



DOW FMR SUPPLEMENTAL: VOLUME 4

A Procedural Guide for ACCOUNTING POLICY

OUSW(C)/ODCFO/FMPR
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1.0 INTRODUCTION

This Supplemental document is the official companion to the Department of War (DoW) Financial Management Regulation (FMR) Volume 4: Accounting Policy. Its purpose is to provide the detailed, step-by-step guidance required to implement the high-level policies established in the FMR. While the FMR provides the authoritative rules (the "what" and the "why"), this procedures document provides the operational "how-to."

These procedures are subordinate to and directly support FMR Volume 4. It does not establish new policy but rather provides details to comply with the policies established in the FMR. Policy sections not contained within this document do not have supporting procedural guidance. Deviations from or exceptions to the procedures outlined in this Supplemental document constitute a deviation from the FMR and require a formal Exception to Policy (ETP) memorandum to the OUSW(C), ODCFO for approval. Where this Supplemental is silent, the strict limits established in the baseline FMR Policy Volume take absolute precedence. The content in this guide was formerly integrated within the FMR and has been separated to create four distinct but complementary resources:

- **FMR Volume 4: Accounting Policy:** Authoritative source for high-level policy.
- **Supplemental:** Authoritative source for detailed implementation guidance.
- **Authoritative Guidance:** Laws and regulations supporting policy and procedures. Refer to the Volume 4 authoritative guidance document.
- **Glossary:** Definitions contained within supporting policy and procedures. Refer to the DoW FMR Glossary.

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2.0 FINANCIAL CONTROL OF ASSETS

2.1 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

2.2 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

2.3 Entity Versus Nonentity Assets

Financial reporting requires that entity versus nonentity be handled differently. DoW Components must report entity assets separately from nonentity assets within their financial statements, with specific disclosures for nonentity assets made in Note 2. This disclosure must adhere to the guidelines found in OMB Circular A-136, Assets section, and Volume 6. A critical procedural rule, mandated by SFFAS 31, is that fiduciary nonentity assets must not be recognized on the entity's Balance Sheet. However, for any nonentity assets that are reported, the Component must also recognize a corresponding liability on the Balance Sheet equal to their value, representing what is due to the Treasury or other entities.

2.4 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

3.0 ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY

Managing FBWT accounts requires regular and recurring reconciliation. During this process, any identified differences must be researched and resolved. The procedure states that all reconciliation documentation, including support for any required adjustments, must be prepared and retained. Evidence of the reconciliation, its review, and its approval must also be documented.

3.1 Cash

The procedure for cash management requires that cash receipts be recorded immediately upon collection, and that cash be controlled and deposited as soon as practicable. Cash disbursements, which must be supported by an approved voucher package (including performance evidence like a DD Form 250, a valid purchase order, and a valid invoice), or an authorized advance payment request, must be recorded promptly in the applicable DoW accounting system and reported in the Statement of Transactions. The procedure for reconciliation requires that cash receipts and disbursements be reconciled with appropriate documents and accounting records within each accounting period. This reconciliation must be documented, verifying agreement between supporting documents and postings to U.S. Standard General Ledger accounts 101000 (Fund Balance with Treasury) and 109000 (Fund Balance with Treasury Under a Continuing Resolution). Any identified differences must be researched and resolved, and the reconciliation documentation, including approval of adjustments, must be prepared, retained, and documented. For foreign currencies, the procedure is to account for them in subsidiary accounts separate from U.S. currency and to translate them to U.S. dollars using exchange rates prescribed by the Secretary of the Treasury. Accounting entities may prepare entity-level financial statements, which will then be translated into U.S. dollars for departmental financial statements.

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3.2 Funds Held Outside of Treasury (FHOT)

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

3.3 Restricted Cash

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

3.4 Foreign Currency

The procedure for handling foreign currency account balances is to translate them into U.S. dollars at Treasury exchange rates, effective at the financial reporting date, in accordance with the Treasury Reporting Rates of Exchange. This procedure applies unless exceptions stated in TFM Chapter 3200 are applicable. Transactions including appropriation warrants, non-expenditure transfers, collections, disbursements, and related adjustments, reported to Treasury's Bureau of the Fiscal Service (BFS) and classified to a Treasury Account Symbol (TAS), will increase or decrease the FBWT account balance. The TFM defines the TAS as being reported in eight components (fields): sub-level prefix (SP), allocation transfer identifier (ATA), agency identifier (AID), beginning period of availability (BPOA), ending period of availability (EPOA), availability type (A), main account (main), and sub-account code (SUB).

3.5 Reconciliation

Reconciliation compares two sets of records (usually the balances of two accounts) and identifies and explains the differences between the records or account balances. The timing of transactions, an invalid Line of Accounting (LOA), insufficient detail, and other reasons may cause differences. Reconciliation is complete when all differences are identified, accountability is assigned, and any differences are explained. Once reconciliations are complete, document appropriate actions and record any necessary adjustments. The corrective action, if any, must address the underlying cause of the discrepancy to ensure prevention.

3.5.1. Reconcile FBWT with the actual accounting transactions (including funding, disbursements, collections, and transfers) back to the detailed amounts posted to both entity general ledgers and entity Treasury accounts, United States Standard General Ledger (USSGL) accounts 101000 (FBWT) and 109000 (FBWT While Awaiting a Warrant or Non-Expenditure Transfer). Identify and compare accounting events or transactions to determine whether transactions are recorded properly and can be cleared, have not yet been recorded (in transit), or were recorded improperly and require correction either in the general ledger or at Treasury. When reconciling FBWT USSGL accounts 101000 or 109000, the procedure is to research the causes of any differences at the detail-voucher level to identify undistributed amounts. All aged undistributed amounts must be cleared in accordance with TFM Chapter 5100, Section 5130, and all differences must be cleared within 60 business days. More detailed instructions on the various reconciliation tools can be found in TFM Chapter 5100.

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3.5.2. Reconcile FBWT with the available funds recorded on the Central Accounting Reporting System (CARS) Account Statement. All disbursements, collections, and intragovernmental transactions in CARS must have supporting Agency Location Code (ALC)/Disbursing Station Symbol Number (DSSN) details. Include DO's cash reconciliation (cash and monetary assets and the Statement of Accountability) to the cash activity (checks issued, deposits, electronic funds transfer). Refer to Volume 5 for information and requirements of the DO's cash reconciliation.

3.6 Universe of Transactions (UoT)

Reconcile transactions from the entity disbursing systems, general ledgers, and financial statements to Treasury's records. Voucher level detail must support all identified differences.

There are two universes of transactions for FBWT: Treasury detail and accounting detail. Transaction-level detail begins with the LOA and must have the following data elements (at a minimum): TAS, Sub-Allocation Holder Identifier (SAHI) (formerly limit) for Treasury Index (TI)-97, reimbursable flag indicator, accounting station identifier code, agency disbursing identifier code (ALC/DSSN), voucher number, and voucher amount. Non-Treasury Disbursing Offices (NTDO) must include the Agency Location Type Code (AGCY LOC TYP CD), NTDOAUD (also called "child level"), and DSSN to support FBWT reconciliations and undistributed processes.

3.7 Deposit Fund Activity

3.7.1. Payroll Tax Example

To illustrate the DoW's position based on the State and local income tax (SALT) example from the OMB Circular No. A-11, the outlay transaction for Federal employee payroll may be divided into two parts: the outlay from the budget to pay payroll and the collection into the deposit fund from the employee for funds due to the State and other local entities. The outlay for the gross payroll amount is the end of the U.S. Government's rights and obligations to the funds' lifecycle. The collection into the deposit fund is from the public and is not connected to any previous U.S. Government rights and obligations.

3.7.2. Payment to Employee and State Tax Authority

3.7.2.1. Expanding the OMB example: Joe Sailor is a Navy accountant. Joe's gross pay is \$1,000 which includes \$100 due to the state of Ohio. The \$1,000 gross pay disbursement fully liquidates the Navy liability for Salaries and Wages Expense related to Joe and is recorded in the Navy payroll appropriated LOA (budget) for \$1,000. This is the end of the U.S. Government's rights and obligations to the funds as they have been paid to Joe, as documented on his Leave and Earnings Statement. The \$100 that goes into the SALT deposit fund on Joe's behalf to pay the state of Ohio is sourced from Joe and his pay, not from the Navy-appropriated dollars.

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3.7.2.2. This concept is the same as any other payment to a non-federal entity, except in the case of SALT payroll withholdings, the U.S. Government retains possession of the cash until remitting/paying it to the State and local jurisdiction (if applicable). With other non-federal payments that do not involve deposit funds, the U.S. Government retains neither possession nor rights and obligations.

3.8 TI-97 Deposit Fund Liabilities Account

The Treasury component possessing the funds must report the liability. DoW decides which deposit fund (TI) to hold the cash. If Joe's state withholdings were collected into TI-97, the liability should be reported on the TI-97 consolidated financial statements. If Joe's State withholdings were collected into TI-17, the liability should be reported on the TI-17 Department of the Navy financial statements. So long as the Treasury component that possesses public funds reports the liability, the DoW financial statements are accurate, and no rights or obligations have been commingled.

3.9 Accounting for Cash and Investments Held Outside of Treasury

The procedure for handling cash drawn on the Treasury General Account (TGA) requires DoW Components to record all such cash to a DoW Treasury Appropriation Fund Symbol (TAFS). The specific transactions are then recorded using USSGL transaction code B150.

The procedure for reporting FHOT requires the use of a specific Business Event Type Code (BETC) and Sub-Class code to post balances in the Central Accounting Reporting System (CARS). To obtain this, agencies must follow CARS guidance to request approval for the BETC and add it to a specific TAFS. The procedure for this request is for the OUSW(C) Financial Management and Policy Reporting Directorate to coordinate and submit the BETC request forms to OUSW(C) P/B for review, approval, and final submission to the Treasury. The procedure for FHOT oversight requires each Component to confirm the TAFS being used, retain supporting documents such as Cash Holding Authority memorandums, and provide this information to the appropriate accounting point of contact. The procedural deadline requires all monthly CARS reporters to charge FHOT to a proper DoW TAFS, and all daily CARS reporters must do so by the third quarter of FY 2025. Per TFM Chapter 3400, Section 3400, Treasury's Bureau of the Fiscal Service (BFS) has its own procedure to report all discrepancies from its reviews to the Office of the Fiscal Assistant Secretary of Treasury.

3.10 Cash Audits and Reviews

The procedure when unauthorized use, irregularity, or improper accounting for a cash fund is discovered is to investigate and submit a report to both the approving authority and the responsible Disbursing Officer (DO). This report must analyze whether prescribed procedures were followed and recommend actions to prevent recurrence. In the event of a physical loss of funds, the procedure is to report it in accordance with the specific guidance found in Volume 5.

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3.11 Defense Revolving Fund

Each entity associated with the five DWCF sub-accounts must report an FBWT amount on its Balance Sheet. A DWCF activity below the Treasury sub-account also reports an FBWT amount on the AR(M) 1307, Statement of Operations, which represents a clearing account. Volume 6 describes the procedure for preparing the AR(M) 1307 and other FBWT reporting requirements. All FBWT reconciliations and undistributed adjustments must include the Sub-Account Code. The procedure for realigning DWCF balances is for Program Managers to document all realigned balances on SF 1151, Nonexpenditure Transfer Authorization, when transferring between Treasury Appropriation Fund Symbols (TAFS). For distributions between SAHIs within the same TAFS, the SF 1151 is not required. OMB Circular A-11, subsection 20.4(j), provides additional information on transfers. TAFS combines the TAS and availability code (for example, annual, multi-year, or no-year). TAFS refers only to the appropriation and fund accounts and excludes the receipt accounts. Distributions between SAHIs, within the same TAFS, are not accounted for as transfers. Program managers must not make a transfer that is more than the balance available at the DWCF SAHI making the transfer. See Volume 11 for additional information on non-expenditure fund transfers. Potential Antideficiency Act violations must be immediately investigated and reported for any transaction that causes a negative balance in the Treasury account.

3.12 FBWT Transactions

3.12.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

3.12.2. Record and report undistributed amounts at the lowest organizational level. To ensure proper downstream reporting, per TFM 2-5100, the procedure requires DoW Components to include Agency Location Code (ALC)/Disbursing Station Symbol Number (DSSN) support for all FBWT reconciliations, undistributed calculations, and journal voucher (JV) packages. Non-Treasury Disbursing Offices (NTDOs) must follow the procedure of including the minimum data elements for all their reconciliation and undistributed processes.

3.13 Reconciliation Roles and Responsibilities.

3.13.1. OUSW(C) (FSMI) is responsible for the design, development, operation, and maintenance of the Advana Fund Balance with Treasury (FBWT) application (see Volume 1). This includes providing capabilities to age, assign, track, and report on the status of reconciled differences. Additionally, OUSW(C) FSMI performs FBWT appropriation account reconciliation at the Treasury Index, main appropriation account, and Agency Location Code (ALC) levels, ensuring the complete reconciliation of the FBWT universe of transactions for all DoW funds (recorded to USSGL accounts 101000 and 109000) with individual Treasury appropriation account balances. They also reconcile Component FBWT USSGL accounts 101000 and 109000 at the

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Sub-Allocation Holder Identifier (SAHI) level, where SAHI is a unique DoW identifier used to manage and report financial activity for various defense units under TI-097.

3.13.2. DFAS is responsible for reporting all transactions affecting Fund Balance with Treasury (FBWT) accounts to the Treasury, for both DFAS and non-DFAS Disbursing Station Symbol Numbers (DSSNs). In terms of reconciliation and resolution, DFAS must research and resolve differences identified on the Treasury's FMS 6652 (Statement of Differences) for its own DSSNs and assist with resolution for non-DFAS DSSNs. For tracking and clearing, DFAS is responsible for aging, assigning, and tracking the status of all reconciled differences, as well as researching, resolving, and clearing any differences originating from its own operations within the FBWT source system. Finally, regarding documentation, DFAS must maintain all supporting documentation and evidence of successful reconciliation.

3.13.2.1. Researching and resolving differences identified on the Treasury's FMS 6652, i.e., SOD for DFAS DSSNs (DFAS must report and assist with the resolution of differences for non-DFAS DSSNs). BFS provides FMS 6652 to federal agencies for both disbursements and deposits. An FMS 6652 is generated for each ALC by accounting month (the month the report is generated) and accomplished month (the month the difference occurred) if there is a discrepancy. Deposit differences indicate there is a discrepancy between the monthly totals submitted through the banking system via the SF 215, Credit Voucher, or the SF 5515, Debit Voucher, and the totals provided by the agency on the SF 224 or SF 1219. The disbursement transaction SOD reveals discrepancies between monthly totals reported in the agencies' accounting systems and the transactions reported to Treasury by the Regional Finance Centers and/or through the Intra-Governmental Payments and Collections (IPAC) system on the SF 224 or SF 1219. Clear FBWT reconciliation variances, including undistributed, suspense, and SOD balances, within 60 business days from the date of the transaction (see Table 3-1).

3.13.2.2. Aging, assigning, and tracking the status of reconciled differences.

3.13.2.3. Researching and resolving differences originating from operations under the control of DFAS and clearing these transactions in the FBWT source system(s). DFAS must maintain and provide key supporting documentation upon request. Document evidence of reconciliation performed and confirmation that all differences were successfully reconciled.

3.13.2.4. Ensuring Cash Management Report (CMR) reconciling items and variances are cleared within 60 business days from the date they were reported on the CMR unless deemed immaterial in total based on analytical procedures maintained by the Defense Finance and Accounting Service. According to SFFAS 1, the determination of whether an item is material depends on the degree to which omitting or misstating information about the item 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.

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3.13.3. DoW Components must report their transactions to the Treasury and to research, resolve, and report the status of reconciled differences originating from their own operations. Components must also monitor and approve the Fund Balance with Treasury (FBWT) reconciliations performed on their behalf by OUSW(C) Financial Systems Modernization and Innovation (FSMI), ensuring that all differences are supported by detail-level transactions and that key supporting documentation is maintained. Finally, a crucial procedural step is to coordinate with OUSW(C) FSMI and DFAS to ensure the timely resolution of all reconciled differences. DoW Components are responsible for:

3.13.3.1. Reporting transactions affecting FBWT accounts to Treasury (e.g., disbursements and collections) that utilize Treasury Disbursing.

3.13.3.2. Ensuring that information submitted to Treasury on SF 224 or SF 1219, for those ALCs where the Component is the Designated Agent, matches what is reported to Treasury. Ensuring a valid and proper LOA is on the original obligating documents that will be used throughout the procure-to-pay process.

3.13.3.3. Researching, resolving, and reporting the status of reconciled differences originating from operations under their control.

3.13.3.4. Monitoring and approving the reconciliations performed by OUSW(C) FSMI on their behalf. Ensuring all reconciling differences are supported by detail-voucher level transactions. Key supporting documents must be kept and provided as requested; including evidence of reconciliation performed and confirmation that all differences were successfully reconciled.

3.13.3.5. Coordination between OUSW(C) FSMI, DFAS, and their Component customers is necessary to properly identify, assign, age, track, research, and resolve reconciled differences in a timely manner. DFAS' roles and responsibilities in Disbursing and Treasury Reporting Operations are described throughout Volume 5 and in Volume 6 which discusses SF 1220, "Statement of Transactions."

3.13.3.6. OUSW(C) FSMI, DFAS, and their Component customers must formally establish and document their understanding and agreement of roles and responsibilities in accordance with DoW Instruction 4000.19, "Support Agreements." DFAS and their Component customers must have written MOAs, MOUs, or SLAs in place that define the roles and responsibilities between the Service Provider and the Customer(s).

3.13.4. Reconciliation Requirements

3.13.4.1. Treasury requires monthly reconciliation of Fund Balance with Treasury (FBWT) accounts to Treasury-reported amounts by Department, Period of Availability, and Main Account (Treasury Index, fiscal year, and fund symbol). Reconciling FBWT maintains the

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accuracy and reliability of the entity FBWT records. Therefore, Components must perform timely, effective, and efficient reconciliation processes (see Table 3-1). Effective reconciliations are a detection control for identifying unauthorized and unrecorded transactions at the entities and at the Treasury. Effective reconciliations prevent entity disbursements from exceeding appropriated amounts and provide an accurate measurement of the status of available resources.

3.13.4.1.1. Research and trace all adjustments to supporting documents as instructed in I TFM 2-5100, Section 5130. Supporting documentation, including reconciliations, transaction-level detail, journal vouchers and adjustments, SOPs, and Customer Service Provider agreements (i.e., Memorandums of Agreement (MOA)/Memorandums of Understanding (MOU)/Service Level Agreements (SLAs), are necessary to provide an audit trail. Ensure that the supporting documentation is readily accessible to management for oversight and auditors to support auditability.

3.13.4.1.2. Resolve all reconciling differences to ensure that the FBWT universe of transactions is complete, and transactions included in the FBWT accounts are valid. Effective FBWT reconciliation also supports reporting accurate, valid, and timely FBWT account balances. Reconciling differences are expected and result from timing differences or errors. I TFM 2-5100, Section 5130 states that agencies must reconcile the FBWT USSGL account 101000 balances for each fund symbol with BFS' records (i.e., CARS Account Statement; Expenditure Transaction Report; SODs, and Available, Unavailable, and Unappropriated Receipt Account Reports) monthly.

3.13.4.2. Reconciliation helps Components resolve differences in a timely manner. Maintain detailed reconciliation documentation (reviewed and approved by appropriate officials) that is readily available for review by management, auditors, and Treasury if requested. Reconcile any time lag differences and correct erroneous differences. Explain any discrepancies between FBWT in the general ledger accounts and the balance in the Treasury's accounts and disclose them in the notes to the financial statements. Provide information on unused funds in expired appropriations that are returned to the Treasury at the end of a fiscal year in accordance with SFFAS 1, Paragraph 39. Components must reconcile their accounts to their OUSW(C) sub-allocations and to aggregate their TI-097 account balances to the Treasury's CARS control total. The reconciliation process must incorporate and address amounts from five specific sources: the Treasury's CARS Account Statement, accounting system trial balances, financial statements, FMS 6652, and the Treasury Check Information System. Monthly Treasury reporting is accomplished via forms such as SF 224, SF 1219, and SF 1220. Further procedural information on the requirements for SF 1219 can be found in Volume 5.

3.13.5. Treasury Budget Clearing (Suspense) Accounts

To ensure effective FBWT reconciliations and the timely clearing of Treasury suspense accounts (balancing the Treasury, disbursing system activity, and accounting system trial balances), the procedure requires DFAS, on behalf of Components, to provide specific

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documentation. This includes: a monthly list of individual vouchers and dollar amounts that comprise reconciliation differences; supporting documentation for auditor-selected quarterly sample items; monthly lists of year-end suspense account journal vouchers and their dollar amounts; and all journal vouchers with supporting documentation to confirm correct Component recording.

3.13.6. Reconciliation of FBWT for Comparison of Transactions

3.13.6.1. The procedure for achieving a detailed comparison during FBWT reconciliation involves using specific identifiers: voucher numbers for cash disbursements and collections, summary bill numbers for interfund transactions, and authorizing document numbers for non-expenditure transfers and funding events.

3.13.6.2. The procedure for monthly reconciliation involves rolling up voucher-level detail from disbursing and accounting systems to compare with summary-level Treasury reports. The SF 224 must be analyzed to ensure proper credit of all collections. To resolve suspense accounts and SODs, the procedure is to record journal vouchers in the system of record at the account or SAHI level until the proper Line of Accounting (LOA) can be identified. For more detailed guidance on journal voucher adjustments and approvals, refer to Volume 6.

3.13.6.3. The procedure for a complete end-to-end Fund Balance with Treasury (FBWT) reconciliation involves several specific actions. For Components on daily reporting, the procedure is to reconcile the general ledger to disbursing systems daily. On a monthly basis, the procedure requires reconciling the Cash Management Report (CMR) to the general ledger and resolving any errors in SAHI-level detail or differences between Treasury CARS and expenditure reporting systems (for TI-097 Components); reconciling the Treasury CARS Account Statement to the general ledger (for Military Departments' General Funds); researching and resolving all activity in budget clearing (suspense) accounts; and researching and resolving all differences identified on the FMS 6652 for all DoW Agency Location Codes.

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Table 3-1: FBWT Relationship between the SBR and the Balance Sheet

Example Financial Event	SBR Impact	Balance Sheet – FBWT Impact	Transaction-Level Detail Required
Appropriation Received	Increase to Appropriation	Increase to FBWT	Funding document (e.g., Funding Authorization Document [FAD], warrant)
Rescissions	Increase to Permanently not Available	Decrease to FBWT	Funding document (e.g., FAD, warrant)
Unfilled Customer Orders Received with Advance	Increase to Unfilled Customer Orders Received with Advance	Increase to FBWT	Military Interdepartmental Purchase Request, 7600A/B, or electronic equivalent
Collection (IPAC collections)	Increase to Actual Offsetting Collections	Increase to FBWT	Voucher/ Summary Interfund Bill Number
Disbursement (IPAC disbursements)	Increase to Gross Outlays	Decrease to FBWT	Voucher/ Summary Interfund Bill Number
Clearing of Suspense Account Disbursement Transaction, undistributed and SODs (and posting to a valid appropriation account and obligation)	Increase to Gross Outlays	Decrease to FBWT	Voucher/ Summary Interfund Bill Number
Clearing of Suspense Account Collection Transaction, undistributed and SODs (and posting to a valid appropriation account and obligation)	Increase to Actual Offsetting Collections	Increase to FBWT	Voucher/ Summary Interfund Bill Number
Nonexpenditure Transfer- In	Increase	Increase to FBWT	Funding Document
Nonexpenditure Transfer- Out	Decrease	Decrease to FBWT	Funding Document

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Table 3-2: DoW Component Treasury Assigned Account Number for Revolving Funds

DoW Component	Treasury Assigned Account Number
Army	097X4930.001
Navy	097X4930.002
Air Force	097X4930.003
Defense Commissary Agency	097X4930.004
Defense Agencies	097X4930.005
Building Maintenance Fund	097X4931
Defense Counterintelligence and Security Agency	097X4932
Pentagon Reservation Maintenance Revolving Fund	097X4950
National Defense Stockpile Transaction Fund	097X4555
Commissary Stores Surcharge Program, Defense	097X8164

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Table 3-3: FBWT Reconciliation Data Files and Monthly Availability Dates

Data File	Monthly Availability Date
DD Form 1329 – Statement of Transactions	3 rd business day
DD Form 1400 – Statement of Interfund Transactions	3 rd business day
Preliminary CMR	4 th business day (calendar day at year end)
Final CMR	Approximately 20 th calendar day
Trial Balances	7 th business day
Treasury CARS Account Statement	8 th business day
FMS 6652 – Statement of Differences	10 th business day
Defense Departmental Reporting System (DDRS) Budget Execution Reports	15 th business day

Table 3-4: FBWT Reconciliation Deadlines

Requirement	Deadline
Complete FBWT reconciliation	30 calendar days following the end of the month.
Clear FBWT reconciliation variances: undistributed, suspense, and SOD balances	60 business days from the date of the transaction.
Service Provider Supervisory review and Component review and approvals	Complete both reviews within 10 business days following the completion of the monthly reconciliation.

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Figure 3-1. Critical Focus Areas to Address FBWT Risks

Key Control Point		Is there a place to:		
		Reconcile and identify differences at the transaction-level?	Age, research, and resolve differences identified?	Record temporary journal voucher in DDRS?
1	a. Disbursing Systems to Accounting Systems: Reconcile 097 General ledgers to Disbursing Systems daily (for daily reporters) (TI-97 only).			
	b. Disbursing Systems to Accounting Systems: Reconcile Military Services GF General Ledgers to Disbursing Systems daily.			
2	Differences between Accounting Systems and CMR: Reconcile CMR to General Ledgers monthly (TI-97 only).			
3	a. CMR Reconciling Items: Research and resolve expenditures and collections reported on the CMR with errors in SAHI level detail (TI-097 only).			
	b. CMR Variances: Research and resolve expenditures and collections reported on the CMR with differences between CARS and expenditure reporting systems (TI-97 only).			
4	Differences between Accounting Systems and Treasury: Reconcile Military Services GF General Ledgers to CARS Account Statement.			
5	Suspense Accounts: Research and resolve activity identified in budget clearing accounts (suspense) on Treasury CARS Account Statement monthly.			
6	SODs: Research and resolve differences identified on the FMS 6652s.			

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3.13.7. FBWT – CARS Account Statement Reconciliation

3.13.7.1. The CARS Account Statement Module is a query-driven tool that provides a daily refreshed view of an agency's Fund Balance with Treasury (FBWT) to assist with reconciliation.

3.13.7.2. The procedure for reconciliation involves using the three sections of the Account Statement: Account Summary, Expenditure Activity, and Transactions reports. Users can access this information at both the TAS and ALC levels. The FMS 6652 (SOD) arises from ALC-based SF 1219 and SF 1220 reporting submitted by each of the three DFAS centers. The SOD application receives a daily transmission from CARS, providing agencies with up-to-date reconciliation information and enabling earlier identification and correction of differences. This daily transmission allows BFS to provide more up-to-date information to FPAs via the GWA module.

3.13.7.3. The procedure for reporting changes in FBWT accounts is for agencies designated as "CARS Daily Reporters" to submit the TAS/Business Event Type Codes and/or Classification-keys into the Classification Transactions and Accountability module within CARS daily for each payment via the Payment Information Repository or the Secure Payment System, and a collection via the Collection Information Repository. For agencies not yet complying with this daily reporting requirement, the procedure is to request a waiver by sending a letter with an explanation to the Fiscal Accounting Office of Fiscal Service via email to CashAnalysisSection.FAO@fiscal.treasury.gov and they must provide an explanation in a letter. This waiver allows them to continue reporting payment disbursements on forms such as the SF 1219 and SF 1220, with further guidance available in Volume 6 and 1 TFM 4000, Section 4040.

3.13.8. Undistributed Collections and Undistributed Disbursements

3.13.8.1. Refer to Volume 3 for additional information relating to financial control over FBWT disbursements, collections, and adjustment transactions.

3.13.8.2. The procedure for handling undistributed Fund Balance with Treasury (FBWT) transactions requires DFAS to identify these transactions at the sub-account, ALC/DSSN, SAHI, and Component levels. Non-Treasury Disbursing Offices must include all minimum required data elements in this process. At the Component level, the procedure is to support undistributed adjustments with detailed transaction records from the Disbursing Officer's system, including, at a minimum, the voucher number or another unique identifier.

3.13.8.3. The procedure for DFAS requires them to include the ALC/DSSN support for all cited amounts and undistributed journal voucher (JV) packages. Non-Treasury Disbursing Offices (NTDOs) must follow the procedure of including all minimum required data elements for their undistributed processes. The overall procedure is to record the undistributed

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collection or disbursement and then provide all necessary documentation to facilitate research at that level for proper disposition.

3.13.8.4. Components must research such undistributed collections and disbursements recorded in account 101000 for proper disposition by the lowest organizational level. DFAS must correct erroneous collections by making payment to a vendor and erroneous disbursements by establishing a receivable pending receipt of the refund. Supporting documentation must include detailed transactions from the DOS' records including at a minimum the transaction voucher number or other unique identifier.

3.13.9. Requirement for Written Procedures

The procedure for documenting reconciliation processes requires Components to develop and maintain written SOPs, narratives, and process maps. These SOPs must include evidence of dated supervisory review and approval. Specific guidance on the proper preparation and documentation of a journal voucher can be found in Volume 6.

3.13.10. Expenditure and Receipt Accounts Annual Review

The procedure for implementing this policy assigns DFAS the responsibility to conduct the annual review and validation of all TAS. When invalid or unused TAS are identified, the procedure is for DFAS to work with the Treasury to have them removed from Treasury reports and systems. This can be done on an annual or as-needed basis.

3.13.11. FBWT Reconciliation Quarterly Scorecard

The procedure for responding to the Treasury's Quarterly Scorecard requires the OUSW(C) to mandate that each Agency Location Code (ALC) submit an explanation for any discrepancies. This explanation must be provided no later than 30 calendar days after the Scorecard is issued and must detail the cause of the discrepancy, the corrective actions taken, the timeline for correction, and the processes implemented to prevent future similar discrepancies.

3.14 Treasury Index 97 Deposit Fund Liabilities Account Structures (formerly Appendix A)

3.14.1. Deposit Fund Liabilities

The Office of the Secretary of War (OSW) and Department of War (DoW) Components report deposit fund liabilities on the financial statements corresponding to the U.S. Department of the Treasury (Treasury) Component (i.e., Treasury Index) Federal Account Symbols and Titles (FAST) Book. The Navy General Fund, Army General Fund, Air Force General Fund, and Other Defense Agency Accounts correspond to Treasury Index (TI) 17, TI-21, TI-57, and TI-97, respectively.

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3.14.2. Facilitating Auditability Goals

The DoW does not have to delineate individual TI deposit funds. Generally accepted accounting principles (GAAP), regulations, and statutes do not require delineation. However, the DoW increases auditability and transparency and reduces taxpayer costs by doing so.

3.14.3. Unique Deposit Accounts

3.14.3.1. Treasury Collaboration

DoW and Treasury track, reconcile, and report deposit fund activity on the standalone TI-97 Component financial statements when the activity meets the following criteria:

3.14.3.1.1. The DoW Components prepare standalone financial statements if required by the annual OMB Audit Requirements for Federal Financial Statements Bulletin, or by statute (i.e., U.S. Code, National Defense Authorization Acts, and other legislation). Standalone financial statements facilitate audit and internal funds management but are not required or submitted separately for external reporting to OMB, Congress, or other authoritative bodies.

3.14.3.1.2. Treasury requires separate deposit fund accounts for individual statutory authorities or programs. Treasury does not separately track or issue guidance for individual TI-97 reporting entities.

3.14.3.1.3. The TI-97 Component's management determines if the activity is material. The DoW does not delineate immaterial TI-97 deposit fund activity.

3.14.3.2. DoW tracks, reconciles, and reports activity in the shared DoW-level deposit accounts. These shared deposit accounts are part of the DoW Consolidated Audit.

3.14.3.3. Alternative Solutions if a TI-97 Component needs a standalone deposit account, the Office of the Undersecretary of War (Comptroller) (OUSW(C)) and Defense Finance and Accounting Service (DFAS), the Component, Treasury, and the DoW Office of Inspector General identify the proper solution.

3.14.3.4. Stand Alone Accounts

3.14.3.4.1. OUSW(C) and DFAS ask Treasury to create a new, unique deposit account when appropriate.

3.14.3.4.2. When the account is created, the TI Component must:

3.14.3.4.2.1. Transfer previously recorded activity in a shared OSW level deposit fund account as soon as possible (i.e., collections without a corresponding

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disbursement, according to the TI-97 Component's detailed records and supporting documentation). Once a balance is established, the TI-97 Component uses the new account and reports the deposit fund activity and balances in its standalone financial statements. The TI-97 Component assesses whether prior year financial statements must be restated, or a prior period adjustment is necessary.

3.14.3.4.2.2. Use the new account and report the deposit fund activity and balances in its standalone financial statements if no deposit fund activity was previously recorded.

3.14.3.5. Payroll Reported by Military Departments

3.14.3.5.1. Military Departments report all military service payroll activity on their financial statements.

3.14.3.5.2. DoW tracks, reconciles, and reports civilian payroll-related deposit fund activity.

3.14.4. Transparency

The DoW maximizes transparency and mitigates complexity for the Federal Government and Government-wide information users by creating unique deposit fund accounts under the TI-97 entity.

3.15 Supporting Fund Balance with Treasury Balances Brought Forward (formerly Annex 1)

After complying with the FBWT reconciliation requirements described in this section (including fully reconciling accounting systems to the U.S. Department of Treasury (Treasury) and identifying, tracking, and resolving differences monthly), DoW Components must follow this annex to reconcile and support FBWT balances brought forward (i.e., beginning balances). As the Component's accounting Service Provider, the Defense Finance and Accounting Service (DFAS), performs the steps described on behalf of the DoW Components (DFAS' customers), unless the customer elects to perform the analysis. This approach and the resulting permanent adjustment may be used only once.

3.15.1. Approach

All DoW Components must follow Steps 1 through 4 described in this section. DoW Components that can reconcile FBWT at the voucher level and maintain related supporting documentation to support 99 percent of its Treasury's Government-wide Accounting (GWA) system account statements brought forward do not proceed past Step 4. DoW Components who are unable to fully reconcile and/or support its FBWT transaction level detail to obtain 99 percent coverage, must complete Steps 5 through 8.

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3.15.1.1. Step 1

3.15.1.1.1. DoW Components must conduct an aging analysis over the total value of their open appropriations (i.e., unexpired and expired appropriations) each fiscal year end until they demonstrate compliance with FBWT reconciliation. This allows the Component to identify the prior fiscal years (FYs) for which it must perform monthly FBWT reconciliations at the voucher level and provide supporting documentation to support 99 percent of its FBWT balances brought forward.

3.15.1.1.2. DoW Components must obtain the net detailed activity (authority, transfers, gross disbursements, and offsetting collections) of all open appropriations with balances in the FBWT account for the fiscal years of initial appropriation from the GWA system account statements and summarize the information into Table 3-5 below. Note that no-year (or “X-year”) appropriations must be identified separately from the single- and multi-year appropriations for each FY.

Table 3-5 FBWT Aging Analysis Template

Initial Appropriation Fiscal Year	Balance @ 9/30/2025 of Open Appropriations	% of Total Appropriations Balance
2025		
2024		
2023		
2022		
2021		
2020		
2019		
2018		
2017		
2016		
No-Year		
Total		100.0%

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3.15.1.1.3. DoW Components executing Treasury Index (TI) 097 funds are unable to obtain the detailed activity information at the Organization Unique Identifier Code (OUID or “limit”) level from the GWA system account statements since they are at the Treasury Account Symbol (TAS or appropriation) level. Instead, those DoW Components, supported by DFAS, must obtain that detailed activity information from DDRS to perform the aging analysis. DFAS performs a DoW-wide consolidated aging analysis at the TAS level using the GWA system account statement for TI 097 funds.

3.15.1.1.4. Once DoW Components analyze aging and summarize their open appropriations, they must identify how many periods of availability for which they must perform monthly FBWT reconciliations and provide supporting documentation to support at least 99 percent of their FBWT balances brought forward.

3.15.1.1.5. If no-year appropriations must be included to reach the 99 percent coverage of total open appropriations, then DoW Components must provide five years of historical supporting documentation for that portion.

3.15.1.1.6. As a notional example, a completed aging analysis and summary of open appropriations is found in Table 3-6.

Table 3-6 Notional Example of Completed Aging Analysis

Initial Appropriation Fiscal Year	Balance @ 9/30/2025 of Open Appropriations	% of Total Appropriations Balance
2025	\$100,000,000,000	67%
2024	\$30,500,000,000	20%
2023	\$7,200,000,000	5%
2022	\$2,600,000,000	2%
2021	\$3,000,000,000	2%
2020	\$2,050,000,000	1%
2019	\$130,000,000	0%
2018	\$16,000,000	0%
2017	\$4,000,000	0%
No-Year	\$4,500,000,000	3%
Total	\$150,000,000,000	100.0%

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3.15.1.1.7. To obtain coverage over at least 99 percent of its FBWT balances brought forward, the DoW Component must perform monthly FBWT reconciliations and provide supporting documentation going back to prior FYs for all activity, regardless of the initial appropriation year. The DoW Component must provide five years of historical supporting documentation for the no-year appropriations since that is necessary to obtain 99 percent coverage.

3.15.1.2. Step 2

3.15.1.2.1. Adhere to the following FBWT reconciliation requirements.

3.15.1.2.2. DoW Components and DFAS must comply with the FBWT reconciliation requirements defined in this section before proceeding with the additional steps in this annex. This includes reconciling monthly FBWT at the voucher level; identifying, aging, and resolving any reconciling differences; and documenting the voucher-level detail.

3.15.1.2.3. DoW Components and DFAS must ensure they address each FBWT risk, as shown in Figure 3-1.

3.15.1.3. Step 3

3.15.1.3.1. Identify the initial audit period, perform monthly FBWT reconciliations, and test supporting documentation for prior fiscal years.

3.15.1.3.2. DoW Components must identify the year they first plan to undergo a financial statement audit and count back from that date using the number of years identified in the aging analysis in Step 1. This allows DoW Components to determine their period start date to establish auditable beginning balances for FBWT.

3.15.1.3.3. DoW Components and DFAS must reconcile monthly FBWT at the voucher level beginning with the date they have reached full compliance with this section, and work back progressively through each fiscal year needed to obtain 99 percent coverage of its FBWT balances brought forward.

3.15.1.3.4. See the Volume 4 policy on what must be included in the monthly reconciliations.

3.15.1.3.5. After reconciling monthly FBWT at the transaction level, DoW Components and DFAS must then test appropriations, transfers, disbursements, collections, and adjustments (including journal vouchers) to the FBWT accounts, to support the FBWT brought forward balance with documentation.

3.15.1.3.6. Supporting documentation must include, at a high level, third-party documentation, system reports, Treasury documentation, and reconciliations. See the

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Financial Improvement and Audit Remediation (FIAR) Guidance provided by the Office of the Under Secretary of War (Comptroller) (OUSW(C)) for specific examples of supporting documentation.

3.15.1.3.7. Supporting documentation must support all open FBWT account balances back to the year of initial appropriation. DoW Components are only required to demonstrate 99 percent coverage of beginning balances.

3.15.1.3.8. For the notional example presented in Step 1, the Component and DFAS must reconcile monthly FBWT at the transaction level and complete transaction-level detail testing for FYs 2025 through 2021.

3.15.1.4. Step 4

3.15.1.4.1. Assess the ability to reconcile monthly FBWT and provide documentation supporting 99 percent of FBWT balances brought forward.

3.15.1.4.2. After DoW Components and DFAS reconcile monthly FBWT at the transaction level, provide supporting documentation for all prior fiscal years, and obtain 99 percent coverage of its FBWT balances brought forward, they must continue to adhere to the FBWT requirements described in this section.

3.15.1.4.3. If DoW Components and DFAS determine that they are unable to reconcile monthly FBWT at the transaction level, they must provide supporting documentation. If it is not cost effective to provide supporting documentation, for all years and accounts required to obtain 99 percent coverage, they must proceed with the next steps in the approach.

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3.15.1.5. Step 5

DoW Components and DFAS must perform a gap analysis to identify the unsupportable portions of FBWT balances brought forward, by the appropriation year. An example of how DoW Components and DFAS may report on their gap analyses is depicted in Table 3-7.

Table 3-7 Notional Example of Completed Gap Analysis

Initial Appropriation Fiscal Year	Balance @ 9/30/2024 of Open Appropriations	Unsupportable Balance \$	Unsupportable Balance %
2024	\$100,000,000,000	\$4,500,000,000	4.50%
2023	\$30,500,000,000	\$1,000,000,000	3.28%
2022	\$7,200,000,000	\$200,000,000	2.78%
2021	\$2,600,000,000	\$0	0.00%
2020	\$3,000,000,000	\$1,000,000	0.03%
2019	\$2,050,000,000	N/A	N/A
2018	\$130,000,000	N/A	N/A
2017	\$16,000,000	N/A	N/A
2016	\$4,000,000	N/A	N/A
2015	\$0	N/A	N/A
No-Year	\$4,500,000,000	N/A	N/A
Total	\$150,000,000,000	\$5,701,000,000	3.80%

3.15.1.6. Step 6

3.15.1.6.1. Prepare the approval package for the OUSW(C) FIAR to justify the need to post a permanent adjustment to balance with Treasury.

3.15.1.6.2. Once DoW Components and DFAS have determined the total amount of their unsupportable FBWT balances brought forward, they must correct the FBWT balances brought forward amount and balance to Treasury.

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3.15.1.6.3. The package must demonstrate that DoW Components and DFAS have followed the approach described in Steps 1 through 5, and have exhausted measures to support their FBWT balances brought forward:

3.15.1.6.3.1. Aging analysis of open appropriation balances by appropriation fiscal years from Step 1.

3.15.1.6.3.2. Determination of the appropriation fiscal years that DoW Components intend to seek support for 99 percent coverage over their FBWT balances brought forward.

3.15.1.6.3.3. Results of monthly transaction level FBWT reconciliations performed in Step 3.

3.15.1.6.3.4. Results of transaction level detail testing performed in Step 3.

3.15.1.6.3.5. Balances identified as unsupportable and proposed adjusting journal vouchers from Step 5.

3.15.1.6.3.6. Description of process and controls in place demonstrating compliance with this section.

3.15.1.7. Step 7

3.15.1.7.1. Post permanent adjustment in accounting system.

3.15.1.7.2. After obtaining OUSW(C) FIAR's approval, the DoW Components and DFAS must post a permanent adjustment in the DoW Components' accounting system(s) to adjust for unreconciled differences with the Treasury. This permanent adjustment must bring the unsupported balance to zero.

3.15.1.7.3. The DoW Components and DFAS must ensure all negative unliquidated obligations and unmatched disbursements are resolved and in-transits are accounted for before posting the adjustment. See Volume 3 for additional details.

3.15.1.7.4. The journal entry for this adjustment follows U.S. Government Standard General Ledger (USSGL) – Treasury Bulletin 2024-04 accounts transactions A513 (Budgetary entry only), D304, and D306.

3.15.1.7.5. No guidance in this chapter must be construed as authorizing a delay in (1) the recording of an executed obligation or (2) the requirement to

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investigate a potential violation of the Antideficiency Act that results from any action other than the sole requirement to post this adjustment.

3.15.1.8. Step 8

3.15.1.8.1. Adhere to FBWT reconciliation requirements in Volume 4.

3.15.1.8.2. DoW Components and DFAS must continue to adhere to the FBWT requirements described in Volume 4.

3.15.1.8.3. If reconciling items are identified during the monthly FBWT reconciliations (after recording the adjustment in Step 7) that relate to appropriations and fiscal years included in the adjustment made in Step 7, then the DoW Components and DFAS must notify OUSW(C) FIAR and post a journal entry to offset the adjustment made in Step 7.

3.15.1.8.4. DoW Components and DFAS must ensure they have a process in place to address each of these critical areas to address FBWT risks being compliant with supporting laws and regulations, as shown in Figure 3-1.

4.0 INVESTMENTS AND OTHER ASSETS

4.1 Accounting Policy for Investments and Other Assets

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

4.2 Investments and Other Assets

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

4.3 Nonmarketable Par Value Treasury Securities

Securities are redeemed at face value on demand; thus, investing entities recover the full amounts invested. When authorized, the DoW may invest in MERHCF and MRF may invest par value “special issue” Treasury securities.

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

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

4.5 Market-Based Treasury Securities

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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4.6 Recognition of Investments in Federal Securities

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

4.7 Disposition of Treasury Securities

Quarterly, the “Investments in U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based” account balance must be reconciled with the trust fund portfolios. Such reconciliations must also occur whenever there is a change in trust fund managers or other employees having access to the securities, or when there is a substantial addition, disposition, or replacement in the composition of the portfolio. Treasury notifies trust fund managers of portfolio increases or decreases using the “Transaction Confirmation.” Source documents for entries to the account include U.S. Treasury securities, the “Transaction Confirmation,” collection and disbursement vouchers, amortization schedules, and journal vouchers.

4.8 Interest and Amortization

4.8.1. The accounts to be used to record accounting events related to U.S. Treasury securities include Discount on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based (Account 161100.0400), Premium on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based (Account 161200.0400), Amortization of Discount on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based-Discout (Account 161300.0500) and Amortization of Premium on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based-Premium (Account 161300.0600). Under the interest method, the effective interest rate (the actual interest yield on amounts invested) multiplied by the carrying amount of the Treasury security at the start of the accounting period equals the interest income recognized during the period (the carrying amount changes each period by the amount of the amortized discount or premium).

4.8.2. Use Accounts 161100.0400 and 161200.0400 to record the unamortized discount or premium on U.S. Treasury securities issued by the Bureau of the Fiscal Service. Use Accounts 161300.0500 and 161300.0600 to record the amortization of discount or premium on U.S. Treasury securities issued by the Bureau of the Fiscal Service. Use separate accounts to record the accounting events related to U.S. Treasury securities. For example, discounts on U.S. Treasury securities should be recorded separately from premiums on U.S. Treasury securities. The amortization of the related securities must be accounted for in distinct accounts.

4.8.3. A subsidiary account for unamortized premiums or discounts must be maintained for each trust fund for determining the gain or loss on the disposition of securities held by each trust fund. This information also is needed for reporting on the financial status of each trust fund.

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4.8.4. Under the interest method of amortization, an amount of interest equal to the carrying amount of the investment times the effective interest rate, is calculated for each accounting period.

4.8.5. The calculated interest is the effective interest of the investment (referred to as effective yield). The amount of effective interest is compared with the stated interest of the investment. The stated interest is the interest that is payable to the investor according to the stated interest rate. The difference between the effective interest and the stated interest is the amount by which the discount or the premium should be amortized (i.e., reduced) for the accounting period. The discounted bonds example in Table 4-1 displays the amortization of a discount. Treasury bonds with the face amount of \$100,000, purchased by a federal entity on the bonds' issuance date, January 1, 2020. The bonds' stated interest rate is 7 percent, and interest is payable at the end of each year. The bonds will mature in 5 years, on December 31, 2024. The cost of the investment is \$96,007, with a discount of \$3,993, which reflects an effective interest rate of 8 percent. In Table 4-1, the annual discount amortization is in column 4, which equals column 3 minus column 2.

Table 4-1 Discount Amortization

Date	Stated Interest 7%	Effective Interest 8%	Discount Amortization	Unamortized Balance	Bonds Carrying Amount
01/01/20				\$3,993	\$96,007
12/31/20	7,000	\$7,681	\$681	3,312	96,688
12/31/21	7,000	7,735	735	2,577	97,423
12/31/22	7,000	7,794	794	1783	98,217
12/31/23	7,000	7,857	857	926	99,074
12/31/24	7,000	7,926	926	0	100,000

4.8.5. The premium bonds example in Table 4-2 displays the amortization of premium Treasury bonds with the face amount of \$100,000, purchased by a federal entity on the bonds' issuance date January 1, 2020. The bonds' stated interest rate is 7 percent, and interest is payable at the end of each year. The bonds will mature in 5 years, on December 31, 2024. The cost of the investment is \$104,212, with a premium of \$4,212, which reflects an effective interest rate of 6 percent. In Table 4-2, the annual premium amortization equals the "Stated Interest 7%" less the "Effective Interest 6%."

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Table 4-2 Premium Amortization

Date	Stated Interest 7%	Effective Interest 6%	Premium Amortization	Unamortized Balance	Bonds Carrying Amount
01/01/20				\$4,212	\$104,212
12/31/20	7,000	\$6,253	\$747	3,465	103,465
12/31/21	7,000	6,208	792	2,673	102,673
12/31/22	7,000	6,160	840	1,843	101,833
12/31/23	7,000	6,110	890	943	100,943
12/31/24	7,000	6,057	943	0	100,000

4.9 Use of Other Investments

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

4.10 Reporting Other Investments

Use Account 169000.0900 (Other Investments) to record the value of non-marketable market-based investments owned by DoW. Use Account 169000.0700 (Other Investments-MHPI-Limited Partnership) to record DoW investments with Limited Partnerships (LPs), and Limited Liability Companies (LLCs) under the MHPI, authorized by 10 U.S.C. § 2875.

4.11 Recognition and Measurement of Other Investments

A comprehensive evaluation and full assessment be reviewed and analyzed in consultation with the Military Department's independent public accountant (IPA). This collaborative review is a required step to formally determine and validate the correct accounting treatment for each agreement. Documentation should be furnished to the Defense Finance and Accounting Service (DFAS) based on DFAS' annual financial schedule and quarterly financial guidance for additional information including cut-off periods. Note that financial statement reporting should be based on the latest financial information for each Limited Liability Corporation (LLC) or Limited Partner (LP), which may not be consistent with the reporting periods for DoW's financial statement reporting.

Disclosures, which include both quantitative and qualitative information, are required for the initial period and annually thereafter. OMB Circulars A-11 and A-136 provide specific

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disclosure requirements for these arrangements, and the DoW's MHPI investments are subject to these rules.

4.11.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

4.11.2. After applying SFFAS 47 guidelines, disclosures for MHPI projects must be evaluated under SFFAS 49.

Table 4-3 Initial Investment Cash Only

SCENARIO 1 YEAR 1 Initial Formation of LP/LLC P3 Investment (Cash Only)

Budgetary

Dr. 461000 - Allotments - Realized Resources

Cr. 480100 - Undelivered Orders - Obligations, Unpaid

Dr. 480100 - Undelivered Orders - Obligations, Unpaid

Cr. 490200 - Delivered Orders - Obligations, Paid

Proprietary

Dr. 169000 - Public-Private Partnership Investments

Cr. 101000 Fund Balance with Treasury (FBwT)

Dr. 310700 Unexpended Appropriations - Used

Cr. 570000 Expended Appropriations

(DoW invests cash in LP/LLC)

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Table 4-4 Initial Investment Cash and Property

SCENARIO 2 - YEAR 1 Initial Formation of LP/LLC P3 Investment (Cash and Property)

In accordance with GAAP, a fair market value (FMV) of the non-cash assets, and the rights and obligations received by the Government, should be assigned at the inception of the LLC agreement, and for the purposes of P3 investment reporting, the FMV should be compared to the cash and book value of the property being conveyed to record a gain or loss on disposition of the asset. If information on the FMV of the property at point of contribution by the government to the LLC is not available, then value will need to be estimated.

Budgetary

Dr. 461000 - Allotments - Realized Resources

Cr. 480100 - Undelivered Orders - Obligations, Unpaid

Dr. 480100 - Undelivered Orders - Obligations, Unpaid

Cr. 490200 - Delivered Orders - Obligations, Paid

Proprietary

Dr. 169000 - Public-Private Partnership Investments

Cr. 101000 - FBwT

Dr. 310700 - Unexpended Appropriations - Used

Cr. 570000 - Expended Appropriations

(DoW invests cash as part of equity investment in LP/LLC)

AND**Budgetary**

No Budgetary Impact

Proprietary

Dr. 171900 - Accumulated Depreciation on Improvements to Land

Dr. 173900 - Accumulated Depreciation on Buildings, Improvements and Renovations

Dr. 169000 – Public-Private Partnership Investments

Dr. 721000 Losses on Disposition of Assets - Other

Cr. 171100 - Land and Land Rights

Cr. 171200 - Improvements to Land

Cr. 173000 - Buildings, Improvements and Renovations

Cr. 711000 – Gains on Disposition of Assets – Other

(DoW also conveys Buildings and leases Land to LP/LLC)

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Table 4-5 Recognition of Periodic/Annual Decrease/Loss

SCENARIO 3 - YEAR XX Recognition of Periodic/Annual Decrease/Loss on P3 Investment Valuation DoW recognizes the amount of equity method earnings - based on the change in the investor claim on the investee's book value each reporting period

Equity Method Loss

Budgetary

No Budgetary Impact

Proprietary

Dr. 729000 - Other Losses

Cr. 169000 - Public-Private Partnership Investments

(To recognize equity method loss based on the change in the investor's claim on the investee's book value each reporting period).

Table 4-6. Recognition of Periodic/Annual Increase/Gain

SCENARIO 4 - YEAR XX Recognition of Periodic/Annual Increase/Gain on P3 Investment Valuation DoW recognizes the amount of equity method earnings - based on the change in the investor claim on the investee's book value each reporting period

Equity Method Gain

Budgetary

No Budgetary Impact

Proprietary

Dr. 169000 - Public-Private Partnership Investments

Cr. 719000 - Other Gains

(To recognize equity method gain based on the change in the investor's claim on the investee's book value each reporting period).

Table 4-7 Recognition of a Net Loss Upon Dissolution of DoW's Interest in the LLC

SCENARIO 5 - YEAR XX DoW dissolves all of its interest in the LLC. Any property interest acquired or reacquired in the dissolution of the LLC must be recorded at their FMV, not the LLC book value.

Budgetary

Dr. 426600 - Other Actual Business-Type Collections From Non-Federal Sources

445000 - Unapportioned Authority

Proprietary

Dr. 101000 - FBwT

Dr. 171100 - Land and Land Rights

Dr. 171200 - Improvements to Land

Dr. 173000 - Buildings, Improvements and Renovations

Dr. 721100 - Losses on Disposition of Investments

Cr. 169000 - Public-Private Partnership Investments

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Table 4-8. Recognition of a Net Gain Upon Dissolution of DoW's Interest in the LLC

SCENARIO 6 - YEAR XX DoW dissolves all of its interest in the LLC. Any property interest acquired or reacquired in the dissolution of the LLC must be recorded at their FMV, not the LLC book value.

Budgetary

Dr. 426600 - Other Actual Business-Type Collections From Non-Federal Sources

445000 - Unapportioned Authority

Proprietary

Dr. 101000 - FBwT

Dr. 171100 - Land and Land Rights

Dr. 171200 - Improvements to Land

Dr. 173000 - Buildings, Improvements and Renovations

Cr. 711100 - Gains on Disposition of Investments

Cr. 169000 - Public-Private Partnership Investments

4.12 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

4.13 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

5.0 RECEIVABLES

5.1 Recognition

The Debt Collection Officer (DCO) confirms the appropriate Accounts Receivable Office (ARO) is advised that a receivable needs to be established in the accounting system. The DCO must provide the ARO with signed copies of indebtedness notices and other necessary supporting documentation. The DCO is also responsible for providing status updates on the debt, including its beginning balance, any collections or adjustments, the current ending balance, and notification if collection efforts are discontinued.

5.1.1. According to SFFAS 1, a receivable must be recognized when a federal entity establishes a claim to cash or other assets against other entities, based on legal provisions, such as a payment due date, or goods or services provided. In the case that an exact amount is unknown, a reasonable estimate must be made by the collecting entities. Disputes or litigation do not affect the timing of receivable recognition. For additional information regarding receivable recognition, refer to SFFAS 1.

5.1.2. A receivable must be established when payment is not received in advance or at the time revenue is recognized. Receivables must be recorded when earned from the sale of goods and services or when an event results in the determination that a debt is owed to DoW, i.e., in the applicable accounting system during the month the receivable occurs. Accounting records for

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receivables must be maintained so that all transactions affecting the receivables are included in the reporting period of occurrence. There must be immediate recording of events not previously recorded due to error or oversight.

5.1.3. DoW Components must recognize accounts receivable and unfilled orders without an advance as valid budgetary resources when such receivables or unfilled orders are from federal entities. Absent statutory authority, components must not recognize accounts receivable and unfilled orders without an advance as valid budgetary resources when such receivables or unfilled orders are from public/non-federal entities.

5.1.4. DCOs must ensure that the appropriate ARO is advised that a receivable is to be established in the applicable accounting system. DCOs will provide the ARO with signed copies of indebtedness notices and other appropriate documentation to support entries in the accounting system and will provide the status of the debt which includes: beginning debt balance, collections, adjustments, current ending balance and notice of discontinuance of collection efforts. DoW Components must maintain the supporting documentation in the applicable accounting system. See Volume 1 for records retention.

5.2 Advance Payments

The procedure for orders from the public is to ensure the order is accompanied by an advance payment equivalent to the actual or estimated cost of the goods and services. For FMS, the procedure is to draw upon the funds held in the FMS Trust Fund or investment accounts to meet the foreign government's FMS obligations. The procedure to record a budgetary resource for a non-federal order without an advance requires the Component to first request and receive approval from the OUSW(C) before accepting the order. The OUSW(C) will then handle the procedural step of coordinating with the Office of Management and Budget (OMB) to ensure the resulting budgetary entries will be accepted in federal-wide accounting and reporting systems.

5.2.1. In general, an advance payment is required for orders from the public, including state and local governments, except for fuel, as the sale of petroleum products to the public is covered by fuel purchasing agreements. The order must be accompanied by an advance equivalent to the actual or estimated cost of goods and services. 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.

5.2.2. The Department has statutory authority to record a budgetary resource for non-federal orders without an advance for work performed under the provisions of 22 U.S.C. § 2767. Components must request approval from the Office of the Under Secretary of War (Comptroller) (OUSW(C)) in advance of accepting the order(s) and recording the budgetary

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resource. The OUSW(C) will coordinate with OMB to ensure the resulting budgetary entries will be accepted within federal-wide accounting and reporting systems.

5.2.3. Additional information regarding budgetary resources are in Volume 3. See Volumes 4 and 11 for Defense Working Capital Funds' policy on receipt of advances on orders from public/non-federal entities.

5.3 Collection of Receivables

The initial demand for payment, invoice, or demand letter must include a complete explanation of the debtor's rights and responsibilities, the basis of the indebtedness, the agency's intention to use various collection tools to collect the debt, additional charges (i.e., interest, penalties, and administrative charges) that may be levied, and the name, work phone number, and address of an individual to contact within the agency to resolve the delinquency.

5.4 Allowance Account and Aging

The Accounts Receivable Offices (AROs) must age delinquent accounts receivable within the accounting system on behalf of the DoW Components.

5.5 Interest Penalties, and Administrative Receivable

Interest, Penalties, and Administrative (IPA) receivables are DoW assessments added to delinquent debts. The full amount of a delinquent debt is the sum of the principal, accrued program interest, and any other penalties and/or administrative charges that are due and owed to the DoW. See Volume 16 for detailed IPA information.

5.5.1. Interest accrues from the first day of delinquency and is added to the outstanding principal receivable balance within the accounting system when an amount due is not received by the due date or other agreed upon date. Interest also must be recognized on outstanding accounts receivable against persons and entities in accordance with provisions in 31 U.S.C. § 3717. Until the interest payment requirement is officially waived by the DoW or the related debt is closed-out, interest will accrue. Note that debts owed by any federal agency are exempt from interest, penalty, and administrative charges. Interest receivables are considered non-entity receivables.

5.5.2. An interest receivable must be recorded when the interest income is earned not when the income is received. An interest receivable must be recorded as it is earned on investments in interest-bearing securities.

5.6 Payment Application

When a debt is paid in partial or installment payments, amounts received will be applied first to contingency fees, second to outstanding penalties, third to administrative charges, and fourth to interest, and lastly to principal per Federal Claims Collection Standards, 31 CFR 901.9(f).

5.7 General Ledger Accounting

Information on receivables must be developed, maintained, and reported using the United States Standard General Ledger (USSGL) accounts depicted in Volume 1. The first six digits of the accounts receivable general ledger account must conform to the USSGL chart of accounts. DoW requires the use of the DoW Standard Chart of Accounts (SCOA). The DoW SCOA and accounting transactions for collections and receivables are outlined in the DoW USSGL Transaction Library, available on the Standard Financial Information Structure (SFIS) web page.

5.8 Internal Controls

The basic standards for internal controls prescribed in DoWI 5010.40, must be adhered to in establishing and collecting receivables.

5.8.1. Major categories of receivables must be maintained to facilitate clear and full disclosure of accounts receivable, e.g., disclose the debtor, the amount, the age, and the type of debt. Subsidiary records must be reconciled to the control accounts on at least a monthly basis.

5.8.2. Proper internal controls require the accurate and timely recording of transactions, appropriate documentation and retention appropriate authorization, (i.e., executed only by persons acting within the scope of their authority) and appropriate management.

5.8.3. Responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets must be separated so that no one individual controls all key aspects of a transaction or event (e.g., a technician responsible for creating cash or check due transactions cannot also be responsible for collecting cash or checks), must be maintained.

5.8.4. Each DoW Component must develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data. Internal operating procedures must include a dormant account review for accounts receivable as described in Volume 3. Relevant records supporting financial statements must be maintained and made available during financial statement audits.

5.9 Erroneous, Invalid, and Unsubstantiated Accounts Receivables

During the dormant account review process, the reviewer must examine the receivables for completeness, accuracy, and supportability. Abnormal or erroneous accounts receivable must be

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promptly researched and resolved. If at any time it is determined that a debt was never owed and should not have been classified as an accounts receivable, the accounting records must be adjusted. Return all funds collected to the debtor for an unsubstantiated account receivable.

5.9.1. For errors detected in the year the receivable was recorded, reverse the entry. For errors detected in subsequent fiscal years, record an entry in accordance with the requirements for recording and reporting errors in the financial statements as detailed within this Volume.

5.9.2. A billing DoW Component that cannot produce the evidence necessary to establish an accounts receivable and has not been able to obtain the voluntary repayment of the debt, the entries that established the accounts receivable must be reversed.

5.9.2.1. Evidence necessary to establish an account receivable includes, but is not limited to, a duplicate payment voucher, contract reconciliation document, Department of Justice litigation report, an unpaid U.S. payment voucher, or demand letter.

5.9.2.2. All erroneous, invalid, and unsubstantiated accounts receivable must be removed from the general ledger by reversing the existing entry if recorded in current year. See Chapter 15 if the receivable was recorded in prior years. The reversing journal entry must be supported with all known evidence.

5.9.3. The evidence obtained from research may identify internal control failures and/or process weakness with the recognition of accounts receivable. Any internal control failures and/or process weaknesses 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. 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

The procedure for handling receivables from NAFIs is to record them as public transactions and include them in the quarterly Treasury Report on Receivables (TROR). For further procedural guidance, refer to Volume 13.

5.12 Foreign Military Sales Receivables

Receivables from the FMS Trust Fund (appropriation 97 11X8242) must be recorded as federal transactions. Other Security Assistance receivables, e.g., the Foreign Military Financing Program, Funds Appropriated to the President (appropriation 11(FY) 1082), must be recorded and reported as intragovernmental receivables. The FMS delinquent accounts receivable will not be

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referred to the DMO or to Treasury for collection assistance. See Volume 16 for guidance on FMS receivables.

5.13 Non-FMS Foreign Government Receivables

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

5.14 Retention of Documentation

The Accounts Receivable Offices (AROs) and Debt Collection Officers (DCOs) are responsible for maintaining this documentation. The documentation package must include, but is not limited to, records supporting the following actions: establishing the receivable, compliance with due process requirements, research and resolution of abnormal or erroneous balances, reversal of entries, termination, write-off, and close-out of the receivable, bankruptcy proceedings, and any installment payment plans.

5.15 Undistributed Collection Balances

Undistributed collection balances placed in Treasury budget clearing (suspense) accounts F3875 and F3885 must be analyzed and reconciled monthly on the Financial Management System Form 224, "Statement of Transactions," to ensure all collected amounts are properly credited to the proper appropriation and applicable accounts receivable accounts. For any suspense account, items, or transactions more than 60 days old, investigate and document the reason why the transaction cannot be reclassified to the correct appropriation. All differences must be cleared within 60 days, with the exception of those suspense accounts that have been identified by Treasury as exempt from the 60-day requirement. The procedure for handling these different types of security assistance receivables is to record them according to their classification (federal for FMS Trust Fund, intragovernmental for others). For more detailed procedural guidance on FMS receivables, refer to Volume 16.

5.16 Public Receivables

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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

Upon receiving a collection voucher, the Accounts Receivable Office (ARO) must record the collection in the accounting system and include it in the monthly reports to Treasury (SF 1218, 1219, 1220, and FMS 224). The ARO must also research and resolve any abnormal balances that result from these collections. Finally, the ARO must refer all delinquent accounts receivable for further collection action as required by the debt collection policy in Volume 16.

5.18 Refunds Receivable

Non-DCO activities, such as contracting offices (following FAR, Part 32 guidance), must promptly notify the Debt Collection Officer (DCO) when a debt exists. The DCO must then ensure the appropriate Accounts Receivable Office (ARO) is advised to establish the receivable in the accounting system within the same accounting cycle that the debt is recognized. Upon receiving a collection voucher, the ARO must ensure the collection is recorded in the accounting system and reported to Treasury. If this action results in an abnormal balance, the ARO must research and resolve it. The ARO or DCO must refer to all delinquent accounts receivable for further collection action.

5.19 Collection Actions

The initial demand for payment must include a complete explanation of the debtor's rights and responsibilities, the basis of the debt, the agency's intent to use various collection tools, and any potential additional charges (interest, penalties, etc.). The procedure for debt referral is as follows:

15.19.1. AROs or DCOs will refer valid and legally enforceable delinquent individual out-of-service debt to the DCMO.

15.19.2. AROs or DCOs will refer valid and legally enforceable delinquent vendor debt of \$25 or more (\$100 if no TIN) to the DMO no later than 60 days after the payment due date. If there are multiple debts to the same vendor that meet this threshold, the procedure is to consolidate them into a single debt package for referral.

15.9.3. When the Treasury returns a debt as uncollectible, the procedure is for the DCMO or DMO to advise the ARO, which will then initiate the necessary actions to terminate collection, write-off, and close-out the receivable.

5.20 Establishment of Allowance for Loss on Accounts Receivable

5.20.1. Accounts Receivable Offices (AROs) must establish an allowance for uncollectible accounts in the general ledger for both public and intragovernmental accounts receivable.

5.20.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

5.20.3. Calculating the loss allowance for receivables less than \$100,000 involves grouping them by similar risk characteristics, such as delinquent age category (greater than 60 days old), category of debtor, reason for the receivable, or geographic region. The determined percentages, based on a three-year bad debt history, are then applied to the total amount in each category. For individual receivables equal to or greater than \$100,000, the procedure requires

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analyzing each one based on: (a) the debtor's ability to pay, (b) their payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources (e.g., liens, garnishments, cross collections).

5.20.4. For intragovernmental receivables, calculating the allowance for public debt in aging categories greater than 90 days and less than two years is to determine the write-off percentage by dividing the agency-specific Monthly Receivable Data (MRD) write-off amounts by the total Accounts Receivable amounts, using the most recent 36 months of write-off percentages.

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

The procedures for debt management begin with the Debt Collection Officer (DCO) initiating a write-off by providing the Accountable Receivables Officer (ARO) with all supporting documentation. The ARO then immediately requests concurrence from the Fund Holder, who has 30 days to respond. If the Fund Holder concurs or does not respond, the ARO writes off the debt. If they non-concur, they must provide additional evidence, and the ARO will make one final collection attempt before writing off the debt. Following a write-off, the ARO notifies both the DCO and the Fund Holder. If Treasury later collects on a CNC debt, the ARO's procedure is to reverse the write-off, reestablish the receivable on the books, and record the collection. The close-out process is similar, beginning with the DCO notifying the ARO when a debt is uncollectible. The ARO requests concurrence from the Fund Holder, who again has 30 days to respond. If the Fund Holder concurs, fails to respond, or non-concurs and a final collection attempt fails, the ARO must write off the debt. The ARO holds the primary responsibility for executing all close-out actions and notifies the Fund Holder upon completion. The DoW is responsible for reporting these canceled debts to the IRS and issuing the appropriate tax forms, as long as the debt meets the IRS's reporting criteria. For vendor and contractor debts that are managed in the Defense Contractor Debt System (DCDS), the DFAS ESS Vendor Pay Tax Office is the specific office responsible for handling the tax form issuance and all required IRS reporting.

5.22 Intragovernmental Receivables

5.22.1. An intragovernmental transaction begins with the providing (seller) and ordering (buyer) entities establishing and documenting a support agreement. Following this, the providing entity initiates the activity by delivering the required materials or performing the agreed-upon services. To complete the process, the entity that received the materials or services (the buyer) then pays the providing entity for the costs incurred. Intragovernmental materials sold or services furnished must be authorized and documented in a support agreement between the provider (seller) and ordering entity (buyer). A providing entity (seller) must initiate the agreed upon activity by providing the cost of materials or performing the services to the ordering entity (buyer). The activity receiving the materials or services (buyer) pays the providing activity. Uncollected amounts earned from reimbursable sales are recorded as accounts receivable. In contrast with orders from the public/non-federal entities without an advance, under the Economy Act DoW

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organizations with reimbursable authority may recognize a budgetary resource upon acceptance of funded reimbursable orders from DoW and other federal agencies, because customer agencies obligate their own budgetary resources (e.g., appropriations) at the time of order placement and acceptance. DoW organizations may incur obligations to fill such orders without requiring the customer to provide an advance payment and without burdening their own budgetary resources.

5.22.2. DoW Performing Entity Responsibilities

An intragovernmental order begins when the seller receives and verifies a customer order, like a MIPR, and records it as an "unfilled customer order." Once the goods or services are provided, this entry is reversed, and a "filled customer order (uncollected)" and a receivable are recorded. The final step occurs upon payment, when the "uncollected" entry is reversed to show the order as collected. To ensure accuracy throughout this process, the performing entity must obtain the billing history from the ARO within 30 days to verify charges against the correct orders. Any discrepancies discovered during reconciliation must be resolved by adjusting the accounts receivable. The entity must also provide its own supporting documentation (agreement, contract, and/or proof of performance or delivery) within 30 days of a request and actively research any abnormal balances or accounting issues like negative unliquidated obligations or unmatched disbursements.

5.22.3. DoW Ordering Agency Responsibilities

The ordering agency must first review all incoming charges. If the bill is found to be supported but the corresponding order or obligation is missing from the accounting system, the procedure is to record it immediately and then investigate the reason for the original failure. For any transportation charges that cannot be matched, they must be researched and subsequently charged to the correct Line of Accounting (LOA).

5.22.4. Management of Collection Actions

The procedures for collection vary based on the transaction type. For bills within the DoW that contain a National Stock Number, collection must be processed through the Military Standard Billing System's interfund procedures. For non-interfund receivables within the DoW, reimbursement must be processed through either the Defense Cash Accountability System or the IPAC system. When dealing with other federal agencies outside the DoW, the procedure is to include the use of IPAC as the preferred collection method on the MIPR acceptance. If disputes arise, personnel are directed to follow specific processes: DLM 4000.25 for interfund disputes, and the process in paragraph 5.22.5 for rejected IPAC transactions outside of DoW. For detailed accounting entries, the procedure is to refer to the SFIS library.

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5.22.5. Non-Interfund Dispute Process

5.22.5.1. Within the DoW, the performer's Accountable Receivables Officer (ARO) is responsible for managing intragovernmental debt, with the OUSW(C) overseeing the dispute resolution process. A core policy is that this type of debt cannot be referred to an external debt collection agency, and any disputed charge must be fully settled within 180 days from the charge date. The dispute process begins with a distinction for smaller amounts: for receivables of \$2,500 or less, the buyer may accept the charge or only dispute it if 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. At a minimum, the dispute package must include copies of: MIPR or equivalent, MIPR acceptance or equivalent, voucher payment, bill, correspondence, shipment or delivery evidence, and a narrative explaining the basis of the dispute. During days 61-90, the seller must respond; if they concur, they reverse the charge, and if they fail to respond, the buyer may chargeback the amount without recourse. If the seller non-concurs, the buyer elevates the dispute to their Resource Manager/Comptroller. From days 91-120, the Comptrollers on both sides attempt to resolve the issue. If they fail, the buyer's Comptroller elevates it to their Service Secretary, Combatant Command Commander, or Defense Agency Director. During 121-150 days from the date of the charge, the buyer's Service Secretary, Combatant Command Commander, or Defense Agency Director, will contact the seller's Service Secretary, Combatant Command Commander, or Defense Agency Director, to resolve the dispute. The dispute must be resolved within 180 days. If the resolution favors the buyer, the seller must adjust its financial records, using different accounting methods depending on whether the receivable was from the current or a prior fiscal year.

5.22.5.2. The procedure for resolving disputes with agencies outside the DoW varies based on the nature of the disagreement. For disputes arising from differing accounting treatments, the trading partners have 60 calendar days to reach an agreement from the date that the difference is identified in Treasury Government wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) or the date that a charge is disputed, whichever comes first, to agree on the treatment of an accounting entry. If they cannot, both agencies' CFOs must request a binding decision from the Treasury Bureau of Fiscal Service (BFS). Once a decision is rendered, the ARO must adjust their financial records within five calendar days or by the end of the quarter, whichever comes first. For contractual disputes, the trading partners also have a 60-days from the date that the difference is identified or the date that a charge is disputed, whichever comes first, to agree on the terms. If they fail to reach an agreement, both CFOs must request a binding decision from the designated CFOs Council's Committee, which has 90 calendar days to render its decision. Following the committee's decision, the trading partners will then coordinate to process any necessary IPAC transaction. In either scenario, the process formally begins when the CFOs of each agency sign a memorandum of agreement and involves the relevant program, accounting, and contracting offices.

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5.22.5.3. The procedure begins when the appropriate APF office prepares a reimbursement agreement with the NAFI. If a bill is not paid by its 30-day due date, the APF representative must send a demand letter. The NAFI then has 30 days to either pay or provide reasons for non-payment. If the dispute is deemed invalid or if there is no response, the process escalates. Between 31-60 days after the due date, the Installation Comptroller sends the demand to the NAFI Headquarters Comptroller (NHC). If the NHC does not pay or dispute the bill within 61-90 days, the Installation APF Comptroller elevates the demand to the Installation Major Command (MAJCOM). If the MAJCOM cannot resolve the dispute between days 91-120, the Installation APF Comptroller elevates it for a final time to the Service Comptroller. Within 121-150 days of the original due date, the Service Comptroller will either instruct that payment be made or will definitively resolve the dispute. Military Departments may use their own appropriated fund budgetary resources to perform a reimbursable order for a NAFI without an advance. However, they may not recognize budgetary resources for the order until the account receivable is paid.

5.23 Reporting Receivables Due From the Public

5.23.1. On the TROR:

5.23.1.1. Report each debt owed by a single debtor with multiple debts as a separate debt.

5.23.1.2. Report each delinquent debt once, even if DFAS or DoW Component tracks delinquent payments on that debt separately. For example, if the debtor has missed two payments, and the agency keeps track of those delinquencies separately, report them together as one debt. If any installment is delinquent more than 180 days, report the debt on the TROR as delinquent more than 180 days.

5.23.2. DoW Components must report the entire amount of each single debt as delinquent, if any part of it has been delinquent more than 180 days and the debt has been accelerated.

5.24 Reporting Receivables in DoW Financial Statements

The procedure for reporting receivables on the quarterly financial statements is to depict the amounts on the Balance Sheet and provide detailed disclosures in the Notes to the Financial Statements. Refer to Volume 6 for detailed instructions on how to perform this reporting and the associated eliminations.

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

5.25.1. Collections normally are received by the disbursing or payment certifying office making or authorizing payments for the contract in dispute, but may be received by others,

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including ARO, supporting accounting offices, DMO, contracting officers, contract administration officers, and legal offices. Upon receiving a collection in a disputed situation, the office must immediately document it as a "disputed contract collection."

5.25.1.1. The procedure for depositing these funds depends on which office originally handled the contract. If DFAS-Columbus (DSSN 6551) paid the contract or was handling debt collection, the collected funds and all related documentation must be forwarded to DSSN 6551 for deposit. The collection voucher will then be used to credit the funds to Treasury deposit account X6501 under departmental prefix 097, with special annotation and a different subhead used if the contract's appropriation has closed. If the disputed collection is related to a contractual obligation in an appropriation that has closed in accordance with 31 U.S.C. § 1552(a) or 31 U.S.C. § 1555, then annotate the collection as a "closed appropriation collection" and credit the collection to deposit fund account X6501 in a different subhead or limit.

5.25.1.2. However, if the collection is for a contract that was not handled by DSSN 6551 or the DMO, the funds must be deposited to the DSSN that originally made the payment, crediting deposit account X6501 with the appropriate departmental prefix (e.g., 017, 021, 057, 096, or 097). In all scenarios, DSSN 6551 is responsible for maintaining control of collections credited to its account and will prepare all vouchers for disbursement or transfer from the deposit account.

5.25.1.3. The DMO and the disbursing officer responsible must notify all relevant parties, such as the contracting officer, of any actions affecting the disputed collection, and those offices must do the same in return.

5.25.2. To disburse funds back to a contractor from a disputed collection, the procedure is to first charge the principal repayment amount, including any interest or fees that were part of the original collected debt, to deposit account X6501. If the settlement or judgment also requires the payment of additional interest that has accrued since the collection, that specific amount must then be charged to the applicable, currently available appropriation account.

5.25.2.1. When the availability period for a disputed collection expires, the procedure for handling the unused funds depends on the status of the original appropriation. If the appropriation has closed for standard reasons but was not canceled, the principal amount is credited back to that original account, an adjustment is made to the related contract amounts, and any collected interest and fees are credited to the appropriate Treasury Miscellaneous Receipts accounts.

5.25.2.2. In cases where the appropriation was canceled, the procedure is to withdraw the entire amount from the deposit account; the principal is then credited to Treasury General Fund Receipt Account 3200, "Collection of Receivables from Canceled Accounts," while the interest and fees are credited to the "Miscellaneous Receipts-Defense" account.

6.0 INVENTORY AND RELATED PROPERTY

6.1 Valuation Concepts

6.1.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.1.2. To determine ending balances and the cost of goods sold or consumed, policy requires the application of a cost flow assumption, specifically First-In, First-Out (FIFO), Weighted Average Cost (WAC), or Moving Average Cost (MAC). Refer to below for a MAC example. Any other valuation method compliant with Generally Accepted Accounting Principles (GAAP) may be used, but only if its results reasonably approximate one of these three historical cost methods. The FIFO method assumes the oldest items purchased are the first ones consumed. The WAC method calculates an average cost per item by dividing the total cost of all inventory items by the total number of items. The Moving Average Cost (MAC) method revises the inventory value to a new weighted average each time new items are added, which is calculated by dividing the total cost of all available units by the quantity of units at that time (inventory plus current purchases placed into inventory or remanufacturing costs incurred for items in inventory by the quantity of units available at that time).

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Moving Average Cost (MAC) Example

In the MAC calculation, include the repaired units at the lower value between their repaired value and the current purchase price for a new unit of inventory. If the repaired value exceeds the current purchase price, expense the difference. Table A1-1 details an example of the MAC valuation method.

Table A1-1 MAC Valuation Method

Event	Qty	Transaction Value	Ending Quantity	Ending Value
1. Beginning Balance $MAC = \$10,000/10 = \$1,000$	BLANK		10	\$10,000
2. Consumption / Sale of 2 items @ \$1,000 per item $MAC = \$8,000/8 = \$1,000$	-2	(\$2,000)	8	\$8,000
3. Purchase of 4 items at \$1,600 per item $MAC = \$14,400/12 = \$1,200$	+4	\$6,400	12	\$14,400
4. Sale of 1 item @ \$1,200 per item $MAC = \$13,200/11 = \$1,200$	-1	(\$1,200)	11	\$13,200
5. Repair of 4 items at \$1,675. Current Purchase Price is \$1,500. $MAC = \$19,200/15 = \$1,280$	+4	\$6,000	15	\$19,200
6. Sale of 1 item at MAC \$1,280 ($\$19,200/15$ items = \$1,280 per item)	-1	(\$1,280)	14	\$17,920

1. Beginning balance for 10 items is \$10,000. Each item is valued at \$1,000.
2. Two items are consumed or sold. Each item is still valued at \$1,000. Ending value is \$8,000.
3. Four items were purchased for \$1,600 each or \$6,400 total. Ending value is now \$14,400 (\$8,000 + \$6,400). Each item is now valued at \$1,200 (\$14,400 / 12 items).
4. One item is consumed or sold. Each item is still valued at \$1,200. Ending value is \$13,200.
5. Four items previously Held for Repair, now repaired, enter Held for Use or Held for Sale. Value of items for transfer is \$1,675 per item or \$6,700 total. Current purchase price is \$1,500 per item or \$6,000 total. The four items are transferred to inventory at the current purchase price of \$1,500 per item or \$6,000 total. The remaining \$700 associated cost of the repaired item, \$175 per item, is expensed. Ending value is now \$19,200 (\$13,200 + \$6,000). Each item is now valued at \$1,280 (\$19,200 / 15 items).
6. One item is consumed or sold. Each item is still valued at \$1,280. Ending value is \$17,920.

6.2 Net Realizable Value (NRV)

To implement the write-down policy, the procedure begins with estimating the item's Net Realizable Value (NRV). This is done by considering prior disposal proceeds for similar items, obtaining quotes from buyers, or employ other reasonable methods for disposing of the item through a Qualified Recycling Program (QRP) or other means, rather than transferring it to Defense Logistics Agency (DLA) Disposition Services, if applicable. Once the NRV is determined, the difference between the item's carrying amount and its estimated NRV must be recorded as a loss or gain, and a corresponding allowance for a Working Capital Fund (WCF) must be created. It is critical to prepare and retain all documentation supporting this NRV calculation. For financial reporting, the item should be included in its respective line item on the financial statements, with the write-down either disclosed separately in the footnotes or shown as its own line item. Refer to Defense Logistics Manual 4000.25 for details on how to dispose of EOU using DLA Disposition services.

6.3 Held for Repair

The procedures for handling items held for repair differ based on the chosen accounting method. Under the Allowance Method, the item is initially valued as if it were serviceable, but a contra-asset allowance account is created for the estimated cost of repairs. As repairs are performed, the costs are charged against this allowance, which must be adjusted at least annually. Alternatively, under the Direct Method, the item is valued at the serviceable price minus the estimated repair cost. As repairs are made, these costs are capitalized up to the value of a serviceable item, and any difference between the initial estimate and the actual cost is recorded in the repair expense account.

6.4 Alternative Valuation Methodologies for Establishing Opening Balances

6.4.2. Alternative Valuation Methodologies

6.4.2.1. Standard (Selling) Price. Standard price is the latest known representative acquisition cost plus authorized cost recovery rate for each item of inventory and related property. This price is established annually and is often referred to as selling price. Selling price and fair value may or may not be identical due to the intragovernmental nature of some sales.

6.4.2.2. Fair Value. Fair value is 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.

6.4.2.3. Latest Acquisition Cost (LAC). LAC assumes the latest acquisition inventory cost for all existing stock of the same product, regardless of older purchase prices. When applying the LAC valuation, management periodically revalues the inventory and establishes an allowance account for the unrealized holding gains and losses associated with ending inventory.

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6.4.2.4. Replacement Cost. A replacement cost is an 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.

6.4.2.5. Estimated Historical Cost (initial amounts). A reasonable estimate of historical cost may be based on cost of the same or similar assets at the time of acquisition, current cost of the same or similar assets discounted for inflation since the time of acquisition or other reasonable estimation methods, including methods based on information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended.

6.4.2.6. Actual Historical Cost (initial amounts). Actual Historical Cost (initial amounts) refers to the original cost of an asset or liability, typically recorded at the point of acquisition or initial recognition. It represents the price paid or other consideration given for the asset or liability at the time it was initially recognized in the financial records.

6.5 Inventory (Applicable to WCF Only)

6.5.1. Recognition of Inventory

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.5.2. Reconciliations

The reconciliation involves comparing the general ledger inventory line items with detailed accountability records. This reconciliation procedure specifically mandates that it includes data from multiple modules within Enterprise Resource Management systems and covers inventory owned by the entity but not in its direct custody. Following this reconciliation, the procedure requires activities to research and resolve any identified discrepancies and then to implement system and business process controls to mitigate future errors.

6.5.3. Physical Inventory Counts

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.6 War Reserve Materiel (WRM)

Components must calculate their WRM requirements annually or as needed based on their duties to prepare for potential conflicts. In terms of budgeting, the appropriated amounts for WRM must be reflected as a distinct goal within the annual operating budget letter for the relevant supply management or Commissary Resale activity. The acquisition and storage process is streamlined, allowing WRM to be purchased with, shipped with, and stored alongside regular inventory items

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in the same facilities. Finally, the accounting procedure requires that the value of all war reserve items is recorded in the standard inventory accounts.

6.7 Work-In-Process

The procedure for managing a work-in-process (WIP) account begins with accumulating all related job costs, including direct, indirect, and G&A expenses. For indirect expenses, a formula may be used for initial application, but this amount must be adjusted to the actual cost at least annually, with any variance recorded as cost of goods sold. When a progress billing is issued to a DoW customer, the procedure is to reduce the manufacturer's WIP account by the invoiced amount, while the purchasing component simultaneously records that same amount as their own WIP. Upon final completion of the order, any parts or supplies manufactured by the Working Capital Fund (WCF) are formally transferred to the Operating Materials and Supplies (OM&S) account.

6.8 Supply Management Activities (SMA) (Applicable to WCF Only)

6.8.1. SMA Items

6.8.1.1. Subsistence Items. Provide healthy, nutritious food items to Armed Forces members and other authorized persons. Subclasses of subsistence items include inflight and combat rations and refrigerated and nonrefrigerated subsistence. Supply management activities and the DeCA must plan, procure, manage, distribute, and ensure the wholesomeness of subsistence products.

6.8.1.2. Military Clothing Allowance. Sold by a military clothing resale activity, items sold in a ship's store, and personal items for health, comfort, and recreation. The Under Secretary of War for Personnel and Readiness oversees all matters concerning clothing monetary allowances for DoW Components. DoWI 1338.18 assigns management responsibility to the supply management activities for items procured primarily for sale to members of the Armed Forces and other individuals or organizations authorized by legislation. Allowance amounts are published in Volume 7 "Clothing Monetary Allowances."

6.8.1.3. Military Clothing and Textile Items and Individual Equipment. The Joint Clothing and Textiles Governance Board coordinates, advises, and recommends solutions for the development and fielding of DoW clothing and textile items, including Service-specific combat and camouflage utility uniforms and families of uniforms. The USW(A&S) establishes DoW policy and develops implementing guidance on all matters relating to the DoW clothing and textiles supply chain. The Department authorizes military exchange systems to act as agents of the supply management activity to sell military clothing and textile items to members of the Armed Forces at standard prices. This supply activity also includes combat equipment, tentage, tool sets and kits, hand tools, and cleaning equipment and supplies. The standard price is the price customers are charged which reflect DoW's stabilized price policy requiring item pricing that

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remains constant throughout the fiscal year for Inventory Control Point managed items. Exceptions to the requirement to maintain standard pricing throughout the fiscal year are outlined in Volume 11.” The standard price is calculated based on the replenishment cost of the item plus charges to recover costs for transportation, inventory loss, obsolescence, maintenance, depreciation, and supply operations. See Volume 2 for additional guidance on pricing.

6.8.1.4. Fuel. DoW Components must purchase fuel through DLA. The DLA bills DoW customers at standard prices and other Federal and Non-Federal government customers at cost plus the approved DLA surcharge. DLA may authorize DoW customers in remote locations to procure fuel on the local market, and DLA or the customer may pay for the fuel depending on the circumstances, in accordance with DoW 4140.25-M. If the DoW customer pays for the fuel, DLA will reimburse the customer for the actual cost of the fuel and bill for the fuel based on standard prices. The fuel supply class also includes preservatives, liquid and compressed gases, chemical products, coolants, deicing products, and antifreeze components.

6.8.1.5. Construction Materials. Supply management activities must manage installed equipment, and fortification and barrier materials, including construction materials such as wood, wire, cement, barrier materials, and sandbags.

6.8.1.6. Medical. The supply management activities must manage preventive medicine items, medical equipment, and other medical materials, including pharmaceutical, surgical, dental, laboratory, radiological, and optometric supplies.

6.8.1.7. Initial Spares. Initial spares are consumable or repairable spare and repair parts that support newly fielded weapons systems or equipment during its initial period of operation until the regular supply system can fully support the demand generated by the systems. Replenishment spares are spare and repair parts needed to maintain the system when it first enters service. The component activity that owns the weapon system is responsible for funding the initial spares. Therefore, the program office or another acquisition office within the component Activity is responsible for acquiring initial spares and stock required to support a weapon system based on the material support date. Program managers must use their appropriated funds and may use supply management activities’ contracting capabilities to acquire initial spares. The component activity may purchase the initial spares and legally transfer ownership without reimbursement using DoW (DD) Form 1150, “Request For Issue/Transfer/Turn in.” The component activity must record the associated accounting budgetary and proprietary entries for the purchase of the initial spares as OM&S prior to their transfer to the supply management activity. The supply management activity will record the associated accounting budgetary and proprietary entries to add the initial spares to its WCF accounting records. The transfer of initial spares is fully documented, and the supporting audit documentation is retained.

6.8.1.8. Nonmilitary Programs. The supply management activities must manage materials used to support nonmilitary or civic action programs and sell these materials at standard prices. These programs aim to promote agricultural and economic development.

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6.8.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.9 Issues Without Reimbursement

6.9.1. Issue or Transfer.

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.9.2. Domestic Civil Emergency. Funding is available to cover the costs of the relief effort; an accounts receivable is established for such amounts, and the supply management activity is reimbursed for any outstanding accounts receivable.

6.9.3. Civil Disturbances. Federal military commanders have the authority to engage temporarily in activities that are necessary to quell large-scale, unexpected civil disturbances where prior authorization by the President is impossible and local authorities are unable to control the situation. A receivable account is established for such amounts, and the supply management activities is reimbursed for any outstanding accounts receivable based upon the procedures provided in Volume 11, “Reimbursements and Revenue Recognition - Defense Working Capital Funds.” Volume 16, “Department of War Debt Management” also provides guidance on the write-off of uncollectible receivables from the public.

6.9.4. Foreign Disaster Relief (FDR). In terms of procedure, the Director of the Defense Security Cooperation Agency (DSCA) is responsible for identifying the necessary funds or resources to support potential FDR operations. DSCA must then identify and report the estimated costs associated with potential DoW FDR operations, as well as the actual costs and resources committed to each operation, to both the Assistant Secretary of War for Special Operations and Low-Intensity Conflict and the Under Secretary of War (Comptroller)/Chief Financial Officer, DoW. Concurrently, the Commander of the United States Transportation Command is required to report the estimated and actual costs for transportation to the comptroller of the appropriate geographic Combatant Command for inclusion in the final FDR cost reports.

6.9.5. North Atlantic Treaty Organization (NATO) Country

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.9.6. Military Emergency. Individual expenditures exceeding \$100,000 require a description of the purpose, amount, approving authority, and justification and a receivable account is established for these amounts.

6.9.7. War Reserve Assets (WRA).

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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6.9.8. Deficiencies in War Reserve Requirements. A supply management activity item may be issued at any level to satisfy customer requisitions, wholesale, or retail, are reimbursable from war reserve reinvestment appropriations.

6.9.9. Items Nearing End of Shelf Life

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.9.10. Logistical Management Transfers. When the OUSW(C) and the USW(A&S) designate a logistical management transfer, the transferring entity records an increase to inventory at the value of the item being transferred from a GF appropriation entity to the supply management activity group. Typically, the transferring entity does not receive reimbursement for items transferred through a logistical management transfer. However, with prior approval from the OUSW(C), the transferring account may receive reimbursement for inventory transfers-in if the inventory was on order but undelivered at the time of the transfer, the transferring account is not financed by the WCF, and the transferring account ordered the inventory based on a reimbursable order from a customer.

6.9.11. Logistical Management Transfers Between Supply Management Activities. Wholesale item managers who send and receive must validate the inventory on order to ensure the supply pipeline is adequately filled. The receiving item manager is responsible for making payments to the vendors (through delivery order modification) or to the sending activity that funded the delivery order when the inventory is transferred, ensuring proper inventory and cash management.

6.10 Loans and Leases

6.10.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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

6.10.2.1. DoW Funded Customers. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.10.2.2. U.S. Secret Service. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.10.2.3. Civilian Law Enforcement Officials. Requests for loan or lease or other use of equipment or facilities are subject to approval by the DoW Components, unless approval by a higher official is required by statute or DoW issuance. Requests for arms, ammunition, combat vehicles, vessels, and aircraft must be submitted to the SecDef for approval.

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6.10.2.4. State and Local Governments. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.10.2.5. National Veterans' Organizations. The organization must secure a bond before granting the loan. This bond serves as a security deposit, set at the item's current standard price, to ensure that the organization has a financial incentive to return the item in the same condition as it was loaned. The bond will cover damages or loss if the organization does not return the item in good condition.

6.10.2.6. American National Red Cross. A bond equal to twice the value of the property is required for care and safekeeping for the loaned property before the item is loaned or leased.

6.10.2.7. Inaugural Committee. The committee must agree to a sufficient bond to return the property in good condition, indemnify the United States for any loss of, or damage to, the property, and pay any expense incurred for the delivery, return, rehabilitation, replacement, or operation of the property.

6.10.2.8. Boy Scout Jamborees. Items are returned after the close of the jamboree. A sufficient bond for the safe return of such property in good order and condition and without expense to the United States, including transportation costs, is obtained before the items are loaned.

6.10.2.9. Shelter for the Homeless, Incidental Services. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.10.2.10. Humanitarian Relief. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.10.2.11. Foreign Countries or International Organizations. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.10.2.12. Other Leases. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.11 Government Furnished Material (GFM)

When GFM is provided to a third party that fulfills an inventory control or warehousing function on behalf of the supply management activity, continue to value inventory in appropriate accounts, ensure arrangements include terms and conditions to report actions to the owning Component to satisfy financial reporting requirements (e.g. participate in quarterly reconciliations), and adjust inventory accounts as necessary as items are issued for use to reflect actual amounts. When GFM is provided for consumption, record the value of items issued for the consumption and benefit of another supply management activity, as an expense record the value

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of items issued for fabrication, assembly, or disassembly for the benefit of another supply management activity, as work-in-process. The return of GFM items by a contractor is accounted for as a customer return of material without credit. The cost of forgings and castings used as GFM should be included in the production and acquisition cost of the item. Assign a stock number to each forging, casting, and mold, and record them as assets in an appropriate account. Record the cost of any broken or lost forgings, castings, and molds as a current period operating expense. Store these items for use as GFM in future procurements. Upon receipt of the repaired item, the item is transferred to inventory held for sale.

6.12 Supply Management Activity Transfers

6.12.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.12.2. Transfers In Without Reimbursement. The activity that ordered the item must pay bills for inventories on order at the time of the transfer. The receiving supply management activity will reimburse the sending activity for inventories on order as the deliveries are made for transfers from other WCFs.

6.12.3. Transfers of Reimbursable Procurements. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.12.4. Stock Withdrawal Authorizations. The supply management activity may issue items to the specified customer up to a fiscal year, without reimbursement, upon receipt of an approved stock withdrawal authorization. The authorized limit is calculated as the lesser of one quarter of the quantity transferred to the supply management activity or one year's quantity based on the average amount consumed for the previous three years.

6.12.5. Logistical Management Transfers. When the approval for the logistical management transfer of an item(s) is granted, an increase or decrease to inventory for a nonreimbursable transfer is recorded at the value of the item(s) being transferred.

6.13 Depot Level Repairables

6.13.1. Exchange Transaction. Seller may bill the customer for any costs that they would not have incurred if the item had been received. A carcass may be received before an exchange sale. The supply management activity must record the carcass in inventory and establish a liability upon receipt. When a serviceable item becomes available for issue, the activity will reverse the liability, and the exchange sale will proceed normally.

6.13.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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6.13.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.14 Return of Items to the Supply Management Activity

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.15 OM&S (Applicable to GF and WCF)

6.15.1. OM&S Types

6.15.1.1. OM&S Held for Use is tangible personal property that is available for immediate use and ready for consumption in normal daily operations. OM&S Held in Reserve for Future Use are items not readily available in the market and there is a remote chance that it will be needed. The criteria considered by management in identifying operating materials and supplies held in reserve for future use must be disclosed in the notes to the financial statements. OM&S EOU Items That Cannot Be Effectively Used have EOU status due to aged technology, outdated laws, old customer preferences, or aged operations. OM&S Held for Repair are items awaiting repair due to damage or malfunction. OM&S In Development are costs, direct and indirect, for developing OM&S, including costs of tangible personal property consumed in normal operations part of development. Once development is complete, the costs are typically transferred to OM&S Held for Use. OM&S In Transit are items currently in shipping. OM&S In Transit includes items not yet accepted in the receiving process at their final designated destination. OM&S In Transit also includes material moved between storage locations or temporarily in use or on loan with contractors or schools. Constructive delivery occurs when a recipient receives title based on the terms of the contract regarding shipping and delivery, even though the physical items haven't been physically delivered.

6.15.1.2. Long Range Ballistic Missiles (LRBMs). Considered OM&S. DoW Components must classify LRBMs consumed in normal operations as held for use, held in reserve for future use, or EOU. DoW Components must promptly reclassify missiles as OM&S if they previously classified them as equipment and document the necessary prior period adjustments to their financial statements.

6.15.2. Recognition and Valuation of OM&S

The consumption method is applied to recognize expenses. However, before applying this method, an assessment should be made. If the OM&S in question meets any of the three exception criteria, being insignificant in amount, in the hands of an end user, or not cost-beneficial to track via the consumption method, then the purchases method may be implemented instead. This determination dictates which accounting procedure to follow for specific OM&S. Generally, material at an end user is not transferred to another location for consumption.

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6.15.2.1. When using the consumption method, remove the cost of goods from the applicable OM&S asset account and report it as an operating expense in the period when they use or issue the items to an end user for consumption in normal operations.

6.15.2.2. When using the purchases method, Components must maintain analyses and conclusions documenting the accounting position to use the purchases method. DoW Components must perform a review of their position at least once every three years and make it available to auditors from one fiscal year to the next.

6.16 Stockpile Materials - (Applicable To Revolving Fund Only)

6.16.1. Roles and Responsibilities

6.16.1.1. The NDSTF receives resources from diverse sources, including direct appropriations, transfers from other appropriations, transfers of physical assets, and disposal proceeds, and thus is not strictly a revolving fund.

6.16.1.2. Annually DLA compiles the NDSTF Agency Financial Report (AFR). The AFR reports the financial position and NDTSF operating results in the form of financial statements and is consolidated into the DoW's agency-wide financial statements.

6.16.1.3. DFAS provides accounting reports and additional supporting supplemental financial information to DLA-SM for preparation of the DoW, "Strategic and Critical Materials Report to the President and Congress".

6.16.2. Recognition and Valuation of Stockpile Materials

The cost of stockpile materials is removed and reported as an operating expense when issued for use or sale. The financial inventory balance of the National Defense Stockpile is maintained on a historical cost basis as supported by "laid-in cost". In accounting terms, laid-in cost is used by wholesalers or suppliers and includes additional costs incurred to place the goods in inventory (e.g., a manufacturer's invoice price and freight). In addition, alternative valuation methodologies may be used to establish beginning balances.

6.16.3. Material Acquisition

Funding authorization may be in the form of new appropriations, an authorization to spend from the available balance of the Transaction Fund, or from sales proceeds from authorized disposals. When the material is received, it is recorded in the inventory accounting system and the general ledger inventory account, accounts payable, and as a decrease to undelivered orders. The inventory accounting system must be reconciled to the general ledger inventory account each month. A physical inventory count should be conducted at least annually.

6.16.4. Material Upgrade

When DoW Components deliver material to a contractor for upgrading, management transfers it from the stockpile inventory to the contractor. Upon returning the upgraded material, the DoW Components determine a new unit cost by adding the upgrading costs to the original inventory value. Management then transfers the upgrading cost and the original cost of the material from the contractor account to the on-hand stockpile inventory account.

6.16.5. Material Disposals

Disposal sales of marketable commodities are offered on a bid auction or negotiated sales basis. Material disposals are accounted for as sales, and the original cost of the material is removed from inventory and recorded as cost of sales.

6.16.6. Exchange Transactions

6.16.6.1. Exchange settlements liquidate an obligation for material upgrade and acquisition and must be accounted for within the budgetary accounts to affect the liquidation of the original contractual obligation within the accounting records.

6.16.6.2. Bid deposits received are held as advances until returned or recorded to sales proceeds upon delivery of material to successful buyers. The purchaser of the material is allowed a specified number of days in which to pick up the material, after which time storage charges are assessed. Any such storage charges are billed to the purchaser.

6.16.6.3. Additional billings for delayed pickup of material are also applicable to the exchange settlement disposals. Collections are received by the DNSC via electronic fund transfer. ADD Form 1131, "Cash Collection Voucher" and confirmed deposit are sent to the DFAS Accounting and Finance Office for recording in the accounting records upon receipt of the funds.

6.16.7. Inventory Adjustments. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

6.16.8. Research Grants

The grant recipient is included in the appropriation act or requisite legislation. The Administrator, DNSC, is the grant administering official. See Volume 12 for additional guidance on accounting for research grant funds.

6.16.9. Relationship of General Ledger Accounts to Logistic Supply Condition Codes and Stratifications

6.16.9.1. A supply condition code is an alphabetic designation that classifies material according to its readiness for issue and use or identifies any change in the material's

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status. The financial value is represented by the general ledger amounts, while the logistic supply condition code categorizes the physical inventory condition. The supply condition codes dictate the general ledger account postings based on the inventory item's condition. Current DoW supply condition codes are defined in DLMS Volume 2 “Supply Standards and Procedures”.

6.16.9.2. Further, the DoW collects, maintains, and reports on inventory data to provide visibility of retail and wholesale requirements, demand, overages, and shortfalls using inventory stratification categories. DoW Manual 4140.01, Volume 10, “DoW Supply Chain Materiel Management Procedures: Supply Chain Reporting and Metrics” details the inventory and materiel stratification process. Additionally, information on supply management of EOU and potential reutilization stock is available in DoW Manual 4140.01, Volumes 6 and 10.

The tables A2-1 through A2-3 illustrate the relationship between USSGL/DoW accounts and logistics supply condition codes and stratifications. For questions about logistics supply condition codes and inventory stratification categories, contact DEDSO.Supply@dla.mil.

Table A2-1 Logistics Inventory Stratification vs General Ledger Accounts

Category	Serviceable	Unserviceable	Repair	Retain
Excess	USSGL 152400	USSGL 152400	No	No
Contingency Retention	USSGL 152200	USSGL 152300	No	Yes
Economic Retention	USSGL 152200	USSGL 152300	No	Yes
Approved Acquisition Objective (AAO)	USSGL 152100	USSGL 152300	No	Yes
Requirement	USSGL 152100	USSGL 152300	Yes	Yes

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Table A2-2 Relationship of Inventory USSGL Accounts to Logistic Condition Codes

USSGL Account	Supply Condition Codes
152100 Inventory Purchased for Resale	A Serviceable (Issuable Without Qualification) B Serviceable (Issuable With Qualification) C Serviceable (Priority Issue) D Serviceable (Test/Modification) T Serviceable (Ammunition Suitable for Training Use Only) U Serviceable (Limited Remaining Life Before Failure) Use this account to record amounts for inventory with condition codes A-D and T up to the AAO. [Excludes Excess, Economic Retention and Contingency Retention Inventory]
152200 Inventory Held in Reserve for Future Sale	E Unserviceable Repairable (Limited Cost to Restore) K Suspended (Returns) L Suspended (In Litigation) N Suspended (Ammunition Suitable for Emergency Combat Use Only) Q Suspended (Product Quality Deficiency) Use this account to record amounts for inventory with condition codes A-D and T that is greater than the AAO and is retained for economic or contingency purposes. Include all inventory designated as E, J, K, L, N, and Q in this account. [Excludes Excess Inventory]
152300 Inventory Held for Repair	F Unserviceable (Repairable) G Unserviceable (Incomplete) M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination)

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	X Suspended (Repair Decision Delayed) Use this account to record amounts for all inventory with condition codes F, G, M, and R that is greater than the AAO and is retained for economic or contingency purposes. [Excludes Excess Inventory]
152400 Inventory – Excess, Obsolete, or Unserviceable	H Unserviceable (Condemned) P Unserviceable (Reclamation) S Unserviceable (Scrap) V Unserviceable (Waste Military Munitions) [Includes Serviceable and Unserviceable Excess Inventory]

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Table A2-3 Relationship of OM&S USSGL Accounts to Logistic Condition Codes

U.S. General Account	Standard Ledger	Supply Condition Codes
151100 OM&S Held for Use		A Serviceable (Issuable Without Qualification) B Serviceable (Issuable With Qualification) C Serviceable (Priority Issue) D Serviceable (Test/Modification) T Serviceable (Ammunition Suitable for Training Use Only) Use this account to record amounts for OM&S with condition codes A-D and T up to the AAO. [Excludes Excess, Economic Retention and Contingency Retention OM&S]
151200 OM&S Held in Reserve for Future Use		E Unserviceable Repairable (Limited Restoration) J Suspended (In Stock) K Suspended (Returns) L Suspended (In Litigation) N Suspended (Ammunition Suitable for Emergency Combat Use Only) Q Suspended (Product Quality Deficiency) Use this account to record amounts for OM&S with condition codes A-D and T that is greater than the AAO and is retained for economic or contingency purposes. Include all inventory designated as E, J, K, L, N and Q in this account. [Excludes Excess OM&S]
151300 OM&S – Excess, Obsolete, or Unserviceable		H Unserviceable (Condemned) P Unserviceable (Reclamation) S Unserviceable (Scrap) V Unserviceable (Waste Military Munitions) [Includes Serviceable and Unserviceable Excess OM&S]

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151400	F Unserviceable (Reparable)
OM&S Held for Repair	G Unserviceable (Incomplete)
	M Suspended (In Work)
	R Suspended (Reclaimed Items, Awaiting Condition Determination)
	Use this account to record amounts for all OM&S with condition codes F, G, M, and R.
	[Excludes Excess OM&S]

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

7.1 Accounting for Real Property

7.1.1. Description

Real property is a subset of General Property, Plant, and Equipment (General PP&E).

7.1.1.1. General PP&E consists of tangible assets that:

7.1.1.1.1. Have an estimated useful life of two years or more;

7.1.1.1.2. Are not intended for sale in the ordinary course of operations;

and

7.1.1.1.3. Are acquired or constructed to be used or available for use by the

entity.

7.1.1.2. Characteristics of Real Property. Real property assets are used in providing goods or services, or supporting the mission of the entity, and have one or more of these characteristics:

7.1.1.2.1. The item could be used by other DoW or federal programs, state or local governments, or nongovernmental entities;

7.1.1.2.2. The item is used in business-type activities, which are defined as a significantly self-sustaining activity financing its operations through the collection of exchange revenue; and/or

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7.1.1.2.3. The item is used by entities whose costs can be compared to similar activities (e.g., federal hospital services in comparison to commercial hospitals).

7.1.1.3. Real Property Assets (RPAs) consist of facilities, land, and land rights.

7.1.1.3.1. Facilities are buildings, structures, or linear structures that are permanently constructed on or in the land. Facilities include equipment affixed to the real property asset that facilitates the use of and is inclusive and intrinsic to the facility itself, such as heating, ventilation, and air conditioning equipment; utility connections; stairs; ramps; and passageways.

7.1.1.3.1.1. A building is a roofed and floored facility enclosed by exterior walls and consisting of one or more levels that is suitable for multiple functions and that protects occupants and their properties from the direct harsh effects of weather.

7.1.1.3.1.2. A structure is a facility, other than a building or linear structure, that is constructed on or in the land.

7.1.1.3.1.3. A linear structure is a facility that traverses land (e.g., runway, road, rail line, pipeline, fence, pavement, electrical distribution line) or is otherwise managed by a linear unit of measure at the category code (i.e., CATCODE) level. RPA Type Code (B, S, LS, L) is managed at the DoW-level Facility Analysis Category

7.1.1.3.2. Land is a portion of the earth's surface distinguishable by boundaries. Land must be accounted for by parcel when the parcel is transferred into a Host Installation's custody and control. Excluded from the definition are natural resources, including depletable resources such as mineral deposits and petroleum, and renewable resources such as timber and the outer continental shelf resources related to land.

7.1.1.3.3. A land right is an interest and privilege in land owned by others, such as leaseholds, easements, water, diversion rights, mineral rights, and other like interests in land.

7.1.1.4. Inclusions. Real property also includes:

7.1.1.4.1. Leasehold improvements (See "Accounting for Leases" for a discussion of accounting for real property acquired through leases);

7.1.1.4.2. Items for which a Military Department or Washington Headquarters Services (WHS) financially reports or has accountability of, even though these items may be possessed by others (e.g., state and local governments, colleges and universities, or contractors);

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7.1.1.5. Exclusions. Real property excludes:

7.1.1.5.1. Items where the DoW has a reversionary interest (for example, the DoW grants real property; if the recipient no longer uses the real property for the grant purpose, it reverts to the DoW);

7.1.1.5.2. Lands withdrawn from the public domain for specific uses. To the extent consistent with statutory authorities, an entity may withdraw public land from sale, settlement, or recreational for specific use, such as to expand buffer zones for security or training needs.

7.1.1.5.3. Non-Multi-Use Heritage Assets or Stewardship Land (see descriptions in “Heritage Assets, Multi-Use Heritage Assets and Stewardship Land”).

7.1.1.5.4. Leases of real property (see Chapter 26 for additional information).

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 is not dependent on whether the funds are appropriated or working capital funds.

7.1.1.6.1.1. Acquisition Cost is the original purchase or construction cost, net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses must be recognized as operating expenses. The amounts initially determined and recorded are referred to as the historical cost of an asset. Real property is valued at historical cost.

7.1.1.6.1.2. Net Book Value (NBV) is the recorded cost of a real property asset, less its accumulated depreciation, amortization, or depletion from the asset's original cost.

7.1.1.6.1.3. Fair Market Value is the current exchange amount in a transaction between willing parties, other than in a forced or liquidation sale.

7.1.1.6.1.4. Ancillary Costs are identifiable, necessary, and include other direct and indirect costs. Acquisition and ancillary costs are included in the recorded cost of the asset. Examples include:

7.1.1.6.1.4.1. Labor and other direct or indirect production costs;

7.1.1.6.1.4.2. Engineering, architectural, and other outside services for designs, plans, specifications, and surveys after funding and design authorization;

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7.1.1.6.1.4.3. Facilities acquisition and preparation costs;

7.1.1.6.1.4.4. An appropriate share of construction equipment;

7.1.1.6.1.4.5. Fixed equipment and related installation costs required for activities in a building or facility;

7.1.1.6.1.4.6. Allowable inspection, supervision, and construction contract administration and construction work direct costs;

7.1.1.6.1.4.7. Legal and recording fees and damage claims;

7.1.1.6.1.4.8. Fair market value of facilities and installed equipment donated;

7.1.1.6.1.4.9. Interest paid directly to goods or services providers related to the acquisition or construction (not including late payment interest penalties).

7.1.2. Method of Acquisition or Transfer Determines Recorded Cost

7.1.2.1. Purchased Real Property. Recorded cost for real property assets purchased from a private, commercial, or state or local government includes the purchase contract cost plus applicable ancillary costs. Purchases by cash, check, or progress payments on contracts or purchase agreements are included.

7.1.2.2. Constructed Real Property. Recorded cost for constructed real property asset(s) is the sum of all the costs incurred to bring the real property asset(s) to a form and condition suitable for its intended use. Project design and actual construction costs, such as labor, materials, and overhead costs, are included. Preliminary planning and design costs prior to funding and design authorization are excluded. For Construction in Progress (CIP) cost recognition, see subparagraph 7.1.6.

7.1.2.3. Donated Real Property. Recorded cost for real property received through donation, execution of a will, or judicial process, excluding forfeiture, is estimated fair market value when received plus any costs incurred to bring the asset into service (e.g., legal fees). Assets transferred from a Non-Federal Entity (NFE) are donations, including assets transferred or reverted to the Federal government at the end of a land lease or end of a Military Housing Privatization Initiative.

7.1.2.4. Exchanged Real Property. Recorded cost for real property acquired through exchange between the DoW and a nonfederal entity is the fair market value of the consideration surrendered when exchanged. If the fair value of the real property acquired is more readily determinable than that of the consideration surrendered, the cost will be the fair value of the real property acquired. If fair market value cannot be determined, the cost is the consideration

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surrendered, net of any accumulated depreciation/amortization. Any difference must be recognized as a gain or loss. If cash consideration is included, the cost is increased by the cash consideration surrendered or decreased by the cash consideration received. If the fair market value is less than the consideration surrendered, the real property acquired cost is its fair market value. A loss must be recognized equal to the difference between the consideration surrendered and its fair market value. Exchanges between DoW Components or a federal agency must be accounted for as transfers.

7.1.2.5. Seized and Forfeited Real Property. The recorded cost for real property acquired through seizure or forfeiture is its fair market value, less any liens or claims from a third party.

7.1.2.6. Vested and Seized Property During Times of War. See *Volume 12* for discussion of vested and seized property during times of contingency operations.

7.1.2.7. Transferred Real Property from a non-DoW Federal agency to DoW. Recorded cost for real property transferred from a non-DoW Federal agency to a DoW Component is the cost recorded on the transferring entity's books, net of any accumulated depreciation/ amortization. If the receiving DoW Component cannot reasonably ascertain those amounts or the transfer is related to a non-capitalized asset, the cost is its fair market value when transferred. DoW Components should retain documentation supporting the transfer. See Table 19-3 for examples of supporting documentation.

7.1.2.8. Transfer of Capitalized Real Property between DoW Components must adhere to the following:

7.1.2.8.1. The recorded cost for real property transferred from one DoW Component to another is the gross cost net of accumulated depreciation/ amortization on the transferring DoW Component's books. The DoW Component transferring the real property must provide the gross cost recorded net of accumulated depreciation/amortization for the transferred asset. Both parties must agree to the transfer and document the agreement. Each DoW Component must complete requisite tasks in a timely manner.

7.1.2.8.2. The transferring DoW Component must provide financial reporting and trading partner information to the receiving DoW Component when the asset is transferred using the G-Invoicing and Intra-governmental Payment and Collections (IPAC) systems. These data elements include:

7.1.2.8.2.1. Project/Work Order Number;

7.1.2.8.2.2. Name;

7.1.2.8.2.3. RPUID (Real Property Unique Identifier);

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- 7.1.2.8.2.4. Real Property Site Unique Identifier (RPSUID);
- 7.1.2.8.2.5. Contract Number(s);
- 7.1.32.8.2.6. Operational Status Code
- 7.1.2.8.2.7. Acquisition Original Recorded Cost Amount;
- 7.1.2.8.2.8. Capital Improvement Recorded Cost Amounts;
- 7.1.2.8.2.9. Placed-in-service Date (PISD);
- 7.1.2.8.2.10. Capital Improvement PISDs;
- 7.1.2.8.2.11. Facility Total Accumulated Depreciation Amount;
- 7.1.2.8.2.12. Capital Improvement Estimated Useful Life Year
Quantity;
- 7.1.2.8.2.13. Facility Estimated Useful Life Quantity;
- 7.1.2.8.2.14. Facility Estimated Useful Life Adjustment Quantity;
and
- 7.1.2.8.2.15. Applicable MGRS coordinate or other locational/GIS
data;
- 7.1.2.8.2.16. Transaction details including Acquisition Fund Source Code, Acquisition Method Code, and Real Property Asset Predominate Design Use Facility Analysis Code (FAC). If this information is not available, the receiving and transferring entities must develop and document an estimate supporting the financial transfer of the asset. See *Volume 12* for further policy on transfers of DoW real property between Host Installations.

7.1.2.8.3. DoW Components have different capitalization thresholds. Capitalized assets are capitalized and depreciated after transfer, regardless of the new financial reporting entity's capitalization threshold. Expensed assets remain expensed at the new entity. The receiving DoW Components include the assets in their Accountable Property Systems of Record (APSR) as accountable real property.

7.1.2.9. Non-Federal Joint Venture Type Arrangements. When DoW Components engage in jointly funded construction of RPAs with Non-Federal Entities (NFEs) on DoW installations, including improvements and major renovations, such as Non-Appropriated Fund Instruments (NAFI) in construction of buildings used for Morale, Welfare, and Recreation (MWR) or State National Guard in construction of National Guard Readiness Centers (formally known as

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Armories), DoW components must value the RPAs at full cost based on the agreement between the DoW and the NFE.

7.1.2.9.1. Where the agreement stipulates written and expressed rights to be provided to the NFE, such as the expressed right to occupy or use the building after construction, the rights (even if intangible or deemed to be insignificant) consist of an exchange in return for the contribution of funding to the construction. Therefore, the funding contribution from the NFE is considered Other Revenue from Other Financing Sources, recorded under SGL 590000 with the “N” non-federal attribute and the “E” Budgetary Impact Indicator.

7.1.2.9.2. Where the agreement does not stipulate written and expressed rights to be provided to the NFE or where there is no expressed agreement, the funding contribution from the NFE is considered Donated Revenue, recorded under SGL 561000.

7.1.2.9.3. DoW Components must retain appropriate documentation of construction funding agreements, as well as blanket agreements between the DoW and NFEs. DoW components must also retain documentation for acceptance of the RPA that identifies the total cost of the constructed RPA.

7.1.3. Alternative Valuation for Establishing Opening Balances

7.1.3.1. Applicability and Considerations

7.1.3.2. Deemed Cost

7.1.3.2.1. Deemed cost can be used to establish opening balances for real property. Deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances. Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E. The Cost must include all costs incurred to bring the PP&E to a form and location suitable for its intended use. Deemed cost may be based on any, or a combination of, allowable valuation methods such as fair value, estimated historical cost, or replacement cost.

7.1.3.2.2. Fair market value is defined in the Volume 4 Glossary.

7.1.3.2.3. Estimated historical cost may be based on cost of similar assets at the time of acquisition; current cost of similar assets deflated to costs at the time of acquisition by general price index; or other reasonable methods, including latest acquisition cost and estimation methods based on budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended.

7.1.3.2.4. Replacement cost is 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

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useful life. Replacement cost includes Plant Replacement Value (PRV). PRV does not include the value received from disposing of the asset.

7.1.3.2.5. DoW's preferred valuation method for real property facilities is PRV. If a component plans to use another methodology for establishing opening balances of facilities for financial reporting, it must first ensure the methodology complies with GAAP and that the component has sufficient documentation to support the valuation. See Annex 2 for PRV methodology.

7.1.3.3. When establishing opening balances using deemed cost, calculate a gross and an accumulated depreciation value for real property assets. These values are recorded in the accounting records. Adjustments must be properly documented and supported to assist ongoing audit efforts.

7.1.3.3.1. Record the difference between the deemed cost NBV on the opening Balance Sheet of the current fiscal year and the existing/historical NBV of the real property on the previous fiscal year ending Balance Sheet as a prior period adjustment. This prior period adjustment is a change in accounting principle in accordance with *SFFAS 21*, paragraph 13. Deemed cost value depreciation must be recorded using the deemed cost, and existing/historical value depreciation must be removed.

7.1.3.3.2. Remove the existing/historical gross value and accumulated depreciation from the APSR and replace it with the deemed cost gross value and accumulated depreciation. Existing/historical real property value in the APSR and the deemed cost value documentation must be retained.

7.1.3.4. In some cases, the in-service date must be estimated. If only a range of years can be identified, then the midpoint of the range is an acceptable estimate of the in-service date. All improvements included in the opening balances at deemed cost may be treated as if they were placed in service at the date the base unit was placed in service.

7.1.3.4.1. The RPA Command Claimant Code identifies the Service organization that has direct command authority over a real property asset. This code must be reviewed whenever tenant agreements change.

7.1.3.4.2. The RPA Financial Reporting Organization Code identifies the organization responsible to report and depreciate the original asset or capital improvement or both on its financial statements.

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7.1.4. Recognition. Refer to Volume 4 Policy.

7.1.5. Treatment

7.1.5.1. Capitalize the cost of all real property assets, other than land and land rights, that equal or exceed the applicable capitalization threshold and have a useful life of at least two years, and depreciate the cost over the assets' useful lives. Expend the cost of all real property assets below the applicable capitalization threshold or that have a useful life of less than two years.

7.1.5.2. Capitalize Temporary land rights and depreciate or amortize the cost over the specified period of time of the right acquired. For temporary land rights under lease contracts, refer to the guidance described in **Section 7**.

7.1.5.3. Expense the cost of acquiring land and permanent land rights on the statement of net cost when the cost is incurred. The cost includes all costs to prepare general PP&E land or a permanent land right for its intended use (for example, razing a building). The financial statement balance sheet must reference a note that discloses required information about land and permanent land rights, but no asset dollar amount is shown.

7.1.5.3.1. DoW Components that have received an unmodified audit opinion and are currently accounting for General PP&E land and land rights in accordance with SFFAS 6 must keep the land and land rights on the Balance Sheet along with existing disclosures.

7.1.5.3.2. DoW Components that do not already have an unmodified audit opinion must value existing land and land rights at zero dollars and expense future land acquisitions as described in SFFAS 50. Entries to adjust the value of land and land rights to zero represent a change in accounting principle and are subject to the reporting requirements within SFFAS 21.

7.1.5.3.3. In some cases, land may be acquired along with existing structures. If the structure is to be used in operations, the amount related to the structure is estimated and capitalized, while the cost of the land is expense. If the structure is incidental to the acquisition of the land and is not intended to be used in operations, the cost of the entire acquisition is expensed.

7.1.5.3.4. General PP&E land or permanent land rights acquired through donation, legal devise, or a will, or judicial process are not capitalized.

7.1.6. Construction In Progress

7.1.6.1. The journal entries required for the Funding DoW Components and the Host Installation reflect the flow of legal ownership of the asset. The Funding DoW Components do not recognize the asset on their books before transfer to the Host Installation because they do not hold title to and are not the ultimate owners of the real property asset. If the Funding DoW

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Component sub-allots to the DoW Construction Agent (DCA), the DCA is responsible for the same journal entries.

7.1.6.2. Additional costs incurred after the asset is placed in service are accumulated in the Funding DoW Component's CIP account. Upon final contract closeout, the Funding DoW Component relieves the additional accumulated CIP, and the Host Installation adjusts the original acquisition cost. The Host Installation depreciates the revised amount over the remaining useful life of the asset. See paragraph 7.1.2 for Depreciation.

7.1.6.3. See Annex 3 for a detailed outline of the CIP accounting life cycle.

7.1.6.4. DoW Components funding CIP must regularly reconcile their recorded CIP balances with any service provider/contractor working on the CIP. Balances must be supported by appropriate documentation such as invoices and reports of work progress.

7.1.6.5. If a construction project is cancelled, all accumulated CIP costs must be expensed. When a portion of a project is cancelled or decreased in scope, the direct and common costs associated with that portion must be expensed. All projects deferred for more than two years must be reviewed for continuance or cancellation.

7.1.7. Intra-DoW Transfers. Refer to Volume 4 Policy

7.1.8. Memorandum of Agreement. Refer to Volume 4 Policy

7.1.9. WCF Capital Recovery Rate and Accounting Treatment.

WCF recovers real property construction costs funded by the WCF, regardless of financial reporting responsibility. When a real property asset or capital improvement is accepted/recorded by a different reporting entity, the WCF records an imputed cost in lieu of an actual depreciation expense. Capital recovery rates are set in accordance with **Volume 2**.

7.1.10. Inter-Entity Costs. Refer to Volume 4 Policy.

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

7.1.11.1. An agreement exists between the U.S. and the host nation/foreign government (e.g., Cooperative Security Agreement, Bilateral Security Agreement, and Status of Forces Agreement) and the agreement conveys a right to construct and operate real property facilities;

7.1.11.2. The U.S. Government/DoW Component funded the asset's purchase and construction (see SFIS webpage for journal entry with Transaction Code B402). See subparagraph 7.1.5 when the real property acquisition is funded by a DoW Component other than a Host Installation having jurisdiction over the installation on which the real property resides.

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7.1.11.3. The cost incurred is over the DoW Component's real property capitalization threshold (if the asset is partially funded by DoW, only the portion funded by DoW is evaluated against the capitalization threshold and recognized as an asset if applicable);

7.1.11.3.1. The asset has an estimated useful life of two years or more; and

7.1.11.3.2. The DoW Component is using the asset in its operations.

7.1.11.4. Such capitalized assets depreciate over their estimated useful lives. If asset use terminates earlier than the estimated useful life, the asset's remaining NBV is written off.

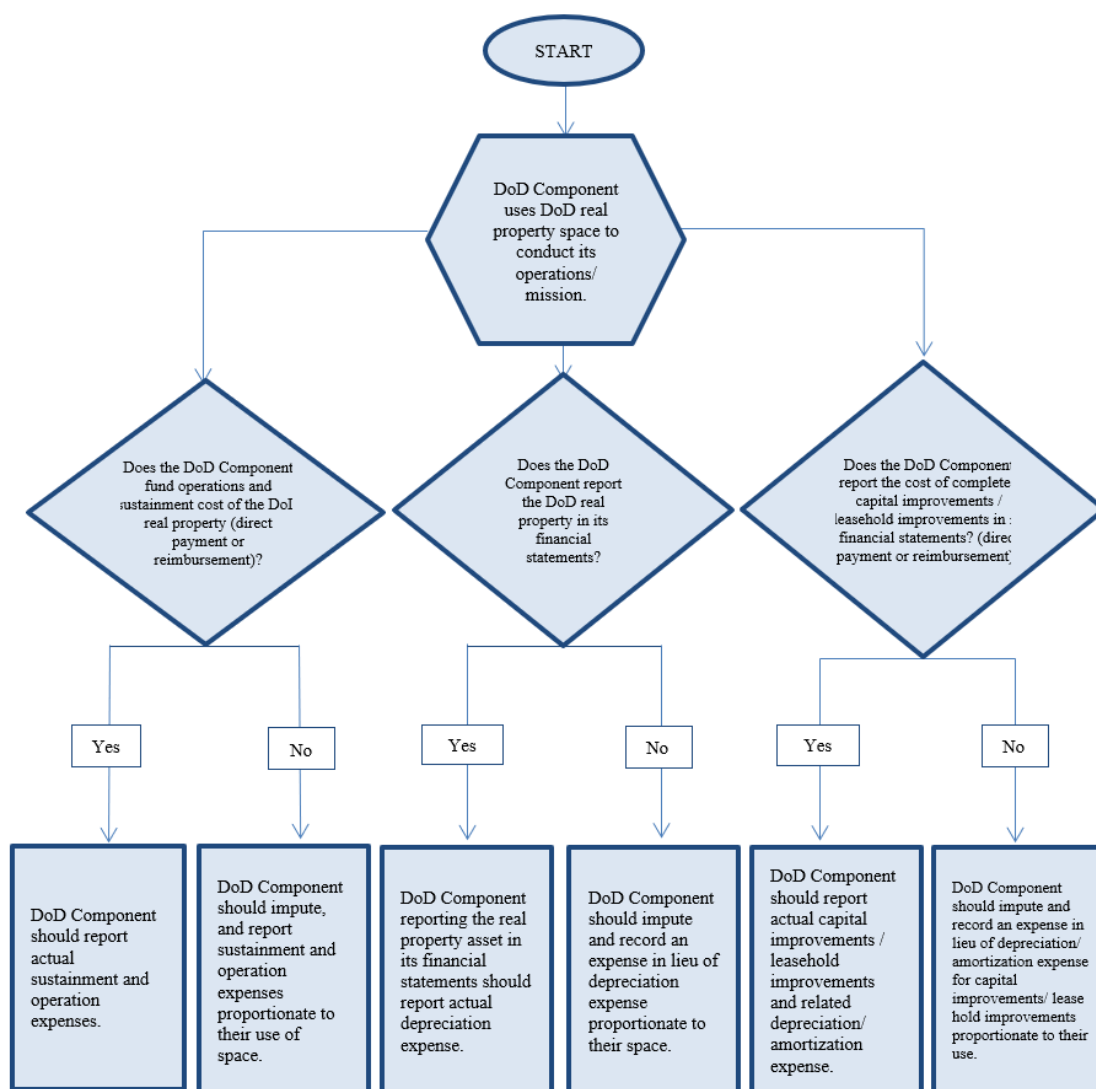
7.1.11.5. When a DoW Component occupies a facility, but the DoW did not fund its acquisition, the DoW Component recognizes such facilities on its financial statements as a lease if a specific agreement with the host nation/foreign government exists and addresses the use of the facility. See Chapter 26 for guidance on real property leases outside of the U.S.

7.1.11.6. SFFAS 4 "Managerial Cost Accounting Standards and Concepts" addresses imputed costs between federal agencies but does not extend to entities outside of the federal context. Therefore, a DoW Component does not record imputed costs for the use and/or occupancy of facilities, for which it does not pay directly or pay through reimbursement, but which are provided by international organizations (e.g., North Atlantic Treaty Organization) or the host nation/foreign government.

7.1.11.7. The Host Installation with jurisdiction over the installation outside of the U.S. must record all real property occupied and used by it in an APSR, regardless of interest type, in accordance with 10 U.S.C. § 2721, DoWI 4165.14, and subparagraphs 1.1.1.1 and 1.1.1.2. Assets that do not meet the criteria for capitalization are expensed in the period received.

7.1.11.8. The Host Installation with jurisdiction over the installation outside of the U.S. must record an expense for any maintenance and sustainment costs relating to the real property paid, or to be paid by them, in the period incurred, regardless of real property interest type.

Figure 7-1. Imputed Asset Related Costs



7.1.12. Disclosure Requirements for Land and Permanent Land Rights

7.1.12.1. Land and land rights. Reported as zero-dollar value.

7.1.12.2. Public domain land. Land that was originally ceded to the United States by treaty, purchase, or conquest, in contrast to acquired lands, which have been purchased by, given to, exchanged with, or transferred through condemnation proceedings to the Federal government.

7.1.12.3. Acres of land held for disposal or exchange. Land where the entity has satisfied the specific statutory disposal authority requirements. Disposal includes conveyances of federal land to non-federal entities. Entities disposing of land often involve public participation, economic impact studies, surveys, and appraisals.

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7.1.12.4. Predominant use of land. Predominant use is the major or primary current use of an asset during the reporting period and does not include incidental or infrequent uses of the asset.

7.1.12.4.1. Predominant use can change between reporting periods. An asset's predominant use must be consistent with the entity's authorizing legislation.

7.1.12.4.2. The level of aggregation of land and permanent land rights used to determine predominant use should be determined based on the entity's mission, types of land use, and how it manages the assets.

7.1.12.5. Categorize land and permanent land rights into one of the following categories based on predominant use.

7.1.12.5.1. Commercial use land. Land or land rights are used to generate inflows of resources. Examples include land used to generate revenue derived from concession arrangements, grants, land sales or land exchanges, permits for public or temporary use, and forest product sales.

7.1.12.5.2. Conservation and preservation of land. Land or land rights used for conservation or preservation purposes. Conservation protects and ensures proper use of natural resources. Preservation protects buildings, objects, and landscapes.

7.1.12.5.3. Operational land. Land or land rights used for general or administrative purposes. Examples include military functions for effectively pursuing war, scientific functions conducting and managing research, managing or regulating the use of nuclear energy, and other administrative or mission-related functions.

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Table 7-1. SFFAS 59 Disclosure Requirements for Land and Permanent Land Rights

SFFAS 59 Disclosure Requirements for Land and Permanent Land Rights
A concise statement defining an entity's Federal land and explaining how land relates to the mission of the entity.
A brief description of the entity's policies for land, including: Goals and principles that the entity established to guide its acquisition, maintenance, use, and disposal of land consistent with statutory requirements; Prohibitions; and Limitations governing the entity and the land.
Land and permanent land rights must be assigned to one of three sub-categories (i.e., commercial use land; conservation and preservation land; and operational land) based on predominant use. Land rights information must include a general description of the different types of rights acquired by the entity (e.g., whether such rights are permanent or temporary), and amounts paid during the year to maintain such rights. (See OMB Circular A-136 for additional Information).
Report estimated number of acres at the beginning and the end of each reporting period for land and permanent land rights by sub-category.
The estimated number of acres held for disposal or exchange and their predominant use (if applicable).

7.1.13. Capital Improvements

7.1.13.1. The Funding DoW Component accumulates and reports the cost of a capitalized improvement until the improvement is placed in service. Once this asset is placed in service, it is debited to the entity responsible for reporting the real property base asset. The Funding DoW Component coordinates the delivery of the final DD Form 1354 and supporting documentation to the Host Installation and shares the DD Form 1354 and supporting documentation with the DoW Funding Components. Supporting documentation includes construction status, invoices, and other relevant documents shared with the funding DoW Components to enable the funding DoW component to accumulate and report the cost of a capitalized improvement until the improvement is placed in service.

7.1.13.2. As stated in SFFAS 6, "costs which either extend the useful life of existing General PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/amortized over the remaining useful life of the associated General PP&E." Capital improvements must be capitalized when:

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7.1.13.2.1. The improvement increases the asset's useful life by two or more years, or increases its capacity or size, and

7.1.13.2.2. The cost of the improvement equals or exceeds the capitalization threshold.

7.1.13.2.3. Capital improvements not meeting these two criteria are expensed, and the item must be designated as an adjustment in the APSR.

7.1.13.3. Capital Improvement Examples

7.1.13.3.1. Extends the useful life: Major restoration or reconstruction restores facilities damaged by a natural disaster or similar.

7.1.13.3.2. Increase capacity: The roof of a warehouse is raised to increase cubic feet.

7.1.13.3.3. Increase size: An addition, expansion, or extension built to the building, i.e., increases the footprint.

7.1.13.4. Depreciation of Capitalized Improvements

7.1.13.4.1. Depreciate capitalized improvements that extend the asset's useful life, but do not increase the asset's capacity or size with the original asset over the revised estimated useful life.

7.1.13.4.2. Depreciate capitalized improvements that increase the asset's capacity or size over the lesser of the useful life of the improvement or the remaining economic useful life of the asset. Note that the economic life of the real property asset may be different than the original estimated accounting useful life. The economic life is the remaining period of utility for the real property.

7.1.13.4.3. Depreciation is described in paragraph 7.1.12.

7.1.13.5. Capitalize improvements to multiple real property assets constructed under a single project or work order if the allocated cost per real property asset equals or exceeds the capitalization threshold per asset. When multiple improvements are made to a single real property asset, increasing the real property's capacity, size, and/or useful life, the total improvements must be capitalized if the summed costs equal or exceed the capitalization threshold. Different funding sources must be summed to determine capitalization. The summed improvements costs must be capitalized and depreciated upon being placed in service as described in paragraph 7.1.11.

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7.1.13.6. Per SFFAS 42, maintenance and repairs are activities that keep fixed assets in an acceptable condition. Maintenance and repair activities include preventative maintenance; parts, systems, or components replacement; cyclic work done to prevent damage (e.g., painting); and other activities preserving or maintaining assets. A roof or a heating and air conditioning system that is replaced due to failure must be classified as a repair and must be expensed, even if the replacement incorporates a better quality and longer life shingle or a more efficient heating and air conditioning unit.

7.1.13.7. Intent determines whether a replacement must be recognized as a repair or an improvement. Replacement of parts, systems, or components that have failed, are in the incipient stages of failing, or are no longer functional, is classified as a repair and must be expensed. If the replacement was undertaken to expand the capacity or extend the life of a real property asset that was in good working order, then the replacement must be recognized as an improvement. Rebuilding the entire asset within the same physical area (footprint) is an improvement.

7.1.13.8. Increased capacity means an increased footprint, or internal structural reconfiguration that increases the amount of usable space, number of personnel, or increased throughput. Increased capacity includes activities that upgrade the asset to serve needs different from, or significantly greater than its current use.

7.1.13.9. For constructed capital improvements, the cost must be accumulated and reported by the Funding DoW Component in a CIP account until the improvement is placed in service. When placed in service, the improvement is debited to the entity responsible for reporting the real property base asset. See *Volume 4* of the DoW FMR for policy on intra-DoW transfers. Only Host Installations with jurisdiction over a specific installation have financial reporting responsibility for real property and completed capital improvements.

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7.1.14. Depreciation

Table 7-2. DoW Useful Lives for Depreciable Real Property Assets

Real Property Classification	Real Property Useful Lives	Capital Improvements (if useful life is not provided by an engineering estimate) ²
Buildings	45 years	20 years
Structures	35 years	15 years
Linear Structures	40 years	20 years
Land Rights of a Limited Duration ¹	Over the specified duration	-
Permanent Land Rights are included on the balance sheet in General PP&E only if the DoW Component did not make the election to implement the provisions of SFFAS 50, Paragraph 13 to exclude land rights from the opening balance of General PP&E and to expense future land rights acquisitions after the establishment of the opening balance. Engineering estimates are of particular importance when evaluating full restoration or conversion.		

7.1.14.8. Impairment

7.1.14.8.1. Description. SFFAS 44 defines impairment as a significant and permanent decline in the service utility of General PP&E or the expected service utility of CIP resulting from events or changes in circumstances that are not considered normal and ordinary.

7.1.14.8.1.1. Expected service utility is the usable capacity that was expected to provide service. The usable capacity may be less than its original usable capacity due to expected decline in useful life or impairing events, such as physical damage, obsolescence, enactment of laws or regulations, changes in environmental or economic factors, or changes in the manner or duration of use.

7.1.14.8.1.2. Normal and ordinary events fall within the expected useful real property life such as standard maintenance and repair requirements. Events or

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circumstances that are not considered normal and ordinary are unexpected during the real property's useful life or, if expected, are not sufficiently predictable to estimate the useful life.

7.1.14.8.2. Identification of Potential Impairment Loss. The following two-step process determines whether real property remaining in use is impaired: (1) identifying potential impairment indicators and (2) testing for impairment. Identified real property must be tested for impairment.

7.1.14.8.2.1. Step 1 – DoW Components must evaluate existing processes and internal controls to determine if they are sufficient to identify potential impairment indicators and implement appropriate additional processes and internal controls if necessary. Potential impairment can be identified in a variety of ways, such as procedures related to DM&R. Once identified, DoW Components must consider the surrounding circumstances to determine whether a test of potential impairment is necessary. Common indicators of potential impairment include:

- 7.1.14.8.2.1.1. Evidence of physical damage;
- 7.1.14.8.2.1.2. Enactment of laws or regulations limiting the asset usage;
- 7.1.14.8.2.1.3. Changes in environmental factors (e.g., change in floodplain);
- 7.1.14.8.2.1.4. Technological changes or evidence of obsolescence;
- 7.1.14.8.2.1.5. Changes in the manner or duration of use of real property;
- 7.1.14.8.2.1.6. Construction stoppage or contract termination; and
- 7.1.14.8.2.1.7. Real property idled or unserviceable for long periods.

7.1.14.8.2.2. Step 2 Impairment Test. Identified real property must be tested to determine whether the decline in service utility is: (1) significant and (2) permanent. For CIP, the testing of impairment must be performed over the period of expected future service utility.

7.1.14.8.2.2.1. Determine impairment significance with professional judgement. Judgements may be based on the relative costs of maintaining the facility

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before and after the decline, or other considerations. Significant declines in service utility cause operational and maintenance costs to be disproportionate to expected service utility.

7.1.14.8.2.2.2. Decline in service utility is considered permanent when the DoW Component does not expect the lost service utility to be restored. In contrast, a reasonable expectation that the lost service utility will be restored may exist when the DoW Component has:

7.1.14.8.2.2.2.1. Specific plans to restore the lost service utility,

7.1.14.8.2.2.2.2. Committed funding for remediation efforts, or

7.1.14.8.2.2.2.3. Remediated lost service utility in similar real property.

7.1.14.8.3. Determining the Appropriate Measurement Approach. To determine impairment losses on real property that will continue to be used, estimate the portion of NBV associated with the diminished service utility of the real property. A measurement method resulting in an unreasonable NBV is not appropriate. Conversely, a reasonable measurement method may result in no impairment loss being recorded. Recognition of impairment loss must be limited to the asset's NBV at the time of impairment. Widely recognized methods for measuring impairment are identified in SFFAS 44, paragraph 18.

7.1.14.8.4. Recognizing and Reporting Impairment Losses. The impairment loss must be recognized and reported in the Statement of Net Cost when the Host Installation concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Such losses may be included in program costs or costs not assigned to programs. A general description of the real property, the nature (e.g., damage or obsolescence), amount, and the financial statement classification must be disclosed in the financial statement notes.

7.1.14.8.5. Recoveries. The impairment loss must be reported net of any associated recovery when the recovery and loss occur in the same fiscal year. Recoveries reported in subsequent fiscal years must be reported as revenue or other financing source. The amount and financial statement classification must be disclosed in the financial statements' notes.

7.1.14.8.6. Remediating Previously Reported Impairments. The costs incurred to restore the lost service utility of impaired real property remaining in use must be recognized according to the nature of the costs incurred and the appropriate capitalization threshold.

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7.1.14.8.7. Diminished Service Utility Without Recognized Impairment Loss. If the future service utility has been adversely affected but the impairment test determines that a loss does not need to be recognized, a change such as estimated useful life and salvage value must be considered.

7.1.15. Removal/Disposal The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.1.16. Additional Considerations

7.1.16.1. Use of Cancelled Treasury Account Symbol

7.1.16.1.1. DoW Components report their trial balance data to Treasury through the Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS). Capitalized assets must be reported and remain in GTAS after the original purchase. If a capitalized asset has not been moved to a cancelled ("C") TAS as described in subparagraph 7.1.16.1.2, GTAS provides a "C" TAS on the GTAS Super Master Account File for each fund family. The system-generated "C" TAS has three components: the three-digit agency identifier, availability type "C", and a four-digit main account.

7.1.16.1.2. 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 cancels. (Refer to the TFM Volume 1, Part 2, Chapter 4700 for additional information).

7.1.16.1.3. To financially transfer an asset to a "C" TAS:

7.1.16.1.3.1. Use USSGL account transaction E510 to financially transfer out the asset from the purchasing fund account.

7.1.16.1.3.2. Use USSGL account transaction E606 to financially transfer the asset into the appropriate "C" TAS.

7.1.16.2. Supporting Documentation

7.1.16.2.1. Entries to record financial transactions in the accounting system, general ledger accounts, and the accountable property records and/or systems must:

7.1.16.2.1.1. Include source documents reflecting all investment transactions.

7.1.16.2.1.2. Document the asset PISD. All real property acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date the DoW Component takes custody of the real property. Table 7-3

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provides a list of documents that can be used to support the changes in asset value or physical attributes as a result of a new acquisition or capital improvement.

7.1.16.2.1.3. Include the financial reporting and trading partner information listed in subparagraph 19.1.3.8.2 and other relevant information. If this information is not available, the receiving and transferring entities must develop and document an estimate to support the financial transfer of the asset. See *Volume 12* and DoDI 4165.72 for further policy on transfers of DoW real property between Host Installations.

7.1.16.2.1.4. Support the disposal date to provide an adequate audit trail. Disposal events generating financial or administrative accountability transactions must be readily available to support disposals:

7.1.16.2.1.4.1. Declaration of excess document;

7.1.16.2.1.4.2. Disposal approval documentation;

7.1.16.2.1.4.3. Original acquisition documents;

7.1.16.2.1.4.4. Deed or contracts indicating the obligation to dispose of an asset;

7.1.16.2.1.4.5. Document showing the disposal completion date;

7.1.16.2.1.4.6. Receipt documentation; and

7.1.16.2.1.4.7. Transfer documents for the transferred.

7.1.16.2.1.5. Be retained in accordance with the National Archives and Records Administration requirements described in *Volume 1*. Original documents and/or hard and electronic copies of original documentation must be maintained in a readily available location during the retention period. These documents must permit validation of the purchase cost, purchase date, cost of improvements, and RPUIID(s). Supporting documentation is not limited to the documentation as outlined in this subparagraph.

7.1.16.2.2. Include sufficient information indicating the physical size, location, and unit cost of each real property asset. The APSR and/or other systems must be designed for maximum assistance in making procurement and utilization decisions. Decisions identifying potential excess real property available for reuse, transfer, or disposal must be supported.

7.1.16.2.3. Enable periodic, independent verification of the accounting, APSR, and/or other systems' accuracy through periodic inventories. Real property "book to floor

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and floor to book” existence and completeness must be confirmed. Such inventories must reconcile the APSR and/or other systems with the general ledger accounts. Personal hand receipt self-validations are not acceptable for meeting the independent verification requirements (see DoWI 4165.14).

7.1.16.2.4. Identify and classify real property that was capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

7.1.16.2.4.1. The Host Installation having jurisdiction over the real property, in accordance with DoWD 4165.06 and DoWI 4165.70, must record assets in their APSR.

7.1.16.2.4.2. The Host Installation must reconcile its real property APSR to its financial statements (or to their trial balance if financial statements are not required) quarterly.

7.1.16.2.4.3. All Funding DoW Component CIP must reconcile recorded CIP balances on a quarterly basis with service providers building the assets. CIP must reflect the actual progress payments and other costs incurred based on work completed as of the quarter end.

7.1.16.2.5. Ensure that asset information is based on the same documents, so that the financial accounting/reporting and APSR are the same. The APSR must be integrated and subsidiary to the financial accounting system, and such records must be reconciled with the accounting system.

7.1.16.2.6. Include documents accumulating the cost and linking to the appropriate RPUID(s).

7.1.16.2.7. Include all real property in which the DoW has a legal interest.

7.1.16.2.8. Provide information to identify and account for leased real property.

7.1.16.2.9. Provide information to identify and account for capitalized improvements.

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Table 7-3. Examples of Supporting Documentation for Real Property Acquisition

(Note: These examples may not be all-inclusive for all circumstances)

Evidence	Examples
Unique Identification	Assignment of RPUIID
Project Approval	Such as, but not limited to a Work Order
Obligation on Behalf of the Government	Such as, but not limited to: - For contracts, contract modifications, or change orders: - Statement of Work; - Dollar Amount of Contract; - Location; - Source of Funds; - Parties to the Contract; and - Signature Page [Signature of All Parties]. - Documentation of troop labor hours; - Approved Work Order.
Payment Submitted	Such as, but not limited to: - Approved last invoice reflecting the total amount submitted for payment and received to date; - Evidence of in-house construction costs, including labor; - Indirect Costs incurred internally by the gaining activity. - Recurring monthly invoices received by the DoD Construction Agent (DCA)/Public Works or service providers building the assets on behalf of the Funding DoD Component.
Acceptance	Such as, but not limited to: <u>General Services Administration Form 1334</u>, Request for Transfer of Excess Real and Related Personal Property; - Interim and final DD Form 1354, Transfer and Acceptance of DoD Real Property, with associated source documentation retained by the responsible party. Note: All cost information transferred from the CIP account to the real property asset account when the asset is placed-in-service must be included with the DD Form 1354; - Executed acquisition document and donated asset appraisals; - Signed judgment documents for condemnations; - Deed; - Signed lease for leased property; - Letter of withdrawal for property withdrawn from public domain; - Executed occupancy agreement; - Executed reversionary document; - Transfer letter and documents for transferred assets; and - Collection voucher. - Beneficial Occupancy Date (BOD)
Project Closeout	A final DD Form 1354, with associated source documentation retained by the responsible party.

DCA/Public Works or service providers, building the assets on behalf of the Funding DoW Component, must share key supporting documents with the Funding DoW Component. Table 7-3 provides examples of key supporting documentation. Effective 01 Oct 2022, key supporting documents, such as DD 1354s, property improvement worksheets, photos, and other primary real property, should be uploaded to the APSR or another repository approved in DA PAM 25-403.

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7.1.16.3. Physical Inventories of Real Property - The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.1.16.4. Deferred Maintenance & Repairs (DM&R) - The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.1.16.5. Financial Statement Disclosure Reporting and Representation Requirements- The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.1.16.6. Environmental Liabilities/Cleanup Costs

The accounting procedures for real property environmental liabilities/cleanup costs are contained in Section 14, "Environmental Disposal Liabilities."

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Annex 1. Capital Improvement Depreciation Scenarios

Scenario I. Capital Improvement Extends the Useful Life of Existing General PP&E

In this scenario, the estimated extension of the useful life is combined with the remaining original asset useful life to establish a revised useful life. The revised useful life is used to depreciate the combined NBV of the original asset plus the improvement.

In this scenario, the conversion of a warehouse to office space, the capital improvement is placed in service at the beginning of the 26th year of the useful life of the original asset.

Scenario I	Value
Original Building Acquisition Cost	\$450,000
Original Estimated Useful Life in years (yrs.) ¹	45
Annual Depreciation Expense (using straight-line depreciation) (\$450,000 ÷ 45)	\$10,000
Accumulated Depreciation at the end of year 25 (25 yrs. X \$10,000 per year)	\$250,000
NBV of original asset at the end of year 25 (\$450,000 - \$250,000)	\$200,000
Capital Improvement – added at the beginning of year 26 of original building’s useful life	\$280,000
Extension of useful life (yrs.) of existing building from capital improvement based on documented Engineering Estimate ²	30
Revised remaining useful life for building with the capital improvement. (45 yrs. (original useful life) less 25 yrs. (expired useful life) plus 30 yrs. (capital improvement useful life)	50
Revised depreciable value of building, including capital improvement. (\$200,000 (original NBV) plus \$280,000 (capital improvement))	\$480,000
Revised annual depreciation for the building and capital improvement (\$480,000 ÷ 50 yrs.)	\$9,600
¹ From Table 7-2 ² If an Engineering Estimate for the extended useful life of the capital improvement were not available; the 20-year useful life from Table 7-2 would be used.	

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Scenario II. Capital Improvement Increases the General PP&E Asset's Capacity, Size, or Modifies the Functionality/Use but Does Not Extend the Life of the Original General PP&E Asset

In this type of scenario, capital improvement is depreciated over the lesser of the useful life of the improvement or the remaining useful life of the underlying General PP&E asset.

The capital improvement is placed in service at the beginning of the 16th year in the useful life of the original base asset. The remaining economic useful life of the original base asset is 25 years at the date the capital improvement is placed in service.

Scenario II	Value
Original Linear Structure Acquisition Cost	\$500,000
Original Estimated Useful Life (yrs.) ¹	40
Annual Depreciation Expense (using straight-line depreciation) (\$500,000 ÷ 40)	\$12,500
Accumulated Depreciation at the end of year 15 (15 yrs. X \$12,500 per year)	\$187,500
NBV of original asset at the end of year 15 (\$500,000 - \$187,500)	\$312,500
Capital Improvement – added at the beginning of year 16 of original linear structure useful life	\$270,000
Useful life of capital improvement (yrs.) ²	20
Annual Depreciation Expense (using straight-line depreciation) (\$270,000 ÷ 20)	\$13,500
Depreciation for the original value of linear structure would continue on an annual basis for the next 25 years. ((40 yrs. (original useful life) - 15 yrs. (expired useful life)	\$12,500 annual depreciation
Depreciation for the capital improvement would be recorded over the estimated 20-year useful life of the improvement	\$13,500 annual depreciation
¹ From Table 7-2 ² If an Engineering Estimate were available for the useful life of the capital improvement were available, the Engineering Estimate would be used rather than the amount from Table 7-2	

Annex 2. Plant Replacement Value (PRV) Methodology

A2.0 PRV

PRV is based on cost factors such as averages of historical contractual cost data, commercially available cost data, and models using general price information. PRV includes capital improvements and is calculated using existing asset size, but does not consider the Placed in Service Date (PISD) or remaining useful life.

A2.1 Benefits of PRV

Key benefits of DoW's PRV model include:

A2.1.1. Cost and time effectiveness: The PRV model values must be updated annually for all assets;

A2.1.2. DoW Components validated many of the key data elements during existence and completeness procedures;

A2.1.3. Consistency: The PRV model is a common approach for the DoW to establish and support its opening balances.

A2.1.4. Documentation must support the data element inputs for PRV model calculations.

A2.2 PRV Responsibilities

DoW Components and the OSW must perform specific actions to successfully use PRV. The Office of the Under Secretary of War (Comptroller) Financial Improvement and Audit Remediation Directorate, and the Office of the Assistant Secretary of War (Sustainment) complete OSW actions.

A2.2.1. DoW Components must ensure:

A2.2.1.1. The following key PRV data element inputs are accurate:

A2.2.1.1.1. Real Property Site Unique Identifier (RPSUID);

A2.2.1.1.2. RPUID;

A2.2.1.1.3. Real Property Asset (RPA) Interest Type;

A2.2.1.1.4. Asset Allocation Current Use or Asset Configuration Design Use Category Code;

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A2.2.1.1.5. Asset Allocation Current Use or Asset Configuration Facility Analysis Category (FAC) Code;

A2.2.1.1.6. Asset Allocation or Asset Configuration Size Quantity;

A2.2.1.1.7. Asset Allocation or Asset Configuration Unit of Measure Code;
and

A2.2.1.1.8. RPA Historic Status Code.

A2.2.1.2. The following specific data elements used to apply and report the PRV values are accurate:

A2.2.1.2.1. RPA PISD. This data element is important for depreciation purposes.

A2.2.1.2.2. Government Investment Percentage (For Government / Private Agreement (GVPV) interest type only). The Government's investment percentage of an asset's total value is required to allocate DoW's portion of the total PRV.

A2.2.1.3. Documentation exists and is readily available to support the Asset Allocation, Size, Quantity, RPA Historic Status Code, RPA PISD, and Government Investment Percentage (for GVPV interest types).

A2.2.1.4. Processes, controls, and systems are in place to value newly acquired assets at actual cost in accordance with SFFAS 6.

A2.2.1.5. Valuation calculations are performed correctly using the PRV formula, appropriate cost factors, and adjustments found in the Unified Facilities Criteria 3-701-01 (*UFC 3-701-01*), "DoW Facilities Pricing Guide."

A2.2.1.6. Accounting adjustments are performed accurately and timely manner, are supported with sufficient documentation, and are reflected in the DoW Component's APSR, general ledger, and financial statements.

A2.2.2. OSW must ensure that:

A2.2.2.1. The PRV model is supportable for audit purposes. OSW evaluates the processes, procedures, systems, and controls that produce the PRV tables, factors, indexes, and functions, and reviews the model outputs for overall reasonableness; and

A2.2.2.2. DoW estimated useful lives for depreciation purposes are supportable.

A2.3 Steps to Establish Deemed Cost Using PRV

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A2.3.1. DoW Components develop opening balances using the PRV approach. In summary, DoW Components:

A2.3.2. Validates all assets used to calculate and apply PRV values;

A2.3.3. Calculates each asset's PRV as found in SFFAS 50. Capital improvements are included within the PRV calculation. It is acceptable to use PRV for decision-making and management purposes, allowing PRV to be used as a starting point in establishing the replacement cost for real property. Each DoW Component's management must formally document the review and acceptance of the resulting values;

A2.3.4. Multiplies DoW's interest percentage by the asset's total PRV to calculate the reported value for assets with a GVPV interest type. DoW's portion of the PRV equal to or more than the capitalization threshold is reported;

A2.3.5. Identifies all DoW accountable General PP&E (commonly known as FEE assets) with a PRV equal to or more than the capitalization threshold. These assets are capitalized assets and reported on the DoW Component's Balance Sheet. The current real property capitalization threshold is applied to all existing real property assets; and

A2.3.6. Adjusts, as appropriate, the DoW Component's or WHS's APSR, general ledger, and financial statements upon establishing the beginning balance. Maintain supporting documentation.

A2.4 Determining Placed-in-Service Date

A2.4.1. The Real Property Information Model (RPIM) defines RPA PISD as "the calendar date the real property asset (or a portion of the real property asset) is available and accepted for use by DoW. On this date, warranties begin, and the Government assumes liability for the asset and the DoW receives legal interest." The *UFC 1-300-08*, "Criteria for Transfer and Acceptance of DoW Real Property," notes this as the date the DCA and other approving parties attending the inspection have agreed the construction is acceptable, and the DCA accepts the construction from a contractor on behalf of the government using contract procedures.

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A2.4.2. Table A2-1 describes sufficient supporting documentation for auditors to validate the accuracy of recorded PISDs.

Table A2-1: Placed-in-Service Date Documentation

Acquisition Method	Source Document	Acceptance Date	Effective Date	Acquisition Date ¹	RPA PISD ² (Depreciation Triggering Event)
New construction	DD Form 1354	Executed interim DD Form 1354 transaction	Date specified in DD Form 1354 transaction	Date first interim DD Form 1354 ³ transaction is executed	Date interim DD Form 1354 transaction is executed
Purchase ⁴ (can include Exchange)	Deed	Deed or executed interim DD Form 1354 ⁵ transaction	Date of delivery/Recordation	Date of delivery/recordation	Acquisition Date
Lease/Grant	Lease/Grant	Signed lease/grant	Grant Start Date	Date lease signed	Grant start date (Not applicable for depreciation)
Transfer between Services	DD Form 1354	Executed interim DD Form 1354 transaction	Date specified in transaction	Date of original transaction when United States Government acquired title, or legal interest in the asset (Acquisition Date for the transferring Service)	Original DoW RPA Placed-in-service Date as shown by the transferring Service
Inventory Adjustment	Tier documentation noted in Table A2-3	Executed interim DD Form 1354 transaction	Date based on Tier documentation noted in Table A2-3	Date based on Tier documentation noted in Table A2-3	Date based on Tier documentation noted in Table A2-3
Transfer from one federal	Transfer letter, SF 1334	Executed interim DD	Date specified in document	Date the United States Government acquired title or	Acquisition Date

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Acquisition Method	Source Document	Acceptance Date	Effective Date	Acquisition Date ¹	RPA PISD ² (Depreciation Triggering Event)
Component to another		Form 1354 transaction		legal interest in the asset	
Condemnation	Judgment document	Executed interim DD Form 1354 transaction/ Signed Judgment	Declaration of Taking is accepted by a court	Declaration of Taking is accepted by a court	Acquisition Date
Reversion	Reversion legal document	Executed interim DD Form 1354 transaction	Date of executed reversionary document	Date of executed reversionary document	Date of executed reversionary document
Gifts and donations	Executed acquisition document	Deed delivery/recordation	Date of acquisition document	Date of acquisition document	Acquisition Date
¹ Acquisition Date is a RPIM data element to be populated upon first acceptance by the United States Government. For RPA PISD, the term Acquisition Date equals the entry in the column titled Acquisition Date.					
² The date reflected in box 7a on the DD Form 1354.					
³ Changed from final DD Form 1354 to interim DD Form 1354.					
⁴ Purchase acquisition method is associated with both the land purchase and land purchase with facilities and exchange acquisition scenarios.					
⁵ This method of acquisition is being added to the UFC 1-300-08 as requiring a completed interim DD Form 1354 at acceptance.					

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A2.4.3. In the absence of information noted in Table A2-1, the guidance in Table A2-2 must be used.

Table A2-2. Placed-in-Service Date Determination with Authoritative Guidance

Governing Document Reference	PISD Determination
FASAB - SFFAS 6, Paragraph 34	“PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or an agent of the entity.”
FASAB - SFFAS 6, Paragraph 40 and SFFAS 50, Paragraph 13	“In some cases, the in-service date must be estimated. In estimating the year that the base unit was placed in service, if only a range of years can be identified, then the midpoint of the range is an acceptable estimate of the in-service date.” “It is not necessary to separately identify the in-service date for material improvements included in the opening balances of a base unit. All improvements included in the opening balances at deemed cost may be treated as if they were placed-in-service at the date the base unit was placed-in-service.”
Chapter 24, Paragraph 2.7	“The event that triggers the calculation of depreciation is the date the real property asset is placed in service (regardless of whether it is actually used).”
Defense Finance and Accounting Service 7900.4-M, Financial Management Systems Requirements Manual Volume 3, Property, Plant and Equipment, page 41, August 2014	“Property, Plant and Equipment (PP&E) shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed Property, PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be debited to general PP&E in the system.”

A2.4.4. DoW Components and WHS must review the real property asset documentation for existence and adequacy to support the placed-in-service information. The following questions must be answered:

A2.4.4.1. Does sufficient documentation exist?

A2.4.4.2. Does alternative documentation need to be used?

A2.4.4.3. Is the PISD clearly identified and marked on supporting documents?

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A2.4.4.4. Are all required authorized signatures noted on documentation?

A2.4.5. Documentation supporting the PISD is vital to the completeness of both functional and financial records. GAAP allows for alternative placed-in-service methodologies where adequate historical documentation does not exist. Estimates of cost and PISD must be fully supported, and information retained in accordance with National Archives and Records Administration requirements described in Volume 1. Table A2-3 lists examples of supporting documentation for PISD in descending order of preference.

A2.5 Adjustment for Inflation

When using PRV to establish deemed cost, components must deflate values to the time of construction by the general price index.

Table A2-3. Placed In Service Examples of Supporting Documentation

Documentation for PISD	Description	Tier
Source Documentation (noted in Table A2-1)	Noted in the second column of Table A2-1.	1
Tax Assessor Records	If adequate historical PISD is not available, search the county tax assessor's website for the asset and the purchase date to determine a reasonable estimate for PISD.	1
Dedication Plaque	If adequate historical PISD is not available, a search of the asset must be conducted for a dedication plaque. Once the dedication plaque has been found, ensure that it references the DoW as the owner. If DoW is listed as the owner, obtain a photograph of the dedication plaque with an inscription indicating the dedication date. If DoW is not listed on the plaque, the date must not be used as an alternative for PISD.	2
Cornerstone	If adequate historical PISD is not available, search the asset for a cornerstone. If the cornerstone is found, obtain a photograph of the cornerstone. The cornerstone must be located on the outside of the building or structure with an inscription on the stone indicating the construction date. This date would be used for the PISD.	2
Earliest Site Plot of Asset	If adequate historical PISD is not available, search online in the DOD COMPONENT or WHS database for the earliest site plot or asset drawing available. This date may be used as a reasonable alternative for PISD.	2

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Documentation for PISD	Description	Tier
Earliest Maintenance Record of Asset or Engineering Estimates (e.g., Engineering Form 3013)	If adequate historical PISD is not available, search for work order or maintenance records from the Department of Public Works or RPAO, or local program office. Once found, the date of the earliest recorded work order or maintenance may be used as a reasonable alternative for PISD.	3
Placed-in-service Date of Major Asset on Site	If adequate historical PISD is not available, research and obtain the actual or alternate PISD established from a major asset on the DoW site. A major asset can be defined as a significant asset that is critical to the primary function of the site. The major assets may vary based on the purpose of the site. For example, a tower would be a major asset at a communications station, a house would be a major asset at a housing site, and a lighthouse would be a major asset for a site that includes the lighthouse, housing units, as well as other assets such as driveways, fences, and storage buildings that were established to support the lighthouse. For other sites, such as air stations, units, or sectors that may have multiple functions, a major asset could be a building where many of the management and administrative activities occur. The major assets must be located within the same real property site. Upon obtaining the PISD of the major asset, use the PISD of the major asset as the reasonable alternative for the PISD of the supporting assets in question. If more than one major asset has a reliable PISD on the site, and the PISD of the major assets is different, then use the PISD of the oldest asset on the site. Once found, the PISD of the oldest major asset may be used as a reasonable alternative for PISD.	3
Construction Style	If adequate historical PISD is not available, a search for assets on the DoW site of a similar construction style or period. Once found, the PISD of a similar style asset may be used as a reasonable alternative for PISD. If only a range of years can be identified, then the mid-point of the range is an acceptable estimate of the PISD.	3

Annex 3. Construction in Progress (CIP) Process

A3.1 CIP Process

A3.1.1. CIP accounts accumulate costs of real property construction and capital improvements anticipated to meet the capitalization criteria. (The USSGL accounts used to report DoW real property are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the SFIS webpage.)

A3.1.2. A CIP account is created when either: (i) an in-house construction project(s) receives the work order and funding authorizations; or (ii) another DoW Component, Federal agency, or commercial entity receives the design and funding authorizations. A DoW Component

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constructing real property for a DoW Component accumulates all costs in a CIP account from project inception until the costs are billed to the Funding DoW Component. The DoW Component records billed amounts in its CIP account. See Volume 3 for guidance on intergovernmental construction work and services.

A3.1.2.1. When Federal and nonfederal entities share project costs, a CIP account must be created if the real property asset will be federally owned. The federal share of construction costs is captured in a CIP account. For a cost-shared project between DoW and another Federal agency, the DoW share is captured in a CIP account within DoW's financial statements. The real property asset must be recognized in the acquiring DoW Component's financial statements.

A3.1.2.2. When a DoW Component is a construction agent and constructs a non-federally owned real property asset, costs must be accumulated in a CIP account to be billed to the customer. If a DoW Component is not the construction agent and the real property asset is not DoW-owned, the DoW Component's share is expensed as incurred. If DoW does not have rights and obligations to the real property asset, the costs should be expensed, not captured in CIP. If final ownership was not determined at project funding and design authorization, the cost must be relieved from the CIP account and expensed when it is determined that the real property asset will not be federally owned.

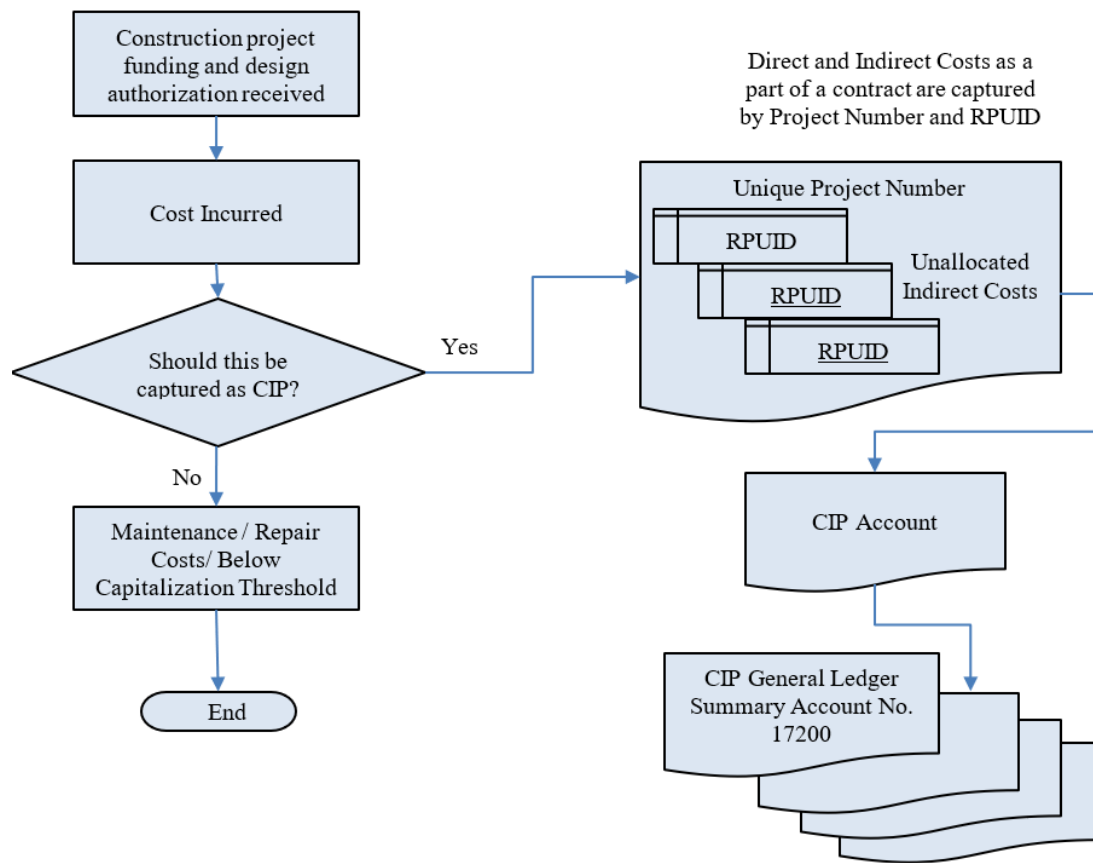
A3.1.3. DoW Components must assign a unique project number, and the Host Installation must assign at least one RPUID for each approved construction project. The project number and RPUID are associated with a CIP account. The unique project number must remain the same and be used for all phases of a construction project, regardless of the fiscal year.

A3.1.4. CIP costs must be tracked by both the Component unique project number and the RPUID to ensure visibility, traceability, and accountability. The relationship among a construction project, RPUID, and CIP account is provided in Figure A3-1.

A3.1.5. The Funding DoW Components must continue to report CIP on their financial statements until the constructed item is accepted by the accountable DoW Component. The CIP amount reported for financial statements must include the Funding DoW Component's Project Number, Project Detail Fund Code(s), Project Detail Fund Code Cost Amount, Project Detail Organization Code(s), Programmed Amount, and RPUID(s). The construction agent (invoices to support DD1354) and the Funding DoW Component (SF 1080 to support reimbursable work performed by the construction agent via 7600B, when funds are not provided by sub-allotment) must retain the supporting documentation for their respective CIP account portion(s) for the audit trail. Upon the host installation's RPAO acceptance of real property asset(s) or capital improvements, the construction agent provides the Funding DoW Component's RPAO with auditable supporting documentation to support the Interim/ Final DD1354. The Funding DoW Component's RPAO must provide the documentation to the DoW Component to retain in accordance with applicable laws, regulations, and instructions.

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Figure A3-1. Relationships among a Construction Project, RPUID, and CIP Account



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A3.1.6. When constructed real property asset(s) or improvements are accepted and placed in service, the CIP account costs must be relieved in the same period as the individual real property asset is posted to the appropriate real property account with an RPUID. The recorded cost must equal the sum of all construction and applicable design costs. In addition, the Funding DoW Component must ensure that all costs incurred are provided to the construction agent on a formal document of the real property asset(s) or improvements prior to acceptance by the accountable DoW Component.

A3.1.7. For construction projects that are completed in multiple phases, the cost of each phase is credited from the CIP account and debited to the appropriate asset or expense account, by RPUID, when each real property asset or useable portion of the asset is placed in service. The assets may have one or more PISDs for depreciation purposes. Each phase must be depreciated over its estimated useful life when placed in service.

A3.1.8. Interim DD Form 1354. The standard processing timeline for the required Interim DD Form is shown in Table A3-1. Prior to the established inspection date at the completion of new construction or capital improvement, the DCA prepares an Interim DD Form 1354 for all accountable real property assets. The DCA verifies that distributed indirect costs and all CIP costs expended to date, including assets below the capitalization thresholds, are accurately captured on the Interim DD Form 1354 in column 19, Cost, along with the PISD in block 7a.

Table A3-1. Interim DD Form 1354 Timeline

Initiation Responsibility	Timeline
DCA signs Interim DD Form 1354 and provides signed copy to the Installation Management Organization Accountable Official (IMOA) / Real Property Accountable Officer (RPAO)	Within 20 calendar days ¹ after PISD but before the 10 th day of the last month of the fiscal year quarter, regardless of PISD.
IMOA/RPAO signs Interim DD Form 1354 and provides signed copy to DCA. IMOA/RPAO records/updates Interim DD Form 1354 into Host Installation's APSR.	Prior to the end of the next month after the date of the DCA signature and no later than the 20 th day of the last month of the fiscal year quarter. ²
DCA provides copy to the Project Sponsor. DCA or Project Sponsor relieves CIP costs to date after receipt of Interim DD Form 1354 signed by both DCA and IMOA/RPAO.	Prior to the end of the next month after the date of the DCA signature and no later than the Fiscal Quarter of the PISD or the Fiscal Quarter of the month after the date of the construction agent's signature.

¹ DoW Components and WHS may establish more stringent requirements but not less stringent than under this policy. Metrics will be generated from OSW policy, regardless of DoW Components or WHS timelines.

² Recordation must occur before the end of each quarter for the purposes of financial accounting accuracy.

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A3.1.9. Equipment and non-capital construction costs must be listed in block 28, with Project Remarks, and Construction Deficiencies noted in block 27. The DCA signs the Interim DD Form 1354 and forwards it to the IMOAO/RPAO. The IMOAO/RPAO signs the Interim DD Form 1354 and ensures that all facilities listed are recorded in the Host Installation APSR. The DCA provides copies of the signed Interim DD Form 1354 to the Project Sponsor. Upon receipt of the signed copies of the Interim DD Form 1354, the DCA or Project Sponsor relieves the CIP and the IMOAO/RPAO posts to the Host Installation's APSR by the timeline.

A3.1.10. Final DD Form 1354. The standard processing timeline for the required Final DD Form 1354 is shown in Table A3-2. Any difference between the interim and final DD-1354 must be documented. An accrual must be recorded for material unpaid amounts for accepted assets across the entire portfolio of construction projects, which requires tracking for each end item and aggregating its costs. The DCA records and the Project Sponsor account for any additional costs after the PISD. The DCA accounts for all additional construction costs upon final contract closeout and posts the costs in the Final DD Form 1354, column 19. The DCA signs the Final DD Form 1354 and provides it to the IMOAO/RPAO for signature. The IMOAO/RPAO ensures that all additional costs are recorded in the Host Installation APSR, signs the Final DD Form 1354, and returns it to the DCA for distribution and final CIP relief. Once the Project Sponsor receives the signed Final DD Form 1354, any remaining funds in the Project Sponsor's CIP account must be moved to the Host Installation. The IMOAO/RPAO updates the original acquisition cost in the Host Installation's APSR, and the final amount is depreciated over the remaining useful life of the asset. All these actions must be completed timely.

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Table A3-2. Final DD Form 1354 Timeline

Initiation Responsibility	Timeline
DCA determines all costs are accumulated, financially closes the contract, processes claims, completes all outstanding items, and provides a signed Final DD Form 1354 to the IMOAO/RPAO	Within 20 calendar days ³ after final costs are determined, but must be complete by the 10 th day of the last month of the fiscal year quarter.
IMOAO/RPAO signs Final DD Form 1354, provides signed copy to the DCA, and ensures all accumulated construction costs are recorded in the Host Installation's APSR.	Prior to the end of the next month after the date of the DCA signature on the final DD Form 1354 and no later than the 20 th day of the last month of the fiscal year quarter. ⁴
DCA provides a copy of the signed Final DD Form 1354 to the Project Sponsor. DCA or Project Sponsor relieves the remaining CIP costs.	Prior to the end of the next month after the date of the DCA signature and no later than the end of the fiscal year quarter. ⁴

A3.1.11. The Construction Agent (MILCON) or Project Sponsor (O&M) relieves CIP at construction completion if the Project Sponsor (entity that initiates and funds the project) is not the Host Installation (base or facility where the project is located). When the construction is finished, the Construction Agent or the Project Sponsor officially takes over the completed project and its associated costs, effectively relieving the CIP of its responsibility for that specific project. Construction costs are debited by RPUID in the financial systems and APSR. Funds must be accurately depicted on the Interim and Final DD Form 1354. The IMOAO/RPAO and construction agent must sign the DD Form 1354 within ten business days, but not later than 20 calendar days of the PISD.

A3.2 Metrics

Real Property Inventory Model (RPIM) data elements track the timeliness of the real property documentation process. Table A3-3 lists the RPIM data elements. On the PISD, the government assumes ownership and liability for a newly constructed facility or a capital improvement. The PISD is captured on the Interim DD Form 1354, entered into the Host Installation's APSR as the "RPA PISD", and transmitted to the Data Analytics Integration Support (DAIS) system. The placed-in-service date will be established on an interim DD Form 1354 and

³ DoW Components may establish more stringent requirements but not less stringent than under this policy. Metrics will be generated from OSW policy, regardless of DoW Component's timelines.

⁴ Recordation must be not later than the end of each quarter for the purposes of financial accounting accuracy.

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is not to be updated with the final DD Form 1354. If there are multiple interim DD Forms 1354 for a single project, the final DD Form 1354 will include the placed-in-service date from the first interim DD Form 1354. The placed-in-service dates for subsequent interim DD Forms 1354 will be annotated on the final DD Form 1354 in block 28, Project Remarks. Metrics track the DoW Component's adherence to the timelines, so processing delays can be identified and corrective action implemented. The Office of Deputy Assistant Secretary of War for Real Property (DASD RP) uses DAIS Business Intelligence (BI) reports to monitor the CIP documentation timelines. These new data elements were introduced as Engineering Change Proposals (ECPs) to the RPIM Configuration Support Panel for the next update to RPIM. The Host Installation's APSR and DAIS will capture this data going forward. Final systems implementation must be completed by the end of 2025. Capital improvements do not change the original PISD but capture the APSR posting date.

Table A3-3. Proposed RPIM Data Elements⁵

Proposed RPIM data elements	Data to populate new RPIM data elements
RPA Date of Interim DD Form 1354 DCA Signature	Date from Block 24c of the Interim DD Form 1354.
RPA Date of Interim DD Form 1354 IMOAO/RPAO Signature	Date from Block 25c of the Interim DD Form 1354.
Date Entered into APSR	System-generated date based on change of Operational Status Code of TBA to ACTIVE or creation date of new facility, or date Capital Improvement is recorded into the ASPR.
RPA Date of Final DD Form 1354 DoW DCA Signature	Date from Block 24c of the Final DD Form 1354.
RPA Date of Final DD Form 1354 IMOAO /RPAO Acceptance Signature	Date from Block 25c of the Final DD Form 1354.

⁵ These RPIM data elements were submitted in an Engineering Change Proposal to the RPIM Configuration Control Board in October 2023, as a part of the FY24 Update to RPIM version 11.0.

Annex 4. Illustrative Examples and Note Disclosures

A4.1 CIP Illustrative Examples

A4.1.1. The General Ledger (G/L) journal entries must be recorded to relieve CIP costs expended for the construction of real property assets or capital improvements when the Funding DoW Component is not the Host Installation: The Funding DoW Component uses Transaction Code E510, and the Host Installation uses Transaction Code E606 (see the SFIS webpage for detailed entries).

A4.1.2. CIP Example 1: Defense Logistics Agency (DLA) funds the construction of a new building on an Army installation using the United States Army Corps of Engineers (USACE) as the DCA. DLA suballocates funding to USACE via the Funding Authorization Document (FAD). USACE accumulates costs during construction and reports the costs to DLA. These costs are reflected in DLA's CIP account and reported on its financial statements. When the building is placed in service, USACE provides all the relevant supporting documentation (i.e., signed Interim DD1354 by USACE and the Army) to the Army and DLA. USACE relieves CIP on DLA's behalf, and the Army records the asset in its APSR. The Army also reports the facility on its financial statements and depreciates it over its estimated useful life. Journal entries must be recorded for USACE on DLA's behalf and the Army upon the building's placement in service and the receipt of the completed documentation from USACE. USACE on DLA's behalf uses Transaction Code E510, and the Army uses Transaction Code E606 (see the SFIS webpage for detailed entries). Note: If the asset is not recognized during the month CIP is relieved, then the depreciation must be recorded by the Host Installation.

A4.1.3. CIP Example 2: The Defense Health Agency (DHA) funds a capital improvement to a building on an Air Force installation using Naval Facilities Engineering Systems Command (NAVFAC) as the construction agent. DHA accumulates costs during construction and reports these costs in its financial statement CIP account. NAVFAC provides a monthly SF-1080 to support the cost of CIP until the capital improvement is complete. When the capital improvement is placed in service, NAVFAC provides all the relevant supporting documentation (i.e., signed Interim DD1354 by NAVFAC and Air Force) to the Air Force and DHA. See Table 19-3 for examples. With this documentation, DHA relieves CIP, and the Air Force records the capital improvement in its APSR. The Air Force also reports the capital improvement to a building on its financial statements and depreciates it for its estimated useful life. Illustrated below are journal entries that must be recorded for DHA and Air Force upon the capital improvement's placement in service and the receipt of the relevant documentation from NAVFAC. The DHA uses Transaction Code 510, and the Air Force uses Transaction Code E606 (see the SFIS webpage for detailed entries).

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A4.2 In-Service Real Property Examples

A4.2.1. The Missile Defense Agency (MDA) operates a facility that includes other defense agency tenants located on an Army Installation. The Army does not have operations in the facility, but is the designated Host Installation and carries the MDA facility as Army real property in its real property database. The Army is the financial reporting entity for the facility.

A4.2.2. The Army Working Capital Fund (WCF) operates and has jurisdiction over a maintenance depot. The Army WCF reports the real property on that installation on its financial statements and is responsible for maintaining supporting documentation to support the audit.

A4.2.3. The illustrative G/L journal entries to demonstrate the transfer of in-service real property from one DoW Component or WHS to the Host Installation are found on the SFIS webpage, transaction code E510 for the DoW Component or WHS and transaction code F606 for the Host Installation.

A4.3 Capitalized Improvements to Real Property Illustrative Examples and Journal Entries

A4.3.1. Capitalized Improvements to Real Property Examples

A4.3.1.1. The Defense Logistics Agency (DLA) WCF funds an improvement to a building on an Army base. DLA reports the CIP until the improvement is complete, then transfers the improvement to the Army to be reported on the Army's General Fund financial statements. DLA sets its capital recovery rates related to the capital improvement in accordance with Volume 2B, Chapter 9, recording the imputed cost instead of actual depreciation expense as the basis for its budget.

A4.3.1.2. The Defense Advanced Research Projects Agency (DARPA) funds a conversion of an office suite to another purpose that it occupies on a Navy installation. DARPA reports the CIP until the conversion is complete, relieves CIP, and then transfers the improvement to the Navy to be reported on the Navy's General Fund financial statements.

A4.3.2. The transfer of in-service real property from one DoW Component or WHS to the Host Installation is found on the SFIS webpage, transaction code E510 for the Funding DoW Component and transaction code E606 for the Host Installation (see the SFIS webpage for detailed entries).

A4.4 Note Disclosure Examples

A4.4.1. The following is an example of a note disclosure for Host Installations, which could be Military Departments, WHS, or Military Department WCFs:

The [Host Installation] reports the real property within the jurisdiction of [Host Installation] installations, in its financial statements because it is the designated Host Installation. This includes real property on [Host Installation] installations including real property used and occupied by [another Military Department, WHS, another Military Department WCF or other DoW Components (who are not the Host Installation)]. The [Host Installation] who is the Host Installation does not report assets on its installation that were funded by and are exclusively used by an entity not included in the consolidated DoW financial statements. While the [Host Installation] is responsible and accountable for accepting, controlling, managing, and utilizing real property assets, the [Host Installation] has entered into Memoranda of Agreement, with another Host Installation, or other DoW Components, and license or permit with non-DoW governmental agencies, transferring the right to control the use of a [Host Installation] real property asset to the [other Host Installation and other DoW Components or WHS and non-DoW governmental agencies (who are not the Host Installation)]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset under the jurisdiction of the [Host Installation].

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A4.4.2. The following are examples of note disclosures for DoW Components and WHS utilizing real property assets in their operations that are being financially reported by a Host Installation:

Example of the Note for DoW Component:

The [DoW Component] does not report in its financial statements real property that they use and occupy within the jurisdictions of [Military Department or WHS]. This includes all real property used and occupied by the [DoW Component]. The [DoW Component] has entered into Memoranda of Agreement, with the [Host Installation] that is the Host Installation, which transfers the right to control the use of [Host Installation] real property asset to the [DoW Component]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset of the [Host Installation] acting as the Host Installation.

Example of the Note for a non-Military Department WCF Component (e.g., DLA):

The [DoW WCF Component] does not report in its financial statements real property that they use and occupy within the jurisdiction of [Host Installation]. This pertains to all real property used and occupied by the [DoW WCF Component] including real property that was funded with WCF outlays that are being recovered through the capital recovery rate. The [DoW WCF Component] has entered into Memoranda of Agreement, with the [Host Installation] that is the Host Installation, which transfers the right to control the use of a [Host Installation] real property asset to the [DoW WCF Component]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains and asset of the [Host Installation] acting as Host Installation.

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A4.4.3. The following is an example of a note disclosure for a Military Department WCF that (1) has been given jurisdiction over specific installation(s) and financially reports that real property; and (2) also uses and occupies other real property for which it is not the financially reporting Host Installation:

The [Military Department WCF] reports in its financial statements real property within the jurisdiction of the [Military Department WCF], when it is the designated Host Installation for the real property. This includes real property on [Military Department WCF] designated installations, including real property used and occupied by [another DoW Component (who are not the Host Installation)]. However, the [Military Department WCF] which is the designated Host Installation does not report assets on its installation that were funded by and are exclusively used by an entity not included in the consolidated DoW financial statements.

The [Military Department or WCF] used and occupied certain real property asset(s) in which it is not the designated Host Installation as a result does not include the real property asset(s) in its financial statements. The [Military Department WCF] has entered into Memoranda of Agreement, with the [Host Installation] that is the Host Installation, which transfers the right to control the use of [Host Installation] real property asset(s) to the [Military Department WCF]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction, and the asset remains an asset of the [Host Installation] acting as the Host Installation.

7.2. GENERAL EQUIPMENT

7.2.1. Accounting for General Equipment

7.2.1.1. Description

7.2.1.1.1. General equipment consists of tangible assets that:

7.2.1.1.1.1. Have an estimated useful life (normal operating life in terms of utility to the owner) of two years or more;

7.2.1.1.1.2. Are not intended for sale in the ordinary course of operations and not held in anticipation of physical consumption;

7.2.1.1.1.3. Are acquired or constructed to be used or available for use by the entity;

7.2.1.2. General equipment items are characterized as providing goods or services, or supporting the mission of the entity, and typically have one or more of these characteristics:

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7.2.1.2.1. The item could be used by other DoW or federal programs, state or local governments, or nongovernmental entities, but is used to produce goods or services, or support the mission of the entity;

7.2.1.2.2. The item is used in business-type activities which are defined as a significantly self-sustaining activity financing its operations through collection of exchange revenue; and/or

7.2.1.2.3. The item is used by entities in activities whose costs can be compared to those of other entities performing similar activities (e.g., federal hospital services in comparison to commercial hospitals).

7.2.1.2.4. The item is functionally complete and does not ordinarily lose its identity or become a component part of another asset when used.

7.2.1.3. General Equipment excludes:

7.2.1.3.1. Inventory and Related Property (I&RP). Tangible items that do not meet the criteria in subparagraph 2.1.1.1 and long-range ballistic missiles are I&RP. I&RP is discussed in **Section 6**.

7.2.1.3.2. Real Property. Facilities, land, and land rights. Installed equipment that facilitates the use of and is inclusive and intrinsic to the facility itself, such as landscaping; heating, ventilation, and air conditioning equipment; utility connections; installed overhead bridge cranes; and elevators. These items are real property and are discussed in **Section 7**.

7.2.1.3.3. Internal Use Software (IUS). IUS includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. IUS is discussed in **Section 7**.

7.2.1.4. General Equipment may include:

7.2.1.4.1. Contractor-Acquired Property (CAP). Property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the Government has title.

7.2.1.4.2. Government Furnished Property (GFP). Property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract. GFP includes equipment, material, special tools, special test equipment, spares, and property furnished for repair, maintenance, overhaul, or modification.

7.2.1.4.3. CAP and GFP items that do not meet the criteria in subparagraph 2.1.1.1 are not general equipment and generally fall under the category of I&RP.

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7.2.1.5. Examples of General Equipment are:

7.2.1.5.1. Weapon systems used by the Armed Forces to carry out battlefield, intelligence, or surveillance missions, including combat aircraft, pods, combat ships, support ships, satellites, and combat vehicles.

7.2.1.5.2. Specialized support equipment; information technology infrastructure, specialized training devices, specialized vehicles (not combat), and facilities support equipment.

7.2.1.5.3. Computer software that is integrated into (embedded) and necessary to operate weapon systems (rather than perform an application). This software is considered part of the PP&E of which is an integral part.

7.2.2. Valuation

7.2.2.1. Acquisition Cost. The acquisition cost includes all amounts paid for the original purchase, construction, or development, to bring the equipment to its form and location suitable for its intended use, costs for embedded items and/or integral software, and ancillary costs, net of (less) any purchase discounts. Although the measurement basis for valuing general equipment remains historical (acquisition) cost, reasonable estimates may be used to establish the acquisition cost for general equipment as described in SFFAS 6 as amended by SFFAS 50.

7.2.2.1.1. Net Book Value. The cost of general equipment, less its accumulated depreciation (reduced for any impairment, if applicable).

7.2.2.1.2. Fair Value. The amount exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

7.2.2.1.3. Ancillary Cost. Identifiable costs are necessary to bring the asset to its form and location suitable for its intended use, including other direct and indirect costs. Table 7-4 provides examples of ancillary costs.

7.2.2.2. Method of Acquisition or Transfer Determines Recorded Cost

7.2.2.2.1. Purchased Equipment. The cost for general equipment acquired from a third party (private, commercial, or state or local government) is its purchase contract cost plus applicable ancillary costs. Purchase contract cost includes procurements by cash, check, or installment, or progress payments on contracts. Value purchase contract costs (when equipment is delivered and accepted by the government) in accordance with the contractual arrangement used to acquire the item as follows:

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7.2.2.2.1.1. For fixed price type line, subline, or exhibit line items, when property is identified as a deliverable end item, the value of the property is the unit price identified in the contract at the time of delivery;

7.2.2.2.1.2. For cost type or un-definitized line, subline, or exhibit line items, the contractor's estimated fully burdened unit cost to the Government at the time of delivery; and

7.2.2.2.1.3. For items delivered under a time and materials contract, the contractor's estimated fully burdened unit cost to the Government at the time of delivery.

7.2.2.2.1.4. Electronic receiving reports support the valuation of property at the time of delivery. The Defense Federal Acquisition Regulation Supplement (DFARS) requires formal receiving reports to be filed and processed electronically in the Wide Area Workflow (WAWF) system. Further, DFARS makes WAWF the formal system to store electronic receiving reports.

7.2.2.2.2. Constructed Equipment. The cost for constructed general equipment items is the sum of all the costs incurred to bring the item(s) to a form and condition suitable for its intended use, including labor, materials, and overhead costs. Table A1-1 in Annex 1 describes the types of costs accumulated for construction items.

7.2.2.2.3. Donated Equipment. The cost for general equipment acquired through donation, execution of a will, or judicial process, excluding forfeiture, must be its estimated fair value at the time acquired by the DoW.

7.2.2.2.4. Exchanged Equipment. The cost for general equipment acquired through exchange between the DoW and a non-federal entity (NFE) is the fair value of the consideration surrendered at the time of exchange. If the fair value of the equipment acquired is more readily determinable than that of the consideration surrendered, the cost will be the fair value of the equipment acquired. If neither fair value can be determined, the cost of the equipment acquired will be the cost recorded for the consideration surrendered, net of any accumulated depreciation.

7.2.2.2.4.1. A gain or loss is recognized for the difference between the net recorded amount of the consideration surrendered and the cost of the equipment acquired.

7.2.2.2.4.2. If cash consideration is included in the exchange, the cost of general equipment acquired will be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received.

7.2.2.2.4.3. If the fair value of the equipment acquired is less than that of the consideration surrendered, recognize the equipment acquired at the amount of the

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consideration surrendered, as described previously, and subsequently reduce it to its fair value. A loss must be recognized in an amount equal to the difference between the amount of the consideration surrendered for the equipment acquired and its fair value.

7.2.2.2.4.4. This guidance on exchanges applies only to exchanges between a DoW Component and an NFE. Exchanges between a DoW Component and another DoW Component or a Federal agency must be accounted for as a transfer.

7.2.2.2.5. Seized and Forfeited Equipment. The cost recorded for general equipment acquired through seizure or forfeiture is its fair value, less an allowance for any liens or claims from a third party.

7.2.2.2.6. Equipment Acquired by Trade-In. The cost for general equipment acquired when trading for another general equipment asset is the sum of the net book value of the asset(s) traded plus (minus) any cash paid (received) or liabilities assumed (relinquished) for the new asset. The net book value is the acquisition cost of a general equipment asset, less its accumulated depreciation (reduced for any impairments, if applicable).

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Table 7-4 Examples of Ancillary Cost

Examples of Ancillary Costs	
GFP installed in end items, such as engines installed in aircraft	Fair value of equipment donated to the DoW
Acquisition and preparation costs of equipment	Labor and other direct or indirect production costs (for assets produced or constructed)
Direct costs of inspection, supervision, and administration of construction contracts and construction work	Allowable direct cost of maintaining the Program Management Office, if material
An appropriate share of the cost of Government-furnished materials used in the production of end items	An appropriate share of the cost of the equipment and facilities used in construction work
Transportation charges to the point of initial use	Cost of handling and storage
Engineering and other outside services for designs, plans, specifications, and surveys	Legal and recording fees and damage claims
Interest paid directly to providers of goods or services related to the acquisition or construction (not including late payment interest penalties).	A prorated share of non-recurring cost associated with the production of the equipment.

A non-recurring cost is an unusual charge, expense, or loss that is unlikely to occur again in the normal course of business. Non-recurring costs include write-offs, fire or theft losses, and losses on sales of assets.

7.2.3. Alternate Valuation Methods for Establishing Opening Balances.

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

7.2.3.1.1. Both the gross value Deemed Cost and the accumulated depreciation Deemed Cost will be recorded in the accounting records. The difference between the Net Book Value (NBV) of the Deemed Cost on the opening Balance Sheet of the current fiscal

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year presented and the existing/historical NBV of the general equipment as of the ending Balance Sheet of the previous fiscal year, is considered a prior period adjustment.

7.2.3.1.2. This prior period adjustment represents a change in accounting principle in accordance with FASAB SFFAS 21, “Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources”. Adjustments must be properly documented and supported to assist ongoing audit efforts, including retaining documentation of the existing/historical equipment value in the Accountable Property System of Record (APSR) and documentation supporting the Deemed Cost value.

7.2.3.2. Deemed Cost estimates must be based on one or a combination of the following allowable valuation methods:

7.2.3.2.1. 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.

7.2.3.2.2. Estimated Historical Cost (initial amount). A reasonable estimate of historical (acquisition) cost. See subparagraph 7.2.3.3 for reasonable estimating methods.

7.2.3.2.3. 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.

7.2.3.3. Estimated historical cost may be based on:

7.2.3.3.1. Cost of Similar Assets at the Time of Acquisition. This alternate method is frequently used for commercial off-the-shelf general equipment, but may also be used for other general equipment, such as weapon systems, when appropriate. When using this method, DoW Components must:

7.2.3.3.1.1. Work closely with other organizations to gather the information needed to support the valuation when using general equipment from another organization as a comparable asset;

7.2.3.3.1.2. Exercise due care to ensure that the source value is supported. If the comparable asset is not properly supported, the subject general equipment is also not properly supported; and

7.2.3.3.1.3. Apply appropriate price indices to estimate the cost of the general equipment in the period when it was placed into service if the comparable general

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equipment has a different in-service date. See FASAB Federal Financial Accounting and Auditing Technical Release 13, “Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment,” for additional details for using indices to inflate or deflate costs.

7.2.3.3.2. Current cost of similar assets discounted for inflation. Deflating current costs to costs at the time of acquisition by the general price index; or

7.2.3.3.3. Budget-Based Estimates. This methodology uses information included in the DoW Component’s budget to estimate the value of the general equipment. The key requirement is that the procurement budget detail must allow DoW Components to clearly associate budgeted amounts with the general equipment end items. DoW Components must consider that acquisition programs can span many years, and not all costs associated with the budgeted amount must be capitalized. Steps for performing budget-based estimates include:

7.2.3.3.3.1. Reviewing the relevant President’s Procurement Budget documentation for the general equipment acquisition program and determine whether the budget has adequate detail to support the budget valuation methodology.

7.2.3.3.3.2. Identifying costs and determining which costs must be included in the capitalized costs of the general equipment;

7.2.3.3.3.3. Compiling documentation supporting the valuation, including copies of the referenced budget exhibits; and

7.2.3.3.3.4. Documenting the process and results.

7.2.3.3.4. Contract-Based Estimates. This methodology involves valuing general equipment using the pricing data included in contracts. A complete understanding of the acquisition program, including the structure of related contracts, is required to implement this methodology. DoW Components must align activities and costs of general equipment with relevant accounting standards to isolate the costs that are capitalized versus expensed (e.g., research and development costs, factory training). DoW Components must also consider the complexity of multiple contracts used to develop or acquire the general equipment assets. Steps for performing contract-based estimates include:

7.2.3.3.4.1. Identification by Program Management Offices (PMOs) of all contracts for the acquisition or modification of the general equipment. Relevant contracts include those that have a financial impact on the value of the asset and/or establish its placed in service date;

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7.2.3.3.4.2. Working with Financial Managers, Procurement Contracting Officers, and PMOs to review all line items in the contract to identify costs to include in the capitalized acquisition costs and to identify the costs to exclude;

7.2.3.3.4.3. Compiling documentation supporting the valuation, including copies of relevant contract documents; and

7.2.3.3.4.4. Documenting the process and results.

7.2.3.3.5. Engineering Document-Based Estimates. Technical and engineering documents lay out the assumptions, materials, and estimated cost to produce an asset. In these instances, the engineering documents can provide a sufficient basis for estimating deemed cost for opening balances. Examples of acceptable supporting documentation include technical specifications and estimates, maintenance delivery schedule, bill of materials, invoices, vendor quotes on material costs/sale rates, time compliance, and technical orders, industry estimates, and Federal Logistics Data (FED LOG) published by the Defense Logistics Agency.

7.2.3.3.6. Expert Cost Estimator Estimates. An informed opinion of an expert cost estimator may be used to support reasonable estimates. Informed opinion refers to the judgment of others who make estimates based on programmatic knowledge and/or experience based on limited information and, in some cases, without using an econometric or other statistical model. If an expert cost estimator is used, document the expert's credentials or qualifications in sufficient detail to allow review and validation by independent sources, including independent auditors. Maintain other relevant communications describing the basis for any assumptions or changes in assumptions in support of the expert's opinion. Other relevant communications may include:

7.2.3.3.6.1. Reports and studies.

7.2.3.3.6.2. Memos with outside experts and minutes from internal meetings describing the basis for any assumptions or changes in assumptions.

7.2.3.3.6.3. Previous studies conducted by the expert, including industry studies, journal articles, and third-party studies.

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

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7.2.4.2.1. The base asset and all related capital improvements are reported by the same reporting entity to maintain consistency between the financial reporting and the physical assets.

7.2.4.2.1.1. Software developed separately and installed on several assets at different times may be treated as a separate IUS asset, rather than integrated or embedded software.

7.2.4.2.1.2. When software is treated as a separate IUS asset, improvements to the software are capitalized to the separate IUS asset, not the general equipment asset.

7.2.4.2.2. Financial reporting responsibility for asset transfers with the accountability of the asset in cases where accountability changes from one entity to another. Documentation for transferring assets must be maintained to support audit requirements in accordance with DoW FMR Volume 1.

7.2.4.2.3. Financial reporting responsibility for assets includes all aspects of financial reporting and disclosures, including, but not limited to, footnote disclosures, deferred maintenance and repair (DM&R), and other required supplemental information (RSI) as detailed in the Additional Considerations section.

7.2.4.2.4. DoW Components must follow existing DoDIs for establishing and maintaining accountability for general equipment assets using their APSRs.

7.2.4.2.5. DoW Components responsible for the financial reporting of an asset must be prepared to support the financial statement assertions, including existence and completeness, rights and obligations, accuracy and valuation, occurrence, and presentation and disclosure.

7.2.4.2.6. DoW Components funding CAP recognize the item as general equipment upon delivery and acceptance by the DoW Component or an authorized representative in accordance with the terms and conditions of the contract and in accordance with DFARS PGI 245.402-71. Constructive Delivery is when the title transfers to another entity, even if the physical delivery did not take place. Constructive delivery is based on the terms of the contract regarding shipping and/or delivery. Recognize constructive delivery of a CAP item in the Construction in Progress (CIP) account until acceptance.

7.2.4.2.7. If a local DoW Component identifies a DoW general equipment asset on site that is not recorded in its APSR, it must determine who is accountable for the asset. The accountable entity must perform a property inventory in accordance with DoWI 5000.64 and establish proper internal controls to support Property Management in accordance

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with DoWI 5010.40. If the local DoW Component is not accountable for certain general equipment assets, the Component must prepare and maintain supporting documentation for those assets to provide to their respective accountable DoW Components for audit purposes in accordance with DoW FMR Volume 1.

7.2.4.2.8. Entities that have assets on loan or under temporary or stewardship control do not transfer accountability or financial reporting. The entity with stewardship control must maintain supporting documentation that identifies its physical control while clarifying that it does not hold financial reporting responsibility. Custodial entities provide this documentation to the accountable entity and support any audit requests from the accountable entity related to the property in its control.

7.2.4.3. Recognition Uncertainty.

7.2.4.3.1. 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.

7.2.4.3.2. Disputes between DoW Components regarding accountability for an asset under DoWI 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.

7.2.4.4.1. Upon delivery or constructive delivery of finished goods, the cost of general equipment items must be capitalized in the appropriate equipment account.

7.2.4.4.2. Deliveries of unfinished goods must be accumulated in the CIP account by the funding DoW Component, assuming the estimated total costs will reach the capitalization threshold.

7.2.4.4.2.1. In cases where there are multiple DoW funding entities, the entity with accountability according to DoWI 5000.64 will act as the financial reporting entity and record the completed asset at full cost in their APSR.

7.2.4.4.2.2. DoW Components record transfers of in-service assets in the same month that the asset was removed from CIP and placed in service. Refer to Annex 2 for illustrative examples and journal entries.

7.2.4.4.3. When a contractor acquires general equipment on behalf of a DoW Component (i.e., CAP), the component must recognize the asset upon delivery or constructive delivery and acceptance. The contract determines the terms of delivery, receipt, and acceptance in accordance with DFAR PGI 245.40271.

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7.2.4.4.3.1. Record contract financing payments for work performed (e.g., progress payments, performance-based payments, and commercial interim payments) or interim payments under a cost reimbursable contract for supplies made to a contractor prior to delivery or constructive delivery in the CIP account until you receive the goods, assuming estimated total costs will reach the capitalization threshold.

7.2.4.4.3.2. Upon completion and contractual delivery of general equipment to the Government, the DoW Component must either capitalize the equipment in the appropriate USSGL account (relieving CIP) or, if below the capitalization threshold, record such items in the appropriate expense account. DoW Components must estimate whether the total costs of the item under construction will reach the capitalization threshold, and if not, they must document and expense costs as they construct it.

7.2.4.4.4. When a DoW component acquires general equipment from another federal entity, the DoW component must ensure the timing of asset recognition aligns with the removal of the asset from the providing entity's property accountability and financial reporting records. This is especially important in environments of joint asset management, such as integrated Defense Health Program (DoW) and Veterans Affairs (Non-DoW) facilities.

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 Department's capitalization threshold, or apply a lower threshold for component-level reporting, with DCFO approval.

7.2.4.5.2. Expense general equipment with a recorded cost below the applicable capitalization threshold or has a useful life of less than two years, except for general equipment items that are acquired as part of a qualifying bulk purchase.

7.2.4.6. Refer to Volume 4 policy.

7.2.4.7. Bulk Purchases. Refer to Volume 4 policy.

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7.2.4.8. CIP.

7.2.4.8.1. Expense planning costs prior to design authorization (Milestone C in the Adaptive Acquisition Framework).

7.2.4.8.2. Capitalize expenditures or financing payments paid to contractors, for general equipment being manufactured or constructed in a CIP account. Reporting entities must capture and accumulate capital costs separately for each acquisition program or contract.

7.2.4.8.3. As completed assets are delivered and accepted by DoW or constructive delivery occurs, capital costs will be relieved from the CIP account and transferred to the general equipment asset account.

7.2.4.8.4. All DoW Components funding CIP must reconcile their recorded CIP balances on a quarterly basis with any service provider/contractor working on the CIP. CIP must reflect the value associated with the actual progress of work completed, which may be more or less than amounts invoiced to the DoW Component as of the quarter end.

7.2.4.8.4.1. DoW components must include appropriate contract data requirement provisions in their contracts to enable CIP reconciliation and accurate reporting.

7.2.4.8.4.2. DoW components performing work on behalf of other components must periodically provide appropriate data to enable CIP reconciliation and accurate reporting.

7.2.4.8.5. See Annex 1 for a detailed discussion of recognition throughout the CIP Process.

7.2.4.9. Accounting for General Equipment Outside of the United States. As used in this chapter, 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 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:

7.2.4.9.1.1. If there are no foreign legal restrictions, terms of agreement with the host nation/foreign government, or similar barriers for owning general

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equipment purchased within the foreign country, the DoW Component will account for such general equipment in accordance with the other provisions of this chapter.

7.2.4.9.1.2. If there are foreign legal restrictions, terms of agreement with the host nation/foreign government, or other restrictions that prevent the DoW from owning the general equipment imposed by the host nation/foreign government, the DoW Component must estimate the period of time it will use the general equipment in the foreign country. If the estimated period of use is two years or greater and the cost of the general equipment equals or exceeds the capitalization threshold, the general equipment must be capitalized and depreciated over a shorter period of use in the foreign country or the useful life.

7.2.4.9.2. 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 DoWI 5000.64.

7.2.4.9.2.1. Expense general equipment items that do not meet the criteria for capitalization in the period acquired or built.

7.2.4.9.2.2. If the host nation/foreign government does not receive payment from the DoW Component for the use of general equipment provided to the DoW Component, the DoW Component must not reflect this general equipment in financial statements (other than through note disclosure).

7.2.4.9.2.3. Enter and maintain all other property attributes and data elements in the APSR for all general equipment regardless of the dollar value assigned to the asset.

7.2.5 Capital Improvements

7.2.5.1. Referred to as modifications, modernizations, upgrades, remanufacture, and enhancements.

7.2.5.1.1. A capital improvement funded by the same entity that reports the base asset must first accumulate the costs of the improvement in a CIP account and then transfer those costs to the same account as the base asset when the improvement goes into service.

7.2.5.1.2. If the entity that funds the improvement is different than the entity that reports the base asset, the entity or entities funding the improvement will accumulate the cost of the improvement in their CIP account(s) until the implementation of the improvement is complete. The funding organization relieves the CIP as a transfer out, and the entity that reports the base asset recognizes the improvement as a transfer in when the improvement is placed in service. See Annex 2 for illustrative examples and journal entries.

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7.2.5.1.3. DoW Components report the base asset and all capital improvements made to the base asset on the same financial statements.

7.2.5.2. The cost of improvements to more than one general equipment item as identified by a unique identifier when performed under a single contract or work order, and cannot be specifically identified by asset, must be capitalized only when the allocated cost per general equipment item equals or exceeds the applicable capitalization threshold and the estimated useful life is two or more years. When a single item undergoes more than one improvement and these improvements are part of one overall effort to increase the item's capability, size, and/or useful life, the DoW Component must capitalize the sum of the costs of the improvements if the summed costs equal or exceed the applicable capitalization threshold. Once the DoW Component determines that it will capitalize the aggregate costs of the improvements, it must capitalize and depreciate each improvement upon placing it in service.

7.2.5.3. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds the applicable capitalization threshold. Per SFFAS 42, maintenance and repairs are defined by the FASAB as activities that people direct toward keeping fixed assets in an acceptable condition, such as preventative maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain assets. Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

7.2.5.4. DoW Components generally expense maintenance and repairs in the period incurred. However, certain replacements of parts, systems, or components may or may not be an improvement for accounting purposes. The intent behind the replacement determines whether the DoW Components recognize a replacement as a repair or an improvement. Repair by replacement occurs when parts, systems, or components have failed or are no longer performing the functions for which they were designated and must be expensed. If the replacement was undertaken to improve or extend the life of an item beyond that of its originally designed service life, then the replacement must be recognized as an improvement.

7.2.6. Depreciation

7.2.6.1. The salvage value, also known as the residual or scrap value, is the amount expected to be obtained from selling an asset at the end of its useful life, but only when such proceeds (from recycle, resale, or salvage) are permitted to be retained and used by the DoW Component. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value.

7.2.6.2. DoW policy specifies using the straight-line method of depreciation only. However, in certain circumstances, the DoW may permit alternate depreciation methods. DoW Components that would like to implement a method of depreciation different from

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straight line must submit a written request from the DoW Component's Accounting Policy Office to the OUSW(C)/ODCFO for approval to proceed. One of the alternate depreciation methods used within DoW is activity-based depreciation, referred to as Operational Tempo (OPTEMPO). OPTEMPO recognizes changes in expected utilization rates and fatigue caused by the operating environment and mission.

7.2.6.2.1. Straight line depreciation expense is calculated as the depreciable basis (recorded cost less salvage value, if applicable) divided equally among accounting periods during the asset's useful life.

7.2.6.2.2. Table 7-5 shows the standard useful lives DoW uses for general equipment. This list is not all inclusive. DoW Components may elect to depreciate assets over a useful life that more accurately reflects their useful life. The DoW Component making this election must document and maintain the basis for that decision, including appropriate evidentiary matter (e.g., an engineering estimate) to support the decision. Documentation to support useful life determination, other than DoW standard useful lives, must be maintained and made available to auditors in accordance with DoW FMR Volume 1, Section 9: "Financial Records Retention."

Table 7-5 DoW Useful Lives for Depreciable General Equipment

Categories	Sub-Categories	Useful Life
GENERAL EQUIPMENT ASSETS (EXCLUDING WEAPON SYSTEMS)		
General Purpose Vehicles		
	Heavy-duty Trucks and Buses	5
ADP Systems and Hardware		
	Computers and Peripherals	5
Communication and Medical Equipment		
	High Tech Medical Equipment	5
	Radio and Television Broadcasting Equipment	5
All Other Equipment and Machinery		
	All Other Equipment and Machinery	10
	Equipment used in Research, Development, Test, and Evaluation (RDT&E)	5
Vessels		

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	Tugs	20
	Barges	20
	Similar Water Transportation Equipment	20
Generation Equipment		
	Steam Generation Equipment (12.5K pounds per hour or more)	20
	Electric Generation Equipment (500 Kilowatt or more)	20
Capital Improvements		
GENERAL EQUIPMENT WEAPON SYSTEMS		
Ground Systems		
	Armored/Assault Vehicle	15
	Cargo Vehicle	15
	Tracked Vehicle	20
Fixed Wing Aircraft		
	Combat Fixed Wing	20
	Cargo Fixed Wing	25
	Utility Fixed Wing	20
Rotary Wing		
	Combat Rotary Wing	25
	Cargo Rotary Wing	25
	Utility Rotary Wing	30
Ships		
	Combat Ship	35
	Cargo Ship	40
	Aircraft Carrier	50

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Submarines		
	Submarine	33
Unmanned Aerial Vehicle Systems (UAVS)		
	UAVS	15
Combat Support Systems		
	Combat Support System	15
	Missile Defense System	20
See Capital Improvements in paragraph 7.2.5		

7.2.7. Impairment

7.2.7.1. Impairment means a significant and permanent decline in the service utility of general equipment or expected service utility for CIP resulting from events or changes in circumstances that are not considered normal and ordinary.

7.2.7.1.1. A decline is permanent when management has no reasonable expectation that the lost service utility will be replaced or restored.

7.2.7.1.2. The expected service utility of general equipment is the usable capacity that, at acquisition, was expected to be used to provide service. The current usable capacity of general equipment may be less than its original usable capacity:

7.2.7.1.2.1. Due to the normal or expected decline in useful life or

7.2.7.1.2.2. Due to impairing events or changes in circumstances, including physical damage, obsolescence, enactment or approval of laws or regulations, or other changes in environmental or economic factors, or changes in the manner or duration of use.

7.2.7.1.3. Normal and ordinary events or circumstances are those that fall within the expected useful life of the general equipment, including standard maintenance and repair requirements.

7.2.7.1.4. Events or circumstances that are not considered normal and ordinary are unexpected, at the time of acquisition, or if expected, were not sufficiently predictable to be considered in estimating the general equipment's useful life.

7.2.7.2. Identification of Potential Impairment Loss. The determination of whether general equipment remaining in use is impaired is a two-step process, which includes

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(1) identifying potential impairment indicators and (2) testing for impairment. Document potential impairment indicators, tests for impairment performed, analysis of materiality, and significance. Retain documentation to support audit remediation efforts in accordance with DoW FMR Volume 1.

7.2.7.3. Determining the Appropriate Measurement Approach. DoW Components must estimate impairment losses on general equipment that will continue to be used by using a measurement approach that reasonably estimates the portion of net book value associated with the diminished service utility of the general equipment. DoW Components must limit the recognition of impairment loss to the asset's net book value at the time of impairment. Widely recognized methods for measuring impairment are identified in SFFAS 44, paragraph 18, including:

7.2.7.3.1. Replacement Approach. DoW Components can generally measure the impairment of general equipment with physical damage using a replacement approach. This approach uses the estimated cost to replace the lost service utility of the general equipment at today's standards to identify the portion of the historical cost of general equipment that must be written off due to impairment. It may be appropriate to apply the ratio of estimated cost to replace the diminished service utility over total estimated cost to replace the general equipment, to the net book value of general equipment, to determine the impairment amount.

7.2.7.3.2. Restoration Approach. This approach identifies the portion of the historical cost of the general equipment that the DoW Component must write off by using the estimated cost to restore the diminished service utility of the general equipment. The estimated restoration cost can be converted to historical cost by restating the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the net book value of the general equipment to determine the impairment amount.

7.2.7.3.3. Service Unit Approach. DoW Components can generally measure the impairment of general equipment affected by the enactment or approval of laws or regulations, other changes in environmental factors, or subject to technological changes or obsolescence, using a service unit approach. This approach isolates the historical cost of the service utility that the impairment prevents from being used by comparing the service units provided by the general equipment before and after the impairment to determine the impairment amount.

7.2.7.3.4. Deflated Depreciated Current Cost Approach. DoW Components can generally measure impairment of general equipment that is subject to a change in manner or duration of use using a deflated, depreciated current cost approach. Under this approach, the current cost for general equipment to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the general equipment is not new and is then subsequently deflated to convert it to historical cost dollars. A

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potential impairment loss results if the net book value of the general equipment exceeds the estimated historical cost of the current service utility (i.e., deflated, depreciated current cost).

7.2.7.3.5. Cash Flow Approach. A cash flow approach recognizes an impairment loss only if the net book value (1) is not recoverable and (2) exceeds the higher of its net realizable value (NRV) or value-in-use estimate.

7.2.7.3.5.1. The net book value of general equipment is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the general equipment.

7.2.7.3.5.2. NRV is the estimated amount that can be recovered from selling, or any other method of disposing of an item, less estimated costs of completion, holding, and disposal. SFFAC 7 describes value-in-use as the benefit to be obtained by an entity from the continuing use of an asset and its disposal at the end of its useful life.

7.2.7.3.5.3. If the net book value is not recoverable, the impairment loss is the amount by which the net book value of the general equipment exceeds the higher of its NRV or value-in-use estimate. No impairment loss exists if the net book value is less than the higher of the general equipment's NRV or value-in-use estimate.

7.2.7.3.6. Lower of (a) Net Book Value or (b) Higher of NRV or Value-in-Use Approach. General equipment impaired from either construction stoppages or contract terminations, which are expected to provide service, must be reported at their recoverable amount; the lower of (1) the general equipment's net book value or (2) the higher of its NRV or value-in-use estimated.

7.2.7.4. Recognizing and Reporting Impairment Losses. Per SFFAS 44, the losses must be reasonably estimated by determining the portion of the decline in the net book value of the GPP&E attributable to the lost service utility. The loss from impairment, if any, must be recognized and reported in the Statement of Net Cost when the DoW Component concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Such losses may be included in program costs or costs not assigned to programs. A general description of the general equipment 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.

7.2.7.5. Diminished Service Utility Without Recognized Impairment Loss. If the future service utility has been adversely affected but the impairment test determines that a loss does not need to be recognized, a change to the estimates used in depreciation calculations (such as estimated useful life and salvage value, if applicable) must be considered and adjusted as appropriate.

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7.2.7.6. General Equipment that No Longer Provides Service or CIP. Where there is no expectation of future service by the entity, general equipment that no longer provides service must be accounted for in accordance with SFFAS 6, and TR 14, Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment.

7.2.7.7. Remediating Previously Reported Impairments. The costs incurred to replace or restore the lost service utility of impaired general equipment remaining in use must be accounted for in accordance with applicable standards (i.e., recognized according to the nature of the costs incurred and the appropriate capitalization threshold).

7.2.7.8. Recoveries. The impairment loss must be reported net of any associated recovery when the recovery and loss occur in the same fiscal year. Recoveries reported in subsequent fiscal years must be reported as revenue or other financing sources, as appropriate. The amount and financial statement classification of recoveries must be disclosed in the notes to the financial statements.

7.2.8. Removal/Disposal The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.2.9. Additional Considerations

7.2.9.1. Use of Cancelled Treasury Account Symbol

Capitalized assets are required to be reported and remain in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) after the original purchasing Treasury Account Symbol (TAS) has expired and been cancelled. Refer to the TFM Volume 1, Part 2, Chapter 4700 for additional information. The GTAS is the primary means for DoW Components to report their trial balance data to the Treasury. Capitalized assets are required to be reported in GTAS even after the original purchasing Treasury Account Symbol (TAS) has expired and been cancelled. If a capitalized asset has not been moved to a cancelled ("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 has 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 cancels. Refer to the TFM Volume 1, Part 2, Chapter 4700 for additional information.

7.2.9.2. Documentation Requirements

APSR and/or other systems must:

7.2.9.2.1. Enable periodic, independent verification of the accuracy of the accounting and APSR and/or other systems through periodic physical counts/inventories of general

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equipment. Periodic inventory counts include reconciling the APSR and/or other systems with the general ledger accounts and physical counts.

7.2.9.2.2. Identify and classify general equipment that was capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

7.2.9.2.3. Validate that entries to the financial accounting/reporting and APSR are the same to support APSR integration and reconciliation with the financial accounting system.

7.2.9.2.4. Include documents used to accumulate the cost of construction or developmental projects. Each document must link to the appropriate asset unique identifier. For a listing of those costs that may be incurred during the construction, see Annex 1.

7.2.9.2.5. Include all general equipment possessed by the DoW (to include property held by others) and general equipment of others held by DoW through seizure, forfeiture, loss, or abandonment.

7.2.9.2.6. Provide information to identify and account for leased general equipment. Refer to DoWI 5000.64 for accountability requirements for general equipment.

7.2.9.2.7. Provide information to identify and account for capitalized improvements to general equipment.

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Table 7-6 Examples of Supporting Documentation for General Equipment

(Note: These examples may not be all inclusive for all circumstances.)

Evidence	Examples
Unique Identification	Assignment of a unique identifier
Project Approval	Work Order
Obligation on Behalf of the Government	• Contracts, contract modifications, or change orders; • Statement of Work; • Dollar Amount of Contract; • Location; • Source of Funds; • Parties to the Contract; and • Signature Page [Signature of All Parties]. • Documentation of troop labor hours; • Approved Work Order; or Purchase Order; or Reimbursable Agreement; or Military Interdepartmental Purchase Requests
Payment Submitted	• Approved the last invoice reflecting the total amount submitted for payment and received to date; • Evidence of in-house construction costs, including labor; • Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement.
Acceptance/Receipt (Acceptance of New Acquisitions and receipt or requisition of equipment items)	• DD Form 250, Material Inspection and Receiving Report; • General Services Administration (<i>GSA</i>) 1334, Request for Transfer of Excess Real and Related Personal Property; • Executed acquisition document and appraisal results for the donated assets; • Signed lease for leased property; • Executed reversionary document; • Transfer letter and documents for transferred assets to include DD Form 1348-1A, Issue Release/Receipt Document, and equivalent Electronic Turn-In Document; • Receiving report, e.g., iRAPT receiving report; • DD Form 1149, Requisition and Invoice/Shipping Document; • DD Form 1150, Request for Issue/Transfer/Turn-In; • DD Form 1155, Order for Supplies or Services.
Project Closeout	Final DD Form 1354 with associated source documentation retained by the responsible party.
Disposals or Retirements	• Declaration of excess' document; • Approval documentation; • Original acquisition documents; • Legal instruments (such as a contract) to indicate a legal obligation to dispose of an asset; • Document showing the disposal start date and disposal end date; • Receipt documentation; • Transfer documents for transferred assets or as stated.

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7.2.9.3. Physical Inventories of General Equipment – The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.2.9.4. Deferred Maintenance and Repairs (DM&R)

7.2.9.4.1. DM&R are maintenance and repairs that were not performed when they should have been or were scheduled to be, and which are put off or delayed to a future period.

7.2.9.4.2. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repairs include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities aimed at expanding the capacity or capability of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

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

7.2.9.4.3.1. Condition assessment surveys are periodic physical inspections of general equipment to determine their current condition and estimated cost to correct any deficiencies. DoW Components must assess the condition of general equipment assets as a function of their day-to-day operations and document condition through periodic assertion/assessment statements provided by their field office managers. DoW Components also need to evaluate the costs and benefits of doing condition assessment surveys. Such things as cycling the assessments on a rotating basis, the frequency of assessments (i.e., every three or five years), and the criteria and methodology used for making such assessments need to be considered.

7.2.9.4.3.2. Life-cycle costing is an acquisition or procurement technique that considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in forecasts of maintenance and repair expenses, these forecasts may serve as a basis against which to compare actual maintenance and repair expenses to arrive at an estimate of DM&R.

7.2.9.4.4. DoW Components must determine what condition standards are acceptable and which DM&R measurement methods to apply. Once determined, condition standards and measurement methods must be consistently applied unless the DoW Component determines that changes are necessary. Changes deemed necessary by the DoW Component must be accompanied by an explanation documenting the rationale for the change(s) and any related impact the change(s) will have on the DM&R estimates.

7.2.9.4.5. DM&R must be measured for capitalized and non-capitalized general equipment and fully depreciated general equipment. In addition, DM&R must be

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measured for inactive and/or excess general equipment to the extent that it is required to maintain the general equipment in acceptable condition (e.g., to comply with existing laws and regulations or to preserve value pending disposal). In addition, DM&R must measure funded maintenance and repairs that have been delayed for a future period as well as unfunded maintenance and repairs.

7.2.9.4.6. DoW Components who report general equipment must report material amounts of DM&R as RSI to the financial statements (refer to Volume 6). At a minimum, this information must be presented as RSI for all general equipment:

7.2.9.4.6.1. Estimates of the beginning and ending balances of DM&R for each major category of equipment;

7.2.9.4.6.2. A summary of the DoW Component's maintenance and repairs policies and a brief description of how they are applied (i.e., method of measuring DM&R);

7.2.9.4.6.3. Policies for ranking and prioritizing maintenance and repair activities;

7.2.9.4.6.4. Factors the DoW Components consider in determining acceptable condition standards;

7.2.9.4.6.5. Whether DM&R relates solely to capitalized general equipment or also to amounts relating to non-capitalized or fully depreciated general equipment;

7.2.9.4.6.6. Capitalized general equipment for which the DoW Component does not measure and/or report DM&R and the rationale for the exclusion; and

7.2.9.4.6.7. If applicable, explanation of any significant changes to DM&R amounts from the prior year, and policies and factors subject to the reporting requirements established in subparagraphs 7.2.9.2 and 7.2.9.5.

7.2.9.4.7. Maintenance and repair of weapon systems is accomplished by two different, yet complementary components—depot level maintenance and repair activities and field level maintenance and repair activities. The term “field level maintenance and repair” includes all nondepot level maintenance and repair activities (e.g., organizational, intermediate, and regional). DoW Components must determine whether the year-end amounts of field level DM&R on weapon systems are material when compared to their component depot level amounts of DM&R. This determination must be updated and documented on an annual basis. Material amounts of weapon systems field-level DM&R should be reported in the financial statements.

7.2.9.4.7.1. Depot-level maintenance and repair includes: major repair, overhaul, or complete rebuilding of weapon systems, end items, parts, assemblies, and subassemblies; manufacture of parts; technical assistance; and testing. Material amounts of depot-

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level deferred maintenance due to the unavailability of funding and/or capacity constraints have been historically reported through the DoW's budget process by the Military Departments. Such amounts are provided annually to Congress in the President's Budget submission and satisfy the intent of the federal accounting standard definition. The same budget submission amounts must be reported in the financial statements of the Military Departments.

7.2.9.4.7.2. Field-level maintenance and repair comprises maintenance and repair activities at lower organizational levels than depot levels. The Military Departments may or may not separate this level of maintenance and repair into intermediate and organizational maintenance and repair activities when describing the field-level maintenance and repair structure and capability.

7.2.9.4.7.3. Intermediate field level maintenance and repair includes limited repair of commodity-oriented components and end items; job shop, bay, and production line operations for special mission requirements; repair of printed circuit boards; software maintenance; and fabrication or manufacture of repair parts, assemblies, and components. The intermediate maintenance and repair mission is to sustain the combat readiness and mission capability of supported activities by providing quality and timely materiel support at the nearest location with the lowest practical resource expenditure.

7.2.9.4.7.4. Organizational field level maintenance and repair is normally performed by an operating unit on a day-to-day basis in support of its own operations. The organizational maintenance and repair mission is to maintain assigned equipment by performing functions such as inspections, servicing, preventive maintenance, and corrective maintenance.

7.2.9.5. Disclosure Requirements

7.2.9.5.1. 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:

7.2.9.5.1.1. The DoW Component is utilizing general equipment provided by and owned by a host nation/foreign government in its operations outside of the United States without reimbursement by DoW to the host nation/foreign government, and there are no amounts recorded in the financial statements related to these assets.

7.2.9.5.1.2. 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

7.3.1. Short-Term Leases (Non-Intragovernmental). The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.1.1. Lessee Treatment of Short-Term Leases. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.1.2. Lessor Treatment of Short-Term Leases. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.2. Contracts or Agreements That Transfer Ownership. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3. Intragovernmental Leases

7.3.3.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.2. Lessee Treatment of Intragovernmental Leases. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.2.1. Lease Payments. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.2.2. Leasehold Improvements. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.2.3. Disclosures. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.3. Lessor Treatment of Intragovernmental Leases. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.3.1. Lease Payments. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.3.2. Lessor Improvements. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.3.3. Disclosures. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.4. Other Considerations for Lessees and Lessors

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7.3.3.4.1. Fixed Rental Increases/Decreases. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.4.2. Variable Rental Increases/Decreases. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.4.3. Treatment of Rental Increases/Decreases, and Lease Incentives/Concessions. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.3.4.4. Initial Direct Lease Costs. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.4.2. Lease Liability. Measurement of the lease liability must include the following if required by a lease:

7.3.4.2.1. Fixed payments;

7.3.4.2.2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term;

7.3.4.2.3. Variable payments that are fixed in-substance;

7.3.4.2.4. Amounts that are probable of being required to be paid by the lessee under residual value guarantees;

7.3.4.2.5. The exercise price of a purchase option if it is probable that the lessee will exercise that option;

7.3.4.2.6. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) an availability of funds or cancellation clause;

7.3.4.2.7. Any lease incentives/concessions (see paragraph 3.6) receivable from the lessor; and

7.3.4.2.8. Any other payments to the lessor that are probable of being required based on an assessment of all relevant factors.

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7.3.4.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.4.4. Interest Rate.

7.3.4.4.1. The interest rate may be based on a recent interest rate on marketable Treasury securities or a historical average interest rate on marketable Treasury securities of similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

7.3.4.4.2. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or Down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities must be consistent from period to period.

7.3.4.4.3. DoW Components must not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, they must select the longest Treasury maturity. For example, if the longest Treasury maturity at the commencement of the lease term is 30 years, DoW Components must select the 30-year rate as the discount rate for a lease with a 75-year term.

7.3.4.4.4. In subsequent financial reporting periods, the lessee must calculate the amortization of the discount on the lease liability and recognize that amount as interest expense for the period. Any payments made must be allocated first to the accrued interest liability and then to the lease liability.

7.3.4.5. Remeasurement of Lease Liability. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures. Changes arising from amendments to a lease contract or agreement must be accounted for as lease modifications and terminations if:

7.3.4.5.1. There is a change in the lease term;

7.3.4.5.2. An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being required to be paid has changed from probable to not probable or vice versa;

7.3.4.5.3. An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa;

7.3.4.5.4. There is a change in the estimated amounts for payments already included in the liability;

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7.3.4.5.5. There is a change in the interest rate the lessor charges the lessee if used as the initial discount rate; or

7.3.4.5.6. A contingency, upon which some or all of the variable payments that will be made over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease liability. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying asset to become fixed payments for the remainder of the lease term.

7.3.4.5.7. If a lease liability is remeasured for any of the changes, the liability also must be adjusted for any change in an index or rate used to determine variable lease payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments.

7.3.4.5.8. The lessee also must update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability: (1) There is a change in the lease term or (2) An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa.

7.3.4.5.9. A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the interest rate on marketable Treasury securities.

7.3.4.5.10. If the discount rate is required to be updated based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the interest rate on marketable Treasury securities with a similar maturity to the term of the lease at the time the discount rate is updated must be used.

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 corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.4.6.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.4.6.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.4.6.4. For example, if the useful life for the asset is five years but the lease term is 4 years, the amortization of the lease asset is 4 years. If the useful life of the asset is

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five years, but the lease term is 7 years, the amortization of the lease asset is 5 years. The amortization of the lease asset must be reported as amortization expense.

7.3.4.6.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.4.6.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.4.6.7. The presence of impairment indicators to the underlying asset may result in a change in the manner or duration of use of the lessee's rights to obtain and control access to economic benefits and services derived from the underlying asset and the application of SFFAS 44. The change in the manner or duration of use of the underlying asset is an indicator that the lease asset may be impaired. If impaired, the lease asset must be reduced first for any change in the lease liability resulting from remeasurement, terminations or modifications. Any remaining amount must be recognized as an impairment loss. SFFAS 44 provides criteria for testing for impairment, along with recognizing, reporting, and disclosing impairment losses. This guidance must be applied to lease assets to the extent that impairment losses exceed any reduction to the lease liability and lease asset that may stem from the impairment.

7.3.4.7. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.4.8. Disclosure Requirements for Lessees

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

7.3.4.8.1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease liability are determined;

7.3.4.8.2. The total amount of lease assets and the related accumulated amortization, are to be disclosed separately from PP&E assets;

7.3.4.8.3. The amount of lease expense recognized for the reporting period for variable lease payments not previously included in the lease liability;

7.3.4.8.4. Principal and interest requirements to the end of the lease term, presented separately, for the lease liability for each of the five subsequent years and in five-year increments thereafter; and

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7.3.4.8.5. The amount of the annual lease expense and the discount rate used to calculate the lease liability.

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. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.5.2. Lease Receivable. Measurement of the lease receivable must include the following types of payments that might be required by a lease:

7.3.5.2.1. Fixed payments;

7.3.5.2.2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term;

7.3.5.2.3. Variable lease payments that are fixed in-substance;

7.3.5.2.4. Residual value guarantees that are fixed payments in-substance;
and

7.3.5.2.5. Any lease incentives payable to the lessee.

7.3.5.3. For example, if a lease payment is based on a percentage of sales but has a required minimum payment, that required minimum is a fixed payment in-substance. Similarly, a residual value guarantee is an in-substance fixed payment if it stipulates the underlying asset will be sold at the end of the lease term, with the lessee assuming liability for any shortfall if the sales price is less than an agreed-upon minimum amount.

7.3.5.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.5.5. Interest Rate

7.3.5.5.1. If the interest rate is based on marketable Treasury securities, it must be consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or the interest rate on marketable Treasury securities on the subsequent financial reporting date).

7.3.5.5.2. The interest rate may be based on a recent interest rate on marketable Treasury securities or a historical average interest rate on marketable Treasury securities of similar maturity to the term of the lease, provided that the interest rate is consistent

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with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

7.3.5.5.3. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities must be consistent from period to period.

7.3.5.5.4. DoW Components must not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, they must select the longest Treasury maturity. For example, if the longest Treasury maturity at the commencement of the lease term is 30 years, DoW Components must select the 30-year rate as the discount rate for a lease with a 75-year term.

7.3.5.5.5. In subsequent financial reporting periods, the lessor must calculate the amortization of the discount on the receivable and report that amount as interest revenue for the period. Any payments received must be allocated first to the accrued interest receivable and then to the lease receivable.

7.3.5.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.5.7. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.5.8. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.5.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.5.10. Disclosures 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.

7.3.5.10.1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease receivable are determined;

7.3.5.10.2. The carrying amount of assets on lease by major classes of assets, and the amount of related accumulated depreciation;

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7.3.5.10.3. The total amount of revenue (for example, lease revenue, interest revenue, and any other lease-related revenue) recognized in the reporting period from leases; and

7.3.5.10.4. The amount of revenue recognized in the reporting period for variable lease payments and other payments not previously included in the lease receivable, including revenue related to residual value guarantees and termination penalties.

7.3.5.10.5. If a DoW Component's principal ongoing operations consist of leasing assets through the use of non-intragovernmental leases, the DoW Component must disclose a schedule of future lease payments that are included in the lease receivable, showing principal and interest, for each of the five subsequent years and in five-year increments thereafter.

7.3.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.7. Contracts or Agreements With Multiple Elements

7.3.7.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.7.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.7.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.7.4. Stand-alone prices are those that would be paid or received if the same or similar assets were leased individually or if the same or similar non-lease elements (such as services) were contracted individually. Some contracts or agreements provide discounts for bundling multiple leases or lease and non-lease elements together in one contract or agreement. These discounts may be considered when determining whether individual element prices do not appear to be unreasonable. For example, if the individual element prices are each discounted by the same percentage from normal market prices, those element prices would not be considered unreasonable.

7.3.7.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.8. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.9. Lease Terminations and Modifications

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7.3.9.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.9.2. Lease Terminations.

7.3.9.2.1. Lessee Treatment of Lease Terminations. A lessee generally must account for the partial or full lease termination by reducing the carrying values of the lease asset and lease liability and recognizing a gain or loss for the difference. However, if the lease is terminated because of the lessee purchasing the underlying asset from the lessor, the lease asset must be reclassified to the appropriate class of owned asset.

7.3.9.2.2. Lessor Treatment of Lease Terminations. A lessor must account for the full or partial termination of a lease by reducing the carrying values of the lease receivable and related unearned revenue and recognizing a gain or loss for the difference. However, if the lease is terminated because of the lessee purchasing an underlying asset from the lessor, the carrying value of the underlying asset also must be derecognized and included in the calculation of any resulting gain or loss.

7.3.9.3. Lease Modifications. The lessee must remeasure the lease liability and adjust the lease asset by the difference; if this adjustment reduces the asset's carrying value to zero, any remaining amount is reported as a gain. For its part, the lessor must remeasure the lease receivable and adjust the unearned revenue by the difference. However, any change related to payments for the current period is recognized immediately as revenue or expense for that period. The lessee and lessor must account for an amendment during the reporting period resulting in a modification to a lease contract or agreement as a separate lease (that is, separate from the most recent lease contract or agreement before the modification) if both of the following conditions are present: (1) the lease modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease contract or agreement; and (2) the increase in lease payments for the additional lease asset does not appear to be unreasonable based on (a) the terms of the amended lease contract or agreement and (b) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).

7.3.9.3.1. Lessee Treatment of Lease Modifications. Unless a modification is reported as a separate lease, a lessee must account for a lease modification by remeasuring the lease liability. The lease asset must be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. However, if the 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.

7.3.9.3.2. Lessor Treatment of Lease Modifications. Unless a modification is reported as a separate lease, a lessor must account for a lease modification by remeasuring the lease receivable. The unearned revenue must be adjusted by the difference between the

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remeasured receivable and the receivable immediately before the lease modification. However, to the extent the change relates to payments for the current period, the change must be recognized as revenue or expense for the current period.

7.3.10. Subleases

The DoW Component, as the original lessee and now the sub-lessor, must account for the original lease and the sublease as two separate transactions that cannot be offset.

7.3.11. Sale-Leaseback Transactions

7.3.11.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.11.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.11.3. The difference must be reported based on the substance of the transaction (for example, as a borrowing, a non-exchange transaction, or an advance lease payment) rather than as a part of the sales-leaseback transaction.

7.3.11.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.12. Lease-Leaseback Transactions

The leaseback may involve an additional asset (such as leasing a building that has been constructed by a developer on land owned by and leased back to a DoW Component) or only a portion of the original asset (such as leasing back only one floor of a building to the owner).

7.3.13. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.14. Intragovernmental Leasehold Reimbursable Work Agreements

7.3.14.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.14.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.14.3. The customer-lessee and provider-lessor must refer to the following guidance.

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7.3.14.3.1. Customer-Lessee. Amortization begins once the customer-lessee has access to the economic benefits resulting from the work. To ensure proper accounting, coordination with the provider-lessor is necessary to eliminate inter-entity balances costs consistent with SFFAS 4.

7.3.14.3.2. Provider-lessor. Revenue recognition starts when the provider-lessor gives the customer-lessee access to the economic benefits of the work. To ensure proper accounting, coordination with the customer-lessee is necessary to help eliminate inter-entity balances and unearned revenue.

7.3.15. Additional Considerations

7.3.15.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.15.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.15.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.15.4. Accounting for Real Property Leases Outside of the United States and Managed by the Department of State. The applicable DoW Component with the assigned leases, will have to record the applicable allocation/portion in their book and records. The housing pool allocation will be based on each federal agency's share of the estimated expenses for the next fiscal year and will be applied across the entire housing pool's net present value calculation. For further information or assistance contact CGFS at sffas54leases-cgfs@state.gov.

7.3.15.5. Use of Canceled Treasury Account Symbol

If a capitalized asset isn't moved to a canceled ("C") TAS, GTAS will automatically generate one for reporting purposes. This system-generated "C" TAS consists of a three-digit agency identifier, the availability type "C", and a four-digit main account.

7.3.15.5.1. 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 Volume 1 for additional information.)

7.3.15.5.2. To transfer an asset to a "C" TAS

7.3.15.5.3. Use USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

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7.3.15.5.4 Use USSGL account transaction E606 to transfer-in the asset into the appropriate “C” TAS.

7.3.15.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.15.7. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.3.15.8. Reporting Requirements

Supporting Documentation

Evidence	Examples
Unique Identification	Assignment of a unique identifier
Project Approval	Work Order or similar document
Obligation on Behalf of the Government	- For leases or lease modifications: Statement of Work; Dollar Amount of Lease; Location; Source of Funds; Parties to the Lease agreement; and Signature Page [Signature of All Parties]. - Approved Work Order - Evidence supporting asset impairment.
Payment Submitted	Approved last invoice reflecting the total amount submitted for payment to date.
Acceptance	- DoW (DD) Form 250, Material Inspection and Receiving Report; General Services Administration Form 1334, Request for Transfer of Excess Real and Related Personal Property; DD Form 1354, Transfer and Acceptance of DoW Real Property (interim or final), with associated source documentation retained by the responsible party; - Signed lease for leased property; - Executed Occupancy agreement; and - Transfer letter and documents for transferred assets.

7.3.15.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4 INTERNAL USE SOFTWARE

7.4.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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7.4.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.4. Integrated (embedded) software is not IUS.

7.4.4.1. DoW Components must consider such software as part of the PP&E of which it is an integral part, and must capitalize and amortize accordingly. They must use the aggregate cost of the hardware and software to determine whether to capitalize or expense the costs. In situations where software and the hardware on which it runs have independent service lives, they must determine the useful life of the software independently of the useful life of the hardware. They must determine this on a case-by-case basis and document the rationale.

7.4.4.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.4.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.4.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.6. Valuation

7.4.6.1. DoW Components calculate the cost of COTS software by adding the actual purchase price of the COTS license to any costs incurred to place the software in service or otherwise make the software ready for use.

7.4.6.2. The cost of contractor-developed software includes the amount paid to the contractor to design, program, install, and implement new software or to modify existing or COTS software, plus any costs incurred to implement or otherwise make the software ready for use.

7.4.6.3. The costs of internally developed software must include the full cost incurred. Full cost includes both direct and indirect costs of new software (e.g., salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies and overhead) and technical documentation.

7.4.6.4. Considering economic feasibility, a cost estimation technique could be developed to trace the costs to outputs based on the SFFAS 4, paragraph 124, provision that "[in] principle, costs should be assigned to outputs in one of the methods listed in the order of preference:

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7.4.6.4.1. Directly tracing costs wherever economically feasible;

7.4.6.4.2. Assigning costs on a cause-and-effect basis; and

7.4.6.4.3. Allocating costs on a reasonable and consistent basis.

7.4.7. Alternative Valuation Methodology for Establishing Opening Balances

7.4.7.1. Establishing Opening Balances for Internal Use Software

7.4.7.1.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.7.1.2. This means that DoW Components who have not undergone a financial statement audit where they received a “clean” audit opinion will adjust their capitalized IUS, including development costs and opening balances to zero in the year the DoW Component makes an unreserved assertion.

7.4.7.1.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.7.2. Financial Statement Disclosure Requirements

They must include a disclosure in the financial statements describing the use of the alternative valuation method 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 in accordance with Generally Accepted Accounting Principles. An unreserved assertion is an unconditional statement.

7.4.7.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8. Recognition

7.4.8.1. The capitalizable cost phase begins after the entity has completed all preliminary planning, designing, coding, and testing activities that are necessary to establish that the IUS can meet the design specifications. Capitalize IUS that has a useful life of two years or more and meets the capitalization. Expense IUS items with a cost below the capitalization threshold; except for IUS items acquired as part of a qualifying bulk purchase. Expense data conversion and training cost in the period incurred.

7.4.8.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.4. Recognition Timing

7.4.8.4.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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.

7.4.8.4.2.1. For example, a DoW Component may develop an accounting software system containing three modules: a general ledger, an accounts payable sub-ledger, and an accounts receivable sub-ledger. In this example, each module could be analyzed to determine whether it could be treated as a separate IUS asset. Specifically, if the module provides economic benefit through distinct, substantive functionality, and meets the tests for capitalization threshold, ownership, and eligibility for capital treatment, then the module could be treated as a separate IUS asset.

7.4.8.4.2.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.4.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.5. Capitalization Threshold, Criteria, and Cost Treatment

7.4.8.5.1. Capitalize IUS if it meets the following criteria for General PP&E:

Useful life of two years or more; Intended for use or being available for use by the entity; Not intended for sale in the normal course of business; and Total cost is greater than the capitalization threshold.

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.

7.4.8.5.2.1. Capitalize direct labor costs of government employee and contractor project teams (e.g., programmers, engineers, managers) incurred during the Design/Development and Testing/Implementation Phase as part of the costs of the software project. Project managers and/or program managers must track direct labor costs and allocate to individual software projects. The allocation methodology used must be consistent between projects and must be auditable.

7.4.8.5.2.2. Expense indirect labor costs for Program Management Office personnel overseeing more than one software project when immaterial compared with the overall costs of a software project. Decisions regarding the materiality of indirect labor costs, when such costs are expensed, must be justified, documented, and must be auditable. If

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determined material to a software project or projects, allocate costs based on a distribution methodology that is consistently applied, documented, and auditable.

7.4.8.5.2.3. Overhead costs are costs associated with rent, utilities, building maintenance, and supplies that are essential to the overall accomplishment of a software project. In many instances, overhead costs are immaterial when compared with the overall costs of a project. If determined immaterial, expense these costs and document the expense justification. If determined material to a project or projects, allocate costs based on a consistent and documented distribution methodology that is auditable.

7.4.8.5.2.4. DoW components must evaluate contractor costs to determine the correct treatment. Such determination is based on the type of work performed by the contractors. Annex 2 breaks down the criteria to expense or capitalize various work activities.

7.4.8.5.2.5. Expense data conversion costs as incurred for internally developed, contractor-developed, or COTS software, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data, and the creation of new or additional data.

7.4.8.5.2.6. Capitalize the cost of development of technical documentation and manuals and expense costs of mass-producing manuals in the period incurred.

7.4.8.5.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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.

7.4.8.5.4.1. If the software consists of multiple individual components or modules, the capitalization phase must end for each component/module after technical acceptance testing is complete for that component/module.

7.4.8.5.4.2. In some development practices, teams conduct acceptance testing for each iteration within an IUS development before moving forward to the next iteration and may not always conduct final acceptance testing. The DoW Component should identify a pre-determined agency milestone such as the go-live or in-service date, which is equivalent to a final technical acceptance test for capitalization cut-off purposes.

7.4.8.5.5. Capitalize amounts paid to a contractor to design, program, install, and implement contractor-developed software. Capitalize material internal costs incurred

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by the Federal Entity to implement the COTS or contractor-developed software and otherwise to make it ready for use.

7.4.8.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.7. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.8. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.10. Cloud and Other Subscription-Based Services

7.4.8.10.1. The most common cloud service resources are: software as a service, platform as a service, and infrastructure as a service. Cloud services can take a number of forms. To determine whether the arrangement includes capitalized IUS, the DoW Component will need to examine the nature of the arrangement and apply the capitalization criteria.

7.4.8.10.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.10.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.10.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.10.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.11. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.8.12. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.9. IUS Enhancements

7.4.9.1. Criteria to capitalize enhancements to IUS differs from that of other PP&E; expense changes that merely extend the useful life or improve efficiency, irrespective of the cost. Even though the DoW component expenses the costs associated with extending the useful

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life, it must extend the amortization of any previously capitalized amount to reflect the new useful life period. Capitalizable enhancements normally require new software specifications and may require a change to all or part of the existing software specifications. For example, DoW Components should capitalize the cost of modifying existing software for making ad hoc queries, if it requires new software specifications and/or changes to existing software specifications and it also exceeds the capitalization threshold. In addition, the DoW Components should expense the nominal charges paid for enhanced versions of software in the period incurred.

7.4.9.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.9.3. When the development of the enhancement takes place over multiple periods, the costs will accumulate in account 183200 (IUS in Development) until the completion of the enhancement, at which time the costs are moved to account 183000 (Internal Use Software).

7.4.9.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.9.5. Knowledgeable personnel must determine and document the additional useful life, which should not exceed five years added to the existing useful life.

7.4.9.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.9.7. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.9.8. Specific documents that support these decisions can vary by organization and asset but could include analysis from software developers or a cross-functional review team that defines the enhancement's impact on functionality and useful life.

7.4.9.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.9.10. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.10. Maintenance and Repair

7.4.10.1. Maintenance and repair activities include subsequent security accreditations (not included in user acceptance testing); software diagnostics; repair processing and/or performance failures; updates to documentation; minor software updates; minor corrections to design flaws; and other activities needed to preserve or maintain the software. Maintenance and repairs, as distinguished from enhancements, exclude activities directed towards expanding the

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capacity of IUS or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

7.4.10.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.11. Amortization

7.4.11.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.11.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.11.3. DoW Components must document the PISD for both acquired IUS and developed IUS.

7.4.11.3.1. For IUS acquired through a Major Automated Information System acquisition program, the Full Deployment Decision date made by the Milestone Decision Authority will serve as the placed-in-service date.

7.4.11.3.2. Use the Initial Operational Capability (IOC) date for other IUS system acquisitions, as the placed-in-service date. The system's Capability Development Document (CDD) and/or Capability Production Document (CPD) often define the IOC. DoW Components can use other supporting documents for acquisitions that do not require a CDD or CPD.

7.4.11.3.3. Use the alternate placed-in-service date if knowledgeable parties within a DoW Component determine that a placed-in-service date better aligns with the completion of final technical acceptance testing for a specific software acquisition. However, the DoW Components must document and justify the decision.

7.4.11.4. Successfully complete final acceptance testing before beginning amortization for the IUS asset. This criteria is necessary, especially for internally developed software but also for contractor-developed and COTS software because testing plays a major role for software assets by demonstrating that the software product can meet the requirements and the need for a clear point for ending the developmental phase.

7.4.11.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.11.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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7.4.11.7. Examples of proper documentation are engineering estimates, operational requirements documents, mission needs statements, commercial industry-equivalent information, contracts, and acquisition documents (such as the Select Acquisition Report).

7.4.11.8. In the case of internally developed IUS, record the costs of developing the IUS that is capitalizable in the IUS in Development account (183200) but do not amortize until the software is placed in service, at which time transfer the balance (total capitalizable development costs) to the IUS account (183000). Begin amortization when the testing of a module or component is successful. If the use of a module is dependent on the completion of another module(s), the movement from account 183200 to account 183000 will take place and amortization will begin when both that module and the other module(s) have successfully completed testing and are placed-in-service.

7.4.11.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.11.10. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12.5. Indications that the software development may no longer be completed include:

7.4.12.5.1. The expenditures are neither budgeted nor incurred to fund further development;

7.4.12.5.2. The discontinuance of the business segment for which the software was designed;

7.4.12.5.3. The inability to resolve programming difficulties timely;

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7.4.12.5.4. A decision to obtain COTS software instead and abandon the current software development; or

7.4.12.5.5. Major cost overruns occur.

7.4.12.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12.7. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12.8. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.12.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.13. Removal/Disposal

7.4.13.1. Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to mission needs. Removal from service must be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoW Component's decision to permanently remove the asset from service. If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

7.4.13.2. For example, IUS taken out of service on a temporary basis is considered other than permanently removed from service. In such cases, the recorded cost of the IUS will remain in the IUS account (USSGL 183000). There is no change in the reported value for IUS that has been other than permanently removed from service and the IUS must continue to be amortized. Amortization charges to expense for IUS will continue to be recorded in USSGL 183900.

7.4.13.3. The recorded cost as well as the accumulated amortization of an IUS permanently removed from service must be removed from the accounts in which they are reported, and the IUS must be recorded at its NRV in a General Property, Plant and Equipment Permanently Removed But not Yet Disposed account (USSGL 199500). USSGL account 199500 is defined in the DoW Standard Reporting Chart of Accounts under the DoW Account Definitions tab as the NRV of General PP&E that is permanently removed from service but not yet disposed of and is reclassified in accordance with FASAB TR 14, paragraphs 10 and 12. NRV is the estimated amount that can be recovered from disposing of the asset less estimated costs of completion, holding, and disposal. Any difference between the net book value of the asset and its expected

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NRV must be recognized as a gain or loss. Any gain should be recorded in the Gains on Disposition of Assets – Other account (USSGL 711000); any loss should be recorded in the Losses on Disposition of Assets – Other account (USSGL 721000). The expected NRV should be evaluated at the end of each fiscal year and any change in NRV should be recognized as a gain or loss. IUS permanently removed from service is no longer amortized.

7.4.13.4. In such case, if the DoW Component receives a consideration (e.g., cash) for the disposal, a receipt of cash should be recorded in the Fund Balance with Treasury account (USSGL 101000). If the funds (consideration received) are not apportioned to the DoW Component, the fund must be transferred to miscellaneous receipts of the Treasury. There will be no consideration received for a donation. The disposal start date is the calendar date of a legally enforceable and recognizable obligation to complete the disposal action. For transfers and sales, this represents the date on which the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident.

7.4.13.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.14. ADDITIONAL CONSIDERATIONS

7.4.14.1. Use of Canceled Treasury Account Symbol

To transfer an asset to a “C” TAS:

7.4.14.1.1. Use the USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

7.4.14.1.2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate C TAS.

7.4.14.2. Supporting Documentation.

7.4.14.2.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.14.2.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.4.14.2.3. These documents, where applicable, must be readily available to support disposals:

‘Declaration of excess’ document; Approval documentation for the disposal; Original acquisition documents; Legal instruments (such as a license agreement or contract) to indicate a legal obligation to dispose of an asset; Document showing the disposal start date; Receipt documentation; and Transfer documents for transferred assets or as otherwise stated.

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Capitalization is Dependent on Term and Aggregate Purchase Amount

Bulk Purchased License Terms	Aggregate Purchase Amount	Guidance
License Term < 2 years	N/A	Expense
License Term = / > 2 years or Perpetual	Under capitalization threshold	Expense
License Term = / > 2 years or Perpetual	Equal to or exceeding capitalization threshold	Capitalize
Maintenance agreements included in the purchase of licenses are not to be considered part of the cost for this determination.		

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DoW Recovery Periods for Amortizable IUS Assets

DoW RECOVERY PERIODS FOR AMORTIZABLE IUS ASSETS (IUS is capitalized only if it meets the capitalization threshold)	
Description of IUS Assets	Recovery Period
Capitalized IUS	2, 3, 4, 5 or 10 Years
Licenses	Term of the license agreement
Perpetual Licenses	5 Years
IUS Upgrades	Not capitalized
Enhancements	Not more than 5 years
The useful life will be determined during the planning phase of the asset's development based on the length of time it is expected to have economic benefit or service potential to the DoW Component. The amortization period of an IUS must be adjusted (not extending more than 5 years) if minor upgrades resulting from ongoing systems maintenance or repair of a design flaw extend the useful life of the software without adding additional capabilities. The cost of the upgrades should be expensed in the period incurred. Also, note the upgrades that do add additional capabilities would be considered enhancements and would be capitalized and amortized if they meet the capitalization criteria in subparagraph 2.5.6. See paragraph 2.6 on the criteria for capitalizing versus expensing of IUS enhancements.	

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Supporting Documentation for IUS Acquisition

Evidence	Examples
Unique Identification	Assignment of a unique identifier
Project Approval	Such as, but not limited to, a Work Order
Obligation on Behalf of the Government	Such as, but not limited to: 1. For contracts, contract modifications, or change orders: Statement of Work; Dollar Amount of Contract; Location; Source of Funds; Parties to the Contract; and Signature Page [Signature of All Parties]. 2. Documentation of labor hours; 3. Approved Work Order.
Payment Submitted	Such as, but not limited to: 1. Approved the last invoice reflecting the total amount submitted for payment and received to date; 2. Evidence of in-house development costs, including labor; 3. Indirect Costs incurred internally by the gaining activity that relates to the new acquisition or capital enhancement.
Acceptance	Such as, but not limited to: 1. DoW DD Form 250 Material Inspection and Receiving Report; 2. Executed acquisition document and appraisal results for the donated IUS; 3. Signed agreement for software licenses; 4. A signoff document confirming key development milestones such as technical acceptance tests are met; 5. Documents to support the amount that has been expensed versus capitalized during the software development phase. 6. Executed reversionary document; and 7. Transfer letter and documents for transferred assets.

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Annex 1. Definitions and Examples

The following Table A1-1 contains common terms as they are generally defined by information technology and software programming professionals. It also includes scenarios relevant to IUS.

Definition	Classified as IUS?	Capitalization	DoW Examples
Access Control Software			
This type of software, which is external to the operating system, provides a means of specifying who has access to a system and the specific capabilities authorized users are granted.	No	Include equipment costs	CA-ACF2, RACF
Application Software			
A software program that performs a specific function directly for a user and can be executed without access to system control, monitoring, or administrative privileges.	Yes	Yes - When capitalization criteria is met	Microsoft Excel, Adobe Photoshop
Cloud – Public			
A cloud-based environment that is generally external to the Department with infrastructure owned and managed by a third party. Public cloud services are generally subscription-based.	No	No	Dropbox
Cloud – Private			
A cloud based environment that is generally internal to the Department and used solely by DoW Components.	Yes	Yes – When the capitalization criteria is met, the DoW Component that controls the IUS has financial reporting responsibility	DISA milCloud
Database Management System (DBMS)			
Computer software applications that interact with the user, other applications, and the database itself to capture and analyze data.	Yes	Yes - When capitalization criteria is met	Oracle Enterprise Manager

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Table A1-1. Definitions and Examples

DoW examples provided may or may not be capitalized

Definition	Classified as IUS?	Capitalization	DoW Examples
Enterprise Resource Planning System			
Commercial software that integrates business information flowing through the Component. ERP systems contain functional modules (e.g., financial, accounting, human resources, supply chain, and customer information) that are integrated within the core system or interfaced with external systems.	Yes – portions of ERP systems are IUS (excluding any hardware acquired as part of the system)	Yes – portions of ERP systems are capitalized	Navy ERP, GFEBS, LMP, DAI
Firmware			
A program recorded in permanent or semi-permanent computer memory.	No	May be capitalized as part of general equipment depending on applicable capitalization criteria being met	Radar system software, lathe software
Freeware / Open Source Software (OSS)			
Software that is offered at no cost.	No	No	Internet browser
Hardware			
The physical components of IT, include computers, peripheral devices such as printers, disks, and scanners, cables, switches, and other IT equipment.	No	May be capitalized as general equipment depending on applicable capitalization criteria being met	Router, Server, Modem, Switch
License – Annual			
A software license that must be renewed annually to continue using the software.	Yes	No - an annual license does not meet the useful life criteria of 2 years for capitalization	Microsoft Lync, VMWARE vSphere
License – Perpetual			
A software license that gives the Department the right to use the software in perpetuity.	Yes	Only if it meets the capitalization threshold	SAP Chrystal Reports

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DoW examples provided may or may not be capitalized.

Definition	Classified as IUS?	Capitalization	DoW Examples
Middleware			
Computer software that provides services to software applications beyond those available from the operating system.	Yes	Yes - If the system it is part of meets capital criteria	Linux Kernel
Portal			
A web-based application that provides personalization, single sign-on, and content aggregation from different sources, and hosts the presentation layer of information systems.	Yes	Yes – When capitalization criteria is met	Audit Response Center (ARC) Tool
Simulation Software			
Based on the process of modeling a real or proposed system with a set of mathematical formulas that allows the user to observe an operation before performing it.	Yes	Yes – When capitalization criteria is met	F-35 Lightning II Training Software
Operating System			
The software that controls the execution of other computer programs, schedules tasks, allocates storage, manages the interface to peripheral hardware, and presents a default interface to the user when no application program is running.	No	Include in equipment costs	WinDoWs, Linux
System / IT System			
The term “system” by itself is not limited to any specific resource. A system may be any two resources that work together to produce a specific outcome. Internal use software may or may not be one component of an overall “system”.	Yes – software components of a system or IT system are IUS	Yes - When capitalization criteria are met	Navy ERP, GFEBS, DAI, CAMIS, OMIS-A
Utility Program			
System software designed to perform a particular function or system maintenance.	No	Include in equipment costs	CD burner, Disk defragmenter, virus scan

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Web Application			
An application that is accessed via the web over a network.	Yes (assuming it is owned by a DoW Component)	Yes - When capitalization criteria are met	Outlook Webmail

Annex 2. The Software Development Life-Cycle (SDLC)

1.0 SDLC Phases Include Planning, Development, and Operations.

Generally, capitalize costs incurred during the development phase and expense costs incurred in the planning and operations phases. IUS development under other methods, such as agile software developments, may not follow this linear approach, and capitalization decisions absent distinct phases are more difficult. Regardless of timing, capitalize or expense the cost incurred for development phase activities based on their substance/task activity rather than their phase. Table A3-1 depicts the three phases with a linear sequential paradigm.

1.1 In the Preliminary Design phase, DoW Components will most likely do the following:

1.1.1. Make strategic decisions to allocate resources between alternative projects at a given time. (e.g., decide whether to develop a new IUS asset or fix existing IUS problems);

1.1.2. Determine performance requirements

1.1.3. Invite vendors to perform demonstrations of how their software will fulfill a DoW Component's need.

1.1.4. Explore alternative means of achieving specified performance requirements. For example, should a DoW Component make or buy the software? Should the software run on a mainframe or client-server system?

1.1.5. Determine if technology exists to meet requirements.

1.1.6. Select a vendor if a DoW Component chooses to obtain COTS software.

1.1.7. Select a consultant to assist in the software's development or installation.

1.2 In the Development phase, the DoW Components may:

1.2.1. Use a system to manage the project;

1.2.2. Track and accumulate life-cycle cost and compare it with performance indicators;

1.2.3. Determine the reasons for any deviations from the performance plan and take corrective action;

1.2.4. Test the deliverables to verify that they meet the specifications.

1.3 In the Operations phase, the DoW Components may:

1.3.1. Operate and maintain the IUS asset and provide user training.

1.3.2. Convert data from the old system to the new system;

1.3.3. Compare asset usage with the original plan; and/or

1.3.4. Track SDLC cost and compare it with the original plan.

1.3.5. Capitalize costs of enhancements to the IUS if they meet the capital enhancement requirements.

2.0 Capital Versus Expense IUS Activities.

Many government and contractor personnel conduct a variety of activities throughout the SDLC for various IUS programs and contracts. Capitalize some costs associated with these activities as part of the cost of the IUS and expense other costs. Capitalization decisions follow the activity regardless of the software development method (e.g., waterfall, prototyping, agile, or spiral). Software development methods are described in Annex 3. When reviewing contracts and budget documentation, take care to distinguish between activities to determine to capitalize or expense.

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Table A2-1. Traditional IUS SDLC Phases, Tasks, and Accounting Treatment

Project Phase	Task	Treatment
Planning	Project Evaluation	Expense
	Concept testing	Expense
	Evaluation of alternatives	Expense
	Project approval	Expense
Development	Design and Configuration	Capitalize
	Coding	Capitalize
	Installation to Hardware	Capitalize
	Direct personnel costs	Capitalize
	Technical Acceptance Testing	Capitalize
	Quality assurance testing	Capitalize
	Documentation	Capitalize
	Indirect and Overhead costs	Allocate
	Data conversion software	Expense
Operations	Testing	Expense
	Training	Expense
	Data conversion	Expense
	Help desk	Expense
	Enhancement	See “IUS Enhancements”, section 2.6.
	Maintenance/Bug Fix	Expense
Expense or capitalize indirect and overhead costs depending on 1) the materiality to overall costs of individual IUS development projects, and 2) the phase in which the costs are incurred.		

Annex 3. Software Development Methods

1.1 Software development methods are ever-evolving, with new methods and techniques being introduced over time. Included in the following subparagraphs are several descriptive examples of common software development methods.

1.1.1. Linear/Waterfall Software Development Method. The linear/waterfall software development method is a sequential design process, used in software development in which progress is seen as flowing steadily downwards (like a waterfall) through the software development phases. The linear/waterfall software development method follows the phases outlined in Annex 2 in sequence, whereas the other software development methods can move between phases during the life of the development. Regardless of the development method (e.g., waterfall, prototyping, agile, or spiral), the capitalization decisions follow the tasks identified.

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1.1.2. Prototyping Software Development Method. The prototyping software development method is a system development method in which a prototype (an early approximation of a final system or product) is built, tested, and then reworked as necessary until an acceptable prototype is finally achieved from which the complete system or product can be developed. This model works best in scenarios where not all the project requirements are known in detail ahead of time. An iterative, trial-and-error process takes place between the developers and the users.

1.1.3. Agile Software Development Method. The agile software development method is a group of software development methods in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams.

1.1.3.1. In an agile project, working software is deployed in iterations of typically one to eight weeks in duration, each of which provides a segment of functionality. Initial planning regarding cost, scope, and timing is usually conducted at a high level, and the project status is primarily evaluated based on software demonstrations.

1.1.3.2. The IUS development phases listed in Annex 2 could be applied to agile development projects on an iteration basis. If an iteration developed meets the module or component asset description in accordance with subparagraph 2.5.4.2.1 and the capitalization cut-off period described in subparagraph 2.5.5.5.2, then it could be treated as an individual IUS project. If the number of iterations is dependent on the outcomes of multiple processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with paragraph 2.6.

1.1.4. Spiral Software Development Method. The spiral software development method combines the features of the waterfall and prototyping incremental models, but with more emphasis placed on risk analysis and management.

1.1.4.1. The spiral methodology projects are typically separated into phases like the waterfall method: planning, risk analysis, engineering, and evaluation. However, they are broken up into incremental releases of the product, or incremental refinement each time around the spiral and through continuously analyzing the requirements and improving the definition and implementation. At each iteration around the cycle, the project is improved and extended.

1.1.4.2. The IUS development phases listed in subparagraph Annex 2 could be applied to a spiral development project on a process iteration basis. If an iteration developed meets the module or component asset description in accordance with subparagraph 2.5.4.2.1 and the capitalization cut-off period described in subparagraph 2.5.5.5.2, then it could be treated as an individual IUS project. If the number of iterations is dependent on the outcomes of multiple spiral

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processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with paragraph 2.6.

1.2 Cross-Functional IUS Reviews. Software development can be complex and accounting decisions often require a measure of judgment and expertise found throughout an organization. Examples of these decisions can include identifying assets that meet the IUS definition, determining the point at which an IUS project is more likely than not to be completed, whether an enhancement should be capitalized, and determining the useful life. DoW Components will ensure that key stakeholders from the IUS program, acquisition, and accounting organizations have adequate visibility into the major milestones throughout the acquisition process to make these decisions. This could take the form of an IUS acquisition review board, consisting of knowledgeable stakeholders who assess pending and active IUS projects to make such decisions. It could also include leveraging portfolio management processes already in place at some DoW Components. Stakeholders will meet periodically and with enough frequency to make timely decisions concerning the IUS and the decisions will be documented. Additional cross-functional decisions and deadlines for making them are found in Table A3-1. This review activity can also serve as a key control.

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Table A3-1. Cross-Functional Review Decisions and Timeline

Decision	Decision Timeline
Identify potential IUS	During the budget process and not later than end of the planning phase
Determine that it is more likely than not that the IUS project will be completed	Prior to the completion of the planning phase
Assign a useful life	Prior to the end of final technical acceptance testing
Confirm that the cost has been correctly accumulated and assigned to the asset	Prior to the end of final technical acceptance testing
Confirm that indirect costs have been appropriately allocated	Prior to the end of final technical acceptance testing
Assign an in-service date	Upon completion of final technical acceptance testing
Decision	Decision Timeline
Identify potential capital enhancements	During the budget process and not later than end of the planning phase
Management Oversight Decisions • Impairment • Evaluation of suspended projects - o More likely than not the project will be completed - o More likely than not the project will be cancelled	On-going

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

7.5.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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7.5.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.7. Multi-Use Heritage Assets

7.5.7.1. An example of a multi-use heritage asset is the Pentagon, which has been listed on the National Register of Historic Places and is also used as an office building. Cultural resources and historic properties, as defined in DoWI 4715.16, may be categorized as multi-use heritage assets for financial accounting purposes if they have the attributes of multi-use heritage assets as described in this definition.

7.5.7.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.7.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.7.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.7.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.7.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.7.7. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.7.8. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.8. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.10. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.11. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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7.5.12. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.13. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.14. Supporting Documentation

7.5.14.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.14.2. Documentation, where applicable, must be readily available to support the changes in asset value or physical attributes because of new acquisition or capital improvement.

7.5.14.2.1. Agencies must maintain historical files evidencing ownership of heritage assets, multi-use heritage assets, and stewardship land; and for some types of heritage assets, records and documentation pertaining to the asset's historical significance are required to be maintained pursuant to U.S.C. and DoW policy (e.g., 54 U.S.C. § 306131 and DoWI 4715.16).

7.5.14.2.2. When original property records or other documentation (e.g., deeds, tax assessments, insurance records) for heritage assets and stewardship land do not exist, a methodology must be employed in order to develop alternative documentation to support management's assertions of Federal ownership.

7.5.14.2.3. Maintenance or renovation contracts, historical maintenance records or a history of payment of invoices, minutes of meetings, historical data bases, surveys of land records, a history of past/historical practices (e.g., establishing de facto ownership), or other relevant sources of information may provide acceptable alternative evidence of government ownership of heritage assets and stewardship land.

7.5.14.3. For assessing land, for example, these methods could mirror the areas used to determine major categories for note disclosure in the financial statements, such as the number of areas of recreational use, geographic management areas, and federal water projects of fish hatcheries.

7.5.14.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.15. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.16. Physical Units of Measure

7.5.16.1. Heritage Assets. Heritage assets must be quantified in terms of physical units (unit of measure) to facilitate the required financial statement note reporting. The appropriate level of aggregation and physical units of measure for each major category must be meaningful and determined by the preparer based on the entity's mission, types of heritage assets, and how the entity manages the assets. For each major category of heritage asset, the following must be documented:

7.5.16.1.1. The number of physical units by major category. The major categories must be classified by collection or non-collection-type heritage assets for which the entity is the steward as of the end of the reporting period;

7.5.16.1.2. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period; and

7.5.16.1.3. A description of the major methods of acquisition and withdrawal of heritage assets during the reporting period. This must include disclosure of the number of physical units (by major category) of transfers of heritage assets between federal entities and the number of physical units (by major category) of heritage assets acquired through donation or devise, if material. In addition, the fair value of heritage assets acquired through donation or devise during the reporting period must be disclosed, if known and material.

7.5.16.2. Stewardship Land. Stewardship land must be quantified in terms of physical units (acres). The appropriate level of aggregation and physical units (acres) of measure for each major category (e.g., Land Predominate Use Code) of stewardship land use must be meaningful and determined by the preparer based on the entity's mission, types of stewardship land use, and how the entity manages the assets. For each major category of stewardship land, the following must be documented:

7.5.16.2.1. The number of physical units (acres) by major category of stewardship land use for which the entity is the steward as of the end of the reporting period;

7.5.16.2.2. The number of physical units (acres) by major category of stewardship land use that were acquired and the number of physical units (acres) by major category of stewardship land use that were withdrawn during the reporting period; and

7.5.16.2.3. A description of the major methods of acquisition and withdrawal of stewardship land during the reporting period. This must include disclosure of physical units (acres) (by major category of stewardship land use) of transfers of stewardship land between federal entities and the number of physical units (acres) (by major category of stewardship land use) of stewardship land acquired through donation or devise, if material. In addition, the fair

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value of stewardship land acquired through donation or devise during the reporting period must be disclosed, if known and material.

7.5.17. APSR and/or other systems must:

7.5.17.1. Enable periodic, independent verification of the accuracy of the accounting and APSR and/or other systems through periodic physical counts/inventories. Periodic inventory counts include reconciling the APSR and/or other systems with the general ledger accounts and physical counts for multi-use heritage assets;

7.5.17.2. Identify and classify multi-use heritage assets that were capitalized, recorded in the APSR and accounting system, and reported in the financial statements;

7.5.17.3. Validate that entries to the financial accounting/reporting and APSR are the same to support APSR integration and reconciliation with the financial accounting system;

7.5.17.4. Include all multi-use heritage assets, heritage assets, and stewardship land possessed by DoW (to include property held by others) and multi-use heritage assets, heritage assets, and stewardship land held by DoW through seizure, forfeiture, loss, or abandonment; and

7.5.17.5. Provide information to identify and account for capitalized improvements to multi-use heritage assets.

7.5.18. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.19. Deferred Maintenance and Repairs (DM&R)

7.5.19.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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

7.5.19.2.1. Condition assessment surveys are periodic physical inspections of assets to determine their current condition and estimated cost to correct any deficiencies. DoW Components must assess the condition of multi-use heritage assets as a function of their day-to-day operations and document condition through periodic assertion/assessment statements. DoW Components must evaluate the costs and benefits of conducting condition assessment surveys. Such things as cycling the assessments on a rotating basis, the frequency of assessments (i.e., every three or five years), and the criteria and methodology used for making such assessments need to be considered.

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7.5.19.2.2. Life-cycle costing is an acquisition or procurement technique that considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in forecasts of maintenance and repair expenses, these forecasts may serve as a basis against which to compare actual maintenance and repair expenses to arrive at an estimate of DM&R.

7.5.19.2.3. DM&R must be measured for capitalized and non-capitalized PP&E, and fully depreciated general PP&E. In addition, DM&R must be measured for inactive and/or excess general PP&E to the extent that it is required to maintain the general PP&E in acceptable condition (e.g., to comply with existing laws and regulations or to preserve value pending disposal) and, DM&R must measure funded maintenance and repairs that have been delayed for a future period as well as unfunded maintenance and repairs.

7.5.19.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

7.5.19.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

8.0 ADVANCES

Examples include travel advances disbursed to employees prior to business trips, and assets disbursed under a contract, grant, or cooperative agreement before the contractor or grantee provides services or goods. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period.

8.1 Accounting For Advances And Prepayments

8.1.1. When the recipient satisfies advance conditions, the DoW Component must collect unused portions of the advance immediately and return the same to the original appropriation. DoW Components must record the prepayment when it is made. At the end of each quarter and fiscal year-end, the DoW Component must review prepayments and expense the expired portion.

8.1.2. The Certifying Officer must consult the Requiring Activity (buyer or program office) when the related purchase request does not include sufficient information to segregate between capital and expense items. In the financial statements, do not record advances and prepayments paid out as elimination entries for advances and prepayments received. Liquidate advances and prepayments and record either an expense or capitalized asset when goods or services are received, contract terms are met, or prepaid expenses expire.

8.1.3. Receivables include but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. DoW indebtedness examples include overdue travel

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advances, overpayments, and any other event resulting in a determination that a debt is owed to the DoW.

8.1.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

8.1.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

8.2 Recoveries and Adjustments

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

8.3 Contract Financing Payments

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

8.4 Grant Awards and Cooperative Agreements

DoW Components must review each advance periodically (aligned to milestones) to determine whether the amounts are more than the grantee's current needs. Collect excess amounts from the recipient. Grant agreements, disbursement vouchers, collection vouchers, and grant performance reports are sources for entries.

8.5 Advances to Foreign Countries

Assign the advances to the appropriate SFIS element (country code) found on the SFIS web page under the SFIS Values Library Service subcategory and record the advances in the related DoW Component subsidiary ledger account.

8.6 Advances in Military Pay

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

8.7 Advances in Civilian Pay

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

8.8 Advances as Imprest Funds

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

8.9 Travel Advances

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The DoW traveler obtains cash from an automated teller machine (ATM) with an assigned Government Travel Charge Card (GTCC) for expenses that cannot be charged to the GTCC. The settlement office responsible accounts for funds in accordance with the DoW Component's accounting or disbursing regulations. Refer to Volume 9 for further guidance.

8.9.1. Travel advances are also permitted when criteria are met for the following:

8.9.1.1. Transportation documents or funds are lost or stolen.

8.9.1.2. Temporary lodging expense in connection with a Permanent Change of Station to a Permanent Duty Station.

8.9.1.3. House hunting trip expenses if offered and chosen under the Lodging Plus method.

8.9.1.4. Temporary quarters subsistence expense up to 30 days.

8.9.1.5. Mobile home transportation allowances.

8.9.1.6. Evacuation travel and transportation allowances under an evacuation authority.

8.9.1.7. Dislocation Allowance paid to a Service member's designated dependent in moving a household.

8.9.2. Refer to the Joint Travel Regulations sections 050402, 050602, 054007, 054207, 054407, and 060105 for details.

8.10 Inventory Bid Deposits

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

9.0 LIABILITIES

For exchange transactions, a liability is recognized when the DoW receives goods and services in exchange for a future promise of resources. For nonexchange transactions, a liability is recognized for any probable and measurable unpaid amounts by the financial statement report date. If the actual amount is unknown, an estimate must be made. For government-acknowledged events, liabilities are recognized only after Congress appropriates or authorizes funds and a related exchange or nonexchange transaction occurs. Unless it's a government-acknowledged event, liability recognition doesn't depend on fund availability; liabilities must be recognized when incurred, even if not covered by budgetary resources or related to canceled appropriations. Immaterial liabilities don't require full accounting, but all such assertions must be documented and supported by both qualitative and quantitative factors.

9.1 Recognition Criteria

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

9.2 Reporting and Disclosures

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

10.0 ACCOUNTS PAYABLE

10.1 Accounts Payable Recognition General

If invoices for those goods are not available when financial statements are prepared, estimate the amounts owed. Components must record payable amounts based on an estimate of work completed under the contract or the agreement. The Component's engineering and management evaluates actual performance progress and incurred costs. Refer to the USSGL Chart of Accounts and Transaction Library for the most current general ledger account numbers, definitions, and required journal entries. Documentation includes Obligation documentation, an agreement or transaction with another entity (e.g., a contract, DD Form 448, Military Interdepartmental Purchase Request (MIPR), project order, Reimbursable Work Order (RWO), or Intra-agency Agreement, General Terms and Condition Section Form 7600A and the Order Requirements and Funding Information Section Form 7600B), and documentation establishing the amount recognized as payable (e.g., acceptance certificate on an inspection or receiving report form or commercial shipping document/packing list). The documentation may include monetary amounts shown on or calculated from a purchase order or contract, historical data, or documented using a contracting officer or technical representative-provided value. During audits, all requested documentation must be provided to auditors within the prescribed timeframe.

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10.2 Accounts Payable Recognition Estimating the Accrual

10.2.1. Services are performed but the corresponding invoices are not received at period end (e.g., professional service contract). Equipment and facilities are being manufactured or built based on the Government's specifications, but the corresponding invoices are not received at period end (e.g., aircraft, or building). The Government receives and accepts goods, but the corresponding invoices are not received at period end (e.g., computers delivered and accepted by the Government, but invoices are not yet received).

10.2.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

10.2.3. Validate methods for calculating the accrual estimate periodically for reasonableness by comparing the estimate to actual data once available. At a minimum, review the estimating methodology at fiscal year-end. Review the estimating methodology if there is a material change to the business process causing material differences between the method's estimate and actual amounts or if the initial assumptions materially change and the initial accrual estimate is materially affected. Document performance and approval of these reviews.

10.3 Accounts Payable Recognition – Quarterly Accruals

10.3.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures. Components may need to ask the cognizant contracting officers or the contracting officer's technical representatives to identify the material dollar value of undelivered orders not yet invoiced or captured in receiving reports to establish these quarterly accruals. Make adjusting entries in subsequent periods, as information becomes available from contracting representatives.

10.3.2. This supporting documentation must also provide evidence of who prepared and who received the estimate and the dates these activities were completed. If mechanized programs post accruals, the documentation of who prepared, received, and reviewed the estimate and the date the estimate was prepared may not be available. In this case, all available information captured by the mechanized program must be captured in the accrual.

10.3.3. This supporting documentation must also provide evidence of who prepared and who received the estimate and the dates these activities were completed. If mechanized programs record accruals, the documentation of who prepared, received, and reviewed the estimate and the date the estimate was prepared may not be available. In this case, all available information captured by the mechanized program must be captured in the accrual.

10.3.4. Components must record the payable in an amount that reflects the unpaid portion of the contractor's progress payment request for which the contracting officer concurred or approved the estimate of actual progress. The supporting documentation must include engineering estimates and management evaluation of actual performance progress to validate the percentage

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of completion used. The accounts payable for this type of contract is recognized because formal acceptance of the final product by the DoW Component is not the determining factor for accounting recognition.

10.4 Accounts Payable Recognition – Availability of Funds

The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

10.5 Intragovernmental Purchases

10.5.1. Identify the separation of intragovernmental and public transactions at the transaction level in accordance with Treasury regulations to allow for the proper summarization at the various reporting levels within the DoW, and ultimately the Federal Government as a whole. Identification at the transaction level supports auditability down to the transaction level where the supporting documentation normally exists. It also provides the capability to perform intragovernmental elimination entries at various organizational reporting levels, assuming the correct trading partner codes were utilized.

10.5.2. In accordance with the TFM Chapter 4700, Section 4750, trading partner records must resolve balance differences by year-end. The Intra-governmental Transaction (IGT) Guide (Appendix 5) contains the business rules and processes to properly record, report, and reconcile intra-governmental transactions, including the processes for dispute resolution. The DoW Component (buyer) must identify and record all accounts payable accruals. The buyer is ultimately responsible for their financial statements and thus must engage with the seller to identify the appropriate amount to accrue.

10.5.3. Component buyers must work with the intragovernmental seller to ensure this business event is identified and the corresponding accounts payable liability is recorded.

10.6 Late Payment Interest

Components must also consider and record a quarterly accrual estimate for late payment interest and/or penalties to reflect any expected large dollar value late payments that result in a significant interest and/or penalty liability in the reporting period. Defining what amounts are “significant” for these purposes is left to the discretion of the Component.

10.7 Refunds Due

Record either the exact amount of the refund when known, positively established, and clearly documented, or estimated.

10.8 Monetary Credits

10.8.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

10.8.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

10.8.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

10.9 Closed Appropriations

Refer to Volume 3 for more specific requirements for expired and closed accounts and addressing payables involving closed appropriations.

10.10 Liquidating Accounts Payable

Generally, this occurs after a three-way match of a contract, receiving report, and proper invoice is performed, and the Component disburses to satisfy the billed amount. In other than the three-way match scenario, the accounts payable liability is liquidated when all required prepayment approvals have occurred, and other payment controls satisfied result in generating a payment or recognizing an exchange-in-kind transaction business event.

10.11 Reviewing Accounts Payable Balances

As part of the accounts payable quarterly reviews, reconcile the budgetary accounts associated with the accounts payable balances (e.g., delivered order unpaid, obligations unpaid) to proprietary accounts payable balances. Research any differences, fully document the rationale for necessary adjustments, and obtain approval from the DoW Component's Comptroller or their designated representative before making the adjustments. Retain all adjustments made and associated documentation to support future financial statement-related audits.

10.11.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

10.11.2. Components must assign financial management personnel to work through the cognizant contracting officer to request an invoice from the contractor for any accounts payable amount remaining unliquidated due to non-receipt of an invoice or billing within 180 days from the date of acceptable final contract performance. Component personnel must continue to pursue receipt of overdue invoices through the contract administration and fund holders to avoid canceled appropriations and to improve accounts payable reporting. When a contractor has failed to invoice for the received and accepted goods or services after more than six years since the date of DoW acceptance, coordinate with the contracting activity and/or legal counsel, and if applicable, the

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Defense Contract Audit Agency and the Defense Contract Management Agency to consider accounts payable for write-off. Write-off documentation must clearly represent that the over-aged accounts payable is no longer a DoW legal liability. Consider whether the Government has acted to toll or suspend the Contract Disputes Act's six-year limitation period on assertion of claims codified at 41 U.S.C. § 7103. Include the contracting officer's determination that the legal liability to pay on the contract no longer exists.

10.11.3. Correct after thorough research of the underlying documentation associated with the business events and transactions impacting the payable accounts. Include a description of the circumstances that caused the initial abnormal balance and support the valuation of the revised amount in the documentation. Include the names and signatures (or electronic equivalent) of the management official(s) approving the adjustment and identify the correcting steps being taken to prevent reoccurrence. Identify and report to management any recommendations for changes to internal controls or business processes to preclude incurring abnormal accounts payable balances in the future.

10.11.4. The accounting office must request the necessary documentation to support the required accounting entry and notify appropriate officials that reports or invoices are being received without a corresponding recorded obligation. Refer to Volume 3 for the policy on recording an obligation for an unresolved negative unliquidated obligation.

10.11.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

10.12 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.0 PERSONNEL RELATED LIABILITIES

11.1 Accounting Policy

Calculate the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program imputed costs for the DoW Components Financial Statements. Base the calculations on the annual OPM Benefits Administration Letter.

11.2 Accounting for Personnel Entitlements

11.2.1. Accrue based on journal vouchers with supporting documentation (or automated programs) showing the data and calculations in the applicable accounting period. The appropriate authorized accounting official must sign the journal vouchers. Reverse these accruals when the related pay is disbursed, and actual costs are recorded.

11.2.2. Record amounts based on journal vouchers signed by the appropriate authorized accounting official and supporting documentation clearly showing the basis for the amounts.

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11.2.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.2.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.2.5. Record the expense and related liability for annual leave at the regular earned hourly rate. Calculating annual leave based on a fringe benefit rate is also acceptable.

11.2.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.2.7. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.2.8. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.2.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.2.10. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.3 Pensions

11.3.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.3.2. Report recoverable estimated amounts as receivables with the sources of expected repayments indicated if legislation requires that payments to participants be recovered from others (e.g., employing agencies).

11.3.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.3.4. Components apply the cost factor provided by OPM, the administrative entity.

11.3.5. Use the “aggregate entry age normal” actuarial cost method to calculate the pension expense and liability for the MRS financial statements. Calculate the liability using the actuarial present value of all future benefits, based on projected salaries and total service, less the actuarial present value of future normal cost contributions that would be made for and by the employees under the plan. Base individual component expense on the actuarial cost. Recognize

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the difference between component expense and the amount paid by the component to OPM or MRS as an intragovernmental liability. Refer to Volume 12 for more information.

11.3.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.4 Other Retirement Benefits

11.4.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.4.2. Report the recoverable estimated amount as a receivable with the sources of expected repayments indicated, if existing legislation requires that amounts paid to participants be recovered from others (e.g., employing agencies).

11.4.3. Recognize ORB expense in an amount equal to the total service cost (as determined by the DoW Office of the Actuary). Record and report the portion of the ORB liability in the DoW Component financial statements.

11.5 Other Postemployment Benefits

11.5.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.5.2. Report the estimated recoverable amount as a receivable with the sources of expected repayments indicated, if existing legislation requires that amounts paid to participants be recovered from employing agencies.

11.5.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

11.5.4. Federal entities fund the FECA payments through appropriations reimbursed to the FECA fund. Once the appropriation is received, pay the Department of Labor (DOL) within 30 days.

11.5.5. The DoW Component determines the change in actuarial liability by taking a difference of DOL's prior year to current year actuarial liability.

11.5.6. The DOL Memorandum for Chief Financial Officers of Executive Departments and Agencies, which contains the actuarial balances, the Agency-Wide Financial Statements Directorate allocation spreadsheet reflecting the percentage allocation to the entity level, and a copy of the last three annual chargeback bills for the Department Level may be used to support the Actuarial FECA Liability entry.

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11.6 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

12.0 COMPONENT DEBT

12.1 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

12.2 Housing Program Debt

12.2.1. Family Housing Program. Guidance for financing the FHP is contained in Volume 2 and DoW Manual 4165.63, while guidance for accounting for funds made available for this program is contained in Volume 3.

12.2.2. Homeowners Assistance Fund. Army uses the Headquarters, United States Army Corps of Engineers to implement the program.

12.3 Accounting Policy For Debt Associated With Housing Programs

The balance of the mortgages payable will be reduced by that portion of the periodic payments made which represent the mortgage principal.

13.0 OTHER LIABILITIES

These liabilities are reported 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 Revenues

13.1.1. Advances and Prepayments

When the cash is received, an increase in cash and an increase in advances and prepayments liability should be recorded in accordance with SFFAS 7

13.1.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

13.2 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

13.3 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

13.4 Contingent Liabilities

Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. Contingent liabilities are classified as probable, reasonable possible, or remote. Refer to the definitions.

13.5 Legal contingencies

13.5.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

13.5.2. The Component should obtain evidence relevant the existence of a condition, situation, or set of circumstances indicating uncertainty as to the possible loss to the Component arising from litigation, claims, and assessments, the period in which the underlying causes for a legal action occurred, the likelihood (probable, reasonably possible, or remote) of an unfavorable outcome; and the amount or range of potential loss, if able to estimate.

13.5.3. The disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. When disclosing that an estimate cannot be made, the claimed amount

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should be disclosed. Disclosures and amounts prescribed may be aggregated for presentation in the notes to the financial statements.

13.6 Contract Progress Payments

For every progress payment request, a Contracting Officer Representative, or other authorized representative, must certify that the work reflected has been performed, and is consistent with the requirements of the contract.

14.0 ENVIRONMENTAL AND DISPOSAL LIABILITIES

14.1 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.2 Cleanup costs associated with government related events resulting in a liability, such as ongoing operations that result in routine hazardous waste or accidental damage (e.g., oil spill) to property caused by federal operations, must be recognized as an operating expense in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable. If the DoW Component does not complete the cleanup, closure and/or disposal action within the current reporting period, and the cleanup is related to routine ongoing operations, the DoW Component must record an accrued liability for the non-routine cleanup, closure, and/or disposal costs incurred and not paid.

14.3 The liability and expense should be recognized when both (1) the 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.

14.4 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.

14.5 For Stewardship PP&E placed in service after the standard is adopted, the agency must recognize an expense and a liability for the full amount of estimated total cleanup cost when the Stewardship PP&E is placed in service. For Stewardship PP&E already in service, according to SFFAS 6, on the day the standard is adopted or upon early implementation, the agency must charge net position through a prior period adjustment and recognize a liability for the full amount of the estimated total cleanup costs. As re-estimates are made, adjustments to the liability must be recognized in expense as “changes in estimated cleanup costs from prior periods.”

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The following table describes cleanup cost liability options for the initial implementation of SFFAS 6 for liabilities that existed on or before September 30, 1997.

Environmental and Disposal Liability	Accounting Treatment
Option 1	Liability should be recognized for the portion of the estimated total cleanup cost that is attributable to that portion of the physical capacity used or that portion of the estimated useful life that has passed since the PP&E was placed in service. In each subsequent year of the asset's useful life, recognize a proportionate amount of the remaining costs as an operating expense on the Statement of Net Cost and accumulation of liability on the Balance Sheet (SFFAS 6, paragraph 97-98, 104-105). As re-estimates are made, cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate.
Option 2	If costs are not intended to be recovered primarily through user charges, management may elect to recognize the estimated total cleanup cost as a liability upon implementation of the standard. In addition, in periods following the implementation period, any changes in the estimated total cleanup cost must be expensed when re-estimates occur, and the liability balance adjusted.

Note: The offsetting charge is to be recorded as a prior period adjustment on the Statement of Net Position (SFFAS 6, paragraph 104-105).

The following table describes cleanup cost liability options for the initial implementation of TB 2006-1, as amended by TB 2011-2 for asbestos related liabilities that existed on or before September 30, 2012.

Asbestos	Accounting Treatment
Option 1	Record a liability for estimated cleanup costs equal to that portion of the physical capacity used or that portion of the estimated useful life of the asset that has passed since the PP&E was placed in service. The remaining cost must be recognized in a systematic and rational manner based on use of the physical capacity of the associated PP&E, whenever possible.
Option 2	If the asset has been in service for a substantial portion (greater than 50% of the useful life) of its estimated used life, management can elect to recognize the entire amount of the estimated cleanup cost. This option can only be used if costs are not intended to be recovered primarily through user charges (SFFAS 6, paragraphs 97-98, and 104-105).

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The following table describes the cleanup cost liability treatment for assets placed in service after September 30, 1997 (for non-asbestos related liabilities), as well as the cleanup cost liability treatment for assets placed in service after September 30, 2012 (for asbestos related liabilities).

Environmental and Disposal Liability	Effective Date	Assets Placed in Service After Effective Date
Non-Asbestos	After September 30, 1997	Estimate the total cleanup costs related to the PP&E and recognize annually a portion of the costs over the useful life of the asset. Recognition of the expense and accumulation of the liability must begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation (SFFAS 6, paragraphs 97-98).
Asbestos	After September 30, 2012	A portion of estimated total asbestos related cleanup costs must be recognized as expense during each period that PP&E is in operation. 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. Recognition of the expense and accumulation of the liability must begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation (SFFAS 6, paragraph 98 and TB 2006-1, paragraph 38). As re-estimates are made, the cumulative effect of changes in total estimated asbestos related cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate. In certain scenarios, such as when cleanup costs have been fully expensed, the re-estimate may result in a credit to expense for that year (TB 2006-1). As asbestos related cleanup costs are paid, payments must be recognized as a reduction in the liability for asbestos related cleanup costs (SFFAS 6, paragraph 100).

14.5.1. The cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate.

14.5.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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

14.5.3.1. If hazardous waste is migrating off the range, the DoW Component will recognize an environmental and disposal liability for the affected portion of the location outside the boundaries of the operational range.

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14.5.3.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.5.3.3. The final determination to dispose of these chemical weapons and materials must be formally evidenced by documentation supporting management's decision to permanently remove the asset from service and terminate its use.

14.5.3.4. This action requires documentation of management's decision, in compliance with TR 14.

14.5.3.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.5.3.6. Each DoW Component is responsible for supporting any materiality determinations.

14.5.3.7. Cost estimates for asbestos must include both friable and non-friable, however itemization of the two types of asbestos is not required in the estimate. TR 10 provides a framework for identifying assets with asbestos, assessing them to gather necessary information, and developing assumptions to estimate the resulting cleanup costs.

14.5.4. This transfer is only complete upon receipt of official documentation, such as a DD 1354 "Transfer and Acceptance of DoW Real Property" or other instrument of transfer. If the receiving entity fails to provide this documentation, the transferring entity must continue to recognize the environmental and disposal liabilities.

14.5.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.5.6. DERP and non-DERP environmental sites require cleanup cost estimates to be single point estimates using the best available data. If a range is estimated for environmental and disposal liabilities and an amount within the range is considered a better estimate than any other estimate, that amount must be recognized; however, if no amount within a range is considered a better estimate, then the minimum amount in the range must be recognized.

14.6 Environmental and Disposal Liability Estimates

14.6.1. DoW Component's responsible program management function and accounting function should work together to identify and support the environmental and disposal liability estimates and maintain audit records to support assumptions, methodologies, and internal controls used in developing the estimates. The responsible program management function is accountable for generating and approving the cost estimates; the accounting function is responsible for reviewing the cost estimates and ensuring the liability is recognized. Sound business judgment based on knowledge and experience about past and current events and assumptions is

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required. The process of establishing accounting estimates would normally identify situations for which accounting estimates are required, identify the relevant factors that may affect the accounting estimate, accumulate relevant, sufficient, and reliable data on which to base the estimate, develop assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors, estimate the amount based on the assumptions and other relevant factors, compare prior accounting estimates to actual results and with new estimates to assess the reliability of the process used to develop estimates, determine that the accounting estimate is consistent with the operational plans of the entity, and determine that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

14.6.2. As cost estimates by definition are subjective and have an element of uncertainty, documentation to support cost estimates must be substantial and robust. The reliability of the cost estimate will depend on the amount of site-specific information available, the extent of experience and resemblance with similar site conditions or assets, availability of remediation technology, and parametric methodologies cost models.

14.6.2.1. Further, environmental personnel can evaluate the alternative cleanup, closure, and/or disposal actions identified through a site-specific study to develop engineering estimates and to identify the selected alternative. Where multiple sites are included on an individual contract, the UPO must have details of each of the sites to decipher reasonably associated costs for each site. In such circumstances, contracts and invoices supporting the UPO transaction level details for the combined multiple sites must be retained to support future audit requirements.

14.6.2.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.6.2.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.6.2.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.6.3. Such cost estimates are calculated on a current cost basis and are based on a current plan, existing laws, and technology. Overhead management costs for environmental sites, assets, and equipment that cannot be attributed to specific sites should be added to the environmental and disposal liability at a summary level.

14.6.4. the event a significant change has occurred between the environmental and disposal liability valuation date and September 30, roll forward procedures must be performed. At a minimum, long-term cost estimates should be adjusted upward or downward annually, through indexing, to maintain them on a current cost basis as if acquired in the current

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period. Expenditures should be managed to the transaction level to allow for comparison of prior estimates to subsequent results. Supporting documentation required to justify individual transaction level details does not need to be at the site level.

14.6.5. The current period estimated expense is equal to:

14.6.5.1. The total final estimated costs of the disposal or closure effort;

14.6.5.2. Divided by the total capacity;

14.6.5.3. Multiplied by the physical capacity used;

14.6.5.4. Minus the amounts previously recognized as expense;

14.6.5.5. Equals the current period estimated expense.

14.6.6. Components must follow at least one (or some combination) of the following approaches to establish and maintain a complete and current universe of environmental and disposal liabilities:

14.6.6.1. Reconcile PP&E asset records maintained in Accountable Property Systems of Record (APSRs) with environmental and disposal liability records in environmental databases of record;

14.6.6.2. Produce evidence of the performance of a historical fence-to-fence survey focused on identifying and recording environmental and disposal liabilities and recent efforts to maintain currency over initial survey findings; and

14.6.6.3. Reconcile environmental and disposal liability records with other appropriate source lists.

14.6.7. After an initial baseline has been established, DoW Components must maintain site universes by using the following techniques:

14.6.7.1. For asset-driven and event-driven liabilities, leverage PP&E asset acquisition and disposal processes/systems to update routinely the established baseline;

14.6.7.2. For event-driven liabilities, document and adhere to standard operating procedures for responding to typical site addition processes (e.g., spill programs, environmental surveys) and update the baseline; accordingly, and

14.6.7.3. For event-driven liabilities, document and adhere to standard operating procedures for removing future cost estimates when remediation requirements have been met and no additional future liability exists and update the baseline accordingly.

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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 there are sufficient procedures in place to identify and update the baseline to reflect the impact of changes in these factors.

14.6.8.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.6.9. Components should:

14.6.9.1. Leverage APSRs to define and categorize equipment assets that should be assessed using TR 11 guidelines.

14.6.9.2. Focus on establishing documentation consistent with guidelines set forth in TR 11 to establish an audit trail for reported equipment environmental and disposal liabilities. An audit trail must be produced even if the resulting value of equipment environmental disposal liabilities is deemed immaterial.

14.6.9.3. Review applicable contractual agreements to understand better the responsibilities and obligations during disposal of equipment assets being considered. In some instances, other contractual parties may assume all or part of a liability at the point of disposal, which could affect DoW financial reporting requirements.

14.6.9.4. Coordinate with the following communities (as applicable): Acquisition, Financial Management, Program Management, and Environmental.

14.7 Environmental and Disposal Liability Disclosures

14.7.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.7.2. The following disclosures associated with the cleanup, closure, and/or disposal cost estimates that must be addressed each reporting period within the financial statement note for environmental and disposal liabilities:

14.7.2.1. The sources (list applicable laws and regulations) of cleanup, closure, and/or disposal requirements;

14.7.2.2. The method for assigning estimated total cleanup, closure, and/or disposal costs to current operating periods (i.e., based on consumed useful life or physical capacity of the assets);

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14.7.2.3. The unrecognized amounts of environmental and disposal liabilities for assets that require the systematic recognition of the total estimated cleanup, closure, and/or disposal costs. The DoW Component must recognize the portion of the total cost that is attributed to the useful life of the asset that has expired since the asset was placed in service. The balance of the total estimated cleanup, closure and/or disposal cost is the unrecognized portion of the liability;

14.7.2.4. Material changes in the total estimated cleanup, closure and/or disposal costs due to changes in laws, technology, or plans, and the portion of the change in estimate that relates to prior period operations;

14.7.2.5. The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, plans, or applicable laws and regulations; and

14.7.2.6. A description of the type of environmental and disposal liabilities identified.

14.7.3. These must be disclosed in the financial statement notes, as per OMB Circular A-136. The disclosure should detail the nature of the liability and include an estimate (specific amount or range) or a statement explaining why an estimate cannot be made.

14.7.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.7.5. See Volume 6 for information regarding reporting and disclosing requirements on environmental and disposal liabilities arising from litigation claim.

14.7.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

14.8 Accounting Procedures for Recording Environmental and Disposal Liabilities

14.8.1. Roll Forward Procedures

14.8.1.1. To limit the time period covered by the roll forward procedures, DoW Components need to complete a robust cost estimation process at least as recently as June 30 of each year. Subsequent significant changes that have occurred between June 30 and September 30 must be reflected in the environmental and disposal liability reported as of the Balance Sheet date. To assist DoW Components with segmenting their universe to identify subsets of environmental and disposal liability cleanup sites that may not require a reassessment during the roll forward period, a decision tree has been developed and included in Figure 1.

14.8.1.1.1. While performing the roll forward procedures, each DoW Component must identify and assess any potential qualifying events to determine their significance

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to reported financial statement balances. To roll forward the environmental and disposal liability for event-driven liabilities, the DoW Component must consider:

14.8.1.1.2. Whether the process for developing supporting justification to determine the significance of a roll forward event may not be as robust as the process for developing supporting justification produced to support the initial estimates or annual evaluation. Sufficient evidence must be available to support the roll forward assessments.

14.8.1.2. Establishing or adjusting liabilities for discoveries/changes occurring in the roll forward period based on prior experience with similar sites and/or conditions for the total cost of cleanup. If several similar sites and/or conditions are considered with no single scenario more likely than any other, the scenario with the minimum associated amount in the range should be used.

14.8.1.3. Macroeconomic factors (e.g., raw materials, regulatory standards, technology) that changed during the roll forward period to determine if they will have a significant impact to the overall cost estimates.

14.8.1.4. Establishing, documenting, and performing roll forward procedures that can sufficiently support the determination of whether any significant changes occurred or alternatively those changes are insignificant. Even if the result of those procedures determines that very few or no events are significant to the financial statements and/or balances as of September 30, the documented process for arriving at that determination will need to be available for auditor's review.

14.8.2. To update the environmental and disposal liability balance for asset-driven liabilities during the roll forward period of July, August and September, DoW Components must consider changes in asset inventories and/or significant occurrence impacting established cost factors developed to predict disposition of non-routine, environmentally hazardous waste at the point of PP&E asset disposal.

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

DoW Components should use this quantitative approach to determine what are considered significant amounts in the roll forward period. Significant amounts that have occurred between June 30 and September 30 must be reflected in environmental and disposal liability through an adjustment to the environmental and disposal liability as of September 30. To assist DoW Components with segmenting their cleanup universe to identify subsets of environmental and disposal liability cleanup sites that may not require a reassessment during the roll forward period, decision trees have been developed and included in Figure 1 and Figure 2. DoW Components should leverage Figure 1 and Figure 2 or methods consistent with Figure 1 and Figure 2. The intent of Figure 1 and Figure 2 is to assist DoW Components with segmenting their cleanup universe to identify high risk subsets, subsequently reducing the overall effort required to

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implement roll forward procedures. Subsequently, DoW Components must assess qualifying events to determine significance to the reported financial statement balances.

Approach to calculate significant amount threshold:

Environmental & Disposal Liability Balance ^[1]	\$XXXXXX
Multiply by 1%	x .01
Materiality ^[2]	\$XXXXXX
Multiply by no more than 3% ^[3]	x .03
Significant Amount Threshold	\$XXXXXX

Note: DoW Components must use the calculated significant amount threshold or \$1 million, whichever is greater.

The significant amount threshold calculation has been developed to compensate for the possible aggregation of misstatements in the recorded liability amount by a DoW Component (i.e., misstatements for multiple environmental and disposal liability sites) and among DoW Components at the consolidated DoW financial statement level. While individual misstatements may not be material to the financial statements, when aggregated with other misstatements they could result in a material misstatement.

^[1] Total Environmental and Disposal Liabilities balance on the DoW Component's financial statements as of the most recently reported period.

^[2] This materiality amount is equivalent to Performance Materiality as described in the GAO FAM §230.12.

^[3] Based on OUSW's judgment to compensate for the potential aggregation of amounts at the DoW Component level.

15.0 PAYMENT INTEGRITY

15.1 Program Payment Integrity Activities by Phase

If a program in Phase 1 determines that it is likely to annually make IPs plus UPs above the statutory threshold, then the program will move into Phase 2 the following year. Once in Phase 2, a program will have additional compliance requirements such as reporting an annual IP and UP estimate.

15.1.1. Phase 1 Payment Integrity Activities Performed by the DoW Components. If the IP risk assessment demonstrates that the program is not likely to make IPs plus UPs above the

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statutory threshold, then the program will not produce a statistically valid estimate in the following year and instead will conduct another IP risk assessment in three years. An IP risk assessment is a tool that can help a program understand the points within the payment process that may be vulnerable to IPs and UPs. Programs must perform an adequate reconciliation of any population used in the creation of the IP risk assessment to conclude on the likelihood of the program being susceptible to significant improper payments. The reconciliation process should be documented in the IP risk assessment.

15.1.2. 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.

The program will be responsible for designing and documenting a S&EMP that produces an IP and UP estimate that is accurate and appropriate given program characteristics, and it will be the DoW Office of Inspector General's (OIG) responsibility to evaluate whether the explanation provided by the program and the S&EMP without point estimates and confidence intervals around those estimates warrants compliance during the annual DoW OIG compliance review. S&EMPs will be considered statistically valid if they produce point estimates and confidence intervals around those estimates. Components must work with a statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable. If a program is unable to develop a S&EMP that produces a point estimate and confidence interval around the estimate, then it must include in their S&EMP a detailed explanation as to why it is not possible.

15.1.3. Phase 2 Payment Integrity Activities Performed by the DoW Components. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.1.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.2 Compliance with PIIA Requirements

The PIIA requirements are:

15.2.1. The payment integrity information that is published on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) is the most common accompanying materials to the annual DoW AFR and the primary location for the comprehensive detailed Department payment integrity program information. OUSW(C) Financial Management Policy Reporting (FMPR) achieves the OMB and PIIA statutory requirements by reporting the Department's payment integrity information through OMB's Annual Data Call, which OMB subsequently publishes on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov). For detailed reporting

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on DoW payment integrity, refer to [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) and to the Other Information section of the consolidated DoW AFR.”

DoW Program Compliance Requirements by Payment Integrity Phase Classification

Program Phase	AFR Published In Accordance with OMB Guidance	Conducted Risk Assessment	Published Adequate Estimate	Published CAP	Published Reduction Targets	Reported Rate Under 10 Percent
Phase 1			N/A	N/A	N/A	N/A
Phase 2		N/A				

15.2.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.2.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.2.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.2.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.2.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.3 OUSW(C) Roles and Responsibilities

15.3.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.3.2 This includes reviewing, collaborating on, and coordinating senior executive approval for program-specific risk assessments and statistical sampling plans, which may also be submitted to the Office of Management and Budget (OMB). To ensure continuous improvement, they review Component Corrective Action Plans (CAPs) to verify that they are complete, link planned actions to root causes, and monitor their progress through established milestones. The administrative and technical support to the DoW PIIA SAO Steering Committee includes scheduling meetings, preparing agendas, tracking action items, and communicating with members and stakeholders.

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15.4 DoW Component Roles/Responsibilities

15.4.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.4.2. For the payment integrity programs in phase 2, the Defense Finance and Accounting Service (DFAS) Enterprise Solutions and Standards, Enterprise Accounting and Audit Support Office (EAAS) perform most but not all of the annual post-payment reviews, with coordinated support and concurrence from the DoW Components and executive oversight from the OUSW(C), FMPR Payment Integrity team. Ensure all payments are subject to improper and unknown payment testing either internally or through the sampling methodologies and post-payment review processes performed by the DFAS, Enterprise Solutions and Standards, EAAS Office. Depending on the Phase and Program the Component may perform the reviews with executive oversight from the OUSW(C), FMPR Payment Integrity team. The PIIA does not require agencies to test payments made by a Federal agency to another Federal agency. Therefore, DoW Components are not required to test for intergovernmental and intragovernmental payments transactions, and these payments may be excluded from all testing populations. 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.

15.4.3. The OMB High-Priority Program designation is for programs with improper payments resulting in monetary losses that exceed \$100 million annually. Measure the effectiveness and progress of each CAP by assessing the results of actions taken to eliminate the root causes of improper payments and unknown payments.

15.4.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.4.5. Use the DNP Initiative resources to review payment or award eligibility for purposes of identifying and preventing improper payments. Refer to Volume 1 for additional information on financial records retention.

15.4.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.5 The following paragraphs of this section provide a cursory overview of the key Appendix C requirements.

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15.5.1. Programs or Activities Not Susceptible to Significant Improper Payments. PIIA requires that all DoW programs or activities not currently reporting an annual improper payment estimate assess their risk for improper payments. If a DoW component determines that a program or activity is not susceptible to significant improper payments, the DoW component must reassess that program's improper payment risk at least once every three years.

15.5.2. Programs or Activities Susceptible to Significant Improper Payments. If a DoW component determines a program to be susceptible to significant improper payments, the DoW component must estimate and report improper payments for that program annually.

15.5.3. Annual Improper Payment Estimates. In accordance with PIIA, DoW programs that are determined to be susceptible to significant improper payments must produce a statistically valid estimate of the improper payments and unknown payments made.

15.5.4. Annual Reporting. Most payment integrity reporting requirements are met through annual data requests from OMB and by reporting data in the consolidated DoW AFR. For more details on annual payment integrity reporting, see paragraph 7.0 for a summary of OMB Circular A-136 reporting requirements.

15.5.5. OMB High-Priority Programs. PIIA requires OMB to designate the programs with the most egregious cases of monetary loss improper payments greater than \$100 million projected as high-priority; and requires those programs to submit semi-annual or quarterly actions to track the progress towards reducing monetary loss improper payments. Refer to subparagraph 7.0.2 for more information on the reporting requirements for high-priority programs.

15.5.6. Preventing Improper Payments. If a DoW Component determines that a program or activity is susceptible to significant improper payments, the DoW component must identify the root causes of the improper payments and unknown payments and implement appropriate corrective actions to prevent and reduce these types of payments.

15.5.7. Internal Control Over Payments. As DoW Components implement Appendix C, they should approach improper payments and unknown payments with an Enterprise Risk Management framework in mind and link agency efforts in establishing internal controls and preventing improper payments and unknown payments. For more information see OMB Circular No. A-123, Appendix A, "Management of Reporting and Data Integrity Risk."

15.5.8. Payment Recovery Audits. One fundamental requirement that DoW Components must meet is to recover any Federal dollars that are a monetary loss to the Government unless legislation specifically prevents such recovery. Monetary loss to DoW represents overpayments such as duplicate payments or amounts that should not have been paid and can be recovered. PIIA requires any DoW program or activity that expends at least \$1 million during the year to implement payment recovery audits, if cost effective to the agency, in order to recover improper payments. Volume 10, Chapter 22, "Payment Recovery Audits," provides additional detail on

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payment recovery audits. The requirement to conduct payment recovery audits is independent of whether a program is susceptible to significant improper payments.

15.5.9. Annual Inspector General Compliance Review. The PIIA contains an important component of accountability to the entire spectrum of improper payment efforts. Every year, the DoW OIG reviews DoW Components' improper payment reporting in the consolidated DoW AFR and any accompanying material (such as the information provided on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov)) to determine if the agency complies with PIIA and OMB guidance.

15.5.10. Do Not Pay (DNP) Initiative. The DNP Initiative encompasses multiple resources that are designed to help DoW Components review payment eligibility for purposes of identifying and preventing improper payments.

15.5.11. Confirmed Fraud Reporting. As part of the annual OMB Payment Integrity reporting requirements, OUSW(C) FMPR collaborates with the DoW Components to report FY confirmed fraud results.

15.6 OMB Circular No. A-136

15.6.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

15.6.2. The summary must include:

15.6.2.1. A description of improper payments made by the agency; an estimate of the improper payment amount and rate; an explanation of the causes of improper payments; and any major actions taken or planned to mitigate those causes;

15.6.2.2. An explanation for changes in payment integrity methodologies, activities, or results that occurred during the reporting period; and

15.6.2.3. A hyperlink for [PaymentAccuracy.gov](https://www.paymentaccuracy.gov). The summary must not conflict with data that is available on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov), which is intended to be the complete source for all qualitative, quantitative, and contextual payment integrity information.

16.0 REVENUE AND OTHER FINANCING SOURCES, GAINS AND LOSSES

16.1 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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.

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16.2.1.1. When services are performed for the public or another government entity (except for specific services performed to order under a contract), revenue must be recognized in the same accounting period. Customer orders from non-federal entities do not become budgetary resources until collected, unless authorized by law. Customer orders from Nonappropriated Funds are accounted for as orders from non-federal entities.

16.2.1.2. For custom goods or services contracts, revenue should be recognized proportionally based on the ratio of costs incurred to date against the total estimated costs. If a loss on the contract becomes probable, that loss must also be recognized proportionally over the life of the contract.

16.2.1.3. When goods are kept in inventory and are available for sale to customers when ordered, revenue must be recognized when the goods are delivered to the customer. Delivery occurs when title passes to the customer. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

16.2.1.4. When services are rendered continuously over time or the right to use an asset extends continuously over time, such as borrowing money or renting space in a building, the revenue must be recognized in proportion to the passage of time or the use of the asset. If the life of asset leased is less than lease term, the life of asset should be used to calculate lease (right of use) revenue.

16.2.1.5. When an asset other than inventory is sold, any gain (or loss) must be recognized when the asset is delivered to the purchaser.

16.2.1.6. When an entity earns administrative fees for a retirement plan. This offsets the entity's gross cost in calculating its net cost of operations.

16.2.1.7. When an entity earns administrative fees associated with collections on delinquent accounts.

16.2.1.8. When an entity earns interest on premiums for money borrowed in an intragovernmental transaction or investments made with premium revenue.

16.2.1.9. When an entity receives funds for administering international and other agreements, the sale of stockpile materials, or the cancellation of a receivable for a reimbursable activity.

16.2.1.10. When an entity receives interest from investments or other sources, where the source funds are from exchange revenues.

16.2.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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16.2.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

16.3 Exchange Revenue Disclosures

16.3.1. The disclosure must include:

16.3.1.1. Differences in pricing policy from the full cost or market pricing guidance for exchange transactions with the public as set forth in OMB Circular A-25, User Charges (July 8, 1993), or in subsequent amendments in circulars that set forth pricing guidance.

16.3.1.2. Exchange transactions with the public in which prices are set by law or executive order and are not based on full cost or on market price.

16.3.1.3. The nature of intragovernmental exchange transactions in which the entity provides goods or services at a price less than the full cost or does not charge a price at all, with explanations of the amount and reason for disparities between the billing (if any) and the full cost.

16.3.1.4. The expected loss when specific goods are made to order, or specific services are produced to order under a contract, and a loss on the contract is probable and measurable (reasonably estimable).

16.3.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

16.4 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

16.5 Nonexchange Revenue Disclosures

Each DoW Component must disclose nonexchange revenue. This disclosure must include:

16.5.1. The basis of accounting, when using a modified cash basis of accounting.

16.5.2. Potential accruals not made due to practical and inherent limitations, along with any other required disclosures or supplementary information.

16.5.3. The reasons for trust fund revenues not recorded in accordance with applicable law (e.g., earmarked for specific purpose).

16.5.4. Intragovernmental exchange transactions where goods or services are provided below full cost or for free must be disclosed. This includes explaining the amount and reason for any disparities between the billed price and the full cost.

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16.5.5. The expected loss, when specific goods or specific services are made or produced to order under a contract, if probable and measurable (reasonably estimable).

16.6 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

16.7 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

16.8 Gains or Losses

16.8.1. In financial statements, revenues and gains/losses are classified separately; revenues are reported at their gross amount, while gains or losses are shown net of their related book value.

16.8.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

16.8.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

16.9 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.

16.9.1. Nonexchange Transactions

A non-exchange transaction arises when one party to a transaction receives value without directly giving or promising value in return. Nonexchange revenues must be classified and recognized in determining the overall financial results of operations for the period. Refer to SFFAS 7, Paragraph 240.

16.9.1.1. Nonexchange Transactions with the Public

The Harbor Maintenance Trust Fund is a “user fee” tax classified in the budget as a governmental receipt. It is imposed on commercial cargo loaded and unloaded at specified U.S. ports open to public navigation. The collection is dedicated to the Harbor Maintenance Trust Fund administered by the U.S. Army Corps of Engineers (USACE). USACE recognizes nonexchange revenue for the Harbor Maintenance Trust Fund. Refer to SFFAS 7, Paragraph 249.

16.9.1.2. Nonexchange Transactions - Intragovernmental

Trust and special funds earn interest from the U.S. Department of Treasury (Treasury) securities. SFFAS 7, Appendix B Paragraphs 306-310 contain nonexchange revenue and Paragraphs 311-313 contain nonexchange gains and losses.

16.9.2. Exchange Transactions

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16.9.2.1. Revenue from Exchange Transactions

When a government entity provides goods and services to the public or to another Government entity for a price, the Government entity earns exchange revenues. Subtract exchange revenue from gross cost to determine the net cost of operations and the change in net position. Refer to SFFAS 7.

16.9.2.2. Exchange Transactions with the Public - Sales of Goods and Services

The sale of goods and services is an exchange transaction. The selling entity recognizes exchange revenue. Each party receives and sacrifices something of value. (Refer to FASAB TB 2017-1 for more information about sacrificing value). Revenue defrays production costs, wholly or partially. Revolving funds (such as the Defense Working Capital Fund (DWCF)) and general funds (such as a Military Departments appropriated fund) sell goods and services. Customers include private parties and businesses when authorized by law, foreign governments, state and local governments, and others not officially representing the Federal Government. Nonfederal entities' orders are budgetary resources when collected. Additionally, interest and rents collected from DoW-owned homes in the Homeowners Assistance Program are exchange revenue. Refer to SFFAS 7, Paragraph 270.

16.9.3. Exchange Transactions with the Public - Sales of Property, Plant, and Equipment

An exchange transaction occurs when the Reporting Entity has legal authority to retain the asset sale proceeds. Each party receives and sacrifices something of value. If the sales price equals book value, then there is no gain or loss. If the sales price is more or less than book value, a gain or loss, respectively, is recognized to the extent of the difference. A gain or loss is recognized rather than revenue or an expense because Property, Plant, and Equipment (PP&E) sales are nonrecurring inflows of resources. The sales price is a gain when the asset book value is zero. The book value is zero (a) when the PP&E is fully depreciated or has been written off or (b) when the asset is stewardship PP&E, which is expensed when purchased. Refer to SFFAS 7, Paragraphs 295-296.

16.9.4. Exchange Transactions - Intragovernmental Revenue

16.9.4.1. Revolving Fund Intragovernmental Sales of Goods and Services. Each party receives and sacrifices something of value. The value could be direct, indirect, tangible, intangible, quantitative, or qualitative (such as immeasurable guidance or advice). The proceeds are exchange revenue. The revenue defrays the cost. DoW activities selling at cost include DWCF activities, Military Departments, Other Defense Organizations' revolving funds, and USACE. Customers include any DoW Component, organization, office, or other element; non-DoW Federal Government Agencies; and others officially representing the Federal Government. Refer to SFFAS 7 and FASAB TB 2017-1 for clarification on value sacrificed or received in intragovernmental transactions.

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16.9.4.2. Appropriated Fund or Trust Fund Activity (Other Than a Revolving Fund) Intragovernmental Sales of Goods and Services. Each party receives and sacrifices something of value. The proceeds are exchange revenue. The revenue defrays the cost. DoW activities selling at cost include the Military Departments, Defense Agencies, and USACE. Refer to SFFAS 7.

16.9.4.3. Employer Entity Contributions to Pension and Other Retirement Benefit Plans for Federal Employees. Federal Government employees provide service for compensation, including salary received currently; and pensions, retirement health benefits, and other retirement benefits received upon retirement. Each party sacrifices value and receives value in return. The benefits of financing may include employer-paid contributions to the retirement fund. The employer contribution is an inflow of resources to the retirement fund and a payment for the future provision of a pension or other retirement benefit to its employees. Therefore, it is the retirement plan administrator's exchange revenue that offsets the gross cost of operations. Within the DoW, the DoW Military Retirement Trust Fund reports this revenue. The DoW Office of the Deputy Chief Financial Officer must first approve any DoW Component using this category of exchange revenue. Refer to SFFAS 7.

16.9.4.4. Providing Entity Contracted Third Party Services for Receiving Entity. If the providing entity contracts with a third party to provide services for the receiving entity, the transaction is an exchange transaction. The providing entity records exchange revenue for the full amount earned, whether all costs are recovered or not. The receiving entity records expense or capitalized assets for the full amount paid. Refer to FASAB TB 2017-1.

16.9.4.5. Interest on Treasury Securities Held by Trust Revolving Funds. A trust revolving fund is a revolving fund classified by law as a trust fund. It earns exchange revenue, which offsets its gross cost. Trust revolving funds' capital is predominantly earned revenue. When their capital is invested in Treasury securities, the interest is related to their cost of operations. The interest received is classified as exchange revenue. Refer to SFFAS 7.

16.9.4.6. Interest on Treasury Securities Held by Trust Funds. A major source of revenue for many trust and special funds (such as the DoW Military Retirement Trust Fund, the DoW Education Benefits Fund, the National Security Education Trust Fund, and the Voluntary Separation Incentive Fund) consists of exchange revenue and other financing sources. Capital invested in Treasury securities is classified as exchange revenue. Refer to SFFAS 7.

16.9.4.7. Interest on Uninvested Funds Received by Loan and Guaranteed Loan-Financing Accounts. A guaranteed loan financing account holds uninvested balances as reserves against its loan guarantee liabilities and earns interest on these balances. A direct loan financing account may hold uninvested balances to bridge transactions that are integral to its operations, earning interest on these balances. The interest earned through exchange transactions with the Treasury is an offset to the financing account's related costs of operations. Within the DoW, the reporting of this interest exchange revenue applies specifically to the Interest Revenue-Other-

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Distributed Offsetting Receipt (531000.05) or Interest Revenue – Investments-Distributed Offsetting Receipt (531100.05) accounts. The Office of the Deputy Chief Financial Officer, DoW must first approve any DoW Component using this category of exchange revenue. Refer to SFFAS 7.

16.9.5. Exchange Transactions - Intragovernmental-Gains and Losses

Revolving fund, trust, and trust revolving fund (e.g., Military Retirement Trust Fund) held Treasury securities may be callable or redeemable on demand. If the Treasury securities are retired before maturity, any difference between the retirement price and the net carrying value must be recognized as a gain or loss. For the nonexchange interest, the gain or loss is nonexchange. For usual and recurring revenues, the interest received is classified as exchange revenue. Refer to SFFAS 7, Paragraph 329.

16.9.6. Other Financing Sources – Intragovernmental

16.9.6.1. Cost Subsidies: Difference Between Internal Sales Price and Full Cost

Entities may receive goods or services without paying partial or full cost for the goods or services. The difference between full cost and the reimbursement or “transfer price” is imputed as a financing cost to the receiving entity. The imputed financing is recognized as a financing source. Examples include military personnel costs not reimbursed by Defense Agencies to the military personnel appropriations and environmental cleanup costs not reimbursed to the non-DoW fund administering entity. Refer to SFFAS 7.

16.9.6.2 Transfer of General PP&E and Stewardship Assets without Reimbursement

16.9.6.2.1. General PP&E (GPP&E) and Stewardship Assets (Heritage Assets and Stewardship Land) may be transferred from one government entity to another. If the asset was classified as stewardship PP&E in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operations or net position of either entity, and therefore in such a case it is not a revenue, a gain or loss, or other financing source.

16.9.6.2.2. If GPP&E is transferred, the transferring entity recognizes it as a negative other financing source (transfer out) of capitalized assets and the recipient entity recognizes it as another financing source (transfer in) of capitalized assets at the asset book value.

16.9.6.2.3. If GPP&E is transferred out, but the recipient entity classifies the asset as stewardship PP&E, the transferring entity recognizes it as a transfer-out of capitalized assets and the recipient entity recognizes no amount. Refer to SFFAS 7. Similarly, if the transferring entity transfers multi-use heritage assets and the cost remains on the books, the cost is recognized as a transfer-out of capitalized assets. The receiving entity must not recognize any

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amount. The receiving entity must enter the stewardship PP&E in their APSR, report the asset within financial statement notes, as appropriate (within heritage PP&E), and maintain supporting documentation of ownership.

16.9.6.2.4. If the transferred asset was classified as stewardship PP&E but GPP&E for the recipient entity, the recipient entity recognizes it as a financing source. The transferring entity recognizes no amount.

16.9.6.2.5. Stewardship assets transferred do not affect the net cost of operations or net position of either entity. It is not revenue, a gain, a loss, or other financing sources. Donated stewardship PP&E is not recognized as a cost or revenue. Refer to SFFAS 7.

16.9.7. Revaluations

Revaluation is a reassessment of the estimated future value of an asset. Capitalized PP&E is revalued when it no longer serves its intended purpose due to damage, obsolescence, or being identified as excess. Inventory and related property are revalued due to excess inventory, obsolescence, damage, anticipated losses on purchase agreements, or changes in the net realizable value of commodities. Revaluation is recognized as a loss or gain in the net cost of operations. Refer to SFFAS 7 for these classifications. Foreign currency revaluations are discussed in Volume 6.

16.9.8. Transactions Not Recognized As Revenues, Gains, Or Other Financing Sources

16.9.8.1. Disposition of Revenue to Other Entities - Custodial Transfers

An entity may collect primarily non-exchange revenue on behalf of the General Fund or another entity within the government. The collecting entity debits a “nonentity” liability account and credits its “nonentity” Fund Balance with Treasury account. Custodial transfers do not affect the collecting entity’s net cost of operations or operating results. The receiving entity recognizes the revenue according to the applicable standards. Refer to SFFAS 7.

16.9.8.2. Sales of Different Types of Government Assets

The sale of government assets (other than forfeited property) is an exchange transaction because each party receives and sacrifices something of value. Any difference between the sales proceeds and book value is recognized as a gain or loss when the asset is sold. If the sales proceeds equal book value, there is no gain or loss. This general rule applies to PP&E, receivables (other than direct loans), foreclosed property associated with pre-1992 direct loans and loan guarantees, and miscellaneous assets. It does not apply to inventory, forfeited property, the sale of direct loans, the sale of foreclosed property associated with post-1991 direct loans and loan guarantees. Refer to SFFAS 7.

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16.9.8.3. Repayment of Post-1991 Direct Loans

The estimated loan repayments present value is included in the direct loan's subsidy cost, and a recognized expense when the loans are disbursed. When cash is received, decrease the loans receivable by an equal amount. Therefore, the repayment is not recognized as a revenue, a gain, or other financing source. If the actual repayment is different from the previous estimate, the subsidy is re-estimated and recognized as an increase or reduction in subsidy expense. Refer to SFFAS 7.

16.9.8.4. Repayment of Pre-1992 Direct Loans or Receivables

When pre-1992 direct loans or receivables are repaid, wholly or partially, the entity exchanges one asset (loans receivable) for another (cash) with equal value. Therefore, cash inflow equal to book value is not recognized as a revenue, a gain, or other financing source. Any unpaid amount is recognized as an adjustment to the bad debt allowance. Refer to SFFAS 7.

16.9.8.5. Repayment of Receivables – Except Direct Loans

When receivables other than direct loans are paid, the entity exchanges one asset (loans receivable) for another (cash) with equal value. The amount of cash inflow equal to book value is not recognized as revenue, gain, or other financing source. If the receivable is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources. Refer to SFFAS 7.

16.9.8.6. Sales of Direct Loans

A direct loan sale is a modification according to the Federal Credit Reform Act of 1990. The direct loan sale loss (or gain) equals the book value of the loans sold (prior to sale) minus the net proceeds of the sale. Modification costs are expenses due to interest rate changes. If the sale is with recourse, the estimated recourse loss present value is also recognized as an expense. Any difference between the book value loss (or gain) and the cost of modification is recognized as a gain or loss. The amount of cash inflow equal to the book value is not recognized as revenue, gain, or other financing source. Refer to SFFAS 7.

16.9.8.7. Acquisition of PP&E through Exchange

The cost of PP&E acquired through an exchange of assets with the public is the fair value when the PP&E is surrendered. If the acquired PP&E fair value is more readily determinable than that of the PP&E surrendered, the cost is the acquired PP&E fair value. If neither fair value is determinable, the cost of the PP&E acquired is the cost recorded for the PP&E surrendered net of any accumulated depreciation or amortization. If cash consideration is included, the cost of PP&E acquired is increased (or decreased) by the cash surrendered (or received). Refer to SFFAS 7.

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16.9.8.8. Sales of Foreclosed Property Associated with Post-1991 Direct Loans and Loan Guarantees

When property is foreclosed, the property is recognized as an asset at the net present value of its estimated net cash flows. The subsidy cost of post-1991 direct loans and loan guarantees is included as an expense when the loans are disbursed. When the foreclosed property is sold, any difference between the sales proceeds and the net present value requires a reestimate of the subsidy expense. The amount of cash flow equal to book value is not recognized as a gain, revenue, or other financing source. Refer to SFFAS 7.

16.9.9. Negative Subsidies on Post-1991 Direct Loans and Loan Guarantees

If the direct loans or loan guarantees are estimated to make a profit, a negative subsidy results, apart from administrative costs (which are excluded from the subsidy calculation by law). The subsidy cost is an expense when the direct loan or guaranteed loan is disbursed. A negative subsidy is a direct reduction in expense. Refer to SFFAS 7.

16.9.10. Downward Subsidy Reestimates for Post-1991 Direct Loans and Loan Guarantees

A Downward subsidy reestimate means that the subsidy cost is less than previously estimated. A Downward subsidy reestimate is a direct reduction in expense. Refer to SFFAS 7.

16.9.11. Fees on Post-1991 Direct Loans and Loan Guarantees

The estimated fee present value is a subsidy cost offset of the direct loans and loan guarantees. The estimated fee present value is one component in calculating the value of loans receivable or loan guarantee liabilities. When cash is received for fees, the loans receivable decrease (or the loan guarantee liabilities increase) by an equal amount. The increase in one asset is offset by an equal decrease in another asset (or by an equal increase in liabilities). Therefore, fees are not recognized as revenue, a gain, or other financing source. Refer to SFFAS 7.

17.0 EXPENSES AND MISCELLANEOUS ITEMS

17.1 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.2 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.3 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.4 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5 Presentation in Financial Statements

17.5.1. Expense Recognition

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Accounting entries are specified in the DoW United States General Ledger (USSGL) Standard Financial Information Structure (SFIS) Transaction Library.

17.5.2. Program Costs

DoW Components must recognize imputed costs for pensions and other retirement benefits. Imputed costs represent the unreimbursed portion of full costs for goods and services received from another source, including the excess of costs incurred over contributions for post-employment benefits. In the case of post-employment benefits for retired, terminated, and inactive employees, imputed costs are the excess of the costs actually incurred by employing agencies for covered employees over the total contributions made by and for covered employees. According to SFFAS 55, imputed costs cover all unreimbursed portions of the full cost of goods and services received by a DoW entity from a providing DoW entity.

17.5.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.6. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.7. Depreciation, Amortization and Depletion Account

Depreciation expense for capitalized and donated assets is recorded with a debit to Depreciation, Amortization, and Depletion and a credit to the appropriate Accumulated Depreciation account related to the asset. No budgetary entry is recorded. For the DWCF, depreciation expense is an element included in the cost recovery rates, used to finance the capital programs.

17.5.8. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.9. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.10. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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17.5.11. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.12. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.13. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.14. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

17.5.15. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.0 MANAGERIAL COST ACCOUNTING

18.0.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.0.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.0.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.1 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.2 Systems, Sources and Cost Finding

18.2.1. Costs are traced using the accounts outlined in the USSGL to produce financial, budgetary, and special performance reports. The Standard Financial Information Structure (SFIS), which includes the Standard Line of Accounting (SLOA), facilitates this cost accumulation.

18.2.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.3 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.4 Users

18.4.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

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18.4.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.4.3. Decision Making

Analyzing these components helps managers understand the demand their program places on federal resources and contributes to organizational costs.

18.4.4. Budget and Cost Control

With appropriate cost information collected through managerial cost accounting, federal managers can explain variances between actual and budgeted costs, compare cost changes over time to identify their causes, and compare the costs of similar activities to identify differentials. This process also enables the production of budgets at a detailed level, which improves the accuracy, insight, and transparency of an agency's expenditures

18.4.5. Performance Measurement

18.4.5.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.4.5.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.4.5.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.4.5.4 Effectiveness is measured by the outcome or the degree to which a predetermined objective is met, commonly expressed as "cost effectiveness." Therefore, the service efforts and accomplishments of a government entity can be evaluated with measures of an organization's efforts (inputs), which include the costs of resources used or consumed, and non-financial measures, an organization's accomplishments (outputs), which include the quantity of goods and services provided and outcomes (the results of those goods and services), or accomplishments, such as cost per unit of output or cost effectiveness.

18.5 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.6 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.7 Economic Choice Decisions

In the case of outsourcing, decisions may involve comparing the incremental cost and benefits of continuing a government activity with the incremental cost and benefits of turning the project over to a private sector business. Cost studies of various types can help to decide whether

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to accept or reject a proposal for a government capital project, to continue or drop a government good or service, or to contract with a private sector vendor.

18.8 Cost Assignment and Costing Methodology

When assessing cost accounting requirements, reporting entities must determine the appropriate detail for processes and procedures based on the nature of the entity's operations, the precision desired and needed in cost information (accuracy, frequency, granularity, transparency, and cost benefit of obtaining data), practicality of data collection and processing, availability of service departments for indirect services, cost of installing, operating, and maintaining the cost accounting processes, and any specific information needs of management.

18.9 Cost Accumulation

SFFAS 4 includes the following cost accumulation methods:

Accumulating and reporting costs of activities on a regular basis for management information purposes and Using appropriate costing methodologies to accumulate and assign costs to outputs.

18.9.1. Cost accumulation for cost objectives or outputs is achieved by selecting costing methods (e.g., standard costing, job order costing, ABC) or cost finding techniques that are suited to the operational environment.

18.9.2. SFFAS 4 requires organizations to accumulate costs for the identified types of outputs produced for various programs or projects. Organizations may establish a network of cost centers to accomplish this cost accumulation task. Cost centers are a tool that groups relevant costs that support a consistent output or objective. Cost centers can be used to simplify the various costs incurred by aggregating costs into a cost center that provides a product, be it a service or a good. A project management office is a common type of cost center.

18.9.3. Responsibility segments should accumulate the costs of resources consumed by the type of resource, such as costs of employees, employee benefits, and office space or rent. Accumulating the costs incurred by resource type supports detailed reporting and provides transparency of cost by type. Outputs (if practical, measured in units) produced by responsibility segments should also be accumulated; the full cost of resources that directly or indirectly contribute to the production of outputs should be assigned, if the purpose is to support billing a customer.

18.10 Cost Assignment Authoritative Guidance

According to SFFAS 4, Components must directly trace costs wherever feasible and economically practicable, assign costs on a cause-and-effect basis, and allocate costs on a reasonable and consistent basis.

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18.10.1. SFFAS 4 requires organizations to identify the full cost of outputs (the goods or services produced, the missions or tasks performed, and the customers or markets served) including:

18.10.1.1. Direct and indirect costs incurred within the responsibility segment,

18.10.1.2. Intra-entity costs from other responsibility segments, and

18.10.1.3. Inter-entity costs recognized by the receiving entity.

18.10.2. Cost Assignment Approaches

Approach	General Cost Behaviors	Accuracy/ Frequency	Granularity/ Transparency	Project/ Program Requirement
Direct Tracing	Job Order Direct and/or Indirect Actual or Standard	High	High to Moderate	Activity / Task Level
Cause and Effect	Job Order Direct and/or Indirect Process Direct and/or Indirect Variable Actual or Standard	High to Moderate	High to Moderate	Task / Delivery Order
Allocation	Job Order Indirect Process Indirect Fixed Actual or Standard	Lowest	Lowest	Project / Program

18.10.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.10.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.11 Direct Tracing

While tracing provides the highest level of granularity, it should be applied cost-effectively. For example, directly tracing office supplies to a specific project is not practical, but it is relevant for explicitly budgeted items like administrative services.

18.12 Cause and Effect Basis

Establishing an intermediate cost object requires the identification of homogenous activities to an output and determining the rate of allocation to receiving cost objects. For example, a laboratory's costs are first assigned to the various tests it performs, and the costs of those tests are then assigned to the operating units that ordered them.

18.13 Cost Allocation

18.13.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.13.2. This involves two steps:

18.13.2.1. Allocate the accumulated costs of services to the segment, and

18.13.2.2. Allocate the accumulated costs to the outputs of each segment.

18.13.3. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.13.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.13.5. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.14 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.15 Job order costing systems are used by organizations that produce unique products or special order products, projects, assignments or groups of similar outputs. Job order costing is used if the production or service is being performed to meet customer specifications or requirements, or products or services require different amounts and types of direct material, labor and indirect costs.

18.15.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.15.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.15.3. relevant, subsidiary ledger accounts or proprietary accounts will be incorporated into the structure for job order data.

18.15.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.16 Process Costing

18.16.1. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.16.2. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.16.3. For each period, cost centers prepare a cost and performance report showing the costs, the completed effort, and the work-in-process. When a certain number of completed units are transferred from the cost center to the next cost center, the cost of those units are also transferred and are eventually incorporated into the costs of the end product. Therefore, the cost flow follows the physical flow of production. The unit cost of the product is the sum of the unit costs of all the divisions.

18.17 Standard Costing

This method is commonly used in production or service center models and can be used with other costing systems like job order, process, and activity-based costing. It is most appropriate for operations that produce services or products consistently and repetitively. Standard costing can be applied to specific outputs or to an entire responsibility segment by comparing total actual costs with total standard costs for the outputs produced in a given period.

18.18 Activity Based Costing (ABC)

For example, a contracting office has many activities that lead into the finalization of a contract. There are routine processes relevant to all contracts, such as document formatting, printing, and delivery activities, that are likely allocated using a standard cost methodology (established rate per output), while other activities such as research and negotiation are not common and vary depending on contract type, are allocated using ABC methods.

Implementing ABC is a four-step process:

18.18.1. Identify activities within a segment. This may require an in-depth analysis of the operating processes, as some processes may consist of one or more activities. Activities may be classified into unit level, batch level, product sustaining, and facility sustaining activities. Management may combine related small activities into larger activities to avoid excessive costing efforts.

18.18.2. Assign resource costs to activities to capture the full cost of the final output. Assigned resource costs should include direct and indirect costs as well as any inter- or intra-department costs relevant to the activity. Resource costs are assigned to activities in three ways, depending on feasibility and cost benefit. These methods include direct tracing, standard costing or cost finding report, or allocations.

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18.18.2.1. Identify outputs. Outputs are any good or service generated by a segment, and can include information or paperwork generated by the completion of the tasks or customers (e.g., persons or entities to whom a federal agency is required to provide goods or services). Omitting a resource cost, activity, or output in the ABC process will result in overcharging costs to other outputs.

18.18.2.2. Assign activity costs are assigned to outputs using activity drivers based on individual outputs' consumption or demand for activities. For example, a driver may be the number of times an activity is performed or the length of time an activity is performed in the production of an output. These are referred to as transactional and durational drivers, respectively.

18.18.3. A major advantage of using ABC is that it avoids or minimizes distortions in product costing that result from arbitrary allocations of indirect costs. By tracing costs through activities, ABC can provide more accurate good or service costs. Ranking activities by the degree to which they add value to the organization or its outputs encourages management to evaluate the efficiency and cost effectiveness of activities. An ABC method starts with identifying and examining the following:

18.18.3.1. What value-added activities are really needed in order to accomplish a mission, deliver a service, or meet customer demand?

18.18.3.2. How can activities be modified to achieve cost savings or product improvements?

18.18.3.3. What activities do not actually add value to services or products?

18.18.3.4. Where can cycle time analysis and value-added analysis be incorporated?

18.19 Data Systems, Data Sources and Cost Finding

A system should take into consideration:

The nature of the entity's operations, precision desired and needed in cost information, practicality of data collection and processing, availability of electronic data handling, cost of installing, operating and maintaining the cost accounting processes, and any specific management information needs.

18.20 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.21 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.22 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.23 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

18.24 Cost Finding Requirements

18.24.1. Identifying and describing cost objects are an important element of the documentation requirement. When the cost object identified is at a reporting entity or organizational level, the cost finding approach could rely on more estimation techniques and fewer details in the cost estimates. If the cost object identified is at the specific function or operation level, additional granularity will be required to provide useful cost object data. At the specific function or operation level, the data may not be available in the legacy financial systems.

18.24.2. The task is to classify the direct or indirect cost objects. A cost object responsible for actually performing the work is direct. A cost object that provides support or performs an administrative function is indirect.

18.24.3. Organizations or cost objects may be either direct or indirect costs depending on the activities identified. An organization classified as indirect cost will not always be recognized in the computation of costs for a final cost object. At the macro level, service center type organizations generally will be recognized as indirect and the related costs allocated among direct organizations. At the micro level, materiality and usefulness will be determining factors on recording the costs as direct. Specifically, if some cost assignment amounts are not readily available, and they are estimated to be relatively insignificant in the context of the total costs, cost finding techniques would allow them to be excluded from the overall costs with a notation that they are not material.

18.24.4. An important aspect of any cost finding technique is identifying the direct and indirect cost elements applicable to the good or service. Even within a direct cost organization, there may be indirect cost elements. Both the direct and indirect activities may have the same cost elements, such as civilian personnel costs. The difference is in whether the costs are considered direct or indirect. If indirect, allocate across the direct cost elements.

18.24.5. All possible cost elements must be identified and determined if they are significant. Personnel compensation, purchased services, supplies, and materials are typical major categories within the SFIS Cost Element Code.

18.24.6. After the potential elements are identified, it must be decided which cost elements are sufficiently significant to the final cost object and if they warrant separate consideration. An evaluation of the elements would also include the relevance and materiality of each cost element to the cost object. Materiality is determined by analyzing whether excluding the data could distort the computed value for the final cost object.

18.24.7. Before the values for each cost finding can be determined, the source documents for the required data must be identified and physical hardcopies or softcopies retained for audit or performance examination purposes. Source documentation is cost information on a prior project, effort, or purchase that is the same or similar in nature. When WCF organizations are part of the

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cost finding, detailed cost or pricing documentation should already be available since these data are needed for the customer rate setting process. Depending on the significance and intended use of the cost finding report, the identification of specific documents may not be necessary if it is insignificant to the operating costs to which it will be applied.

18.24.8 The following principles are intended to help guide the collection of comprehensive data:

18.24.8.1. Provide a comprehensive data structure for the cost object that specifies the source of all data,

18.24.8.2. Rely on the financial management system to the maximum extent possible and ensure the source data is complete and representative for its intended purpose,

18.24.8.3. Document the rationale for direct and indirect costs,

18.24.8.4. Pricing lists, costing sheets, benchmarking studies on standard items such as direct and indirect labor and materials, and

18.24.8.5. Create an auditable, repeatable process to support cost management analysis over time.

18.24.9. The following guidance using cost finding techniques should be applied when determining the individual costs of intermediate and final cost objects:

18.24.9.1. Civilian direct labor costs are computed using the average pay grade for applicable General Schedule series personnel (e.g., step 5). For Wage Grade employees, use the average applicable pay grade (e.g., step 4). Amounts included as direct labor costs should recognize only productive time that is, the time actually used to perform the function. All other times, such as training or annual leave, are indirect labor and are included in indirect costs. Actual costs may be used, if known, provided appropriate documentation is available to support their substitution. Prior to applying the labor costs, it will be necessary to develop an approach for collecting the number of hours associated with an activity reflected in a cost object.

18.24.9.2. Civilian Personnel Fringe Benefit costs are computed using the rates published annually on the Office of the Under Secretary of War, Comptroller (OUSW(C)) Financial Management Reports website in accordance with Volume 11 or Volume 15, Chapter 7.

18.24.9.3. Costs for Military Personnel are calculated using standard military composite rates in accordance with guidance in Volume 11A, Chapter 1 and Chapter 6, Appendix G. Military Personnel Composite Standard Pay and Reimbursement Rates are published annually on the OUSW(C) Financial Management Reports website.

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18.24.9.4. Both military and civilian labor should be included, as applicable. Labor that is directly traceable to jobs should be recorded as direct labor. Indirect labor (labor that cannot be charged to a specific job) should be used in computing indirect costs. Volume 11, reimbursable policy controls whether military labor costs actually are includable in charges to other DoW entities.

18.24.9.5. Direct material cost is determined using standard prices, unless the actual cost is known from vendor invoices. Standard prices can be obtained from vendor catalogs, supply system stock databases, recent contract purchases of similar items, or any other available data source.

18.24.9.6. Depreciation and amortization of capitalized property and real property represent an additional cost of an activity, project, or service. Chapters 24-27 provide additional guidance on calculation of depreciation and amortization for general equipment; assets under capital leases, internal use software, government furnished equipment, contractor acquired property, and real property.

18.24.9.7. Other costs that can be directly related to the cost object are determined using source documents, such as vendor invoices and travel vouchers.

18.25 Pricing for a Cost Finding Report

18.25.1. Pricing practices and standards should be researched for each agency before developing a new practice or procedure.

18.25.2. When pricing labor, it is important to include the full cost of labor, as fringe benefits will increase total labor costs significantly.

18.25.3. Supporting agencies like Washington Headquarters Services or Defense Logistics Agency may supply the full cost of procurement. It is important to identify where services and goods originate from as part of the pricing documentation. The life cycle of a procurement will need to be included as part of a procurement pricing estimate.

18.25.4. The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

19.0 NET POSITION

19.1 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

19.2 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

19.3 The corresponding subparagraph of FMR Volume 4 contains no supplemental procedures.

19.4 Correction of an Error or a Change in Accounting Principle

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19.4.1. If only the current period statements are presented, then the cumulative effect of correcting the error should be reported as a prior-period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the SCNP.

19.4.2. If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period presented is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior-period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the SCNP for the earliest period presented.

19.4.3. The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed. Financial statements of subsequent periods need not repeat the disclosures.

19.4.4. Prior-period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated. See SFFAS 21 for additional guidance.

19.5 Changes in Accounting Principles

19.5.1. The cumulative effect of the change on prior periods should be reported as a “change in accounting principle.” An adjustment should be made to the beginning balance of cumulative results of operations in the SCNP for the period that the change is made.

19.5.2. Prior-period financial statements presented for comparative purposes should be presented as previously reported; and

19.5.3. 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. See SFFAS 21 for additional guidance.