. Removal from service may occur due to various factors, such as damage or obsolescence, or because the asset is identified as excess to mission needs. For a removal to be considered permanent, two business events must occur: (1) the asset's use is terminated, and (2) there is documented evidence of the decision to permanently remove the asset from service. If only one of these two events has occurred, the action is considered an other-than-permanent removal.

7.1.15.2. If an asset no longer provides service in the entity's operations, but the DoW Component has not permanently removed it from service, the Component must account for the asset as an 'other than permanent' removal. Continuing low-level maintenance provides evidence of this 'other than permanent' removal status. The value of these assets does not change, and the Component must continue to depreciate them.

7.1.15.3. The DoW Component no longer depreciates assets it has permanently removed from service. A permanent removal occurs when the DoW Component documents its decision to dispose of an asset. Upon permanent removal, the Component must remove the recorded cost and accumulated depreciation/amortization from the accounts and record the asset at its NRV (see SFIS webpage Transaction Code C613). NRV is the estimated amount the Component can recover from selling or otherwise disposing of an item, less the estimated costs of completion, holding, and disposal. The Component must recognize any difference between the Net Book Value (NBV) and the asset's expected NRV as a gain or loss. The Component must also evaluate the expected NRV at the end of each fiscal year and recognize any change as a gain or loss.

7.1.15.4. When an asset is sold, donated, or demolished, the asset must be written off, and the difference between disposal proceeds and the asset's NBV must be recognized as a gain or loss. The legally enforceable disposal obligation date is the disposal date. It is the demolition contract's start date. For transfers to a non-DoW entity and sales, it is the instrument endorsement or the operation end date, whichever comes later. For natural disasters, it is the date of complete loss.

7.1.16. Additional Considerations

7.1.16.1. Use of Canceled TAS.

7.1.16.2. Supporting Documentation.

7.1.16.3. Physical Inventories of Real Property

7.1.16.3.1. The Military Departments and WHS must reconcile, at least annually, their real property inventory records with all other DoW Components that occupy, operate, or maintain facilities or land for which the Military Departments or WHS have real property accountability. This reconciliation ensures both parties maintain accurate records of the asset's use, location, and basic characteristics. In the final review, the host installation must ensure it accurately reports all assets in its APSR.

7.1.16.3.2. DoW Components must perform an inspection of each RPA record, including a physical inspection of each RPA, every 5 years; however, RPAs designated with historic status must be reviewed and physically inspected every 3 years and reported in accordance with DoDI 4715.16. Assets identified with RPA Historic Status Code - "Eligible for the purposes of a Program Alternative – ELPA" do not require inspection every 3 years, and may follow the regular 5-year inspection schedule in accordance with DoDI 4165.14.

7.1.16.4. Deferred Maintenance & Repairs

7.1.16.4.1. FASAB SFFAS 42 defines Deferred Maintenance and Repairs (DM&R) as maintenance and repairs that the Component did not perform when scheduled, instead delaying them to a future period. DM&R includes preventive maintenance; replacement of parts, systems, or components; and other activities the Component must perform to preserve or maintain the asset in working condition.

7.1.16.4.2. Measurement

7.1.16.4.2.1. The values reported for DM&R must be consistent with the Facility Condition Index ratings and Facility Plant Replacement Values.

7.1.16.4.2.2. DoW Components must determine acceptable condition standards and which DM&R measurement methods to apply. They must consistently apply these condition standards and measurement methods. If the DoW Components determine that changes are necessary, they must document the rationale for the change(s) and the related impact on the DM&R estimate.

7.1.16.4.2.3. DoW Components must measure DM&R for capitalized, non-capitalized, and fully depreciated real property. They must include DM&R for inactive real property when they report the asset with an operational status of 'caretaker' or 'non-functional.' The DM&R measurement must account for both funded and unfunded delayed maintenance and repairs. The Component must ensure the data does not include DM&R funded with NAFs' commissary surcharge or from non-DoW sources.

7.1.16.4.3. Required Supplemental Information. The Host Installation reporting real property must report DM&R material amounts as RSI. See Volume 6 for required RSI reporting.

7.1.16.5. Financial Statement Disclosure Reporting and Representation Requirements.

7.1.16.5.1. DoW Components reporting real property must reference the Balance Sheet note disclosing information about the reported RPAs.

7.1.16.5.2. The management representation letter provided to the IPA (for audited DoW Components), and the financial statement notes must fully and completely disclose how reported real property complies with this section's policies.

7.1.16.5.3. DoW Components must disclose in the financial statement notes when a host nation/foreign government provides real property without reimbursement, and that the financial statements do not contain amounts for these properties. The agreement's general nature must be disclosed. The host nation/foreign government's geographic location must not be disclosed.

7.1.16.5.4. In accordance with SFFAS 55, DoW Components must disclose in the financial statement notes that inter-entity (imputed) costs are recognized for business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. Other federal entities provide these goods and services at no cost or at a cost less than the full cost, as applicable. Unreimbursed costs of goods and services other than those identified in the preceding sentence are not included in DoW financial statements.

7.1.16.5.5. Refer to Volume 6 for additional disclosure reporting requirements.

7.2 GENERAL EQUIPMENT

7.2.1. Accounting for General Equipment

Transferred Equipment. Transfers of equipment must adhere to the cost recorded for general equipment transferred from another DoW Component or Federal agency as the cost recorded on the transferring entity's books for the general equipment, net of any accumulated depreciation (i.e., net book value). To prevent intergovernmental transaction elimination issues, the receiving DoW component must ensure the transfer-in amount it records aligns with the document it received from the transferring agency. If the receiving DoW Component cannot reasonably ascertain those amounts, the cost of the asset will be its fair value at the time of transfer. Accountability for general equipment transferred between entities must comply with DoDI 5000.64. Refer to DoDI 1225.06 for equipment transfers by entities other than DoW and Reserve Components.

7.2.2. Valuation. Refer to the Volume 4 Supplemental.

7.2.3. Alternate Valuation Methods for Establishing Opening Balances.

7.2.3.1. The alternative valuation methods for establishing opening balances for general PP&E are available only once to each reporting entity. Therefore, prior to the establishment of opening balances for general equipment, DoW Components must validate that they account for and comply with the recognition, measurement, presentation, and disclosure requirements for general equipment at historical cost in accordance with FASAB SFFAS 6, as amended by SFFAS 50. Components must prepare and retain documentation to support compliance with the recognition, measurement, presentation, and disclosure requirements to meet audit requirements. When a Component cannot apply historical cost as outlined in SFFAS 6, Deemed Cost is acceptable to estimate the initial amounts (historical cost) to establish the opening balances for general equipment.

7.2.3.2. When evaluating general equipment for the purpose of establishing opening balances, DoW Components must apply the applicable capitalization threshold to their entire population of general equipment retroactively.

7.2.3.3. DoW Components must calculate a gross value and an accumulated depreciation value for General Equipment assets when establishing opening balances using Deemed Cost.

7.2.3.4. DoW component reporting entities applying deemed cost in establishing opening balances for general PP&E must disclose in the notes to their financial statements that they used an alternative valuation method and describe the methods used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. An unreserved assertion is an unconditional statement. Financial statements or, as applicable, reports on line items of subsequent periods need not repeat this disclosure, unless the financial statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required.

7.2.3.5. Refer to the Volume 4 Supplemental for deemed cost estimates.

7.2.3.5.1. Replacement Cost. The amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life.

7.2.3.5.2. Estimated Historical Cost (initial amount). A reasonable estimate of historical (acquisition) cost.

7.2.3.5.3. Fair Value. The amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

7.2.3.6. DoW Components that anticipate substantial use of replacement cost or fair value methodologies for equipment valuation must contact the OUSW(C)/ ODCFO and the Office of the Deputy Assistant Secretary of War for Logistics prior to committing significant resources to these methods.

7.2.3.7. Refer to the Volume 4 Supplemental for estimated historical cost.

7.2.4. Recognition

7.2.4.1. Recognition requires appropriate accounting treatment (expense or capitalization with depreciation) and reporting of capitalized amounts and accumulated depreciation on the DoW Component's financial statements.

7.2.4.2. Recognition Responsibility. The entity that has accountability for a general equipment asset, as defined in DoDI 5000.64, has financial reporting responsibility for that asset from purchase or construction, upon transfer of title (receipt, delivery, or acceptance), and through disposal, or when another entity takes physical accountability for the asset.

7.2.4.3. Recognition Uncertainty. The DoW and the Federal Government must ensure that the accounting records are not duplicative. In situations where doubt exists about which DoW Component must recognize an item, the DoW Components involved must reach an agreement with the other applicable DoW Components or Federal agencies on which entity will record the item for financial reporting purposes. Disputes between DoW Components regarding accountability for an asset under DoDI 5000.64 guidelines may be resolved by contacting the Office of the Deputy Assistant Secretary of War for Logistics.

7.2.4.4. Recognition Timing. Recognition of general equipment for financial reporting purposes must occur upon delivery to the acquiring DoW Component. Delivery occurs when the title passes to the customer. Delivery or constructive delivery must be made in accordance with the contract terms.

7.2.4.5. Capitalization Thresholds. The DoW capitalization threshold for general equipment is \$15,000,000 for General Fund (GF) and \$500,000 for Working Capital Fund (WCF) activities. DoW Components must capitalize general equipment with a recorded cost that equals or exceeds these applicable thresholds, provided the asset has a useful life of at least two years, and depreciate the cost over its useful life. Conversely, Components must expense general equipment with a recorded cost below the applicable threshold or with a useful life of less than 2 years, except for items acquired as part of a qualifying bulk purchase. Transitional Guidance: Components adopting these thresholds must coordinate with the ODCFO for specific application instructions. Capitalization thresholds may be applied prospectively for components with established opening balances, whereas entities that establish opening balances using deemed cost must apply them retrospectively. Components are eligible to retain existing balances below the Departments capitalization threshold, or apply a lower threshold for component-level reporting, with DCFO approval.

7.2.4.6. DoW Components must capitalize special tooling, special test equipment, and other similar equipment items that meet or exceed the appropriate capitalization threshold with a useful life of at least two years at the time of delivery. Per SFFAS 6, general equipment must be recognized when title passes to the acquiring entity or when it is delivered to the entity or an agent of the entity. The component must recognize the general equipment acquired by the contractor on behalf of the DoW Component, for which the Government will ultimately hold title.

7.2.4.7. Bulk Purchases.

7.2.4.7.1. Each DoW Component must establish guidance on applying DoW capitalization thresholds to its bulk purchases. DoW Components must document their rationale for the accounting treatment of bulk purchases and retain the documentation for audit purposes in accordance with their DoW Component records retention requirements.

7.2.4.7.2. For financial accounting, a bulk purchase is a single contractual/purchase arrangement of multiple like general equipment items within a fiscal year. For bulk purchases made under a single, multi-year contractual/purchase arrangement, DoW Components must consider aggregate purchases on a fiscal-year basis.

7.2.4.7.3. The DoW Component must consider whether period costs on the Statement of Net Costs would be materially overstated and/or asset values on the Balance Sheet would be materially understated by expensing bulk purchases. SFFAS 1 defines materiality as the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement. To determine materiality, the DoW Component must exercise appropriate and reasonable professional judgment.

7.2.4.7.4. In the instance where more than one DoW Component has the authority to place orders under the same contractual/purchase arrangement, the component must consider only those orders it funds for purposes of bulk purchase evaluation and not those funded by other DoW Components.

7.2.4.8. CIP. Funding DoW Components must report and record constructed general equipment in the CIP account (when expected to meet capitalization criteria of the component that will own the asset) until they complete and place it in service, at which time they must transfer the balance to the general equipment USSGL account. The CIP account accumulates costs of new construction of general PP&E and capital improvements while the asset is under construction. CIP accounts include all costs incurred in construction (i.e., direct labor, direct materials, supervision, inspection, and overhead).

7.2.4.9. Accounting for General Equipment Outside of the United States. The “United States” is defined as the 50 States of the United States, the District of Columbia, and the commonwealths, territories, and possessions of the United States. DoW’s rights to general equipment outside of the United States may be different from those within the United States. For financial reporting purposes, a DoW Component that uses general equipment outside of the United States must adhere to the following guidance:

7.2.4.9.1. DoW Components must recognize a general equipment asset on their financial statements in accordance with the guidance provided throughout the other provisions of this section if the DoW Component purchases the general equipment asset outside of the host nation/foreign country to which it is bringing the general equipment.

7.2.4.9.2. DoW Components must evaluate any foreign legal restrictions or terms of any agreement with the host nation/foreign government to determine the accounting treatment if a DoW Component both purchases and uses the general equipment in the foreign country as follows:

7.2.4.9.3. If a general equipment acquisition is not funded/purchased by DoW but instead provided by the host nation/foreign government and the terms and use of the general equipment are set out in an agreement between the DoW Component and the host nation/foreign government, the DoW Component will recognize the general equipment as a right-to-use leased asset. Refer to Volume 4 Supplemental section 7.3.

7.2.4.9.4. SFFAS 4 and SFFAS 55 address imputed costs between Federal agencies. The concept of imputed costs does not apply to activities between a DoW Component

and a host nation/foreign government. Therefore, a DoW Component will not record imputed costs for the use of general equipment, for which it does not pay directly or pay through reimbursement, provided by international organizations (e.g., NATO) or host nations/foreign governments.

7.2.4.9.5. The DoW Component must record accountable general equipment it uses in an APSR, including those that have not been capitalized for accounting and financial reporting purposes in accordance with DoDI 5000.64.

7.2.4.9.6. The DoW Component must record an expense for any maintenance and sustainment costs that they incur or will incur relating to the general equipment paid for. Maintenance and sustainment costs refer to costs that do not meet the criteria for capitalization of an improvement.

7.2.5. Capital Improvements are modifications, modernizations, upgrades, remanufacturing, and enhancements and must be capitalized when the improvement increases the asset's useful life by two or more years, or increases the asset's capability, or increases its capacity or size, and when the cost of the improvement equals or exceeds the capitalization threshold. If capital improvements do not meet these two criteria, they must be expensed. If the capital improvement extends the useful life of the underlying general equipment asset by two years or more, the DoW Component must capitalize and depreciate the improvement alongside the original general equipment over the revised estimated useful life. If the costs of capital improvements do not extend the useful life of an existing general equipment asset but enhance its capacity and have a useful life of two years or more, the DoW Component must capitalize and depreciate these costs over the lesser of the estimated useful life of the improvement or the remaining estimated economic useful life of the underlying general equipment asset.

7.2.6. Depreciation

7.2.6.1. Depreciation is the systematic and rational allocation of the recorded cost of an asset, less its estimated salvage or residual value, over its estimated useful life. The DoW entity must depreciate the recorded cost of capitalized general equipment and capital improvements.

7.2.6.2. Capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, must be reflected in DoW financial statements. The depreciable basis of an asset is the recorded cost reduced by the asset's salvage value (if applicable).

7.2.6.3. The event that triggers the calculation of depreciation is the date of receipt shown on the asset receiving document in cases where no installation is required; the date installed (if required); or the date the asset is available for use, also known as the acceptance date.

7.2.6.4. If an asset remains in use longer than its estimated useful life, it must be retained in the APSR, as well as the accounting records, and reflect both its recorded cost and accumulated depreciation until disposition of the asset.

7.2.6.5. WCF activities must depreciate general equipment assets in accordance with the guidance in this section for financial reporting purposes without regard to whether assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers.

7.2.6.5.1. The recognition of general equipment assets and depreciation of such assets by WCF activities may differ for financial statement reporting purposes from amounts used for WCF rate development and budget presentation.

7.2.6.5.2. DWCF rates charged to customers are based on guidance in Volume 2 and Volume 11.

7.2.7. Impairment - Refer to the Procedures document for more information.

7.2.8. Removal/Disposal

7.2.8.1. FASAB TR 14 paragraph 8 defines removal from service as an event that terminates the use of a general equipment asset. Removal from service may occur because of a change in the manner or duration of use, a change in technology, obsolescence, damage from natural disasters or use in operations, or identification as excess to mission needs. Permanent removal from service is evident from the DoW Component's documented decision to dispose of an asset by selling, scrapping, recycling, donating, or demolishing the asset.

7.2.8.2. Removals from service must be considered other than permanent unless the asset's use is terminated and there is documented evidence of the DoW Component's decision to permanently remove the asset from service, or if only one of the two business events has occurred, permanent removal from service has not occurred.

7.2.8.3. When an asset is disposed of (e.g., by selling, scrapping, recycling, donating, or demolishing the asset), the asset must be written off, and the difference between any disposal proceeds and the asset's net book value must be recognized as a gain or loss. Disposals of general equipment will be conducted in accordance with DoDM 4160.21.

7.2.8.3.1. The disposal start date is the calendar date of a legally enforceable and recognizable obligation to complete the disposal action. For demolitions, this represents the demolition contract's start date. For transfers to a non-DoW entity and sales, this represents the date on which the instrument is endorsed, or the operation is ceased, whichever comes later. For natural disasters, this represents the actual incident date if the asset is a complete loss.

7.2.8.3.2. All disposals or retirements must be supported as of the date the general equipment leaves the custody of the DoW Component to provide an adequate audit trail for the disposal of the asset. The execution of certain disposal events will generate financial or administrative accountability transactions.

7.2.8.4. Plant clearance officers follow the direction of the FAR Subpart 45.6, Defense Federal Acquisition Regulation Supplement (DFARS) Subpart 245.6, and DFARS

Procedures, Guidance, and Information (PGI) 245.602-70. Following the plant clearance officer's acceptance of an inventory disposal schedule, the property must be screened for reutilization DoW-wide. Surplus personal property with commercial value that is processed through the reutilization screening process without success may be sold. Proceeds of any sale of surplus property are to be credited to the Treasury as miscellaneous receipts, unless otherwise provided by statute or the contract or any subcontract thereunder authorizing the proceeds to be credited to the price or cost of the work per 40 U.S.C. § 571 and § 574, FAR 45.604-3.

7.2.9. Additional Considerations

7.2.9.1 Use of Canceled TAS, Refer to the Volume 4 Supplemental.

7.2.9.2 Documentation Requirements

7.2.9.2.1. Financial transactions in the accounting system, general ledger accounts, the APSR, and/or other systems must be supported by source documents affecting the Component's investment in the general equipment.

7.2.9.2.2. All general equipment acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date of delivery and acceptance (including acceptance where constructive receipt has occurred) by the DoW Component.

7.2.9.2.3. Items must be assigned a dollar value (i.e., acquisition cost) when recording the general equipment item in the APSR and/or accounting system. The dollar value must be supported by appropriate documentation describing the reasons for changes in asset value or physical attributes resulting from a new acquisition or capital improvement.

7.2.9.2.4. DoW Components must retain supporting documents for the cost of general equipment assets in accordance with their DoW Component records retention requirements. Documentation (original documents and/or hard and electronic copies of the originals) must be maintained in a designated location during the applicable retention period to support audit compliance.

7.2.9.2.5. The APSR and/or other systems must be designed to support procurement and utilization decisions, including decisions related to identifying potential excess general equipment that may be available for reuse, transfer to other DoW Components, or made available for disposal in accordance with current DoW regulations and other regulatory requirements.

7.2.9.3. Physical Inventories of General Equipment

7.2.9.3.1. DoW Components must perform periodic physical inventories of general equipment in accordance with DoDI 5000.64.

7.2.9.3.2. All DoW Components (i.e., Military Departments, Washington Headquarters Service, and Other Defense Organizations) must reconcile their APSR to their

financial statements (or to their trial balance if financial statements are not required to be prepared) quarterly.

7.2.9.3.3. While conducting physical inventories, DoW components should consider if any general equipment shows potential evidence of impairment and if any general equipment does not appear to be in use, where it has not been used for a significant period.

7.2.9.4. Deferred Maintenance and Repairs. For more information, refer to the Volume 4 Supplemental document.

7.2.9.5 Disclosure Requirements

7.2.9.5.1. DoW Components with general equipment must reference a note on the Balance Sheet that discloses information about the reported general equipment assets. Note 1 of the financial statements must include a disclosure related to the DoW Component's general equipment reporting accounting policy. DoW Components must state that they are financially reporting on property for which they have accountability, in accordance with DoDI 5000.64. Additionally, DoW Components must disclose that they may use assets to complete their mission that are reported in the financial statements of another DoW Component. See Volume 6 for the specific disclosure requirements.

7.2.9.5.2. DoW Components must disclose in the notes to the financial statements those instances where they are using general equipment provided by a host nation/foreign government without reimbursement by DoW to the host nation/foreign government, as applicable, that (1) The DoW Component is utilizing general equipment provided by and owned by a host nation/foreign government in its operations OCONUS without reimbursement by DoW to the host nation/foreign government The DoW Component is utilizing general equipment provided by and owned by a host nation/foreign government in its OCONUS operations without reimbursement by DoW to the host nation/foreign government, and there are no amounts recorded in the financial statements related to these assets, and (2) the general nature of the agreement with the host nation/foreign government is not intended or recommended to disclose the geographic location of the foreign government/host nation.

7.3 ACCOUNTING FOR LEASES

This policy outlines DoW's accounting for leases, covering instances in which DoW is both a lessee and a lessor, in accordance with SFFAS 54. This policy does not apply to leases of internal use software (IUS), leases of assets under construction, or budgetary accounting for capital leases and lease purchases, as detailed in OMB Circular A-11.

7.3.1. Short-Term Leases (Non-Intragovernmental)

7.3.1.1. Lessee Treatment of Short-Term Leases. A DoW Component, as the lessee, must recognize short-term lease payments as an expense based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. The DoW Component (lessee) must recognize an asset if payments are made in advance of the reporting period to which they relate or liability for rent due and unpaid at the end

of the reporting period to which they relate. Rental increases, rental decreases, lease incentives, and lease concessions must be recognized when incurred as increases/reductions to lease rental expenses.

7.3.1.2. Lessor Treatment of Short-Term Leases. A DoW Component, as the lessor, must recognize short-term lease payments as revenue based on the payment provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. The DoW Component (lessor) must recognize a liability if payments are received in advance of the reporting period to which they relate or an asset for rent due and to be received after the reporting period to which they relate. Rental increases, rental decreases, lease incentives, and lease concessions must be recognized when incurred as increases/reductions to lease rental income.

7.3.2. Contracts or Agreements That Transfer Ownership

If a contract or agreement (a) transfers ownership of the underlying asset to a lessee by the end of the term and (b) does not contain termination options (other than a non-probable cancellation clause), then the lessee must report it as an asset purchase, or the lessor must report it as a financed asset sale. For this purpose, options to purchase the underlying asset prior to the transfer of ownership are not considered options to terminate.

7.3.3. Intragovernmental Leases

7.3.3.1. Any lease, regardless of the lease term, that meets the definition of an intragovernmental lease must follow the following accounting and disclosure guidance.

7.3.3.2. Lessee Treatment of Intragovernmental Leases

7.3.3.2.1. Lease Payments. A DoW Component, as the lessee must recognize lease payments, including lease-related operating costs (for example, maintenance, utilities, and taxes) paid to the lessor, as expenses based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. Prepaid rent or rent payable must be recognized as an asset or liability, respectively, and an expense must be recognized in the appropriate reporting period based on the specifics of the lease provisions.

7.3.3.2.2. Leasehold Improvements. Leasehold improvements that meet or exceed the capitalization threshold and are placed in service at or after the beginning of the lease term must be amortized over the useful life (the normal operating life in terms of utility to the lessee) of the leasehold improvement, but no longer than the expected lease term. This recognition is consistent with PP&E capital improvements outlined in SFFAS 6.

7.3.3.2.3. Disclosures. A DoW Component as the lessee must disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure): (1) a general description of significant intragovernmental leasing arrangements, including general lease terms with any applicable specific intragovernmental requirements; and (2) annual lease expense in total and by major underlying asset category.

7.3.3.3. Lessor Treatment of Intragovernmental Leases

7.3.3.3.1. Lease Payments. A DoW Component, as the lessor must recognize lease receipts, including lease-related operating costs (for example, maintenance, utilities, or taxes) received from the lessee as income based on the provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. Rent paid in advance, or a lease receivable, must be recognized as a liability or asset, respectively, and income must be recognized in the appropriate reporting period based on the specifics of the lease provisions.

7.3.3.3.2. Lessor Improvements. Lessor improvements, which are elements of the leased property that meet or exceed the capitalization threshold, must be capitalized and depreciated by the lessor over their useful life. This accounting treatment aligns with the lessor's handling of PP&E and is consistent with the capital improvement guidelines outlined in SFFAS 6.

7.3.3.3.3. Disclosures. Lessors must disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure): (1) a general description of significant leases; and (2) future lease payments that are to be received to the end of the lease term for each of the five subsequent fiscal years and in five-year increments thereafter.

7.3.3.4. Other Considerations for Lessees and Lessors

7.3.3.4.1. Fixed Rental Increases/Decreases. Rental increases/decreases may be fixed in the lease and take place over time (for example, be based on such factors as anticipated increases/decreases in costs or anticipated appreciation/depreciation in property values, but the amount of the increase/decrease is specified in the lease), or they may be contingent on future events.

7.3.3.4.2. Variable Rental Increases/Decreases. Rental increases/decreases may also be variable and based on future changes in specific economic factors on which lease payments are based, for example, future sales or usage activity levels or future inflation/deflation (tied to a specific economic indicator where the specific amount of the change is not known).

7.3.3.4.3. Treatment of Rental Increases/Decreases, and Lease Incentives/Concessions. Rental increases/decreases and lease incentives/concessions must be recognized by the lessee and lessor when incurred as increases/reductions to lease rental expense and income, respectively.

7.3.3.4.4. Initial Direct Lease Costs. Initial direct lease costs incurred by the lessee must be expensed when incurred. Initial direct lease costs incurred by the lessor must be expensed when incurred.

7.3.4. Lessee Recognition, Measurement, and Disclosure for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases.

7.3.4.1. At the commencement of the lease term, a DoW Component as the lessee must recognize a lease liability and a leased asset for leases other than short-term leases, contracts, or agreements that transfer ownership, and intragovernmental leases that meet the capitalization thresholds. For leases that do not meet the capitalization threshold, a lease expense must be recognized in the current period.

7.3.4.2. Lease Liability. A lessee must initially measure the lease liability at the present value of payments expected to be made during the lease term.

7.3.4.3. Variable payments must be recognized as an expense in the reporting period in which those payments are incurred. However, any portion of these variable payments that is fixed in-substance must be included in the lease liability.

7.3.4.4. Interest Rate. The future lease payments must be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, it must be based on the interest rate on marketable Treasury securities at the commencement of the lease term (or at the subsequent financial reporting date), with a similar maturity to the term of the lease (as determined by the Treasury).

7.3.4.5. Remeasurement of Lease Liability. The lessee must remeasure the lease liability at subsequent financial reporting dates if one or more of the following changes have occurred at or before that financial reporting date, based on the most recent lease contract or agreement before the changes, and if the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability since the previous measurement.

7.3.4.6. Lease Asset. A lessee must initially measure the lease asset as the sum of the following:

7.3.4.6.1. The amount of the initial measurement of the lease liability;

7.3.4.6.2. Lease payments made to the lessor (e.g., prepaid rents) at or before the commencement of the lease term, less any lease incentives; and

7.3.4.6.3. Initial direct lease costs that are necessary to place the lease asset into service.

7.3.4.6.4. A lease asset must be amortized systematically and rationally over the shorter of the lease term or the useful life of the underlying asset, except as provided in the following subparagraph.

7.3.4.6.5. If a lease contains a purchase option that the lessee has determined is probable of being exercised, the lease asset must be amortized over the useful life of the underlying asset. However, if the underlying asset will be capitalizable and non-depreciable in the reporting period the purchase option is expected to be exercised, the lease asset must not be

amortized. If the underlying asset will be non-capitalizable in the reporting period the purchase option is expected to be exercised, the lease asset must be amortized over the remaining lease term.

7.3.4.6.6. The lease asset generally must be adjusted by the same amount when the lease liability is remeasured. However, if this change reduces the carrying value of the lease asset to zero, any remaining amount must be reported in the statement of net cost as a gain. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of lease terminations and modifications.

7.3.4.6.7. Leased assets are subject to SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use. Refer to volume 4 Supplemental for more information.

7.3.4.7. Lease Term. The lease term for a lessee is the noncancelable period of the lease, plus any probable additional periods, based on all relevant factors, that it will be included. This includes periods covered by a lessee's option to extend the lease if it is likely they will exercise it. It also includes periods following a lessee's option to terminate the lease if it is probable they will not exercise that option.

7.3.4.8. Disclosure Requirements for Lessees

Lessees must disclose lease activities (which may be grouped for purposes of disclosure), other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases.

7.3.5. Lessor Recognition, Measurement, and Disclosures for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases

7.3.5.1. At the commencement of the lease term, a DoW Component as the lessor must recognize a lease receivable and unearned revenue for leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases. The lessor must report any initial direct lease costs it incurs as an expense of the period.

7.3.5.2. Lease Receivable. A lessor initially must measure the lease receivable at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts.

7.3.5.3. Variable payments based on the future performance of the lessee or usage of the underlying asset must not be included in the measurement of the lease receivable. Rather, those payments must be recognized as revenue in the reporting period to which those payments relate. However, any payments that are fixed in-substance must be included in the lease receivable.

7.3.5.4. Amounts to be received under residual value guarantees (that are not fixed in-substance) must be recognized as a receivable and revenue when (a) a guarantee payment is required (as agreed to by the lessee and lessor) and (b) the amount can be reasonably estimated. Amounts to be received for the exercise price of a purchase option or penalty for lease termination must be recognized as a receivable and revenue when those options are exercised.

7.3.5.5. Interest Rate. The future lease payments to be received must be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, it must be based on the interest rate on marketable Treasury securities at the commencement of the lease term (or at the subsequent financial reporting date), with a similar maturity to the term of the lease (as determined by the U.S. Department of the Treasury).

7.3.5.6. A lessor must remeasure the lease receivable if certain changes occur that are expected to affect its amount significantly. These triggers include a change in the lease term, a change in the interest rate the lessor charges, or the resolution of a contingency that fixes previously variable payments. When remeasuring due to a change in the lease term or interest rate, the lessor must also update the discount rate. Additionally, if a remeasurement is already triggered, the receivable must be adjusted for any significant change in an index or rate used for variable payments, though a change in an index or rate by itself does not require remeasurement. It is important to note that changes resulting from an amendment to the lease contract are handled separately under the provisions for lease modifications and terminations.

7.3.5.7. Unearned Revenue

7.3.5.7.1. A lessor must initially measure the unearned revenue to include the following: (1) the amount of the initial measurement of the lease receivable, and (2) lease payments received from the lessee at or before the commencement of the lease term that relates to future periods (for example, the final month's rent), less (3) any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term.

7.3.5.7.2. A lessor subsequently must amortize the unearned revenue, recognizing it as earned revenue, systematically and rationally over the term of the lease. The unearned revenue generally must be adjusted using the same amount as the change resulting from the remeasurement of the lease receivable. However, if the change reduces the carrying value of the unearned revenue to zero, any remaining amount must be reported in the statement of net cost as a loss.

7.3.5.8. Underlying Asset. A lessor must not derecognize the asset (PP&E) underlying the lease. A lessor must continue to apply other applicable guidance to the underlying asset, including depreciation and impairment. However, if the lease contract or agreement requires the lessee to return the asset in its original or enhanced condition, a lessor must not depreciate the asset during the lease term.

7.3.5.9. Lease Term. The lessor's lease term consists of the noncancelable period plus any additional periods where there is significant evidence that the lessor will act to extend the term. This includes periods covered by a lessor's option to extend, if evidence suggests they will exercise it, and periods following a lessor's option to terminate, if evidence suggests they will not exercise it. When determining the total term, options must be evaluated chronologically, with the lessee's options being considered first. If a decision is made not to add a period based on one option, subsequent options are considered.

7.3.5.10. Disclosure Requirements for Lessors. Lessors must disclose lease activities (which may be grouped for purposes of disclosure), other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases.

7.3.6. Lease Incentives and Lease Concessions

7.3.6.1. Lease incentives and lease concessions reduce the amount that a lessee is required to pay for a lease. For leases other than short-term leases and intragovernmental leases, lease incentives and lease concessions that provide payments to, or on behalf of, a lessee at or before the commencement of a lease term are included in the initial measurement by directly reducing the amount of the lease asset.

7.3.6.2. Lease incentive and lease concession payments to be provided after the commencement of the lease term must be accounted for by lessees and lessors as reductions of lease payments for the periods in which the incentive or concession payments will be provided. Those payments must be measured by lessees consistently with the lessee's lease liability and by lessors consistently with the lessor's lease receivable. Accordingly, lease incentive and lease concession payments to be provided after the commencement of the lease term are included in the initial measurement and any remeasurement if they are fixed or fixed in-substance, whereas variable or contingent lease incentive or lease concession payments are not included in the initial measurement.

7.3.6.3. Lessor improvements that are made to or on behalf of the lessee without additional cost to the lessee must be accounted for by the lessee and the lessor consistent with other lease incentives and lease concessions. As leasehold improvements are paid for (financed) by the lessee, leasehold improvements would not be considered a lease incentive or concession received from the lessor.

7.3.7. Contracts or Agreements with Multiple Elements

7.3.7.1. Lessors and lessees may enter into contracts or agreements that contain multiple elements, such as a contract or agreement that contains both a lease element and a non-lease element, or a lease that contains multiple underlying assets.

7.3.7.2. If a lessor or lessee enters into a contract or agreement that contains both a lease and non-lease elements (such as maintenance services for the building), the lease and non-lease elements must be accounted for as separate contracts or agreements unless the contract or agreement if any prices for individual elements appear to be unreasonable or it is not practicable to determine the best estimate for price allocation for some or all elements in a contract or agreement. In this instance, some or all elements in a contract or agreement must be accounted for as a single lease unit.

7.3.7.3. If a lease involves multiple underlying assets and the assets have different lease terms, the lessor and lessee must account for each underlying asset as a separate lease element. An exception exists if the contract or agreement does not include prices for individual elements or if any of those prices appear to be unreasonable.

7.3.7.4. To allocate the contract or agreement price to the different elements, lessors and lessees must first use any prices for individual elements that are included in the contract or agreement, as long as the price allocation does not appear to be unreasonable based on the terms of the contract or agreement and professional judgment, maximizing the use of observable information, for example, using readily available observable stand-alone prices.

7.3.7.5. If multiple elements are accounted for as a single lease unit, the accounting for that unit must be based on the primary lease element within that unit. For example, the primary lease element's lease term must be used for the unit if the lease elements have different lease terms.

7.3.8. Contract or Agreement Combinations

7.3.8.1. Contracts or agreements that are entered into at or near the same time with the same counterparty must be considered to be part of the same lease contract or agreement if either of the following criteria is met: (1) the contracts or agreements are negotiated as a package with a single objective; and (2) the amount of consideration to be paid in one contract or agreement depends on the price or performance of the other contract or agreement.

7.3.8.2. If multiple contracts or agreements are determined to be part of the same lease contract or agreement, that contract or agreement must be evaluated in accordance with the guidance for contracts or agreements with multiple elements.

7.3.9. Lease Terminations and Modifications

7.3.9.1. Provisions of a lease contract or agreement can be amended while in effect, with common changes including price adjustments, term extensions or reductions, and the addition or removal of an underlying asset. The Component treats an amendment as a lease modification unless the lessee's right to use the asset decreases, in which case it considers the amendment a partial or full lease termination. In contrast, exercising an existing option, such as an option to extend or terminate the lease, is not considered an amendment but instead follows the guidance for remeasurement.

7.3.9.2. Lease Terminations. The lessee and lessor must account for an amendment during the reporting period resulting in a decrease in the lessee's right to use the underlying asset (for example, the lease term is shortened, or the number of underlying assets is reduced) as a partial or full lease termination.

7.3.9.3. Lease Modifications. A lease modification is treated as a new, separate lease if it adds an asset not included in the original agreement and the corresponding increase in lease payments is reasonable. If the modification is not accounted for as a separate lease, both the lessee and lessor must adjust their accounting.

7.3.10. Subleases

A sublease involves three parties: the original lessor, the original lessee (who becomes the sub-lessor), and the new lessee. The original lessor and the new lessee continue to apply general lessor and lessee guidance, respectively. Additionally, the lessor transactions related to the sublease must be disclosed separately from the lessee transactions related to the original lease.

7.3.11. Sale-Leaseback Transactions

7.3.11.1. Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback must include a transaction that qualifies as a sale to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a transaction that qualifies as a sale must be accounted for as a borrowing by both the seller-lessee and the buyer-lessor. Refer to SFFAS 7.

7.3.11.2. In a sale-leaseback transaction, the sale and lease portions are treated as separate transactions. The difference between the capital asset's carrying value and its net sale proceeds is typically reported as unearned revenue or deferred expense, recognized systematically over the lease term in the statement of net cost. However, if the lease qualifies as short-term, this difference must be recognized immediately.

7.3.11.3. A sale-leaseback transaction is considered to have off-market terms if there is a significant difference between: (a) the sales price and the estimated fair value of the asset; or (b) the present value of the contractual lease payments and the estimated present value of what the lease payments for that asset would be at a market price, whichever of the two differences is more readily determinable.

7.3.11.4. A seller-lessee must disclose the terms and conditions of sale-leaseback transactions as part of the disclosures required of a lessee. A buyer-lessor must disclose the terms and conditions as part of the disclosures required of a lessor.

7.3.12. Lease-Leaseback Transactions

In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. A lease-leaseback transaction must be displayed in the financial statements as a net transaction. Both parties to a lease-leaseback transaction must disclose the amounts of the lease and the leaseback separately.

7.3.13. Capitalization Thresholds

Table 7-1 outlines the applicable capitalization thresholds for the underlying assets (PP&E) that are applied to the lease assets.

Table 7-1 Capitalization Threshold

Entity	Capitalization Threshold
Army Corps of Engineers Buildings and Structures Related to Hydropower	Capitalized regardless of cost
Army Corps of Engineers General PP&E Other than Buildings and Structures Related to Hydropower	\$25,000
All Other DoW General Fund Entities General Equipment and Real Property*	\$15,000,000
All Other DoW Working Capital Fund Entities Real Property*	\$1,000,000
All Other DoW Working Capital Fund Entities General Equipment*	\$500,000

7.3.14. Intragovernmental Leasehold Reimbursable Work Agreements

7.3.14.1. For intragovernmental reimbursable leasehold work agreements, the customer-lessee is normally expected to be the predominant beneficiary of the acquisition, construction, improvement, and/or alteration to the underlying asset.

7.3.14.2. The provider-lessor would not be expected to derive significant residual economic benefits or services from such reimbursable work under these types of agreements. The provider-lessor must expense the costs incurred for the reimbursable work and recognize the amounts received as reimbursement as intragovernmental revenue.

7.3.14.3. However, for acquisitions, construction, improvements, and/or alterations under an intragovernmental reimbursable leasehold work agreement with an expected useful life beyond the remaining lease term and for which the provider-lessor is expected to derive a significant level of residual economic benefits and services from the reimbursable work, the customer-lessee would not be considered the predominant beneficiary. The customer-lessee and provider-lessor must refer to the following guidance.

7.3.14.3.1. Customer-Lessee. Federal entity that pays for the acquisition, construction, or improvement of an asset provided by a "provider-lessor" on a reimbursable basis. Initially, the customer-lessee must recognize an intragovernmental reimbursable work asset for the amount payable for reimbursable work acquisition, construction, improvement, and/or alteration costs. This asset is then amortized as an expense systematically over the shorter of the remaining lease term or the useful life of the asset or improvement. Customer-lessees are also required to disclose a general description of their significant reimbursable work agreement activities.

7.3.14.3.2. Provider-lessor. Federal entity that handles the acquisition, construction, or improvements of an underlying asset for a customer-lessee on a reimbursable

basis. Initially, the provider-lessor must recognize an intragovernmental unearned revenue liability for the amount receivable for this work. This liability is then recognized as revenue systematically over the shorter of the remaining lease term or the useful life of the asset or improvement. Additionally, provider-lessors are required to disclose a general description of their significant reimbursable work agreement activities.

7.3.15. Additional Considerations

7.3.15.1. Standard General Ledger Accounts

The USSGL accounts used to report DoW lease entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the DCFO [SFIS web page](#).

7.3.15.2. Recognition Uncertainty

When there is uncertainty as to which DoW Component should record an item, the involved parties must first attempt to reach an agreement. If they cannot, the matter must be referred to the ODCFO, OUSW(C) for resolution, accompanied by adequate supporting documentation submitted through the Financial Management and Comptroller (FM&C) of the submitting Military Department or Defense Agency. As a general rule, the DoW Component that procures a leased item of PP&E is the one that must initially record the transaction. However, if a different DoW Component ultimately uses and benefits from that leased asset, the responsibility for recognizing the lease asset must be re-evaluated.

7.3.15.3. Bulk Acquisitions Through Leases

To determine proper recognition of bulk acquisitions through leases, the acquisition cost of all like items leased under multiple leases with a single lessor within a fiscal year must be totaled, and the resulting total must be considered against the lease criteria for capitalization and the capitalization threshold.

7.3.15.4. Accounting for OCONUS Real Property Leases and Managed by the Department of State.

For real property leases that are managed by the Department of State, the Department of State's Bureau of the Comptroller and Global Financial Services will provide relevant lease data to any agencies that occupy real property overseas and will allocate the residential housing pool lease balances (i.e., liability, corresponding right to use asset, and amortization) across the participating agencies.

7.3.15.5. Use of Canceled TAS

Capitalized assets must be reported and remain in GTAS even after the original purchasing TAS has expired and been canceled.

7.3.15.6. Supporting Documentation

DoW Components must support all financial transactions related to leases with source documents reflecting every transaction that affects their investment in the leased asset. The Component must maintain this documentation from the date it takes custody of the asset, link it to the appropriate unique identifier(s), and retain it so it is readily available in accordance with Volume 1. The documents must include sufficient information on the physical quantity, location, and unit cost of the underlying PP&E to support changes in the lease asset's value or physical attributes resulting from new leases, leasehold improvements, impairments, modifications, and terminations. These records must identify and classify PP&E that the Component has capitalized and must enable periodic, independent verification through physical inventories. Furthermore, the Component must integrate and reconcile the Accountable Property System of Record (APSR) with its accounting systems, USSGL accounts, and physical counts. This accountability extends to all PP&E the Department possesses, including leased property held by contractors, and the Component must also account for any improvements made to these leased assets.

7.3.15.7. Physical Inventories of PP&E

DoW Components must perform periodic physical inventories of real property and general equipment in accordance with DoDI 4165.14 and DoDI 5000.64, respectively.

7.3.15.8. Reporting Requirements

DoW Components with leased PP&E must reference a note on the Balance Sheet that discloses information about the reported assets. See Volume 6 for the specific reporting requirements.

7.3.15.9. Environmental Liabilities/Cleanup Costs

The lease agreement must clearly identify the party responsible for environmental liabilities/cleanup costs.

7.4 INTERNAL USE SOFTWARE

This details the DoW accounting policy for IUS, which is a subset of General PP&E. General PP&E, per SFFAS 10, includes IUS and consists of tangible and intangible assets that (1) have an estimated service life of two years or more; (2) are not intended for sale in the ordinary course of business; and (3) are intended to be used or available for use by the entity. The IUS general ledger accounts are listed in the government-wide USSGL contained in Volume 1. The accounting entries for these accounts and the DoW SCOA are specified in the DoW USSGL. Unless otherwise stated, this section is applicable to all DoW Components, including WCF activities.

7.4.1. "Software" includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. Most often, software is an integral part of an overall system(s) having interrelationships between software, hardware, personnel, procedures, controls, and data. IUS is software that is

acquired or developed to meet the entity's internal or operational needs (intended purpose). It is a stand-alone application, or the combined software components of an information technology system that can consist of multiple applications, modules, or other software components integrated and used to fulfill the entity's internal or operational needs (software type).

7.4.2. IUS can be purchased from commercial off-the-shelf (COTS) vendors and be ready for use with little or no changes, internally developed by employees of DoW, including new software and existing or purchased software that is modified with or without a contractor's assistance; or contractor-developed software that a DoW Component paid a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software.

7.4.3. IUS includes software that is used to operate an entity's programs (e.g., financial and administrative software, including that used for project management), used to produce the entity's goods and to provide services (e.g., maintenance work order management and loan servicing); and developed or obtained for internal use and subsequently provided to other Federal Entities with or without reimbursement.

7.4.4. Integrated (embedded) software is not IUS.

7.4.4.1. IUS excludes computer software that integrates with and is necessary for operating General PP&E, rather than performing an application.

7.4.4.2. Software that a DoW Component uses in conjunction with equipment is distinct from integrated or embedded software. The Component can consider this software as IUS if it meets the following criteria: the Component developed the software separately from the equipment; the equipment does not require the software to perform its core purpose and functions; and the Component does not know the quantity of equipment items on which it will install the software.

7.4.4.3. Additionally, the Component may treat software as a separate IUS asset, rather than as integrated or embedded software, when it develops the software separately and installs it on several assets at different times. For example, the Component can treat anti-ballistic missile software that it installs on multiple radar systems at different times as a separate IUS asset, provided the software meets the capitalization threshold.

7.4.4.4. DoW Components may purchase IUS as part of a package of products and services (e.g., training, maintenance, data conversions, reengineering, site licenses and rights to future upgrades and enhancements). They must allocate costs based on the relative fair values of the IUS and the services if the costs are not readily separable between the IUS and the services on the invoice. They must capitalize the cost of the IUS (assuming it meets the capitalization criteria) and expense the cost of the training/maintenance. They must expense non-IUS costs (e.g., training and maintenance services) that are not susceptible to allocation between maintenance and relatively minor enhancements.

7.4.5. USSGL Accounts

7.4.5.1. The DoW Components must record IUS transactions to general ledger accounts in the financial statements required by the Treasury and other reporting requirements mandated by Congress and OMB. The USSGL Transaction Library outlines detailed posting transactions, and the DoW SCOA provides detailed account descriptions. The DoW SCOA is located on the ODCFO SFIS webpage.

7.4.5.2. DoW Components may elect to create subaccounts within their general ledger systems to track software under development at a detailed level; however, the internal subaccounts must summarize to one USSGL/DoW account.

7.4.5.3. Management must retain adequate supporting source documentation for entries in accordance with Volume 1.

7.4.6. Valuation

Record the acquisition and other costs necessary to make the software operable.

7.4.7. Alternative Valuation Methodology for Establishing Opening Balances

7.4.7.1. Establishing Opening Balances for IUS

7.4.7.1.1. The alternative valuation method for establishing opening balances for IUS described in FASAB SFFAS 50: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35 is available only once to each reporting entity. Therefore, prior to the establishment of IUS opening balances, DoW Components must validate that they are prepared to account for and comply with the recognition, measurement, presentation, and disclosure requirements for IUS in accordance with FASAB SFFAS 10.

7.4.7.1.2. DoW Components must identify any IUS that they have capitalized prior to establishing opening balances, including capitalized development costs. All DoW Components that have not previously undergone a financial statement audit in which they received an unmodified (i.e., “clean”) audit opinion will exclude the value of all IUS, including development costs, from opening balances of General Property, Plant, and Equipment on their Balance Sheet. A DoW Component that has received a “clean” audit opinion should continue to account for IUS, including development costs, in accordance with FASAB SFFAS 10 and will not reduce their balances to zero.

7.4.7.1.3. Entries in the DoW Component accounting systems/records to record IUS opening balances at zero are subject to the reporting requirements under paragraph 13 of FASAB SFFAS 21, Amendment of SFFAS 7. Accordingly, reflect the entries as a change in accounting principle. Document and support any adjustments to assist ongoing audit efforts.

7.4.7.2. Financial Statement Disclosure Requirements

DoW Components that adjust their opening IUS balances must disclose in their financial statements that they used an alternative valuation method in establishing their opening balances.

7.4.7.3. Prospective Accounting for IUS

7.4.7.3.1. DoW Components must capitalize IUS costs for IUS in-service and IUS in development in accordance with the provisions of FASAB SFFAS 10 after recording the opening balances at zero. This capitalization requirement includes IUS development costs incurred after the establishment of opening balances for projects started prior to the establishment of opening balances. DoW Components must have sufficient source documentation to support the capitalized amounts of IUS based on actual historical cost. DoW Components must apply the provisions of FASAB SFFAS 10 regarding amortization and impairment to any unamortized capitalized cost of the IUS.

7.4.7.3.2. DoW Components must fully implement the systems, internal controls, processes, and procedures to be compliant with accounting for IUS under FASAB SFFAS 10. They must also periodically review and update the documentation of the systems, processes, and procedures as needed.

7.4.8. Recognition

7.4.8.1. DoW Components must recognize all acquired IUS for accountability and financial reporting purposes. Recognition requires the proper accounting treatment (expense or capitalization with amortization) and the reporting of capitalized amounts and accumulated amortization on the appropriate DoW Component's financial statements.

7.4.8.2. Recognition Responsibility

7.4.8.2.1. The DoW Component's financial reporting responsibility can be determined using two-tier criteria:

7.4.8.2.1.1. Exclusive/sole Use. When a DoW Component is the exclusive/sole user of capitalized IUS, it will report the IUS on its Balance Sheet. If there is no exclusive/sole user, the DoW Component must apply the second criteria.

7.4.8.2.1.2. Control. If an exclusive/sole user does not exist, the DoW Component that controls the IUS will have financial reporting responsibility. Evidence of control can include funding the software maintenance, exercising access control, and prioritizing enhancements.

7.4.8.2.2. DoW Components that possess and/or control IUS items that materially contribute to the Component's mission must maintain accounting and financial reporting for such items, regardless of the organization that originally acquired or provided the

funding for the items. If a DoW Component prepares financial statements, it must appropriately recognize IUS in its financial statements.

7.4.8.3. Recognition Uncertainty

To prevent duplicative accounting records, DoW Components must agree as to which entity will recognize an item when there is doubt. The process and terms of this agreement must be formally documented in a MOA, which will then serve as the official supporting documentation. If DoW Components cannot reach an agreement, they must refer the matter to the ODCFO, OUSW(C) for resolution. DoW Components must submit requests for resolution with adequate supporting documentation to assist in resolving the matter, and they should send these requests through the FM&C of their respective Military Department or Defense Agency.

7.4.8.4. Recognition Timing

7.4.8.4.1. Recognition of the COTS IUS for financial reporting purposes must occur no later than the technical acceptance of the software.

7.4.8.4.2. Record IUS in development anticipated to meet capital criteria in the IUS in Development account during the design, development, and testing phases. DoW Components must recognize the IUS asset, transfer capital costs to the IUS account, and establish accountability in the APSR after completing technical acceptance testing.

7.4.8.4.2.1. Larger and more complex software systems, such as Enterprise Resource Planning systems, are developed and placed in service over time. After successfully testing a module or component of a software project, the Component must move costs from IUS in Development to IUS and begin amortization.

7.4.8.4.2.2. If the use of a module is dependent on the completion of another module(s), move costs from IUS in Development to IUS when both that module and the other module(s) have successfully completed testing.

7.4.8.4.3. For IUS assets acquired by a contractor on behalf of a DoW Component, recognize the software upon completion of the technical acceptance testing by the contractor performing the service, or by the DoW Component. Record contract financing payments (e.g., progress payments, performance-based payments, and commercial interim payments) made to a contractor prior to completion of final technical acceptance testing in a Software in Development account until the IUS is placed in service. Capitalize upon completion of technical acceptance testing.

7.4.8.5. Capitalization Threshold, Criteria, and Cost Treatment

7.4.8.5.1. The current IUS capitalization threshold for all DoW Components is \$250,000. However, DoW Intelligence Community Entities may elect to use a capitalization threshold of \$1 million. The capitalization threshold described above is for financial reporting purposes.

7.4.8.5.2. DoW Components must apply the treatment of costs based on the nature of the costs incurred, not the exact sequence of the work.

7.4.8.5.3. The capitalized costs of internally developed software should be limited to costs incurred:

7.4.8.5.3.1. After the DoW Component authorizes and commits to a software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function(s), and it will have an estimated service life of two years or more; and

7.4.8.5.3.2. After the completion of the planning and requirements phase (i.e., project evaluation, concept testing, and evaluation of alternatives) as evidenced by a documented approval decision.

7.4.8.5.4. Technical acceptance testing is testing undertaken to verify if a software product meets technical specifications. Capitalize technical acceptance testing costs after technical acceptance; expense operational testing, evaluation, and other functional testing.

7.4.8.5.5. Capitalize the amounts paid to a COTS vendor for the software.

7.4.8.6. Documentation

7.4.8.6.1. DoW Components must assign a dollar value (i.e., recorded cost) to the IUS when recording the acquisition of IUS in the APSR and/or accounting system. Appropriate documentation must be available to support the dollar value.

7.4.8.6.2. To establish proper PP&E financial control when acquiring IUS from another DoW Component or Federal Agency, the acquiring DoW Component must request from the losing DoW Component or other Federal Agency, the necessary source information and financial transfer documents, to include a unique identifier(s) for the software(s); location; original acquisition cost(s); cost of enhancements; the date the software was developed, or acquired; the estimated useful life; the amount of accumulated amortization; and other relevant information linked to that software. If this information is not available, the gaining and losing entities must develop and document a reasonable estimate to support the financial transfer of the software.

7.4.8.6.3. Capitalized IUS costs must have sufficient supporting documentation, including support for costs incurred in the development of the IUS. DoW Components must provide narratives, software architectural documentation, user manuals, and other similar documents to substantiate whether they treat the IUS as separate IUS assets, supporting the functionality of the components/modules of a software system.

7.4.8.7. Joint Ventures

If two or more entities, including at least one entity outside of the DoW, develop the IUS through a joint venture, the DoW Component must capitalize the IUS asset if it meets the criteria

for capitalization, based on its share of the development cost in relation to the capitalization threshold. The DoW Component only capitalizes the portion it funded if it meets the criteria for capitalization.

7.4.8.8. Bulk Purchases of Software Applications/Programs

7.4.8.8.1. Bulk purchases must be considered if they materially affect the fiscal year financial statements during which they were purchased. Bulk purchases of software with an aggregate cost that exceeds the capitalization threshold must be capitalized.

7.4.8.8.2. When multiple acquisitions of the same IUS application(s)/programs (for example, spreadsheets, word processing programs, etc.) or modules or components of a software system are made as part of a single contract within a fiscal year, the purchases must be added together to determine whether they meet the capitalization threshold. Purchases made on a single contract during separate fiscal years are to be considered separately. DoW Components must not split bulk purchases into multiple transactions with the intent of avoiding capitalization.

7.4.8.8.3. Bulk purchases of licensed IUS with terms less than two years in length do not need to be considered for capitalization.

7.4.8.9. Software Licenses

7.4.8.9.1. Software licenses grant the license holder the right to use the software for a specific time period. After this period expires, the license holder must renew the license or purchase a new one to continue using the software. License agreements to use software come in many forms and vary in length of the license period. Software licenses can be term or perpetual.

7.4.8.9.1.1. Term licenses provide DoW Components the right to use IUS for a specified period of time. Capitalize or expense term-licensed IUS.

7.4.8.9.1.2. Perpetual software licenses allow the DoW Component to use the software indefinitely in exchange for an upfront cost, which they can pay as a one-time payment or finance over a set period. Apply capitalization criteria if the license is perpetual to determine whether to capitalize or expense.

7.4.8.9.2. The IUS can be expensed if the license term is less than two years, the license cost (excluding any maintenance agreements) is less than the capitalization threshold, or the aggregate cost of a bulk license purchase (excluding any maintenance agreements) is less than the capitalization threshold.

7.4.8.9.3. A license agreement may include executory costs for maintenance and technical support. DoW Component judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. DoW Components may also want to consider having each license agreement specifically identify

the various costs throughout the license life cycle, for example, initial license, maintenance, and enhancement.

7.4.8.9.4. Additional guidance regarding accounting for license agreements includes:

7.4.8.9.4.1. Expense maintenance costs agreed to as part of the initial license agreement in the period they are incurred;

7.4.8.9.4.2. Expense “True-up” costs associated with unlimited license agreements or enterprise licenses that may occur (depending on the agreement terms) at the end of each year to reconcile and account for the actual quantity of users; and

7.4.8.9.4.3. Expense software upgrades from annual maintenance and security assurance agreements; do not capitalize as enhancements or separate assets.

7.4.8.10. Cloud and Other Subscription-Based Services

7.4.8.10.1. A cloud computing service is any resource that is accessible over the Internet. It has the following essential characteristics: on-demand self-service, broad network access, resource pooling, rapid elasticity, and measured service.

7.4.8.10.2. When a DoW Component pays regular subscription fees to access and use software from a non-DoW entity, it should expense subscription costs in the period incurred. This scenario is a service and does not constitute an IUS asset for the DoW Component.

7.4.8.10.3. A subscription arrangement using a cloud with a non-DoW entity can result in DoW-owned IUS if the using DoW Component takes possession, or can take possession of a software application without incurring a significant penalty. DoW Components must capitalize this IUS if it meets the capitalization criteria.

7.4.8.10.4. When a cloud or subscription arrangement exists between DoW Components, the Component that owns the software will report it as IUS. The subscribing DoW Component(s) will expense any fees paid for the service in the period incurred.

7.4.8.10.5. If a cloud computing arrangement includes a software license, the customer must account for the software license element of the arrangement consistent with the acquisition of other software licenses. SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license. The entity that develops and owns the software, platform, or infrastructure used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform, or infrastructure must account for the software in accordance with SFFAS 10 and the full cost/inter-entity cost requirements of SFFAS 4.

7.4.8.11. Shared Services

7.4.8.11.1. Shared services is a mission or support function provided by one business unit to other business units within or between organizations. The funding and resourcing of the service is shared, and the providing entity effectively becomes an internal/external service provider.

7.4.8.11.2. There are three types of shared service structures in the Federal Government:

7.4.8.11.2.1. Intra-agency. Intra-agency shared services include those provided within the boundaries of a specific organization, such as a Federal Department or Agency, to that organization's internal units. Intra-agency shared services would be those between one DoW Component and another DoW Component.

7.4.8.11.2.2. Inter-agency. Inter-agency shared services are those provided by one Federal Organization to other Federal Organizations that are outside of the provider's organizational boundaries. Inter-agency shared services would be those between one DoW Component and another Federal Agency/Organization outside of DoW.

7.4.8.11.2.3. Commercial. Commercial shared services are those provided by private vendors.

7.4.8.11.3. For intra-agency shared services, a cost allocation methodology could be developed in accordance with SFFAS 4. For inter-agency shared services and commercial shared services, the service provider entity that owns (receives funding/responsible for maintaining) the software must account for the software in accordance with SFFAS 10. In the event that the entity receiving the service (the customer) has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. The customer must account for the software in accordance with SFFAS 10.

7.4.8.11.4. If the shared service arrangement includes a software license, the DoW Component must account for the software license element of the arrangement consistent with the acquisition of their other software licenses. SFFAS 10 is not applicable to a shared service arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license.

7.4.8.12. Accountable Records of IUS

DoW Components must establish accountable records for all government IUS. Account for IUS that meet the criteria for capitalization in an APSR. DoW Components must also establish and maintain accountability records for IUS that do not meet the criteria for capitalization in either an APSR or approved managerial system through disposition or transfer. Managerial systems must contain all general data elements contained in a data-compliant APSR. In addition, managerial systems must document controls and procedures in place that are sufficient to withstand potential

audit scrutiny and support the audit requirement of a complete universe of assets. The primary Accountable Property Officer (APO) or designated delegate should grant managerial system approval. See DoDI 5000.76.

7.4.9. IUS Enhancements

7.4.9.1. DoW Components must capitalize an enhancement that increases the capability of the IUS when its cost meets or exceeds the capitalization threshold.

7.4.9.2. Evaluate modules together as one enhancement if one module is dependent upon another to function. DoW Components must amortize all costs of an enhancement that they have capitalized based on the IUS capitalization criteria, including any costs they carry over or allocate from the original software, over the enhancements' estimated useful life, which should not exceed five years.

7.4.9.3. DoW Components must begin to accumulate costs for enhancements when these enhancements are more likely than not to produce new capabilities; and the project phase in which the costs are being incurred and the nature of the cost meet the criteria for capitalization treatment; and the estimated total cost of the enhancement meets the IUS capitalization threshold.

7.4.9.4. DoW Components must separately account for enhancements in a manner that allows them to specifically identify and support each capitalized enhancement made to the IUS.

7.4.9.5. Expense an enhancement to IUS that meets or exceeds the capitalization threshold to correct a design flaw, and in effect doubles its useful life, in the period incurred, unless the enhancement adds new capabilities to the software. However, the useful life of the IUS is subject to adjustment and must reflect the enhancement.

7.4.9.6. Expense the cost of minor enhancements resulting from ongoing systems maintenance or incurred solely to repair a design flaw without adding additional capabilities in the period incurred. Examples of minor enhancements include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Expense enhancements that extend the useful life of the software without adding significant capabilities. However, in instances where the useful life of IUS is extended, DoW Components must adjust the amortization.

7.4.9.7. A specific software development project may include expenditures for enhancements and maintenance that the Component cannot easily separate but can reasonably and consistently allocate. As one approach, the Component can use a ratio based on the projected work hours for development phase activities relative to other types of work. The Component must apply this ratio to determine which expenditures to capitalize, provided the expenses meet the other capitalization criteria. The Component must apply this basis for allocating costs consistently and in accordance with GAAP.

7.4.9.8. Retain documentation related to IUS enhancement decisions, such as the justification for capitalizing the enhancement, a change of useful life, and the amount to capitalize.

7.4.9.9. Only capitalize the cost of enhancements to more than one IUS asset as identified by a unique identifier, when performed under a single contract or work order that cannot be specifically identified by asset, if the allocated cost per IUS equals or exceeds the appropriate DoW capitalization threshold and the enhancements are more likely than not to add additional capability to the existing software.

7.4.9.10. When a single IUS undergoes more than one enhancement as part of a single overall effort to increase its functionality and/or useful life, the Component must capitalize the sum of the enhancement costs if the total equals or exceeds the appropriate DoW capitalization threshold. The Component must follow this requirement even when it funds the enhancements separately. The Component must capitalize the enhancements once it determines that it is more likely than not that the enhancements will result in significant new capabilities.

7.4.10. Maintenance and Repair

7.4.10.1. Maintenance and repair costs are not capital enhancements, regardless of whether the cost equals or exceeds the DoW capitalization threshold. Maintenance and repairs are activities directed toward keeping IUS assets in an acceptable condition so that they continue to provide services and achieve their expected useful life.

7.4.10.2. When determining whether to capitalize the IUS, do not include the costs of maintenance agreements purchased with a software license in the historical cost of the IUS. If DoW Components cannot distinguish maintenance costs from the cost of the license itself, they must use reasonable and documented estimating methods. Do not capitalize upgrades included in annual maintenance and security assurance agreements.

7.4.11. Amortization

7.4.11.1. Amortization is the systematic and rational allocation of the acquisition cost of an IUS over its estimated useful life. During the planning phase of IUS development, the DoW Component must determine the useful life based on how long it expects the IUS to provide economic benefit or service potential. The Component must document its decision regarding the useful life, a decision it must make with input from personnel who are familiar with the software's technical characteristics and planned use. For IUS acquired for R&D with no alternative future use, the Component must amortize the cost over the period of the project, as opposed to applying the normal life-cycle amortization.

7.4.11.2. DoW Components must amortize the recorded cost of capitalized IUS and enhancements to IUS. They must also reflect these capitalized amounts, as well as the associated accumulated amortization and amortization expense, in their financial statements.

7.4.11.3. DoW Components must document the PISD for both acquired IUS and developed IUS. Documentation of PISDs is critical in determining when to start amortization of capitalized IUS costs. IUS is considered placed in service when final technical acceptance testing is completed. The point at which this milestone is reached can vary for different types of software acquisitions.

7.4.11.4. When replacing the IUS with new software, expense the unamortized cost of the old IUS when the new IUS successfully completes testing. No adjustments will be made to the previously recorded amortization. Treat any additions to the book value or changes in useful life prospectively. Account for the change during the period of the change and future periods.

7.4.11.5. Account for all IUS in an APSR.

7.4.11.6. The program office must retain proper supporting documentation to justify the estimated useful life of the program.

7.4.11.7. In the case of IUS assets, after the successful completion of the final technical acceptance testing, the calculation of amortization is based on the date the asset is installed and placed in service (regardless of whether it is actually used).

7.4.11.8. DoW policy permits the use of only the straight-line method of amortization. Calculate straight-line amortization expense based on the recorded cost divided equally among accounting periods during the software's useful life based on recovery periods. The salvage value for all capitalized IUS for the DoW Components should be zero.

7.4.11.9. Retain the IUS asset in APSR if it remains in use longer than its estimated useful life, as well as the accounting records, and reflect both its recorded cost and accumulated amortization until disposition of the software.

7.4.11.10. WCF activities are required to recognize and amortize IUS assets without regard to whether such assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether amortization for such assets is included in rates charged to customers. The recognition of IUS assets and the amortization of such assets by WCF activities therefore may be different for financial statement reporting purposes than the amortization amounts used for WCF rate development and budget presentation. All IUS asset amortization of WCF activities must be recognized as an expense on the Statement of Net Cost, reflected in the Statement of Changes in Net Position, included in accumulated amortization amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report [Accounting Report (Monthly) 1307] (AR(M)1307)." Accounting Report 1307 is described in Volume 6. Amortization recorded on IUS assets that were not acquired nor will be replaced through the use of DWCF resources must be classified as non-recoverable for rate-setting purposes and reported appropriately on the AR(M)1307. DWCF rates charged to customers are based on guidance in Volume 2 and Volume 11.

7.4.12. Impairment

7.4.12.1. The Component must recognize and measure an impairment when one of the following events occurs and is related to post-implementation/operational IUS assets:

7.4.12.1.1. The IUS asset is no longer expected to provide substantive service potential and will be removed from service; or

7.4.12.1.2. A significant reduction occurs in the software's or software module's capabilities, functions, or uses.

7.4.12.2. If the impaired software is to remain in use, the loss due to impairment must be measured as the difference between the book value and either:

7.4.12.2.1. The cost to acquire software that would perform similar remaining functions (i.e., the unimpaired functions) or, if that is not feasible;

7.4.12.2.2. The portion of the book value attributable to the remaining functional elements of the software.

7.4.12.3. Recognize the loss upon impairment and reduce the book value of the asset accordingly. If amounts cannot be determined, the DoW Component should continue to amortize the book value over the remaining useful life of the software. Document and retain this decision and associated analyses.

7.4.12.4. If the DoW Component removes the impaired IUS asset from use, it must measure the loss as the difference between the book value and the NRV, if any. The Component must recognize the loss upon impairment and reduce the asset's book value accordingly. Finally, the Component must transfer the NRV, if any, to an appropriate asset account and hold it there until it disposes of the software and realizes the amount.

7.4.12.5. When a DoW Component determines it is more likely than not that it will not complete a developmental software project, the Component must stop capitalizing costs and must immediately expense any costs it has already capitalized for that project.

7.4.12.6. When an IUS developmental software project is suspended pending management's evaluation as to whether to resume or terminate the project, the software development cost may remain capitalized in an IUS in Development account (USSGL 183200) as long as it is more likely than not that the developmental software project will eventually be completed and that the cost incurred or expected to be incurred meets the capitalization threshold. Reevaluate the status of the project periodically and write off capitalized costs if management concludes that it is more likely than not that the software will not be placed in service in the future.

7.4.12.7. Recognize and report the loss from impairment, if any, in the Statement of Net Cost in the period in which the DoW Component concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Include such losses in program costs or costs not assigned to programs. A general description of the IUS for which an impairment loss is recognized, the nature (e.g., damage or obsolescence) and amount of the impairment, and the financial statement classification of the impairment loss must be disclosed in the notes to the financial statements in the period the impairment loss is recognized if the amount is significant to the financial statements.

7.4.12.8. Report the impairment loss net of any associated recovery of the NRV when the recovery and loss occur in the same fiscal year. Report recoveries in subsequent fiscal years as revenue or other financing source, as appropriate. Disclose the amount and financial statement classification of recoveries in the notes to the financial statements.

7.4.12.9. Account for the costs incurred to replace or restore the lost service utility of impaired IUS remaining in use in accordance with applicable standards (i.e., recognized according to the nature of the costs incurred and the appropriate capitalization threshold).

7.4.13. Removal/Disposal

7.4.13.1. In TR 14, FASAB defines removal from service as an event that terminates the use of a General PP&E asset. DoW Component Heads must establish and maintain effective policies and procedures for the removal (disposal or transfer) of IUS assets.

7.4.13.2. If an IUS's normal use is terminated (i.e., it no longer provides service in the operations of the entity) but the DoW Component has not yet decided to permanently remove the IUS from service, the removal from service is considered other than permanent. Other than permanent removal from service is evidenced by activities such as continuing low-level maintenance to sustain the IUS in a recoverable status or until reutilization efforts are exhausted.

7.4.13.3. If (1) an IUS's use is terminated and (2) the DoW Component has documented its decision to permanently remove the IUS from service, the removal from service must be accounted for as permanent. Permanent removal from service is evident from the DoW Component's documented decision to dispose of an IUS by selling, recycling, or donating the IUS.

7.4.13.4. When an IUS is disposed of (e.g., by selling, recycling, donating, or destruction), the IUS must be written off from the financial records and financial statements, and the difference between any disposal proceeds and the IUS's net book value must be recognized as a gain or loss.

7.4.13.5. Upon authorized disposition, APOs are responsible for ensuring that all IUS asset dispositions and transfers are properly recorded in the APSR or managerial system, including updating the asset's status to "Disposed," recording the date and method of disposition. The reason for disposition or transfer of IUS assets must be properly documented. The APO retains all supporting documentation per record retention policies. Refer to DoDI 5000.76 for additional information.

7.4.14. Additional Considerations

7.4.14.1. Use of Canceled TAS. Capitalized assets are required to be reported and remain in GTAS after the original purchasing TAS has expired and been canceled. If a capitalized asset has not been moved to a "C" TAS, GTAS will provide a "C" TAS on the GTAS Super Master Account File (SMAF) for each fund family represented on the SMAF. The system-generated "C" TAS will have three components: the three-digit agency identifier, availability type "C", and a four-digit main account. All DoW Components must use the "C" availability type TAS to report

capitalized assets. Assets may be moved to a C TAS at any time from the purchase date to the date the original purchasing fund is canceled. Refer to the TFM, Part 2, Chapter 4700.

7.4.14.2. Supporting Documentation. Entries to record financial transactions in accounting system general ledger accounts and/or the supporting subsidiary accountable property records and/or systems must:

7.4.14.2.1. Be supported by source documents that reflect all transactions affecting the DoW Component's investment in the IUS.

7.4.14.2.2. Support all acquisitions, whether by purchase, transfer from other agencies, donation, or other means, as of the date the DoW Component takes custody of the IUS with supporting documents.

7.4.14.2.3. Support all disposals or retirements as of the date the IUS leaves the custody of the DoW Component to provide an adequate audit trail for the disposal of an asset. The execution of certain disposal events will generate financial or administrative accountability transactions.

7.4.14.2.4. Retain documents that support the recorded cost of IUS assets by the DoW Component in accordance with their DoW Component records retention requirements. Maintain documentation in a readily available location during the applicable retention period to permit the validation of information pertaining to the asset, such as the purchase cost, purchase date, and cost of enhancements. The documentation must also be linked to the appropriate unique identifier(s).

7.4.14.3. Include sufficient information indicating the quantity, location, and unit cost of the IUS. Designate the accountable property records to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess IUS that may be available for reuse, transfer to other DoW Components, or made available for disposal in accordance with current DoW regulations and other regulatory requirements.

7.4.14.4. Identify and classify IUS that were capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

7.4.14.5. Be based on the same documents to ensure that entries to the accounting and accountable property records are the same. This will ensure that the property accountability records are integrated and subsidiary to the accounting system, and those records can be reconciled with the accounting system.

7.4.14.6. Include documents used to accumulate the cost of developmental projects. Each document must be linked to the appropriate asset unique identifier.

7.4.14.7. Include all IUS possessed by the Department (to include property held by others) and IUS of others held by DoW through seizure, forfeiture, loss, or abandonment.

7.4.14.8. Provide information to identify and account for capitalized enhancements to IUS.

7.4.15. Reporting Requirements

DoW Components with IUS should reference a note on the Balance Sheet that discloses information about the reported IUS assets. See Volume 6 for the specific reporting requirements.

7.5 HERITAGE ASSETS, MULTI-USE HERITAGE ASSETS, AND STEWARDSHIP LAND

7.5.1. This section establishes the accounting policy and requirements for financial control over heritage assets, multi-use heritage assets, and stewardship land. Volume 1 discusses the applicable general ledger accounts listed in the USSGL. The DoW USSGL Transaction Library contains both the DoW SCOA and the accounting entries for these PP&E accounts. DoW Components must recognize all acquired heritage assets, multi-use heritage assets, and stewardship land for accountability (in accordance with DoDI 4165.14, DoDI 4165.70, and DoDI 5000.64) and financial reporting purposes. Unless otherwise stated, all DoW Components, including WCF activities, must follow this section.

7.5.2. Heritage Assets

7.5.2.1. Heritage assets are PP&E that experts consider unique due to their historical or natural significance, cultural, educational, or artistic importance, or significant architectural characteristics.

7.5.2.2. Heritage assets consist of (1) collection-type assets, such as objects gathered and maintained for exhibition (e.g., museum collections, art collections, and library collections); and (2) non-collection-type assets (e.g., memorials, monuments, buildings, and archeological sites). Cultural resources and historic properties, defined in DoDI 4715.16, may be categorized as heritage assets for financial reporting purposes if they have the attributes of heritage assets described in this definition.

7.5.2.3. Heritage assets are generally expected to be preserved indefinitely.

7.5.2.4. The cost or value must not serve as a factor when deciding if an asset must be classified as a heritage asset.

7.5.2.5. If a particular asset is listed on the National Register of Historic Places, it is heritage in nature. If it is not listed on the National Register of Historic Places, refer to cultural resources and collections policies, published registers, and consult with DoW subject matter experts (i.e., the DoW cultural resources or museum staff) when making this assessment. Designation of a PP&E asset (including such assets as museum, library, and art collections) as a heritage asset can be done at any time in its life cycle, based on the application of evaluation criteria by qualified staff.

7.5.2.6. Historic significance may be identified if a property/asset meets at least one of the following criteria adapted from the National Register of Historic Places as determined by the relevant DoW Component with concurrence by the relevant State Historic Preservation Officer, or as determined by the guidelines of the National Register of Historic Places in 36 CFR, Part 60, Section 60.4:

7.5.2.6.1. Association with historic events or activities that have made a significant contribution to the broad patterns of history (e.g., battles, development of military technology, prehistoric cultural patterns);

7.5.2.6.2. Association with the lives of significant historic persons (e.g., important military leaders, political leaders, inventors);

7.5.2.6.3. Distinctive design or physical characteristics of a type, period, or method of construction (e.g., work representative of a particular approach to military design or a particular type or style of architecture or engineering); or that represents the work of a master (e.g., work of a master architect, landscape architect, planner, or engineer); or that possess high artistic values (e.g., artwork that a recognized artist commissioned to commemorate military history); or that represents a significant and distinguishable entity whose components may lack individual distinction (e.g., a formative example of standardized planned military housing); or

7.5.2.6.4. Have yielded or may be likely to yield important information about prehistory or history (e.g., an archeological site on a military installation).

7.5.2.7. Ordinarily, cemeteries, birthplaces, or graves of historical figures, properties owned by religious institutions or used for religious purposes, structures that have been moved from their original locations, reconstructed historic buildings, properties primarily commemorative in nature, and properties that have achieved significance within the past 50 years are not considered eligible for the National Register. However, such properties will qualify if they are integral parts of districts that meet the criteria, or if they fall within the following categories:

7.5.2.7.1. A religious property deriving primary significance from architectural or artistic distinction or historical importance; or

7.5.2.7.2. A building or structure removed from its original location but which is significant primarily for architectural value, or which is the surviving structure most importantly associated with a historic person or event; or

7.5.2.7.3. A birthplace or grave of a historical figure of outstanding importance if there is no appropriate site or building directly associated with their productive life.

7.5.2.7.4. A cemetery which derives its primary significance from graves of persons of transcendent importance, from age, from distinctive design features, or from association with historic events; or

7.5.2.7.5. A reconstructed building when accurately executed in a suitable environment and presented in a dignified manner as part of a restoration master plan, and when no other building or structure with the same association has survived; or

7.5.2.7.6. A property primarily commemorative in intent if design, age, tradition, or symbolic value has invested it with its own exceptional significance; or

7.5.2.7.7. A property achieving significance within the past 50 years if it is of exceptional importance.

7.5.2.8. As contrasted with multi-use heritage assets, heritage assets are not used predominantly in general government operations. Heritage assets having an incidental (i.e., not significant or predominant) use in government operations are not considered and are not classified as multi-use heritage assets; they are simply heritage assets.

7.5.2.9. Some heritage assets will meet the definitions of, and be considered and reported as, both heritage assets and stewardship land. Such reporting would not be considered duplication as the type of information reported on the physical unit would be different for each category of stewardship asset (i.e., heritage assets and stewardship land).

7.5.3. Acquisition/Valuation

Expense the cost of acquiring heritage assets in the period incurred. The cost must include all costs incurred to bring the asset to a form and location suitable for its intended use.

7.5.4. Recognition and Measurement

7.5.4.1. Recognize the cost of acquiring, improving, reconstructing, or renovating heritage assets on the Statement of Net Cost for the period in which the cost is incurred. Include all costs incurred to bring the asset to its current condition and location.

7.5.4.2. Do not recognize revenue for heritage assets acquired through donation or devise (a will or clause of a will disposing of property).

7.5.4.3. Transfers of heritage assets from one DoW Component to another or to another Federal agency do not affect the net cost of operations or net position of either entity.

7.5.5. Removal/Disposal

Heritage Assets can be removed from service or otherwise disposed of.

7.5.6. Disclosure Requirements

The DoW Component that has control over the heritage asset must report information about the heritage assets in its financial statement note disclosures as set forth in SFFAS 29. Disclosures must include physical units of measure.

7.5.7. Multi-Use Heritage Assets

7.5.7.1. Heritage assets may in some cases serve two purposes: (i) a heritage function and (ii) a government operations function. In cases where a heritage asset serves two purposes, and the predominant use of the asset is in general government operations, officials must consider and classify the heritage asset as a multi-use heritage asset.

7.5.7.2. The costs of acquisition, improvement, or renovation of multi-use heritage assets must be capitalized as general PP&E and depreciated if the costs equal or exceed the DoW capitalization threshold. Expenses are the costs that do not equal or exceed the capitalization threshold.

7.5.7.3. Assets classified as multi-use heritage assets and acquired through donation or devise must be recognized as general PP&E at the fair value of the assets at the time received, and the amount must be recognized as non-exchange revenues as defined in SFFAS 7.

7.5.7.4. When a Federal entity transfers a multi-use heritage asset to another (including between DoW Components or between a DoW Component and another Federal entity), the receiving entity must recognize it as a transfer-in and an additional financing source. The transferring entity must recognize a transfer-out. The receiving entity must record the value at the transferring entity's net book value for the multi-use heritage asset.

7.5.7.5. Capital improvements or enhancements to multi-use heritage assets must be capitalized in accordance with general PP&E.

7.5.7.6. The recorded cost of capitalized multi-use heritage assets must be depreciated in accordance with the general PP&E guidance.

7.5.7.7. Multi-use heritage assets are subject to the same impairment ruleset as general PP&E.

7.5.7.8. Multi-use heritage assets must be removed and disposed of in accordance with the general PP&E guidance.

7.5.8. Disclosure Requirements

Multi-use heritage assets require additional descriptive information in the heritage asset note disclosure as set forth in SFFAS 29. Multi-use heritage assets are to be reported in both the principal financial statements (in dollars) as general PP&E and in the heritage asset note disclosure (in physical units). Disclosures must include physical units of measure.

7.5.9. Use of Canceled TAS

Multi-use heritage assets are required to be reported in the Treasury's GTAS.

7.5.10. Stewardship Land

7.5.10.1. Stewardship land includes both public domain and acquired land and land rights owned by the Federal Government intended to be held indefinitely but not acquired for or in connection with the acquisition or construction of real property facilities. Stewardship land also includes areas reserved, managed, planned, used, or acquired for forests and parks, recreation and conservation, and wildlife habitat and grazing. It encompasses land used for the conservation or preservation of cultural and historic sites, for ancillary revenue-generating activities like mineral development, and as buffer zones for security, flood management, and noise and viewsheds. While DoW stewardship lands support environmental conservation, they also support military readiness. To prepare for global challenges, soldiers conduct training in deserts, forests, wetlands, and coastal areas.

7.5.10.2. Land rights such as easements or rights-of-way that are for an unspecified period of time or unlimited duration are considered permanent land rights in perpetuity. Temporary land rights are those land rights that are for a specified period of time or limited duration.

7.5.10.3. The DoW defines “Acquired for or in connection with the acquisition or construction of real property facilities” as land or land rights acquired with the intent to construct general PP&E, and land or land rights acquired in combination with general PP&E. DoW or a DoW Component must account for and report land and land rights they own and acquired for or in connection with real property facilities as general PP&E. They must expense the cost of acquiring stewardship land in the period incurred. This cost must include all expenses necessary to bring the asset to a form and location suitable for its intended use.

7.5.11. Recognition and Measurement

7.5.11.1. Recognize the cost of the acquisition of stewardship land as an expense on the Statement of Net Cost for the period in which the cost is incurred. The cost must include all costs to prepare stewardship land for its intended use (e.g., grading the land or razing a building).

7.5.11.2. In some cases, land may be acquired along with existing facilities. Consult with Component cultural resources staff to determine how to treat the acquisition cost of the facility. Facilities to be used in operations must be treated as an acquisition of stewardship land if the value of the facility is insignificant, or its acquisition is merely a byproduct of the acquisition of the land. Facilities of significant value that have an operating use (e.g., a constructed hotel or employee housing block) must be treated as general PP&E (real property or multi-use heritage assets) by identifying the cost attributable to the facilities and segregating it from the cost of stewardship land acquired.

7.5.11.3. Do not recognize revenue for stewardship land acquired through donation or devise.

7.5.11.4. Transfers of stewardship land from one DoW Component to another or to another Federal agency do not affect the net cost of operations or net position of either entity.

7.5.12. Removal/Disposal

Stewardship land can be removed from service and subject to disposal.

7.5.13. Disclosure Requirements

7.5.13.1. Land classified as stewardship land is reported as basic information within the financial statements of the DoW Component responsible for such land and subject to units of measure.

7.5.13.2. All heritage assets, multi-use heritage assets, and stewardship land acquired by DoW Components must be recognized for accountability (in accordance with DoDI 4165.14, DoDI 4165.70, and DoDI 5000.64) and financial reporting purposes.

7.5.14. Supporting Documentation

7.5.14.1. Entries to record financial transactions in accounting system general ledger accounts and the APSR and/or other systems, as well as information to be included in financial statement note disclosures, must be supported by source documents that reflect all transactions affecting the DoW Component's stewardship investment in the PP&E.

7.5.14.2. All acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date the DoW Component accepts the heritage assets, multi-use heritage assets and/or stewardship land. Documentation, where applicable, must be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital improvement.

7.5.14.3. When definitive documentation for stewardship land and/or heritage assets is not available, management must identify and use alternative methods for supporting management's assertions for these assets.

7.5.14.4. All disposals or retirements must be supported as of the date the PP&E leaves the custody of the DoW Component to provide an adequate audit trail for the disposal of the asset. The execution of certain disposal events will generate financial or administrative accountability transactions.

7.5.15. Policies and Procedures

DoW Components must document the identification, categorization, and method used to physically quantify the assets to ensure consistent reporting for all similar heritage assets and stewardship land.

7.5.16. Physical Units of Measure

Physical units of measure are necessary to meet disclosure requirements described in SFFAS 29.

7.5.17. Accountable Property System of Record

The APSR and/or other systems must be designed to support procurement and utilization decisions, including decisions related to identifying general PP&E that may transfer to other DoW Components, or made available for disposal in accordance with current DoW regulations and other regulatory requirements.

7.5.18. Physical Inventories

DoW Components must perform periodic physical inventories of heritage assets and multi-use heritage assets in accordance with DoDI 5000.64 and DoDI 4165.14. Periodic physical inventories of stewardship land must be performed in accordance with DoDI 4165.14.

7.5.19. Deferred Maintenance and Repairs

7.5.19.1. DM&R refers to scheduled or necessary maintenance that an organization has postponed. In general, personnel perform maintenance and repairs to keep assets in an acceptable condition. These activities include preventive maintenance and the replacement of parts or systems to preserve the asset. However, these activities specifically exclude those that expand an asset's useful life, capacity, or capability, or otherwise upgrade it for significantly different or greater uses.

7.5.19.2. DoW Components must determine acceptable condition standards and which DM&R measurement methods to apply. Condition standards and measurement methods must be consistently applied. If the DoW Component determines that it must make changes, it must document the rationale and any impact the changes will have on the DM&R estimates.

7.5.19.3. Amounts for DM&R may be measured using condition assessment surveys, life-cycle cost forecasts, or other similar methods.

7.5.19.4. Disclosure Requirements

DoW Components must report material amounts of DM&R in the notes to the financial statements. Refer to Volume 6.

8.0 ADVANCES

A Component may issue advances or prepayments for anticipated expenses or for goods and services not yet received. These amounts are reduced when related goods or services are received, contract terms are met, progress is made under a contract, or anticipated expenses are realized. Per 31 U.S.C. § 3324, law or the President specifically authorizes advances. For financial reporting, these transactions are treated as assets and liabilities, with intragovernmental transactions accounted for separately. All advances and prepayments must be supported by a detailed audit trail with information to show the period the advances were made, the budget authority for the advances, the period the advances were liquidated, and the related approving authorities.

8.1 Accounting for Advances and Prepayments

8.1.1. Advances and prepayments must comply with the law or regulation requirements. Organizations or individuals (other than DoW employees requesting travel advances) requesting advances must demonstrate that all external financing sources have been exhausted before DoW Components authorize an advance. Prepayments are recurrent transactions that do not provide financing as a precondition of performance.

8.1.2. Accounting activities must account for and segregate capitalized assets and expenses into separate line items. Record advances and prepayments paid out as assets. Record advances and prepayments received as liabilities.

8.1.3. A receivable is established when revenue is recognized, and payment has not been received in advance.

8.1.4. Amounts of advances and prepayments that are subject to refund (for example, a settled travel claim indicating the traveler owes part of the advance to the government) must be transferred to accounts receivable.

8.1.5. A quarterly review of dormant accounts is required for sound internal controls to increase each DoW Component's ability to use available appropriations before they expire and ensure remaining open obligations are valid and liquidated before the appropriations are canceled. This increases mission readiness for the DoW.

8.2 Recoveries and Adjustments

Components must recover unneeded and unused balances as soon as information indicates they are excess to the original purposes. Unused advance and prepayment recoveries received the same year as the original obligation are recorded as recoupments. Collections are recoveries of unused advances and prepayments of prior-year obligations. Refer to the SFIS to decompose DoW USSGL accounting transactions for recoveries and adjustments.

8.3 Contract Financing Payments

The Government authorizes disbursements of monies to a contractor prior to the acceptance of supplies or services for contract financing payments in accordance with FAR 32.001. Contract financing payments include advance payments, performance-based payments, commercial advances, interim payments, progress payments based on cost, progress payments based on a percentage or stage of completion, and interim payments under a cost reimbursement contract. Contract financing payments are more fully discussed in Volume 10.

8.4 Grant Awards and Cooperative Agreements

DoW Components account for advance payments to award recipients (including amounts drawn against letters of credit) until the recipient has performed under the grant or agreement. Once the recipient has performed, the assisting agency must record an expense equal to the cost of the services performed or costs incurred and reduce the advance account by a like amount.

Periodically, the advances must be reconciled with the supporting transaction documentation. Refer to Volumes 10 and 12.

8.5 Advances to Foreign Countries

As authorized by 10 U.S.C. § 2396, DoW appropriations may be used to make advance payments to foreign countries. These advances can be used to comply with local laws and ministerial regulations of a foreign country, pay for rent, tuition, and public utilities, or provide funds to a friendly nation's military for their pay, allowances, and necessary supplies and services.

8.6 Advances in Military Pay

Military pay advances, which cover allowances for subsistence and housing, are authorized only to alleviate financial hardship for members who are mobilized, ordered to a distant station, or deployed on a ship for over 30 days. For complete details, refer to Volume 7.

8.7 Advances in Civilian Pay

Refer to Volume 8 for civilian personnel pay advances including foreign post assignment advances, advance payments to evacuees, newly hired employees, and employees relocating within the U.S. or its territories.

8.8 Advances as Imprest Funds

Imprest Funds are cash advances from a Disbursing Officer to a cashier, charged against a specific LOA. Although considered "Cash Held Outside of Treasury," they are treated as "entity cash" because they are tied to an entity's specific LOA.

8.9 Travel Advances

A commander- or supervisor-approved travel order must be issued before military members or civilian personnel travel unless an urgent or unusual situation prevents prior issuance. Do not authorize cash travel advances unless an exception is granted. Record the maximum advance amount authorized on the travel order. The traveler must not exceed the limit specified in the travel order. Personnel who are not eligible for a Government Travel Charge Card may obtain travel advances only via electronic funds transfer. The commander or supervisor, in coordination with the Disbursing Officer, may authorize cash advances in limited situations where no other process is available to accomplish the mission. A DoW traveler must submit a travel claim voucher within five working days of return.

8.10 Inventory Bid Deposits

Bid deposits for inventory sales are recorded as advances. The advance account is relieved either by recording sales proceeds upon delivery to successful buyers or by refunding the deposit and canceling the sale.

9.0 LIABILITIES

A liability is a probable future outflow or sacrifice of resources stemming from past transactions or events. This includes amounts owed for received items or services, incurred expenses (like personnel costs), assets where title has transferred (even if in transit), ongoing shipbuilding costs, and cash received but not yet earned. Liabilities also encompass obligations that the Component incurs from grants, pensions, benefits, awards, and other forms of indebtedness.

9.1 Recognition Criteria

Pursuant to SFFAS 5, liability recognition begins by determining if the event is transaction-based (exchange or nonexchange) or other. Refer to the procedural guidance. Liabilities from government-related events are recognized when the resource outflow is probable and measurable. Contingent liabilities are either recorded/reported as liabilities or disclosed in footnotes, based on their probability and the capability to estimate resource outflow.

9.2 Reporting and Disclosures

As required by SFFAS 1, intragovernmental liabilities must be reported separately from those with nonfederal entities. Accounting events must be recorded in accordance with the DoW USSGL Transaction Library and reported in accordance with the regulations promulgated by the Treasury and the OMB. In line with OMB Circular A-136, liabilities are classified into three categories: covered by budgetary resources, not covered by budgetary resources, and not requiring budgetary resources. The Component must disclose any liabilities not covered by budgetary resources. Refer to Volume 6.

10.0 ACCOUNTS PAYABLE

10.1 Accounts Payable Recognition – General

DoW Components must recognize an accounts payable liability for unpaid goods upon accepting title, whether delivered or in transit. For commercially available goods, accounts payable generally arises upon physical delivery, receipt, and formal title transfer. However, for custom-built facilities or equipment, recognition occurs upon formal acceptance. Accounts payable must be accurately recorded and properly documented, with 48 CFR §§ 52.247.29 – 52.247.49 governing recording timing. If exact amounts are unavailable at quarter-end, Components must estimate the accounts payable. Economically justified discounts, whether contractual or on invoices, should be applied when recognizing accounts payable (refer to Volume 10 for details). Audit evidence of "receipt" must document the items/services, quantities, date received, and authorizing official's signature. This evidence must also include calculations or the basis for estimated accrued amounts. Sensitive information, such as Personally Identifiable Information or proprietary data, may be redacted or aggregated. Finally, robust internal controls for all transactions (intragovernmental, interfund, and public) must be developed, implemented, and validated. Receipt and acceptance of goods and services must be performed and documented solely by authorized personnel.

10.2 Accounts Payable Recognition – Estimating the Accrual

10.2.1. Estimate and record an accrual when definitive amounts or invoices are not available, but the requirements for recording an accounts payable liability exist. The Component must reverse the estimate and record a more definitive amount when more complete data becomes available.

10.2.2. Components must have effective controls in place to ensure that a payable is not duplicated when an invoice is subsequently received for the same procured goods or services.

10.2.3. Show the calculations and data used to compute the amounts in the supporting documents (or mechanized program(s) used for the accrual estimates). This documentation must also identify who prepared the estimate, the date prepared, and who received and reviewed/approved the estimate. Ensure that the documentation is of sufficient quality to allow an external auditor to understand and verify the basis, value, and rationale for the recorded amount. Maintain this documentation for auditors to validate that the review was performed and approved by management.

10.3 Accounts Payable Recognition – Quarterly Accruals

10.3.1. To assist in developing more accurate financial statements, at least quarterly, Components must accrue all procurements in which DoW has received a measurable benefit from, or ownership title to, but have not been documented due to the lack of a receiving report or invoice. If the Component cannot obtain all necessary information from the contracting representatives within the 21 days allowed for the preparation of quarterly financial statements, the Component must use the best available information to estimate the accrual.

10.3.2. Components must also accrue temporary duty (TDY) travel taken, not yet disbursed, or otherwise accounted for as an accounts payable liability at least quarterly. Additionally, Components must record an accounts payable liability for TDY travel that crosses two or more accounting quarters on an estimated/proportional basis, if significant. Record the accrued liability in the applicable accounting period, supported with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the liability amount.

10.3.3. Components must accrue Permanent Change of Station (PCS) travel taken, not yet disbursed, or otherwise accounted for as a liability, as an accounts payable liability at least quarterly. Additionally, Components must record an accounts payable liability for PCS travel that crosses two or more accounting quarters on an estimated/proportional basis, if significant. Accrue the liability in the applicable accounting period. Support the liability with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount.

10.3.4. Fixed-price construction contracts containing progress payment provisions based upon the percentage or stage of completion require special consideration when recording the accounts payable liability. The accounts payable accrual must include any amounts being withheld from the contractor pending acceptance and completion, or for other contract administration reasons, as per the terms of the contract. The contracting officer or their designee must maintain the supporting documentation and be prepared to provide it to DFAS or auditors to support the

accounts payable amount. The Component acquires an asset during each accounting period based on constructive or de facto receipt and thus must recognize/record an accounts payable during each accounting period to reflect the accumulation of that asset.

10.4 Accounts Payable Recognition – Availability of Funds

Components must not delay recognizing an accounts payable liability pending the availability of funds. The Components must disclose the accounts payable not covered by budgetary resources in the financial statement notes. (Refer to Volume 6). A potential violation of the ADA may exist if the payable amount exceeds the total availability of funds. Refer to Volume 14 for the financial management policy regarding an ADA violation.

10.5 Intragovernmental Purchases

10.5.1. Procuring a good or service from another DoW Component or Federal entity is an intragovernmental purchase under the TFM Chapter 4700. Payables due to Components or other Federal entities are intragovernmental payables and must be reported separately from payables due to public entities. Note that OMB Circular A-11 uses the term “intergovernmental” for transactions between or among accounts of Federal entities and that transactions with non-appropriated fund instrumentalities are reported as transactions with the public. The Treasury considers both interdepartmental and intradepartmental transactions to be subsets of intragovernmental transactions.

10.5.2. Components must record accounts payable liability for intragovernmental purchases in the appropriate accounting period to recognize the receipt of goods or services ordered regardless of the document used in placing the order (e.g., Forms 7600A and 7600B, MIPR, project order, or Reimbursable Work Order (RWO)). Components must ensure the liability is recorded during the accounting period that the benefit was received and not delayed pending receipt of a corresponding interagency billing or subsequent payment thereof. Documentation supporting the amount recorded must clearly show the basis (description of the good, quantity, and amount; for services, description of the service, labor hours, and amount) for the payable amount recorded (e.g., MIPR, project order, RWO, reciprocal agreement) and proof of receipt. The documentation must also be of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for recorded amounts.

10.5.3. DoW Components must ensure an accounts payable liability is also recorded when the goods are received, or the buying DoW Component has gained title to an asset.

10.6 Late Payment Interest

Components must record in accounts payable an amount for prompt payment interest and other penalties incurred on late payments as required under terms of the non-federal contract. Refer to Volume 10 for the policy on late payment interest and penalties.

10.7 Refunds Due

DoW Components must record an accounts payable liability to reflect the refunds due but not paid at the end of the reporting period, when applicable.

10.8 Monetary Credits

10.8.1. If the DoW entity exercises this authority, it must also record an accounts payable liability during the period the benefit from the property or services is received. When monetary credits are used for exchange transactions, the DoW entity must record an accounts payable liability equal to the value of the monetary credit.

10.8.2. Specific statutes authorize DoW entities to issue monetary credits as compensation for property or services received from non-federal entities. These monetary credits give the seller the agreed-upon value of the acquired property or received service. The credit holder may apply them later to reduce an amount owed (by the holder) in other, sometimes unrelated, transactions with the government.

10.8.3. Components must ensure the documentation supporting the accounts payable entry specifically identifies the property or services received, the date received, the name and signature of the DoW receiving official, and includes the bilateral agreement between the non-federal entity and designated DoW representative establishing the agreed-upon value. Components must also ensure the documentation is of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for the recorded amount.

10.9 Closed Appropriations

When an appropriation account is closed, any remaining balance in the account must be canceled and unavailable for obligation or expenditure for any purpose. However, legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be reinstated to canceled payables and paid out of a current unexpired appropriation that is available for obligation for the same purpose as the closed account.

10.10 Liquidating Accounts Payable

Accounts payable recorded when a particular good or service is received must be liquidated when the liability created by the payable is settled.

10.11 Reviewing Accounts Payable Balances

10.11.1. The accounting office must review and reconcile all accounts payable balances to the transaction detail level in supporting accounting systems each quarter.

10.11.2. The accounts payable recorded for acceptable final performance on a contract or order must remain in the account until liquidated through proper payment, or until receipt of contractual or legal documents that remove the remaining liability. Continued non-receipt of an invoice on firm-fixed-price contracts may extinguish the contractor's right to payment and relieve

DoW's obligation to pay for the un-invoiced goods or services. Components must ensure the accounts payable amounts written off contain sufficient documentation to allow an independent third party, such as an external auditor, to verify the basis, value, and rationale for the write-off. Refer to Volume 3 for a policy associated with dormant commitments and unliquidated obligations eligible for closeout on physically complete contracts.

10.11.3. The accounting office must investigate accounts payable debit balances over \$100. These debit (abnormal) balances may result from any number of circumstances (e.g., duplicate payments and unrecorded accounts payable). Components must fully document subsequent adjustments to correct the abnormal balance. This documentation must be available for review by the independent auditors if necessary. If the investigation of a debit balance discloses an overpayment or under-recouped funds related to a contract or vendor payment, the accounting office must coordinate with the responsible entitlement and disbursing offices to pursue collection or recoupment. Refer to Volume 10 for additional details.

10.11.4. If the accounting office cannot match a performance report or invoice with a corresponding obligation, a breakdown of fund control processes and a material weakness in internal controls may exist. If posting a transaction to accounts payable does not disclose a corresponding obligation, this may be evidence that either a contract has not been awarded or a posting error has occurred.

10.11.5. These transactions are defined as, and based on the USSGL Crosswalk, map to the accounts payable line of the balance sheet. Refer to Volume 3 for disbursements in-transit policy.

10.12 Accounts Payable Document Retention

All documentation in support of accounts payable entries and adjustments must be readily available for review by auditors, management, and other DoW Component financial management personnel. The documentation retention policy is contained in the DoW Component records retention office.

11.0 PERSONNEL RELATED LIABILITIES

11.1 Accounting Policy

In accounting for personnel-related liabilities, adhere to established standards by updating entries based on current pay adjustments, leave balances, benefit levels, and changes in benefit rules. Available budgetary resources do not limit accrued personnel-related amounts. DoW Components must calculate imputed costs based on the annual Office of Personnel Management (OPM) Benefits Administration Letter for the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), Federal Employees Health Benefits Program, and Federal Employee Group Life Insurance Program. Refer to Volume 6 for required financial statement disclosure guidance.

11.2 Accounting for Personnel Entitlements

11.2.1. Accrue the DoW military and civilian employees' cost of services, including overtime, when a pay period does not coincide with the end of an accounting period.

11.2.2. Record probable and estimable annuities, adjudicated claims, and benefit payments as of the end of the applicable accounting period.

11.2.3. Accrue bonuses and awards, if material, in the accounting period earned. Components assess the materiality threshold.

11.2.4. When DoW employees accrue paid leave, Components incur an expense and a liability for the salary payable when the leave is taken.

11.2.5. Accrue all unused annual leave (including restored leave, compensatory time, and credit hours earned) and associated fringe benefit costs. For financial statement purposes, reflect all pay increases and unused leave balances at least quarterly. Unused annual leave in GF is typically unfunded until used, but must be funded in WCFs.

11.2.6. Personnel should not accrue sick leave, home leave, or compensatory time for travel, as the DoW does not reimburse unused balances. These entitlements are expensed as taken.

11.2.7. Accrue Social Security, retirement funds, Thrift Savings Plan (TSP), and group health and life insurance programs in the same manner as gross compensation (refer to Volume 8).

11.2.8. Accrue other benefits such as relocation-related real estate costs and personnel allowances in the period earned.

11.2.9. Accrue payments to the OPM for reemployed annuitants and severance pay for former employees in the same manner as gross compensation.

11.2.10. Accrue recruitment and relocation bonuses and retention allowances in the period earned.

11.3 Pensions

11.3.1. Pension benefits include all retirement, disability, and survivor benefits financed through a pension plan, including unfunded pension plans. Three defined benefit retirement plans: CSRS, FERS, and Military Retirement System (MRS) cover DoW civilian and military employees.

11.3.2. Recognize the pension liability when the employee's services are rendered and report the liability in the Components' financial statements.

11.3.3. Defined contribution plans (e.g., TSP) do not create pension liabilities.

11.3.4. Components recognize a pension expense equaling the employee service cost for the applicable accounting period, less employee contributions, if any, for DoW Civilian pension plans (CSRS and FERS).

11.3.5. Calculate the pension expense and liability using actuarial estimates for MRS. Refer to Volume 12 for more information.

11.3.6. Maintain official communication between OPM and the DoW Office of the Actuary to support pension expense and any related liability.

11.4 Other Retirement Benefits

11.4.1. An employer provides Other Retirement Benefits (ORB) outside the pension plan to a former employee or the employee's beneficiary upon retirement. ORB includes all retirement benefits other than pension plan benefits, such as retirement health care benefits.

11.4.2. Recognize the ORB liability when the employee's services are rendered. Report the liability in the Components' financial statements.

11.4.3. Account for and report the ORB expense, such as medical costs for retirees, in the Component financial reports in a manner similar to that used for pensions.

11.5 Other Postemployment Benefits

11.5.1. Components provide Other Postemployment Benefits (OPEB) to former or inactive employees (e.g., temporarily laid off or disabled), their beneficiaries, and covered dependents, outside of traditional pension or ORB plans. These benefits can include salary continuation, severance, counseling, training, continued healthcare/other benefits, unemployment compensation, workers' compensation, and veterans' disability compensation paid by the employer entity.

11.5.2. For OPEB, such as those under the Federal Employees' Compensation Act (FECA), recognize expense and liability when a future outflow or other sacrifice of resources is probable and measurable based on events occurring on or before the reporting date.

11.5.3. FECA provides workers' compensation benefits to federal employees injured in the performance of duty. Workers' compensation benefits include wage-loss benefits for total or partial disability, monetary benefits for permanent loss or loss of use of a body part, medical benefits, and vocational rehabilitation. Agencies' direct reimbursements finance the FECA program.

11.5.4. The FECA fund pays benefits on behalf of Federal entities as costs are incurred and bills the entity annually for the previous period. Include annual budget estimates for the fiscal year beginning in the next calendar year equal to the costs (approximately 15 months) for the appropriation-funded agencies.

11.5.5. The Department of Labor sends each agency the actuarial liability estimates for future workers' compensation benefit amounts for both the current and prior years. The current amount is the new balance in the Actuarial FECA Liability.

11.5.6. The Actuarial FECA Liability entry must be supported by specific documentation.

11.6 Auditability and Internal Procedures

Each Component must develop and implement internal operating procedures to ensure complete, consistent, timely, accurate, valid, and relevant financial data. The Component must also maintain appropriate supporting records to provide an appropriate footnote disclosure in the financial statements if personnel-related liabilities are unfunded. Components must disclose according to Volume 6.

12.0 COMPONENT DEBT

Debt incurred by DoW Components is generally associated with direct and guaranteed loans, and housing programs determined to be necessary to carry out the DoW's mission, including mortgage agreements accepted pursuant to the Family Housing Program (FHP) and the Homeowners Assistance Fund (HAF).

12.1 Loans and Loan Guarantees

The Department must pay the debt on direct loans if borrowers (e.g., foreign governments, county or city governments, ship owners, or housing builders) default. For loan guarantees, the Department must pay the amount of outstanding principal guaranteed. The accounting policy for loans and loan guarantees is provided in Volume 12.

12.2 Housing Program Debt

12.2.1. Family Housing Program. The Defense FHP offers housing referral services to military and civilian families, which include managing private rentals for overseas personnel, leasing private housing, and guaranteeing rental, mortgage, and mortgage insurance payments on privately owned homes.

12.2.2. Homeowners Assistance Fund. Under 42 U.S.C. § 3374, the SecWar can aid owners of one- or two-family dwellings near military installations slated for closure, in part or whole. This assistance may involve acquiring negotiated title to their properties from the owners. This statute establishes the HAF, which receives its funding through annual Congressional appropriations. DoDD 4165.50E outlines the overall policy for the HAF. Detailed guidance on HAF benefits, domestic and foreign, is provided in regulations published by the Secretary of the Army (as the DoW Executive Agent for HAF) and codified in 32 CFR Part 239.

12.3 Accounting Policy for Debt Associated with Housing Programs

The liability for amounts owed on housing acquired under FHP and HAF programs will be equal to (1) borrowings from other Federal Agencies and the public to construct or acquire the

properties, or (2) the mortgages assumed when title passes to the DoW. Liabilities for borrowings from other Federal Agencies and non-federal organizations will be recorded at the amounts obtained. Amounts paid to financial organizations to obtain the borrowings must be treated as a current period operating expense.

13.0 OTHER LIABILITIES

Components report these liabilities on the Balance Sheet as “other liabilities” as they are often immaterial and therefore do not warrant separate reporting. See Volume 6 for financial reporting requirements for other liabilities. Each Component must develop and implement internal operating procedures to implement this overarching policy in a manner that ensures accurate, complete, and relevant financial data.

13.1 Unearned Revenue

13.1.1. Advances and Prepayments

Advances and prepayments are amounts received in advance for goods and services that will be delivered at a future date. When advance fees or payments are received by DoW Components, such as for large-scale, long-term projects, revenue should not be recognized until the goods and services are provided (regardless of whether the fee or payment is refundable. Liability for advances and prepayments includes advances received that are transfers of assets from the public and other federal entities to cover future expenses or the acquisition of other assets. The DoW Components receiving an advance or prepayment must record the amount received as a liability until payment is earned (goods or services have been delivered or contract terms met). After the payment is earned (performance has occurred), the DoW Components must record the appropriate amount as revenue and reduce advances and prepayments liability accordingly.

13.1.2. The two major activities for which DoW receives advances are as follows:

13.1.2.1. Reimbursable Activities. DoW provides services to other federal agencies and to the public on a reimbursable basis. When a non-federal customer enters into a reimbursable agreement with DoW, the customer is required to pay for services in advance unless exempted by law. Generally, non-DoW entities are required to pay in advance.

13.1.2.2. DWCF Activities. The appropriation language for DoW’s DWCF permits the fund to receive advances for supplies and services. Therefore, the DWCF business entities may be advanced funds identified in the DWCF customer orders during the fiscal year, as required, to enable the DWCF activity to pay for its costs of operation.

13.2 Nonfiduciary Deposit Funds

13.2.1. Deposit funds are, in general, monies that do not belong to the Federal Government. Nonfiduciary deposit funds are deposit funds that do not meet the definition and characteristics of fiduciary activities in SFFAS 31. While awaiting disposition, nonfiduciary deposit funds are reported separately on the entity’s financial statements.

13.2.2. Deposit funds must be recorded as a liability because those assets do not belong to the Federal Government. The liability includes, but is not limited to, currency and coin on hand, cash on deposit at designated depositories (excluding Disbursing Officer held cash), negotiable instruments on hand, military payment certificates, and unsupported undistributed collections. Such funds are not available for paying salaries, grants, or other expenses of the Federal Government.

13.2.3. See TFM Volume I for more details on deposit fund accounts and the Treasury's FAST Book for a full list of DoW deposit accounts.

13.3 Clearing Accounts

Clearing accounts represent amounts known to belong to the Federal Government but held temporarily in this account until additional information is collected for the disposition or reclassification of these amounts. Clearing accounts may be used to record unmatched transactions from the public when there is a reasonable presumption that the amounts belong to a Federal Government account other than miscellaneous receipts in the Treasury or to record unmatched transactions between Federal agencies, including IPAC transactions.

13.4 Contingent Liabilities

A contingent liability must be recognized in financial reports if a past event (e.g., contract breach) makes a probable and measurable future resource outflow. This applies when a legal claim is likely to be settled in the claimant's favor, and a settlement amount can be estimated. If a specific amount within a range is the best estimate, that amount is recognized; otherwise, the minimum amount in the range is recognized, with the nature and range of the contingency disclosed. If these recognition conditions aren't met, but a loss is at least reasonably possible, the contingent liability should be disclosed in the financial statement notes.

13.5 Legal contingencies

13.5.1. Legal contingencies arise from litigation, claims, and assessments. It is the Component management's responsibility, with legal counsel's advice, to assess the likelihood of adverse outcomes for legal cases and decide whether to recognize them as liabilities and to disclose them in the notes to the financial statements.

13.5.2. In accordance with SFFAS 5 and SFFAS 12, the only available categories to assess contingent losses based on the likelihood of the loss are Probable, Reasonably Possible, and Remote. When legal counsel cannot indicate whether the unfavorable outcome is probable or remote (e.g., unable to express an opinion), the Component should categorize the outcome as Reasonably Possible and disclose the notes to the financial statements.

13.6 Contract Progress Payments

When a DoW contractor requests a progress payment, a measurable liability is created for the DoW. Progress payment requests expected to be paid within one year are recorded as

"Accounts Payable." The estimated amount of costs incurred by the contractor expected to remain unpaid for over a year until asset delivery is recorded as "Other Liabilities."

14.0 ENVIRONMENTAL AND DISPOSAL LIABILITIES

14.1 Recognize Environmental and Disposal Liabilities

The Component must recognize environmental and disposal liabilities on the financial statements as a result of past transactions or events when the future outflows or expenditures of resources for environmental cleanup, closure, and/or disposal actions are probable and can be reasonably estimated.

14.2 Liability And Expense Recognition

The liability and expense should be recognized when both (1) Congress has appropriated or authorized resources, and (2) an exchange occurs (contractor performs repairs), or nonexchange amounts are unpaid as of the reporting date (direct payments to disaster victims), whichever applies, in accordance with SFFAS 5.

14.3 Liabilities for Environmental Cleanup

Refer to SFFAS 5 to address liabilities for environmental cleanup resulting from an accident, natural disaster, or other one-time occurrence. Refer to SFFAS 6 for the standards related to the timing of recognition of environmental and disposal liabilities and related inter-period operating expenses. Disclosure of the total estimated cost is required

14.4 Cleanup Costs

Cleanup costs associated with government-acknowledged events (such as toxic waste damage caused by nonfederal entities and natural disasters) do not meet the definition of a "liability" until, and to the extent that, the government formally acknowledges financial responsibility for the cost from the event and an exchange or nonexchange transaction has occurred.

14.5 Estimating Cleanup Cost

Cleanup costs must be estimated when the associated Property, Plant, and Equipment (PP&E) is placed in service. The estimate must be referred to as the "estimated total cleanup cost. As the Component pays cleanup costs, it must recognize the payments as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities. Refer to SFFAS 6 to recognize the total cleanup cost for Stewardship PP&E and general PP&E. The estimated environmental and disposal liabilities associated with the total cleanup cost for Stewardship PP&E must be consistent with the treatment of the acquisition cost of Stewardship PP&E (i.e., expensing in the period placed in service). Refer to SFFAS 6 for the estimated environmental and disposal liabilities associated with PP&E placed in service after September 30, 1997. Refer to SFFAS 5 to recognize the liability for the estimated cleanup cost if the environmental and disposal liability is not associated with an asset having a useful life. No

amounts may be recognized as expense in the period of implementation. The amounts involved must be disclosed and, to the extent possible, the amount associated with current and prior periods should be noted. The offsetting charge for any liability for asbestos-related cleanup costs related to general PP&E in service at the date of implementation must be made to the net position of the entity. The amount of the adjustment must be shown as a “change in accounting principle” in any statement of changes in net position that may be required.

14.5.1. Estimates must be evaluated and revised periodically (at least annually) to account for material changes due to inflation or deflation and changes in regulations, plans, and/or technology.

14.5.2. For asbestos (both friable and non-friable) related environmental and disposal liabilities associated with PP&E, the initial date of the standard implementation is the effective date for the systematic liability recognition. Asbestos-related environmental and disposal liabilities associated with PP&E placed in service after September 30, 2012, must be systematically recognized over the remaining useful life of the PP&E.

14.5.3. Environmental and disposal liabilities that are unique in nature have different recognition criteria.

14.5.3.1. An environmental and disposal liability for military range cleanup, including unexploded ordnance, arises only after a formal decision to close the range or if hazardous waste migrates off-range. This guidance is based on the Environmental Protection Agency’s (EPA) conditional exemption (40 CFR 266.202), which excludes military munitions used for their intended purpose—such as training military personnel or explosives and munitions emergency response specialists, research and development (R&D), and on-range destruction during clearance—from the definition of solid waste. However, this exemption does not cover on-range disposal or burial of munitions and contaminants that are not a result of product use.

14.5.3.2. Environmental and disposal liabilities for conventional munitions are recognized for the total estimated disposal cost when they are determined to be excess or obsolete as of the financial reporting date. As consumable inventory, a liability for conventional munitions only arises when they become excess or obsolete, requiring special disposal actions. Obsolescence occurs when munitions are no longer needed due to changes in technology, laws, or operations. The determination of excess or obsolete status must be supported by documentation of management's decision to permanently remove the asset from service and terminate its use.

14.5.3.3. Environmental and disposal liabilities for both stockpile and non-stockpile chemical agents and munitions, including those that are buried, must be recognized when the probable and reasonably estimable criteria have been met with TR2. Under 50 U.S.C. § 1521, the DoW is required to dispose of all chemical weapons and materiel, which includes the existing stockpile as well as non-stockpile items like binary chemical weapons, miscellaneous chemical warfare materiel, recovered chemical weapons, and former production facilities. Proper action is also necessary to mitigate the risks to human health and the environment from buried chemical agents and munitions.

14.5.3.4. When an entity permanently removes an asset from service, it must recognize the full environmental cleanup cost liability for its disposal, closure, or shutdown. If the removal is not permanent, or if there is no documented decision to permanently remove an asset from service, the full liability for cleanup costs associated with PP&E is not recorded, and the liability and associated cleanup costs continue to accumulate.

14.5.3.5. Overseas environmental and disposal liabilities, which are cleanup, closure, and/or disposal costs from operating overseas installations, are governed by DoDI 4715.08 and international agreements (per DoDD 5530.3). Considered "Government Related Events" under SFFAS 5, these liabilities are recognized when the event creating them occurs. The specific requirements for recognition are based on applicable SFFAS standards, DoW Issuances (like DoDI 4715.05), and international agreements.

14.5.3.6. When estimating the disposal cost of assets containing hazardous waste, stakeholders may recognize non-environmental costs that are considered immaterial to the total cost of removing or disposing of the asset(s) as an environmental and disposal liability.

14.5.3.7. Both friable and non-friable asbestos-related cleanup, closure, and/or disposal costs must be estimated in accordance with TB 2006-1, as amended by TB 2011-2. Asbestos-related cleanup, closure, and/or disposal costs are the expenses associated with removing, containing, or disposing of asbestos-containing materials from property or the materials themselves. These costs are incurred during the permanent or temporary closure or shutdown of associated PP&E, typically when cleanup is deferred until the end of an asset's useful life or performed at regular intervals.

14.5.4. When multiple reporting entities are involved with general PP&E and its cleanup, accounting responsibility is clearly defined. Federal Accounting Standards Advisory Board (FASAB) Interpretation 9 clarifies that during the asset's useful life, the entity that owns the asset must recognize inter-period operating costs and accrue the cleanup liability within the financial statements. At the time of transfer, the asset and its associated liability are derecognized by the original owner and recognized by the entity designated responsible for cleanup.

14.5.5. Changes in environmental and disposal liability cost estimates are recognized as current period expenses, with corresponding liability adjustments. Current period cleanup costs are also expensed and accrued as an environmental and disposal liability. Material error corrections from prior period operations require a prior period adjustment, restating comparative financial statements, and are reflected in the Statement of Changes in Net Position without current period expense recognition. Such adjustments, including those for estimated liabilities, arise from mistakes or misuse of facts that materially misstate financial statements. Disclosures must include involved amounts, noting current and prior period allocations where possible. Immaterial adjustments are recognized as current period events.

14.5.6. The risk of material misstatement of accounting estimates normally varies with the complexity and subjectivity associated with the process, the availability and reliability of relevant data, the number and significance of assumptions made, and the degree of uncertainty associated with those assumptions.

14.6 Environmental and Disposal Liability Estimates

14.6.1. Environmental and disposal liabilities are generally developed based on accounting estimates, because the extent of the environmental cleanup, closure, and/or disposal costs cannot be determined until completing cleanup/disposal operations. The accounting estimates are subject to Statement on Auditing Standards No 122/AU-C Section 540. Organizations that prepare accounting estimates must retain adequate documentation of quality review, estimator and reviewer qualifications, data sources, estimating methodologies, substantiation including the cost models, and internal control procedures.

14.6.2. The environmental cleanup, closure, and/or disposal costs that are probable and reasonably estimable must be estimated based on site-specific information using engineering estimates, comparison with similar sites, contaminants, equipment, parametric methodologies, or cost models validated in accordance with DoDI 5000.61. Once the DoW Component generates a cost estimate, the liability must be recognized and any uncertainty disclosed in the notes to the financial statements.

14.6.2.1. A cost estimate produced from a site-specific study is generally more reliable because it is based directly on environmental conditions at the site. However, understanding that DoW Components often include multiple sites on an individual contract, supporting documentation required to justify individual unpaid obligation transaction-level details does not need to be at the site level.

14.6.2.2. If a site-specific study is not available, the Component must assess if the site is similar to others where remediation has been completed, or a comprehensive study exists. If there is no investigation or comparable site data, costs are not considered reasonably estimable. In this case, the DoW Component should recognize the anticipated costs of future studies as an environmental and disposal liability until a site-specific study is completed.

14.6.2.3. If an acceptable cleanup technology is not available to address the site, then the Component must recognize the estimate to contain the hazardous waste and other relevant costs, such as the costs for future studies, as an environmental and disposal liability. The Component must also disclose the range of uncertainty in the notes to the financial statement.

14.6.2.4. When using cost models for environmental and disposal liability estimates, Components must accumulate relevant and reliable data, ensure estimates are prepared by qualified personnel and reviewed/approved by the appropriate authorities, and sustain the model's use by regularly compiling documentation to support cost factors (at least annually). This documentation must be available for audit. Decisions to update cost factors should be based on the impact of new information. Components must also compile documentation supporting the reasonableness of cost factors used by estimation software, obtain assurance from the service provider that the software has been validated, and compare prior estimates with actual results to assess the reliability of both the estimation process and the reasonableness of estimates developed.

14.6.3. Environmental and disposal liability estimates must be developed to include all event-driven environmental liability sites in the current asset/site universe and must include all

asset-driven cleanup, closure, and/or disposal costs. Environmental and disposal liability estimates must be comprehensive, encompassing a wide range of potential costs. These include the compensation and benefits for government personnel directly involved, the cost of employing external contractors and consultants, and direct disposal costs such as demilitarization, material handling, and transportation. Estimates must also cover the costs of any dedicated facilities, machinery, and equipment, along with their associated operating and maintenance expenses, and any R&D for alternative remediation technologies. Furthermore, the calculation must include payments to regulatory agencies, permits and licenses, planning and design efforts, and costs to restore landscaping damaged by remediation. For the Defense Environmental Restoration Program, which is a statutorily defined program, associated program management costs must be included in the liability. These costs, which cannot be attributed to individual sites, are to be reported as rolled-up cost-to-complete estimates at the program level, covering the Future Years Defense Program (FYDP) and beyond; post-FYDP costs are estimated by applying the average percentage of program management costs from the FYDP to the remaining site-level requirements. All of these various cost estimates must be supported with appropriate documentation. Refer to DoDM 4715.20.

14.6.4. Environmental and disposal liability estimates must be reviewed annually and revised when there is evidence that significant changes in the cost measurement have occurred, such as changes in scope, ownership, regulation, or technology. The Component must retain contracts and invoices supporting the transaction-level details for combined multiple sites to support future audit requirements.

14.6.5. A portion of estimated total cleanup costs must be recognized as an expense during each period the PP&E is in operation. This must be accomplished systematically and rationally based on use of the physical capacity of the associated PP&E, whenever possible. If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability.

14.6.6. Components must establish and maintain a complete and current universe of environmental and disposal liabilities.

14.6.7. After an initial baseline has been established, DoW Components must maintain site universes.

14.6.8. Components must establish and maintain environmental and disposal liability universe baselines for event-driven and asset-driven environmental and disposal liabilities:

14.6.8.1. Event-driven environmental and disposal liabilities. Components define the history, timeline, and activities employed in the environmental surveys to demonstrate that a due care approach was taken, in accordance with TR 2, to establish an initial baseline using current factors (e.g., technology, cost, and the regulatory environment). Documentation must be readily available to support the baseline, allowing auditors to verify the completeness of established cleanup site universes.

14.6.8.2. Asset-driven environmental and disposal liabilities. Refer to SFFAS 6. If an environmental and disposal liability applies to only a subset of the PP&E asset universe,

Components must first review the entire universe and justify excluding non-applicable subcategories.

14.6.9. DoW Components must identify and account for environmental and disposal liabilities that are non-routine at the time of equipment disposal, in accordance with TR 11.

14.7 Environmental and Disposal Liability Disclosures

14.7.1. Financial statement disclosures provide pertinent information in notes or narratives about the amounts reported on the face of the financial statements. Refer to Volume 6. Disclosure requirements for liabilities, including environmental and disposal liabilities, differ depending on the underlying event and the probability and measurability (reasonably estimable) of loss. Key determinants of probable are the likelihood of contamination, whether the contamination is government-related, whether the government is legally liable or the government acknowledges the financial responsibility, and whether remediation technology exists. The classifications of likelihood are probable, reasonably possible, and remote.

14.7.2. Environmental and disposal liabilities meeting the criteria in TR 2 for “probable” and “reasonably estimable” must be recognized on the Balance Sheet. The recognition of environmental and disposal liabilities requires disclosure.

14.7.3. Environmental and disposal liabilities that don't meet the “probable” and “reasonably estimable” criteria for recognition, but for which there's a reasonable possibility of loss, are considered contingent liabilities.

14.7.4. DoW Components must disclose Intragovernmental Liabilities Not Covered by Budgetary Resources separately from Liabilities Covered by Budgetary Resources in accordance with Volume 6. Liabilities Covered by Budgetary Resources are liabilities incurred that 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 new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections (credited to an appropriation or fund account); and recoveries of unexpired budget authority through downward adjustments of prior year obligations.

14.7.4.1. 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 and are available for use as of the Balance Sheet date, provided that OMB may apportion the resources without further action by the Congress and without a contingency having to be met first.

14.7.4.2. Liabilities Not Covered by Budgetary Resources include liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity.

14.7.5. DoW reports environmental litigation liabilities separately from other environmental and disposal liabilities in the notes to the financial statements. DoW Components must report estimates of certified third-party damage claims that are probable or reasonably possible.

14.7.6. Documentation to support the environmental and disposal liability recognition and disclosures, including management reviews, must be retained for the life of the liability. Once the liability has been eliminated, the documentation must be retained according to applicable retention and disposal instructions in their DoW Component records retention requirements.

14.8 Accounting Procedures for Recording Environmental and Disposal Liabilities

Refer to the SFIS and Volume 1 for the requirements for Standard Line of Accounting (SLOA)/Accounting Classification compliance for DoW business systems to meet statutory requirements and additional requirements implemented by the OMB and the Treasury. Environmental and disposal liabilities reported in the financial statements must reflect the liability as of the Balance Sheet date (i.e., as of September 30, or as of June 30), not an earlier date. Thus, when the annual evaluation of the environmental and disposal liabilities is performed as of a date earlier than September 30, DoW Components must develop, document, and execute a process for performing roll forward procedures. These procedures are to determine if any changes that meet the “probable” and “reasonably estimable” criteria occurring during the roll forward period have a significant impact on the estimates to be reported as of September 30.

14.8.1. Roll Forward Procedures: Environmental and disposal liabilities reported in the financial statements must reflect the liability as of the Balance Sheet date (i.e., as of September 30, or as of June 30), not an earlier date. Thus, when the annual evaluation of the environmental and disposal liabilities is performed as of a date earlier than September 30, DoD Components must develop, document, and execute a process for performing roll forward procedures. Refer to the Supplemental for more information on roll forward procedures.

14.8.2. Refer to the Supplemental for more information.

14.8.3. Quantitative Determination of Significant Amounts in the Roll Forward Period.

15.0 PAYMENT INTEGRITY

The DoW Payment Integrity portfolio comprises separate Payment Integrity programs that report improper payment and unknown payment risk assessments or statistical estimates. These programs include disbursements related to pay and benefits, commercial goods and services, health care, military retirement, and travel, which collectively encompass the majority of payments made by DoW annually in accordance with the Payment Integrity Information Act of 2019 (PIIA). Refer to the Federal Government PaymentAccuracy.gov website for a complete listing of DoW Payment Integrity programs. PIIA repealed the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Improvement Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015. The requirements for compliance with PIIA are described in the OMB Circular A-123, Appendix C, and OMB Circular A-136, or their successor publications.

15.1 Program Payment Integrity Activities by Phase

15.1.1. The Component categorizes programs with annual outlays exceeding \$10 million as either Phase 1 or Phase 2. A program is designated as Phase 1 if its combined total of improper and unknown payments is unlikely to surpass the statutory threshold. This threshold is defined as either 1) payments exceeding both 1.5% of program outlays and \$10 million annually, or 2) payments exceeding \$100 million, irrespective of the improper payment percentage.

15.1.2. Phase 1 Payment Integrity Activities Performed by the DoW Components. PIIA requires that federal agencies assess all programs with annual outlays greater than \$10,000,000 for IP risk at least once every three years. The purpose of an improper payment (IP) risk assessment is to adequately conclude whether the program is likely to make total annual IPs plus unknown payments (UP) above or below the statutory threshold and thus may be susceptible to significant improper payments for the given year. The results of the IP risk assessment help identify weaknesses in internal controls that, if strengthened, could prevent future IPs and UPs from occurring. Establishing and maintaining effective internal controls, including an internal control system that prevents IPs and UPs from being made and promptly detects and recovers any IPs that are determined to be recoverable, should be a priority.

15.1.3. Phase 2 Payment Integrity Activities Performed by the DoW Components. If a program's risk assessment determines that its annual improper and unknown payments are likely to exceed the statutory threshold, it enters 'Phase 2'. In the following fiscal year, the program must report statistically valid estimates for both improper and unknown payments to reflect the total annual amount for the program.

15.1.3.1. Programs reporting IPs for the first time must produce a Sampling and Estimation Methodology Plan (S&EMP). A program's S&EMP should have a mechanism for identifying, accounting for, and estimating the annual IPs and the annual UPs separately. Once a program has submitted a S&EMP to OMB, the program does not need to resubmit a S&EMP unless an update to the plan is warranted (i.e., if the program is impacted by any significant legislative, funding, structural, or guidance changes).

15.1.3.2. Programs must perform an adequate reconciliation of any population, such as the disbursement systems used in the creation of the S&EMP. The reconciliation process should be documented in the S&EMP.

15.1.3.3. If a program is in Phase 2, has established a baseline, and reports an IP and UP estimate that is below the statutory threshold, it will automatically move back into Phase 1 the following FY unless the OIG of DoW issued a noncompliance finding for the program in the previous year and that the finding demonstrated that the program IP and UPs estimate was inaccurate and inappropriate given the program characteristics.

15.1.4. Components must sample, conduct post-payment reviews, estimate the amount of improper payments and unknown payments using statistically valid sampling methodologies, and report improper payments and unknown payments to the OUSW(C) for reporting in the consolidated Agency Financial Report (AFR) and the annual OMB Payment Integrity data call.

15.2 Compliance With PIIA Requirements

The OIG DoW, on an annual basis, will evaluate the Department's compliance with the requirements under PIIA. The Department is not considered compliant under PIIA if one or more of its programs are found non-compliant with one or more PIIA requirements. If the OIG DoW determines that a program is non-compliant for any requirement, then the final OIG report must provide concrete recommendations to the program or DoW Component with specific actions the program must take to achieve compliance with the requirement. DoW Intelligence Agencies that have a standalone PIIA Compliance audit conducted by their own Inspector General are excluded from incorporation into the Department's overall PIIA portfolio that is reported publicly, OUSW(C), FMPR Payment Integrity team maintains executive oversight and the DoW Intelligence Agencies must follow the Office of the Director of National Intelligence, National Intelligence Program, PIIA guidelines and reporting requirements. Classified payments are excluded from public reporting. The PIIA requirements are:

15.2.1. Publish a Payment Integrity section in the Other Information section of the consolidated DoW AFR for the most recent fiscal year and post the consolidated AFR and any accompanying materials required by OMB. DoW Components are not required to include payment integrity information in their individual AFRs. DoW Components must include the following statement under the Payment Integrity section in their individual AFRs: "DoW reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoW Agency Financial Report.

15.2.2. Conduct a program-specific risk assessment for each DoW program or activity and adequately conclude whether the program is likely to make IPs plus UPs above or below the statutory threshold.

15.2.3. Publish IP and UP estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the consolidated DoW AFR.

15.2.4. Publish corrective action plans (CAPs) for each program susceptible to significant improper and unknown payments for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.

15.2.5. Publish a reduction target for each DoW program that has reported IP and UP estimates above the statutory threshold, demonstrated improvements to payment integrity or reached a tolerable improper payment or unknown payment rate, and develop a plan to meet the established reduction target.

15.2.6. Report an IP and UP estimate of less than 10 percent for each DoW program and activity for which an IP and UP estimate was published in the accompanying materials to the annual financial statement.

15.3 OUSW(C) Roles and Responsibilities

15.3.1. FMPR Directorate Role

The DCFO Financial Management Policy Reporting (FMPR) Directorate manages the DoW Payment Integrity portfolio. The FMPR Directorate provides oversight to the DoW Components to ensure compliance with the authoritative guidance on Payment Integrity. Additionally, FMPR must be notified by the audit agency of any stand-alone audits regarding Payment Integrity.

15.3.2. The FMPR Directorate holds a wide range of responsibilities related to Payment Integrity within the DoW. The Directorate must interpret and guide DoW Components to ensure compliance with authoritative regulations. The FMPR Directorate also coordinates efforts to reduce monetary loss, compiling and submitting quarterly reports to OMB for any high-priority programs that project over \$100 million in improper payments. A key part of their role is to establish and report baselines for payment integrity, then work with DoW Components to set reduction targets and develop plans to meet them. They are responsible for reviewing and consolidating all payment integrity data from the Components, reporting the final results in the consolidated DoW AFR and to OMB through the Annual Data Call. Furthermore, the FMPR Directorate prepares and submits all DoW-wide reports on Payment Integrity and serves as the primary liaison for annual OIG DoW and Government GAO audits, ensuring timely information transmission and implementation of auditor recommendations. They also provide administrative and technical support to the DoW PIIA Senior Accountable Officials Steering Committee, which oversees the Payment Integrity program. Finally, the FMPR Directorate is responsible for keeping the Payment Integrity policy within the DoW Financial Management Regulation current and for retaining all documentation submitted by DoW Components, in accordance with official financial records retention policies. For additional information on FMPR retention requirements, refer to OSW Records Disposition Schedules.

15.4 DoW Component Roles/Responsibilities

15.4.1. The DoW Components ensure that their payments are valid, accurate, and complete. Additionally, the DoW Components ensure that their payments are subjected to post-payment reviews that align with the Department's Payment Integrity lines of effort.

15.4.2. For each DoW program under Phase 1, conduct a program-specific risk assessment to determine if the DoW program or activity is susceptible to significant improper payments.

15.4.3. For each DoW program under Phase 2 that has been determined to be susceptible to significant improper payments, develop a statistically valid S&EMP. In addition, implement the S&EMP to produce statistically valid improper payment and unknown payment estimates for all DoW programs and activities determined to be susceptible to significant improper payments. Report annual results of improper payments and unknown payments to OUSW(C), FMPR, for adjudication, consolidation, and reporting in the Payment Integrity section of the consolidated DoW AFR and to OMB through their Annual Data Call.

15.4.4. For programs or activities determined to be susceptible to significant improper payments and unknown payments above the statutory threshold designated by OMB, identify the root causes of improper payments and unknown payments and develop cost-effective CAPs that eliminate the root causes of improper payments and unknown payments and prevent and reduce improper payments and unknown payments. Submit results on a quarterly basis to OUSW(C), FMPR, for consolidation and reporting in accordance with OMB for high-priority programs. High-priority programs must provide quarterly Payment Integrity Scorecard reporting on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov).

15.4.5. Implement a cost-effective payment recovery program to recover improper overpayments that resulted in monetary losses.

15.4.6. Support the annual OIG DoW performance audit and relevant GAO audits in a timely manner by furnishing all required provided-by-client documentation, providing responses to auditor's inquiries, and implementing auditor recommendations. Provide support for all ad-hoc requests from external oversight bodies (i.e., OMB, GAO, and Congress). Notify OUSW(C), FMPR of any stand-alone audits regarding Payment Integrity that directly impact their Component. Retain documentation submitted by the DoW Components.

15.5 OMB Circular No. A-123 Appendix C

DoW Components must implement the requirements in OMB Circular No. A-123, Appendix C, or its successor publication.

15.6 OMB Circular No. A-136

15.6.1. The Department must implement the requirements in OMB Circular No. A-136, or its successor publication. The Department must complete the annual OMB Data Call and include a link to [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) in its consolidated AFR. Key responsibilities include contacting OMB by September 1st to gain access to the Data Call and reviewing its guidance to determine applicable requirements. If recovery audits are conducted and the contractor recommends actions to prevent overpayments, the Department should report on these actions in the AFR.

15.6.2. High-priority programs are required to provide in the annual consolidated DoW AFR a summary of their payment integrity activities and results.

16.0 REVENUE AND OTHER FINANCING SOURCES, GAINS AND LOSSES

16.1 Revenue

16.1.1. The DoW generates revenue from its normal operations and may experience gains or losses from unusual or nonrecurring transactions. Revenue is defined as an inflow of resources that the government either demands, earns, or receives as a donation, resulting in an increase in assets, a decrease in liabilities, or both, which ultimately increases the Net Position. A prime example of how a decrease in liabilities impacts revenue is the reduction of "Liabilities for Advances and Prepayment" after the delivery of goods or services.

16.1.2. Exchange and Nonexchange Revenues

16.1.2.1. DoW activities (WCF within the Military Departments and Other Defense Organizations, and construction agents) earn exchange revenues when they provide goods and services at cost to other government entities and the public. They must recognize revenue at the actual price received or receivable as soon as the value is delivered and post exchange revenue at the actual price that is received or receivable under the established pricing arrangement.

16.1.2.2. Nonexchange revenues are inflows of resources that the government demands or receives by donation.

16.1.2.3. Cost of goods sold must be recorded when exchange revenues are generated by providing goods and services. Costs must be recorded in the appropriate accounts, such as Cost of Goods Sold for Inventory Sales or Operating Expenses/Program Costs for services sales. The cost of goods sold account is discussed in Section 17.

16.1.2.4. Nonappropriated Funds (NAF) Activity Revenues must be accounted for in accordance with Volume 13. NAF Activities are not included in federal financial statements and are non-federal activities for budgetary and proprietary accounting purposes. They follow the standards of the FASB rather than FASAB.

16.1.2.5. Refunds are recoveries of overpayments and can result from errors in paying invoices or items returned to the vendor, not revenue.

16.1.3. Reimbursements and Collections

16.1.3.1. The Component requires specific legal authority to retain collections from providing reimbursable goods and services; otherwise, all funds collected must be transferred to a miscellaneous receipt account. The expenses incurred for this work must be recorded in full and cannot be reduced or offset by reimbursements. See Volume 11 for additional information about reimbursements.

16.1.3.2. The Component must record revenue in the financial records, collect it promptly, and deposit it in the appropriate Treasury account.

16.2 Exchange Revenue Recognition and Measurement

16.2.1. Exchange revenues are earned when both parties in a transaction sacrifice and receive value, such as with user charges or intragovernmental cost reimbursements. The revenue recognized from these transactions is the price received or receivable for the exchange.

16.2.2. Revenue from advance payments must be deferred until the related goods or services are provided. Upon receipt, these funds must be recorded as an increase to cash and a liability, such as "unearned revenue," and this liability is only cleared once performance is complete.

16.2.3. A receivable must be recorded when revenue is recognized, and payment is not received. If the full amount is not expected due to credit losses, returns, allowances, or price redeterminations, bad debt expense must be recognized. An appropriate allowance for estimated bad debts must be established.

16.3 Exchange Revenue Disclosures

16.3.1. Each DoW Component that provides goods or services to the public or another government agency must disclose information about exchange revenue.

16.3.2. If increased prices for the exchange revenue may cause reduced demand, the entity must provide an estimate of the possible revenue foregone and provide calculation assumptions.

16.4 Nonexchange Revenue Recognition and Measurement

16.4.1. Nonexchange revenues, such as taxes, fines, and donations, stem from the government's power to demand payment. They are recognized in the financial results of operations only when a specifically identifiable, legally enforceable claim exists, collection is probable, and the amount is measurable. Detailed guidance on reporting these revenues can be found in Volume 6.

16.4.2. Donations from non-federal entities, whether financial, such as cash or securities, or non-financial, such as land or buildings, are recognized as nonexchange revenue at their estimated fair market value. However, no value is recognized for donations of heritage assets or stewardship land, unless they are classified as multi-use heritage assets, which must be recorded at fair market value.

16.4.3. The Component must deposit collections not authorized for retention as miscellaneous receipts into the Treasury's GF, regardless of whether they are exchange or nonexchange revenue. If the underlying asset is predominantly nonexchange, the revenue is nonexchange. While the collecting entity is responsible for measuring any nonexchange revenue, it is the legally entitled recipient entity that must formally recognize it, as detailed in SFFAS 7.

16.5 Nonexchange Revenue Disclosures

Each DoW Component must disclose nonexchange revenue.

16.6 Other Financing Sources

The DoW Component must categorize appropriations used, asset transfers from other government entities, and imputed financing from cost subsidies as “other financing sources.”

16.6.1. Appropriations

DoW Components do not consider appropriations a financing source until they use them. When appropriations are available for apportionment, the Component recognizes them in its capital accounts as ‘unexpended appropriations.’ The Component then reduces this balance as it

uses the funds or makes adjustments for changes like rescissions and transfers. The Component recognizes the net change in unexpended appropriations as a change in its net position. Once used, appropriations become a financing source in determining the net results of operations. DoW Components 'use' appropriations when they receive goods and services, provide benefits and grants (which the Component provides when grantees meet the requirements), and establish the related liability.

16.6.2. Imputed Financing

16.6.2.1. Government entities frequently receive goods and services from other government entities without fully reimbursing them or incur costs like pensions that are paid by other entities. These transactions create imputed costs for the provider and imputed financing for the recipient. Recognizing these imputed costs and their corresponding offsets is crucial when such costs contribute to government goods or services provided for a fee.

16.6.2.2. WCFs must recognize these subsidized costs as an imputed financing source equal to the imputed cost. This offsets any effect of imputed cost on net results of operations for the period.

16.6.2.3. GFs do not recognize imputed financing. However, OMB requires GFs to recognize certain imputed costs. These exceptions include: employee pension, post-retirement health, and life insurance benefits; postemployment benefits for terminated and inactive employees, such as unemployment and workers' compensation under the Federal Employees' Compensation Act; and losses from litigation proceedings that the Treasury Judgment Fund pays.

16.6.2.4. DoW Component imputed costs can include military personnel costs, retirement benefits, other postemployment benefits, unreimbursed tenant's costs, and unreimbursed environmental cleanup costs, when administered outside the DoW reporting entity.

16.7 Transfers

For unreimbursed intragovernmental asset transfers, the receiving entity must recognize a transfer-in as an additional financing source, while the transferring entity recognizes a transfer-out as a decrease in its result of operations. The transfer must be recorded at the asset's book value; if the book value is unknown, the asset's estimated fair market value on the transfer date is used. Trading partners should record reciprocal transfers in the same accounting period to avoid reconciliation differences. Refer to the procedures for more on PP&E transfers and refer to OMB Circular A-11 for guidance on the budgetary impact of transfers.

16.8 Gains or Losses

16.8.1. The Component must recognize gains or losses for unusual or nonrecurring transactions, such as the sale, exchange, or disposition of government assets (excluding inventory held for sale). A loss is also recognized when inventory is reclassified as excess, obsolete, or unserviceable because its value falls below its acquisition cost. The difference between an asset's sale proceeds and its book value is recognized as a gain or loss upon sale. This principle applies to assets, PP&E, receivables, and investments where the selling entity retains the proceeds.

16.8.2. Base Realignment and Closure gains and losses are discussed in Volume 12.

16.8.3. Record unrealized holding gains/losses on securities available for sale in accordance with FASAB's ASC 321-10-35; fair value hedges, cash flow hedges, and accounting for a hedge of a net investment in a foreign operation under ASC 815-20-25; and foreign currency matters under ASC 830-10.

16.9 Volume 4 Appendix

Refer to the appendix within the Supplemental. The appendix provides accounting standards used for classifying transactions that finance the DoW cost of operations and a significant number of lesser transactions aligned to SFFAS 7. This appendix is divided into the following groups: nonexchange transactions; exchange transactions that produce revenue; other financing sources; revaluation gains and losses; and transactions not recognized as revenues, gains, or other financing sources.

17.0 EXPENSES AND MISCELLANEOUS ITEMS

Expenses represent a cash outlay, consumption of assets, and/or the incurrence of liabilities during a period of providing goods, rendering services, or carrying out other normal operating activities related to the entity's programs and missions, which results in a decrease in the entity's net position. Accounting systems must be capable of reporting transactions in sufficient detail to support budget preparation and cost accounting requirements.

17.1 Exceptions to Cash Outlays

While most expenses require cash outlays, exceptions include depreciation, other losses, and bad debt expenses. Miscellaneous non-cash items can also arise from extraordinary transactions, prior period adjustments, and changes in actuarial liabilities.

17.2 Unusual or Nonrecurring Transactions

Costs from extraordinary or unexpected events are classified as miscellaneous items. However, unusual or nonrecurring transactions, or those from an entity's incidental activities, should be recognized as a gain or loss rather than revenue or expense.

17.3 Budgetary Accounts

An expense typically involves the use of budgetary or other resources. When goods and services are ordered and received, they are recorded as expended authority in the budgetary accounts and as an expense in the proprietary accounts, supporting financial control over resources and accurate accounting during budget execution.

17.4 DWCF Expenses

The treatment of expenses by some DWCF activities differs compared to the treatment of appropriation-funded activities. Expenses are costs accumulated in asset accounts such as

Construction in Progress (CIP) or Inventory Work in Process and are subsequently billed to customers. Expenses are also costs to the activity or cost center, similar to appropriated funded activities. Refer to Volume 11 for DWCF policy.

17.5 Presentation in Financial Statements

17.5.1. Expense Recognition

Expenses are commonly reported at the time they are incurred, not when invoices are received. Goods and services (costs) acquired from or provided to other government trading partners or programs (i.e., intragovernmental) must be recorded separately from those purchased from nonfederal entities (i.e., the public).

17.5.2. Program Costs

Program costs, as required by Volume 6 for the Statement of Net Cost, encompass the full costs of program outputs, including direct costs, costs directly traced or allocated on a cause-and-effect basis, and nonproduction costs. These costs must also include services provided by other entities, even if not fully reimbursed, and costs paid by other entities that accounting standards require to be recognized within the financial statements.

17.5.3. Production and Nonproduction Costs

The Component must report costs related to the production of outputs separately from nonproduction costs on the Statement of Net Cost. Nonproduction costs are reported as a separate item in the financial statements and are addressed in the SFFAS 4.

17.5.3.1. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets. Costs associated with multi-use heritage assets are capitalized and depreciated over the expected useful life if they meet the capitalization criteria.

17.5.3.2. The acquisition cost of acquiring stewardship land.

17.5.3.3. The cost of maintenance not performed but delayed to a future period (deferred maintenance) reported in the Required Supplementary Information (RSI) section of the financial statements. Refer to Volume 6.

17.5.4. Expenses and Miscellaneous Items

Operating expenses, which include personnel costs, contractual services, and OM&S, can also include allocations of prior capital outlays (depreciation/amortization) or cost recovery for operations. Also known as program costs, these expenses are tied to specific programs or functions and often require a budgetary entry to record obligations from the unexpended obligation (undelivered order) to the expended authority (delivered order). Examples include personnel, travel, communications, contractual services, and other program expenses. DWCF activities typically record these expenses to a cost of goods sold account to match costs with revenue.

17.5.5. Property, Plant and Equipment

Costs for PP&E acquired or constructed for a project must be capitalized if the acquisition cost exceeds the Department's threshold, the items are not for sale in the ordinary course of operations, are intended for entity use, and have a life expectancy of over two years. Conversely, an asset may be expensed if it falls below the purchasing agency's capitalization threshold or has a useful life of less than two years, even if acquired from another federal agency.

17.5.6. Work in Process Account

WIP accounts must accumulate the costs of goods or services. The WIP cost amounts and applicable inventory accounts serve as the basis for calculating the cost of goods sold.

17.5.7. Depreciation, Amortization and Depletion Account

Depreciation, Amortization and Depletion are used to record the allocation of the cost of an asset (tangible or intangible) over the period of time benefited or the asset's useful life.

17.5.8. Benefits Expense

17.5.8.1. The employer's contribution to various employee benefit programs including retirement funds, life insurance, Voluntary Separation Incentive Payments (VSIP), FECA, unemployment, Social Security, and Medicare, constitutes a benefit expense. This expense must be recorded in the entity's General Ledger by the program and/or administering agency as it is incurred for benefit payments.

17.5.8.2. Employer contributions to the Thrift Savings Plan are nonfederal expenses. The account must be supported by subsidiary accounts to show the types of transactions for which entitlement benefits were incurred.

17.5.8.3. Administrative expenses incurred for benefit payments are generally nonfederal expenses. This includes (but is not limited to) costs for retirement, life insurance, health insurance, VSIP, FECA, unemployment, entitlements, and insurance guarantees (i.e., flood insurance).

17.5.9. Cost of Goods Sold Account

The cost of goods sold account is used to record the cost of goods or services sold from inventory by various DoW activities, including DWCF activities and other entities authorized to provide services to federal and nonfederal organizations. While predominantly used by revolving fund activities, this account must also be used by appropriated fund activities to support their reimbursable programs.

17.5.10. Imputed Costs Account

All DoW activities receiving goods or services without reimbursement from outside their reporting entity must use the Imputed Cost account. Refer to SFFAS 55 for the recognition of

significant inter-entity costs among federal agencies for business-type activities. Business-type activities, like the DWCF, are self-sustaining, financing operations through exchange revenues.

17.5.11. Future Funded Expenses

Future funded expenses are accrued expenses requiring future year appropriations. Examples include accrued annual leave (except for WCFs), accrued workers' compensation, upward re-estimates for credit reform loan programs, and projected future cleanup costs for hazardous materials associated with PP&E.

17.5.12. Expense Transactions Not Requiring Budgetary Resources

Some expense transactions, such as depreciation, imputed costs (paid by other entities), or future-funded expenses, do not require the use of current budgetary resources. For these, only proprietary accounts are used, often allocating costs over multiple reporting periods.

17.5.13. Losses

Losses are associated with transactions not incurred in the normal operation of the organization (such as the loss on the disposal of property).

17.5.13.1. Losses on Disposition of Assets Account

The Losses on Disposition of Assets account is used to record a loss incurred on the disposition of DoW-owned assets. Such losses can result from the sale, exchange, casualty, or retirement of assets. Losses are reported net of any received proceeds.

17.5.13.2. Components of Losses on Disposition of Assets Account

The Losses on Disposition of Assets account must be used only by DoW Components authorized to dispose of DoW property; however, any DoW Component having control over personal and real property may incur such losses due to events beyond its control. The effect of such losses must be recorded in Losses on Disposition of Assets in the Statement of Net Cost.

17.5.13.3. Other Losses

Other Losses must be used to record the loss on assets resulting from events other than disposition, such as investment losses and miscellaneous losses.

17.5.14. Extraordinary Items

Events are classified as extraordinary items when they are both unusual and infrequent, considering the entity's operating environment. The total amount of all extraordinary items is included in the Statement of Net Cost's applicable Gross Program Cost or Non-Production Cost lines, and their nature and amount must be disclosed in the financial statements.

17.5.15. Prior Period Adjustments

Circumstances may arise requiring an entity to adjust prior period financial statements due to a change in accounting principle or correction of a material error. Such circumstances include the retrospective application of a change in accounting principle or the correction of a material error in prior period financial statements pursuant to SFFAS 21. Refer to Volume 6 for information on reporting prior period adjustments in the financial statements.

17.5.15.1. Change in Accounting Principle

A change in accounting principle involves adopting a new, preferable GAAP, including new federal financial accounting standards, to produce more accurate and meaningful financial statements and disclosures. The term "accounting principle" encompasses both the principles themselves and their application methods. Unless otherwise specified in the transition instructions section of a new federal financial accounting standard, the cumulative effect of the change on prior periods should be reported as a change in accounting principle, with the adjustment made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

17.5.15.2. Correction of Errors

If material errors are discovered after financial statements have been issued, corrections must be made. For comparative statements, the error should be corrected in the earliest affected period presented by adjusting individual financial statement amounts. If the error occurred before the earliest period shown, its cumulative effect should be reported as a prior period adjustment to the beginning balance of cumulative results of operations in the Statement of Changes in Net Position for the earliest period presented. The nature of the error and the effect of its correction must be disclosed. Importantly, prior period financial statements should only be restated for errors that would have caused them to be materially misstated.

18.0 MANAGERIAL COST ACCOUNTING

18.0.1. Managerial cost accounting standards provide reliable and timely information on the full cost of federal programs, projects, activities, and outputs. This information is the foundation for accurate and consistent cost accounting, and it clarifies the relationship between cost accounting, financial reporting, and budgeting. Cost accounting information is also crucial for DoW program managers and stakeholders, aiding in informed decisions regarding budget control, performance measurement, pricing, program evaluations, and economic choices. As an integral part of the financial management system, managerial cost accounting concepts provide a basis for accounting, recognition, and measurement.

18.0.2. The five fundamental elements of managerial cost accounting are as follows: First, costs of activities must be accumulated and reported on a regular basis for management information purposes. Second, responsibility segments should be established to match costs with outputs. Third, the full costs of government goods and services need to be determined. Fourth,

the costs of goods and services provided among Federal entities must be recognized. Finally, appropriate costing methodologies should be used to accumulate and assign costs to outputs. Agencies have flexibility in designing a cost accounting methodology that meets both internal and external user needs. Refer to SFFAS 4.

18.0.3. Managerial cost accounting helps an organization determine at what point a program might experience a cost overrun given its current spending plan. It also clarifies the full costs to deliver goods and services by organization, line of business, or region. Ultimately, this information provides insight into how effectively the organization is managing its resources for mission success and cost efficiency, and how well it has met its strategic goals with the resources available.

18.1 Assignment and Methodologies

Managers must establish appropriate procedures for collection, measurement, analysis, interpretation, and communication of consistent cost information with a system or the use of cost assignment approaches that link financial expenses to an organization's outputs. The primary method for assigning costs is by directly tracing them whenever feasible and economically practical. If direct tracing isn't possible, costs should be assigned based on a cause-and-effect relationship or, as a last resort, allocated on a reasonable and consistent basis. While no specific costing methodology is mandated by SFFAS 4, the standard requires that once a methodology for accumulating and allocating costs is chosen, it must be used consistently and guided by the USSGL and the SFIS.

18.2 Systems, Sources and Cost Finding

18.2.1. A system is a continuous and systematic process designed to accumulate and assign costs from a common data source to various objects, either routinely or as managers require. This data source can include a wide variety of financial and non-financial information to support cost, financial, and budgetary accounting.

18.2.2. When data systems cannot provide the necessary cost information, or for non-recurring needs like budget estimates and special analyses, personnel can use cost-finding techniques such as analytical or sampling methods and special studies. These techniques should not, however, replace consistent and regular managerial cost reporting when it is available.

18.3 Reporting and Analysis

Reporting and analysis of reliable cost information offers a deeper understanding of programs, including their costs, changes over time, and overall efficiency. This data supports budgetary, financial, and managerial decisions. Aligning planned and actual performance data brings additional benefits, such as capturing the full costs of products and manpower, creating transparency in pricing, and ensuring consistent reporting for historical analysis and forecasting.

18.4 Users

All stakeholders, regardless of their function, require accurate reporting to identify cash, disbursements, collections, and the full cost of resources, activities, capabilities, and operations. For DoW Reporting Components, this is particularly crucial for making better decisions at the cost element level, knowing the cost of operations and activities, and linking budget planning to actual expenditures. This level of reporting also enables responses to both external and internal cost inquiries and makes costs visible to DoW leadership, component leadership, operational commanders, and program managers.

18.4.1. Internal Users

Government managers are the primary users of cost information, as they are responsible for carrying out program objectives. Program managers use this data to control costs, make resource acquisition decisions, improve the efficiency of program activities, and prepare budget proposals for agency heads and Congress. Concurrently, financial managers, including accountants and budget analysts, rely on cost information to calculate unit costs, analyze variances, formulate standard costs, compile financial reports, and analyze cost behavior for decisions such as whether to buy or lease. Additionally, franchise activity managers use it to set prices or reimbursements. At the executive level, government leaders utilize cost information to evaluate overall program performance, assess future resource requirements for financial plans and budgets, and develop proposals to the President and Congress on resource allocations and program modifications.

18.4.2. External Users

Congress uses cost information to make policy decisions, set program priorities, and allocate resources through the appropriations process. This data allows them to compare alternative courses of action, make authorization decisions by assessing costs and benefits, and evaluate program outcomes. Citizens, including the news media and interest groups, use this same information to assess the efficiency and effectiveness of how those resources are allocated.

18.4.3. Decision Making

To interpret cost data effectively, it is crucial to distinguish between direct and indirect, fixed and variable, and full and relevant costs. The availability of accurate, detailed historical cost information is essential for providing insight into budgets, cost estimates, and performance metrics. This information allows organizations to manage spend plans, understand the full cost of delivering goods and services, and make informed decisions regarding budget control, performance measurement, pricing, program evaluations, and economic choices.

18.4.4. Budget and Cost Control

Budget planning and control serves an important function within the Federal Government. Managers use historical and current costs of program activities as a basis in estimating future budgets and to measure actual performance against established goals. Once budgets are approved and executed, current cost information serves as budget feedback. DoW financial managers use

this feedback from the current cost-to-budget analysis to control and reduce costs, as well as to find and avoid waste. Organizations should produce a Statement of Net Cost (actual to budget) in accordance with Volume 6.

18.4.5. Performance Measurement

18.4.5.1. Federal Agencies must improve financial management and accountability as mandated by the CFO Act, Government Performance and Results Act, the Government Management Reform Act, and the Federal Financial Management Improvement Act. As mandated, program managers must establish performance goals based on the direct and indirect costs of programs, and align strategic resources to results as documented within the annual performance plans. The leading practice in performance management is to measure "outcomes," which are the actual results or goals. Managerial cost accounting provides the detailed performance data that leadership needs to determine if an organization is achieving its desired outcomes. By defining clear cost goals, managers can deploy resources more efficiently to achieve the desired performance.

18.4.5.2. An annual performance plan connects measurements for major activities, goods, and services to anticipated resource levels. In the budget formulation process, managers link federal resources to results. Managerial cost accounting requires that all federal resources, including both direct and indirect costs, are factored into planning. A complete performance report must include all direct and indirect costs.

18.4.5.3. Performance measurement can be viewed as the government equivalent of private sector profitability measurements. Cost should be combined with an effectiveness measure, such as the percent of a goal achieved at a level of expected performance, to improve the accuracy of the output.

18.4.5.4. As suggested by SFFAS 4, measuring cost is an integral part of measuring performance for efficiency and cost effectiveness. Efficiency is measured by relating outputs to inputs, often expressed as cost per unit of output.

18.5 Reimbursements and Fee/Price Setting

Management uses essential cost information to set prices and user fees for government goods and services. In the Federal Government, however, pricing is a policy matter, often governed by statutory provisions, regulations, or departmental policies. For specific guidance, refer to SFFAS 4, OMB Circular A-25, and for more information on WCF see Volumes 3 and 11.

18.6 Program Evaluations

The cost of federal resources is a critical factor in policy decisions regarding program authorization, modification, or discontinuation, although these decisions are often subject to policy constraints. Such evaluations require consideration of both social and economic costs and benefits, sometimes necessitating advice from external entities. The Office of the Director, Cost Assessment and Program Evaluation (CAPE), provides independent analytic advice on all aspects

of the Defense program, including alternative weapon systems, force structures, and the cost-effectiveness of defense systems.

18.7 Economic Choice Decisions

As noted in SFFAS 4, agencies and programs often face decisions involving choices among alternative actions, such as whether to do a project in-house or contract it out, to accept or reject a proposal, or to continue or discontinue a good or service. Making these decisions requires cost comparisons among available alternatives.

18.8 Cost Assignment and Costing Methodology

SFFAS 4 requires managers to accumulate costs by responsibility segment and resource type, track outputs produced, and assign the full cost of all resources to those outputs using consistent costing methodologies. Management should evaluate alternative costing methods and select the method with the best results considering its operating environment and economic feasibility. In accordance with SFFAS 4, the costing methodology, once adopted, should be used consistently so that cost information can be compared from year to year. This requirement does not preclude necessary improvements and refinements to the system or methodology, so long as the effect of any change is documented and explained.

18.9 Cost Accumulation

SFFAS 4 states that cost accumulation is the process of collecting cost data in an organized way and that the accumulation is for costs incurred within each responsibility segment and does not include costs incurred by other supporting segments. Refer to Volume 4 Supplemental for more information.

18.10 Cost Assignment Authoritative Guidance

18.10.1. Cost assignment is the process that identifies the accumulated costs to cost objects (an activity or item whose cost is measured). Refer to Volume 1 and the SFIS resources web page for cost assignment authoritative guidance. SFFAS 4 details the approaches for assigning costs to outputs.

18.10.2. Agencies and responsibility segments select the appropriate cost assignment approach based on their operational needs. Operational needs tend to follow historic practices (if reliable historic data is available); however, cost assignment approaches can change if the operating environment or regulations change.

18.10.3. Responsibility segments that produce a single output assign all production costs directly to that output. For segments that provide intermediate goods or supporting services, the costs are assigned to the receiving segments. Similarly, inter-entity costs are assigned to the responsibility segments that use the goods and services from other federal entities, and the receiving entity must formally recognize these costs.

18.10.4. It is a requirement to document changes to a cost assignment approach. Documenting changes may also require noting in the financial statements. It is important to maintain a consistent cost assignment approach, where possible, for reporting and pricing efforts.

18.11 Direct Tracing

Direct tracing applies to resources used directly in producing an output, such as materials, direct employee effort, and dedicated facilities. This method can also be used for specific resources from outside entities. In some cases, support costs that are normally classified as indirect (such as IT support or equipment maintenance) can be "directly traced" if they are tracked to a single, specific task via dedicated job orders or work codes.

18.12 Cause and Effect Basis

When direct tracing of costs to a final output is not feasible, a cause-and-effect basis can be used. This method assigns costs to intermediate activities and then allocates those activity costs to the outputs that required them. This approach is most effective when production is consistent and should not be used if a clear relationship between the cost and the final output cannot be established.

18.13 Cost Allocation

18.13.1. Cost allocation is the process of assigning costs that cannot be directly traced or assigned using the cause-and-effect basis. General and Administrative services used by various common segments apply cost allocation to assign costs to benefiting cost objects. Cost allocation provides the least detail in costs incurred and is used for indirect costs only.

18.13.2. The Component allocates General and Administrative support costs first to the segments and then to the outputs of that segment on a pro rata basis.

18.13.3. The usual basis for cost allocations is the relevant common denominator or the allocation base. The basis of cost allocation may include the number of employees, direct hours worked, or the amount of direct costs incurred in segments. Grouped costs should be accumulated and assigned using a consistent and relevant base. The allocation frequency and base should remain consistent to allow cost comparison over a period of time.

18.13.4. Cost allocations are typically based on a relevant common denominator, or allocation base, such as the number of employees, direct hours worked, or direct costs incurred. Costs should be grouped and assigned using a consistent and relevant base. To facilitate cost comparison over time, the allocation frequency and base should remain consistent.

18.13.5. Costs accumulated for intermediate cost objects must be homogeneous. Examples include human resource departments, program management offices, and general and administrative offices.

18.14 Costing Methodologies and Cost Behaviors

The costing methodologies described in paragraphs 18.15 through 18.18 are not mutually exclusive nor all-inclusive and can be utilized in combination based on the objective, job order, or process costing and can be applied to both ABC and standard costing systems.

18.15 Job Order Costing

Job order costing is a methodology where the system accumulates and assigns costs to discrete jobs.

18.15.1. In a job order costing system, different products with varying degrees of production time and different amounts of direct materials consumed are tracked separately by work orders. Job order costing provides more control, less estimation, and more direct and reliable allocation of costs.

18.15.2. Direct materials and supplies owned by the performing activity, acquired from a WCF or from an inventory account financed by appropriated funds, are charged to a job order in accordance with established costing procedures for the segment.

18.15.3. The structure for job order data must be consistent with SFIS.

18.15.4. Each identified cost object is assigned a job order number, creating a framework similar to a Work Breakdown Structure for tracking and reporting. This number is used to accumulate direct labor, direct materials, and overhead costs for each specific job. For detailed DoW-specific transactions, refer to the DoW USSGL Transaction Library, ensuring consistency with Volume 1. Refer to Volume 11 for reimbursable policies for activities financed by annual appropriations and WCFs.

18.16 Process Costing

18.16.1. Process costing accumulates costs by individual processing cost center. These processing cost centers are involved in a continuous flow of effort, with each center contributing towards the completion of the end products. The output of a processing center becomes the input of the next processing cost center or becomes a part of the end product.

18.16.2. Process costing is appropriate for production of goods or services when production involves a regular pattern of processes, the output consists of homogeneous units, and all units are produced through the same process procedures.

18.16.3. Each cost center accumulates costs, assigns the costs to its outputs, and calculates the unit cost of its output.

18.17 Standard Costing

Standard costs are predetermined or expected costs applied to activities, services, or products on a per-unit basis, serving as a goal to compare against actual costs. A standard cost is

a fixed price per unit that specifies both the non-financial resources required for a task (such as hours or materials) and the expected financial cost, covering direct materials, direct labor, and indirect costs. For more information on Reimbursable Operations and WCF activities, refer to Volume 11.

18.18 Activity Based Costing (ABC)

ABC focuses on activities of a production cycle, based on the premise that output requires activities to produce, and activities consume resources. ABC uses cost drivers to assign costs through activities to outputs. The ABC cost assignment process is a two-stage process. The first stage assigns the cost of resources to activities. The second stage assigns activity costs to outputs. Job order or process costing would be costing activities that occur in the production of a final output. ABC can be used in conjunction with job order costing or process costing.

18.19 Data Systems, Data Sources and Cost Finding

Financial accounting, budgeting, and managing are three essential components of accountability. Data systems are the source of cost and programmatic information used for reporting. SFFAS 4 requires that each reporting entity accumulate and report the cost of activities on a regular basis. Data system-based reporting should be prioritized over cost-finding reports to ensure the routine collection of reliable data from a common source. These systems integrate information from various organizational segments, such as accounting, time records, and asset data, to provide comprehensive cost information. A data system can also incorporate evaluation and decision-support information derived from prior reporting and feedback. DoW data systems, to the extent practicable, should be integrated with an organization's accounting, budgetary, and financial system(s). Data systems will support cost analyses used to compare actual to anticipated costs. To meet managerial cost accounting needs, data systems should use uniform and basic cost, transactional, or programmatic data. Refer to SFFAS 4.

18.20 Data Sources

Data sources, whether internal or external, must be relevant to the reporting segment, retain data for historical reference and forecasting, and be regularly checked for accuracy and reliability and dispositioned IAW the DoW Components or NARA records retention schedules. Per SFFAC 1, the focus is on developing GAAP standards for reporting on the financial operations, financial position, and financial condition of the Federal Government and its component entities and other useful financial information. Although data sources must adapt to changing operational needs, they must also conform to standards like Objectives of Federal Financial Reporting (OFFR), SFIS, and SLOA to support consistent and useful federal financial reporting.

18.21 Cost, Budget, and Financial System Relationships

Proper financial management requires that cost, budget, and financial systems work closely together to provide useful information. Per FASAB, OFFR should consider the needs of both internal and external users, the decisions they make, and the information they need. The

established data systems must follow the DoW USSGL Transaction Library and DoW SCOA for consistency of the cost information.

18.22 Cost Finding

Cost finding is a tool that uses analytical or sampling methods to generate cost data when a data system is insufficient, particularly for projects with limited scopes or for analyzing indirect costs. These techniques are used to create special-purpose reports for financial decisions, such as planning for replacement or capital costs. However, cost finding is not a substitute for a robust data system. Its use should be limited, with a clear timeframe for updating the report. As actual data becomes available and normalized, it should replace the cost-finding report.

18.23 Cost Finding Application

18.23.1. Cost findings generated manually outside of the standard reporting tools should utilize an established managerial cost accounting data system where possible. The process must be thoroughly documented. Documentation must be sufficient to replicate the cost finding process used with consistent results.

18.23.2. Within the DoW, cost finding techniques will be used to compare costs of different organizational units or operations performing the similar output.

18.23.3. Cost finding techniques are used for a number of different circumstances. A cost accounting system is not in place for full cost of a cost objective, the data system does not have the full costs incurred to provide an output or product, activities do not have formal cost accounting capability as part of their financial management system, and the cost of an item has not been recorded in the accounting system and that the item is being transferred, sold, or recorded in the accounting system for the first time.

18.23.4. When the purpose of a cost finding includes the preparation of an internal report or an external report for another Federal agency or non-Federal organization, GF and WCF Components should follow the guidance contained in Volume 11 to ensure that all applicable costs are considered. When the purpose is to establish the cost of an activity associated with the Security Cooperation Program, managers and users will follow the guidance contained in Volume 15.

18.24 Cost Finding Requirements

Cost finding techniques must be repeatable and set up in a manner that is consistent with similar prior cost finding reports in the cost collection approach and align with the SFIS Business Rules. A thoroughly documented cost-finding approach requires identifying the cost objects or outputs (intermediate and final) to which techniques will apply, alongside the relevant funds (WCF, GF) and involved organizations, detailing tasks performed by each. It must also specify applicable cost elements, outline specific cost-finding techniques with selection criteria, and describe how these techniques will estimate the cost object. The documented statement and related work papers should be retained. Refer to their DoW Component records retention requirements for document retention and audit readiness.

18.25 Pricing for a Cost Finding Report

18.25.1. Pricing elements (labor, materials and overhead) for cost finding reports are estimates based on prior same or similar purchases, projects, or programs. When pricing for a cost finding primarily uses financial system data, it improves the accuracy and confidence in the estimate. Common elements such as labor, raw materials, and materiel are examples of standard costs found in financial systems.

18.25.2. Information available from CAPE, such as full cost of manpower and defense employment and purchase projection system, is available to support pricing of labor costs. In addition to base pay, these sources provide additional costs related to labor, including fringe benefits and training.

18.25.3. Materials and supply pricing tools are also available from CAPE. These tools can support costs for common purchase items. Pricing for materials and supplies should include the full cost of procurement, which can include material handling and destination charges.

18.25.4. A pricing Basis of Estimate (BoE) will vary for services provided by a GF Component versus a WCF Component. A WCF-financed activity must include general and administrative costs and other overhead in a BoE to satisfy requirements for full cost recovery. Under reimbursable policies set forth in Volume 11, DoW activities that finance reimbursable operations using annual appropriations generally do not include such costs in charges to customer activities within the DoW.

19.0 NET POSITION

Net Position, the difference between total assets and total liabilities on a balance sheet, represents the U.S. Government's net investment in the DoW. It can be either positive or negative. For DoW-wide financial statements, Net Position must include all departmental operations, including GFs, WCFs, and Special and Trust funds. This section contains the general policy for accounting for the Net Position of the U.S. Government within the DoW. Posting entries and account listings for the Net Position accounts are provided in the "DoW USSGL Transaction Library" and "DoW Standard Reporting Chart of Accounts," respectively, which are available on the Office of the DCFO SFIS web page.

19.1 Accounting Policy for Net Position

19.1.1. Activities Financed by Appropriations

For activities financed by appropriations, operational results must be recorded as reductions to the Unexpended Appropriations account on a per-transaction basis, while the equity impact is reflected in the Cumulative Results of Operations account. New appropriations increase the Unexpended Appropriations account, while expenditures or withdrawals reduce it.

19.1.2. Activities Financed by Revenues

For activities financed by revenue, operational results directly increase or decrease the Cumulative Results of Operations account, a process that includes asset transfers recognized as financing sources. In contrast, appropriations received for a specific purpose are held in the Unexpended Appropriations account and are only recognized as a financing source when used.

19.2 Recognition in Financial Statements

The Component reporting entity's Net Position accounts are Unexpended Appropriations and Cumulative Results of Operations, and each must be shown in the consolidated Balance Sheet and Statement of Changes in Net Position. Refer to Volume 6.

19.2.1. Unexpended Appropriations

Unexpended appropriations, encompassing both undelivered orders and unobligated balances, must be consistently reported on both the Balance Sheet and the Statement of Changes in Net Position. If material, unexpended appropriations from Dedicated Collections require separate disclosure on the Balance Sheet and reconciliation with the financial statement notes, as mandated by OMB Circular A-136.

19.2.2. Cumulative Results of Operations

Cumulative results of operations represent the net results of operations since inception, inclusive of prior-period adjustments, donations, and non-reimbursed asset transfers. This amount must be identical on both the Balance Sheet and the Statement of Changes in Net Position. Furthermore, if material, any portion attributable to Funds from Dedicated Collections must be separately disclosed on the Balance Sheet and reconciled to the notes as required by SFFAS 27.

19.3 Accounting for Net Position

Transactions affecting net position frequently require a posting to both the proprietary and the budgetary accounts. Refer to the "DoW USSGL Transaction Library".

19.4 Correction of an Error or a Change in Accounting Principle

Financial statement errors arising from mathematical mistakes, misapplication of accounting principles, or the misuse of facts existing at the time of preparation must be corrected if they are discovered after issuance and are material to the statements.

19.5 Changes in Accounting Principles

A change in accounting principle involves switching from one GAAP to another, justifiable as preferable, and includes adopting new federal accounting standards. Unless a new standard's transition instructions specify otherwise, any such change impacting prior-period financial statements may require adjustment.