

Department of Defense Schedule of Budgetary Activity (SBA) Instructions

Purpose:

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) has developed the following instructions to define how the Department will prepare the Schedule of Budgetary Activity (SBA), in accordance with the framework established in generally accepted accounting principles (GAAP). The SBA format, layout, and contents are adapted from guidance presented in OMB Circular A-136, *Financial Reporting Requirements*. These SBA instructions are the definitive requirements/guide for preparing the SBA. Certain requirements presented in OMB Circular A-136 may **not** have been adapted for the SBA, are **not** included in these SBA instructions, and thus are **not** applicable to the SBA.

Intended Users:

The intended users of the SBA are identical to those using the Department's full set of financial statements. These users include internal stakeholders such as DoD financial managers, DoD leadership, DoD auditors, etc. Additionally, external users of the SBA include the Office of Management and Budget (OMB), U.S. Government Accountability Office (GAO), Congress, and the general public.

Background:

As required by the Chief Financial Officers Act (CFO Act) of 1990, OUSD(C) presents financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America for the federal government, which are based on OMB Circular A-136. The Department of Defense ("Department" or "DoD") also follows guidance of OMB Circular A-134, *Financial Accounting Principles and Standards*. According to OMB Circular A-134, Statements of Federal Financial Accounting Standards (SFFAS) issued by the Federal Accounting Standards Advisory Board (FASAB) are applicable to executive agencies preparing financial statements in accordance with the CFO Act as set in 31 U.S.C Chapter 35. The Department prepares consolidated and combined statements and notes; the Department is not required to distinguish distinct Component activity within each financial statement or footnote disclosure (except for the stand-alone OMB-mandated reporting entities).

OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, requires eight components (Department of Army General Funds, Department of Army Working Capital Fund, Department of Navy General Funds, Department of Navy Working Capital Fund, Department of Air Force General Funds, Department of Air Force Working Capital Fund, Military Retirement Fund, and the U.S. Army Corps of Engineers Civil Works Program) of the Department to prepare audited stand-alone financial statements.

Since the passage of the CFO Act, the Department has been working to produce auditable financial statements. While progress has been made for several components, there are still many components of the Department that are not yet auditable. In an effort to demonstrate progress towards full financial statement audit, the Department will begin preparing and undergoing audits of SBAs. The SBA is a financial schedule that presents a subset of activity or "elements" of the Department's Statement of Budgetary Resources (SBR) (one of the basic financial statements required by OMB Circular A-136). Similar to the SBR and SF-133, *Report on Budget Execution and Budgetary Resources*, the SBA is comprised of the following sections:

1. Budgetary Resources
2. Status of Budgetary Resources
3. Change in Obligated Balance
4. Budget Authority and Outlays, Net

The SBA presents the current-year budget activity starting with new appropriations received in FY 15 except for new no-year (or “X-year”) appropriations, which will only be included for new Defense Base Realignment and Closures (BRAC) funding for FY 15. The purpose of the SBA is to demonstrate that the Department has effectively implemented financial improvements, allowing for materially complete and accurate reporting of the current-year activity (including the receipt and execution of budgetary funding) for current-year appropriations in accordance with GAAP. The SBA will be audited in accordance with the American Institute of Certified Public Accountants (AICPA) Codification of Statements on Auditing Standards (AU-C) 805, *Special Considerations – Audits of Single Financial Statements and Specified Elements, Accounts, or Items of a Financial Statement*. See Appendix 4: *Key Auditing Requirements* for additional information on justification used to apply this Standard.

General Instructions:

1. These SBA instructions are derived from instructions for preparing the SBR outlined in OMB Circular A-136.
2. The SBA must be prepared for the following DoD Reporting Entities for FY 15 through FY 17: Army General Funds (TI-21), Navy General Funds (TI-17)¹, Air Force General Funds (TI-57). In FY 18, all DoD Reporting Entities, including those mentioned previously as well as Army Working Capital Funds (TI-97), Navy Working Capital Funds (TI-97), Air Force Working Capital Funds (TI-97), and Defense-wide Combined Working Capital Funds (TI-97), will need to prepare the SBR.
3. The SBA will include all General Funds,² as defined by the Department of the Treasury Federal Account Symbols and Titles (FAST) Book I. The FY 18 SBR will include all fund groups defined in FAST Book I: general, revolving (including Working Capital Funds), special, deposit, and trust. See Appendix 1: *Appropriations/Fund Types Included in FY 15/16/17 SBAs and in FY 18 SBR* for an alternative presentation of this requirement.
4. The SBA presents current-year budget activity. The FY 15 SBA will initially present current-year budget activity associated only with new (FY 15) annual (“one-year”), multiple-year, and certain no-year appropriations. The FY 16 SBA will then present current-year budget activity associated with new (FY 16) annual (“one-year”), multiple-year, and certain no-year appropriations received in FY 16, as well as current-year budget activity associated with any appropriations presented on the FY 15 SBA. The FY 17 SBA will continue the same process, adding current-year budget activity associated with new (FY 17) appropriations while continuing to present current-year budget activity associated with any appropriations presented on a prior year SBA.
5. The SBA will not include no-year appropriations (also called “X-year” appropriations or budgetary funding that does not expire), except for new Defense Base Realignment and Closure (BRAC) appropriations. No-year funding appropriated prior to FY 15 will not be included. The SBA will only include no-year General Funds related to BRAC that were received as new appropriations in FY 15 and forward.
6. The SBA will not include multiple-year appropriations appropriated prior to FY 15 but expiring in FY 15 or later. For example, two-year appropriations appropriated in FY 14 that are currently available in FY 14 and FY 15 are not included in the FY 15 SBA. Similarly, three-year appropriations appropriated in FY 14 that are currently available in FY 14, FY 15, and FY 16 are not included in either the FY 15 SBA or FY 16 SBA.

¹ The FY 15, FY 16, and FY 17 SBA for TI-17 (Navy) General Funds will have separate SBAs produced for the Department of Navy and the United States Marine Corps. The Department of Navy and United States Marine Corps will be combined in FY 2018 for the SBR.

² The Department of the Treasury’s Federal Account Symbols and Titles (FAST) Book I identifies appropriation and other fund accounts for the Department of Defense, as well as categorizes them in fund groups: general, revolving, special, deposit, and trust.

7. As the SBA is presenting elements of information presented in the SBR, SBA information must be consistent with budgetary information presented in the SBR and SF-133, *Report on Budget Execution and Budgetary Resources*, as well as the Budget of the United States Government (e.g., Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) data).
8. Recognition and measurement of budgetary information reporting on the SBA must be based on the budget terminology, definitions, and guidance in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*.
9. Consistent with the SBR, budgetary information in the SBA will be presented on a combined basis and not a consolidated basis.
10. Line numbering displayed in the SBA template is only for reference to OMB Circular A-11's Appendix F, and should not be displayed on the formal SBA.
11. Before producing the final SBA, Reporting Entities need to reconcile from the SBA back to the accounting systems. In addition, any journal vouchers, adjustments, or reclassifications that are made during this reconciliation process need to be evidenced with appropriate supporting documentation.
12. The final SBA must be generated from Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS) on a quarterly basis, beginning Third Quarter FY 14. Any journal vouchers, adjustments, or reclassifications to budgetary data (in DDRS-B, DDRS-AFS, or other systems) presented in the annual financial statements that have an effect or relate to information presented in the SBA must be incorporated into the SBA.

Additional Considerations:

Year 1 (FY 15) SBA

1. For Year 1/Fiscal Year 2015 (FY 15), the SBA audit will include all FY 15 activity for FY 15 appropriations for the period October 1, 2014 to September 30, 2015 for non-no-year appropriations. This includes FY 15 funding against FY 15 appropriations, FY 15 obligations against FY 15 funding, FY 15 outlays against FY 15 obligations, and FY 15 collections against FY 15 appropriations. Conversely, the FY 15 SBA will not include FY 15 obligation/outlay activity related to prior year (e.g., FY 14) appropriations. There will be no beginning balances presented on the FY 15 SBA.
2. The FY 15 SBA will include all non-no-year General Funds, as defined by the Department of the Treasury's FAST Book I.
3. The FY 15 SBA will include current-year budget activity against no-year General Funds appropriated in FY 15 only for BRAC accounts (97X0510, 97X0512 and 97X0516). The SBA will not include any no-year appropriations appropriated before FY 15.

Activity	Year 1 (FY 15)
Unobligated Balance (Beginning)	N/A
CY Appropriations, Transfers, Rescissions	✓ – FY 15, No-Year (BRAConly)
PY Appropriations, Transfers, Rescissions	N/A
CY Obligations Incurred Against CY Funding	✓ – FY 15, No-Year (BRAC only)
CY Obligations Incurred Against PY Funding	N/A
PY Paid Obligations Incurred Against PY Funding	N/A

Activity	Year 1 (FY 15)
PY Unpaid Obligations Incurred Against PY Funding	N/A
CY Outlays Incurred Against CY Funding	✓ – FY 15, No-Year (BRAC only)
CY Outlays Incurred Against PY Funding	N/A
PY Outlays Against PY Funding	N/A
CY Collections/Recoveries on PY Funding/Obligations	N/A
PY Collections/Recoveries on PY Funding/Obligations	N/A

Years 2 & 3 (FY 16 and FY 17) SBA

1. For the FY 16 and FY 17 SBAs, the SBAs will present all budget activity for current year appropriations, plus current year activity against appropriations previously audited on an SBA. Therefore:
 - For FY 16, this includes FY 16 funding, collections, and recoveries against FY 15 and FY 16 appropriations; FY 16 obligations against FY 15 and FY 16 funding; and FY 16 outlays against FY 15 and FY 16 obligations.
 - For FY 17, this includes FY 17 funding, collections, and recoveries against FY 15, FY 16, and FY 17 appropriations; FY 17 obligations against FY 15, FY 16, and FY 17 funding; and FY 17 outlays against FY 15, FY 16, and FY 17 obligations.

2. For the FY 16 and FY 17 SBAs, the SBAs will include multiple-year General Fund appropriations in FY 15, as well as multiple-year General Fund appropriations in FY 16 or FY 17. The SBAs will not include any multiple-year appropriations before FY 15. Therefore:
 - For FY 16, this includes two-year, three-year, and five-year General Fund appropriations in FY 15, as well as all two-year, three-year, and five-year appropriations (excluding Working Capital Funds) in FY 16.
 - For FY 17, this includes three-year and five-year General Fund appropriations in FY 15, as well as all two-year, three-year, and five-year appropriations (excluding Working Capital Funds) in FY 16 and FY 17.

3. For the FY 16 and FY 17 SBAs, the SBAs will include no-year General Fund appropriations in FY 15 for BRAC, as well as no-year General Fund appropriations for BRAC appropriated in FY 16 or FY 17. The SBAs will not include any no-year appropriations before FY 15. Therefore:
 - For the FY 16 SBA, this includes no-year General Fund appropriations related to BRAC appropriated in FY 15, as well as all no-year appropriations related to BRAC appropriated in FY 16.
 - For the FY 17 SBA, this includes no-year General Fund appropriations related to BRAC appropriated in FY 15, as well as all no-year General Fund appropriations related to BRAC appropriated in FY 16 and FY 17.

<u>Activity</u>	<u>Year 1 (FY 15)</u>	<u>Year 2 (FY 16)</u>	<u>Year 3 (FY 17)</u>
		Note: In the FY 16 and FY 17 SBAs, activity against no-year appropriations related to BRAC needs to be included, where appropriate, below.	
Unobligated Balance (Beginning)	N/A	✓ – FY 15	✓ – FY 15, FY 16
CY Appropriations, Transfers, Rescissions	✓ – FY 15, No-Year (BRAC only)	✓ – FY 16	✓ – FY 17
PY Appropriations, Transfers, Rescissions	N/A	✓ – FY 15	✓ – FY 15, FY 16
CY Obligations Incurred Against CY Funding	✓ – FY 15, No-Year (BRAC only)	✓ – FY 16	✓ – FY 17
CY Obligations Incurred Against PY Funding	N/A	✓ – FY 16 against FY 15	✓ – FY 17 against FY 15; FY 17 against FY 16
PY Paid Obligations Incurred Against PY Funding	N/A	✓ – FY 15 against FY 15	✓ – FY 15 against FY 15; FY 16 against FY 15; FY 16 against FY 16
PY Unpaid Obligations Incurred Against PY Funding	N/A	✓ – FY 15 against FY 15	✓ – FY 15 against FY 15; FY 16 against FY 15; FY 16 against FY 16
CY Outlays Incurred Against CY Funding	✓ – FY 15, No-Year (BRAC only)	✓ – FY 16	✓ – FY 17
CY Outlays Incurred Against PY Funding	N/A	✓ – FY 16 against FY 15	✓ – FY 17 against FY 15; FY 17 against FY 16
PY Outlays Against PY Funding	N/A	✓ – FY 15 against FY 15	✓ – FY 15 against FY 15; FY 16 against FY 15; FY 16 against FY 16
CY Collections/Recoveries on PY Funding/Obligations	N/A	✓ – FY 16 against FY 15	✓ – FY 17 against FY 15; FY 17 against FY 16
PY Collections/Recoveries on PY Funding/Obligations	N/A	✓ – FY 15 against FY 15	✓ – FY 15 against FY 15; FY 16 against FY 15; FY 16 against FY 16

Year 4 (FY 18) SBR

1. In Year 4/Fiscal Year 2018 (FY 18) when the Department begins undergoing audits of its SBRs, all funding (including multiple-year appropriations and no-year funding appropriated prior to FY 15) will be included in the SBR and subject to audit consistent with the requirements of OMB Circular A-136. The SBA will no longer be prepared.
2. In FY 18, the audits of the SBR will include any obligated and unobligated beginning balances for budget activity not previously audited as part of the SBA. Reporting Entities are responsible for ensuring the beginning balances will be audit ready prior to FY 18. The strategy of undergoing SBA audits for three years prior to moving to full-SBR audit will lessen the impact of legacy beginning balances on the total SBR.

Management’s Discussion and Analysis (MD&A)

The SBA must include an MD&A section in accordance with Statement of Federal Financial Accounting Standards No. 15, *Management’s Discussion and Analysis*, and OMB Circular A-136. The MD&A should provide a clear and concise description of the reporting entity’s performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems.

Additional information regarding the purpose of the MD&A and what is to be included can be found in Appendix 2: *Management’s Discussion and Analysis Details*.

Required Footnote Disclosures

The following table presents the footnote disclosures required for the SBA and SBR broken down by year. The same logic used in creating the SBA, as noted in the tables in the previous sections, will be used in creating the footnotes. This includes identifying footnotes that are required (R), potentially required (PR), or not required (NR). The following footnote disclosures were derived from the listing of all note disclosures related to the Statement of Budgetary Resources, as defined by OMB Circular A-136 (Aug 4, 2015 revision), *Financial Reporting Requirements*. See Appendix 3: *SBA Footnote Details* for more detailed information about what needs to be disclosed in each of the required/potentially required SBA footnote disclosures.

Please note, additional footnote disclosure(s)—beyond those included to comply with the table below—may be included by a reporting entity to disclose any additional information the entity believes is potentially significant and useful to users of the SBA. Additional footnote disclosures could also be included by a reporting entity to address findings raised by the entity’s independent auditor. For example, an entity may include a disclosure explaining any discrepancies between funding, collections, disbursements, and transfers reflected in the reporting entity’s general ledger and activity in the Department of the Treasury’s accounts.

<u>Note Disclosures</u>	<u>Year 1 (FY 15)</u>	<u>Years 2 & 3 (FY 16 & FY 17)</u>	<u>Year 4 (FY 18)</u>	<u>Considerations</u>
Note 1 Significant Accounting Policies (A-136 Note 1)	R	R	R	Required for all reporting entities.
Note 2 Adjustments to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year (A-136 Note 28)	NR	PR	PR	Only required if reporting entity adjusts beginning unobligated or obligated balances.
Note 3 Terms of Borrowing Authority Used (A-136 Note 29)	PR	PR	PR	Only required if reporting entity has borrowing authority.
Note 4 Available Borrowing/Contract Authority, End of the Period (A-136 Note 30)	PR	PR	PR	Only required if reporting entity has borrowing or contract authority.
Note 5 Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations (A-136 Note 31)	R	R	R	Required for all reporting entities.
Note 6 Undelivered Orders at the End of the Period (A-136 Note 32)	R	R	R	Required for all reporting entities.
Note 7 Permanent Indefinite Appropriations (A-136 Note 33)	PR	PR	PR	Only required if reporting entity receives permanent indefinite appropriations.
Note 8 Legal Arrangements Affecting the Use of Unobligated Balances (A-136 Note 34)	PR	PR	PR	Only required if reporting entity has legal arrangements affecting the use of unobligated balances.
Note 9 Explanation of Differences Between the SBR and the Budget of the US Government (A-136 Note 35)	NR	NR	R	Not required until full SBR financial statement audits.
Note 10 Contributed Capital (A-136 Note 36)	PR	PR	PR	Only required if reporting entity received contributed

<u>Note Disclosures</u>	<u>Year 1 (FY 15)</u>	<u>Years 2 & 3 (FY 16 & FY 17)</u>	<u>Year 4 (FY 18)</u>	<u>Considerations</u>
				capital.
LEGEND:				
R = Required note disclosure.				
PR = Potentially required note disclosure (only required if applicable to the reporting entity for that year).				
NR = Not required note disclosure.				

SBA Requirements:

Schedule of Budgetary Activity (SBA) Requirements					
Line Nos.	Line Item	Annual Activity or Beginning/Ending Balance	Description of Line Item	YEAR 1 (FY 15)	YEARS 2 and 3 (FY 16 and FY 17)
Budgetary Resources:			This section of the SBA represents the total budgetary resources an agency has at its disposal for the year, including both amounts carried forward from the prior year that are still available for use and resources received in the current fiscal year.		
1000	Unobligated balance, brought forward, October 1	Beginning Balance	This line item is comprised of amounts available for obligation during the current fiscal year brought forward from prior fiscal years. Prior year unobligated balances may be available to enter into new obligations during the current year and for upward adjustments of obligations that were properly incurred against the account during the unexpired period.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-year appropriations and FY 16 no-year BRAC appropriations)
1020	Adjustment to unobligated balance brought forward, October 1	Annual Activity	This line item is comprised of changes to unobligated balances that occurred in a prior fiscal year and that were not recorded in the unobligated balance as of October 1 of the current fiscal year. The following amounts are excluded from this line: downward adjustments of unpaid obligations incurred in prior fiscal years that were not outlayed, upward adjustments of obligations previously incurred, and refunds collected from prior year obligations that have been outlayed from the TAFS that was charged with the original obligations.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-year appropriations and FY 16 no-year BRAC appropriations)
1020.5	Unobligated balance, brought forward, October 1, as adjusted	Beginning Balance	This line item is the sum of amounts available for obligation during the current fiscal year brought forward from prior fiscal years and any changes to unobligated balances that occurred in a prior fiscal year and that were not recorded in the unobligated balance as of October 1 of the current fiscal year.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-year appropriations and FY 16 no-year BRAC appropriations)
1021	Recoveries of prior year unpaid obligations	Annual Activity	This line item is comprised of cancellations or downward adjustments of obligations incurred in prior fiscal years that were not subsequently disbursed (outlayed) and remain available in the current year (e.g., goods or services ordered/obligated in a prior year were received for less than the cost of the obligation amount (or not received at all), therefore some/all of the original obligation was de-obligated, resulting in a "downward adjustment." This line must agree to line 3042.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-year appropriations and FY 16 no-year BRAC appropriations)
1043	Other changes in unobligated balance	Annual Activity	This line item is comprised of non-expenditure transfers, other adjustments to unobligated balance, and anticipated transfers and adjustments.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-year appropriations and FY 16 no-year BRAC appropriations)
1051	Unobligated balance from prior year budget authority, net	Ending/Beginning Balance	This line item is comprised of the sum of unobligated balance brought forward (October 1), non-expenditure transfers, adjustments to unobligated balance, and anticipated transfers and adjustments.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-year appropriations and FY 16 no-year BRAC appropriations)
1290	Appropriation	Annual Activity	Appropriated funding specified in appropriations acts or in substantive laws authorized by Congress that become available for obligation on or after October 1.	Required	Required
1490	Borrowing Authority	Annual Activity	Amount of new borrowing authority, primarily from the Treasury, to finance obligations and outlays. Include the amount becoming available for obligation on or after October 1 of the fiscal year.	Required	Required
1690	Contract Authority	Annual Activity	Amount of new authority to incur obligations in advance of collections or an appropriation to liquidate contract authority. Amount of new contract authority to incur obligations that typically will require a separate appropriation of liquidating cash before payments can be made.	Required	Required
1890	Spending authority from offsetting collections	Annual Activity	This line item is comprised of budget authority that is financed by collections authorized by law to be credited to an appropriation or fund account. Offsetting collections may consist of advances, reimbursements, and other income.	Required	Required
1910	Total budgetary resources		Total budgetary resources (line 1910) must agree to the Total budgetary resources (line 2500).	Required	Required

FIAR Guidance Supplement: SBA Instructions

Line Nos.	Line Item	Annual Activity or Beginning/ Ending Balance	Description of Line Item	YEAR 1 (FY 15)	YEARS 2 and 3 (FY 16 and FY 17)
<p>Status of Budgetary Resources:</p> <p>This section displays the disposition of the budgetary resources that were made available for obligation. It consists of obligations incurred during the year, unobligated balances at the end of the year that remain available, and unobligated balances at the end of the year that are unavailable. Totals for this section and for the Budgetary Resources sections should agree.</p>					
2190	Obligations incurred	Annual Activity	This line item includes the amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require future payments.	Required	Required
	Unobligated balance, end of year		The amount of budgetary resources (direct and reimbursable) that has not yet been obligated at period end.		
2204	Apportioned	Ending Balance	The apportioned category includes unobligated funds that have been apportioned for agency use on the SF-132.	Required	Required
2304	Exempt from apportionment	Ending Balance	Amount, including anticipated amounts, of the total unobligated balance available for obligation (including commitments) in accounts exempt from apportionment available in the current period and subsequent periods.	Required	Required
2404	Unapportioned	Ending Balance	The unapportioned category includes unobligated funds that have not been apportioned for agency use on the SF-132.	Required	Required
2490	Total unobligated balance, end of year	Ending Balance	Sum of the apportioned, exempt from apportionment, and unapportioned amounts.	Required	Required
2500	Total budgetary resources		Total budgetary resources (line 2500) must agree to the Total budgetary resources (line 1910) , as Status section presents the current status, as of period end, of all the agency's available budgetary resources at a point in time.	Required	Required

FIAR Guidance Supplement: SBA Instructions

Line Nos.	Line Item	Annual Activity or Beginning/Ending Balance	Description of Line Item	YEAR 1 (FY 15)	YEARS 2 and 3 (FY 16 and FY 17)
Change in Obligated Balance			This section reports the change in the obligated balances from the beginning to the end of the year (beginning balances, plus/minus activity, must equal ending obligated balances)		
3000	Unpaid obligations, brought forward, October 1	Beginning Balance	Unpaid obligations as of October 1 of the current fiscal year. Represents the amount of accounts payable and undelivered orders as of October 1 of the current fiscal year.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-no-year appropriations and FY 16 no-year BRAC appropriations)
3006	Adjustment to unpaid obligations, start of year	Annual Activity	Changes to unpaid obligations that occurred in a prior fiscal year and that were not recorded in the unpaid obligations as of October 1 of the current fiscal year.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-no-year appropriations and FY 16 no-year BRAC appropriations)
3012	Obligations Incurred	Annual Activity	Total obligations incurred for the period. This line must agree to line 2190 above.	Required	Required
3020	Outlays (gross)	Annual Activity	Total cash/FBWT disbursements for the period. This line must agree to line 4185.	Required	Required
3032	Actual transfers, unpaid obligations (net)	Annual Activity	Amount of unpaid obligations from other Federal Government accounts actually transferred to/from other accounts during the current fiscal year.	Required	Required
3042	Recoveries of prior year unpaid obligations	Annual Activity	Amount of any cancellations or downward adjustments of obligations incurred in prior fiscal years that were not outlayed. This line must agree to line 1021 above.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-no-year appropriations and FY 16 no-year BRAC appropriations)
3050	Unpaid, obligations, end of year	Ending Balance	Balance of open Undelivered Orders and Delivered Orders (Accounts Payable) at the end of the period.	Required	Required
3060	Uncollected payments, Fed sources, brought forward, Oct 1	Beginning Balance	Total Unfilled Customer Orders and Accounts Receivables from Federal sources (essentially converting from accrual to cash basis) as of October 1 of the current fiscal year.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-no-year appropriations and FY 16 no-year BRAC appropriations)
3066	Adjustment to uncollected pymts, Fed sources, start of year	Annual Activity	Change in Unfilled Customer Orders and Accounts Receivable from Federal sources (essentially converting from accrual to cash basis) that occurred in a prior fiscal year and that were not recorded in the uncollected customer payments from Federal Sources as of October 1 of the current fiscal year.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-no-year appropriations and FY 16 no-year BRAC appropriations)
3072	Change in uncollected payments, Fed sources	Ending minus Beginning Balance	Amount of increase and decrease in Unfilled Customer Orders and Accounts Receivable from Federal sources (essentially converting from accrual to cash basis) that occurred from the start of year to the end of year. This line must agree to line 4178.	Required	Required
3082	Actual transfers, uncollected payments, Fed sources, net	Annual Activity	Amount of uncollected customer payments (Unfilled Customer Orders and Accounts Receivable) from other Federal Government accounts actually transferred to/from other accounts during the current fiscal year.	Required	Required
3090	Uncollected payments, Fed sources, end of year	Ending Balance	Balance of open Unfilled Customer Orders and Accounts Receivable from Federal agencies at the end of the current fiscal year.	Required	Required
3100	Obligated balance, start of year		Sum of unpaid obligations and uncollected customer payments from Federal sources at the start of the current fiscal year.	Not Required	Required - Year 2 (only related to FY 15 non-no-year appropriations and FY 15 no-year BRAC appropriations); Year 3 (only related to FY 15 non-no-year, FY 15 no-year BRAC appropriations, FY 16 non-no-year appropriations and FY 16 no-year BRAC appropriations)
3200	Obligated balance, end of year		Sum of unpaid obligations and uncollected customer payments from Federal sources at the end of the current fiscal year.	Required	Required

FIAR Guidance Supplement: SBA Instructions

Line Nos.	Line Item	Annual Activity or Beginning/Ending Balance	Description of Line Item	YEAR 1 (FY 15)	YEARS 2 and 3 (FY 16 and FY 17)
Budget Authority and Outlays, Net					
This section reports the budget authority and net cash/FBWT activity for the year, including outlays, less offsetting receipts and collections.					
4175	Budget authority, gross	Annual Activity	Sum of discretionary and mandatory budget authority	Required	Required
4177	Actual offsetting collections	Annual Activity	Amount of reimbursements from other Federal Government accounts and other collections credited to the account from the beginning of the year to the end of the reporting period.	Required	Required
4178	Change in uncollected customer payments, Fed sources	Ending minus Beginning Balance	Amount of increase and decrease in Unfilled Customer Orders and Accounts Receivable from Federal sources (essentially converting from accrual to cash basis) that occurred from the start of year to the end of year. This line must agree to line 3072.	Required	Required
4179	Anticipated offsetting collections	Annual Activity	Amount of the current estimate of anticipated collections expected for the remainder of the year.	Required	Required
4180	Budget authority, net	Annual Activity	Sum of total new budget authority (gross), actual offsetting collections, change in uncollected customer payments from Federal sources, and anticipated offsetting collections.	Required	Required
4185	Outlays, gross	Annual Activity	Amount of obligations paid. This line must agree to line 3020.	Required	Required
4187	Actual offsetting collections	Annual Activity	Amount of reimbursements from other Federal Government accounts and other collections credited to the account from the beginning of the year to the end of the reporting period.	Required	Required
4190	Outlays, net	Annual Activity	Sum of total outlays (gross) and actual offsetting collections.	Required	Required
4200	Distributed offsetting receipts	Annual Activity	Collections that are offset against gross outlays and budget authority but are not authorized to be credited to expenditure accounts are credited to receipt accounts and are offset at the agency level.	Required	Required
4210	Agency outlays, net	Annual Activity	Sum of Outlays, net (line 4190) minus Distributed offsetting receipts (line 4200).	Required	Required

Appendix 1: Appropriations/Fund Types Included in FY 15/16/17 SBAs and in FY 18 SBR

Appropriations/Fund Types Included in TI-97 (Defense Wide) Audits

Appropriations/Fund Types (per Department of Treasury's FAST Book I)	TI-97 (Defense Wide)	
	FY 15/16/17 SBA	FY 18 SBR
General Funds (except no-year)	X	X
General Funds (no-year BRAC only)	X	X
General Funds (no-year non-BRAC only)		X
Revolving Funds (except WCFs)		X
Revolving Funds (WCFs only)		X
Special Funds (includes MERHCF)		X
Deposit Funds		X
Trust Funds (except MRF)		X
Trust Funds (MRF only)	N/A – OMB Standalone Reporting Entity	

Appropriations/Fund Types Included in Army Audits

Appropriations/Fund Types (per Department of Treasury's FAST Book I)	Army	
	FY 15/16/17 SBA	FY 18 SBR
General Funds	X	X
Revolving Funds (except WCF)		X
Revolving Funds (WCF only)		X
Special Funds		X
Deposit Funds		X
Trust Funds		X

Appropriations/Fund Types Included in Navy and Marine Corps Audits

Appropriations/Fund Types (per Department of Treasury's FAST Book I)	Navy		Marine Corps	
	FY 15/16/17 SBA	FY 18 SBR	FY 15/16/17 SBA	FY 18 SBR
General Funds	X	X	X	Merged with Navy SBR
Revolving Funds (except WCFs)		X		
Revolving Funds (WCFs only)		X		
Special Funds		X		
Deposit Funds		X		
Trust Funds		X		

Appropriations/Fund Types Included in Air Force Audits

Appropriations/Fund Types (per Department of Treasury's FAST Book I)	Air Force	
	<u>FY 15/16/17 SBA</u>	<u>FY 18 SBR</u>
General Funds	X	X
Revolving Funds (except WCF)		X
Revolving Funds (WCF only)		X
Special Funds		X
Deposit Funds		X
Trust Funds		X

Appendix 2: Management's Discussion and Analysis Details

Purpose

The MD&A should serve as a brief overview of the entire SBA. It includes the most important matters that could:

- Lead to significant actions or proposals by top management of the reporting unit;
- Be significant to the managing, budgeting, and oversight functions of Congress and the Administration; or
- Significantly affect the judgment of citizens about the efficiency and effectiveness of their Federal Government.

Furthermore, conformance to U.S. generally accepted accounting principles (GAAP) for Federal entities requires the inclusion of an MD&A of the SBA and related information.

Responsibility

The content of the MD&A is the responsibility of management. Its preparation, at a minimum, should be a joint effort of the Chief Financial Officer (CFO) office, the Performance Improvement Officer (PIO) office, program offices, and offices responsible for performance reporting. Management has considerable discretion with respect to the presentation, subject to the required components and the pervasive requirement that the MD&A not be misleading. The MD&A provides management with a vehicle for communicating insights about the entity, increasing the understandability of financial information, and providing information about the entity, its operations, service levels, successes, challenges, and future.

Scope

The MD&A is an integral part of the annual SBA and should be regarded as required supplementary information (RSI).

Pursuant to SFFAS No. 15, the MD&A may reference information in other discrete sections of the SBA or it may be based on information contained in the SBA. At a minimum, the MD&A should address the entity's:

- Mission and organizational structure;
- Schedule of Budgetary Activity; and
- Systems, controls, and legal compliance.

The MD&A should also include forward-looking information about the possible effects of the most important existing performance and financial demands, events, conditions, and trends. Management should discuss important problems that need to be addressed, and actions that have been planned or taken to address those problems. Actions needed, planned, and taken may be discussed within the sections listed above or in a separate section of the MD&A.

For agencies producing an SBA, the MD&A will clearly delineate the details on when and where the SBA will be available to the public.

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.

Analysis of Entity's SBA

The MD&A should help users understand the entity's financial results, position and condition conveyed in the SBA. 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 and results of operations to assist users in assessing whether that financial

position has improved or deteriorated as a result of the year's activities. It should give users the benefit of management's understanding of the:

- Relevance of particular balances and amounts shown in the SBA, particularly if relevant to important financial management issues; and
- Major changes in types or amounts of obligations and outlays (explaining the underlying causes of the changes).

In addition, the following items may be useful to include in the analysis:

- Explanations for variances exceeding 10 percent and material to the agency;
- Significant issues qualitative in nature and relating to financial management; and
- Overall financial condition and financial management issues occurring since the previous reporting period that impact the agency's current financial status.

This section should include a discussion of key financial-related measures emphasizing financial trends and forward-looking information and should assess financial operations.

Analysis of Entity's Systems, Controls and Legal Compliance

Agencies are required to provide assurances related to the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) (Pub.L. No. 104-208) in a separate section entitled "Management Assurances."

The FMFIA assurance statement should:

- 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 (FMFIA §2) and whether financial management systems conform to financial systems requirements (FMFIA §4). The exact same finding should not be listed as both FMFIA §2 and §4 findings.
-
- Provide a separate assessment of the effectiveness of the internal controls over financial reporting as a subset of the overall FMFIA assurance statement (i.e., separate paragraph within the FMFIA Assurance Statement).
- Include a summary of material weaknesses (FMFIA §2) and non-conformances (FMFIA §4), and a summary of corrective actions to resolve the material weaknesses and non-conformances. Illustrative assurance statements and further guidance on corrective action plans can be found in the CFOC Implementation Guide, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting available at: http://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a123/a123_appx_a_implementation_guide.pdf

The Management Assurances section's analysis of legal compliance could include, as applicable, a brief discussion of efforts to maintain compliance with the following laws:

- Anti-Deficiency Act (codified as amended in 31 U.S.C. §§1341, 1342, 1351, 1517);
- Federal Credit Reform Act of 1990, Pub. L. No. 101-508, 104 Stat. 1388-610;
- Pay and Allowance System for Civilian Employees as provided primarily in Chapters 51-59 of title 5, United States Code;
- Prompt Payment Act (codified as amended in 31 U.S.C. §§3901-3907);
- Provisions Governing Claims of the United States Government as provided primarily in sections 3711 through 3720E of title 31, United States Code (including provisions of the Debt Collection Improvement Act of 1996, "DCIA" Pub.L. No. 104-134, 110 Stat. 1321-358);

- Federal Information Security Management Act of 2002 (44 U.S.C. §3541); and
- Single Audit Act of 1984, Pub.L. No. 98-502, and the Single Audit Act Amendments of 1996, Pub.L. No. 104-156.

Management should review its assurance statements (FMFIA) for consistency with the findings specified in the annual financial statement audit report(s). The Office of Inspector General or auditor will compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report and report any material weaknesses disclosed by audit that were not reported in the agency's FMFIA report. Management should perform the same due diligence when preparing its final assurance statements. The reports could, in fact, be different, but they should not be in direct conflict. When management does not agree with the auditor, management can explain why it does not agree, but it must describe what will be done to address the problem that gave rise to the disagreement.

Management should also include its FFMIA compliance assessment in this section. Accordingly, management is required to provide its assessment of the organization's financial management systems compliance with Federal financial management systems requirements, standards promulgated by FASAB, and the U.S. Standard General Ledger (USSGL) at the transaction level. Financial management systems include both financial and financially related (or mixed) systems. Further guidance on the financial systems requirements is in OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act* at <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-23.pdf>. Management should review its compliance determination (FFMIA) for consistency with the findings specified in the SBA audit report(s).

An agency's SBA will include the following summary, which should be derived from an agency's detailed plan as discussed in OMB Circular No. A-11, Section 52.4.

Goals and the supporting financial system strategies

- Briefly discuss the agency's financial management systems strategy and how it will achieve the goals of improving financial and budget management agency-wide.
- Present an overview of the agency's current and future financial management systems framework and describe financial management systems critical to effective agency-wide financial management, financial reporting, or financial control.
- Include in the overview a synopsis of critical projects currently underway, or planned to achieve the target framework per OMB Memorandum, M-10-26, *Immediate Review of Financial Systems IT Projects*, and OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act*.
- Finally the agency head will sign the assurance statement providing assurance that the agency's financial systems comply with the following:
 - Federal financial management system requirements;
 - Applicable Federal accounting standards; and
 - The USSGL at the transaction level.
- For areas of FFMIA noncompliance, each agency must identify remediation activities that are planned and underway, describing target dates and offices responsible for bringing systems into substantial compliance with FFMIA.

Other Management Information, Initiatives, and Issues

If material, agency activities associated with the American Recovery and Reinvestment Act should be briefly discussed with a reference to the agency's Recovery website for details.

In addition, management has the discretion to include a summary in the MD&A of other information, initiatives, and issues it identifies. This could include summarizing entity progress in implementing key administration management initiatives.

Limitations of the SBA

The MD&A should include a section articulating the limitations of the SBA. This section should state the following:

The SBA has been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the SBA has been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the SBA is in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The SBA should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

Appendix 3: SBA Footnote Details

Note 1 Significant Accounting Policies

- Describe the reporting entity and identify its major components.
- Summarize the accounting principles and methods of applying those principles that management has concluded are appropriate for presenting fairly the entity's budgetary resources.
- Summarize the appropriations and funds used by the reporting entity and how they are used. Include listing of all Treasury Appropriation and Other Fund Account Symbols.
- Disclosure of the basis of accounting and accounting policies. This should identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles. In general, the disclosure should encompass important judgments as to the valuation, recognition, and allocation of the budgetary resources.
- Disclosures of accounting policies should not duplicate details presented elsewhere as part of the notes to the financial statements.
- The summary of significant accounting policies should include a description of changes in generally accepted accounting principles affecting the financial statements, and an explanation of concepts, such as Fund Balance with Treasury unique to Federal financial statements.
- The summary of significant accounting policies should disclose any 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.
- In addition, each parent (transferring entity) involved in an allocation transfer with a different Federal entity must explain that there are amounts being reported on its budgetary resources where activity is being performed by the receiving Federal entity. Similarly, each Federal entity having child accounts involved in an allocation transfer must explain that it performed an activity that is being reported in the parent's audited financial statements. Both the parent and receiving entity (child) in an allocation transfer relationship must disclose the names of the Federal departments involved in the allocation transfers. No amounts are required to be included in the note.

Note 2 Adjustments to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year

- Disclose and explain material adjustments to correct (1) unobligated balance brought forward, October 1, and (2) obligate balance, start of year (net).
- These adjustment lines are only used for error corrections leading to a restatement of the SBR. If the earliest period presented is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior period adjustment on this adjustment line.
- If the period is presented on the financial statements, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements.

Note 3 Terms of Borrowing Authority Used

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

Note 4 Available Borrowing /Contract Authority, End of the Period

- Disclose the amount of available borrowing and contract authority at the end of the period.

Note 5 Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

- Disclose the amount of direct and reimbursable obligations incurred against amount apportioned under Category A, B, and Exempt from apportionment. This disclosure shall agree with total obligations incurred

as reported on the SBA. Apportionment categories shall be determined in accordance with the guidance provided in OMB Circular No. A-11.

Note 6 Undelivered Orders at the End of the Period

- Disclose the amount of budgetary resources obligated for undelivered orders at the end of the period.

Note 7 Permanent Indefinite Appropriations

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

Note 8 Legal Arrangements Affecting the Use of Unobligated Balances

- Disclose the information about legal arrangements affecting the use of unobligated balances of budget authority, such as time limits, purpose, and obligation limitations. For example, the portion of trust fund receipts collected in the current fiscal year that (1) exceed the amount needed to pay benefits or other valid obligations and (2) the excess of receipts temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the trust fund and available for obligation as needed in the future.

Note 9 Explanation of Differences between the SBA and the Budget of the US Government

- Identify and explain material differences between amounts reported in the SBA and the actual amounts reported in the Budget of the United States Government as required by SFFAS No. 7. Since the financial statements are published before the Budget, this reconciliation will be based on the prior year's SBA and actual amounts for that year in the most recently published Budget (e.g., FY 12 column on the SBA and the FY 12 actual column of the FY 14 Budget, published in 2013).
- The reporting entity should disclose that the President's Budget with actual numbers for the current fiscal year has not yet been published, explain when it is expected to be published, and indicate where it will be available.
- Agencies can find comparable information reported in the SBR to the President's Budget (i.e., net outlays) in a Table entitled "Federal Programs by Agency and Account" in the Analytical Perspectives Volume of the Budget of the United States Government. Differences, in and of themselves, may or may not indicate a reporting error. Legitimate reasons for differences could exist. For example, expired unobligated balances are reported in the Statement of Budgetary Resources and SF 133 but not in the Budget of the United States Government. This disclosure should be provided when comparable line items differ between the President's Budget and the SBA.
- Agencies should provide a schedule to display the material differences for comparable line items related to budgetary resources, obligations, distributed offsetting receipts, and outlays. The schedule should be accompanied by a narrative explaining to the reader why the differences exist.

Note 10 Contributed Capital

- Disclose the amount of any contributed capital (e.g., donations) received during the reporting period.

Appendix 4: Key Auditing Requirements

To verify the Department's SBA includes the necessary elements to be audited, the Department has analyzed the relevant standard for auditing elements of a single financial statement. Specifically, the Department reviewed AU-C 805, *Special Considerations – Audits of Single Financial Statements and Specified Elements, Accounts, or Items of a Financial Statement*. Below are selected excerpts from this auditing standard and the Department's responses to these requirements.

1. AU-C 805.09: "If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor should determine whether the audit of a single financial statement or a specific element of those financial statements in accordance with Generally Accepted Auditing Standards is practicable. The auditor should also determine whether the auditor will be able to perform procedures on interrelated items, as required by paragraph .13."

OUSD(C) Response: As IPAs will be engaged to audit SBAs separate from the DoD OIG's audit of the Department's consolidated financial statements, the SBA auditor will likely need to determine whether it will be able to perform procedures on interrelated items. For example, auditors auditing the FY 15 SBA will likely also need to validate the Department's Fund Balance with Treasury (FBWT) FY 15 disbursement/collections activity that relates to FY 15 appropriations. In the FY 16 SBA audit, auditors auditing the FY 15 SBA will need to validate the Department's Fund Balance with Treasury (FBWT) FY 16 disbursement/collections activity that relates to FY 15 and FY 16 appropriations. While FBWT is a proprietary/Balance Sheet line item, it is interrelated with the Department's budgetary resources presented on the SBA. Accordingly, the FIAR Guidance identifies FBWT as a key element of asserting Wave 2 audit readiness.

2. AU-C 805.10: "Section 210, *Terms of Engagement*, requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In the case of an audit of a single financial statement or a specific element of a financial statement, the auditor should obtain an understanding of
 - a. the purpose for which the single financial statement or specific element of a financial statement is prepared,
 - b. the intended users, and
 - c. the steps taken by management to determine that the application of the financial reporting framework is acceptable in the circumstances."

OUSD(C) Response: See the "Purpose," "Intended Users" and "General Instructions" section above for more information.

3. AU-C 805.11: "The auditor's determination required by paragraph .10 should include consideration of whether the application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the specific element and the effect of material transactions and events on the information conveyed in the financial statement or the specific element."

OUSD(C) Response: To ensure that adequate disclosures are included with the SBA, OUSD(C) reviewed OMB Circular A-136 requirements for the Statement of Budgetary Resources. OUSD(C) identified all footnote disclosures required for the SBR, as defined by OMB Circular A-136, and is requiring the same footnote disclosures (as applicable) to the SBA.

4. AU-C 805.13: "In the case of an audit of a single financial statement or a specific element of a financial statement, the auditor should perform procedures on interrelated items as necessary to meet the objective of the audit."

OUSD(C) Response: See discussion under #1 above for consideration of interrelated items necessary to meet the objective of the audit.

5. AU-C 805.14: “Section 320, *Materiality in Planning and Performing an Audit*, requires the auditor to determine, when establishing the overall audit strategy, materiality for the financial statements as a whole. In the case of an audit of a single financial statement, the auditor should determine materiality for the single financial statement being reported on rather than for the complete set of financial statements. In the case of an audit of one or more specific elements of a financial statement, the auditor should determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statements.”

OUSD(C) Response: Components should be aware that the quantitative materiality used by the auditor when designing test procedures and evaluating misstatements when auditing the SBA will be “lower” than if auditing a full set of financial statements, because the SBA is an element of the SBR. As a result, if a component utilized a materiality threshold calculated off total budgetary resources, presented on the SBR, was used for scoping and evaluating audit readiness activities, their audit readiness activities may yield different results and conclusions than auditors performing an audit of an SBA.

6. AU-C 805.16: “If, in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor undertakes an engagement to audit a single financial statement or a specific element of a financial statement, the auditor should
 - a. issue a separate auditor's report and express a separate opinion for each engagement.
 - b. indicate in the report on a specific element of a financial statement the date of the auditor's report on the complete set of financial statements and the nature of opinion expressed on those financial statements under an appropriate heading.”

OUSD(C) Response: To avoid any appearance of conflicting information or conclusions, the Department’s SBAs will be separately reported and presented. In other words, the SBAs will not be included with the Departments (or Component) financial statements or Agency Financial Reports. Additionally, for the years that the SBA is prepared and audited (FY 15 through FY 17), auditors will be separately engaged from those auditing the Department’s full set of OMB Circular A-136 financial statements. Beginning in FY 18, the SBA will no longer be prepared, and instead one set of auditors will be engaged to audit the Departments full set of financial statements.

7. AU-C 805.17: “Except as required by paragraph .21, an audited single financial statement or an audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements, provided that the presentation of the single financial statement or the specific element is sufficiently differentiated from the complete set of financial statements. The auditor should also differentiate the report on the single financial statement or the specific element of a financial statement from the report on the complete set of financial statements.”

OUSD(C) Response: As discussed in the response to #6 above, to avoid the potential for presenting conflicting information, the Department’s SBAs will be separately presented from the Department’s full set of financial statements. As a result, auditors issuing a report on the SBA will differentiate their report from the audit report on the component’s/Department’s full set of financial statements.

8. AU-C 805.21: “If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, an unmodified opinion on a specific element in the same auditor's report would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole and would be tantamount to expressing a piecemeal opinion. In the context of a separate audit of a specific element that is included in

those financial statements, when the auditor nevertheless considers it appropriate to express an unmodified opinion on that specific element, the auditor should only do so if

- a. that opinion is expressed in an auditor's report that is neither published together with nor otherwise accompanies the auditor's report containing the adverse opinion or disclaimer of opinion and
- b. the specific element does not constitute a major portion of the entity's complete set of financial statements or the specific element is not, or is not based upon, the entity's stockholders' equity or net income or the equivalent."

OUSD(C) Response: As the SBA will be separately presented from the full set of financial statements; it will mitigate the risk of the auditor issuing contradictory reports (e.g., issuing a disclaimer of or adverse opinion on the full set of financial statements and an unqualified opinion on the SBA). The SBA and any accompanying auditors report will not be published with nor otherwise accompany the full set of financial statements (and/or audit report on the full set of financial statements). Additionally, the OUSD(C) does not consider the SBA to constitute a major portion of the Department's complete set of financial statements—by FY 18 OUSD(C) expects the SBA to represent a major portion of the Department's complete set of financial statements, therefore, the Department will move from an SBA to undergoing audit of the full set of financial statements beginning in FY 18.

9. AU-C 805.22: "A single financial statement is deemed to constitute a major portion of a complete set of financial statements. Therefore, the auditor should not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole, even if the auditor's report on the single financial statement is neither published together with nor otherwise accompanies the auditor's report containing the adverse opinion or disclaimer of opinion."

OUSD(C) Response: As discussed under #8 above, beginning in FY 18 the Department anticipates moving to the full SBR, which is one of the Departments complete set of OMB Circular A-136 financial statements. Since auditors are prohibited from issuing a disclaimer of opinion on a full set of financial statements, the Department is considering alternatives to moving to a stand-alone SBR (such as moving to the full set of financial statements at that time).

10. AU-C 805.24: "When the auditor reports on an incomplete presentation but one that is otherwise in accordance with GAAP, the auditor should include an emphasis-of-matter paragraph in the auditor's report that:

- a. states the purpose for which the presentation is prepared and refers to a note in the financial statements that describes the basis of presentation, and
- b. indicates that the presentation is not intended to be a complete presentation of the entity's assets, liabilities, revenues, or expenses."

OUSD(C) Response: Noted, the auditor will be including an emphasis-of-matter paragraph in its report on the SBA. As a result the instructions for footnote disclosures for the SBA include a description of the basis of presentation used to prepare the SBA within footnote #1.