**DoD 7000.14 - R**

# DEPARTMENT OF DEFENSE

# FINANCIAL MANAGEMENT REGULATION

# VOLUME 6B: "FORM AND CONTENT OF THE DEPARTMENT OF DEFENSE AUDITED FINANCIAL STATEMENTS"

## UNDER SECRETARY OF DEFENSE (COMPTROLLER)

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**VOLUME 6B, CHAPTER 1: "INTRODUCTION TO THE FORM AND CONTENT OF THE FINANCIAL STATEMENTS"**

**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

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

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

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

The previous version dated July 2021 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| All | Administrative updates in accordance with Department of Defense (DoD) Financial Management Regulation (FMR) Revision Standard Operating Procedures. | Revision |
| 4.0 | Added the definition of DoD consolidation entities. | Addition |
| 4.1 | Revised paragraph to clarify language on the required Office of Management and Budget (OMB) consolidation entities. Removed duplicate language regarding financial statement requirement that is described in paragraph 1.1 and section 2.0. | Revision |
| 4.2 | Added description of the Senate Select Committee on Intelligence (SSCI) and removed list of SSCI entities. | Addition |
| 4.3 | Moved the Other Defense Activities (ODAs) subparagraph under the Non-OMB Consolidation Entities paragraph. | Revision |
| 7.0 (Deleted previous 5.2 through 5.9) | Added section 7.0 to direct readers to the contents of the financial statement sections and preparation instructions described in other FMR chapters. Deleted subparagraphs to remove redundant information. | Addition/ Deletion |
| Throughout | Updated the term "reporting entity/entities" for "consolidation entity/entities" where applicable. | Revision |

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# CHAPTER 1

# INTRODUCTION TO THE FORM AND CONTENT OF THE FINANCIAL STATEMENTS

## 1.0 GENERAL

### 1.1 Overview

Under the provisions of ***Title 31, United States Code, section 3515*** (31 U.S.C. §3515), the Department of Defense (DoD or the "Department") is required to have annual audited financial statements covering all accounts and associated activities of the Department. As implemented by the Office of Management and Budget (OMB), the Department is required to prepare both Agency-wide annual audited financial statements and separate financial statements for reporting entities as defined in Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards ***(SFFAS) 47***, "Reporting Entity." The financial statements are expected to provide information to DoD program managers, Congress, and the public; thereby facilitating both effective allocation of resources and assessment of management performance and stewardship. The objective is to produce financial statements that will be used to improve the management of the Department. Additionally, consistent with the objectives of the Statements of Federal Financial Accounting Concepts and SFFASs, the Department continues to work toward the integration of budget and financial information in order to provide for more effective program management at all levels.

### 1.2 Purpose

This chapter presents the form and content of quarterly and annual financial statements prepared within the DoD and provides a framework for the DoD Components while allowing flexibility to provide useful information to decision makers. This guidance applies to all DoD consolidation entities identified in section 4.0. This chapter identifies the level at which functions or funds should be reported on a consolidated basis, prescribes the specific authoritative guidance on financial statement format and disclosures, and provides other instructions necessary for the preparation of annual audited financial statements and quarterly unaudited financial statements. When recording accounting transactions, follow the accounting standards hierarchy found in Volume 1, Chapter 2.

### 1.3 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. ***OMB Circular A-136***, "Financial Reporting Requirements;"

1.3.2. 31 U.S.C. § 3515, "Financial statements of agencies;"

1.3.3. ***DoD Financial Statements Audit Guide***; and

1.3.4. Defense Finance and Accounting Service ***(DFAS) Financial Reporting Guidance***.

## 2.0 BACKGROUND

Federal agencies traditionally prepared financial reports to monitor and control the obligation and expenditure of budgetary resources. With the enactment of ***Public Law 101-576***, "Chief Financial Officers Act of 1990" (CFO Act), and ***Public Law 103-356***, "Government Management Reform Act of 1994", the Congress called for the production of audited financial statements. The statements must fully disclose a federal entity's financial position, results of operations, and provide information on the effective allocation of resources which Congress, Agency managers, the public, and others can assess management performance and stewardship. Accordingly, OMB in consultation with the CFO Council, the Council of the Inspectors General on Integrity and Efficiency, and other interested parties developed the formats and instructions for financial statements described in this volume. The annual audited financial statements must be organized as shown in Table 1-1.

## 3.0 REQUIRED REPORTING DATES

Authoritative guidance requires the preparation of annual audited financial statements for the period ending on September 30 of each fiscal year and the quarterly unaudited financial statements for periods ending December 31, March 31, and June 30 of each fiscal year. The Department must submit unaudited interim financial statements to OMB 21 business days after the end of the third quarter of the fiscal year and Notes to the Financial Statements 45 business days after the end of the third quarter of the fiscal year. Annual audited financial statements are due to OMB, the Treasury, the Government Accountability Office, and the Congress in accordance with OMB Circular A-136.

## *4.0 DOD CONSOLIDATION ENTITIES

The DoD Agency-wide financial statements provide the financial status of the entire Department. DoD consolidation entities represent entities that are consolidated in the DoD Agency-wide financial statements, including the following:

### *4.1 OMB Required Consolidation Entities

4.1.1. Tier 1 Component entities are required by OMB to prepare stand-alone audited financial statements and quarterly unaudited financial statements.

4.1.2. These Components are listed in Appendix B of OMB's annual bulletin, "***Audit Requirements for Federal Financial Statements***."

### *4.2 Senate Select Committee on Intelligence (SSCI) Consolidation Entities

4.2.1. The SSCI conducts various reviews of intelligence programs or events for entities involved in the intelligence community, ranging from routine and continuing study (the conduct of covert action programs and intelligence operations) to formal inquiries.

4.2.2. SSCI consolidation entities must submit annual audited and unaudited quarterly financial statements to the SSCI to reveal their annual intelligence efforts.

*4.3 Non-OMB Consolidation Entities

The non-OMB consolidation entities represent all others not identified in paragraphs 4.1 and 4.2. These entities are not required to produce stand-alone audited financial statements and quarterly unaudited financial statements per OMB Circular A-136. The management-approved "DoD Consolidation Entities and Disclosure Entities" list is located on the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Office of the Deputy Chief Financial Officer, Financial Improvement and Audit Remediation ***(FIAR)*** Directorate website (DoD Common Access Card required) under the "Policies, Publications, & Guidance" heading. The FIAR Directorate is responsible for updating this list annually.

4.3.1. DoD Designated Audit Entities. DoD has designated certain consolidation entities to adhere to the same audit remediation efforts as congressionally mandated OMB consolidation entities. These consolidation entities must perform all audit remediation efforts in accordance with the FIAR guidance and must undergo annual stand-alone financial statement audits.

4.3.2. Other Defense Activities (ODAs). The ODAs are entities of the Department that are reported in the consolidating/combining statements, which comprise the DoD Agency-wide annual audited financial statements and quarterly unaudited financial statements. Tier 2 includes Components undergoing a stand-alone audit. Tiers 3 and 4 include Components not under a stand-alone audit.

4.3.3. Other Material Defense Agencies and Remaining Entities. Other material Defense Agencies are consolidation entities that must undergo annual examinations or other independent validations of their financial statement balances. Remaining entities include organizations and funds not material to the DoD consolidated financial statements. Remaining entities must perform audit remediation efforts to improve their internal controls and will be included in the DoD consolidated financial statement audit.

4.3.3.1. To support the preparation of the Agency-wide financial statements, other material Defense Agencies and remaining entities must submit trial balances and corresponding adjustments within Defense Departmental Reporting System (DDRS) – Audited Financial Statements, DDRS-Budgetary, and DDRS – Data Collection Module. Additionally, these entities are required to provide information as outlined by the quarterly Agency-wide reporting schedules and guidance.

4.3.3.2. To ensure continued improvement to financial reporting in accordance with Department objectives, other material Defense Agencies and remaining entities must continue value-added financial improvement efforts including evaluation and improvements to internal controls over financial reporting. Reasonableness reviews of financial statements for other material Defense Agencies and remaining entities during non-reporting periods may result in questions for explanation or future corrective action or both. The OUSD(C) delegated financial statement review of the entity's financial information and OUSD(C) oversight of these

consolidation entities to the respective Component's Comptroller or senior financial manager. However, designated DFAS Financial Reporting staff will remain available to assist in responding to issues or inquiries.

4.3.3.3. Based on the FIAR strategy, cost mitigation requirements, and expected progression towards full assertion of auditability, each other material Defense Agency and remaining entity will determine their internal reporting and audit requirements, as deemed necessary for continued improvement of financial data and achievement of audit objectives. Entities currently receiving an unmodified audit opinion should consider the cost versus value of the audit in determining requirements and objectives.

4.4 Pass-Through Accounts

Pass-through accounts are included in the consolidated financial statements. While financial transactions flow through such accounts to or from other entities, these accounts do not ultimately own that activity. Most pass-through account balances are eliminated within the DoD-wide consolidating statements, or with Treasury. The exception are account balances affecting the Statement of Budgetary Resources, which is presented on a combined basis. The pass-through accounts are identified on the DoD Consolidation Entities and Disclosure Entities list referenced in paragraph 4.3.

5.0 DISCLOSURE ENTITIES

Disclosure entities are those non-DoD entities required to be disclosed in the footnotes to the consolidated financial statements but are not included in the primary financial statements of the Department. The disclosure entities are identified on the DoD Consolidation Entities and Disclosure Entities list referenced in paragraph 4.3.

6.0 AUDIT COMPLIANCE

6.1. OUSD(C) Audit Requirements

6.1.1. OMB required consolidation entities and non-OMB consolidation entities are required to comply with the FIAR requirements and other guidance issued by the OUSD(C).

6.1.2. Each Component, after completing their assertion of auditability, and with the advice of the DoD Office of the Inspector General (OIG), must establish an audit committee to oversee its financial audit.

6.1.2.1. The purpose of the audit committee is to establish audit requirements, identify contract deliverables, monitor the execution of the contract, and identify and assist with resolution of obstacles to an unmodified audit opinion.

6.1.2.2. Once DoD Component consolidation entities are deemed auditable, the audit committee's focus should be on ensuring a forum exists to address ongoing accounting and auditing issues.

6.1.2.3. Audit committees for OMB required consolidation entities identified in paragraph 4.1 must include a representative of DoD OIG.

## 6.2. OMB Audit Requirements

Audits of Federal financial statements are conducted in accordance with the requirements found in the annually updated OMB Bulletin, "Audit Requirements for Federal Financial Statements." These provisions apply to audits of financial statements of executive departments, agencies, government corporations, and certain components of these agencies. The Bulletin reflects changes that apply as a result of other revised OMB guidance, including OMB Circular A-136.

## *7.0 CONTENT OF ANNUAL AUDITED AND QUARTERLY UNAUDITED FINANCIAL STATEMENTS

7.0.1. The annual audited financial statements of the OMB required consolidation entities identified in paragraph 4.1 must be comprised of four major sections. Non-OMB consolidation entities not identified elsewhere in this chapter are to follow the requirements outlined in paragraph 4.3.

7.0.2. The quarterly unaudited financial statements required for third and fourth quarters must be comprised of the principal statements and notes to the principal statements and, if applicable, supporting consolidating and/or combining statements. Although the first and second quarter principal statements must be prepared, the preparation of accompanying notes for the first and second quarter is not required. A more detailed outline appears in Table 1-1.

7.0.3. The four required major sections and the sequence of their presentation are as follows:

7.0.3.1. Agency Head Transmittal Letter (Guidance for required information in the Agency Head Transmittal Letter is provided in Chapter 3);

7.0.3.2. Management's Discussion and Analysis (MD&A) (Guidance for preparation of MD&A is provided in Chapter 3);

7.0.3.3. Financial Section; and

7.0.3.4. Other Information (Guidance for preparation of Other Information is provided in Chapter 3).

7.0.4. The accompanying subsections of the Financial Section are as follows:

7.0.4.1. CFO Message;

7.0.4.2. Audit Report;

7.0.4.3. Principal Statements; (Instructions for the preparation of the Principal Statements are contained in Chapters 4, 5, 6, and 7);

7.0.4.3.1. Balance Sheet (Consolidated);

7.0.4.3.2. Statement of Net Cost (Consolidated);

7.0.4.3.3. Statement of Changes in Net Position (Consolidated); and

7.0.4.3.4. Statement of Budgetary Resources (Combined)

7.0.4.4. Notes to the Principal Statements (Instructions for the preparation of the required notes are contained in Chapter 10); and

7.0.4.5. Required Supplementary Information (RSI) (Specific guidance for reporting RSI is contained in Chapter 12).

Table 1-1. Outline of the Agency Financial Report

| Major Elements of the Agency Financial Report (Hard copy and files for Internet) | DoD Entity Reports | DoD Agency-Wide |
|---|---|---|
| Cover | Required | Required |
| Table of Contents | Required | Required |
| Message(s) from the Agency Head | Required | Required |
| Management's Discussion and Analysis | Required | Required |
| Performance Information | Not Required | Not Required |
| Financial Section | | |
| CFO Message | Not Required | Not Required |
| Audit Report(s) | | |
| Inspector General, DoD Audit Opinion or Endorsement | Not Applicable | Required |
| Audit Opinion of Contract Auditor (e.g., for the Military Retirement Fund) | As Applicable | Not Applicable |
| Principal Statements | | |
| Balance Sheet, Consolidated | Required | Required |
| Statement of Net Cost, Consolidated | Required | Required |
| Statement of Changes in Net Position, Consolidated | Required | Required |
| Statement of Budgetary Resources, Combined | Required | Required |
| Notes to the Financial Statements | Required | Required |
| Required Supplementary Information | | |
| Deferred Maintenance and Repairs | As Applicable | Required |
| Combining Statement of Budgetary Resources | As Applicable | Required |
| Other Information | | |
| Management Challenges | Not Required | Required |
| Summary of Financial Statement Audit and Management Assurances | Required | Required |
| Payment Integrity | As Applicable | Required |
| Other Agency-specific Statutorily Required Reports | As Applicable | Required |
| Civil Monetary Penalty Adjustment for Inflation | As Applicable | Required |
| Biennial Review of User Fees | As Applicable | Required |
| Grant Programs | As Applicable | Required |
| Appendix | As Applicable | As Applicable |

**VOLUME 6B, CHAPTER 2: "GENERAL INSTRUCTIONS FOR THE FINANCIAL STATEMENTS"**

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The previous version dated December 2019 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| All | Clarified language to improve readability, updated formatting and hyperlinks in accordance with Department of Defense Financial Management Regulation Revision Standard Operating Procedures. | Revision |
| 1.2 | Added additional authoritative guidance and updated previous guidance with current versions and hyperlinks | Revision |
| 4.4 (previous version) | Removed outdated budgetary data representation requirement from 2007 Office of Management of Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements." | Deletion |
| Policy Memo 5.3.1 - 5.3.3 | This revision incorporated and cancelled the Deputy Chief Financial Officer (DCFO) memorandum titled, "Reporting Guidance for Aggregated Cases for Contingent Legal Liabilities," dated March 27, 2024, adding a section for Management Schedules of Information requirements. | Cancellation/ Addition |
| Policy Memo 5.3.4 | This revision incorporated and cancelled the DCFO memorandum titled, "Reporting Requirements for Legal Contingent Liabilities (FPM 21-10)," dated September 24, 2021, adding case aggregation methodology for Management Schedules of Information preparation. | Cancellation/ Addition |
| Policy Memo 6.5 | This revision incorporated and cancelled the DCFO memorandum titled, "Variance Analysis for Financial Statement Reporting (FPM 19-17)," dated April 6, 2020, updating variance analysis requirements and adding language regarding materiality thresholds. | Cancellation/ Addition |

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# CHAPTER 2

# GENERAL INSTRUCTIONS FOR THE FINANCIAL STATEMENTS

## 1.0 GENERAL

### 1.1 Purpose

This chapter identifies the general requirements for the preparation and submission of financial statements and the required disclosures, as required by the Office of Management and Budget (OMB) and other departmental guidance. It establishes the roles and responsibilities of departmental and agency financial managers and provides specific instructions for the preparation of the Management Representation Letter (MRL) and the Legal Counsel Response (LCR).

### *1.2 Authoritative Guidance

The financial management policy and related requirements in this chapter are in accordance with the applicable provisions of:

1.2.1. The ***OMB Circular A-136***, "Financial Reporting Requirements."

1.2.2. OMB Bulletin 24-02, "Audit Requirements for ***Federal Financial Statements***."

1.2.3. The Statements of Federal Financial Accounting Standards (***SFFAS***)

1.2.4 The Statements of Federal Financial Accounting Concepts (***SFFAC***).

1.2.5. The roles and responsibilities of reporting entities and service providers, as well as the processes they must follow to achieve audit readiness, are detailed in the Department of Defense (DoD) ***Financial Statement Audit Requirements and Overview Guide*** (DoD Common Access Card (CAC) required).

## 2.0 RESPONSIBILITIES

### 2.1 Responsibility for Preparation of the Financial Statements

The primary responsibility for the financial statements rests with the reporting entity's management. Responsibility for preparation of the principal statements and notes, however, may be shared with the accounting organization responsible for maintaining the financial records of the reporting entity The responsible official must ensure that: (1) known business processes/systems that could materially impact the financial statements are communicated; (2) all necessary data that originates in nonfinancial processes and systems (e.g., inventory and property data) is provided; (3) consolidating/combining statements are reviewed and analyzed; and (4) feedback is provided to the entity's supporting accounting organization as required or upon request.

2.2 Reporting of Foreign Military Sales and Other Security Assistance

2.2.1. The Defense Security Cooperation Agency administers certain Foreign Military Sales (FMS) and other security assistance programs on behalf of the Executive Office of the President (EOP). While FMS activity is primarily reported separately from DoD activity, OMB has approved the following provisions regarding the specific information on the financial activity of FMS programs that is to be included in the DoD financial statements.

2.2.2. Revenue and expense amounts pertaining to FMS goods or services provided from the stocks of the DoD Components on a reimbursable basis must be reported in the financial statements of the applicable selling DoD Component and in the DoD Agency-wide consolidated statements.

2.2.3. Principal statements for certain EOP accounts are prepared separately from the DoD Agency-wide financial statements. See Volume 15, ***Chapter 1*** for details regarding these accounts.

3.0 REPORTING SCHEDULES AND QUALITY CONTROL REVIEWS

3.1 Interim Financial Reporting

3.1.1. Interim financial reporting requirements are detailed in the OMB Circular A-136.

3.1.2. All DoD financial reporting entities are required to support the Defense Finance and Accounting Service (DFAS) and Under Secretary of Defense (Comptroller) USD(C) preparation and analysis of the Department's quarterly Agency-wide financial statements that must be submitted to OMB after the end of the third quarter of the fiscal year (FY) as of the date designated by OMB within OMB Circular A-136. OMB-designated reportable entities are required to submit their interim unaudited Balance Sheet, Statement of Net Cost (SNC), and Statement of Changes in Net Position (SCNP) to OMB. Agencies are required to use the ***MAX*** Federal Community to submit their interim financial statements electronically to OMB.

3.1.3. The DoD Agency-wide submission for the interim quarter and for the fiscal year end must include year-end financial statement variance analyses for the Balance Sheet with explanations for significant changes to material line items.

3.1.4. USD(C) and DFAS may require the OMB reportable entities to prepare and submit full note disclosures, variance analyses, and the Statement of Budgetary Resources (SBR) to Standard Form ***(SF) 133***, "Report on Budget Execution and Budgetary Resources," reconciliations as part of other departmental reporting and analyses activity to support the Agency-wide submission due to OMB after the interim quarter and at fiscal year-end.

3.1.5. Additionally, the ***DoD Financial Reporting Guidance*** (CAC enabled) establishes other financial reporting requirements to assist in achieving full auditability. These financial reporting requirements and timelines are detailed within the guidance.

3.16. Chapter 10 requires the disclosure of all abnormal balances appearing on the individual note schedules or financial statement lines. These disclosures are reported in the accompanying notes to the financial statements in the third and fourth quarters of each FY. In support of the DoD Agency-wide consolidated financial statements, all Components must investigate abnormal balances and correct as required by the TFM. Further, all Components must explain material, abnormal United States Standard General Ledger (***USSGL***) account balances on the summary program-level trial balance within the Defense Departmental Reporting System-Audited Financial Statement (DDRS-AFS). They must also explain any abnormal balance that appears on the statements or notes schedule, regardless of the amount.

## 3.2 Annual Financial Statements

3.2.1. In accordance with OMB Circular A-136, the Department submits a draft of the Agency Financial Report (AFR) to OMB's Office of Federal Financial Management (OFFM) and the appropriate OMB Resource Management Office using MAX. This draft must include all sections of the Agency-wide AFR, as identified in Chapter 1, except the audit report if it is not available at that time. If the audit report is not available when the draft AFR is submitted to OMB, then a draft audit report, or a summary of the audit results, including the type of opinion anticipated and names and descriptions of material weaknesses and significant deficiencies, is to be provided to OMB as soon as it is available.

3.2.2. Each of the reporting entities identified in Chapter 1 is required to submit audited financial statements in accordance with the detailed financial statement reporting schedule contained in the DoD Financial Reporting Guidance. The final AFR must be posted to the reporting entity's public website the same day the report is submitted to OMB, the Government Accountability Office (GAO), the U.S. Department of the Treasury (Treasury), and Congress. Agencies must submit their final reports to OMB using the MAX Federal Community and to the Treasury and GAO using the contact information provided in Appendix B of OMB Circular A-136. Additionally, reporting entities must also submit their final reports to the USD(C).

## 3.3 Quality Control Reviews of Financial Statements and Notes

Each Component, along with its supporting accounting organization, must review its financial statements and notes to ensure the completeness of financial information provided by both the accounting activity and the various Component functional organizations.

## 3.4 Key Financial Statements Preparation Due Dates

The development and publication of the financial statements requires coordinated actions by entity management, the supporting accounting organization, and the audit community. Additional information regarding the key financial statement preparation milestones is in the financial statement reporting schedule in the DoD Financial Reporting Guidance.

## 4.0 MANAGEMENT REPRESENTATION LETTERS

### 4.1 Preparation and Submission

4.1.1. Auditors require management to prepare and submit an MRL for each reporting entity audited, prior to the conclusion of an audit, for the periods covered by the auditors' report. The MRL must be signed by those members of management with overall responsibility for financial and operating matters. Members of management are those that the auditor believes are responsible for and knowledgeable about, directly or through others in the organization, the matters covered by the representations. Such members of management generally include the head of the agency, the Chief Financial Officer, and any others deemed responsible for matters presented in the MRL.

4.1.2. During the audit, management makes many representations to the auditor, both oral and written, in response to specific inquiries and through the submission of the financial statements. In the MRL, management confirms the representations explicitly or implicitly given to the auditor, states and documents the continuing appropriateness of such representations, and reduces the possibility of misunderstanding concerning the matters that are the subject of the representations. Management must represent that the financial statements do, or do not, present fairly the financial position of the reporting entity in accordance with federal generally accepted accounting principles.

### 4.2 Management Representations

Management representations must include all representations that are required by generally accepted auditing standards. General representations must, however, be modified to be consistent with findings reported by the auditor. In accordance with OMB Circular A-136, management's representations may be limited to matters that are considered either individually or collectively material to the financial statements, provided management and the auditor have reached an understanding on materiality for this purpose. MRLs are due to the office performing the entity's audit prior to the conclusion of the audit. The schedules for the draft and final letters are contained in the DoD Financial Reporting Guidance. The USD(C) is responsible for submitting the final MRL to OMB.

### 4.3 Materiality

As required by OMB Circular A-136, the MRL must include a representation regarding the materiality of unrecorded financial statement adjustments aggregated by the auditors. A list of any uncorrected misstatements (in Excel format), including those audit adjustments waived at the Component level, must be attached to the MRL.

### 4.4 Date of Management Representation Letter

Generally, the date of an MRL must be the date the auditor issues the audit report on the entity's financial statements. Coordinating the two dates is essential. The due dates for the MRLs are specified in the financial statement reporting schedule in the DoD Financial Reporting

Guidance. Management must not provide auditors with pre-signed, undated letters or with predated letters. If auditors need an advance copy of the intended management letter, then auditors must include that requirement when submitting the initial request for the MRL. Active cooperation and interaction between auditors and management are expected so that the MRL reaches the auditors on the due date.

4.5 Signature Levels of Representation Letters

Signature levels for MRLs are as follows and may be handwritten or electronic.

4.5.1. The Secretary or Under Secretary of the Military Department concerned must sign an MRL in support of the audited financial statements for a Military Department's General Fund and Working Capital Fund.

4.5.2. The Director or Deputy Director of the Defense Agency concerned must sign an MRL in support of the audited financial statements for a Defense Agency.

4.5.3. The fund manager of the trust, or revolving fund concerned, must sign an MRL in support of financial statements for a trust or revolving fund managed by the Office of the Secretary of Defense or Defense Agency.

4.5.4. The head of other reporting entities not described in subparagraphs 4.5.1 through 4.5.3, but listed in Chapter 1 and pursuing a full financial audit and producing stand-alone financial statements, must sign an MRL in support of their audited financial statements.

4.5.5. The Secretary of Defense or Deputy Secretary of Defense, and the USD(C), must sign the final MRL for the DoD Agency-wide financial statements.

4.6 Referrals to the Office of the Deputy Chief Financial Officer

Auditor requests for MRLs below levels cited in paragraph 4.5 must be referred to the USD(C), Office of the Deputy Chief Financial Officer (ODCFO).

5.0 LEGAL COUNSEL RESPONSES

5.1 Inquiries of Legal Counsel

The auditor will request that entity management send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims, and assessments. Refer to the GAO ***Financial Audit Manual***, Section 1002B, Example Legal Letter Request, and subsequent revisions, for an illustrative letter of inquiry from entity management to legal counsel. Management must document in a schedule how the information contained in the legal counsel's response(s) was considered in preparing the financial statements.

5.2 Obtain Legal Representation

5.2.1. To assist the auditor in completing the review of legal matters in a timely manner, the auditor may ask management to request that legal counsel submit an interim LCR so that a preliminary evaluation of the significance of material legal matters can be made. It is the responsibility of the senior financial management official of the entity being audited to request interim or final LCRs from their General Counsel (GC). The LCRs requested from the GC of the Military Departments must include the request that the GC report matters involving both military and civilian counsel.

5.2.2. Requests for an LCR pertaining to the Agency-wide financial statements, and to any defense-wide account audited separately, such as the Military Retirement Fund, must be sent to the DoD GC. Copies of any letters prepared by the GC of the Military Departments and DoD Components must be provided to the DoD GC, Attention: Deputy General Counsel (Fiscal) (DGC(F)), and to the DoD Inspector General (IG) or other independent auditors performing the audit. In letters provided to the GC, DoD must report only cases at or above the component's materiality threshold established for that year's financial statement audit.

*5.3 Management Schedules of Information (MSIs)

5.3.1. MSIs must be reported directly to the USD(C). Components must adhere to mandatory times for submission of their respective LCRs as specified in the financial statement reporting schedule within DoD Financial Reporting Guidance and follow the applicable Agency-wide materiality threshold for that year's Agency-wide financial statement.

5.3.2. DoD Component management is ultimately responsible for the preparation and submission of the MSI that summarizes the contingencies included in the LCR prepared by General Counsel, and documents how the information was used in preparing the entity's financial statements.

5.3.3. The MSI must: (1) agree with the LCR case summaries; (2) agree with the Legal Contingent Liabilities recorded on the Balance Sheet; and (3) agree with the related note disclosures. To ensure accurate and complete financial reporting and disclosures of contingent liabilities, DoD Component management must validate that these numbers agree.

5.3.4. To establish a consistent methodology for the aggregation of similar cases during MSI preparation, DoD Components are to use these contingent legal liabilities aggregated case categories to aggregate individual matters not listed individually:

5.3.4.1. Labor and Employment Law Cases. Examples include employee grievances and workplace discrimination claims seeking monetary relief.

5.3.4.2. Tort Cases. Examples include claims for personal injury and property damage.

5.3.4.3. Contract Litigation. Examples include claims before a third-party adjudicator (court or contract appeals board) seeking monetary relief from the U.S. Government.

5.3.4.4. Environmental Cases. Examples include litigation seeking monetary damages or to compel agency action to remediate environmental damage to federal or non-federal property.

5.3.4.5. Intellectual Property Cases. Examples include copyright, trademark, and patent infringement claims.

5.3.4.6. Real Property Cases. Examples include eminent domain claims and disputes concerning the acquisition or conveyance of interests in real property.

5.3.4.7. Other Cases. Cases uncaptured in the defined categories in subparagraphs 5.3.4.1 through 5.3.4.6.

## 5.4 Preparation of Legal Counsel Responses

When preparing the LCRs, the GC must consider the guidance found in Treasury Financial Manual Volume I, Part 2, ***Chapter 4700***, Section 4745.10. Report cases and claims using the legal representation format and guidance on the U.S. Department of Justice (***DOJ***) website under the "Selected Documents & Forms." In addition to reporting the status of pending contingent liabilities, the interim LCRs must also include the cases reported in the previous year's legal representations that are no longer pending. For additional policy regarding contingent liabilities, see Volume 4, ***Chapter 12***. The final representation letter must be limited to new information (i.e., cases that arise subsequent to the interim response or changes in the status of cases that were reported in the interim response). The final response must not repeat information from the interim response that has not changed. Any subsequent changes in cases that arise after the final representation letter, but before the end of the audit fieldwork on the financial statements, must be communicated to the auditor. The required summaries of the legal letters must be submitted to the cognizant audit agency for the reporting entity, to the entity's supporting accounting activity, and to the ODCFO.

## 5.5 Determination of Legal Cases

Management must make an assessment as to whether pending, threatened litigation or unasserted claims must be reported or disclosed in the financial statements. This determination extends to cases in which legal counsel has classified the likelihood of loss as "unknown." The name and telephone number of the individual who is able to answer questions regarding the presentation of legal claims and assessments in the financial statements must also be provided. The required summaries of the legal responses must be submitted to the cognizant audit agency for the reporting entity, the entity's supporting accounting activity, and the ODCFO. DoD due dates for the interim and updated legal letters, and the associated summaries, are reflected in the financial statement reporting schedule in DoD Financial Reporting Guidance.

5.6 Summary of Legal Counsel Responses

Rather than having the cognizant auditors submit copies of the interim and updated LCRs, along with the summaries of the information contained in these responses for each reporting entity, the GAO has agreed to accept the single summary of the various LCRs prepared for submission with the Agency-wide statements. The IG and ODCFO must make the required submission to the OMB, the Treasury, the DOJ, and the GAO per the due dates in the financial statement reporting schedule contained in the DoD Financial Reporting Guidance. The IG must inform GAO, DOJ, and Treasury's Bureau of the Fiscal Service (Fiscal Service) whether there were "no changes" or "changes" due to subsequent events that resulted in a change in the likelihood of a loss, or the amount of a loss, or both, after the effective date of the final LCR, but before the date of the audit report.

6.0 GENERAL PREPARATION INSTRUCTIONS

6.1 Generally Accepted Accounting Principles

The principal statements and notes embody the generally accepted accounting principles contained in the SFFAS and SFFAC. The SFFAS and SFFAC are incorporated into the accounting policy and guidance contained in this Regulation. Preparers of financial statements seeking additional guidance must follow the hierarchy contained in Volume 1, Chapter 2.

6.2 United States Standard General Ledger

Preparers of financial statements and notes must crosswalk their unique general ledger accounts to the USSGL chart of accounts, and at a lower level of detail to include Fiscal Service's Governmentwide Treasury Account Symbol (GTAS) attributes, ***Standard Financial Information Structure*** elements, DoD's trading partner information, and other DoD-required attributes to prepare the financial statements and note schedules. DDRS-AFS must utilize the USSGL, GTAS attributes, and other DoD required attributes to populate financial statements and related note schedules.

6.3 Agreement Between Totals in Statements and Notes

DoD Components/reporting entities preparing quarterly interim and fiscal year-end financial statements, and related supporting notes and other schedules, must ensure the total figures disclosed in the supporting notes and other schedules conform to the amounts presented in the body of the financial statements. The chosen rounding level must be maintained consistently throughout the principal statements and notes. In addition, rounded totals must agree between the principal statements as applicable (e.g., ending balances from the SCNP equal the Total Net Position line on the Balance Sheet). Individual line items must sum to the totals (this may require adjusting the individual detail line items for differences created by the rounding process rather than adjusting column totals).

6.4 Comparative Data

Comparative financial statements are required. Data presented in the fiscal year-end prior year column must be identical to the amounts reported on the financial statements of the prior year. Information for the current and preceding years must be presented, regardless of the type of audit opinion rendered by the auditor. The notes must contain the information that is necessary for full disclosure of both years. Refer to Chapter 10 for additional policy regarding the notes required for the financial statements.

*6.5 Variance Analysis/Fluctuations

6.5.1. A comprehensive financial statement variance analysis report, addressing material fluctuations between comparative periods on report lines of the Balance Sheet, SNC, and selected lines of the SCNP, SBR, and supporting note schedules, is prepared each quarter for the Agency-wide financial statements. The analysis compares the current quarter year-to-date statement to the same quarter's year-to-date statement from the prior year. Additionally, the Balance Sheet analysis compares the current quarter statement to the prior year-end statement.

6.5.2. Components must provide explanations for variances exceeding component materiality thresholds. A lower variance threshold is permitted, if desired. The FAM is the authoritative guidance for the thresholds; specifically, FAM Sections 230, "Determining Materiality," and 475, "Perform Substantive Analytical Procedures." Explanations must be reviewed by senior executive leadership and include detailed analyses with references to legislation, accounting standards, policy memos, and changes in business processes. Additional analyses may be requested on special interest line items regardless of the variance amount.

6.5.2.1. Variance explanations must clearly identify the underlying root cause and include sufficient detail to accurately convey the reason for the variance. Variances caused by errors must include an estimated timeline for correction.

6.5.2.2. Complex explanations require an executive summary with an attachment that includes the detailed information.

6.5.2.3. If journal vouchers are referred to, they should be considered as an integral part of the explanation and provided with the variance analysis.

6.5.3. Components must retain variance analysis documentation. Analyses and documentation must be readily available within 17 business days after quarter end. The variance analysis may be requested sooner, particularly in the fourth quarter. Explanations affecting the Agency-wide financial statements and notes will be incorporated into the agency-wide variance analysis.

6.6 Statement Consolidation

Balance Sheet line items are required to be presented as provided in OMB Circular A-136. User judgment must be exercised for other financial statements to determine if it is appropriate to

exclude some statement line items, notes, and lines or columns in notes from the final published statements, if those lines do not apply to the reporting entity. In order to ensure consistent and accurate aggregation of amounts from suborganizations, however, such lines must not be excluded prior to the submission of the final published version. Due to the short timeframes available for statement consolidation at the agency level, preparers are not authorized to combine lines for which the referenced account balances are immaterial.

## 6.7 Disclose Material Balances

Do not designate in the notes as "other" any discrete balances of a material amount. If the individual components of the "Other" line item represent 10 percent or more of the value of the line, disclose those components separately.

## 6.8 Notes to the Financial Statements

Refer to Chapter 10 for more detailed guidance on the preparation, presentation, and numbering of notes to the principal financial statements.

## 6.9 Consistency in Reporting

Accounting policies and procedures must be applied consistently throughout the financial statements. Ensure amounts are consistently reported throughout the financial statements, notes, supplemental information, and the Management's Discussion and Analysis (MD&A) section. Also, ensure that schedules presented in the notes, in support of amounts presented on financial statements, have total figures that agree with the amounts presented in the financial statements. Financial information reported in multiple notes or other sections must be reported in a consistent manner. To the extent that information is not available for the accelerated reports, a reliable, alternative method of estimating amounts and balances must be developed and adequately disclosed.

## 6.10 Consolidated or Combined Statements

The Balance Sheet, SNC, and the SCNP principal statements must be prepared as consolidated statements, net of intra-entity transactions. The SBR must be prepared as a combined statement.

## 6.11 Rounding

DoD Agency-wide final published financial statements and notes must display dollars rounded to millions with one decimal point. All Component statements must display dollar amounts rounded to the nearest whole thousand on the final published principal statements and in the tables/schedules contained in the notes to the principal statements. Dollar amounts in note narratives must be reported with a maximum of three position integers and a single decimal value followed by an identifier, such as millions or billions (e.g., $324.1 million; not $324,100 thousand). To improve communication among preparers, reviewers, and auditors during the preparation process, and to avoid excessive workload associated with the resolution of rounding errors, all

accounting activities must report amounts as dollars and cents on all draft/working versions of the principal statements and note schedules prior to submission by the reporting entity of the final audited financial statements.

6.12 Additional Information

Reporting entities that choose to present additional financial statements or information must include these in the "Other Information" section (see Chapter 3).

6.13 Organization of the Financial Statements

The financial statements of the reporting entities will be organized as outlined in Chapter 1, Table 1-1.

6.14 Posting the Financial Statements

DoD's Agency-wide financial statements and the AFR are posted on the ***USD(C) public website***. Reporting entity managers must post their individual AFRs on their public website and provide the ODCFO with electronic links to this report by the due date specified in the financial statement reporting schedule. The files must be prepared in the Portable Document Format (PDF) type.

6.15 Responsibility for Sections of DoD Agency-wide Financial Statements

6.15.1. USD(C), DFAS, the USD (Acquisition and Sustainment) (USD(A&S)) has responsibility for various sections of the DoD Agency-wide AFR for providing information to the Fiscal Service for inclusion in the FR of the U.S. Government.

6.15.2. The USD(C) and DFAS are responsible for preparing the draft and final versions of the AFR Financial section that includes the Agency-wide financial statements, notes, and Required Supplementary Information (RSI). In addition, DFAS must ensure that the GTAS adjusted trial balances are transmitted to Fiscal Service for inclusion in the FR of the U.S. Government with a notification to the USD(C). Refer to Volume 6A, Chapter 3 for guidance on GTAS reporting.

6.15.3. The USD(A&S) is responsible for compiling the deferred maintenance and repairs information for the Required Supplementary Information. The USD(A&S) must provide this information, electronically, to USD(C) and DFAS for inclusion in the draft and final version of DoD Agency-wide AFR per the due dates in the financial statement reporting schedule.

6.15.4. The USD(C) is responsible for preparing the Agency Head Transmittal Letter required by OMB Circular A-136, and the MD&A section of the Agency-wide financial statements, and for submitting the DoD Agency-wide financial statements to OMB and the Congress.

**VOLUME 6B, CHAPTER 3: "AGENCY FINANCIAL REPORT SECTIONS"**

**SUMMARY OF MAJOR CHANGES**

All changes are denoted by blue font.

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

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

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

The previous version dated June 2024 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| 5.0 | Removed Climate-Related Risks, pursuant to Secretary of Defense Memo, "Subject: Mission Focus of the Department of Defense," dated March 17, 2025. | Deletion |

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# CHAPTER 3

# AGENCY FINANCIAL REPORT SECTIONS

## 1.0 GENERAL

### 1.1 Purpose

This chapter prescribes requirements for Department of Defense (DoD) Tier 1 consolidation entities referenced in Chapter 1, section 4.1 that must prepare and submit an Agency Financial Report (AFR) to the OUSD(C). The AFR must include the Agency Head Transmittal Letter, Management's Discussion and Analysis (MD&A), Financial Section, and Other Information (OI). OUSD(C) prepares and submits the consolidated, Agency-wide AFR and a separate Annual Performance Report (APR). Subcomponents are not required to prepare an APR. If they decide to prepare an APR, subcomponents are not required to prepare OI, but may choose to do so using the format specified in this chapter.

### 1.2 Authoritative Guidance

The primary authoritative guidance for this chapter is Title 31, United States Code (U.S.C.), Section 3515, (***31 U.S.C. § 3515***) "Financial Statements of Agencies," Federal Accounting Standards Advisory Board's (FASAB's) Statement of Federal Financial Accounting Standard ***(SFFAS) 15,*** "Management's Discussion and Analysis," and Office of Management and Budget ***(OMB) Circular A-136***, "Financial Reporting Requirements."

Other guidance include FASAB's ***(SFFAC) 3***, "Management's Discussion and Analysis," ***SFFAC 9***, "Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis."

## 2.0 AGENCY HEAD TRANSMITTAL LETTER

An agency is required to include, toward the beginning of the report, a dated transmittal letter signed by the agency head. The date on the letter must match the due date prescribed in the OMB Circular A-136 to publish the AFR. The letter must include a brief message from the agency head containing an assessment of whether financial and performance data in the report are reliable and complete and, if not, describing any material inadequacies in the completeness and reliability of the data. The transmittal letter must also describe material internal control weaknesses and corrective actions the agency is taking to resolve these weaknesses. The transmittal letter may direct the reader to a more detailed section of the AFR instead of including the discussion in the transmittal letter.

# 3.0 MANAGEMENT'S DISCUSSION AND ANALYSIS

## 3.1 Purpose

To be useful, the MD&A should be concise, easy to read to a non-technical audience, and use visual references to present summary information. The MD&A should focus on the most important matters and provide a balanced analytical assessment of key program and financial performance. The MD&A should provide management's view of actual current performance and financial results, as well as expectations about the future. The MD&A should inform the reader, at a high level, of progress toward accomplishing the entity's mission and associated strategic goals. The discussion should deal with the most important matters that would likely affect the judgments and decisions of people who rely on the AFR as a key source of information. It should address most important matters that could:

3.1.1. Lead to significant actions or proposals by senior management;

3.1.2. Be significant to the managing, budgeting, and oversight functions of Congress and the Administration; or

3.1.3. Significantly affect the judgment of stakeholders about the efficiency and effectiveness of the entity.

## 3.2 Responsibility

Management is responsible for the content of the MD&A. Its preparation should be a joint effort of the financial management office, program offices, and offices responsible for performance reporting. Management has considerable discretion in preparing and presenting the MD&A, subject to the inclusion of the required content and the requirement that the information in the MD&A is not misleading to the reader. The MD&A provides management with a forum for communicating current and future insights about the entity, that increases the understandability of financial information, and also provides information about the entity, its operations, service levels, successes, and challenges. The preparer must develop and retain adequate documentation supporting the financial, statistical, and other information presented in the MD&A section.

## 3.3 Scope

The MD&A should be regarded as "required supplementary information" as that term is used in auditing standards and is an essential part of a complete general purpose federal financial report. The MD&A may include a brief overview or executive summary explaining the MD&A. An overview section gives the reader a useful summary of what is to come. Some agencies include an overview or executive summary in the "Mission and Organizational Structure" section of the MD&A. At a minimum, the MD&A should address the entity's:

3.3.1. Mission and organizational structure;

3.3.2. Performance goals, objectives, and results;

3.3.3. Analysis of financial statements and stewardship information;

3.3.4. Analysis of systems, controls, and legal compliance;

3.3.5. Forward-looking information; and

3.3.6. Any additional information required by A-136, such as emergency funding.

3.4 Mission and Organizational Structure

The MD&A should contain a brief description of the mission(s) of the entity and describe its related organizational structure, consistent with the entity's strategic plan. The MD&A should:

3.4.1. Name the consolidation entity in a clear manner that leaves no doubt as to whether the consolidation entity is an entire organization or an activity or group of activities within an organization;

3.4.2. Identify the commercial functions (includes buying and leasing of real estate, providing insurance, making loans and loan guarantees, and other credit programs and any activity involving the provision of a service or thing for which a fee, royalty, rent, or other charge is imposed by an agency for services and things of value it provides) and the revolving, trust, and other fund accounts covered by the financial statements;

3.4.3. State the mission and major goals of the consolidation entity, including reference to the entity’s legislative mandate, if appropriate;

3.4.4. Identify the type and provide information on the numbers of individuals and/or groups served by or benefiting from the entity’s major program(s);

3.4.5. Provide indicators of the size of the major program(s) (e.g., dollars expended, population served, and the numbers of military and civilian personnel employed in carrying out the major program(s)); and

3.4.6. Describe the manner in which the consolidation entity is organized to provide the major program(s), including information related to the geographic locations of the organization (e.g., numbers of local, district, state, and regional offices).

3.5 Performance Goals, Objectives, and Results

Pursuant to the Government Performance and Results Act (GPRA) Modernization Act of 2010 ***(GPRAMA)***, the APR is the primary document for comprehensive organizational performance reporting. The MD&A presentation should minimize duplicative reporting with the APR. Therefore, the discussion of performance goals, objectives, and results in the MD&A should include only a summary of non-financial performance information to provide context for the financial information presented.

The performance discussion should help the reader assess the relative efficiency and effectiveness of programs. The MD&A should:

3.5.1. Provide a concise assessment of the entity's overall progress toward major program goals, linking goals to cost categories or responsibility segments in the Statement of Net Cost or related notes, if possible;

3.5.2. Summarize overall (e.g., consolidation entity) performance in the context of historical trends;

3.5.3. Summarize the strategies and resources the entity used to achieve its goals;

3.5.4. Summarize any significant underlying factors that may have affected the reported performance, including factors that are substantially outside the entity's control, factors over which the entity has significant control, and any anticipated or unanticipated risks;

3.5.5. Summarize plans to improve performance; and

3.5.6. Summarize the procedures management has designed and followed to provide reasonable assurance that reported performance information is relevant and reliable.

3.6 Analysis of Financial Statements and Stewardship Information

The MD&A should help users understand the entity's financial position, financial condition, and results of operations conveyed in the principal financial statements. The MD&A should include comparisons of the current year to the prior year and should provide an analysis of the agency's overall financial position, financial condition, and results of operations to assist users in assessing whether the financial position has improved or deteriorated because of the year's activities. This section should also include a discussion of key financial-related measures emphasizing financial trends and assessing financial operations. Factors to consider in identifying major changes include likely public or congressional interest in the change, historical trends in the amount, and the relative size of the change. Additionally, the MD&A should give users the benefit of management's understanding of the following:

3.6.1. Major changes in types or amounts of assets, liabilities, costs, revenues, obligations, and outlays (explaining the underlying causes of the changes);

3.6.2. Relevance of particular balances and amounts shown in the principal financial statements, particularly if relevant to important financial management issues;

3.6.3. Entity's stewardship information; and

3.6.4. In addition, the following items may be useful to include in the financial statement analysis:

3.6.4.1. Explanations for variances exceeding ten percent and are material to the agency;

3.6.4.2. Significant issues qualitative in nature and relating to financial management; and

3.6.4.3. Overall financial condition and financial management issues occurring since the previous reporting period that impact the agency's current financial status.

3.7 Analysis of Systems, Controls, and Legal Compliance

3.7.1. Agencies are required to provide assurances to the status and effectiveness of the internal controls and financial management systems that support the preparation of the financial statements. Management should provide its assurances related to the Federal Managers' Financial Integrity Act of 1982 ***(FMFIA)*** and its compliance determination required by the Federal Financial Management Improvement Act of 1996 ***(FFMIA)*** in a separate section entitled "Management Assurances." The FMFIA assurance statement should:

3.7.1.1. Provide management's assessment of the effectiveness of the organization's internal controls to support effective and efficient programmatic operations, reliable financial reporting and compliance with applicable laws and regulations, and whether the financial management systems conform to relevant financial systems requirements;

3.7.1.2. Provide a separate assessment of the effectiveness of the internal controls over financial reporting as a subset of the overall FMFIA assurance statement; and

3.7.1.3. Include a summary of material weaknesses and non-compliance, a summary of assurance, and a summary of corrective actions to resolve the material weaknesses and non-compliance. Illustrative assurance statements and further guidance on corrective action plans can be found in OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control."

3.7.2. Management should include its FFMIA compliance assessment in this section. Management is required to provide its assessment of the organization's financial management systems compliance with the federal financial management systems requirements standards promulgated by FASAB and the United States (U.S.) ***Standard General Ledger*** at the transaction level. Financial management systems include both financial and financially-related (or mixed) systems. Further guidance on the financial systems requirement can be found in OMB Circular ***A-123, Appendix D***, "Compliance with the Federal Financial Management Improvement Act of 1996."

3.7.2.1. Briefly discuss the agency's financial management systems strategy and how it will achieve the goals of improving financial and budget management agency-wide. Include an overview of the agency's current and future financial management systems framework and a synopsis of critical projects currently underway or planned to achieve the target framework, per OMB ***M-19-16***, "Centralized Mission Support Capabilities for the Federal Government;"

OMB ***M-13-09***, "Fiscal Year 2013 PortfolioStat Guidance: Strengthening Federal IT Portfolio Management;" and OMB Circular A-123, Appendix D.

3.7.2.2. For areas of FFMIA non-compliance, the agency must identify remediation activities that are planned and underway and include projected dates to achieve compliance.

3.7.3. Management should also review its FMFIA assurance statements and its FFMIA compliance determination for consistency with the findings specified in the annual financial statement audit report(s). The Office of the Inspector General (OIG) or auditor must compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report and document any material weaknesses disclosed by audit that were not reported in the agency's assurance statements. The financial audit responsibilities are established in the "Scope of the Audit" section of ***OMB Bulletin 24-01***, "Audit Requirements for Federal Financial Statements," which is updated annually. If there is a conflict between this Chapter and the annual update to OMB Bulletin 24-01, auditors must follow guidance in the annual update. The reports may be different, but they should not be in direct conflict. When conflicting discrepancies exist, it is management's responsibility to ensure that outstanding issues are reported appropriately. For material weaknesses related to an error requiring a restatement, if the agency asserted in its MD&A that it received an unmodified opinion on any previously issued financial statement, management should include a high-level discussion of the events that gave rise to the restatement, which should include the nature of the error.

## 3.8 Forward-looking Information

Forward-looking information includes information about the possible future effects of the most important existing performance and financial demands, events, conditions, and trends. Management should discuss important known and anticipated problems that need to be addressed and actions that have been planned or taken to address those problems. The actions that are needed, planned, and taken must be discussed within the sections listed in this paragraph or in a separate section of the MD&A.

## 3.9 Other Management Information, Initiatives, and Issues

Management has the discretion to include a summary in the MD&A of other information, initiatives, and issues it identifies.

## 3.10 Limitations of the Financial Statements

The MD&A should articulate the limitations of the principal financial statements. This section should state the following:

3.10.1. The principal financial statements are prepared to report the financial position, financial condition, and results of operations of the consolidation entity, pursuant to the requirements of ***31 U.S.C. § 3515 (b)***;

3.10.2. The statements are prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records; and

3.10.3. The statements should be read with the realization that they are for a Component of the U.S. Government.

## 4.0 FINANCIAL SECTION

The Financial Section of the AFR must contain the Auditor's Report, Financial Statements and Notes, and Required Supplementary Information. The financial statements are the responsibility of agency management. Although not a requirement, the consolidation entity may include a Chief Financial Officer letter summarizing planned time frames for major barriers to correct audit weaknesses and instances of non-compliance. The section should also discuss the process the entity followed in addressing previously reported audit weaknesses and instances of non-compliance. The guidance for the Financial Statements and Notes is in Chapters 4 through 10.

## 5.0 OTHER INFORMATION

The OI section of the AFR follows the Required Supplementary Information section of the statements and should contain the following, when appropriate and applicable:

### 5.1 Summary of Financial Statement Audit and Management Assurances

Executive agencies are required to prepare a Summary of Financial Statement Audit and a Summary of Management Assurances. OMB Circular A-136 requires executive agencies to include these summaries as OI or to explain how and why DoD uses an alternative method for reporting the information. The agency should list each material weakness using a unique, short, and easily understood name. These names should be kept constant, so that a weakness reported in FMFIA sections or by the auditor has the same name. To the extent possible, weakness names should also be kept constant from year to year. Significant deficiencies are not required to be reported. Refer to OMB Circular A-136 for additional guidance regarding format and content of the summary report.

### 5.2 Revenue Foregone

### 5.3 Tax Burden, Tax Gap, and Tax Expenditures

### 5.4 Management and Performance Challenges

OMB Circular A-136 states the Performance Accountability Report (PAR) or AFR must include a statement prepared by an executive agency's OIG summarizing what the OIG considers the most serious management and performance challenges facing an executive agency and briefly assessing the executive agency's progress in addressing those challenges. This statement must be

provided to the executive agency head at least 30 days before the AFR due date. The executive agency head may comment on, but not modify, the OIG statement. The executive agency head may append comments to the OIG's statement. Additional guidance is available in OMB Circular A-136, OI section.

5.5 Payment Integrity Information Act Reporting

The Act requires agencies to identify and review all programs and activities that may be susceptible to significant improper payments based on guidance from the OMB. Guidance for reporting improper payments is contained in Volume 4, Chapter 14 and OMB Circular A-136.

5.6 Other Agency-specific Statutorily Required Reports

Any reports required by statutes, not addressed in OMB Circular A-136 that pertain to financial or performance management, may be included in the AFR or PAR after consultation with OMB and Congress. The head of the agency must determine if inclusion of an agency-specific report will make the reported information more useful to decision makers. Consultation with Congress includes the Committee on Homeland Security and Governmental Affairs of the Senate, the Committee on Oversight and Reform of the House of Representatives, and any other committee of Congress having jurisdiction over the report being proposed for consolidation.

5.7 Civil Monetary Penalty Adjustment for Inflation

Under the ***Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015,*** agencies must make annual inflation adjustments to civil monetary penalties and report on the adjustments in their AFR or PAR. Agencies are encouraged to include the illustrative table below and referenced in OMB Circular A-136.

| **Statutory Authority** | **Penalty Name & Description** | **Year Enacted** | **Latest year of adjustment (via statute or regulation)** | **Current Penalty (Dollar Amount or Range)** | **Bureau Name** | **Location for Penalty Update Details** |
|---|---|---|---|---|---|---|
| XX U.S.C. XXX; XX CFR XXX.XXX [Insert statutory and regulatory citations.] | XYZ Act: Violation of [Specify statutory requirements that are subject to penalty.] | | 2022 | Minimum: $X Maximum: $X | | [Insert Federal Register citation(s) and hyperlink (s).] |

5.8 Biennial Review of User Fees

Under ***31 U.S.C. § 902***, Chief Financial Officers are required to review on a biennial basis fees, royalties, rents and other charges imposed by the agency for services and things of value it provides and to make recommendations on revising those charges. The results of this review may be included in the AFR or PAR. See ***OMB Circular A-25***, User Charges, for more information.

5.9 Grant Programs

To promote the efficient administration of grants programs, significant consolidation entities with Federal grants programs must submit a brief high-level summary of expired, but not closed, Federal grants and cooperative agreements (awards), including:

5.9.1. A summary table (as shown below) of the total number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2022 (i.e., on or before September 30, 2020).

| CATEGORY | 2-3 Years | 4-5 Years | More than 5 Years |
|---|---|---|---|
| Number of Grants/Cooperative Agreements with Zero Dollar Balances | | | |
| Number of Grants/Cooperative Agreements with Undisbursed Balances | | | |
| Total Amount of Undisbursed Balances | | | |

5.9.2. A brief narrative of the progress made over the past year compared to the previous year's report, challenges preventing closeout of awards reported, and actions to be taken to close awards reported.

5.10 Agency Audit Resolution Reports

Entities required to produce reports from the Agency Head under ***5 U.S.C.***, Appendix 3, section 5(b) may include such reports in the AFR as provided by the Reports Consolidation Act (***31 U.S.C. § 3516***). Such entities are encouraged to do so if the AFR is the usual method for publishing the reports.

In addition, entities that provide a separate report to Congress under 5 U.S.C., Appendix 3, section 5(b) may include a summary of agency audit resolution in the AFR or PAR (either in the MD&A or as Other Information).

**VOLUME 6B, CHAPTER 4: "BALANCE SHEET"**

**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

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

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

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

The previous version dated April 2019 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| All | Administrative updates in accordance with the Department of Defense Financial Management Regulation Revision Standard Operating Procedures. | Revision |
| All | Changed the term "reporting entity" to "consolidation entity." | Revision |
| 1.2 | Updated the Purpose section with internal Department of Defense sources. | Revision |
| 1.3 | Updated the Authoritative Guidance section. | Revision |
| 2.0 | Added clarifying language on the format for the Balance Sheet. | Addition |
| 3.1.1 | Added a definition for Assets. | Addition |
| 3.2, 3.4, and 3.6 (previous version)/ 3.1.4, 3.2.9, 3.3.2 | Removed the Balance Sheet line-item instructions and referred the reader to access the current reporting requirements in the Office of Management and Budget Circular A-136. | Deletion/ Addition |
| 3.2.3.2 | Clarified narrative regarding Liabilities Not Covered by Budgetary Resources. | Revision |
| Figure 4-1 (previous version) | Deleted Figure 4-1 to streamline the chapter. | Deletion |

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# CHAPTER 4

# BALANCE SHEET

## 1.0 GENERAL

### 1.1 Overview

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

### *1.2 Purpose

This chapter presents the form and content of the DoD Balance Sheet. It identifies general requirements for each asset, liability, and net position reported on the Balance Sheet. For detailed accounting policy, see the individual asset and liability chapters published in Volume 4. Refer to Chapter 10 for required footnote disclosures to the financial statements. For detailed information regarding schedules/timelines and/or specific notes, see the ***DoD Financial Reporting Guidance*** and Chapter 10. Additionally, the ***Standard Financial Information Structure*** supports requirements for budgeting, financial accounting, cost/performance, and external reporting needs

### *1.3 Authoritative Guidance

The financial management policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. Office of Management and Budget ***(OMB) Circular A-136***, "Financial Reporting Requirements;" and

1.3.2. The U.S. Department of the Treasury (Treasury) ***USSGL***, a supplement of the Treasury Financial Manual

## *2.0 BALANCE SHEET FORMAT

### 2.1 General Information

The Balance Sheet should present summary information necessary to make the statement most useful to readers. Where substantial detail is required to properly explain specific line items,

present the detail in the notes. See OMB Circular A-136 and Chapter 10 for additional instructions regarding the preparation and presentation of notes for each specific line item on the Balance Sheet. Individual statement crosswalks are prepared using the Treasury USSGL. The crosswalk for each line of the Balance Sheet is incorporated into the Defense Departmental Reporting System (DDRS) Audited Financial Statements ***(AFS)*** and can be accessed with proper authorization by selecting "Query" from the main DDRS AFS menu, then selecting the option "Referential Data" and option "Report Map."

## 2.2 Format for the Draft Version of the Balance Sheet

The Balance Sheet will be prepared in accordance with the format presented in OMB Circular A-136. The draft versions of all statements and notes must include line numbers as shown in OMB Circular A-136. All amounts are in dollars and cents in the draft versions of the statements and notes in order to facilitate communication among the preparers, reviewers, and auditors during the financial statement preparation process. This process minimizes the additional time and workload required to round and reconcile dollar amounts.

## 2.3 Materiality Amounts

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

## 2.4 Format for the Final Published Balance Sheet

The final (year-end) DoD-wide consolidated Balance Sheet and notes will display dollars rounded to millions with one decimal point. All DoD consolidation entity Balance Sheets and notes must display dollar amounts rounded to the nearest whole thousand. Dollar amounts in note narratives must be reported with a maximum of three position integers and a single decimal value followed by an identifier, such as millions or billions (e.g., $340.1 million). Foreign currency account balances reported on the Balance Sheet must be translated into U.S. dollars at exchange rates determined by the Treasury and which are effective at the financial reporting date. Additionally, the Balance Sheet will use pre-closing balances for all amounts

# 3.0 GENERAL INSTRUCTIONS FOR PREPARATION OF THE BALANCE SHEET

## 3.1 General Instructions for the Assets Section

* 3.1.1. Assets. Assets are items owned by the federal government that have probable (more likely than not) economic benefits that can be obtained or controlled by a Federal Government entity (see Volume 4, Chapter 1). The Balance Sheet must include both entity assets and nonentity assets, described further in ***SFFAS 1***, "Accounting for Selected Assets and Liabilities." (Note: Clearing and suspense accounts are considered entity assets).

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

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

* 3.1.4. Refer to OMB Circular A-136 for Line-Item Instructions for the Assets Section.

3.2 General Instructions for the Liabilities Section

3.2.1. Liability. A liability is a probable future outflow or other sacrifice of resources resulting from past transactions or events. Financial statements must recognize probable and measurable future outflows or other sacrifices of resources arising from:

3.2.1.1. Past exchange transactions;

3.2.1.2. Government-related events;

3.2.1.3. Government-acknowledged events; and

3.2.1.4. Nonexchange transactions that are unpaid amounts due as of the reporting date.

3.2.2. Liability Recognition.

3.2.2.1. ***SFFAS 5***, "Accounting for Liabilities of The Federal Government," describes the general principles governing the recognition of a liability. The concept of liability includes not only those liabilities that routinely recur in normal operations and are due within a fiscal year (e.g., accounts payable, as outlined in SFFAS 1) but also contingent liabilities resulting from an existing condition that involves uncertainty as to possible loss.

3.2.2.2. DoD consolidation entities must recognize liabilities resulting from normal operations when they are incurred, regardless of whether they are covered by available budgetary resources. This requirement includes liabilities related to appropriations canceled under "M" account legislation included in ***Title 31, United States Code, section 1552***, "Procedure for Appropriation Accounts Available for Definite Periods."

3.2.3. Liabilities Covered, Not Covered by, and Not Requiring Budgetary Resources. Liabilities covered by budgetary resources, liabilities not covered by budgetary resources, and liabilities not requiring budgetary resources are combined on the Balance Sheet. For example, intragovernmental accounts payable covered by budgetary resources and intragovernmental accounts payable not covered by budgetary resources are combined and reported as a single intragovernmental accounts payable line item on the Balance Sheet.

3.2.3.1. Liabilities Covered by Budgetary Resources

3.2.3.1.1. Liabilities Covered by Budgetary Resources are liabilities incurred that are covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. ***OMB Circular A-11*** identifies amounts included as available budgetary resources.

3.2.3.1.2. Liabilities are considered covered by budgetary resources when they are funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the Balance Sheet date. The resources must be apportioned by OMB without further action by Congress and without a contingency having to be met first. Custodial liabilities are covered by the assets that are collected and held for eventual transfer to other entities.

* 3.2.3.2. Liabilities Not Covered by Budgetary Resources. This category is for liabilities not covered by budgetary resources that will require budgetary resources.

3.2.3.3. Liabilities Not Requiring Budgetary Resources. This category is for liabilities that have not in the past required and will not in the future require the use of budgetary resources.

3.2.4. Current Liability. A current liability is an amount that is due to be paid within 12 months of the Balance Sheet date. Current liabilities must be disclosed separately from noncurrent liabilities in the notes to the financial statements.

3.2.5. Noncurrent Liability. A noncurrent liability is an amount that is due to be paid beyond 12 months of the Balance Sheet date and will be disclosed separately from current liabilities in the notes to the financial statements.

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

3.2.7. Intragovernmental Liabilities. Intragovernmental liabilities arise from transactions within or between federal entities. Intragovernmental liabilities are claims against a DoD consolidation entity by other federal entities. DoD consolidation entities must report intragovernmental liabilities separately from nonfederal liabilities, including government-

sponsored enterprises and the Federal Reserve System, on the Balance Sheet. Classify liabilities with the Foreign Military Sales Trust Fund as intragovernmental.

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

* 3.2.9. Refer to OMB Circular A-136 for Line-Item Instructions for the Liabilities Section.

3.3 General Instructions for the Net Position Section

3.3.1. Net Position is comprised of unexpended appropriations and cumulative results of operations, including those attributable to funds from dedicated collections. Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. ***SFFAS 27***, "Identifying and Reporting Funds from Dedicated Collections," as amended by ***SFFAS 43***, "Funds from Dedicated Collections: Amending Statement of Federal Financial Standards 27, Identifying and Reporting Earmarked Funds," requires disclosure of all funds from dedicated collections for which the consolidation entity has program management responsibility. A crosswalk from the consolidated to combined net position amounts is included in the notes as a disclosure to the Balance Sheet.

* 3.3.2. Refer to OMB Circular A-136 for Line-Item Instructions for the Net Position Section.

**VOLUME 6B, CHAPTER 5: "STATEMENT OF NET COST"**

**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

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

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

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

The previous version dated January 2020 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| All | Removed figures and streamlined for improved readability. | Revision |
| All | Streamlined language to align with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. | Revision |
| 2.2 | Revised sentences to clarify the definition. | Revision |

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# CHAPTER 5

# STATEMENT OF NET COST

## 1.0 GENERAL

### 1.1 Overview

The Statement of Net Cost (SNC) is designed to show separately the components of the net cost of the consolidating entity's operations for the reporting period. The net cost of operations is the gross cost incurred by the entity less any exchange revenue earned from its activities.

### 1.2 Purpose

This chapter prescribes the policy for preparing the DoD SNC. Additionally, this chapter provides standard formats for the published and working versions of the SNC.

### 1.3 Authoritative Guidance

The concept of exchange revenue incorporated throughout this chapter is described in the Statement of Federal Financial Accounting Standards ***(SFFAS) 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;" Office of Management and Budget ***(OMB) Circular A-136***, "Financial Reporting Requirements," and Treasury Financial Manual, Volume 1, Part 2, Chapter 4700, (***1 TFM 2-4700***) "Federal Entity Reporting Requirements for the Financial Report of the United States Government." Annual updates to OMB Circular A-136 are on the ***OMB*** website.

## *2.0 SNC PRESENTATION

According to OMB A-136, the SNC should present the net cost of operations by major programs. The federal entity should define the major program and the entity should group together the programs that are not deemed "major".

### 2.1 Major Programs.

2.1.1. The DoD SNC presents major programs based on:

2.1.1.1. Metrics and outcomes described in the entity's strategic and performance plans, as required by the Government Performance and Results Act of 1993 (***GPRA***), as amended by the GPRA Modernization Act of 2010 (***GPRAMA***);

2.1.1.2. Entity's budget structure;

2.1.1.3. Guidance for defining and structuring responsibility segments presented in SFFAS 4; and

2.1.1.4. Requirements of the GPRAMA.

2.1.2. When data is available at the program element level, consolidating entities may provide information as a supplemental schedule in the note to the SNC or in "Other Information." The SNC and related supporting schedules must show the net cost of operations for the entity as a whole and its sub-entities and program elements, as applicable. In the consolidated SNC, DoD identifies Components by the entities described in Chapter 1. The Components may further break out the consolidated SNC and provide any additional supporting schedules in the notes to the financial statements.

*2.2 Components of SNC

2.2.1. Net Program Costs. Net program costs are the gross program costs incurred by the consolidating entity, plus losses (gains) from actuarial assumption changes for military retirement or other postemployment benefits, less any exchange program revenue earned from its activities. This amount represents the net cost of a sub-organization or entity funded by sources other than exchange revenues. The gross cost of a program consists of the full cost of the outputs produced by that program, as defined by ***SFFAS 4***, "Managerial Cost Accounting Standards and Concepts," plus any nonproduction costs that are assignable to the program. Nonproduction costs are costs linked to events other than the production of goods and services. Refer to Chapter 10 for disclosure requirements in the notes to the financial statements.

2.2.2. Imputed Costs. SFFAS 4 requires consolidating entities to measure and report the full costs of their outputs (products and services) in financial reports. Imputed costs and financing sources included in the SNC must be identifiable to a specific trading partner. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services through either billing or other advice. SFFAS 4 identifies inter-entity costs that are not fully reimbursed. See SFFAS 4 for additional information.

2.2.2.1. Inter-Entity Imputed Costs. Inter-entity imputed costs represent costs that are paid in total or in part by entities external to DoD. Costs displayed on the SNC include certain imputed costs as directed by OMB. All federal agencies are required to report imputed costs for the gross program cost categories described in OMB Circular A-136 to ensure consistency in reporting across the Government. ***SFFAS 55***, "Amending Inter-entity Cost Provisions," requires the recognition of significant inter-entity costs by business-type activities. Additional guidance on inter-entity costs is available in Federal Accounting Standards Advisory Board ***Technical Release 19***, "Rescission of Technical Release 8." Disclose intragovernmental full costs and earned revenues, and public costs and earned revenues, in the notes to the financial statements.

2.2.2.2. Intra-Entity Imputed Costs. Intra-entity imputed costs represent costs that are paid in total or in part by other entities within DoD. Costs displayed on the SNC include intra-entity imputed costs as required by SFFAS 4. Imputed intra-entity cost is the unreimbursed portion of the full costs of goods and services received by the entity from a providing entity that is part of the same entity or larger entity (i.e. other bureaus, components, or responsibility segments within the entity or larger entity). An example of an intra-entity imputed cost would be a DoD tenant receiving rent-free business space from another DoD entity. Volume 4, Chapter 19 provides additional detail on intra-entity costs. DoD consolidating entities should report the following intra-entity imputed costs:

2.2.2.2.1. Imputed Costs for Military Pension Expense. DoD consolidating entities will recognize an imputed cost that is equal to the reported employer entity pension expense for the accounting period, as computed using factors provided by the OUSD (Personnel and Readiness) (P&R), less any accounting period contributions by the Military Departments to the Military Retirement Fund. Report administrative entity expenses only in the Military Retirement Fund audited financial statements.

2.2.2.2.2. Imputed Costs for Military Health Benefits. DoD consolidating entities will recognize imputed costs equal to the employer entity expense for the military health benefits that is attributable to the Military Department (as computed using factors provided by the OUSD(P&R)) for the accounting period. The administrative entity for the military health benefits is the OUSD(P&R). DoD consolidating entities should report the administrative entity's actual expenses only in the Medicare-Eligible Retiree Health Care Fund, Defense Health Agency, and Other Defense Organizations-General Funds financial statements.

2.2.2.2.3. DoD management, in accordance with the full cost provision of SFFAS 4, determines how intragovernmental costs incurred within DoD will be assigned, allocated, or imputed for purposes of accounting for the full cost of a program and its output(s). As a result, recognition of intra-entity imputed costs is not limited to specific cost categories as in the case of inter-entity imputed costs.

2.2.3. Gains or Losses. ***SFFAS 33***, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates," requires entities reporting gains and losses associated with changes in long-term assumptions for civilian and military employee pensions, other retirement benefits, other postemployment benefits, including veterans' compensation as a separate line item on the SNC.

*3.0 Line Item

The Department of the Treasury provides a ***United States Standard General Ledger*** crosswalk detailing the accounts and attributes included in each line item of the SNC. DFAS ensures the Defense Departmental Reporting System (DDRS), Audited Financial Statements is updated with all crosswalk changes made by the Department of the Treasury.

3.1 Program Costs.

This line includes the full costs of each program's outcome. It consists of both direct and indirect costs of the output and the costs of identifiable supporting services provided by other segments within the entity and by other consolidating entities. To the extent accounting systems and defined DoD business rules allow, the consolidating entity will accumulate and assign costs using the costing methodology stated in SFFAS 4. Program costs also include any nonproduction costs that can be assigned to the program but not to its outputs. Report costs related to the production of outputs separately from nonproduction costs that cannot be traced to the production of outputs. The costs of program outputs include costs of services provided by other entities even if the costs are fully reimbursed.

3.1.1. Recognize the cost of Stewardship Property, Plant, and Equipment as a cost in the SNC in the period it is incurred, report separately from other nonproduction costs, and disclose in the notes to the financial statements. Refer to OMB Circular A-136 for additional information. The entity that received the funds reports these costs and separately discloses them in the notes to the financial statements. Refer to Volume 4, Chapter 28, for additional information on "heritage assets, multi-use heritage assets, and stewardship land" and ***SFFAS 29***, "Heritage Assets and Stewardship Land."

3.1.2. Gross Costs. This line contains costs that arise from the purchase of goods or services. The Gross Costs should include elimination of the effects of intra-entity and inter-entity business transactions in the consolidating entity's statements.

3.1.3. Earned Revenue. This line contains exchange revenues that arise when a federal entity provides goods and services to the public or another government entity for a price. Report the full amount of exchange revenue on the SNC or supplementary schedule regardless of whether the entity is permitted to retain the revenue in whole or in part. Earned revenue must be deducted from the full cost of outputs or outcomes to determine their net cost unless it is not practical or reasonably possible to do so. it is not practical or reasonable to do so, DoD must deduct earned revenue from the gross cost of programs to determine the net program costs or deduct earned revenue from the costs of sub-organizations to determine the sub-organizations' net cost of operations. Refer to OMB Circular A-136 for additional guidance for assigning earned revenue to outputs, outcomes, programs, or sub-organizations.

3.1.4. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits. This line contains gains and losses from changes in long-term assumptions used to measure military retirement benefits (i.e., Military Retirement Fund and Medicare-Eligible Retiree Health Care Fund).

3.2 Net Cost of Operations.

This line is the gross cost incurred by the consolidating entity less any exchange revenue earned from its activities. This amount represents the net cost of a sub-organization or entity that must be financed by sources other than exchange revenues. DoD must report the financing sources required to fund the "Net Cost of Operations" on the Statement of Changes in Net Position.

**VOLUME 6B, CHAPTER 6: "STATEMENT OF CHANGES IN NET POSITION"**

**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

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

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

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

The previous version dated November 2019 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| 2.0 | Added clarifying language on the format for the Statement of Changes in Net Position (SCNP). | Addition |
| 3.1 | Revised the selection criteria to produce the SCNP in the Defense Departmental Reporting System. | Revision |
| 3.2 (Previous version)/ 2.0 and 3.1 | Removed the SCNP line-item instructions to streamline chapter and referred the reader in section 2.0 and paragraph 3.1 to follow the current reporting requirements in Office of Management and Budget (OMB) Circular A-136. | Deletion/ Addition |
| 3.3 | Added clarifying language on the review, disclosure, and notification of prior period adjustments. | Addition |
| Figure 6-1 (Previous version)/ 2.0 and 3.1 | Removed Figure 6-1 and referred the reader in section 2.0 and paragraph 3.1 to follow the current reporting requirements in OMB Circular A-136. | Deletion/ Addition |

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# CHAPTER 6

# STATEMENT OF CHANGES IN NET POSITION

## 1.0 GENERAL

### 1.1 Purpose

This chapter prescribes the policy surrounding the preparation of the Department of Defense (DoD) Statement of Changes in Net Position (SCNP). It provides details for the formatting required for the SCNP and instructions for preparing the Unexpended Appropriations and Cumulative Results of Operations sections thereof.

### 1.2 Authoritative Guidance

The requirements of this chapter apply to Tier 1 reporting entities referenced in Chapter 1, section 4.0. The SCNP reports the change in net position during the reporting period. Guidance from Office of Management and Budget (OMB) ***Circular A-136***, "Financial Reporting Requirements," and Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700 ***(TFM 2-4700)***, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," is incorporated throughout this chapter. Annual updates to OMB Circular A-136 are on the OMB website.

## *2.0 FORMAT FOR THE SCNP

### 2.1 General Information

The SCNP reports the change in net position during the reporting period. The net position is affected by changes to its two components: Unexpended Appropriations and Cumulative Results of Operations. The SCNP format displays both components of net position separately to enable the user to understand better the nature of changes to net position as a whole. Included in the Cumulative Results of Operations is a separate line item for non-exchange revenue, but since this revenue is not from business-like operations it will not impact the net cost of operations.

### 2.2 Format for the SCNP

The SCNP will be prepared in accordance with the format presented in OMB Circular A-136. The draft versions of all statements and notes must include line numbers as shown in OMB Circular A-136. All amounts are in dollars and cents in the draft versions of the statements and notes in order to facilitate communication among the preparers, reviewers, and auditors during the financial statements preparation process. This process minimizes the additional time and workload required to round and reconcile dollar amounts.

2.3 Format for the Final Published SCNP

The final (year-end) published DoD principal statements including the SCNP, and notes to the principal statements display dollars rounded to millions with one decimal point. All Component statements, and notes to the statements, display dollar amounts rounded to the nearest thousand on the final published principal statements and in the tables/schedules contained in the notes to the principal statements. Dollar amounts in note narratives must be reported with a maximum of three position integers and a single decimal value followed by an identifier, such as millions or billions (e.g., $340.1 million, not $340,100 thousand). The line numbers shown in OMB Circular A-136 are for reference purposes only. Line number references are not included on the final published statements.

3.0 GENERAL INSTRUCTIONS FOR THE PREPARATION OF THE SCNP

*3.1 Preparation

The SCNP is prepared from information utilizing Department of the Treasury (Treasury) United States Standard General Ledger (USSGL) accounts and crosswalks. System users can access crosswalk information within the USSGL section of the ***TFM*** for current fiscal year reporting. The crosswalk for each line of the SCNP is included in the Defense Departmental Reporting System - Audited Financial Statements ***(DDRS-AFS)***. Authorized DDRS users may access the most current mapping of the SCNP by selecting "Query" from the main DDRS-AFS menu, then selecting "Referential Data," and then "NP" under one of the "Report Map" options. The "Report Map Current" represents the current year's column mapping, while the "Report Map Comparative" is for the comparative year's column mapping. Both columns are necessary for the statement mapping. SCNP must be prepared in accordance with OMB Circular A-136. Refer to OMB Circular A-136 for reporting requirements and line-item instructions.

3.2 Dedicated Collections

3.2.1. Generally, funds from dedicated collections are financed by specifically identified revenues provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute for designated benefits, activities, or purposes, and must be reported separately from the Federal government's general revenues. The Statement of Federal Financial Accounting Standards ***(SFFAS) 43***, "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds," contains the complete definition and criteria for dedicated collections. Report the portions of Cumulative Results of Operations and Unexpended Appropriations attributable to dedicated collections in Note 18, "Funds from Dedicated Collections," of the notes to the financial statements.

3.2.2. Resources from "Funds from Dedicated Collections" derived from trust or special fund receipts are often commingled or mixed with resources from the General Fund of the U.S. Government. If the predominant source of a mixed fund is "Funds from Dedicated Collections," the entire fund may be reported in the financial statements as "Funds from Dedicated Collections."

Whether a mixed fund is reported as "Funds from Dedicated Collections" depends upon the predominant use of the fund and whether the fund as a whole meets the definition of "Funds from Dedicated Collections" in SFFAS 43.

*3.3 Prior Period Adjustments

A prior period adjustment is an adjustment to balances of a prior period due to a change in accounting principle or correction of a material error (or an aggregation of errors). Prior period adjustments for correction of material errors require the restatement of prior period balances, while adjustments for changes in accounting principles generally do not. Immaterial errors must be corrected in the period discovered, using the accounts that would have been posted had the transactions occurred in the current period. For additional guidance, refer to ***SFFAS 21***, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources," and the ***Prior-Period and Prior-Year Adjustment Scenarios***.

3.3.1. Requests for Prior Period Adjustments. Prior period adjustments will be included in the quarterly financial statements in accordance with the guidance found in Section 405 of the DoD Financial Reporting Guidance, hereafter referred to as "***DoD FRG***." Components should not record prior period adjustments in USSGL accounts without prior review from the Defense Finance and Accounting Service (DFAS) Financial Reporting-Audited Financial Statements (FR-AFS) Directorate and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Management and Policy Reporting (FMPR) Directorate. Forward all requests for prior period adjustments to DFAS FR-AFS Directorate, accompanied by prior period adjustment packages with required supporting documentation, as outlined in the DoD FRG.

3.3.2. Calculating Materiality. Calculate materiality separately at the DoD reporting entity level, and against a materiality base. If the misstatement involves assets, then the materiality base should be total assets. If the misstatement involves liabilities, then the materiality base should be total liabilities. If the misstatement involves expenses, then the materiality base should be total expenses. Calculate the materiality base net of intragovernmental balances. For DoD reporting entities, an error (or aggregate of errors) is material when it equals or exceeds one percent of the materiality base. See the DoD FRG for additional information.

3.3.3. Disclosure of Prior Period Adjustments. Prior period adjustments that require restatements are included in Note 28, "Restatements," which can be reported in any quarter during the year. Note disclosures to the principal financial statements are explained in Chapter 10. Disclosures include the nature of the errors and the effect on relevant balances in the current period. Financial statements of subsequent periods need not repeat the full disclosures but should disclose whether there are prior period adjustments not reflected in comparative balances. A note disclosure is required when management becomes aware of a potential misstatement due to material error(s) whether or not the exact amount is known or has been corrected at the time financial statements are prepared. Disclose the nature of a prior period adjustment as the result of a change in accounting principle in accordance with the guidance found in Chapter 10, Note 20, "Disclosures Related to the Statement of Changes in Net Position."

3.3.4. Management's Responsibility and Notification of Auditors. Upon discovery that material errors escaped detection and were included in the published audited financial statements, management must assume responsibility for any false or misleading information in the financial statements, or omissions that render information or disclosures made in the financial statements misleading. As soon as possible after the detection of an error, management must notify their auditors and the primary users of their financial statements of the error and management's plans to correct it in the financial statements. Components with prior period adjustments will immediately notify the DFAS FR-AFS Directorate and OUSD(C) FMPR Directorate of the material error. The Office of the Secretary of Defense will make the formal notification to the Congress, OMB, Treasury, and the Government Accountability Office. The notification should include the cause of the error, an estimated dollar amount of the error, and whether a previously issued financial statement(s) will or may be restated. The general public can see the revised statements on the Office of the Under Secretary of Defense ***(Comptroller)*** website. The misstated financial statements will be removed from the website.

3.3.5. Auditor's Responsibility. If a "Subsequent Discovery of Facts" exists on the date of the auditor's report, the auditors will determine whether action is required to prevent future reliance on the published audit report. The auditors may determine if revised financial statements and a revised auditor's report are required. The auditors may decide to change the audit opinion if it is determined that subsequently discovered information is not reliable. Therefore, it is imperative management work with their auditor as soon as possible after the detection of an error and assist in any actions to resolve the audit finding.

## VOLUME 6B, CHAPTER 7: "STATEMENT OF BUDGETARY RESOURCES"

## SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by blue font.

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

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

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

The previous version dated May 2019 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| All | Administrative updates in accordance with the Department of Defense Financial Management Regulation Revision Standard Operating Procedures. | Revision |
| 2.0 | Added clarifying language on the format for the Statement of Budgetary Resources (SBR). | Addition |
| 3.2 (previous version)/ 3.0.8 | Removed the SBR line-item instructions to streamline the chapter and referred the reader to access the current reporting requirements in Office of Management and Budget (OMB) Circular A-11 and Circular A-136. | Deletion/ Addition |
| Figure 7-1 & Figure 7-2 (previous version) | Deleted the respective figures used to report budget execution data on the SBR. | Deletion |

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# CHAPTER 7

# STATEMENT OF BUDGETARY RESOURCES

## 1.0 GENERAL

### 1.1 Purpose

This chapter prescribes the preparation policy for the Department of Defense (DoD) Statement of Budgetary Resources (SBR). It provides formatting details for various versions of the SBR and preparation instructions for the SBR subsections of Budgetary resources, Status of budgetary resources, and Outlays, net.

### 1.2 Authoritative Guidance

Guidance from Office of Management and Budget (OMB) Circular ***A-11***, "Preparation, Submission, and Execution of the Budget," and OMB Circular ***A-136***, "Financial Reporting Requirements," is incorporated throughout the chapter.

## *2.0 FORMAT FOR THE SBR

### 2.1 Format for the Draft Version of the SBR

Align the SBR with the ***Standard Form (SF) 133***, Report on Budget Execution and Budgetary Resources, using the guidance published in Section 130 of OMB Circular A-11. Prepare the SBR at the DoD Component level and summarize the individual appropriation account level SF 133s. Add a column for the Non-Budgetary Credit Financing Account for the draft version of the combined SBR. See OMB Circular A-136, section II.3.5.4, "Illustrative Statement of Budgetary Resources," for an example. Minimize the additional time and workload required to round and reconcile dollar by stating all amounts in dollars and cents in the statement and notes working versions.

2.1.1. Distinguish between budgetary and non-budgetary credit reform financing accounts and identify net outlays of specific distributed offsetting receipt values, as required by OMB Circular A-136. Reserve the SBR "Non-Budgetary Credit Reform Financing Account" for reporting United States Standard General Ledger (USSGL) account balances from the post-1991 direct loan financing and loan guarantee entries included in OMB Circular A-11, section 185.11. OMB Circular A-11, section 185.11 includes data descriptions for schedules reporting financing and loan guarantee balances. The SBR, the SF 133 budget execution, and the Budget of the U.S. Government information must be reconciled to ensure the integrity of the numbers presented.

2.1.2. Submit USSGL-based trial balances through the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (***GTAS***) to produce the SF 133, the prior year (PY) column of the Program and Financing Schedule (Schedule P) of the Budget of the U.S. Government, and the SBR. The ***DoD Financial Reporting Guidance*** and OMB Circular A-136 provide instructions for reconciling SF 133 data submitted through GTAS to the SBR.

2.1.2.1. Use the Bureau of the Fiscal Service (Fiscal Service) "Treasury Financial Manual (***TFM***), ***Federal Account Symbols and Titles (FAST) Book***" to identify receipt, appropriation, and other fund account symbols and titles assigned by the Department of the Treasury. The FAST Book includes non-budgetary financing and loan guarantee accounts.

2.1.2.2. Disclose non-budgetary financing and loan guarantee accounts as Other Information, Executive Office of the President Accounts. Refer to the FAST Book for a listing of non-budgetary financing and loan guarantee accounts.

2.2 Format for the Final Published SBR

Display dollars rounded to millions with one decimal point in the final (year-end) published DoD principal statements and notes. Display dollars rounded to the nearest thousand in the Component final (year-end) published principal statements and notes' tables/schedules. Report dollar amounts in note narratives with a maximum of three position integers and a single decimal value followed by an identifier, such as millions or billions (e.g., $340.1 million, not $340,100 thousand). Use the line numbers on the draft versions of all statements for reference purposes only. Line number references are not included in the final published statements.

2.3 Note Disclosure

Explain material differences between amounts reported on the financial statements and budgetary reports in footnotes as described in Chapter 10. These material disclosures are consistent with the reconciliation requirements for the SBR, GTAS, and other budgetary reporting. The Component and auditor will discuss any material changes to budgetary information after the publication of the audited SBR to determine whether a restatement or note disclosure is necessary. Disclose material differences between comparable information contained in the SBR and the Budget of the U.S. Government at the Agency-wide level in footnotes as described in Chapter 10. See Section 405 of the DoD Financial Reporting Guidance for DoD materiality thresholds.

3.0 GENERAL INSTRUCTIONS FOR THE PREPARATION OF THE SBR

3.0.1. Reconcile information on the SBR with budget execution information reported on GTAS submissions and in the Budget of the U.S. Government. Prepare the SBR from the USSGL information based on Fiscal Service ***USSGL*** accounts and crosswalks. The Fiscal Service website contains USSGL information and crosswalks for the SBR. The Defense Departmental Reporting System Audited Financial Statements (***DDRS-AFS***) includes the crosswalk logic from the trial balance to each line of the SBR. Authorized users can access report crosswalks in DDRS-AFS by selecting "Query" and "Referential Data" from the main DDRS-AFS menu and selecting a report under one of the "Report Map" options. For DoD, the ***DoD Standard Reporting Chart of Accounts*** identifies and defines approved general ledger accounts in accordance with the Standard Financial Information Structure.

3.0.2. Due to timing differences, subsequent material or non-material changes may be made to budgetary information included in the Budget of the U.S. Government after the SBR has

been published. Make all subsequent changes in OMB's MAX A-11 Data Entry System and in GTAS during the September revision period.

3.0.3. The agencies and their auditors will discuss any material changes to budgetary information after the publication of the audited SBR to determine if restatement or note disclosure is necessary. At a minimum, disclose any material difference between comparable information contained in the SBR and the Budget of the U.S. Government in footnotes as described in Chapter 10.

3.0.4. Disaggregate budgetary information for each of the reporting entity's major budget accounts. Present the disaggregated budgetary information as Required Supplementary Information (RSI), as described in Chapter 12. Recognize and measure budgetary information in the SBR according to OMB Circular A-11 ***Appendix F***, "Format of SF 132, SF 133, Schedule P. ***OMB Bulletin 24-01***, "Audit Requirements for Federal Financial Statements," provides additional guidance by identifying the minimum requirements for audits of Federal financial statements.

3.0.5. OMB Circular A-136 requires a combined SBR (intragovernmental transactions are not eliminated), consistent with the aggregate of the account level information presented on GTAS submissions. Do not perform a line-by-line consolidation of this statement since it would require a line-by-line elimination of inter-entity balances. The statement distinguishes between budgetary and non-budgetary credit reform financing accounts and identifies distributed offsetting receipt values.

3.0.6. Divide the SBR into three general subsections: Budgetary resources; Status of budgetary resources; and Outlays, net.

3.0.6.1. Aggregate the SBR to reflect all activity of the reporting entity for the year covered by the financial statement. Present PY information so the reader may make appropriate comparisons with PYs.

3.0.6.2. Present separate columns for the current year (CY) and PY non-budgetary credit reform financing accounts in the SBR. The presentation allows for a clear distinction between budgetary and non-budgetary credit reform financing account information as required by OMB Circular A-136. Report all non-budgetary credit reform financing accounts separate from the budgetary totals in the Budget of the U.S. Government.

3.0.6.3. Include Line 4200 for distributed offsetting receipts on the SBR. Distributed offsetting receipts increase budget authority and reduce outlays at the Component level in the Budget of the U.S. Government but are not required on the SF 133. The SF-133 provides appropriation account-level information only. The SBR functions as a Component-wide report and includes values of distributed offsetting receipts to reconcile with the Fiscal Service Quarterly ***Distributed Offsetting Receipts by Department Report*** in the Central Accounting Reporting System (***CARS***). This report provides detailed information for transactions in the Statement of Transactions and the ***Monthly Treasury Statement***.

3.0.7. Monitor budget execution at the individual appropriation account level (SF 133) for DoD Component consolidation entities. Aggregate all budgetary information for the combined SBR principal statements. Disaggregate budgetary information for the reporting entity's combining statement by major budget account groups and present in the RSI section of the financial statements as identified in section 4.0. The major accounts and the aggregate of small budget accounts must equal, in total, the amounts reported on the face of the SBR.

* 3.0.8. OMB Circular A-11, Appendix F identifies the format and information reported on each line of the SBR. OMB Circular A-136 provides line-item instructions for the types of data included in each section of the SBR.

## 4.0 DISAGGREGATED SBR

Prepare and report the Disaggregated SBR in the RSI section of the financial statements.

### 4.1 The DoD-wide Disaggregated SBR

Disaggregate the DoD-wide SBR into seven appropriation/fund groupings. Provide column headings and breakout by: Military Personnel; Procurement; Research, Development, Test and Evaluation (RDT&E); Family Housing and Military Construction; Military Retirement Benefits; Civil Works; and Operations, Readiness and Support.

### 4.2 Military Department GFs Disaggregated SBR

Disaggregate the Department of the Army GF, the Department of the Navy GF, and the Department of the Air Force GF SBR into five appropriation/fund groupings. Provide column headings and breakout by: Military Personnel; Procurement; RDT&E; Family Housing and Military Construction; and Operations, Readiness and Support.

### 4.3 Military Retirement Fund and U.S. Army Corps of Engineers (USACE) Disaggregated SBR

A disaggregated SBR for the Military Retirement Fund is not applicable. The USACE Civil Works may disaggregate as appropriate for the Treasury Index 96 accounts in the stand-alone USACE financial statements.

### 4.4 Medicare-Eligible Retiree Health Care Fund Disaggregated SBR

A disaggregated SBR for the Medicare-Eligible Retiree Health Care Fund is not applicable.

### 4.5 Working Capital Fund (WCF) Disaggregated SBR

Disaggregate the stand-alone Army WCF, Navy WCF, and Air Force WCF SBR by business activity.

4.6 All Other Defense Entities Disaggregated SBR

The stand-alone Other Defense Entities may disaggregate as appropriate for their entities.

# DEPARTMENT OF DEFENSE

# FINANCIAL MANAGEMENT REGULATION

# CHAPTER 8: "ARCHIVED"

# UNDER SECRETARY OF DEFENSE (COMPTROLLER)

# DEPARTMENT OF DEFENSE

# FINANCIAL MANAGEMENT REGULATION

# CHAPTER 9: "ARCHIVED"

# UNDER SECRETARY OF DEFENSE (COMPTROLLER)

***VOLUME 6B, CHAPTER 10: "NOTES TO THE FINANCIAL STATEMENTS"**

**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

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

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

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

The previous version dated March 2020 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| All | Streamlined language to more closely follow Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, dated June 3, 2022. | Revision |
| All | Annotated Department of Defense (DoD) specific items for presentation purposes. | Revision |
| All | Removed desk guide instructions. | Revision |
| Policy Memo | The Deputy Chief Financial Officer policy memorandum, "Standardization of the Footnotes to the Financial Statements," dated February 20, 2020 was incorporated into this chapter and cancelled. | Cancellation |
| 4.2 | Removed the table and streamlined for improved readability. | Revision |
| 7.1 | Added general summary information. | Addition |
| 8.2 | Added new requirements for Non-Federal investments. | Addition |
| 9.1 | Added new requirement to record loss allowance for intragovernmental receivables. | Addition |
| 12.5 | Added new requirement for the summary of General Property, Plant, and Equipment activity. | Addition |
| 16.4 | Added new requirement to report liability balance for unpaid insurance claims. | Addition |
| 16.5 | Added disclosures for insurance programs. | Addition |
| 17.1 | Added disclosures for environmental and disposal liabilities. | Addition |
| 18.2 | Added disclosures specific to DoD. | Addition |
| 19.0 | Added disclosures for Leases. | Addition |
| 23.4 | Added new Statement of Changes in Net Position disclosure. | Addition |

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| 30.0 | Added disclosure specific to Agency-Wide for activities of the Security Assistance Accounts. | Addition |
| 32.0 | Added requirement for reporting on COVID-19 activity. | Addition |
| 33.0 | Added requirement for reporting subsequent events. | Addition |

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# CHAPTER 10

# NOTES TO THE FINANCIAL STATEMENTS

## 1.0 GENERAL

### 1.1 Purpose

This chapter prescribes the format, content, and guidance for the preparation and presentation of notes to the principal financial statements.

### 1.2 Authoritative Guidance

1.2.1. This chapter supplements the reporting requirements of Office of Management and Budget ***(OMB) Circular A-136***, "Financial Reporting Requirements." Updates to OMB Circular A-136 are on the OMB website. OMB Circular A-136 authorizes agencies to modify illustrations, with the exception of the Balance Sheet, in order to clarify amounts or remove information that does not apply or is uninformative. The chapter also describes responsibilities of the DoD Chief Financial Officer (CFO) as established by the CFO Act of 1990. The major DoD Components and reporting entities listed in Chapter 1 will prepare quarterly and fiscal year (FY)-end comparative financial statements and notes. For account information, refer to the U.S. Standard General Ledger (***USSGL***), and the DoD USSGL Transaction Library, which is available on the Standard Financial Information Structure (***SFIS***) web page.

1.2.2. The entities covered by this chapter are "reporting entities" and "component reporting entities" under Statement of Federal Financial Accounting Standards ***(SFFAS) 47***, "Reporting Entity." Under SFFAS 47, inclusion in a reporting entity's financial statements may take the form of consolidation or disclosure. Agencies should review SFFAS 47, and consult with the Office of the Deputy CFO if they have questions regarding which agencies to include in their Performance and Accountability Report or Agency Financial Report (AFR).

## 2.0 REPORTING

### *2.1 Consistency and Agreement

The supporting schedules presented in the notes must agree with the amounts presented in the body of the financial statements, where applicable. Maintain the consistency of the chosen presentation (i.e. "thousands" or "millions") and rounding level throughout the financial statements and notes. Rounded totals must agree between the financial statements as applicable (e.g., Net Position line on the Statement of Changes in Net Position (SCNP) must equal the Total Net Position line on the Balance Sheet). Individual line items must sum to the totals, which may require adjusting the individual detail line items for differences created by the rounding process rather than adjusting column totals. The prior FY column must be consistent with the amounts published on the financial statements and notes in the prior FY; unless, there was a restatement of the prior FY. Comparative financial information is presented on a one-year trailing period basis. For example, if presenting third quarter data, show comparative data from the third

quarter of the prior FY. It is preferred the Component footnote numbers and disclosures are identical to the Agency-Wide footnote numbers and disclosures.

2.2 Compliance with U.S. Generally Accepted Accounting Principles

Some of the underlying financial systems and operations that produce these statements were not designed to generate auditable financial statements in compliance with the form and content guidance. Because of such long-standing system deficiencies, many DoD organizations may not be fully compliant with U.S. Generally Accepted Accounting Principles (USGAAP) and OMB Circular A-136. DoD is developing long-term systems improvements that will correct these deficiencies and ensure compliance with USGAAP. Within the Federal Government, the Federal Accounting Standards Advisory Board (***FASAB***) "Handbook of Federal Accounting Standards and Other Pronouncements, as Amended" is an authoritative source for USGAAP and is available on the FASAB website under "Standards and Guidance." In cases where individual line items of the financial statements are not obtainable, or a substitution is made from the requirements herein, explain the deficiencies, and the reason for the noncompliance, in the related note. In addition, identify departures from USGAAP in Note 1, "Significant Accounting Policies."

2.3 Classifications

U.S. Department of the Treasury (Treasury) account symbols are the basis for reporting the Department's financial transactions. Treasury's Bureau of the Fiscal Service classifies receipt and expenditure accounts according to the Treasury Financial Manual (TFM) Federal Account Symbols and Titles, ***The FAST Book***, Supplement to Volume 1. For descriptions of fund groups, and how they are used, refer to Volume 12, Chapter 1.

3.0 GENERAL NOTE GUIDANCE

3.1 General

The objective of the notes to the financial statements is to provide additional disclosures to ensure that the financial statements are more informative and not misleading. Consider the audience when writing the note narratives. Users of the general-purpose financial reports, including internal users, tend to have different levels of knowledge about government operations, accounting, and finance. Prepare the notes to the financial statements such that individuals without a detailed knowledge of accounting principles and specific business practices can understand them. DoD's financial statements are provided to various internal users within DoD as well as external users such as OMB, Treasury, Congress, Government Accountability Office, and the general public.

3.2 Other Lines

Include a narrative for any line item titled "Other." If the individual components of the "Other" line item represent 10 percent or more of the value of the line, disclose those components separately. If no amount sums to 10 percent or more of the "Other" line item, state that the amount is attributable to multiple items.

3.3 Abnormal Balances

OMB Reportable Components are required to explain all abnormal balances appearing on individual note schedules and financial statement lines. Current policy for reporting abnormal balance information is available on the ***DFAS Financial Reporting Guidance*** web page that contains the Annual and Quarterly Financial Statement Guidance.

3.4 Fiscal Year Presentation

Report the current FY and prior FY amounts separately; unless, otherwise annotated.

3.5 DFAS Financial Reporting Guidance

The DFAS Annual and Quarterly Financial Reporting Guidance provides additional information pertaining to the financial statement notes. Reporting entities must use authoritative guidance, such as USGAAP, FASAB, and OMB Circular A-136, in addition to the DFAS Financial Reporting Guidance, when preparing the notes to the financial statements.

4.0 NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

4.1 General Information

Note 1 to the financial statements must describe the reporting entity and identify its major components if not fully described in the Management's Discussion and Analysis. Also, summarize the accounting principles and the methods of applying those principles that management has concluded are the most appropriate for presenting the entity's assets, liabilities, equity, net cost of operations, changes in net position, and budgetary resources. Do not duplicate details presented elsewhere as part of the notes to the financial statements. It may be necessary to include more detailed discussion of an accounting policy in a specific note.

4.1.1. In general, the disclosure encompasses important judgments as to the valuation, recognition, and allocation of assets, liabilities, expenses, revenues, and other financing sources. Include in Note 1 a description of changes in USGAAP that impact the financial statements and an explanation of concepts, such as Fund Balance with Treasury (FBWT) and funds from dedicated collections, unique to federal financial statements. Reporting entities are encouraged to explain federal budgetary terms and concepts such as budgetary resources, appropriations, gross and net outlays, budgetary and non-budgetary, and distributed offsetting receipts.

4.1.2. In addition, disclose any significant changes, from the prior FY, in the composition of the reporting entity or significant changes in the manner in which the reporting entity aggregates information for financial reporting purposes.

*4.2 Reporting

All DoD reporting entities must review financial processes, systems, and data and modify or expand the sample disclosure statements for a complete and accurate representation of each issue. The specific language shown in sample disclosure statements may not be applicable to all DoD Components. Do not include narratives that are not applicable.

4.2.1. Reporting Entity. Describe the reporting entity and identify its major components if not fully described in the Management's Discussion and Analysis. Also, describe any consolidated entities and disclosure entities in accordance with SFFAS 47, and explain that disclosure entities are not consolidated entities.

4.2.2. Mission of the Reporting Entity. For each reporting entity, enter a brief mission statement if not fully disclosed in the Management's Discussion and Analysis.

4.2.3. Basis of Presentation. Disclose how the financial statements are prepared and any limitation that prevents compliance with USGAAP. Include a disclosure that the financial statements have been prepared to report the financial position and results of operations as required by the CFO Act of 1990, expanded by the Government Management Reform Act of 1994, and other legislation.

4.2.4. Classified Information. To protect classified information, all reporting entities must prevent the disclosure of classified information. Only those entities recording the data report classified activity.

4.2.5. Basis of Accounting. Disclose significant changes in the composition of the reporting entity, or significant changes in the manner in which the reporting entity aggregates information for financial reporting purposes. Describe the accounting principles, and methods of applying those principles, that management has concluded are appropriate for presenting fairly the entity's assets, liabilities, net cost of operations, changes in net position, and budgetary resources. Describe changes in USGAAP affecting the financial statements and explain concepts such as FBWT and Funds from Dedicated Collections. Describe limitations that prevent compliance with full accrual accounting as required by USGAAP.

4.2.6. Accounting for Intragovernmental and Intergovernmental Activities. Describe the reporting entity's: (1) methodology for eliminating transactions among entities within DoD and between other federal agencies; (2) any limitation that prevents the elimination of the intragovernmental transactions; and (3) actions the reporting entity is taking to correct the problem(s). Disclose that DoD's proportionate share of public debt and related expenses, and interest cost of the Federal Government is not included.

4.2.7. Non-entity assets. Disclose relevant information related to amounts reported as entity and non-entity assets.

4.2.8. Fund Balance with Treasury. Include a disclosure statement to the following: "The Reporting Entity's monetary resources are maintained in U.S. Treasury accounts." Also, include any other information relevant to understanding Funds with the U.S. Treasury. Entities (Defense Agencies) with zero fund balance reported in their financial statements disclose: "Appropriations are suballocated to [Reporting Entities] by DoD. Differences between the U.S. Treasury and DoD balances are reconciled at the Department level."

4.2.9. Cash and Other Monetary Assets. Include the following disclosures:(1) description of cash and foreign currency; (2) any restrictions on cash or foreign currency; (3) classification of these assets; and (4) procedures for handling exchange rate gains and losses.

4.2.10. Investments. Include the following disclosures: (1) the method for valuing investments; (2) the amortization method for premiums and discounts; (3) the provision for unrealized gains or losses; (4) a description of the types of securities purchased; (5) the information on investment in limited liability partnerships; and (6) information related to accrued interest on investments.

4.2.11. Accounts Receivable. Include the following disclosures: (1) categories of receivables included in the amount reported in accounts receivable on the Balance Sheet; and (2) allowance methods for uncollectible accounts due from the public. Pursuant to ***TFM Volume 1, Part 2, Chapter 4700***, agencies must recognize any allowance for loss on intragovernmental accounts receivable.

4.2.12. Loans Receivable, Net and Loan Guarantee Liabilities. Disclose relevant information related to the loan programs and to which authority is granted in accordance with ***SFFAS 2***, "Accounting for Direct Loans and Loan Guarantees," and ***SFFAS 18***, "Amendments to Accounting Standards for Direct Loans and Loan Guarantees in SFFAS 2".

4.2.13. Inventory and Related Property. Include the following disclosures: (1) the method for valuing inventory and related property; (2) an approximation of the percent of resale inventory valued using the moving average cost (MAC) method and other methods; and (3) any limitations in valuing inventory in accordance with ***SFFAS 3***, "Accounting for Inventory and Related Property," or uncertainties about completeness and existence of reported values of inventory. Describe the held for sale; held in reserve for future sale; excess, obsolete, and unserviceable; held for repair; raw materials; and work-in-process categories. Also describe the Operating Material & Supplies (OM&S) held for use; held in reserve for future use; excess, obsolete, and unserviceable inventory; held for repair; and in development categories. DoD Components are responsible for identifying inventory (including inventory held as OM&S) that is excess, obsolete, and unserviceable. Upon identification of inventory as excess, obsolete, and unserviceable, the DoD Component adjusts the value of excess, obsolete, and unserviceable inventory to its net realizable value (NRV) as described in Volume 4, Chapter 4.

4.2.14. General Property, Plant, and Equipment. Include the following disclosures: (1) the method for valuing general equipment; (2) the capitalization threshold; (3) any limitations in valuing General Property, Plant, and Equipment (PP&E) in accordance with federal standards; and (4) the policy for reporting property provided to contractors.

4.2.15. Other Assets. Identify the majority of items reported as "Other Assets." Describe contract financing payments and the circumstances under which the reporting entity uses them. See Volume 4, Chapter 5 for additional information related to contract financing payments.

4.2.16. Leases. Describe the conditions under which capital and operating leases would be recorded. Identify the method used to determine the value for capital leases. Describe how the discount rate for the present value calculation is determined. Disclose current year (CY) Federal and Non-Federal leases separately. Prior year (PY) lease amounts do not need to be disclosed separately.

4.2.17. Liabilities. Disclose relevant information related to amounts reported as liabilities.

4.2.18. Environmental and Disposal Liabilities. Describe environmental and other disposal liabilities. Identify the conditions in which they would be reported on the Balance Sheet as a liability, or condition where financial statement reporting is limited to a note disclosure. Describe the liabilities that arise from anticipated disposal costs.

4.2.19. Other Liabilities. Identify the majority of items reported as "Other Liabilities." Describe such other liabilities as payroll liabilities and insurance programs or other liabilities applicable to the reporting entity.

4.2.20. Commitments and Contingencies. Disclose relevant information related to amounts reported as commitments and contingencies.

4.2.21. Federal Employee and Veteran Benefits Payable. Describe transactions involving Federal Employee and Veteran Benefits Payable. The Department applies ***SFFAS 33***, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates," in selecting the discount rate and valuation date used in estimating actuarial liabilities.

4.2.22. Revenue and Other Financing Sources. Disclose the accounting policy for revenue recognition, the reporting entity's pricing policy, and any limitation that may hinder revenue recognition in accordance with USGAAP. Also, provide policy information on: (1) other financing sources; and (2) non-monetary support provided by U.S. allies for common defense and mutual security, where applicable. Describe the accounting for funds from dedicated collections, as defined by ***SFFAS 43***, "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds."

4.2.23. Recognition of Expenses. Disclose the accounting policy for recognizing operating expenses and any limitation that may hinder recognition in accordance with USGAAP. Also, define OM&S operating expenses, its recognition method, and any limitations.

4.2.24. Budgetary Resources. Provide explanations of budgetary terminology and concepts.

4.2.25. Treaties for Use of Foreign Bases. Describe the use, purchase, and limits on land, buildings, and other overseas facilities obtained through various international treaties and agreements.

4.2.26. Use of Estimates. Disclose the reporting entity's use of estimates, and that actual results could differ materially from the estimated amounts. Describe the methodology used to account for and recognize estimates.

4.2.27. Parent-Child Reporting. Disclose relevant information related to parent-child reporting.

4.2.28. Transactions with Foreign Governments and International Organizations. Describe the authority to sell defense articles and services to foreign countries and international organizations.

4.2.29. Fiduciary Activities. Disclose information concerning fiduciary activities in accordance with ***SFFAS 31***, "Accounting for Fiduciary Activities." Fiduciary activities are reported on the financial statement note schedules, and not recognized on the proprietary financial statements. Define the reporting entity's fiduciary activities. Disclose that fiduciary assets are not assets of the Federal Government and are not recognized on the Balance Sheet.

4.2.30. Tax Exempt Status. Disclose the federal government is exempt from all income taxes by any governing body whether it is a federal, state, commonwealth, or foreign government.

## 5.0 NOTE 2. NON-ENTITY ASSETS

Non-entity assets are assets held by an entity but are not available to the entity. Entity and non-entity assets are segregated on an entity's Balance Sheet.

### 5.1 General Information

Disclose Non-entity Assets consisting of the categories in accordance with OMB Circular A-136. Combine entity and non-entity assets, except for non-entity assets meeting the definition of fiduciary assets on the face of the Balance Sheet.

### 5.2 Reporting

5.2.1. Non-entity Assets. These are assets that are held by an entity (as manager or custodian), but are not available for the entity's own operational use. Within DoD, cash held by a disbursing officer (DO), as reflected on the Central Accounting Reporting System Account Statement for the relevant DO Cash Treasury Account Symbol, is an example of a non-entity asset.

5.2.2. Entity Assets. These are assets the reporting entity has authority to use. For example, an entity's assets may be used in entity operations (such as equipment), be sold or exchanged for other assets (such as inventory for cash), or be used to liquidate (pay) entity liabilities.

5.2.3. Other Information. Disclose in the narrative a description of each current FY non-entity asset focusing on the nature of the asset that causes it to be classified as Non-entity Assets.

## 6.0 NOTE 3. FUND BALANCE WITH TREASURY

### 6.1 General Information

6.1.1. Status of FBWT. The "Status of Fund Balance with Treasury" is the entity's total FBWT, as reflected in the entity's general ledger. Unobligated and obligated not yet disbursed balances presented in this section may not equal related amounts reported on the Combining Statement of Budgetary Resources (SBR). Do not include fiduciary activity on these lines. Refer to section 26.0 for the reporting of fiduciary activities. The Total FBWT amount must equal the Total FBWT line on the Balance Sheet.

6.1.2. Crosswalks. Base the mapping for the lines within this schedule on the USSGL crosswalks utilized in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) and the Year-end Transaction Module. For USSGL account information, refer to the Fiscal Service USSGL and DoD USSGL Transaction Library.

### 6.2 Reporting

6.2.1. Unobligated Balance. The cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Classify unobligated balances as available or unavailable. In the 4th quarter of the FY, this balance must agree with the sum of available and unavailable unobligated ending balances reported in GTAS and the Year-end Transaction Module.

6.2.1.1. Available. The amount of unexpired, unobligated balance that has been apportioned or is not subject to apportionment. This amount is immediately available for new obligations.

6.2.1.2. Unavailable. The amount of unexpired, unobligated balance that has not been apportioned, deferred, withheld pending rescission, or other similar limits on resources usage. It also may include expired budgetary resources available only for obligation adjustments until the appropriation is cancelled.

6.2.2. Obligated Balance Not Yet Disbursed. Funds that have been obligated for goods that have not been received, services that have not been performed, and goods and services that have been delivered and received, but not paid. In the 4th quarter of the FY, this balance must agree with amounts reported in GTAS and the Year-end Transaction Module.

6.2.3. Nonbudgetary FBWT. Include entity and non-entity FBWT accounts, which represent adjustments that do not have budgetary authority. Examples of Nonbudgetary FBWT fund types are: Clearing Accounts; Deposit Funds; and Non-entity and Other accounts.

6.2.4. Explanation of Unobligated Unavailable Balances. Disclose and explain restrictions on unobligated balances. Also, disclose if there are no restrictions.

6.2.5. Other Information. Explain any discrepancies between FBWT as reflected in the entity's general ledger and the balance in Treasury accounts. Disclose any other information necessary for understanding the nature of the Fund Balance.

7.0 NOTE 4. CASH AND OTHER MONETARY ASSETS

*7.1 General Information

Disclose the nature and reasons for any restrictions on cash and other monetary assets. Note non-entity cash is always restricted cash.

7.2 Reporting

7.2.1. Cash. Cash consists of: coins, paper currency, and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; amounts on demand deposit with banks or other financial institutions, including nonconfirmed collections and disbursements; investments held outside of Treasury; and foreign currencies, which will be converted into U.S. dollars at the exchange rate on the financial statement date. Cash available for reporting entity use includes petty cash, and cash held in revolving funds, not transferred into the General Fund of the Treasury.

7.2.2. Foreign Currency. The total U.S. dollar equivalent of nonpurchased foreign currencies held in foreign currency fund accounts.

7.2.3. Other Monetary Assets. Report other monetary assets not reported on other lines.

7.2.4. Other Information. Provide additional information needed to understand the nature of cash and other monetary assets. Disclose any restrictions on cash and the dollar amount. Refer to Volume 4, Chapter 2 and ***SFFAS 1***, "Accounting for Selected Assets and Liabilities," paragraphs 27 and 30, and SFFAS 3, paragraphs 59 to 61 and 65 to 66 for information related to restricted cash. Components report entity assets and non-entity assets under an entity's custody or management in the financial statements, except for non-entity assets meeting definition of fiduciary assets, which are not recognized on the Balance Sheet, but disclosed in accordance with the provisions of SFFAS 31.

7.2.5. Disclose any restrictions on the use or conversion of foreign currencies. If there are no restrictions on cash or the use or conversion of foreign currencies, include a statement in the narrative disclosing that there are no restrictions. The Total Cash and Other Monetary Assets must equal the amount reported on the Balance Sheet.

## 8.0 NOTE 5. INVESTMENTS

### 8.1 General Information

8.1.1. Disclose the reporting entity's investments in federal securities. Investments in federal securities include market-based U.S. Treasury securities issued by Fiscal Service. Investments are normally reported on the Balance Sheet at their par value or acquisition cost, adjusted for the amortization of the premium or discount recorded at the time of acquisition. The Total Intragovernmental and Non-Federal Investments must equal the amounts reported on the Balance Sheet.

8.1.2. Net Investments are equal to Cost, plus Amortized (Premium)/Discount. Securities are normally recognized at amortized cost on the Balance Sheet. However, use market value for Balance Sheet purposes when: (a) there is intent to sell the securities before maturity; and (b) there is a reduction in value that is more than temporary, in which case market value should be used (except for pension and retirement plans). Refer to SFFAS 1, paragraphs 68-73. Other investments are comprised of investments of funds with developers of family housing as related to the Military Housing Privatization Initiative.

### *8.2 Reporting

8.2.1. Non-Marketable, Market-Based Intragovernmental Securities. Non-marketable, market-based U.S. Treasury securities are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. All investments maintained by the Defense Finance and Accounting Service Trust Fund Accounting Office are non-marketable, market-based U.S. Treasury securities (e.g., DoD Education Benefits Fund and Military Retirement Fund). Refer to SFFAS 1 for required non-marketable, market-based U.S. Treasury security disclosures.

8.2.2. Accrued Interest. The amount of interest accrued on intragovernmental investment securities, but not received as of the date of the statements.

8.2.3. Non-Federal Investments. The Military Family Housing Revitalization Act of 1996 provides for the DoD Family Housing Improvement Fund. The legislation permits investment of funds into ventures with developers to provide family housing. For example, the ventures will be real estate ventures, rent differential payments, investment in limited partnerships, and investments in equity or debt instruments related to family housing. Additionally, provide a description of the accounting method used and the amount of cash and non-cash assets conveyed to the venture. For non-federal investments, disclose in a table the fair value measurements hierarchy classification (Levels 1, 2, 3, or Other) by investments type: held-to-maturity, available-for-sale, or trading securities. Refer to OMB Circular A-136 for disclosure requirements.

8.2.3.1. Level 1 reflects the unadjusted quoted prices in active markets for identical assets that the reporting entity can access at the measurement date.

8. 2.3.2. Level 2 reflects inputs other than quoted prices in Level 1 that are directly or indirectly observable for the asset.

8. 2.3.3. Level 3 reflects unobservable inputs for the asset.

8. 2.3.4. Other reflects the investments that are measured at fair value using the net asset value per share of the investment and have not been categorized in the fair value hierarchy; for these amounts, provide a description of securities.

8.2.3.5. Reporting entities must also disclose a reconciliation of investment activity for non-Federal securities. Refer to OMB Circular A-136 for an illustration.

8.2.4. Other Information. Disclose any additional information relative to understanding the nature of reported investments, such as permanent impairments, and any securities that have been reclassified as securities available for sale or early redemption.

9.0 NOTE 6. ACCOUNTS RECEIVABLE, NET

*9.1 General Information

Present the gross receivables, the allowance for uncollectible accounts, and the net amount due. Disclose the method used to estimate the allowance. Pursuant to SFFAS 1 and ***Technical Bulletin 2020-1***, *Loss Allowance for Intragovernmental Receivables*, agencies are required to recognize any allowance for loss on intragovernmental accounts receivable. The amount represented in this note includes both entity and non-entity receivables. Do not include receivables related to direct or guaranteed loans. Report these amounts in Note 7, "Loans Receivable, Net and Loan Guarantee Liabilities."

9.2 Reporting

9.2.1. Intragovernmental Receivables. Intragovernmental Accounts Receivable, Net must equal the amount reported on the Balance Sheet.

9.2.2. Non-Federal Receivables (From the Public). Non-Federal encompasses domestic and foreign persons and organizations outside the U.S. Government. Non-Federal Accounts Receivable, Net must equal the amount reported on the Balance Sheet.

9.2.3. Criminal Restitution. Disclose criminal restitution balances separately if the amount is material to the entity, including the gross amount of receivables related to criminal restitution orders monitored by the agency and the estimate of NRV determined to be collectible for criminal restitution orders monitored by the agency.

9.2.4. Other Information. Disclose the method used to estimate the allowance for uncollectible accounts and the net amount due. Disclose any other information needed to understand the nature of the accounts receivable.

# 10.0 NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

## 10.1 General Information

10.1.1. ***Federal Credit Reform Act (FCRA) of 1990***. The FCRA divides direct loans and loan guarantees into two groups: Pre-1992 and Post-1991. Pre-1992 means the direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or loan guarantees. Post-1991 means the direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees. Refer to ***OMB Circular A-11***, "Preparation, Submission, and Execution of the Budget," Part 5, Section 185 for definitions and explanations of terms and concepts. The reporting entity discloses direct loan obligations and loan guarantee commitments made after FY 1991. See SFFAS 18 for policy on reporting subsidy reestimate and the technical/default reestimate. Refer to Volume 12, Chapter 4 for more detailed reporting guidance on the accounting standards for direct and guaranteed loans. Refer OMB Circular A-136 for illustrations.

10.1.1.1. Loans Receivable, Net. Loans are reported at the net present value of the following projected cash flows: loan disbursements, repayments of principal, payments of interest, recoveries, proceeds of asset sales, and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries.

10.1.1.2. Loan Guarantee Liabilities. Report these liabilities at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows: payments by DoD to cover defaults and delinquencies; interest subsidies, or other payments offset by payments to DoD including origination; and other fees, penalties, and recoveries.

10.1.2. Pre-1992 Direct Loans and Loan Guarantees. Disclose whether Pre-1992 direct loans and loan guarantees are reported under the present value method, or are reported under the allowance for loss method. DoD has elected to report Pre-1992 direct loans and loan guarantees using the allowance for loss method. See SFFAS 2 for additional information on the present value and allowance methods.

10.1.2.1. Note Format. Depending on the reporting method selected by management, agencies must choose the appropriated note format, which includes the net present value method or the allowance for loss method.

10.1.2.2. Changing Reporting Methods. Changing from one method to the other is not permitted without the advance approval of OMB. If a reporting entity needs guidance related to Pre-1992 direct loans or loan guarantees, contact the Office of the Under Secretary of Defense (Comptroller), Office of the Deputy CFO. The reporting entity discloses that their loans receivable, net, or their value of assets related to direct loans, is not the same as the proceeds they would expect to receive from selling their loans.

10.1.3. Payments Made on Behalf of Borrowers. When the reporting entity has made payments on behalf of borrowers (which should be collected from the borrowers), the resulting receivables must be reported in the same column as loans receivable for either direct loans or defaulted guaranteed loans.

10.1.4. Direct Loan or Loan Guarantee Programs. The names of the direct loans and loan guarantee programs operated by the reporting entity. An example of a DoD direct loan program is the Military Housing Privatization Initiative (MHPI).

10.1.5. Other Information. Disclose events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that: (a) have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy re-estimates; and (b) are events and changes in conditions that have occurred and are more likely than not to have a significant impact, but the effects of which are not measurable at the reporting date.

10.1.6. Reporting. Report loans receivable and loan guarantee liabilities as presented in the OMB Circular A-136.

10.2 Summary of Direct Loans and Loan Guarantees.

Summarize the total amounts for loans receivable and loan guarantee liability reported in Note 7. The Total Loans Receivable, Net must agree with the amount reported on the Balance Sheet. The Total Loan Guarantee Liability must agree with the amount reported on the Balance Sheet.

10.3 Direct Loans Obligated (Post-1991).

Report the Loans Receivable Gross, the Interest Receivable, the estimated NRV of related Foreclosed Property, the Allowance for Subsidy Cost (Present Value), and the Value of Assets Related to Direct Loans, Net.

10.3.1. Total Direct Loans Receivable. The amount must agree with the amount reported on the Balance Sheet.

10.3.2. Other Information. For foreclosed property resulting from credit reform activities, refer to OMB Circular A-136 for required disclosures.

10.3.3. Additional Instructions for Foreclosed Property. Value foreclosed property associated with Post-1991 direct loans at the net present value of the projected cash flows. Refer to Section 86 of OMB Circular A-11 for policy related to reporting foreclosed property.

10.4 Total Amount of Direct Loans Disbursed (Post-1991).

Disclose the amount of direct loans disbursed for each program the reporting entity manages. Currently, DoD has one direct loan program that disburses direct loans, the MHPI. Provide other information related to direct loans disbursed necessary to understand the nature of the loans.

10.5 Subsidy Expense for New Direct Loan Programs by Component.

10.5.1. Subsidy Expense for New Direct Loans Disbursed – Current FY. Report the following amounts in separate columns: present value amount of the current FY's subsidy expense attributable to the interest rate differential between the interest rate charged to the borrowers and the discount rate used to calculate the present value of the direct loans and the subsidy costs, present value of the estimated delinquencies and defaults (net of recoveries) for the current FY, present value of the estimated fees and other collections (offsetting expense) for the current FY, present value of other cash flows for the current FY, including prepayments and proceeds of loan asset sales. Report the total amount of the separate columns.

10.5.2. Subsidy Expense for New Direct Loans Disbursed – Prior FY. Report the following amounts in separate columns: present value amount of the prior FY's subsidy expense attributable to the interest rate differential between the interest rate charged to the borrowers and the discount rate used to calculate the present value of the direct loans and the subsidy costs, present value of the estimated delinquencies and defaults (net of recoveries) for the prior FY, present value of the estimated fees and other collections (offsetting expense) for the prior FY, present value of other cash flows for the prior FY, including prepayments and proceeds of loan asset sales. Report the total amount of the separate columns.

10.5.3. Direct Loan Modifications and Re-estimates – Current FY. Report the following amounts in separate columns: subsidy cost of modifications of direct loans previously disbursed, subsidy cost for interest rate re-estimates which are due to a change in interest rates from the rate assumed in budget preparation and used in calculating the subsidy expense to the rates that are prevailing at the time the direct loan is disbursed, subsidy cost for technical re-estimates which are due to changes made in projected cash flows under the terms of direct loans after reevaluating all the risk factors as of the financial statement date, except for the effect of interest rate re-estimates.; Report the total amount of the separate columns.

10.5.4. Other Information. Identify other information related to direct loan subsidy expense for Post-1991 direct programs. If modifications were made, explain the nature of the modifications, the discount rate used in calculating the expense, and the basis for recognizing a gain or loss related to the modifications. Also, if appropriate, disclose that the subsidy expense resulting from re-estimates that is included in the financial statements is not reported in the budget until the following year.

10.6 Subsidy Rates for Direct Loans by Program and Component.

Disclose the budget subsidy rates estimated for the cohorts of the current reporting year. Disclose the subsidy rate for the following components: interest differential costs; default costs

(net of recoveries); fees and other collections; and other costs. These estimated subsidy rates for direct loans are in the current FY's budget ("***President's Budget***").

10.6.1. Budget Subsidy Rates for Direct Loans for the CY Cohorts. These rates must be consistent with rates published in the Direct Loans: Assumptions Underlying the FY Subsidy Estimates Table contained in the Federal Credit Supplement to the ***Budget of the U.S. Government***.

10.6.2. Relevant Information for Comprehension. Subsidy rates pertain to the loan agreements contracted during the current FY. Do not apply these rates to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans disbursed in the current FY could result from disbursement of loans from both current and prior FY loan agreements. The subsidy expense reported in the current FY also includes modifications and re-estimates.

10.6.3. Subsidy Rate Amount. Each subsidy rate is the dollar amount of the total subsidy or a subsidy component as a percentage of the direct loans obligated in the cohort year. Entities are encouraged to use trend data to display significant fluctuations in subsidy rates. Trend data, if used, includes an analysis to explain the underlying causes for the fluctuations.

10.7 Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans).

10.7.1. Reconciliation. Display the reconciliation between the beginning and ending balances of the subsidy cost allowance for outstanding direct loans reported in the reporting entity's Balance Sheet. The reconciliation is required for direct loans obligated on or after October 1, 1991, the effective date of the FCRA. Reporting entities are encouraged, but not required, to display reconciliations for direct loans obligated prior to October 1, 1991, in schedules separate from the direct loans obligated after September 30, 1991. Refer to OMB Circular A-136 for illustration.

10.7.2. Subsidy Expense. Report the components of subsidy expense for direct loans: Interest Rate Differential Costs; Default Costs (Net of Recoveries); Fees and Other Collections; and Other Subsidy Costs. Total the components of subsidy expense for direct loans.

10.7.3. Adjustments. Report the adjustments separately for direct loans: Loan Modifications, Fees Received; Foreclosed Property Acquired; Loans Written Off; Subsidy Allowance Amortization; and Other Adjustments.

10.7.4. Re-estimates. Report the Interest Rate Re-estimate and Technical/Default Re-estimate for direct loans. Total the re-estimates for direct loans as reported in the Modification and Re-estimates table for the CY.

10.8 Defaulted Guaranteed Loans from Post-1991 Guarantees.

Report the defaulted loan guarantees for applicable credit reform programs. If the reporting entity does not have defaulted guaranteed loans, state "There were no defaulted loan guarantees" after the note number and title.

10.8.1. Loan Guarantee Programs. Report the: Defaulted Guaranteed Loans Receivable, Gross; Interest Receivable; the estimated value of related Foreclosed Property; the Allowance for Subsidy Cost (Present Value); and the Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net.

10.8.2. Other Information. For foreclosed property resulting from credit reform activities, refer to OMB Circular A-136 for required disclosures.

10.8.3. Additional Instructions for Foreclosed Property. Value foreclosed property associated with Post-1991 direct and acquired defaulted guaranteed loans at the net present value of the projected cash flows associated with the property. At the time of foreclosure, foreclosed property may be recorded at the estimated NRV if the differences do not meet the materiality threshold identified in the DFAS Financial Reporting Guidance. A portion of the related allowance for subsidy account applies to the foreclosed property, but that amount need not be separately determined. Rather, subtract the allowance account from the sum of the credit program assets to determine the net present value of the assets.

10.9 Guaranteed Loans Outstanding.

10.9.1. Guaranteed Loans Outstanding. Present the outstanding amount of guaranteed loans for each loan guarantee program. For each guaranteed loan outstanding, report the face value of outstanding principal of guaranteed loans disbursed by a third party. In an additional column, report the guaranteed amount of the outstanding principal. Identify other information related to guaranteed loans outstanding necessary to understand the nature of the loan.

10.9.2. New Guaranteed Loans Disbursed. For each new guaranteed loan disbursed, report the face value of principal of guaranteed loans. Separately, report the guaranteed amount of principal within the same table. Identify other information related to new guaranteed loans disbursed necessary to understand the nature of the loan.

10.10 Liability for Loan Guarantees.

For each program with Post-FY 1991 loan guarantees, report the present value of the estimated net cash flows (outflows less inflows), to be paid by the entity because of the loan guarantees. Present the liabilities for loan guarantees for each loan guarantee program.

10.10.1. Programs. Report the present value of current and prior FY estimated net cash flows (outflows less inflows) to be paid because of loan guarantees.

10.10.2. Other Information. Identify other information necessary to understand the nature of the loan guarantee liability.

10.11 Subsidy Expense for Loan Guarantees by Program and Component.

Report the estimated cash flows (on a present value basis) for the various subsidy expense components of the loan guarantee programs. Refer to OMB Circular A-136 for illustrations.

10.11.1. Subsidy Expense for New Loan Guarantees – Current FY. Disclose the following amounts in separate columns: present value of the amount of the interest supplements, present value of the estimated payments for defaults on loan guarantees (net of recoveries), present value of the estimated fees and other collections (offsetting expense), present value of other cash flows. Report the total amount of the separate columns.

10.11.2. Subsidy Expense for New Loan Guarantees – Prior FY. Disclose the following amounts in separate: present value of the amount of the interest supplements, present value of the estimated payments for defaults on loan guarantees (net of recoveries), present value of the estimated fees and other collections (offsetting expense), present value of other cash flows. Report the total amount of the separate columns.

10.11.3. Modifications and Re-estimates – Current FY. Disclose the following amounts in separate columns: subsidy expense for modifications of loan guarantees in guaranteed loans previously disbursed by a third party (whether Pre-1992 or Post-1991), interest rate re-estimates, and technical re-estimates of the subsidy expense for loan guarantees, previously committed, by components. Report the total amount of the separate columns.

10.11.4. Total Loan Guarantee Subsidy Expense. Disclose CY and PY in separate columns. Present total subsidy expense for the loan guarantees, modifications, and re-estimates.

10.11.5. Other Information. Identify other relevant information for loan guarantee programs subsidy expenses. If modifications were made, explain the nature of the modifications, the discount rate used in calculating the expense, and the basis for recognizing a gain or loss related to the modifications. Also, if appropriate, disclose that the subsidy expense resulting from re-estimates that is included in the financial statements is not reported in the budget until the following year.

10.12 Subsidy Rates for Loan Guarantees by Program and Component.

Report information on the subsidy rates for loan guarantees. Disclose the estimated subsidy rates for the following components: Interest Supplement costs (; Default costs (net of recoveries); Fees and Other Collections; and Other costs. These estimated subsidy rates for loan guarantees are in the current FY's budget (President's Budget).

10.12.1. Subsidy Rates. Subsidy rates must be consistent with rates published in the Loan Guarantees: Assumptions Underlying the (FY) Subsidy Estimates table, contained in the Federal Credit Supplement to the Budget of the U.S. Government, which is a supporting document to the

budget. Refer to the Federal Credit Supplement to the Budget of the U.S. Government for current guidance pertaining to subsidy estimates for loan guarantees.

10.12.2. Subsidy Rate Amount. Each subsidy rate is the dollar amount of the total subsidy or a subsidy component as a percentage of the guaranteed loans obligated. Entities may use trend data to display significant fluctuations in subsidy rates. Such trend data, if used, includes an analysis to explain the underlying causes for the fluctuations.

10.12.3. Subsidy Rate Applicability. The subsidy rates disclosed pertain only to the current FY's cohorts. Do not apply these rates to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current FY could result from disbursements of loans from both current FY cohorts and prior FY(s) cohorts. The subsidy expense reported in the current FY also includes modifications and re-estimates.

10.13 Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees).

Display the reconciliation between the beginning and ending balances of the liability for outstanding loan guarantees reported in each entity's Balance Sheet based upon the following instructions. The reconciliation is required for loan guarantees committed on or after October 1, 1991, the effective date of the FCRA. Reporting entities are encouraged, but not required, to display reconciliations for loan guarantees committed prior to October 1, 1991, in schedules separate from the loan guarantees committed after September 30, 1991. Refer to OMB Circular A-136 for required disclosures.

10.14 Administrative Expense.

Report the portion of salaries and other administrative expenses that have been accounted for in support of the direct loan and loan guarantee programs.

10.15 Loans Receivable Roll forward.

Loans receivable and defaulted guarantee loans receivable must report a summary table that shows the change in net receivables. Refer to OMB Circular A-136 for required disclosures.

11.0 NOTE 8. INVENTORY AND RELATED PROPERTY, NET

11.1 General Information

Volume 4, Chapter 4 contains more complete information on inventory valuation methods. Valuation methods shown are those used by DoD, but may be specific to a particular organization or type of organization. Information for the inventory disclosures are identified in SFFAS 3. Also, reference ***SFFAS 48***, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials" for alternative inventory valuation methods for the establishment of opening balances.

11.1.1. Inventory, Operating Materials and Supplies, and Stockpile Materials Opening Balances. SFFAS 48 allows a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for Inventory, OM&S, and Stockpile Materials. Deemed cost is an acceptable valuation method to establish opening balances of Inventory, OM&S, and Stockpile Materials.

11.1.2. Disclose the use of deemed cost in the first year the entity uses deemed cost to value assets for its opening balances and in any subsequent year those financial statements are presented for comparative purposes. The disclosure should describe the deemed cost methods used, and in the first year presented, the effect on relevant balances.

11.1.3. Account for inventory, OM&S, and Stockpile Materials after opening balances in accordance with SFFAS 3.

## 11.2 Inventory and Related Property, Net

Include the total amounts of Inventories and Related Property reported in Inventory, OM&S, and Stockpile Material in Note 8. The Total Inventory and Related Property, Net must agree with the amount reported on the Balance Sheet.

## 11.3 Inventory, Net

Inventory categories include: held for sale; held in reserve for future sale; held for repair; raw materials; work-in-process; and excess, obsolete, and unserviceable.

11.3.1. Valuation. Disclose the following for each category of inventory: the gross amount recorded in the inventory system; the revaluation allowance for holding gains (losses) on inventory, if any; the net book value of the inventory (gross inventory plus revaluation allowance; and the valuation method used). The revaluation allowance represents adjustments to the gross inventory, in accordance with the applicable valuation methodology.

11.3.2. Valuation Method. Enter the code for the valuation method: Latest Acquisition Cost adjusted for holding gains and losses; NRV; and MAC.

11.3.3. Held for Sale. Report inventory that is held for sale, which includes consumable spare and repair parts, and repairable items owned and managed by DoD. This inventory includes materiel held due to a managerial determination to retain these items to support military or national contingencies.

11.3.4. Held in Reserve for Future Sale. Report the cost or value of tangible personal property held in reserve for future sale including inventory held for future sale because it is not readily available or will be needed.

11.3.5. Held for Repair. Report inventory held for repair, which includes damaged inventory that requires repairs to make it suitable for sale. DoD often relies on weapon systems and machinery no longer in production and encourages the repair and rebuilding of certain items.

Report inventory identified as unserviceable, but not reviewed to determine its reparability, as held for repair. When an assessment has been conducted, and it has been determined that it is not economically feasible to repair the item, the item must be reported as excess, obsolete, and unserviceable.

11.3.6. Raw Materials. Report the raw material inventory that is used as a component part of inventory.

11.3.7. Work-In-Process. Report inventory that is work-in-process, which includes costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. This may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other government plants for accrued costs of end items of material ordered but not delivered. Also, report work-in-process at depot maintenance activities.

11.3.8. Excess, Obsolete, and Unserviceable Inventory. Report inventory estimated to be potentially excess, obsolete, or beyond economic repair. Excess, obsolete, and unserviceable inventory must be valued at its expected NRV. Refer to Volume 4, Chapter 4 regarding the use of the NRV for excess inventory.

11.3.9. Total Inventory, Net. The total amount of Inventory, Net must equal the amount reported on the Inventory, Net line Note 8 (the summary note for Inventory and Related Property, Net).

11.3.10. Definitions of Inventory Gross Value, Revaluation Allowance, and Inventory, Net Columns. Inventory, Gross Value represents the standard value used for inventory transactions in the financial system. Revaluation Allowance represents the difference between standard inventory values and either historical cost or NRV. Inventory, Net is approximate historical cost or NRV. Valuation Method is the applicable valuation methodology used to arrive at the net inventory value.

11.3.11. Other Information (Related to Inventory). Disclose other information for the inventory component of the Inventory and Related Property line item on the reporting entity's Balance Sheet.

## 11.4 Operating Material & Supplies, Net

OM&S include spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines. OM&S categories include held for use; held in reserve for future use; held for repair; in development; and excess, obsolete, and unserviceable.

11.4.1. Valuation. Disclose the following for each category of OM&S: gross amount reported in the inventory system; revaluation allowance for gains (losses) on OM&S, if any; net book value (gross amount plus allowance for gains (losses)); and valuation method used. The

revaluation allowance, represent the adjustment to the recorded value to arrive at the historical cost.

11.4.2. Held for Use. Report OM&S held for use balances which include all issuable materiel.

11.4.3. Held in Reserve for Future Use. Report OM&S held in reserve for future use balances representing the cost or value of tangible personal property, held in reserve because it is not readily available or because it will be needed.

11.4.4. Held for Repair. Report OM&S held for repair, which includes all economically reparable materiel. OM&S that has been identified as unserviceable, but not yet reviewed to determine its reparability, must be reported as held for repair. When an assessment has been conducted, and it has been determined that it is not economically feasible to repair the item, then the item must be reported as excess, obsolete, and unserviceable.

11.4.5. In Development. Report the cost incurred or value of tangible personal property, such as OM&S in development that will be consumed in normal operations upon completion of development.

11.4.6. Excess, Obsolete, and Unserviceable. Report OM&S estimated to be potentially excess, obsolete, or beyond economic repair. Value excess, obsolete, and unserviceable OM&S at their expected NRV. Refer to Volume 4, Chapter 4 regarding the use of the NRV for excess OM&S.

11.4.7. Total OM&S, Net. The total amount of OM&S, Net must equal the amount reported on the OM&S, Net line of Note 8 (the summary note for Inventory and Related Property, Net).

11.4.8. Valuation Method. Enter the code for the valuation method. Direct Method; Historical Cost; Replacement Price; Standard Price; NRV; and MAC

11.4.9. Other Information (Related to OM&S). Disclose other information for the OM&S component of the Inventory and Related Property line item on the entity's Balance Sheet.

## 11.5 Stockpile Material, Net

11.5.1. Stockpile Material. Report the amount of strategic and critical materials held due to statutory requirements for use in national defense, conversation, or national emergencies.

11.5.1.1. The stockpile material categories are "Held for Sale" and "Held in Reserve for Future Sale." Stockpile material is strategic and critical material, held due to statutory requirements, for use in national defense, conservation, or national emergencies. All material held by the National Defense Stockpile is classified as held in reserve for future sale until congressional action declares the material no longer required to be stockpiled, and available for sale on the open

market. When the authorization to offer material for sale is received, the material is reclassified to held for sale.

11.5.1.2. Disposals cannot be made from the stockpile except for: (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; or (4) as authorized by law.

11.5.2. Valuation. For each category of Stockpile Material, disclose the amount reported in the logistics system allowance for gains (losses) on stockpile material, if any, and the net book value of stockpile material.

11.5.3. Valuation Method. Enter the code for the valuation method: MAC.

11.5.4. Total Stockpile Material. The total amount of Stockpile Material amount equal the amount reported on Stockpile Material, Net line of Note 8 (the summary note for Inventory and Related Property).

11.5.5. Other Information (Related to Stockpile Material). Disclose other information for the Stockpile Material component of the Inventory and Related Property, Net line item on the Balance Sheet.

## 12.0 NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

### 12.1 General Information

12.1.1. General PP&E. Report General PP&E by major class. Recognition and measurement criteria for General PP&E are in ***SFFAS 6***, "Accounting for Property, Plant, and Equipment," as amended by ***SFFAS 10***, "Accounting for Internal Use Software;" ***SFFAS 23***, "Eliminating the Category National Defense Property, Plant, and Equipment;" ***SFFAS 44***, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use;" and ***SFFAS 50***, "Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35." The Total General PP&E, Net must agree with the amounts on the reporting entity's Balance Sheet.

12.1.2. Depreciation/Amortization Method. Report the depreciation or amortization method used: Straight Line (S/L) or not applicable. See Volume 4 for information on how to calculate depreciation using the S/L method.

12.1.3. Service Life. Report the range of service life by Major Asset Class based on DoD Standard Recovery Periods contained in Volume 4.

12.1.4. Acquisition Value. Report the acquisition costs or estimated values by Major Asset Class.

For assets under capital lease, report the lesser of the present value or the fair value of the asset. The present value will be calculated, using either the lessor's implicit rate or the U.S.

Treasury borrowing rate of the rental or other lease payments during the lease term, and will exclude that portion of the payments representing executory costs paid to the lessor. Include a cross-reference to Note 16, "Leases," for additional information on capital leases.

12.1.5. Accumulated Depreciation/Amortization. Report the accumulated depreciation/amortization through the current reporting period, by Major Asset Class.

12.1.6. Net Book Value. Report the net book value of each Major Asset Class (acquisition cost less accumulated depreciation/amortization).

12.1.7. General PP&E in the Possession of Contractors. Report all property in the hands of contractors in accordance with Volume 4.

12.1.8. General PP&E Opening Balances. SFFAS 50 allows a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for General PP&E. DoD's alternative methods include: using deemed cost to establish opening balances of General PP&E, selecting between deemed cost and prospective capitalization of internal use software, and allowing an exclusion of land and land rights from opening balances with disclosure and acreage information and expensing of future acquisitions.

12.1.8.1. Disclose the use of deemed costs in the first year the entity uses deemed costs to value assets for its opening balances and in any subsequent year those financial statements are presented for comparative purposes. The disclosure should describe the deemed cost methods used, and in the first year presented, the effect on relevant balances.

12.1.8.2. Account for general equipment and real property after opening balances in accordance with SFFAS 6.

12.1.9. Other Information. Disclose in the narrative sections of this note other relevant information for the General PP&E line item on the reporting entity's Balance Sheet.

12.1.9.1. Adjustments. If adjustments are required to existing PP&E in the period the standards are implemented, in order to comply with the recognition and measurement criteria, record and disclose the adjustments by Major Asset Class in accordance with the standard.

12.1.9.2. General Disclosures Related to General PP&E. Disclose the required information pertaining to General PP&E, such as: (a) restrictions on the use or convertibility of General PP&E (e.g., outside the continental U.S. real property) or a statement disclosing there are no restrictions; (b) capitalization thresholds, including any changes in thresholds during the period; and (c) adjustments from changes in the accounting standards. If the acquisition cost is unknown for certain types or significant amounts of General PP&E, DoD Components must disclose the valuation method used to estimate the value reported. Disclosures reported under Note 1 of Significant Accounting Policies must not be repeated in this note.

12.2 Stewardship PP&E

Stewardship PP&E assets include Heritage Assets and Stewardship Land. Disclose, if applicable, the following:

12.2.1. If the cost of Heritage Assets and stewardship land transferred from other federal entities is not known, the receiving entity must disclose the number of physical units by major category. Do not recognize Heritage Assets and stewardship land acquired through donation or devise as a cost in calculating net cost, but disclose the fair value of the property. If the fair value is not known or reasonably estimable, disclose information related to the type and quantity of assets received.

12.2.2. Disclose any amounts expensed during the current period in the Statement of Net Cost (SNC) for the costs of acquiring, constructing, improving, reconstructing, or renovating Heritage Assets (other than Multi-Use Heritage Assets), and the cost of acquiring stewardship land and any costs to prepare a stewardship asset for its intended use. If the accounting system does not provide the necessary information to make the required disclosure for all or part of these expenses, the reporting entity must make the following disclosure to recognize the weakness and to disclose the portion of the expenses that are known. (If no portion of the expenses is known, include only the first sentence of the disclosure.)

12.2.3. Disclose that the reporting entity's accounting system does not capture information relative to Heritage Assets separately and distinctly from normal operations. Where it was able to separate the cost of acquiring, constructing, improving, reconstructing, or renovating Heritage Assets, the reporting entity identified the dollar amount for the FY.

## 12.3 Heritage Assets

Heritage Assets are items of historical, natural significance, cultural, educational, or artistic (e.g., aesthetic) importance, or items with significant architectural characteristics. Heritage Assets are expected to be preserved indefinitely. ***SFFAS 29***, "Heritage Assets and Stewardship Land," requires entities with Stewardship PP&E to reference a note on the Balance Sheet where required disclosures relative to these assets are contained. Rather than a separate note, DoD discloses Heritage Assets with the General PP&E note.

12.3.1. Reporting. Reporting entities will disclose the beginning counts, additions, deletions, and ending counts of their Heritage Assets, by category for the period presented. Disclose the quantity of Multi-Use Heritage Assets (i.e., Heritage Asset buildings used predominantly for government operations) in the schedule.

12.3.2. Categories. Report balances for Heritage Assets within the following categories.

12.3.2.1. Buildings and Structures. Building and Structures include buildings and structures listed on, or eligible for listing on, the National Register of Historic Places, including Multi-Use Heritage Assets. This category also includes National Historic Landmarks; buildings or structures that are contributing elements to districts listed on, or eligible for, the National Register of Historic Places or a National Historic Landmark District; and buildings and

structures designated eligible in the National Register of Historic Places for purposes of program alternatives.

12.3.2.2. Archeological Sites. Archeological Sites include sites identified, evaluated, and determined to be eligible for, or are listed on, the National Register of Historic Places.

12.3.2.3. Museum Collection Items. Museum Collection Items include items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant, technical, or architectural characteristics. Divide museum collection items into two subcategories: fine art and objects. Fine art includes paintings, sculptures, and other three dimensional art. Objects are current use, excess, obsolete, or condemned material; war trophies; personal property, such as uniforms, medals, or diaries; and military equipment.

12.3.3. Disclosures. Include the disclosures for Heritage Assets identified in OMB Circular A-136.

12.3.4. Year-End Reporting. Report deferred maintenance and repair information regarding Heritage Assets in Required Supplementary Information at year-end only.

## 12.4 Stewardship Land

Stewardship land is land and land rights owned by the Federal Government, but not acquired for or in connection with, items of General PP&E. "Acquired for or in connection with" is defined as including land acquired with the intent to construct General PP&E and land acquired in combination with General PP&E. Each DoD Component responsible for such land will report land classified as stewardship land. Without exception, classify all land provided to the Department from the public domain or at no cost as stewardship land, regardless of its use. SFFAS 29 requires entities with Stewardship PP&E to reference a note on the Balance Sheet where required disclosures relative to these assets are contained. Rather than a separate note, DoD discloses stewardship land within the General PP&E note.

12.4.1. Reporting. Reporting entities will disclose the beginning counts, additions, deletions, and ending counts of their stewardship land, by category. Report the facility numbers and category descriptions. DoD Instruction ***(DoDI) 4165.14***, "Real Property Inventory and Forecasting," identifies the predominant categories authorized for use.

12.4.1.1. Government Owned Land (Facility Number 9110) and State Owned Land (Facility Number 9111) is land held in public trust and will be reported as stewardship land;

12.4.1.2. Withdrawn Public Land (Facility Number 9120) is land held in public trust and will be reported as stewardship land;

12.4.1.3. Licensed and Permitted Land (Facility Number 9130) are interests and privileges held by the entity in land owned by others and will be reported as other land;

12.4.1.4. Public Land (Facility Number 9140) is land held in public trust and will be reported as stewardship land;

12.4.1.5. Land Easement (Facility Number 9210) are interests and privileges held by the entity in land owned by others and will be reported as stewardship land;

12.4.1.6. In-leased Land (Facility Number 9220) are interests and privileges held by the entity in land owned by others and will be reported as stewardship land; and

12.4.1.7. Foreign Land (Facility Number 9230) are interests and privileges held by the entity in land in foreign countries and will be reported as stewardship land.

12.4.2. Disclosures. Include the disclosures for stewardship land identified in OMB Circular A-136.

*12.5 Summary of Activity

To support the Financial Report of the United States Governmental compilation process, present a summary of activity reconciliation. The following categories must be included in the reconciliation: Balance beginning of year, Capitalized acquisitions, Dispositions, Transfers in/out without reimbursement, Revaluations, Depreciation expense, Donations, Other, and Balance end of year. The General PP&E, Net end of year must agree with the amounts on the reporting entity's Balance Sheet.

13.0 NOTE 10. OTHER ASSETS

13.1 General Information

Report the amount of Other Assets not included elsewhere on the Balance Sheet. Other Assets also include General PP&E assets that are no longer operations, but have not yet been disposed of or removed from service.

13.2 Reporting

13.2.1. Intragovernmental Other Assets. Separately categorize the intragovernmental other assets.

13.2.1.1. Advances and Prepayments. Include advances and prepayments to other federal entities.

13.2.1.2. Other Assets. Include other assets categorized as federal.

13.2.1.3. Total Intragovernmental Other Assets. The total amount must match the amount reported on the Balance Sheet.

13.2.2. Other than Intragovernmental Assets. Separately categorize the non-federal other assets.

13.2.2.1. Outstanding Contract Financing Payments. Include contract financing payments, classified as advances, as defined in Volume 4, Chapter 5.

13.2.2.2. Advances and Prepayments. Include advances and prepayments categorized as non-federal.

13.2.2.3. Other Assets. Include other assets categorized as non-federal.

13.2.2.4. Subtotal. The subtotal amount includes the preceding lines. This subtotal is specific for DoD for presentation purposes.

13.2.2.5. Less: Outstanding Contract Financing Payments and Advances and Prepayments totaled and presented on the Balance Sheet as Advances and Prepayments. This line is specific to DoD for presentation purposes and to illustrate the reconciliation to the Balance Sheet.

13.2.2.6. Net Other than Intragovernmental. The net amount for non-federal other assets must match the amount reported on the Balance Sheet.

13.2.3. Information Related to Other Assets. Identify other relevant information for other assets reported on the Balance Sheet.

## 14.0 NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

### 14.1 General Information

Report the Liabilities Not Covered by Budgetary Resources, liabilities for which congressional action is needed before budgetary resources can be provided. The Total Liabilities must equal the amount reported on the reporting entity's Balance Sheet.

### 14.2 Reporting

14.2.1. Liabilities Not Covered by Budgetary Resources. Report the amounts of intragovernmental liabilities not covered by budgetary resources for Accounts Payable; Debt; and Other Liabilities. Report the sum of intragovernmental liabilities. Report the amounts of other than intragovernmental liabilities not covered by budgetary resources for Accounts Payable; Federal Employee and Veteran Benefits Payable; Environmental and Disposal Liabilities; and Other Liabilities.

14.2.3. Liabilities Covered by Budgetary Resources. Report the total amount of liabilities covered by budgetary resources. Budgetary resources include: (1) new budget authority; (2) spending authority from offsetting collections; (3) recoveries of unexpired budget authority through downward adjustments of prior FY obligations; and (4) unobligated balances of budgetary

resources at the beginning of the year or net transfers of prior FY balances during the year; and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the Balance Sheet date, provided that the resources may be apportioned by OMB without further action by the Congress or without a contingency first having to be met.

14.2.4. Liabilities Not Requiring Budgetary Resources. Report the total amount of liabilities not requiring budgetary resources. Amounts represent liabilities that have not been required in the past and will not require the use of budgetary resources in the future. Examples of liabilities not requiring budgetary resources include liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue.

14.2.5. Information Related to Liabilities Not Covered by Budgetary Resources. Provide other information needed to understand the nature of liabilities not covered by budgetary resources. All entities reporting a balance on Federal Employee and Veteran Benefits Payable must disclose the nature that comprise various employee actuarial liabilities not due and payable during the current FY. Refer to Note 13, "Federal Employee and Veteran Benefits Payable," for additional disclosures.

## 15.0 NOTE 12. DEBT

### 15.1 General Information

Report the net amount of debt. Agency Debt (Intragovernmental) includes debt issued under special financing authorities (e.g. Federal Housing Administration debentures and Tennessee Valley Authority bonds), with agency debt held by Government agencies reported separately from agency debt held by the public. Total Debt must equal the amount reported on the entity's Balance Sheet.

### 15.2 Reporting

15.2.1. Other Debt. Report the amount of debt owed to the U.S. Treasury, which includes direct loan and guaranteed loan financing account liabilities to the U.S. Treasury. Report the following in separate columns: beginning balance of borrowings, the year's net borrowing, and the ending balance of borrowings.

15.2.2. Information Related to Debt. Provide other information needed to understand the nature of debt (e.g., write offs of debts owed to the U.S. Treasury or the Federal Financing Bank) which includes direct loans and guaranteed loans financing account liabilities disclosed in paragraph 10.1.

15.2.2.1. Disclose that the outstanding debt consists of interest and principal due to the U.S. Treasury and the Federal Financing Bank. State the specific purpose for which the reporting entity borrows funds.

15.2.2.2. Disclose that the reporting entity must pay the debt if borrowers (e.g. foreign country, ship leasing, or housing builder) default on the loan. For loan guarantees, the reporting entity must pay the amount of outstanding principal guaranteed.

## 16.0 NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

### 16.1 General Information

Present Federal Employee and Veteran Benefits Payable for the current and prior FY based on the following instructions. Report the information required in the note by the entity that administers the benefit(s), except "Federal Employees' Compensation Act (FECA)." Include amounts owed to the Department of Labor for estimated actuarial liabilities for future workers' compensation benefits.

16.1.1. Pension and Health Benefits. Report the pension and health benefit liabilities for Military Retirement Pensions, Military Pre Medicare-Eligible Retiree Health Benefits, and Military Medicare-Eligible Retiree Health Benefits.

16.1.1.1. Liabilities. Report the actuarial present value of projected benefits. For pensions, this would be the projected benefit obligation. Total Liabilities must agree with the amount reported on the Balance Sheet.

16.1.1.1.1. Military Retirement Pensions accumulates funds used to pay pensions and annuities to retired military personnel and their survivors. Military Retirement Pensions will report the actuarially determined present value of all future pensions earned to date, using the "aggregate entry age" normal cost method. This is a method whereby projected retirement costs are spread over the projected future salaries of a new entrant cohort. (Refer to Volume 4, Chapter 10 for further guidance.)

16.1.1.1.2. The Military Pre Medicare-Eligible Retiree Health Benefits will include beneficiaries of the Defense Health Program (DHP), retirees, their dependents, and survivors who are not yet Medicare-eligible. The DHP will report the actuarially determined present value of all retirement benefits earned to date, using the "aggregate entry age" normal cost method. This is a method whereby projected medical costs are spread over the projected future service of a cohort at the point of entry. (Refer to Volume 4, Chapter 10 for further guidance).

16.1.1.1.3. The Military Medical-Eligible Retiree Health Benefits pay for health care programs for Medicare-eligible Military and other Uniformed Service retirees and their Medicare-eligible dependents or survivors. Report the actuarial present value of projected benefits accrued to date, using the "aggregate entry age" normal cost method. This is a method whereby projected retiree medical plan costs are spread over the projected service of a new entrant cohort.

16.1.1.2. Assets Available to Pay Benefits. In a separate column, report the net assets, if any, available to pay benefits.

16.1.1.3. Unfunded Liabilities. In a separate column, report the actuarial liabilities not covered by budgetary resources, e.g., the actuarial present value of projected benefits less funded assets available to pay benefits. The Total Unfunded Liabilities must agree with Note 11, "Liabilities Not Covered by Budgetary Resources," Line "Federal Employee and Veteran Benefits Payable."

16.1.1.4. Unfunded Liabilities. Report the actuarial liabilities not covered by budgetary resources, e.g., the actuarial present value of projected benefits less funded assets available to pay benefits.

16.1.2. Other Benefits. Report other employment related actuarial liabilities (e.g., FECA, Voluntary Separation Incentive Programs, and DoD Education Benefits Fund.)

16.1.3. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet). This presentation is specific to DoD. The line is included to demonstrate the reconciliation to the Balance Sheet.

16.1.4. Other benefit-related payables included in the Intragovernmental Other Liabilities on the Balance Sheet. This presentation is specific to DoD. The line is included to demonstrate Intragovernmental Other Liabilities (Note 13) is included to the Balance Sheet.

16.1.5. Total Federal Employee and Veterans Benefits Payable. Enter the sum of the totals from Total Pension and Health Benefits and Total Other Benefits in the corresponding columns.

16.1.6. Other Information Pertaining to Federal Employee and Veteran Benefits Payable. Report the minimum disclosures related to pensions and other actuarial liabilities in accordance with ***SFFAS 5***, "Accounting for Liabilities of the Federal Government," and SFFAS 33.

16.1.6.1. Actuarial Cost Method Used. Provide a description of the actuarial cost method used to compute the projected plan benefit cost.

16.1.6.2. Assumptions. Disclose the actuarial, economic, and health care cost trend and discount rate assumptions used to calculate the liability. Refer to SFFAS 5 and SFFAS 33 for discount rate assumptions. Include the statement that the estimated actuarial liability is updated only at the end of each FY.

16.1.6.3. Expense Components. Disclose the individual components of expense for the period.

16.1.6.4. Fair Value of Investments. Disclose the fair value of investments in market-based and marketable securities.

16.1.6.5. Changes. Disclose the changes in actuarial liability since the previous calculation and provide a brief summary of the program(s) for which actuarial liabilities are computed.

16.2 Reconciliation of Beginning and Ending Liability Balances for Federal Employee and Veteran Benefits Payable

Provide a reconciliation of the changes in actuarial liabilities from beginning and ending balances. SFFAS 33 requires the display of the components of pension expense, as well as the gains and losses from changes in long-term assumptions used to estimate liabilities for federal employee pensions, other retirement benefits, and other post-employment benefits including a discount rate assumption.

16.3 Reporting

Report actuarial liability data related to normal cost liabilities, interest costs, plan amendment liabilities, actuarial (gains)/losses, and benefit outlays. Report actuarial liability data according to the following categories: Military Retirement Pensions, Military Pre Medicare-Eligible Retiree Health Benefits, Military Medicare-Eligible Retiree Health Benefits, and Other (Voluntary Separation Incentive Programs, and DoD Education Benefits Fund).

*16.4 Liability for Unpaid Insurance Claims

Report the changes in the liability balance for unpaid insurance claims, including incurred-but-not-reported.

*16.5 Insurance Programs

***SFFAS 51***, "Insurance Programs," requires disclosure of insurance program information. Reporting entities must recognize revenues, expenses, and liabilities in accordance with categories identified in SFFAS 51.

17.0 NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

*17.1 General Information

Present environmental liabilities in accordance with OMB Circular A-136, corresponding policy guidance presented in Volume 4, Chapter 13, and instructions provided in this section. Include a reference to Note 17 if non-legal environment and disposal contingencies are disclosed in Note 17.

17.1.1. Environmental Liabilities. An environmental liability is a future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events. A DoD environmental liability exists when: (1) contamination is present or likely to be present; (2) environmental cleanup, closure, and/or disposal is required by applicable federal, state, interstate, or local requirements or an authorized legal agreement such as a lease, contract, or international agreement; and (3) the operations that created the liability are DoD related. An environmental liability may also exist if

environmental contamination is not DoD related, but DoD enters into a binding agreement that formally accepts financial responsibility for cleanup, closure, and/or disposal.

17.1.1.1. Environmental liabilities cost estimates consider, on a current cost basis, the anticipated costs of the level of effort required for remediating environmental cleanup sites, in compliance with associated environmental legal and regulatory requirements, and estimated environmental costs associated with the future closure of operations, including closure and disposal of PP&E.

17.1.1.2. Base such cost estimates on the current technology available. The estimated liability may be a specific amount or a range of amounts. If some amount within the range is considered a better estimate than any other estimate, use that amount. If no amount within a range is considered a better estimate than the other estimates, use the minimum amount in the range, and disclose the range under the note narrative.

17.1.1.2.1. Base the amount reported on site level investigations and characterizations. Base any estimate produced on site-specific information and cost models validated in accordance with ***DoDI 5000.61***, "DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation (VV&A)."

17.1.1.2.2. As investigation at a specific site proceeds, the estimate is refined and reported as appropriate. If a site (Site "A") is similar to another site (Site "B") for which valid cost estimates have been derived (through site level investigation and characterization), the estimate for recognizing a liability for the site (Site "A") could be based on the valid cost estimate for the similar site (Site "B"). Additionally, the estimated cost of a future study (if required) must be recognized. If there is no comparable site, then the remediation cost for the site (Site "A") is not considered reasonably estimable at this time, but the anticipated cost of conducting a future study plus any other required costs must be recognized.

17.1.1.2.3. Disclose all methods used to estimate the costs (including the number of sites and costs estimates derived using data from similar sites) in a note narrative, as well as any elements that could not be estimated.

17.1.2. Non-Federal Environmental Liabilities. All environmental liabilities are non-federal liabilities.

17.1.2.1. Accrued Environmental Restoration Liabilities. Accrued Environmental Restoration (cleanup) Liabilities represent the cost to correct past environmental problems funded from the Environmental Restoration Accounts in accordance with ***DoD Manual 4715.20***, "Defense Environmental Restoration Program (DERP) Management," and Volume 4, Chapter 13. Environmental restoration activities may be conducted at operating installations and Formerly Used Defense Sites (FUDS), and other than operational ranges. Site inventory and estimated cost data prepared for the ***Defense Environmental Programs Annual Report to the Congress*** is the baseline for environmental restoration (cleanup) liability measurement (e.g., the current cost to acquire the required services).

17.1.2.1.1. Active Installations-Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR). Environmental liabilities associated with remedial actions eligible for funding under DoD Manual 4715.20. Report cleanup costs not eligible for DERP funding on the Environmental Corrective Action line. These remedial actions may address:

17.1.2.1.1.1. Hazardous substances, pollutants, and contaminants as defined in the "Comprehensive Environmental Response, Compensation and Liability Act" (***CERCLA***);

17.1.2.1.1.2. Hazardous waste or hazardous constituents addressed under the "Resource Conservation and Recovery Act" (***RCRA***) corrective action process or other federal or state statutes and regulations;

17.1.2.1.1.3. Military munitions (e.g., Unexploded Ordnance (UXO) or Waste Military Munitions (WMM)), chemical residues from military munitions, and munitions scrap at locations other than operational ranges associated with an active installation, when the environmental restoration activity is incidental to the IRP environmental restoration activity; or

17.1.2.1.1.4. BD/DR, which is the demolition and removal of unsafe buildings and structures at facilities or sites owned by, leased to, or otherwise possessed by the United States and under the jurisdiction of the Secretary of Defense. For additional information, refer to the ***Management Guidance for the DERP*** (Chapters 6 and 7) for program category definitions and funding eligibility criteria, respectively.

17.1.2.1.2. Active Installations-Military Munitions Response Program (MMRP). Environmental liabilities associated with the MMRP category defined as response actions (e.g., the identification, investigation, and removal actions, remedial actions, or a combination of removal and remedial actions) to address military munitions (e.g., UXO or WMM) or the chemical residues of munitions at locations other than operational ranges. The contamination may include munitions, chemical residues from military munitions and munitions scrap at ranges other than operational ranges associated with active installations that pose a threat to human health or the environment. Refer to the Management Guidance for the DERP (Chapters 6 and 7) for more details on the definition of the MMRP category and funding eligibility criteria, respectively.

17.1.2.1.3. Formerly Used Defense Sites - IRP and BD/DR. Properties that meet the FUDS eligibility criteria described in the Management Guidance for the DERP. Include only those projects that address DoD hazardous, toxicological, and radiological waste (HTRW) and containerized HTRW (e.g., storage tanks).

17.1.2.1.3.1. Include the environmental response actions related to hazardous substances (as defined in the CERCLA), pollutants or contaminants (as defined in the CERCLA), and DoD-unique materials. Report liabilities associated with remediation of contamination from non-munitions activities. The BD/DR program category is defined as the

demolition and removal of unsafe buildings and structures at facilities or sites that are or were owned by, leased to, or otherwise possessed by the United States and under the jurisdiction of the Secretary of Defense.

17.1.2.1.3.2. For additional detail, refer to the Management Guidance for the DERP (Chapters 6 and 7) for program category definitions and funding eligibility criteria, respectively.

17.1.2.1.4. Formerly Used Defense Sites - MMRP. Properties that meet the FUDS eligibility criteria described in the Management Guidance for the DERP. This represents the environmental liabilities associated with the identification, investigation, and removal or remedial actions (or a combination of removal and remedial actions) to address military munitions (e.g., UXO or WMM), chemical residues from military munitions, and munitions scrap for those sites that are FUDS eligible.

17.1.2.2. Other Accrued Environmental Liabilities – Non-Base Realignment and Closure (BRAC). Costs to remediate cleanup sites that are not eligible for funding under the DERP. Other accrued environmental liabilities also include environmental costs associated with the future closure of operations, including closure and disposal of PP&E.

17.1.2.2.1. Although hazardous waste cleanup and disposal activities are normally thought of as a cost of ongoing operations, associated activities remain a liability if not disposed of or cleaned up by the financial reporting date. Thus, environmental conditions that result from current operations and require immediate cleanup, e.g. an oil spill or routine hazardous waste disposal, are not considered environmental liabilities and will be recognized as a current operating expense, assuming the DoD Component completes the cleanup, closure, and disposal action in the current reporting period.

17.1.2.2.2. The following subparagraphs describe in more detail the categories of liabilities, as well as the applicable lines.

17.1.2.2.2.1. Environmental Corrective Action. Environmental liabilities associated with the cleanup sites not eligible for funding under the DERP, typically conducted under RCRA or other federal or state statutes and regulations. Include environmental liabilities associated with the identification, investigation, and removal and remedial actions to address the munitions discharge migrating off the military range or a formal decision to close the range occurs.

17.1.2.2.2.2. Environmental Closure Requirements. Environmental liability associated with the future closure/ decommissioning of facilities on an active installation that have environmental closure requirements. Examples include the future costs associated with closing a solid waste landfill, wastewater treatment plant, fuel storage tanks, or permit requirements associated with treatment, storage and disposal facilities, and open burn-open detonation sites.

17.1.2.2.2.3. Asbestos. Environmental liabilities associated with the removal, containment, and/or disposal of friable (immediate health threat) and non-friable (not an immediate health threat): (1) asbestos-containing materials from property, or (2) material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of associated PP&E on non-BRAC installations.

17.1.2.2.2.4. Non-Military Equipment. Environmental liabilities related to non-military equipment.

17.1.2.2.2.5. Other. Environmental liabilities not covered by the preceding lines.

17.1.2.3. Base Realignment and Closure Installations. The cost to address environmental cleanup at bases that are realigning or closing. These liabilities can be from past activities that are part of DERP or from activities not covered by DERP.

17.1.2.3.1. IRP. Environmental liabilities associated with remedial actions eligible for funding under the DERP. Report all BRAC cleanup costs not eligible for DERP funding on the Environmental Corrective Action/Closure Requirements line. These remedial actions may address:

17.1.2.3.1.1. Hazardous substances, pollutants, and contaminants as defined in the CERCLA;

17.1.2.3.1.2. Hazardous waste or hazardous constituents addressed under the RCRA corrective action process or other federal or state statutes and regulations; and

17.1.2.3.1.3. Military munitions (e.g., UXO or WMM), chemical residues from military munitions, and munitions scrap at BRAC installations, when the environmental restoration activity is incidental to the IRP environmental restoration activity.

17.1.2.3.2. MMRP. Environmental liabilities associated with the MMRP that are defined as response actions (e.g., the identification, investigation, and removal actions, remedial actions, or a combination of removal and remedial actions) to address military munitions (e.g., UXO or WMM) or the chemical residues of munitions at locations other than operational ranges. The contamination may include munitions, chemical residues from military munitions, and munitions scrap at BRAC Installations (e.g., MMRP that pose a threat to human health or the environment). Refer to the Management Guidance for the DERP for more details on the definition of the MMRP category and funding eligibility criteria, respectively.

17.1.2.3.3. Environmental Corrective Action/Closure Requirements. Environmental liabilities associated with cleanup sites not eligible for funding under the DERP, typically conducted under RCRA or other federal or state statutes and regulations. Also include the environmental liability associated with the future closure of facilities that have environmental closure requirements. Examples include the future costs associated with closing a solid waste

landfill, waste water treatment plant, fuel storage tanks, or permit requirements associated with treatment, storage and disposal facilities, and open burn-open detonation sites.

17.1.2.3.4. Asbestos. Environmental liabilities associated with the removal, containment, and disposal of friable (immediate health threat) and non-friable (not an immediate health threat). The environmental liability includes: (1) asbestos-containing materials from property, or (2) material and property that consist of asbestos-containing material at permanent or temporary closure or shutdown of associated PP&E on BRAC installations.

17.1.2.4. Environmental Disposal for General Equipment/Weapons Programs. Environmental disposal liabilities related to the final disposition of general equipment on non-BRAC installations. Report the environmental disposal liabilities by the following line items:

17.1.2.4.1. Nuclear Powered General Equipment/Spent Nuclear Fuel. Environmental disposal liabilities related to nuclear powered general equipment and used fuel.

17.1.2.4.2. Non-Nuclear Powered General Equipment. Environmental disposal liabilities related to the non-nuclear powered general equipment and used fuel.

17.1.2.4.3. Other Weapon Systems. Environmental liabilities not covered in the preceding lines.

17.1.2.5. Chemical Weapons Disposal Program. Environmental remediation and disposal liabilities related to chemical agents. Report the environmental and disposal liabilities by the following line items:

17.1.2.5.1. Chemical Demilitarization – Chemical Materials Agency. Liabilities associated with the disposal of chemical constituents of military munitions, including the chemical byproducts of detonation, deflagration, or other reactive processes. These constituents are unconsumed explosives (even in trace concentrations) from the detonation of military munitions, explosives released by the structural compromise of unfired WMM, and chemical agents released from chemical munitions.

17.1.2.5.2. Chemical Demilitarization – Assembled Chemical Weapons Alternatives. Liabilities associated with assembled chemical weapons alternatives. Assembled chemical weapons alternatives refer to weapons that contain a chemical agent in addition to explosives, propellant, and packaging materials. Examples include rockets, projectiles, and bombs.

17.1.3. Other Information Related to Environmental Liabilities. Provide the narrative disclosures as outlined; each section will have captions so the disclosures are readily segregated.

17.1.3.1. Applicable Laws and Regulations of Cleanup, Closure, and/or Disposal Requirements. DoD Components must address each of the applicable laws and regulations that are the source of their environmental liabilities. DoD is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other past activities, which have

created a public health or environmental risk. DoD does this in coordination with regulatory agencies, and if applicable, with other responsible parties. Reference Volume 4, Chapter 13 for examples of relevant laws and regulations for consideration and discussion.

17.1.3.1.1. The Department is also required to recognize closure and post-closure environmental costs for its General PP&E and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, environmental disposal costs of weapons systems, and environmental costs related to the BRAC actions.

17.1.3.2. Methods for Assigning Total Cleanup Costs to Current Operating Periods.

17.1.3.2.1. DoD Components must provide the method for assigning the estimated total cleanup, closure, and disposal costs to the current operating periods. DoD Components must not confuse this with how they budget for the liabilities. The Department policy is to comply with the accounting standards.

17.1.3.2.2. The Department uses engineering estimates and independently validated models to estimate environmental costs. The models are contained within the applications such as Remedial Action Cost Engineering Requirements System. The Department validates the models in accordance with DoDI 5000.61 and primarily uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site investigation.

17.1.3.2.2.1. The Department primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project. Once the environmental cost estimates are complete, the Department complies with accounting standards to assign costs to current operating periods. The Department has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997 unless the costs are to be recovered through user charges. When recovering costs through user charges, the Department expenses the portion of the asset life that has passed since the General PP&E was placed into service and systematically recognizes the remaining cost over the life of the assets.

17.1.3.2.2.2. For General PP&E placed into service after September 30, 1997, the Department expenses the associated environmental costs systematically over the life of the asset. The Department expenses the full cost to cleanup contamination for stewardship PP&E at the time the asset is placed into service. The Department uses two methods for systematic recognition: physical capacity for operating landfills and life expectancy in years for all other assets.

17.1.3.3. Provide a Description of the Types of Environmental and Disposal Liabilities Identified. Provide a general statement describing the types of their environmental and disposal liabilities.

17.1.3.4. Nature and Possible Changes in Estimated Cleanup Costs. Identify any environmental liabilities that they know may change due to inflation, deflation, technology, plans, and/or pending changes to applicable laws and/or regulations. If no known changes are pending, DoD Components must state that they are not aware of any pending changes but the liabilities can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

17.1.3.5. Provide a Description of the Level of Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities. Provide a detailed description of the uncertainties regarding estimates of significant situations (e.g., BRAC closures, environmental related disposals, ranges, chemical agents, and munitions). The disclosure includes a general statement followed with the specific details known about the uncertainties.

17.1.3.6. Unrecognized Costs. Provide the unrecognized portion of the estimated total cleanup, closure, or disposal costs associated with General PP&E. For General PP&E placed in service on or after October 1, 1997, DoD Components systematically recognize the liability over the useful life of the assets. The unrecognized portion of the total cleanup must equal the estimated total cleanup costs less the amount recognized on the financial statements. Refer to Volume 4, Chapter 13 for further information on General PP&E requiring systematic recognition of the environmental liability.

17.1.3.7. Asbestos-Related Cleanup Cost. Provide the recognized liability for friable and non-friable asbestos cleanup costs.

17.1.3.8. Other Disclosures. DoD Components provide any other information they believe material to the users of the financial statements.

## 17.2 Other Information

Non-legal contingent environmental and disposal liabilities should be included within the Environmental and Disposal Liabilities. Legal refers to those contingencies and contingent liabilities that are reported in the legal letter and/or management schedule whereas non-legal refers to those contingencies and contingent liabilities that are not included in the legal letter or management schedule.

# 18.0 NOTE 15. OTHER LIABILITIES

## 18.1 General Information

Present Other Liabilities are not included elsewhere on the Balance Sheet. For FY 2023, both funded and unfunded accrued employee annual leave will be reported in Federal Employee and Veterans Benefits Payable.

## *18.2 Reporting

18.2.1. General Guidance on Other Liabilities

18.2.1.1. Other Liabilities include, but are not limited to, grants payable; insurance and guarantee program; advances from others and deferred revenue; deposit fund amounts held in escrow; contingent liabilities; contract holdbacks; and resources payable to the U.S. Treasury and other accrued liabilities.

18.2.1.2. Report all contingent liabilities within Other Liabilities. The amount reported (recognized) on the Balance Sheet is the total amount of the estimated probable loss. Refer to OMB Circular A-136 for policy on recognizing contingent liabilities. Examples of claims or other contingencies include: (a) indemnity agreement reimbursements due to licensees or contractors for losses incurred in support of federal activities; (b) adjudicated claims against the Federal Government that are in the process of judicial proceedings; and (c) the unfunded portion of total liabilities to international institutions.

18.2.1.3. Current liabilities represent debt due for payment within 12 months or less of the Balance Sheet date. Noncurrent liabilities represent debt that is due for payment beyond 12 months from the Balance Sheet date.

18.2.2. Intragovernmental. Report all intragovernmental other liabilities. Report current separately from the noncurrent portion of the liability. The following liabilities are to be reported within Intragovernmental Other Liabilities.

18.2.2.1. Disbursing Officer Cash.

18.2.2.2. Liabilities for Non-Entity Assets.

18.2.2.3. Subtotal. Sum the preceding lines. This is specific to DoD for presentation purposes.

18.2.2.4. Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable. Present the Other benefits-related payables included in Intragovernmental Other Liabilities on the Balance Sheet from Note 13. This is specific to DoD for presentation purposes and to illustrate the reconciliation to the Balance Sheet and Note 13.

18.2.2.5. Total Intragovernmental. The amounts must equal the amount reported on the Balance Sheet.

18.2.3. Other than Intragovernmental. Report Other than Intragovernmental. Report current separately from the noncurrent portion of the liability. The following liabilities are to be reported within Other than Intragovernmental Liabilities.

18.2.3.1. Accrued Funded Payroll and Benefits.

18.2.3.2. Deposit Funds and Suspense Accounts.

18.2.3.3. Non-environmental Disposal Liabilities. Breakout the categories used to report non-environmental disposal liabilities as follows: (a) Military Equipment (Non-nuclear); (b) Excess/Obsolete Structures; and (c) Conventional Munitions Disposal.

18.2.3.4. Contract Holdbacks.

18.2.3.5. Contingent Liabilities.

18.2.3.6. Other Liabilities without Related Budgetary Obligations. The amounts represent unfunded liabilities for which Congressional action is needed before budgetary resources can be provided.

18.2.3.7. Other Liabilities with Related Budgetary Obligations. The amounts of liabilities for which there is a related budgetary obligation.

18.2.3.8. Total Other than Intragovernmental Liabilities. The amounts must equal the amount reported on the Balance Sheet.

18.2.4. Advances from Others and Deferred Revenue. Report separately intragovernmental and other than intragovernmental amounts received for goods or services to be delivered or performed in the future and reflect amounts not yet earned.

18.2.5. Other Information Pertaining to Other Liabilities. Report other information relevant to other liabilities that is not in the categories.

*19.0 NOTE 16. LEASES

19.1 General Information

Entity as Lessee and Entity as Lessor are the two major categories of Leases. OMB Circular A-136 guidance for this note schedule reflect future payment disclosure requirements for five FYs and then all remaining payments due in later years (after five years). While this OMB Circular A-136 presentation is appropriate for end of year reporting, quarterly reporting requires an additional line for payments due in the remaining current FY and will result in the reporting of six FYs during quarters one through three, instead of the five FYs displayed in OMB Circular A-136. Reporting requirements for Leases is anticipated to significantly change for periods beginning after September 30, 2023 in accordance with SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment.*

19.2 Entity as Lessee Assets Under Capital Lease

Report the Assets under Capital Lease by categories of land and buildings and machinery and equipment with the related accumulated amortization.

19.2.1. Entity as Lessee – Assets Under Capital Lease. By major category of asset, report the gross assets under capital lease and the total accumulated amortization. Sum the preceding lines.

19.2.2. Description of Lease Arrangements. Disclose any additional information related to assets under capital leases.

19.3 Entity as Lessee for Federal and Non-Federal Future Payments Due for Capital Leases

Present capital lease liabilities for the current and prior FY in accordance with the instructions provided. Federal and Non-Federal leases must be presented separately.

19.3.1. Future Payments Due. Report the future lease payments, by major category for all non-cancelable leases with terms longer than 1 year. Disclose CY federal and non-federal leases separately. PY lease amounts do not need to be disclosed separately.

19.3.2. Less: Imputed Interest. Report the imputed interest.

19.3.3. Less: Executory Costs. Report the executory costs.

19.3.4. Capital Lease Liabilities Covered by Budgetary Resources versus Not Covered by Budgetary Resources. Separately disclose the portions of the capital lease liability covered by budgetary resources and not covered by budgetary resources. (Refer to Appendix B of the OMB Circular A-11 for additional guidance, but notice a difference in terminology. The term "capital leases" as used in this volume includes "capital leases and lease purchases").

19.3.5. FY Information. For quarterly reporting, report the payments remaining for the current FY (e.g., FY 2023) on the first line.

19.4 Entity as Lessee for Federal and Non-Federal Future Payments Due for Non-Cancelable Operating Leases

19.4.1. Description of Operating Lease Arrangements. Report information that would disclose the level of the reporting entity's funding commitments, which include the following items in the disclosure: the major asset categories and associated lease terms; existence and terms of renewal options; escalation clauses; contingent rental restrictions imposed by lease agreements; deviations from the standard lease terms; and the lease period. Disclose CY federal and non-federal leases separately.

19.4.2. Future Payments Due for Non-Cancelable Operating Leases. Enter future lease payments, by major category, for all irrevocable leases with terms longer than one year.

19.5 Entity as Lessor for Federal and Non-Federal Future Projected Receipts for Capital Leases

Report the Capital Leases for future projected receipts as the lessor for federal and non-federal activities separately. Also, include a description of the lease arrangements.

19.6 Entity as Lessor for Federal and Non-Federal Future Projected Receipts for Non-Cancelable Operating Leases

Report the Non-Cancelable Operating Leases by category for future projected receipts as the lessor for federal and non-federal activities separately. Also, include a description of the lease arrangements.

20.0 NOTE 17. COMMITMENTS AND CONTINGENCIES

20.1 General Information

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will result in the loss or the incurrence of a liability can range from probable to remote. SFFAS 5, as amended by ***SFFAS 12***, "Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government," contains the criteria for recognition and disclosure of contingent liabilities. It provides an exception to the contingent liability standard for recognizing loss contingencies on matters of pending or threatened litigation and unasserted claims. Refer to TFM Volume 1, Part 2, Chapter 4745 for disclosures related to legal contingencies. Also, reference Chapter 2 and Volume 4, Chapter 12.

20.2 Disclosures

20.2.1. Disclosure versus Recognition of Contingent Liabilities. Disclose contingent liabilities that do not meet the criteria provided in paragraph 20.2.2. for recognition on the books of a reporting entity. Record the contingent liabilities that meet the recognition criteria on the books of the reporting entity and include the contingent liabilities on the applicable liability line(s) of the Balance Sheet (e.g., Environmental and Disposal Liabilities; and Other Liabilities) and in notes, as appropriate.

20.2.2. Criteria for Disclosure of a Contingent Liability. Disclose contingent liabilities if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred. Disclosure in this context refers to the reporting information in notes regarded as an integral part of the basic financial information.

20.2.3. Required Disclosures. Include contingent liabilities that meet the criteria for disclosure:

20.2.3.1. Each reporting entity reviews its financial processes, systems, and data and modifies or expands, as necessary. The disclosure statement is a complete and accurate representation of contingent liabilities. An example of the disclosure statement is: "The reporting entity is a party in various administrative proceedings and legal actions, and claims. The Balance Sheet includes an estimated liability for those legal actions where the management and General

Counsel consider adverse decisions "probable" and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. The reporting entity records Judgment Fund liabilities in Note 15, "Other Liabilities." Refer to Note 15 for details."

20.2.3.2. Disclose 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. Amounts disclosed for litigation claims and assessments are fully supportable and must agree with the reporting entity's legal representation letters and management schedule of information.

20.2.3.3. Disclose amounts for potential future financial obligations, such as contractual arrangements including fixed price contracts with escalation, price redetermination, or incentive clauses; contracts authorizing variations in quantities; and contracts where allowable interest may become payable based on contractor claims under the "Disputes" clause contained in contracts. Amounts disclosed represent future potential liabilities and do not include amounts already recognized as contingent liabilities in Note 15. Disclose the estimated range of loss, lower and upper ends.

20.2.3.4. In addition to the contingent liability disclosures required, OMB requires the following disclosures: (1) an estimate of obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment, and (2) amounts for contractual arrangements that may require future financial obligations.

20.2.3.5. Disclose any other applicable contingencies, along with additional information to clarify the nature of the contingency. If a contingent liability has been recognized for all or part of the item(s), disclose it in Note 15, and do not include in Note 17.

20.2.3.6. For reporting entities that are unable to disclose contingencies related to specific contracts, disclose that the reporting entity "is a party in numerous individual contracts that contain clauses, such as price escalations, award fee payments, or dispute resolution, that may or may not result in the future outflow of budgetary resources.

## 21.0 NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

### 21.1 General Information

21.1.1. Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, and which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Federal Government's general revenues. Refer to OMB Circular A-136 for required criteria for recognizing funds from dedicated collections.

21.1.2. SFFAS 43 contains policy for reporting dedicated collections. SFFAS 43 clarifies that at least one source of funds must be external to the Federal Government for a fund to qualify

as a fund from dedicated collections. It explicitly excludes any fund established to account for pensions, other retirement benefits, other post-employment benefits or other benefits provided for federal employees (civilian and military).

21.1.3. If more than one component entity is responsible for carrying out the program financed with revenues and other financing sources that are dedicated collections, and the separate portions of the program can be clearly identified with a responsible component entity, then each component entity reports its portion in accordance with the requirements of SFFAS 43. If separate portions cannot be identified, the component entity with program management responsibility reports the fund. Refer to the DFAS Financial Reporting Guidance for required disclosures for each individually reported fund from dedicated collections, or portion thereof, for which a component entity has program management responsibility.

21.2 Reporting

21.2.1. The note schedule must present the Balance Sheet, SNC, and SCNP for current FY and prior FY. The table must present separate columns for the Dedicated Collection Funds, Other Funds from Dedicated Collections, Total Funds from Dedicated Collections (Combined), Eliminations between Dedicated Collection Funds, and Total Funds from Dedicated Collections (Consolidated). For the Balance Sheet, Federal and Non-Federal amounts must be disclosed separately and the line titles that are used for the principal financial statements must be used.

21.2.2. Report all eliminations between funds from dedicated collections and other funds within the reporting entity. If a Component entity reports a different portion of a fund from dedicated collections than it reported in prior FYs, it will not restate its prior FY financial statements, but disclose the change in the note. This applies if a DoD Component entity does not report a fund from dedicated collections, or a portion thereof, that it reported in the previous year.

22.0 NOTE 19. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

22.1 General Information

Disclose information related to the SNC. If the SNC displays highly aggregated program information, disclose costs and revenue to support the SNC.

22.1.1. Gross Cost. Costs that arise from exchange transactions made with the public or another Government entity. The effects of intra-entity business transactions are eliminated from reporting entity statements in order to prevent overstating costs. Gross Cost must agree with the amount reported on the SNC.

22.1.2. Earned Revenue. Earned or exchange revenues that arise when an entity provides goods or services to the public or another Governmental entity for a price. The effects of intra-entity business transactions are eliminated from reporting entity statements in order to prevent overstating revenue. Earned Revenue must agree with the amount reported on the SNC.

22.1.3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits. Losses and gains from actuarial assumption changes for military retirement benefits reported for Military Retirement Benefits; Operations, Readiness and Support; and on the Consolidated line.

22.1.4. Net Program Costs. Cost incurred (Gross Cost), less any exchange revenues earned, plus or minus the losses or gains from actuarial assumption changes for military retirement benefits. This amount must agree with the amount reported on the SNC, SCNP, and Reconciliation of Net Cost to Net Outlays.

22.1.5. General Disclosures

22.1.5.1. Disclose that public costs and revenues are exchange transactions made between the reporting entity and a non-federal entity. For public earned revenue, the buyer of the goods or services is a non-federal entity. For intragovernmental costs, the seller is a federal entity. If a federal entity purchases goods or services from another federal entity and sells them to the public, classify the exchange revenue as public, but classify the related costs as intragovernmental. The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs incurred to produce public and intragovernmental revenue.

22.1.5.2. Reporting entities who are unable to track customer information at the transaction level must make additional disclosures. Disclose that many of the reporting entity's systems do not track intragovernmental transactions by customer at the transaction level. Expenses were adjusted by [cite methodology]: (1) reclassifying amounts between federal and non-federal expenses; or (2) accruing additional accounts payable and expenses. See Chapter 13 for additional information on intragovernmental reconciliations and eliminations.

22.2 Other Disclosures

22.2.1. Cost Disclosure Specific to General Funds. Disclose, if applicable, that the reporting entity does not meet specific accounting standards and that information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

22.2.2. Cost Disclosure Specific to Working Capital Fund (WCF). Disclose, if applicable, that the reporting entity does not meet specific accounting standards. Each reporting entity reviews its financial processes, systems, and data and discloses, if applicable, that while the WCF generally records transactions on an accrual basis, the systems do not always capture actual costs in a timely manner. Information presented on this statement is primarily based on budgetary obligation, disbursement, or collection transactions, as well as information from nonfinancial feeder systems.

22.2.3. Inter-entity Costs. Refer to ***SFFAS 55***, "Amending Inter-entity Cost Provisions," for disclosure requirements related to inter-entity costs.

# 23.0 NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

## 23.1 General Information

Disclose information related to the SCNP. The SCNP reports the change in net position during the reporting period, which results from changes in Unexpended Appropriations and Cumulative Results of Operations.

## 23.2 Consolidating Net Position

Present funds from dedicated collections on a consolidated basis. Summarize the elimination of intradepartmental activity between funds from dedicated collections and all other fund types to arrive at the consolidated totals presented on the Balance Sheet and the Financial Report of the U.S. Government. See Note 18, "Funds from Dedicated Collections," for additional information on reporting dedicated collections balances.

## 23.3 Reconciliation of Appropriations on the SBR to Appropriation Received on the SCNP

The Appropriations Received line item on the SCNP will not agree with the Appropriations line item on the SBR due to differences between proprietary and budgetary accounting concepts and reporting policies. Present a table identifying the differences and amounts needed to reconcile the two reports.

## *23.4 Reporting

23.4.1. Appropriations, SBR. Include the appropriation amount as reported on the SBR.

23.4.2. Permanent and Temporary Reductions. Report items reported as permanent and temporary reductions to the appropriations balance reported on the SBR.

23.4.3. Trust and Special Funds Receipts. Report Trust and Special Funds not reported as reductions or additions to the appropriations received balance on the SCNP.

23.4.4. Miscellaneous Items. Report miscellaneous items not reported in this section as reductions or additions to the appropriations received balance on the SCNP.

23.4.5. Total Reconciling Differences. Report the Appropriations, SBR less the reporting categories in this section to arrive at the Appropriations Received, SCNP.

23.4.6. Appropriation Received, SCNP. Report the Appropriations Received from the SCNP.

23.4.7. Other Information. Discuss other information to help the user understand the SCNP.

## 24.0 NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

### 24.1 Net Adjustments to Unobligated Balance, Brought Forward, October 1

Disclose and explain material adjustments impacting the SBR unobligated beginning balance. If the adjustment represents a correction of a material error, and the earliest period presented is not the period in which the error occurred, and the cumulative effect is attributable to prior periods, report the cumulative effect as a prior period adjustment. If the period is presented on the financial statements, report the adjustment in the earliest affected period presented by correcting any individual amounts on the financial statements.

### 24.2 Terms of Borrowing Authority Used

Disclose repayment requirements, financing sources for repayment, and other terms of borrowing authority used.

### 24.3 Available Borrowing/Contract Authority, End of Period

Disclose the amount of borrowing and contract authority available at the end of the reporting period for the current and prior FY.

### 24.4 Undelivered Orders at the End of the Period

Disclose the amount of budgetary resources obligated for undelivered orders at the end of the period, separately disclosing federal and non-federal with the associated paid and unpaid amounts.

### 24.5 Legal Arrangements Affecting the Use of Unobligated Balances

Disclose information pertaining to legal arrangements affecting the use of unobligated balances of budget authority, such as time limits, purpose, and obligation limitations.

### *24.6 Explanation of Differences between the SBR and the Budget of the U.S. Government

Disclose material differences between the SBR and the Budget of the U.S. Government. Reference OMB Circular A-136 for an illustrative schedule.

24.6.1. Explain the budgetary resources, new obligations, upward adjustments (total), and net outlay amounts from PY SBR and the actual amounts from "***Detailed Budget Estimates by Agency***" found in the Budget Appendix.

24.6.2. Explain the distributed offsetting receipts amount from the PY SBR and the actual amount from the "***Federal Budget by Agency and Account***" found in the Analytical Perspectives of the Budget.

24.6.3. Disclose that the Budget with the actual amounts for the CY will be available at a later date within the President's Budget.

24.7 Contributed Capital

Explain any capital infusion received during the reporting period including the amount, source, and reason for these additional funds.

24.8 Permanent Indefinite Appropriations

Disclose the existence, purpose, and availability of permanent indefinite appropriations.

25.0 NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

Reporting entities collecting custodial revenues that are incidental to their primary mission may disclose the sources and amount of collections and the amounts distributed to others in the accompanying notes. Disclose information relating to the further understanding of incidental custodial collections.

26.0 NOTE 23. FIDUCIARY ACTIVITIES

26.1 Fiduciary Activities

Disclose the fiduciary assets, liabilities, and inflows/outflows of the reporting entity in accordance with SFFAS 31. Fiduciary activities collect the receipt for cash or other assets in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. Base the fiduciary relationship on statutory or other legal authority. Fiduciary activities are not recognized on the Balance Sheet, but they are required to be reported on schedules in the notes to the financial statements. Fiduciary activities may involve a variety of transactions including, but are not limited to, cash, investments, other assets, liabilities, inflows, and outflows.

26.2 Exclusions

SFFAS 31 excludes certain transactions from the reporting requirements for fiduciary activities, including but not limited to, unpaid payroll withholdings and garnishments, unearned revenue, operating revenues and expenses, and seized property, including seized monetary instruments. See SFFAS 31 for a list of exclusions.

26.3 Reporting

Reporting on fiduciary activities is required in two notes to the financial statements. Within Note 1, "Significant Accounting Policies," provide a statement that says, "Fiduciary assets are not assets of the Federal Government and are not recognized on the Balance Sheet." In Note 23, provide a description of the fiduciary relationship, such as the applicable legal authority, the

objectives of the fiduciary activity, and a general description of the beneficial owners or class of owners. Also, disclose fiduciary activities in the following schedules by fiduciary funds.

26.3.1. Schedule of Fiduciary Activity. Disclose the beginning balance of net assets; the inflows/outflows from the fiduciary activities by category; the change in net assets; and the ending balance of net assets.

26.3.2. Schedule of Fiduciary Net Assets. Disclose the current and prior period ending balances of assets by category, liabilities by category, and a variance analysis addressing significant changes from the prior period.

26.3.3. Non-monetary Fiduciary Assets. Include a description of the composition of the assets, the method(s) of valuation, and changes (if any) from prior period accounting methods.

26.3.4. Non-Valued Fiduciary Assets. Include a description of non-valued fiduciary assets. These assets may include land held in trust. Component entities holding non-valued fiduciary assets disclose them in a Schedule of Changes in Non-Valued Fiduciary Assets.

## 27.0 NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

### 27.1 General Information

Preparers of financial statements perform a detailed reconciliation of net outlays (reported on the SBR) to net cost (reported on the SNC), identifying all applicable reconciling items. Preparers should refer the TFM ***"Budget and Accrual Reconciliation Guidance"*** for detailed guidance on preparing the reconciliation. Budgetary resources reported in this schedule are those resources reported on the SBR and defined in OMB Circular A-11. Other resources reported in this schedule are also reflected in the SCNP.

For Unreconciled Differences report the difference between the Total Net Outlays (SNC) and Agencies, Outlays, Net (SBR).

### 27.2 Reconciliation Objective

***SFFAS 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," as amended by ***SFFAS 53***, "Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22," requires a reconciliation identifying how the reporting entity budgetary resources outlayed during the period relate to the net cost of operations.

### 27.3 Budgetary to Proprietary Accounting Reconciling Differences

Because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts due to legislative requirements or USGAAP (e.g., accrual of unfunded environmental and disposal liabilities that are recorded only in the proprietary records). Furthermore, not all obligations or offsetting collections may result in

expenses or exchange revenue (e.g., purchase of a building is capitalized on the Balance Sheet in the proprietary accounts, but obligated and outlayed in the budgetary accounts).

27.3.1. The reconciliation summarizes differences due solely to budgetary and proprietary accounting. Other differences encountered must be researched and corrected.

27.4 Narrative Disclosures

Report any information that provides a further understanding of the entity's note.

28.0 NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

28.1 General Information

***SFFAS 49***, "Public-Private Partnerships: Disclosure Requirements," defines public-private partnerships as risk-sharing arrangements or transactions with expected lives greater than five years between public and private sector entities. "Risk" refers to risk of financial losses beyond the types of costs anticipated in the normal course of the agreement, assuming the agreement is carried out over its expected life.

28.2 Reporting

28.2.1. Entities involved in public-private partnerships, as defined by SFFAS 49, review the conclusive risk characteristics, and possibly the suggestive risk characteristics, to determine the required disclosures. See paragraphs 20 and 21 of SFFAS 49 for a listing of conclusive and suggestive risk characteristics.

28.2.2. SFFAS 49 exempts certain arrangements or transactions from public-private partnership disclosure requirements. See paragraph 15 of SFFAS 49 for a listing of exempt arrangements and transactions. Such exempt arrangements or transactions are subject to existing disclosure requirements in other SFFAS applicable to such arrangements or transactions.

28.2.3. Refer to OMB Circular A-136 for additional disclosure requirements.

29.0 NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

29.1 General Information

SFFAS 47 instructs preparers of the financial statements in determining what organizations should be included in the reporting entity's financial reports for accountability purposes. SFFAS 47 requires reporting entities to disclose certain information about disclosure entities and related parties.

29.2 Disclosure Entities

Preparers should consider both qualitative and quantitative materiality in determining the information presented regarding disclosure entities. Refer to ***SFFAS 47*** and OMB Circular A-136 for required disclosures.

29.3 Related Parties

Consider organizations related parties if an existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions. Only relationships that would be misleading to exclude information about such relationships warrant disclosure. Refer to SFFAS 47 and OMB Circular A-136 for required disclosures.

*30.0 NOTE 27. SECURITY ASSISTANCE ACCOUNTS

30.1 General Information

This Note is specific to DoD Agency-Wide only. A hyperlink to the Security Assistance Accounts (SAA) AFR is included within the Note.

30.2 Reporting

Disclose in a narrative that DoD has a significant role, and works closely with the U.S. Department of State in the execution of the activities of the SAA, which is budgeted and reported in the ***Title 22, Foreign Relations and Intercourse*** under the purview of the Foreign Relations Committee in Congress. The SAA is a significant reporting entity, and in accordance with SFFAS 47, its stand-alone financial statements are consolidated directly into the U.S. Government-wide financial statements.

31.0 NOTE 28. RESTATEMENTS

31.1 General Information

Disclosure is required when management becomes aware of a potential misstatement due to a material error(s) whether or not the exact amount is known or has been corrected at the time financial statements are prepared. If material misstatements are identified in the prior period financial statements, the entity must explain the material misstatements.

31.2 Disclosures

31.2.1. Where amount of the misstatement is known, the disclosure must include the disclosures identified in ***SFFAS 21,*** "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources" and OMB Circular A-136.

31.2.2. Where management has become aware that a material error has occurred, but the exact amount is not known and/or financial statements have not yet been corrected, include the disclosures required by OMB Circular A-136.

## *32.0 NOTE 29. COVID-19 ACTIVITY

### 32.1 General Information

Entities with a significant amount of budgetary activity associated with responding to COVID-19 must include a separate COVID-19 note. Refer to OMB Circular A-136 for additional disclosure requirements.

Separately disclose amounts from annual and permanent appropriations that were used for COVID, including, as appropriate, the types of budgetary information illustrated in OMB Circular A-136. COVID funds must be designated with the appropriate GTAS Disaster and Emergency Fund Code.

## *33.0 NOTE 30. SUBSEQUENT EVENTS

Disclose any significant events or transactions that occurred after the date of the Balance Sheet but before the issuance of the entity's audited financial statements that have a material effect on the financial statements and, therefore, require adjustments to or disclosure in the statements. If such disclosure is made elsewhere in the notes, this note should include references to the applicable note(s).

## 34.0 NOTE 31. RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

### 34.1 General Information

Disclose information identifying how amounts reported on the AFR for the Balance Sheet, SNC, and SCNP are reclassified for compilation of the FR. This Note is reported at the DoD Agency-Wide level only. DoD Components do not report this Note.

### 34.2 Reporting

Agency financial statements reflect all agency financial transactions, including transactions with other Government agencies and transactions with the public. The FR includes only the Government's financial transactions with the public; and does not include intragovernmental transactions. Refer to OMB Circular A-136 for disclosure requirements.

# DEPARTMENT OF DEFENSE

# FINANCIAL MANAGEMENT REGULATION

# CHAPTER 11: "ARCHIVED"

# UNDER SECRETARY OF DEFENSE (COMPTROLLER)

**VOLUME 6B, CHAPTER 12: "REQUIRED SUPPLEMENTARY INFORMATION"**

**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

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

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

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

The previous version dated February 2021 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| All | Removed generalized narratives that apply to all financial reporting. | Deletion |
| 1.2.2 | Added authoritative guidance related to the Statement of Federal Financial Accounting Standards 59, "Accounting and Reporting of Government Land." | Addition |
| 1.3 | Added general formatting and reporting requirements. | Addition |
| 4.0 | Added land reporting requirements. | Addition |

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# CHAPTER 12

# REQUIRED SUPPLEMENTARY INFORMATION

## 1.0 GENERAL

### 1.1 Purpose

This chapter provides the Department of Defense (DoD) policy and guidance for reporting Required Supplementary Information (RSI) to accompany the basic financial statements.

### 1.2 Authoritative Guidance

1.2.1. Statement of Federal Financial Accounting Standards ***(SFFAS) 42***, "Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32," establishes the detailed reporting requirements for deferred maintenance and repairs (DM&R) in the RSI.

* 1.2.2. ***SFFAS 59***, "Accounting and Reporting of Government Land" establishes reporting requirements for government land in the RSI.

1.2.3. The Office of Management and Budget ***(OMB) Circular A-136***, "Financial Reporting Requirements," provides overall agency and government-wide financial reporting guidance.

1.2.4. Volume 4, Chapters 24, 25, 26, and 28, provide the guidance for determining which DoD reporting entity is responsible for reporting real property on its financial statements.

### *1.3 Format

1.3.1. For specific reporting formats and timing refer to Defense Finance and Accounting Service ***(DFAS) Financial Reporting Guidance***, under the sections titled, Annual and Quarterly Financial Statement Guidance, and 4th Quarter.

1.3.2. Information presented in the RSI must be presented on a comparative basis. When the information is required for the first time, it need not be reported for the prior year.

## 2.0 DEFERRED MAINTENANCE AND REPAIRS

### 2.1 Policy

DoD reporting entities are required to report material amounts of DM&R on General Property, Plant, and Equipment (General PP&E) as supplementary information to accompany their annual financial statements. 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. General PP&E related accounting policy and definitions are contained in Volume 4.

2.2 Definition

As defined in SFFAS 42, DM&R are maintenance and repairs (M&R) not performed when required or scheduled and have been delayed for a future period. M&R are activities directed toward keeping fixed assets in an acceptable condition. M&R activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. M&R, as distinguished from capital improvements, 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. The amounts reported must include both funded and unfunded DM&R, but need not be separately reported as such in the RSI.

2.3 Required Reporting

2.3.1. DM&R reporting must provide beginning and ending balances for the reporting period and narrative information related to the activities. Entities are required to present both qualitative and quantitative information.

2.3.2. In accordance with SFFAS 42, DoD reporting entities, at a minimum, are required to present the following information for all General PP&E regardless of measurement method chosen:

2.3.2.1. Describe M&R policies and how they are applied (i.e., method of measuring DM&R);

2.3.2.2. Discuss how M&R activities are ranked and prioritized among other activities;

2.3.2.3. Identify factors considered in determining acceptable condition standards;

2.3.2.4. State whether DM&R relates solely to capitalized General PP&E and stewardship PP&E or also to non-capitalized or fully depreciated General PP&E;

2.3.2.5. Identify PP&E for which management does not measure and/or report DM&R, and provide the rationale for the exclusion of other than non-capitalized or fully depreciated General PP&E;

2.3.2.6. Provide estimated beginning and ending DM&R balances for each major category of PP&E (i.e., General PP&E; heritage assets; and stewardship land), for which M&R has been deferred;

2.3.2.7. Explain significant changes by category (i.e., general PP&E, heritage assets, and stewardship land) from the prior year.

2.3.3. SFFAS 42 permits the following methods to measure DM&R:

2.3.3.1. Condition assessment surveys, which are periodic visual (i.e., physical) inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies;

2.3.3.2. Life cycle cost forecasts, which are acquisition or procurement techniques that consider operating, maintenance, and other costs in addition to the acquisition cost of assets; or

2.3.3.3. Other methods similar to the condition assessment survey or life cycle cost forecast methods.

2.3.4. SFFAS 42 also requires that condition standards, related assessment methods, and reporting formats be consistently applied unless management determines that changes are necessary. Changes must be accompanied by an explanation documenting the rationale for the change and any related impact on the DM&R estimates.

## 3.0 DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

### 3.1 Format

DoD reporting entities must prepare and report the disaggregated Statement of Budgetary Resources (SBR) as RSI. The format of the disaggregated SBR must follow the format contained in Chapter 7. The major account groupings and the aggregate of smaller budget accounts must, in total, agree with the amounts reported on the face of the reporting entity's SBR. The DoD Agency-Wide SBR must be disaggregated into the following appropriation/fund account groupings: (1) Military Personnel; (2) Procurement; (3) Research, Development, Test, and Evaluation; (4) Family Housing and Military Construction; (5) Military Retirement Benefits; (6) Civil Works; and (7) Operations, Readiness, and Support. Refer to Chapter 7 for additional guidance and detail on the disaggregated SBRs for the various military departments, funds, and other Defense entities.

### 3.2 Presentation

DoD Agency-Wide disaggregated SBR is presented as two RSI schedules, Combining SBR Budgetary and Combining SBR Non-Budgetary Credit Reform Financing Account. Two presentations allow for easier readability and mapping to the schedule structure based on financial reporting data. The disaggregated SBR is presented separately for both the current year and comparative year.

## *4.0 GENERAL PLANT, PROPERTY, & EQUIPMENT, STEWARDSHIP LAND, AND PERMANENT LAND RIGHTS

### 4.1 Presentation

In accordance with SFFAS 59, DoD reporting entities, at a minimum, are required to present the following information for all General PP&E, Stewardship Land, and Permanent Land Rights disclosures:

4.1.1. Description and its relationship to the entity's mission;

4.1.2. Description of the entity's policies for land. Policies for land are the goals and principles 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;

4.1.3. Estimated acreage by predominant use category which includes land and permanent land rights;

4.1.4. Estimated acreage held for disposal or exchange;

4.1.5. Description of the different types of land rights acquired by the entity, whether such rights are permanent or temporary, and amounts paid during the year to maintain such rights; and

4.1.6. Two separate tables are required for General PP&E and Stewardship Land and must include estimated acreage by predominate use categories of Commercial, Conversation and Preservation, and Operational. Refer to OMB Circular A-136 for a table illustration.

**VOLUME 6B, CHAPTER 13: "ADJUSTMENTS, ELIMINATIONS, AND RECONCILIATION REQUIREMENTS FOR INTRAGOVERNMENTAL BALANCES"**

**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by blue font.

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

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

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

The previous version dated October 2019 is archived.

| PARAGRAPH | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|---|---|---|
| All | Updated Office of Management and Budget Circular hyperlinks. | Revision |
| 1.1 | Added language to introduce the term "Federal Program Agencies" and streamline sentences. | Revision |
| 2.0 | Renamed section "Fundamental Requirement" (previously "Background"). | Revision |
| 3.0 | Renamed section "IGT Categories" (previously "Reciprocal Account Transactions"). Added description for each type of Intra-Governmental Transactions (IGT) Category. | Addition |
| 4.0 (previous version) | Removed intragovernmental capitalized purchases. This information is now contained in Buy/Sell, paragraph 3.4. | Deletion |
| 5.0 | Consolidated Eliminations (previously subparagraph 5.4) and Elimination of Budgetary Accounts (previously section 6.0) under one Elimination sections, part of Fundamental Requirement Section (previously titled Background) | Revision |
| 6.0 | Added new section, highlighting trading partner accounting and communication responsibilities during the reporting period. Moved G-Invoicing (previously subparagraphs 5.1.1, and 5.4.1.1) and Memorandum of Understanding (previously subparagraph 5.4.1.2) to this section. Added phases of G-Invoicing, providing the key points of coordination during the G-invoicing trading process. | Addition |
| 7.0 | Consolidated reconciliation sections (previously paragraphs 2.2, 7.0, and 8.0). | Revision |
| 7.2<br>7.4 | Added Common Trading Partner Differences and Advana IGT Toolkit sub-sections to assist with reconciliations. | Addition |

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# CHAPTER 13

# ADJUSTMENTS, ELIMINATIONS, AND RECONCILIATION REQUIREMENTS FOR INTRAGOVERNMENTAL BALANCES

## 1.0 GENERAL

### *1.1 Overview

Intra-Governmental Transactions (IGT) or balances result from business activities conducted between two federal entities or Federal Program Agencies (FPAs). When these transactions occur, these federal entities are called trading partners. The accurate reporting of reciprocal balances, and proper elimination of reciprocal activity between trading partners, requires accurate documentation of accounting events. Imbalances occur when trading partners are unable to account for and reconcile differences among each other.

### 1.2 Purpose

This chapter provides general instructions for trading partner exchange of data, eliminating intragovernmental transactions from the Department of Defense (DoD) quarterly and annual financial statements, and providing elimination information to the Department of the Treasury (Treasury) for use in preparing the Governmentwide financial statements.

### 1.3 Authoritative Guidance

Volume 1, Part 2, ***Chapter 4700*** of the Treasury Financial Manual (TFM), "Federal Entity Reporting Requirements for the Financial Report of the United States Government," (TFM 2-4700) contains policy for the reporting requirements for the federal intragovernmental transactions process.

## *2.0 FUNDAMENTAL REQUIREMENT

All DoD consolidation entities are required to report intragovernmental account balances in their financial statements, eliminate appropriate intra-DoD balances, and classify intragovernmental account balances by category and level. The category of transaction refers to the nature of the accounting event causing the transaction.

## *3.0 IGT CATEGORIES

IGT categories represent a grouping of transactions processed in a similar manner related to a type of financial activity. IGTs consist of seven categories: Investments, Borrowings, Benefits, Buy/Sell, Transfers, Custodial, and General Fund transactions. Reciprocal categories are comprised of a set of financial statement line items (accounts) that are the reciprocal of each other. These categories assist in the elimination of federal activity at the Governmentwide. Additionally, these reciprocal categories facilitate the reconciliation of activities between federal entities.

## 3.1 Investments

Investments include intragovernmental securities. The Department invests primarily in non-marketable, market-based Treasury securities. The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value. Investments are reciprocal of Borrowings. Table 13-1 shows the Investments and Borrowings reciprocal categories.

## 3.2 Borrowings

Borrowings involve the calculation and reporting of Borrowings from the Treasury through Fiscal Service or Federal Financing Bank. Balances calculated and reported by the lending entity and federal entities may include loans receivable/payable, capitalized interest receivable/payable, accrued interest receivable/payable, accrued interest revenue/expense, as well as gains and losses. Borrowings are reciprocal of Investments. Table 13-1 shows the Investments and Borrowings reciprocal categories.

Table 13-1 Investments and Borrowings Reciprocal Categories

| Financial Statement | DoD | Treasury |
|---|---|---|
| Balance Sheet | Federal Investments | Federal Debt |
| Statement of Net Cost | Federal Securities Interest Revenue | Federal Securities Interest Expense |

## 3.3 Benefits

Benefits include transactions in Benefit Program Contributions Receivable and Payables and Benefit Program Costs/Revenues. The Office of Personnel Management (OPM) and the Department of Labor (DOL) administer the employee benefits for the entities of the federal government. OPM administers retirement benefits, health benefits, and life insurance. DOL administers Federal Employees' Compensation Act (FECA) benefits and Federal Unemployment Tax Act (FUTA) benefits. Table 13-2 shows the Benefits reciprocal categories.

Table 13-2 Benefits Reciprocal Categories

| Financial Statement | DoD | DOL and OPM |
|---|---|---|
| Balance Sheet | Benefit Contributions Payable | Benefit Contributions Receivable |
| Statement of Net Cost | Benefit Program Costs | Benefit Program Revenue |

## 3.4 Buy/Sell

Buy/Sell transactions occur between federal entities where goods or services are purchased by one federal entity from another federal entity. This arrangement is typically accomplished through the issuance of a reimbursable agreement between the two federal entities. Table 13-3 shows the Buy/Sell reciprocal categories.

Table 13-3 Buy/Sell Reciprocal Categories

| Financial Statement | Buyer | Seller |
|---|---|---|
| Balance Sheet | Accounts Payable | Accounts Receivable |
| Balance Sheet | Advances | Deferred Revenue |
| Statement of Net Cost | Expenses / Purchases | Revenue |

### 3.5 Transfers

Transfers include non-exchange transactions that reduce resources (budgetary and proprietary) in one Treasury Account Symbol (TAS) and increase them in one or more other TAS by the total cumulative amount. Reciprocal categories include Transfer In (receiving entity) and Transfer Out (transferring entity) on the Statement of Changes in Net Position.

### 3.6 Custodial

Custodial transactions include collections by a collecting entity on behalf of a receiving entity. The federal entity that collects on behalf of another but is not entitled to retain the collections is referred to as the collecting entity or custodian. The federal entity on whose behalf the collecting entity is collecting is referred to as the receiving entity. This type of agreement is usually stipulated in legislation or is agreed upon by the federal entities involved. Reciprocal categories include Collections Transferred In (receiving entity) and Collections Transferred Out (collecting entity) on the Statement of Net Cost.

### 3.7 General Fund

General Fund transactions occur between a federal entity and the General Fund. Fund Balance with Treasury (FBWT) is a General Fund transaction. The Treasury records cash receipts and disbursements on the Department's behalf; funds are available only for the purposes for which they were appropriated. The Department's FBWT consists of general funds, revolving funds, trust funds, special funds, and other fund types. The reciprocal category is the Treasury's liability for FBWT.

## 4.0 LEVELS OF TRADING PARTNERS

There are three levels of intragovernmental trading partners for which intragovernmental transactions must be identified; Level 1 - Transactions between non-DoD FPAs, Level 2 - Transactions between DoD FPAs, and Level 3 - Transactions within a DoD Component.

### 4.1 Level 1 Non-DoD FPAs

Level 1 transactions are between DoD and Non-DoD FPAs, e.g., between the Department of the Air Force and the Department of Commerce. Identify Level 1 transaction balances by the Treasury Trading Partner codes and attributes attached to the U.S. Standard General Ledger (USSGL) accounts. DoD entities must document the procedures used to identify and verify the accuracy of their intragovernmental assets, liabilities, revenues, and expenses balances.

4.2 Level 2 DoD Consolidation Entities

Level 2 balances result from transactions between DoD consolidation entities (e.g., between the Department of the Army Working Capital Funds (WCF) and the Department of the Navy General Fund (GF)). Volume 6B, Chapter 1, contains information on DoD consolidation entities. Level 2 transactions are identified by trading partner codes and supplemental internal DoD codes, such as business partner numbers, trading partner federal/non-federal indicators, and other trading partner codes included in SFIS.

4.3 Level 3 within a DoD Component

Level 3 trading partners are within a DoD Component, i.e., Army WCF, Supply Management and Army WCF, Depot Maintenance, Other; and Department of the Navy GF, Operations and Maintenance and Department of the Navy GF, Research Development, Test, and Evaluation. There may be multiple sublevels of eliminations, with the elimination totals shown on the DoD Component's supporting consolidating statements. For example, the Navy GF Level 3 eliminations would be between: (A) Navy Military Personnel and Navy Procurement; (B) Navy Military Personnel trial balance AT17AA1_1453 and Navy Reserve Personnel trial balance AT17AA1_1405; and (C) internally within Navy Military Personnel trial balance AT17AA1_1453.

*5.0 ELIMINATIONS

5.1 Intragovernmental Account Balances

5.1.1. Eliminations, or eliminating intragovernmental account balances, represent the process where a federal entity having transactions with another federal entity ensures that the amounts on its trial balances for specific accounts correlate with those amounts in the reciprocal accounts of the federal entity with which business was conducted.

5.1.2. The purpose of eliminating intragovernmental account balances is to offset the effect of transactions between a DoD entity and other non-DoD FPAs, DoD consolidation entities, and organizations within a DoD consolidation entity in the DoD and Governmentwide financial statements with the exception of the Statement of Budgetary Resources.

5.2 Budgetary Accounts

5.2.1. Per Office of Management and Budget (OMB) Circular ***A-136***, "Financial Reporting Requirements," the Statement of Budgetary Resources is a combined statement where intragovernmental budgetary accounts are not eliminated.

5.2.2. Present budgetary information on a combined basis, with no elimination of budgetary accounts, consistent with information reported in the "Report on Budget Execution and Budgetary Resources" in accordance with OMB Circular ***A-11***, "Preparation, Submission, and Execution of the Budget."

## *6.0 TRADING PARTNER RESPONSIBILITIES

In order to properly present the balances on the financial statements, trading partners must work together throughout the reporting period.

### 6.1 Accounting

6.1.1. Each USSGL account must be assigned the appropriate trading partner indicators defined in the ***Standard Financial Information Structure (SFIS)***. See additional indicators for each USSGL account in Treasury's ***USSGL Account Attribute Table***.

6.1.2. Trading partners must:

6.1.2.1. Record IGT transactions and accruals timely and identify supporting accounting methodologies.

6.1.2.2. Record Transfers-In and reciprocal Transfers-Out in the same accounting period.

6.1.2.3. Work with trading partners to determine transaction types, establish appropriate accounting data and confirm proper account postings and eliminations.

6.1.2.4. Reconcile transactions with partners on a routine basis as agreed upon [weekly, monthly, and/or quarterly].

6.1.2.5. Adjust balance in financial records as required prior to the period close, once differences are reconciled.

### 6.2 Trading Partner Communication

6.2.1. Trading partners must:

6.2.1.1. Provide timely, accurate data to partner agencies and/or accounting offices.

6.2.1.2. Confirm payments/collections and verify settlement of funds.

6.2.1.3. Verify reciprocal balances and reconcile balances to the authoritative source. If the balances do not agree, proactively work with trading partners to resolve reconciling items and adjudicate differences.

6.2.1.4. Provide documentation supporting billing, performance, transfers of, or receipt of funds, upon request. If documentation is not available, trading partners must work together to determine which partner must adjust its balance to match the supportable data.

6.2.1.5. Resolve disagreements or issues over accounting treatment and period for posting.

6.3 G-Invoicing

6.3.1. To assist FPAs with reconciling intragovernmental Buy/Sell transactions, the Fiscal Service mandated the use of G-Invoicing, which facilitates the exchange of intragovernmental transaction information between federal trading partners and serves as the interface by which FPAs submit and reconcile intragovernmental data.

6.3.2. G-Invoicing requires both trading partners to agree on key phases of the trading process:

6.3.2.1. General Terms & Conditions (GT&Cs) Phase. The GT&Cs represent a Buy/Sell agreement that defines the terms and conditions, scope, and responsibilities of trading partners during the exchange. The objective of this stage is for trading partners to concur on and document the details of the GT&C before performing any services or delivering any goods.

6.3.2.2. Order Phase. Orders serve as the fiscal obligation (funding) and identify the specific Buyer requirements for the expected delivery of products or services by the Seller. Funding information within the Order includes all required points of contact authorizing the Order for both trading partners.

6.3.2.3. Performance Transactions Phase. This phase revolves around the delivery and receipt of goods and/or services. Revenue from IGT Buy/Sell transactions is earned and recorded as goods are delivered and as services are performed. A corresponding expense is recognized in the period that an exchange occurs. Thus, both trading partners should exchange performance-related data with one another surrounding the delivery and acceptance of goods, along with the receipt and consumption of services.

6.3.2.4. Fund Settlement Phase. This phase includes the payment and collection activities as well as the closeout of the agreement. After the performance has been accomplished according to the terms documented in the agreement, funds are transferred between the trading partners. Within G-Invoicing, fund settlement occurs upon completion of the Performance Transaction. As the agreement approaches its end date, the Buyer and the Seller must monitor each Order included in the agreement. During closeout, the Seller identifies Orders that are approaching an end date and checks the status with the Buyer to confirm that they are ready for closeout. The Buyer reviews the Order status and performs procedures to close out and deobligate the Order if the Statutory Authority for the agreement mandates it. Additionally, the Seller determines if any third-party supporting contracts are open that need to be deobligated and closed.

6.3.3. G-Invoicing maintains a repository of intragovernmental transactions and internal controls to ensure the accuracy of transactions for buyers and sellers.

6.3.4. FPAs involved with intragovernmental reimbursable activities use G-Invoicing to originate and settle intragovernmental agreements, orders, and invoices. G-Invoicing adoption is

required by all FPAs, as mandated by the Secretary of the Treasury in accordance with 31 U.S.C. 3512(b) and 3513.

6.4 Memorandum of Understanding

6.4.1. Alternatively, DoD consolidation entities may establish a bilateral Memorandum of Understanding with each of their DoD trading partners not using G-Invoicing.

6.4.2. Such agreements, at a minimum, must identify the following:

6.4.2.1. The reconciliation timeframes (frequency);

6.4.2.2. Accrual processes (agreed upon methodologies);

6.4.2.3. Availability or exchange of detailed transactions and key supporting documentation;

6.4.2.4. Protocol to resolve differences between trading partners; and

6.4.2.5. Other processes requiring clarification.

*7.0 TRADING PARTNER RECONCILIATIONS

7.1 Reconciliation

7.1.1. OMB Circular A-136 requires consolidation entities to reconcile and resolve differences between intragovernmental balances and transactions. TFM 2-4700 includes guidance to facilitate the reconciliation of intragovernmental transactions.

7.1.2. DoD entities reconcile with their trading partners at the detail transaction level. Detail transactions provide support for reported balances requiring elimination with trading partners. The entity is ultimately responsible for the accuracy of its trading partner data; therefore, it is responsible for initiating actions to reconcile balances with its trading partners.

7.1.2.1. Review all information reported in any other external reports for consistency with the information included in the quarterly and annual audited financial statements.

7.1.2.2. Document identified differences including, but not limited to, the difference amount, USSGL accounts impacted, the rationale for the difference, and the status of communication with trading partners.

7.1.2.3. Prioritize trading partner material differences to reduce high-dollar variances. Agencies must work to reconcile and eliminate differences regardless of materiality.

7.1.3. DoD entities must document reconciliations and retain documentation in accordance with the National Archives and Records Administration Records Management Guidance and Regulations.

*7.2 Common Trading Partner Differences

Consolidation Entities should adopt procedures to prevent, as much as possible, the following common trading partner differences:

7.2.1. Current-year timing difference occurs when the reporting agency has reported activity in a different quarter than the trading partner reported the activity in the current year. Trading partners must identify the total amount of the difference and determine if an adjustment should be made.

7.2.2. Prior-year timing difference occurs when a reporting agency has reported activity in a prior fiscal year and the trading partner reported the activity in the current fiscal year. Trading partners must identify the total amount of the difference and determine if an adjustment should be made.

7.2.3. Accounting methodology difference occurs when trading partners use different accounting methods to account for activity. Trading partners must identify the method(s) of accounting used and the dollar amount of the difference caused by the differing methodologies.

7.2.4. Accrual methodology difference occurs when trading partners use different accrual methods to account for activity. Trading partners must identify the method(s) of accrual used and the dollar amount of the difference caused by the differing methodologies.

7.3 Governmentwide Treasury Account Symbol (GTAS) Adjusted Trial Balance

Each quarter, the Treasury populates detailed trading partner data in GTAS. GTAS provides comparisons of balances reported by all federal partners and facilitates intragovernmental consolidation and elimination required for Governmentwide reporting. As an output of the GTAS comparison, Treasury provides quarterly Intragovernmental Material Differences Reports by Treasury Index. Review these reports and explain differences to the Treasury in accordance with TFM 2-4700 and the DoD Financial Reporting Guidance. Treasury uses the Level 1 trading partner amounts reported in GTAS to compile the elimination entries necessary to prepare the Government-Wide Financial Report.

*7.4 The Advana IGT Toolkit

7.4.1. The Advana IGT toolkit supports interdepartmental trading partner reconciliations at the transaction level and can be used to validate completeness of entity-level IGT transactions recorded in the general ledger.

7.4.2. The Advana IGT Elimination application (part of the toolkit) provides users with a complete universe of buy/sell transactions consolidated from DoD financial systems. Use this application to:

7.4.2.1. Define the population by selecting criteria to define buyers and/or sellers.

7.4.2.2. Create On-Demand Applications (ODAGs) to reconcile the defined population and validate the selection against trading partner ledgers using IGT comparison logic.

7.4.2.3. Share reconciliation ODAGs with trading partners and teammates.

7.4.2.4. Compare Advana reconciliations with internal reports and key supporting documents to explain reconciling variances.

7.4.3. Advana users can access the IGT Toolkit under the (CAC enabled) ***IGT Resources*** link in the Advana Knowledge Base.

## 7.5 Disputes

7.5.1. DoD entities are expected to work with their respective non-DoD trading partners to reconcile and resolve intragovernmental differences. Working through the Defense Finance and Accounting Service, Enterprise Solutions and Standards, Financial Reporting-Audited Financial Statements Directorate, reciprocal accounts disputes with other FPAs will continue to follow the dispute resolution process identified in Appendix 6 of TFM 2-4700.

7.5.2. The Office of the Under Secretary of Defense, Comptroller (OUSDC) can assist with DoD dispute resolution between DoD consolidation entities. Submit requests for assistance no later than the 12th business day of the month following the end of the quarter. At fiscal year-end, final adjustments must be completed prior to the issuance of the ***Agency Financial Report***. For OUSDC support, contact the IGT mailbox at osd.pentagon.ousd-c.mbx.ousdc-igt@mail.mil. Entities must provide the following with the request:

7.5.2.1. Documentation demonstrating attempts to reconcile balances with trading partners at the senior executive or agency comptroller level; and

7.5.2.2. Documentation supporting balances the DoD consolidation entities are seeking to resolve with trading partners.

# 8.0 OTHER FEDERAL TRADING PARTNER REQUIREMENTS

## 8.1 Trading Partner Codes

DoD Consolidation entities submit trading partner code information to Treasury by GTAS Attributes. Use the trading partner codes, in conjunction with the USSGL account information, to identify required elimination entries.

## 8.2 Trading Partner Effect of Prior Period Adjustments

When it is determined that a prior period adjustment is necessary for a transaction involving another FPA, the accounting centers identify the trading partner and determine how the transaction was recorded. Additionally, the accounting centers must work with the trading partner to inform Treasury of the prior period adjustment. This will assist Treasury with eliminations on the Governmentwide financial statements.

## 8.3 Non-Federal Trading Partners

All accounting centers and DoD consolidation entities must identify trading partner information properly according to the federal/non-federal indicator attribute included in SFIS.

## 8.4 Foreign Military Sales Trust Fund Reporting

In general, DoD Components performing reimbursable activities on behalf of the Foreign Military Sales Trust Fund (11X8242) must recognize related accounts receivable and revenue as federal citing entity code 11X8242 as the Level 1 trading partner. Refer to the DoD Financial Reporting Guidance for additional reporting policy for the Foreign Military Sales Trust Fund.