DoD 7000.14 - R

DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

VOLUME 4: “ACCOUNTING POLICY”

UNDER SECRETARY OF DEFENSE
(COMPTROLLER)

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VOLUME 4, CHAPTER 1: "FINANCIAL CONTROL OF ASSETS"

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 2016 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates were completed in accordance with the Department of Defense Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.2	Updated the Authoritative Guidance section. Removed the reference to Statement of Federal Financial Accounting Standards (SFFAS) 8 which was rescinded by SFFAS 57. Also, added references to SFFAS 54 and 57 that were issued since the previous version.	Deletion/ Addition
2.4	Clarified Nonentity versus Entity Asset language.	Revision
3.0	Clarified Fund Balance with Treasury policy language.	Revision
7.0	Clarified Stewardship Land language and revised Financial Management Regulation references for General Property, Plant, and Equipment.	Revision

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CHAPTER 1

FINANCIAL CONTROL OF ASSETS

1.0 GENERAL

1.1 Purpose

This chapter prescribes the Department of Defense (DoD) accounting policy for the financial control of assets. The DoD establishes financial control, from acquisition to disposal, over all DoD assets based on statutory or other legal authority and asset type. Properly documented authorizations record acquisitions, placed in service dates, transfers, write-downs or offs, and dispositions. The Department accounts for all DoD tangible assets, including assets in transit and the hands of contractors, private parties, and other government agencies.

1.2 Authoritative Guidance

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

1.2.1. Financial Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts ***(SFFAC) 6***, "Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information;"

1.2.2. FASAB Statement of Federal Financial Accounting Standard ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities;"

1.2.3. FASAB ***SFFAS 3***, "Accounting for Inventory and Related Property;"

1.2.4. FASAB ***SFFAS 6***, "Accounting for Property, Plant, and Equipment;"

1.2.5. FASAB ***SFFAS 31***, "Accounting for Fiduciary Activities;"

* 1.2.6. FASAB ***SFFAS 54***, "Leases;"

* 1.2.7. FASAB ***SFFAS 57***, "Omnibus Amendments 2019;"

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

1.2.9. The United States Department of the Treasury (Treasury) Bureau of the Fiscal Service Treasury Financial Manual (TFM), Volume 1, Part 2, ***Chapter 3200***, "Foreign Currency Accounting and Reporting;"

1.2.10. TFM Volume 1, Part 2, ***Chapter 3400***, "Accounting for and Reporting on Cash and Investments Held Outside of the United States (U.S.) Treasury;"

1.2.11. TFM Volume 1, Part 2, ***Chapter 5100***, "Reconciling Fund Balance with Treasury Accounts;" and

1.2.12. Department of Defense Instruction ***(DoDI) 5000.64***, "Accountability and Management of DoD Equipment and Other Accountable Property."

2.0 ACCOUNTING REQUIREMENTS

2.1 Accounting Requirements Overview

Sections 3.0 through 8.0 provide specific accounting policies for various categories of assets. The general requirements prescribed in this section apply to all assets.

2.2 Definition of Asset

An asset has two essential characteristics:

2.2.1. It embodies probable (more likely than not) economic benefits or services that can be used in the future; and

2.2.2. The DoD owns or controls access to the economic benefits or services and, therefore, can obtain them, deny, or regulate the access of other entities.

2.3 Noncash Assets

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

*2.4 Entity Versus Nonentity Assets

2.4.1. DoD Components report entity assets separately from nonentity assets in the financial statements, Note 2.

2.4.2. DoD Components use entity assets in their operations. The DoD Component decides how the asset is used or must use the asset to meet statutory obligations.

2.4.3. DoD Components may hold, but not use nonentity assets in its operations. A DoD Component may be a fiduciary, maintaining nonentity assets for the Treasury, other government agencies, or non-federal entities. DoD Components must report both entity and custodial or managed nonentity assets in the financial statements. However, DoD Components must not recognize fiduciary nonentity assets on the Balance Sheet, according to SFFAS 31. The Federal Government must uphold the non-Federal individuals' or entities' ownership interest in the fiduciary assets. Disclose in the financial statement, Note 2, the nonentity assets reported on an entity's Balance Sheet according to OMB Circular A-136, Assets section; see also Volume 6B, Chapter 10. Recognize a liability equal to nonentity assets (due to Treasury or other entities) on the Balance Sheet.

2.5 Intragovernmental Versus Public Transactions

2.5.1. DoD Components create intragovernmental assets from transactions with Non-DoD Federal Agencies and other DoD Components.

2.5.2. DoD Components create public assets from transactions with non-federal entities. Non-federal entities include domestic and foreign persons and organizations outside the U.S. Government. The term "public" can represent non-federal entities.

2.6 Accounting Events

The accounting events discussed in Chapters 2 through 7 require accounting entries simultaneously in both the proprietary accounts and the budgetary accounts. Additional information on budgetary accounts is in Volume 3.

*3.0 FUND BALANCE WITH TREASURY (FBWT) AND CASH

3.1 FBWT Policy

FBWT includes the available funds with Treasury authorizing the entity to make expenditures and pay liabilities. Collections and disbursements increase or decrease the account balance. All federal agencies must reconcile their FBWT accounts on a regular and recurring basis to ensure integrity and accuracy. Research and resolve differences identified during the reconciliation process. Reconciliation documentation (including support for any adjustments required) must be prepared and retained. Reconciliation, review, and approval of evidence must be documented. FBWT balances must be accurate for the Treasury, Department, and Government-wide financial position. Comprehensive guidance on FBWT and Cash is in Chapter 2.

3.2 Cash Held Outside of Treasury

DoD consolidation entities may hold cash outside of the Treasury to provide check-cashing services in accordance with Volume 5. Cash includes all monetary resources on hand or deposit with financial institutions, including coins, currency, and readily negotiable instruments (such as checks and money orders).

3.3 Restricted Cash

Laws, regulations, or agreements impose cash deposit restrictions. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Financial reports must disclose the restriction reasons and nature.

3.4 FBWT and Cash Accounting Requirements

3.4.1. FBWT and cash accounting will:

3.4.1.1. Be complete, accurate, and timely.

3.4.1.2. Cover cash receipts, cash disbursements, and cash balances.

3.4.1.3. Comply with applicable laws and regulations.

3.4.1.4. Disclose errors, losses, and gains. DoD Components must identify, resolve, and correct errors on a timely basis as detailed in Chapter 2.

3.4.2. Record cash receipts immediately upon collection, and control and deposit cash as soon as practicable. Disbursing Officers and their cash agents may hold cash collections for operating requirements within their authority.

3.4.3. Make cash disbursements only after receiving an approved voucher package containing performance evidence (i.e., receipt of goods and/or services via DD Form 250, Material Inspection and Receiving Report), a valid purchase order, and a valid invoice. Cash disbursements can also be made after receiving an authorized advance payment request. Record cash disbursements and collections promptly in the applicable DoD accounting system and report the same in the Statement of Transactions.

3.4.4. Reconcile cash receipts and disbursements with appropriate documents and accounting records, within each accounting period. Document the reconciliation and verify that all supporting documentation amounts agree with the postings to the U.S. Standard General Ledger account 101000, Fund Balance with Treasury, and 109000, Fund Balance with Treasury Under a Continuing Resolution. Research and resolve any differences identified during the reconciliation process. Prepare and retain reconciliation documentation (including support for any adjustments required). Review and approval of the reconciliations and adjustments must be documented.

3.4.5. Account for foreign currencies in subsidiary accounts separate from U.S. currency. Report foreign currencies at the U.S. dollar equivalent using the exchange rates prescribed by the Secretary of the Treasury. Disclose in the financial statement notes that foreign currency is not freely exchangeable. Accounting entities may prepare financial statements for their use. These entity-level statements will be translated into U.S. dollars when used to prepare departmental financial statements. See Volume 6A, Chapter 7 for additional foreign currency information.

3.4.6. Cash management requirements guidance is in Chapter 2.

4.0 RECEIVABLES

4.1 Receivables Overview

Record amounts due the DoD accurately in the appropriate receivable account when the transaction or event occurs. Claims to assets include accounts receivable, interest receivable, and loans receivable. Detailed Receivables guidance is in Chapter 3.

4.2 Receivable Recognition

SFFAS 1 requires receivable recognition when a federal entity establishes a claim to assets against other entities, either based on legal provisions, such as a payment not received by the invoice due date, or goods or services provided. Unknown amounts must be estimated.

5.0 INVENTORY AND RELATED PROPERTY

5.1 Definition of Inventory and Related Property

5.1.1. Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) consumed in producing goods or providing services for a fee. Inventory includes items for sale or transfer to the federal government or non-federal entities.

5.1.2. Inventory is recognized when the title passes or when the goods are received by the purchasing entity. The terms of the contract dictate delivery or constructive delivery.

5.1.3. Inventory is valued at historical cost, using the moving average cost assumption unless an exception is specifically authorized.

5.1.4. Comprehensive Inventory guidance is in Chapter 4.

5.2 Operating Materials and Supplies and Stockpile Materials

Related property includes operating materials and supplies and stockpile materials. Additional guidance is in Chapter 4.

6.0 ADVANCES AND PREPAYMENTS

6.1 Advances

A DoD Component may advance cash to its employees, contractors, grantees, or others to cover the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Common examples include travel advances disbursed to employees prior to business trips, and assets disbursed under a contract, grant, or cooperative agreement before the contractor or grantee provides services or goods. Reduce advances when related goods or services are received, contract terms are met, progress is made under a contract, or anticipated expenses are realized. Advances are the paying entity's assets. Additional advance guidance is discussed in Chapter 5.

6.2 Prepayments

A DoD Component may make prepayments to cover periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. Reduce prepayments when the DoD Component receives goods or services, or the prepaid expenses expire. Prepayments are the paying entity assets. Detailed prepayment guidance is in Chapter 5.

6.3 Reporting Intragovernmental Transactions

Intragovernmental advances and prepayments must be accounted for and reported separately from those made to non-federal entities.

*7.0 PROPERTY, PLANT, AND EQUIPMENT (PP&E)

7.1 Definition of PP&E

7.1.1. PP&E includes General PP&E, Heritage Assets, Multi-Use Heritage Assets, and Stewardship Land. SFFAS 6 defines PP&E as tangible assets, with estimated useful lives of two years or more, are not intended for sale in operations, and are acquired or constructed to be used. PP&E includes Internal Use Software, Lease assets, leasehold improvements, property owned in the hands of others (e.g., state governments, colleges and universities, or Federal contractors), and land rights.

7.1.2. Heritage Assets are of historical, natural, cultural, educational, artistic, or aesthetic significance, or with significant architectural characteristics. Regardless of its use, all land from the public domain provided to the Department at no cost is classified as Stewardship Land.

7.1.3. The government must account for PP&E because public funds are invested. Account and control property in the accountable property systems of record. The DoD must safeguard its property from theft, abuse, waste, and unauthorized use and manage the property efficiently and effectively.

7.1.4. Consistent with the DoDI 5000.64, DoD is accountable for all property acquired, leased, or otherwise obtained: from initial acquisition and receipt; through accountability and custody; until formally relieved of accountability, including disposition; or through a completed evaluation and investigation for lost, damaged, destroyed, or stolen property. Additional PP&E guidance is in Chapter 24 for Real Property, Chapter 25 for General Equipment, Chapter 26 for Leases, Chapter 27 for Internal Use Software and Chapter 28 for Heritage Assets, Multi-Use Heritage Assets and Stewardship Land.

7.2 Recording General PP&E Assets

Record all General PP&E assets in accounting records at cost. Include all costs incurred to bring the PP&E to a form and location suitable for its intended use. Stewardship Land and Heritage Asset PP&E (except for Multi-Use Heritage Assets) costs are expensed when incurred.

8.0 OTHER ASSETS

Other assets include investments, and other miscellaneous assets not otherwise classified in a specific category identified in sections 2.0 through 7.0. The basic purpose is to ensure financial control over these assets and the recording of expenses or dispositions in the appropriate accounting periods. Other assets guidance is in Chapter 7.

VOLUME 4, CHAPTER 2: "ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY"

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.

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The previous version dated January 2016 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
3.0 (0203)	Deleted account numbers and directed users to the Department of Defense U.S. Standard General Ledger Transaction Library.	Revision
6.4 (020604)	Updated Fund Balance with Treasury (FBWT) reconciliation requirements to align with the Treasury Financial Manual (TFM).	Revision
7.3 (020703)	Modified language regarding refunds to align with the Office of Management and Budget Circular A-11.	Revision
8.2 (020802)	Updated reconciliation roles and responsibilities for DoD Components.	Revision
8.3 (020803)	Updated suspense accounts requirement for balances to be moved to the appropriate Line of Accounting within 60 business days from the date of transaction to align with the TFM.	Revision
8.5 (020805)	Updated FBWT reconciliation requirements to align with the TFM.	Revision
8.6 (020806)	Added a deadline to transition to daily submission of FBWT disbursement and collections to Treasury's Central Accounting Reporting System.	Addition
8.10 (020810)	Deleted the "Documentation Requirements to Support Auditability" paragraph.	Deletion
Table 2-3	Added Table 2-3 to summarize availability dates for data files used to perform monthly FBWT reconciliations.	Addition
Table 2-4	Added Table 2-4 to summarize monthly FBWT reconciliation deadlines.	Addition

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CHAPTER 2

ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY

1.0 GENERAL (0201)

1.1 Purpose (020101)

This chapter prescribes Department of Defense (DoD) accounting policy and related management requirements necessary to establish financial control over fund balances with the U.S. Department of the Treasury (Treasury) and cash resources that are not part of the Fund Balance with Treasury (FBWT). Unless otherwise stated, this chapter is applicable to the Military Departments and Defense Agencies, hereinafter referred to as DoD Components including the Defense Working Capital Fund (DWCF) activities.

1.2 Authoritative Guidance (020102)

The Statement of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities," promulgated by the Federal Accounting Standards Advisory Board, recognizes both cash and FBWT as assets and establishes specific standards for both. The Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 5100, (***I TFM 2-5100***) "Fund Balance with Treasury Accounts," provides policies and procedures for reconciling agencies' FBWT accounts.

2.0 DEFINITIONS (0202)

2.1 Cash (020201)

Cash, including imprest funds, must be recognized as an asset in accordance with SFFAS 1, Paragraph 27: "Cash consists of: (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in-transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies, which, for accounting purposes, must be translated into U.S. dollars at the exchange rate on the financial statement date."

2.2 Cash Held Outside of Treasury (020202)

I TFM 2-3400, Section 3420 defines "Cash Held Outside of Treasury" as funds under the custodial responsibility of Federal Government agencies and/or their employees, officers, or agents that are deposited in non-Treasury general accounts or held in an imprest fund. "Cash Held Outside of Treasury" includes "Disbursing Officer's (DO's) Cash" which are Treasury funds (cash) held by the DO in local accounts, but which are not directly associated with any DoD appropriation and are not part of DoD FBWT. See also section 0204 and Chapter 1.

2.3 Entity Cash (020203)

SFFAS 1, Paragraph 28 defines entity cash as the amount of cash that the reporting entity holds and is authorized by law to spend. Imprest Funds are cash advances against a specific Line of Accounting (LOA) from the DO to an appointed cashier. As advances, these funds are a form of "Cash Held Outside of Treasury" but because an entity LOA is cited as the basis of the Imprest Fund, the advance is considered "entity cash." The advance encumbers FBWT for the LOA but it is separate from the DO's physical cash in U.S. Standard General Ledger ***(USSGL)*** account 113500 "Funds Held Outside of Treasury." In this instance, the physical cash (account 113500) is still under the DO's pecuniary liability and is non-entity cash, while the "accounting cash" is entity cash.

2.4 Non-entity Cash (020204)

Non-entity cash is cash that a federal entity collects and holds on behalf of the U.S. Government or other entities. This is a liability account. In some circumstances, the entity deposits cash in its accounts in a custodial capacity for the Treasury or other federal entities, or in a fiduciary capacity for non-federal parties. In accordance with SFFAS 1, Paragraph 29, Components must recognize non-entity cash that does not meet the definition of a fiduciary asset on the Balance Sheet, reported separately from entity cash. Fiduciary cash that meets the definition of a fiduciary asset must be disclosed in accordance with the provisions of ***SFFAS 31***, "Accounting for Fiduciary Activities." DO's cash is non-entity cash, which is a subset of Treasury cash. The DO's Cash is reported in dollars as described in Volume 5, Chapters 13 and 15.

2.5 Restricted Cash (020205)

Restrictions imposed on cash deposits are usually from laws, regulations, or agreements. Non-entity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. For instance, restricted cash may be non-entity seized cash from foreign governments, deposit funds for humanitarian relief and reconstruction, or currency held by DOs to carry out their paying, collecting, and foreign currency accommodation exchange missions. In accordance with SFFAS 1, Paragraph 30, Components must disclose the reasons and nature of restrictions in the notes to the financial statements.

2.6 FBWT (020206)

SFFAS 1 provides the following definition for FBWT:

2.6.1. A federal entity's FBWT is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities.

2.6.2. According to SFFAS 1, paragraph 32, a federal entity's FBWT includes budget clearing account balances (also known as suspense accounts) and the dollar equivalent of foreign currency account balances (e.g., foreign burden sharing payments). Components must translate foreign currency account balances into U.S. dollars at exchange rates determined by the Treasury and effective at the financial reporting date in accordance with the

Treasury Reporting Rates of Exchange, unless the exceptions stated in ***I TFM 2-3200*** apply. A federal entity's FBWT also includes balances for direct loan and loan guarantee activities held in the credit reform program and financing accounts.

2.6.3. I TFM 2-5100 describes FBWT as an asset account that represents the future economic benefits of monies that agencies can spend for future authorized transactions. Transactions such as appropriation warrants, non-expenditure transfers, collections, disbursements, and related adjustments reported to Treasury's Bureau of the Fiscal Service (BFS); and classified to a Treasury Account Symbol (TAS) increase or decrease to the FBWT account balance. See Table 2-1 for examples of financial events that impact a Component's FBWT on the Balance Sheet and on the Statement of Budgetary Resources (SBR).

2.7 FBWT Reconciliation (020207)

2.7.1. Reconciliation is a process that compares two sets of records (usually the balances of two accounts), identifies, and explains the differences between the records or account balances. The timing of transactions, an invalid LOA, or insufficient detail may cause differences, or reconciling items. Reconciliation is not complete until all differences are identified, aged, accountability is assigned, and differences are explained. Once reconciliations are complete, appropriate actions must be documented and any necessary adjustments must be recorded. The corrective action must address the root cause of the difference in order to prevent recurrence.

2.7.2. A FBWT reconciliation is a specific reconciliation of the actual accounting transactions (including funding, disbursements, collections, and transfers) back to the detailed amounts posted to both entity general ledgers and entity Treasury accounts, USSGL accounts 101000 (FBWT) and 109000 (FBWT While Awaiting a Warrant). Reconciliation involves identifying and comparing accounting events or transactions to determine whether transactions are recorded properly and can be cleared, have not yet been recorded (in-transit), or were recorded improperly and require correction either in the general ledger or at Treasury.

2.7.3. Reconciling FBWT is a reconciliation of available funds as recorded on the Central Accounting Reporting System (CARS) Account Statement. FBWT reconciliation includes DO's cash reconciliation (cash and monetary assets and the Statement of Accountability), the focus of which is reconciling the account activity to the cash activity (checks issued, deposits, electronic funds transfer). Refer to Volume 5 for information and requirements of the DO's cash reconciliation.

2.8 FBWT Universe of Transactions (020208)

The FBWT universe of transactions includes all valid funding, disbursements, collections, or transfers of funds (including warrants) to or from an entity over a given time period. These transactions affect the amounts and balances in appropriation accounts reported to or by Treasury, recorded in an entity's general ledger, or presented in an entity's financial reports. When these transactions are reconciled from the entity disbursing systems, general ledgers, and financial statements to Treasury's records, voucher level detail must support all identified differences. Note that there are two universes of transactions for FBWT: Treasury detail and accounting detail. For purposes of FBWT reconciliations, transaction-level detail begins with the LOA and must have the following data elements (at a minimum): TAS, Sub-Allocation Holder Identifier (SAHI) (formerly limit) for Treasury Index (TI)-097, reimbursable flag indicator, accounting station identifier code, agency disbursing identifier code, and the voucher number and amount.

2.9 Undistributed Amounts (020209)

2.9.1. Undistributed amounts are amounts that have been reported to Treasury but have not been posted to the appropriate obligation in a Component's general ledger in the source accounting system or vice versa. Undistributed amounts can be a result of timing, invalid LOA, or invalid TAS information, among other reasons. Unsupported undistributed amounts are amounts that are not yet researched/reconciled to supporting documentation.

2.9.2. A "forced balance entry" represents any amount posted, usually at a summary-level in a suspense account, to eliminate differences between the Component's general ledger balance (USSGL accounts 101000 and 109000) and the Treasury's control total. Typically, these adjustments appear as "undistributed" amounts when in fact, they are differences. Although Treasury requires the Components to match the Treasury's balance, a forced balance entry is not an adequate reconciliation of the USSGL accounts 101000 and 109000. When reconciling FBWT USSGL accounts 101000 or 109000, Components must research the causes of the differences at the detail voucher level, identify undistributed amounts, and clear the aged undistributed amounts in accordance with I TFM 2-5100, Section 5130. All differences must be cleared within 60 business days from the date of the transaction (see Table 2-4 and the TFM Volume 1, ***Bulletin 2020-05***).

2.9.3. In accordance with the Government Accountability Office (GAO) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE), ***Financial Audit Manual***, Volume 2, (GAO-08-625G), section 921, Paragraph 12, entities must avoid arbitrarily adjusting accounts to the amounts reported by Treasury and/or recorded differences in suspense accounts without adequately researching the causes of the differences[1]. Unreconciled differences recorded in suspense accounts may represent transactions that have not been properly recorded by the entity to the appropriate accounts. For more detailed instructions on the various reconciliation tools, refer to I TFM 2-5100.

*3.0 STANDARD GENERAL LEDGER ACCOUNTS (0203)

Components must use the appropriate accounts to record transactions for FBWT or foreign currency transactions. The general ledger accounts and accounting entries for these accounts are specified in the USSGL TFM Supplement and the ***DoD USSGL Transaction Library***.

[1] Office of Management Budget (OMB) Circular A-136 states: "An entity's FBWT must tie to the sum of the balances reflected on the CARS Account Statement for the entity's TAS. An adjustment will need to be made for available receipts appropriated/credited to the related expenditure accounts, since the balances will appear in both the receipt ledger and the account statements for the expenditure account."

4.0 ACCOUNTING FOR CASH HELD OUTSIDE OF TREASURY (0204)

4.1 Cash and Investments Held Outside of Treasury (020401)

I TFM 2-3400 provides guidance on Cash and Investments Held Outside of Treasury and the requirements for accountable officers who have responsibilities for funds received, certified, disbursed, and held in their custody (e.g., DOs).

4.2 Recording Cash Held Outside of Treasury (020402)

The amount of "Cash Held Outside of Treasury" must be recorded using one of these USSGL accounts: 112000 (Imprest Funds), 113000 (Funds Held Outside of Treasury-Budgetary), 113500 (Funds Held Outside of Treasury-Non-Budgetary), and 120000 (Foreign Currency) for cash held by DOs at personal risk. There are no budgetary accounts impacted from recording this type of non-entity cash. The SF 1219, Statement of Accountability, is used to determine the accountability of DOs for funds held outside of Treasury (cash on hand). The balance in this account is not an asset of a DoD Component for external statement purposes because it represents Treasury cash held by DOs under various authorities, including:

4.2.1. Title 10, United States Code, section 2206 (***10 U.S.C. § 2206***) (Disbursement of funds of a Military Department to cover an obligation of another DoD agency);

4.2.2. ***31 U.S.C. § 3324*** (Advances); and

4.2.3. ***Title 31, Code of Federal Regulations, § 240.12(a)*** (drawing disbursing cash). DO's cash is non-entity, restricted cash. A liability account for the total amount advanced by the Treasury (USSGL account 298500) must be maintained in accordance with I TFM 2-3400, Section 3435.10 "Financial Accounting and Reporting Requirements."

4.3 Reconciling Cash Held Outside of Treasury (020403)

The information reported on the SF 1219 must be posted consistent with Volume 6B, Chapter 4 and the quarterly guidance found on the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) web page, ***OUSD(C) Policies and Guidance*** (DoD Common Access Card required). Components must reconcile all transactions involving cash on a periodic basis, but no less frequently than monthly for DO's cash and quarterly for imprest funds, to ensure cash reported on the Statement of Accountability reconciles with the CARS Account Statement for the DO's Cash TAS, the agency's accounting records and related financial statements in accordance with I TFM 2-3400, Section 3440. Treasury's BFS reports to the Office of the Fiscal Assistant Secretary of Treasury all discrepancies disclosed from periodic review and analysis of agencies' reported cash and investment outside of Treasury.

5.0 CASH AUDITS AND REVIEWS (0205)

5.1 Responsibility for Accounting and Internal Controls (020501)

Managers who supervise personnel holding cash are responsible for maintaining appropriate accounting and internal controls. This responsibility includes ensuring the legality, propriety, and correctness of disbursements and collections of public funds. See Volume 5, Chapter 3; and Volume 5, Appendix A for more information on requirements for securing cash and other assets.

5.2 Announced and Unannounced Audits (020502)

Audits, both announced and unannounced of each fund, must determine whether:

5.2.1. All funds are properly accounted for and reported;

5.2.2. The amount of funds not in excess of requirements; and

5.2.3. Procedures are established and followed to protect the funds from loss or misuse. In accordance with ***DoD Instruction 5010.40***, "Managers' Internal Control Program Procedures," management must determine the frequency of audits based on vulnerability assessments.

5.3 Requirements for Investigation (020503)

Any unauthorized use, irregularity, or improper accounting for a cash fund must be investigated and reported to the approving authority and to the DO involved. A report must state whether prescribed procedures were followed and recommend any actions considered necessary or desirable to prevent recurrence.

6.0 DEFENSE WORKING CAPITAL FUND (0206)

6.1 DWCF Accounts (020601)

The DWCF FBWT, account symbol 097X4930, is subdivided at the Treasury into five sub-accounts. Each reporting entity of the five sub-accounts reports a FBWT amount on its Balance Sheet. A DWCF activity below the Treasury sub-account reports a FBWT amount on the agency's Accounting Report (Monthly) (AR (M)) 1307, Statement of Operations, as well. However, this amount represents a clearing account for recording collection and disbursement activity that reflects a net of collections and disbursements. Volume 6A, Chapter 15 describes how to prepare the AR (M) 1307, as well as other FBWT reporting requirements. Each individual activity must also report the balance of FBWT transactions on the Balance Sheet.

6.2 DWCF Sub-Account (020602)

DoD Components DWCF sub-account identifiers assigned by the Treasury are shown in Table 2-2 and in the Treasury Federal Account Symbols and Titles ***(FAST) Book***, I TFM 2, Supplement 1. One of the sub-accounts is the Defense-wide Treasury account (097X4930.005). Other DWCF accounts include, but may not be limited to 097X4931, Building Maintenance Fund, and 097X4932, Defense Counterintelligence and Security Agency. The Defense-wide account includes a number of Defense Agencies operating under the DWCF. The Defense Agencies within the Defense-wide account provide and use funds from the centralized FBWT account under the Defense-wide Treasury account. An entity provides or uses funds depending on whether it needs to provide a collection or make a disbursement. If an entity's collections exceed its disbursements, it is providing funds to the centralized pool for other entities' use. If an entity's disbursements exceed collections, the entity is using funds from the centralized pool to make disbursements. See Volume 2B, Chapter 9 for additional information about cash management policy.

6.3 DWCF Transfers (020603)

Program managers for each Treasury sub-account have the authority to realign (delegate) balances to the activity or installation-level at their discretion. If the program managers realign balances between Treasury Appropriation Fund Symbols (TAFS), they must document all such approved transfers on an SF 1151, Nonexpenditure Transfer Authorization. TAFS are a combination of a TAS and availability code (for example, annual, multi-year, or no-year). TAFS refer only to the appropriation and fund accounts and exclude the receipt accounts. Distributions between SAHIs, within the same TAFS, are not accounted for as transfers. In this instance, the preparation of the SF 1151 is not required. See the Office of Management and Budget ***(OMB) Circular A-11***, subsection 20.4(j) for additional information on transfers. Program managers must ensure that they do not make a transfer that is in excess of the balance available at the DWCF SAHI making the transfer. See Volume 11B, Chapter 3 for additional information on nonexpenditure fund transfers.

*6.4 Recordation/Reconciliation of FBWT Transactions (020604)

6.4.1. Components must record all FBWT transactions in the individual activity accounts and must reconcile them to total monthly FBWT transactions reported by the Defense Finance and Accounting Service (DFAS). Components must adhere to the 2-month (60 calendar days) reconciliation requirement in accordance with the TFM and move toward a 1-month (30 calendar days) reconciliation requirement following the end of the month being reconciled effective fiscal year 2021. As mentioned in subparagraph 020207.A, reconciliation is not complete until all differences are identified and aged, accountability is assigned, and differences are explained. The timing of transactions, an invalid LOA, or insufficient detail may cause differences, or unmatched items. If Components identify any policy or procedural problems during reconciliation that require adjudication between a Component(s) or between the Department and Treasury, they must bring it to the attention of DFAS, as their service provider, and if necessary, the Office of the Deputy Chief Financial Officer.

6.4.2. The Component must reconcile the Department's FBWT general ledger account at the DWCF sub-account level to Treasury in accordance with ***[10 U.S.C. § 2208](#)*** (n) and (q)(1). For the Defense-wide sub-account (097X4930.005), DFAS will reconcile the general ledger accounts to Treasury at the Component level.

6.5 DWCF Treasury Cash Balance (020605)

The cash on hand at the Treasury account-level must always be sufficient to pay liabilities when due. The responsibility for DWCF cash management is prescribed in Volume 2B, Chapter 9. Components must immediately investigate and report a transaction that causes a negative balance in the funds with the Treasury account as a possible violation of the Antideficiency Act as prescribed in Volume 14, Chapter 2, "Antideficiency Act Violations," in accordance with ***31 U.S.C. § 1341***.

6.6 Current Balance of Funds with Treasury (020606)

The current balance of funds with Treasury is equal to the amount as of the beginning of the fiscal year plus the cumulative fiscal-year-to-date amounts of collections, appropriations, and transfers-in of FBWT received minus the cumulative fiscal-year-to-date amounts of withdrawals, transfers-out, and disbursements.

6.7 Undistributed Collections and Undistributed Disbursements (020607)

Refer to Volume 3, Chapter 11 for additional information relating to financial control over disbursements, collections and adjustment transactions affecting the FBWT. Components must record and report undistributed collections and undistributed disbursements at the lowest organizational level.

6.7.1. DFAS must identify undistributed FBWT transactions at the sub-account Treasury account-level, SAHI level (i.e., formerly limit), and Component-level.

6.7.1.1. Sub-account TAFS Level Adjustments. Treasury Sub-accounts are shown in Table 2-2. The DWCF undistributed collections and undistributed disbursements that are identifiable to a DWCF sub-account but do not contain sufficient information to identify them to a lower organizational (business area/Component) level are recorded in 097X4930.005. Any transactions posted at this level must be researched and cleared, if necessary, within 60 business days from the date of the transaction to ensure proper reporting by DoD Components. At year end, there must not be any remaining unidentified/un-researched balances in the sub-account.

6.7.1.2. Business Area Adjustments. These are DWCF business area undistributed collections and undistributed disbursements that are identifiable to the TAFS level but do not contain sufficient information to identify them to a business area. Examples of business areas include Supply Maintenance, Depot Maintenance, and Research and Development. Undistributed collections and undistributed disbursements are the differences between the Treasury reporting systems and the collections and disbursements reported through the general ledgers.

6.7.1.3. Component-Level Adjustments. These adjustments are DWCF Component-level undistributed (unmatched) collections and undistributed (unmatched) disbursements that are identifiable through the Treasury reporting systems to the Component-level but have not yet been matched at the Component-level to a specific obligation or receivable subsidiary ledgers. In addition, these adjustments must be supported by detailed transactions from the disbursing officers' records to include at a minimum the voucher number or other unique identifiers of the transactions. Limit Component-level adjustments at year-end and complete the required reconciliations (necessary research must be conducted and transactions must be posted to the proper LOA).

6.7.2. DFAS must identify collections or disbursements at the lowest identifiable level described in subparagraph 020607.A. That level must record the undistributed collection or undistributed disbursement and provide documentation necessary to research the account for proper disposition.

6.7.3. Undistributed collections and undistributed disbursements are necessary to reflect proper FBWT as contained in finance network reports. Components must research such collections and disbursements recorded in account 101000 for proper disposition by the lowest organizational level to which they can be identified. DFAS must correct erroneous collections by making a payment to a vendor and erroneous disbursements by establishing a receivable pending a receipt of the refund. In addition, supporting documentation must include detailed transactions from the disbursing officers' records to include at a minimum the voucher number or other unique identifier of the transactions

7.0 FBWT TRANSACTIONS (0207)

7.1 Collection or Disbursement (020701)

Record a collection or disbursement only when documentary evidence, such as a Treasury Financial Management Service (FMS) 6652, Statement of Differences (SOD) or a voucher, supports an increase or decrease to the Treasury account. For the DWCF activities, Components must segregate cash collections and cash disbursements between those for the DWCF operating program (i.e., noncapital outlays) and the DWCF capital program (i.e., acquisition of capital assets) to comply with 10 U.S.C. § 2208(m). See Volume 2B, Chapter 9 for a description of Capital Investment Program. Additionally, Components must record and report undistributed cash collections and undistributed cash disbursements at the lowest organizational level.

7.2 Advances Received (020702)

Components must record a customer advance or prepayment received as a liability in accordance with SFFAS 1, Paragraph 60. OMB Circular A-11, section 20.11 provides guidance on the treatment of advances received and deposit requirements, which vary depending on whether the advance is with or without orders.

*7.3 Refunds and Prepayments (020703)

OMB Circular A-11, section 20.9 states, "Refunds are the repayments of excess payments." Refund amounts directly relate to previous obligations incurred and outlays made. Refunds received are deposited to the credit of the appropriation or fund account charged with the original obligations in accordance with OMB Circular A-11, section 20.9. Any items returned to DWCF supply activities from DWCF customers are to be considered as a recovery (and not classified as a refund). Offsetting collections credited to expenditure accounts automatically offset outlays and budget authority at the expenditure account-level. See Volume 3, Chapter 15 for more information about refunds, and Volume 4, Chapter 5 for more information about prepayments. Refer to the DoD USSGL Transaction Library for posting entry guidance.

8.0 FBWT RECONCILIATIONS (0208)

8.1 FBWT Reconciliation Overview (020801)

8.1.1. Reconciling FBWT is a key internal control in maintaining the accuracy and reliability of the entity FBWT records. Therefore, Components must perform timely reconciliations (see Table 2-4) and implement effective and efficient reconciliation processes. Effective reconciliations serve as a detection control for identifying unauthorized and unrecorded transactions at the entities and at Treasury. Effective reconciliations are also important in preventing entity disbursements from exceeding appropriated amounts and providing an accurate measurement of the status of available resources.

8.1.2. Reconciliation also allows Components to resolve differences in a timely manner. When resolving differences, Components must maintain detailed reconciliation documentation (reviewed and approved by appropriate official) that is readily available for review by management, auditors and Treasury if requested. Components must reconcile any differences caused by time lag and correct differences caused by error. Components must explain any discrepancies between FBWT in the general ledger accounts and the balance in the Treasury's accounts and disclose them in the notes to the financial statements. Agencies must also provide information on unused funds in expired appropriations that are returned to Treasury at the end of a fiscal year in accordance with SFFAS 1, Paragraph 39.

8.1.3. Components must ensure that all adjustments are researched and traceable to supporting documents as instructed in I TFM 2-5100, Section 5120. Supporting documentation, including reconciliations, transaction-level detail, journal vouchers and adjustments, Standard Operating Procedures (SOPs), and Customer Service Provider agreements (i.e., Memorandums of Agreement (MOA)/Memorandums of Understanding (MOU)/Service Level Agreements (SLAs)), are necessary to provide an audit trail. Components must ensure the supporting documentation is readily accessible to management for oversight and auditors to support auditability.

8.1.4. An effective FBWT reconciliation in which all reconciling differences are resolved ensures that the FBWT universe of transactions (see definition at paragraph 020208) is complete and transactions included in the FBWT accounts are valid. Effective FBWT reconciliation also supports reporting accurate, valid, and timely FBWT account balances. Unrecorded or improperly recorded transactions, usually referred to as "reconciling items," are expected and are the result of timing differences or errors. I TFM 2-5100, Section 5130 states that agencies must reconcile the FBWT USSGL account 101000 balances for each fund symbol with BFS' records (i.e., CARS Account Statement; Expenditure Transaction Report; SODs, and Available, Unavailable, and Unappropriated Receipt Account Reports) on a monthly basis.

*8.2 Reconciliation Roles and Responsibilities (020802)

DFAS, in their role as a service provider, and their Component customers are jointly responsible for performing FBWT reconciliations.

8.2.1. DFAS is responsible for:

8.2.1.1. Reporting transactions affecting FBWT accounts to Treasury (e.g., disbursements and collections) that are disbursed under DFAS Disbursing Station Symbol Numbers (DSSNs) and non-DFAS DSSNs (e.g., Army DSSNs).

8.2.1.2. Ensuring that information submitted to Treasury on the SF 224, Statement of Transactions, or SF 1219, for those Agency Location Codes (ALCs) where DFAS is the Designated Agent, matches the information reported to Treasury.

8.2.1.3. Researching and resolving differences identified on the Treasury's FMS 6652, i.e., SOD for DFAS DSSNs (DFAS is responsible for reporting and assisting with the resolution of differences for non-DFAS DSSNs). BFS provides FMS 6652 to federal agencies for both disbursements and deposits. An FMS 6652 is generated for each ALC by accounting month (month the report is generated) and accomplished month (month the difference occurred) if there is a discrepancy. Differences resulting from deposits indicate there is a discrepancy between the monthly totals submitted through the banking system via the SF 215, Credit Voucher, or the SF 5515, Debit Voucher, and the totals provided by the agency on the SF 224 or SF 1219. The SOD for disbursement transactions reveal discrepancies between monthly totals reported in the agencies' accounting systems and the transactions reported to Treasury by the Regional Finance Centers and/or through the Intra-Governmental Payments and Collections (IPAC) system on the SF 224 or SF 1219. FBWT reconciliation variances, to include unmatched, suspense, and SOD balances, must be cleared within 60 business days from the date of the transaction (see Table 2-4).

8.2.1.4. Reconciling FBWT appropriation accounts at the TI, main appropriation account-level, and at the ALC level, including ensuring the FBWT universe of transactions for each TAS recorded to USSGL accounts 101000 and 1090000 for all DoD funds is complete and fully reconciled to all of the individual appropriation account balances recorded at Treasury.

8.2.1.5. Reconciling the Components' FBWT USSGL accounts 101000 and 109000 at the SAHI level. SAHI is a unique account identifier code specific to DoD that represents the structural level below the sub-account level. These codes are typically four digits, and used to identify, manage, and report the financial activity of Defense Agencies, Component, and other operational units reported by the Treasury as the combined activities of TI- 097.

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

8.2.1.7. Researching and resolving differences originating from operations under the control of DFAS, and clearing these transactions in the FBWT source system(s). Key supporting documentation must be maintained and provided upon request. This documentation includes evidence of reconciliation performed and confirmation that all differences were successfully reconciled.

8.2.2. DoD Components are responsible for:

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

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

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

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

8.2.3. Coordination between DFAS and their Component customers is necessary to properly identify, assign, age, track, research and resolve reconciled differences in a timely manner. DFAS' roles and responsibilities in Disbursing and Treasury Reporting Operations are described throughout Volume 5 and in Volume 6A[2], Chapter 3.

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

*8.3 Treasury Reconciliation Requirements (020803)

Treasury requires reconciling FBWT accounts to the Treasury reported amounts by Department, Period of Availability, and Main Account (i.e., TI, fiscal year, and fund symbol) monthly[3]. During reconciliation, DFAS and their Component customers must:

[2] Volume 6A, Chapter 3 discusses SF 1220, "Statement of Transactions."

[3] Treasury sets forth the requirements for reconciling FBWT in I TFM 2-5100 and the I TFM 2-5100 Supplement. Audit issue guidance is provided in the FAM Substantive Procedures Section 921-Auditing Fund Balance with Treasury, jointly published by the GAO and the CIGIE.

8.3.1. Research and resolve the underlying causes of differences reported by the Treasury on the SOD (FMS 6652) each month and make corrections to monthly Treasury reports and agency accounting records.

8.3.2. Reconcile general ledger balances by Department, period of availability, and main account with the balances reported by Treasury.

8.3.3. Ensure that all adjustments are researched and traceable to supporting documents in accordance with I TFM 2-5100.

8.3.4. Document detailed reconciliations and make available to auditors and Treasury if requested, as instructed in I TFM 2-5100.

8.3.5. Ensure differences recorded in Treasury budget clearing accounts (suspense accounts) are reconciled monthly as instructed in I TFM 2-5100, and moved to the appropriate LOA within 60 business days from the date of transaction. In accordance with TFM Volume I, Bulletin 2020-05, the agency Chief Financial Officer (CFO) must annually certify that the ages of the balances in the suspense accounts are no more than 60 business days old with clear explanations of exceptions. See paragraph 020805.

8.4 Other Defense Organizations Reconciliation Requirement (020804)

Every DoD Component with FBWT accounts must perform detailed reconciliations of their FBWT accounts (USSGL accounts 101000 and 109000). DFAS and their Component customers must perform the reconciliations monthly to ensure the accuracy and reliability of the Component's FBWT records and the integrity of their financial statements.

8.4.1. In addition to the Treasury Main Account requirement, DoD Components must ensure that FBWT accounts are reconciled to their sub-allocations as provided by OUSD C.

8.4.2. For Treasury reporting purposes, DoD must add the balances in the TI-097 accounts together and reconcile to the Treasury's control total at the TAS level in CARS.

8.4.3. To support effective FBWT reconciliation, Components must ensure that reconciliations include and address amounts reported in:

8.4.3.1. Treasury's CARS Account Statement;

8.4.3.2. Trial balances (for both budgetary (outlays/collections) and proprietary (101000/109000 USSGL accounts) from the accounting system (including budgetary FBWT to proprietary FBWT Governmentwide Treasury Account Symbol Adjusted Trial Balance System edits and validations);

8.4.3.3. Financial statements (outlays and collections on the SBR; FBWT on the Balance Sheet);

8.4.3.4. FMS 6652 (for deposits and disbursement/IPAC transactions);

8.4.3.5. Check issue data processed in the Treasury Check Information System.

8.4.4. Additionally, Components must ensure that they perform monthly reconciliations at the individual voucher level detail and include:

8.4.4.1. All budget fiscal years,

8.4.4.2. All appropriations/Treasury accounts (including general funds, working funds, revolving funds, special funds, deposit funds, and trust funds),

8.4.4.3. All SAHIs of the TI-097, and

8.4.4.4. All activity, including suspense accounts[4] (also see "Treasury Budget Clearing Accounts" in paragraph 020807),

8.4.5. DFAS and DoD Components must also demonstrate they have controls in place to ensure that amounts reported daily or monthly to Treasury reconcile to collections and disbursements processed through the disbursing systems and recorded accurately and timely in the accounting systems. Monthly Treasury reporting includes SF 224 or SF 1219 and SF 1220 by DFAS or other federal agencies (e.g., Department of State and General Services Administration). Components who are the ALC Designated Agents and submit information to Treasury on the SF 224, SF 1219, or SF 1220 must ensure that the information matches what is submitted to DFAS. Any differences between what was submitted to Treasury and what was submitted to DFAS must be corrected by the ALC Designated Agent (either DFAS or the Components) in 15 business days after identification by DFAS. See Volume 5, Chapter 15 for information on the requirements for the SF 1219.

*8.5 Reconciliation of FBWT for Comparison of Transactions (020805)

8.5.1. Reconciling FBWT includes a comparison of transactions at a level of detail sufficient for specific identification of differences to establish that the entity's FBWT general ledger accounts and the Treasury control totals are accurately stated. Detail sufficient for specific identification of differences are voucher numbers for cash disbursements and collections, summary bill numbers for interfund transactions, and authorizing document numbers for nonexpenditure transfers and funding events.

8.5.2. Components must comply with certain operational requirements and deadlines when performing reconciliations to compare transactions. Components must:

8.5.2.1. Perform reconciliations and identify differences at the voucher level (or equivalent). Components must adhere to the 2-month (60 calendar days) reconciliation requirement in accordance with the TFM and move toward a 1-month (30 calendar days)

[4] Sensitive activity may undergo an equivalent reconciliation process in a separate environment, if the balances can be matched with the summary reconciliation.

reconciliation requirement following the end of the month being reconciled effective fiscal year 2021. See Table 2-3 for a list of data files used to perform reconciliations and data file monthly availability dates.

8.5.2.2. Ensure processes are in place to assign, track, age, research, and resolve differences between Treasury, disbursing system records and accounting system records, as prescribed by Treasury, at the voucher level detail on a monthly basis. (Note: Since Treasury reports information at the summary-level, Components must roll up voucher level detail disbursing system and accounting system records and compare to the summary-level Treasury reports.) These balances must be analyzed and reconciled monthly in the SF 224 to ensure all collected amounts are properly credited to the proper appropriation and applicable accounts receivable accounts. For any suspense account, items or transactions more than 60 business days old, investigate and document the reason why the transaction cannot be reclassified to the correct appropriation. All differences must be cleared within 60 business days from the date of the transaction. See Table 2-4 for a summary of the required deadlines.

8.5.2.3. Record journal vouchers in the system of record at the account-level and/or SAHI-level to resolve suspense account and SODs, if necessary, until the proper LOA can be identified. DFAS and their Component customers must maintain all journal vouchers and supporting documentation, including list of journal vouchers that comprise the differences.

8.5.2.4. Complete both Service Provider supervisory and Component reviews and approvals within 10 business days following the completion of researching and resolving all identified differences from the monthly reconciliation. Refer to Volume 6A, Chapter 2 for guidance on journal voucher adjustments and approvals.

8.5.3. Components must ensure they have addressed all of the critical areas and key control points in the FBWT end-to-end reconciliation, as shown in Figure 1. These key control points are:

8.5.3.1. When on daily reporting, reconciling the Component's general ledger system(s) to the Disbursing Systems daily;

8.5.3.2. Reconciling the Cash Management Report (CMR) to the Component's general ledger system(s) monthly (note: this key control point only applies to the TI- 097 Components);

8.5.3.3. Researching and resolving unsupported differences identified on the CMR, as identified by the SAHI "9999," monthly (note: this key control point only applies to the TI-097 Components);

8.5.3.4. Reconciling the Treasury CARS Account Statement to either the CMR (for TI-097 Components) or the Component's general ledger system(s) (for the Military Departments' General Funds) monthly. Refer to 020807 for additional information on the CARS reconciliations;

8.5.3.5. Researching and resolving activity identified in the budget clearing accounts (suspense accounts) on the CARS Account Statement monthly. Refer to paragraph 020807 for additional information on the budget clearing accounts; and

8.5.3.6. Researching and resolving all differences identified on the FMS 6652 for all DoD ALCs reported to Treasury by each of the DFAS Centers monthly.

8.5.4. Components must work to achieve a complete match rate of 99 percent each month over the transactions for each key control point.

*****8.6 FBWT – CARS Account Statement Reconciliation (020806)

8.6.1. The CARS Account Statement Module is an online, query driven component that provides a daily refreshed view of a Federal Program Agency's (FPA's) FBWT. This Governmentwide Accounting (GWA) Module replaced the reports formerly available through the Government-wide On-line Accounting Link System II. The primary goal of the Account Statement is to provide an up-to-date source of balance and transaction information to assist FPAs with their reconciliation process. All agencies must transition to daily submission of FBWT disbursement and collections to the Treasury's CARS by the end of fiscal year 2020. More information about the Account Statement is available at the ***Treasury's*** website.

8.6.2. Each DoD Component must reconcile its transactions to the beginning balance, net activity, and ending balance on the CARS Account Statements[5]. The Account Statement consists of three sections: (1) Account Summary, (2) Expenditure Activity, and (3) the Transactions reports. Agency users can generate the Account Statement reports at either a TAS or ALC level. FMS 6652 arise from ALC-based SF 1219 and SF 1220 reporting submitted by each of the three DFAS centers. The Support Listings provide links to other FMS Accounting Systems that support the monthly SOD reconciliations.

8.6.3. Users can access CARS Account Statement information at the Department Level and can view both a daily Accounting View (Dynamic) and a monthly Published View (Static) of their account balances and supporting transactions. The SOD application receives a daily transmission from CARS. This daily transmission allows BFS to provide more up-to-date information to FPAs. Deposit data and agency statements of transactions are updated daily in CARS; for these items, the FPAs are receiving daily reconciliation information from the GWA Module. This enables the FPAs to identify and correct differences earlier, sometimes before closing the monthly processing. More information about the SOD and detail support listings is available at the Treasury's website.

8.6.4. Agencies report changes in the FBWT accounts to Treasury's BFS. All agencies must transition to daily submission of FBWT disbursement and collections to Treasury's CARS by the end of fiscal year 2020. "CARS Daily Reporters" submit the TAS/Business Event Type

[5] Currently, this requirement does not apply to Defense Agencies and Field Activities that are part of shared Treasury Account Symbols. These organizations, comprising TI-097, must reconcile their FBWT balances individually to internal TI-97 CMR with support from DFAS as their service provider. DFAS is responsible for reconciling the totals of all TI-97 to Treasury.

Codes and/or Classification-keys into the Classification Transactions and Accountability module within CARS on a daily basis for each payment via the Payment Information Repository or the Secure Payment System, and a collection via the Collection Information Repository.

8.6.5. Until agencies are in compliance with being "CARS Daily Reporters," they must continue to report disbursements and collections to an appropriation through monthly reporting on the Standard Form (SF) 224, Statements of Transactions; or in one of the following: SF 1219, Statement of Accountability; SF 1220, Statement of Transactions According to Appropriations, Funds, and Receipt Accounts, in accordance with ***I TFM 4A-4000***, Section 4030. See Volume 6A, Chapter 3 for information on the requirements for the SF 1219 and SF 1220.

8.7 Treasury Budget Clearing (Suspense) Accounts (020807)

8.7.1. According to I TFM 2-1500, Section 1520.25, BFS established clearing accounts to temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure accounts by the Federal Entity.

8.7.2. Effective FBWT reconciliations include clearing transactions recorded in Treasury budget clearing accounts (suspense accounts) in a timely manner (see paragraph 020806). On behalf of the Components, DFAS must be able to provide:

8.7.2.1. A list of individual vouchers and dollar amounts that comprise/equal the difference between Treasury, disbursing system activity and accounting system trial balance amounts for monthly reconciliations;

8.7.2.2. Vouchers, records, reports, disposition and supporting documentation for all transactions posted to the suspense accounts for auditor-selected sample items for monthly reconciliations. Components with key supporting documents must provide it as requested.

8.7.2.3. A monthly list of journal vouchers and dollar amounts (by Component) that comprise/equal suspense account amounts at year-end; and

8.7.2.4. Journal vouchers and supporting voucher documentation that demonstrates the voucher was recorded to the appropriate Component. DoD Components must maintain records for transactions input into their general ledger.

8.8 Requirement for Written Procedures (020808)

Components must ensure that they have current written SOPs and other forms of process documentation (e.g., narratives and process maps), in accordance with the Managers' Internal Control Program, to direct and document the proper reconciliation processes. SOPs must also include evidence of dated supervisory review and approval certifying that it is current and accurate. In the written procedures, Components must require the practice of segregating the journal entry for unsupported undistributed amounts from the journal entry for the undistributed amounts that can be supported. This practice is essential for efficient cash reconciliation management and for audit support and measurement. For example, if the total undistributed amount is 95 percent supported and 5 percent not supported, then record two journal voucher entries to segregate the amounts. See Volume 6A, Chapter 2 for information on proper preparation and documentation of a journal voucher.

8.9 Expenditure and Receipt Accounts Annual Review (020809)

DFAS must review and validate all expenditure and receipt accounts reported by Treasury annually to determine if the TAS are valid. DFAS must work with Treasury to remove invalid and unused TAS from Treasury reports/systems on an annual, or as needed basis.

8.10 FBWT Reconciliation Quarterly Scorecard (020810)

8.10.1. Treasury's BFS provides a Quarterly Scorecard to all CFOs of federal agencies (see I-TFM Bulletin 2020-05).

8.10.2. This scorecard focuses on FBWT reconciliation metrics from the disbursing operations perspective. This Quarterly Scorecard reflects agencies' performance by ALCs in compliance with the BFS Cash Accounting Branch financial reporting standards. Accuracy of Reporting, SOD Reconciliation, Suspense/Default Account Reconciliation (F3502, F3875 and F3885), and Timeliness of Reporting are the reporting standards. The Treasury uses a traffic light grading system. For example, agencies score "green" if they successfully met all standards, "yellow" if they met some, but not all standards, and "red" if they have not met any of the standards based on the criteria outlined in the scorecard.

8.10.3. OUSD(C) requires each ALCs to explain the cause of each discrepancy no later than 30 calendar days after the Scorecard is issued, along with corrective action taken to address the discrepancy, when the discrepancy will be corrected, and what processes are in place to prevent similar discrepancies in the future.

Table 2-1: FBWT Relationship between the SBR and the Balance Sheet

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

Table 2-2: DoD Component Treasury Assigned Account Number for DWCF

DoD Component	Treasury Assigned Account Number
Army	097X4930.001
Navy	097X4930.002
Air Force	097X4930.003
Defense Commissary Agency	097X4930.004
Defense Agencies	097X4930.005
Building Maintenance Fund	097X4931
Defense Counterintelligence and Security Agency	097X4932

*Table 2-3: FBWT Reconciliation Data Files and Monthly Availability Dates

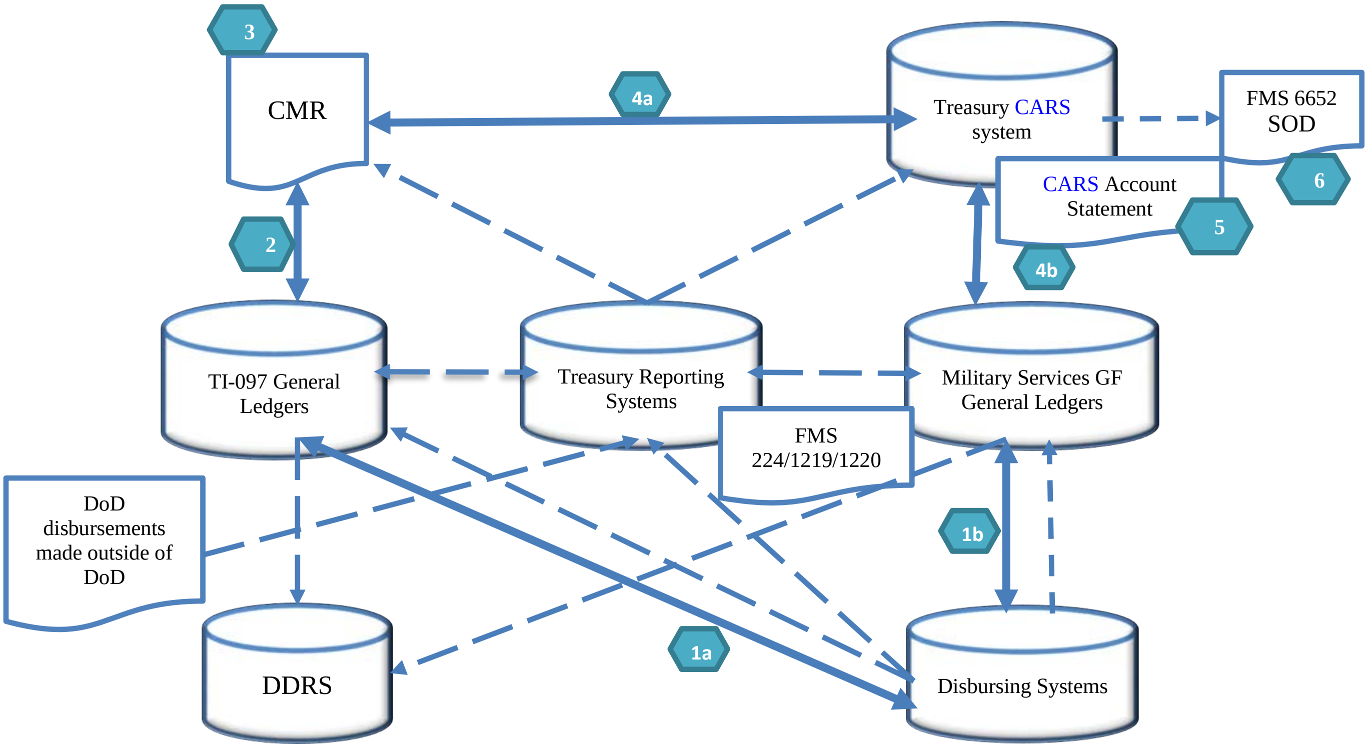
(See paragraph 020805 for FBWT reconciliation information.)

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

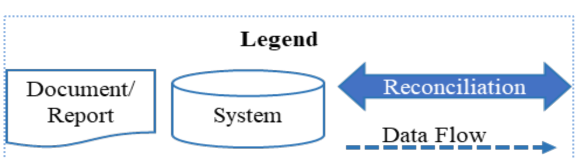
*Table 2-4: FBWT Reconciliation Deadlines

Requirement	Deadline
Complete FBWT reconciliation	1-month (30 calendar days) following the end of the month being reconciled effective Fiscal Year 2021 (e.g., a reconciliation of October FBWT must be completed by November 30).
Clear all FBWT reconciliation variances: undistributed, suspense, and SOD balances	60 business days from the date of the transaction.
Service Provider Supervisory review and Component review and approvals	Complete both reviews within 10 business days following the completion of the monthly reconciliation.

Figure 1. Critical Focus Areas to Address FBWT Risks



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



VOLUME 4, CHAPTER 2, ANNEX 1: "SUPPORTING FUND BALANCE WITH TREASURY BALANCES BROUGHT FORWARD"

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***.

This is the initial publication.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Added annex to describe approach to address Fund Balance with Treasury beginning balances.	Addition

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***ANNEX 1**

SUPPORTING FUND BALANCE WITH TREASURY BALANCES BROUGHT FORWARD

1.0 GENERAL (A01)

After complying with the Fund Balance with Treasury (FBWT) reconciliation requirements described in Chapter 2, including fully reconciling accounting systems to the Treasury monthly and implementing a process to identify, track, and resolve differences on a monthly basis, Components must follow this annex to reconcile and support FBWT balances brought forward (i.e., beginning balances). The approach described in this annex and the resulting permanent adjustment may be used only once. This annex identifies the Components as having the responsibility to follow the approach. However, the Defense Finance and Accounting Service (DFAS), as the Component's accounting Service Provider, will perform the steps described on behalf of the Components (DFAS' customers), unless the customer elects to perform the analysis.

2.0 APPROACH TO SUPPORT FBWT BALANCES BROUGHT FORWARD (A02)

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

2.1 Step 1 (A0201)

Perform aging analysis.

2.1.1. Per the Financial Improvement and Audit Readiness (FIAR) Directorate ***FIAR Guidance,*** Components must perform an aging analysis over the total value of its open appropriations (i.e., unexpired and expired appropriations) as of September 30, 2014, and each fiscal year end thereafter until they can demonstrate that they comply with FBWT reconciliation requirements described in Chapter 2 (see paragraph 010202). This will enable the Component to identify the number of prior fiscal years (FYs) it will need to perform monthly FBWT reconciliations at the voucher-level and provide supporting documentation for to support 99 percent of its FBWT balances brought forward.

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

Table 1. FBWT Aging Analysis Template

Initial Appropriation Fiscal Year	Balance @ 9/30/2014 of Open Appropriations	% of Total Appropriations Balance
2014		
2013		
2012		
2011		
2010		
2009		
2008		
2007		
2006		
2005		
No-Year		
Total		**100.0%**

2.1.3. Components executing Treasury Index (TI) 097 funds will not be able to obtain the detailed activity information at the Organization Unique Identifier Code (OUID, that is, limit) level from the GWA system account statements, since they are at the Treasury Account Symbol (TAS or appropriation) level. Instead, those Components, with support from DFAS, must obtain that detailed activity information from the Defense Departmental Reporting System-Budgetary to perform the aging analysis. DFAS will perform a DoD-wide consolidated aging analysis at the TAS level using the GWA system account statement for TI 097 funds.

2.1.4. Once Components have performed the aging analysis and summarized their open appropriations, they need to determine how many years of performing monthly FBWT reconciliations and providing supporting documentation are necessary to support at least 99 percent of their FBWT balances brought forward.

2.1.5. If no-year appropriations need to be included to reach the 99 percent coverage of the Component's total open appropriations, then Components need to assume a requirement to provide five years of historical supporting documentation for that portion.

2.1.6. As a notional example, a completed aging analysis and summary of open appropriations is found in the following table.

Table 2. Notional Example of Completed Aging Analysis

Initial Appropriation Fiscal Year	Balance @ 9/30/2014 of Open Appropriations	% of Total Appropriations Balance
2014	$100,000,000,000	67%
2013	$30,500,000,000	20%
2012	$7,200,000,000	5%
2011	$2,600,000,000	2%
2010	$3,000,000,000	2%
2009	$2,050,000,000	1%
2008	$130,000,000	0%
2007	$16,000,000	0%
2006	$4,000,000	0%
2005	$0	0%
No-Year	$4,500,000,000	3%
Total	**$150,000,000,000**	**100.0%**

2.1.7. To obtain coverage over at least 99 percent of its FBWT balances brought forward, the Component would need to perform monthly FBWT reconciliations and provide supporting documentation going back to FY 2010 for all activity, regardless of the initial appropriation year. The Component would also need to provide five years of historical supporting documentation for the no-year appropriations since that is necessary to obtain 99 percent coverage.

2.2 Step 2 (A0202)

Adhere to FBWT reconciliation requirements in Chapter 2.

2.2.1. Components and DFAS must comply with the FBWT reconciliation requirements defined in Chapter 2 before proceeding with the additional steps in this annex. This includes performing monthly FBWT reconciliations at the voucher-level; identifying, aging, and resolving any reconciling differences; and supporting the voucher-level detail with documentation.

2.2.2. Components and DFAS must ensure they have a process in place to address each of these critical areas to address FBWT risks, as shown in Figure 1.

2.3 Step 3 (A0203)

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

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

2.3.2. Components and DFAS must perform monthly FBWT reconciliations at the voucher-level beginning with the date they have reached full compliance with Chapter 2, and work back progressively through each fiscal year needed to obtain 99 percent coverage of its FBWT balances brought forward.

2.3.3. See Chapter 2 for details on what must be included in the monthly reconciliations.

2.3.4. After completing monthly FBWT reconciliations at the transaction level, Components and DFAS must then perform discovery testing of appropriations, transfers, disbursements, collections and adjustments (including journal vouchers) to the FBWT accounts, working back progressively through each fiscal year needed to support the FBWT brought forward balance to verify their ability to provide supporting documentation.

2.3.5. Supporting documentation must include, at a high level, third party documentation, system reports, Treasury documentation, and reconciliations. Specific examples of supporting documentation that may be available to support FBWT balances brought forward are presented in the Fund Balance with Treasury and Balances Brought Forward sub-sections of Section 5 of the FIAR Guidance.

2.3.6. Supporting documentation must exist in support of all open FBWT account balances back to the year of initial appropriation. For audit readiness purposes, Components are only required to demonstrate 99 percent coverage of beginning balances.

2.3.7. For the notional example presented in Step 1, the Component and DFAS would be expected to perform monthly FBWT reconciliations at the transaction level and testing of transaction level detail for FYs 2014 through 2010.

2.4 Step 4 (A0204)

Assess ability to perform monthly FBWT reconciliations and provide supporting documentation to obtain 99 percent coverage of FBWT balances brought forward.

2.4.1. After Components and DFAS are able to perform monthly FBWT reconciliations at the transaction level and provide supporting documentation for all prior fiscal years to obtain 99 percent coverage of its FBWT balances brought forward, then they must continue to adhere to the FBWT requirements described in Chapter 2.

2.4.2. If Components and DFAS determine they have reached the point where they are unable to perform monthly FBWT reconciliations at the transaction level or provide supporting documentation, or it is not cost effective to do so, for all years and accounts required to obtain 99 percent coverage, they will need to proceed with the next steps in the approach.

2.5 Step 5 (A0205)

Perform gap analysis.

Components and DFAS must perform a gap analysis to identify the portions of FBWT balances brought forward, by appropriation year, which they are unable to support. An example of how Components and DFAS may report on their gap analyses is depicted in the following table.

Table 3. Notional Example of Completed Gap Analysis

Initial Appropriation Fiscal Year	Balance @ 9/30/2014 of Open Appropriations	Unsupportable Balance $	Unsupportable Balance %
2014	$100,000,000,000	$4,500,000,000	4.50%
2013	$30,500,000,000	$1,000,000,000	3.28%
2012	$7,200,000,000	$200,000,000	2.78%
2011	$2,600,000,000	$0	0.00%
2010	$3,000,000,000	$1,000,000	0.03%
2009	$2,050,000,000	N/A	N/A
2008	$130,000,000	N/A	N/A
2007	$16,000,000	N/A	N/A
2006	$4,000,000	N/A	N/A
2005	$0	N/A	N/A
No-Year	$4,500,000,000	N/A	N/A
Total	**$150,000,000,000**	**$5,701,000,000**	**3.80%**

2.6 Step 6 (A0206)

Prepare package to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) FIAR to seek approval and justify need for posting a permanent adjustment to balance to Treasury.

2.6.1. Once Components and DFAS have determined the total amount of their unsupportable FBWT balances brought forward, they will need to prepare a package to submit to OUSD(C) FIAR to seek approval and justify the need for posting a permanent adjustment in the Component’s accounting system(s) to correct the FBWT balances brought forward amount and balance to Treasury.

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

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

2.6.2.2. Determination of the appropriation fiscal years that Components intend to seek support for in order to gain coverage over 99% of their FBWT balances brought forward.

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

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

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

2.6.2.6. Description of process and controls in place that demonstrate compliance with Chapter 2.

2.7 Step 7 (A0207)

Post permanent adjustment in accounting system.

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

2.7.2. The Components and DFAS must ensure all negative unliquidated obligations and unmatched disbursements are resolved and in-transits are accounted for before posting the adjustment. See Volume 3, Chapter 11 for additional details.

2.7.3. The journal entry for this adjustment follows U.S. Government Standard General Ledger (USSGL) – A ***Treasury Financial Manual Supplement*** accounts transactions B102 (Budgetary only), D304, and D306 (Proprietary only). The example assumes that the balance in the accounting system is greater than what Treasury has reported. If the accounting system balance is less than what Treasury has reported, reverse the journal entry.

Budgetary Entry
DR 465000 Allotments – Expired Authority (or use 461000 if Unexpired Authority)
CR 490200 Delivered Orders – Obligations, Paid

Proprietary Entry
DR 310500 Unexpended Appropriations – Prior Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year
DR 740500 Prior Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year
CR 101000 Fund Balance with Treasury
CR 570500 Expended Appropriations - Prior Period Adjustments Due to Corrections of Errors - Years Preceding the Prior Year

2.7.4. No guidance in this chapter must be construed as authorizing a delay in (1) the recording of an executed obligation or (2) the requirement to conduct an investigation of a potential violation of the Antideficiency Act that results from any action other than the sole requirement to post this adjustment.

2.8 Step 8 (A0208)

Adhere to FBWT reconciliation requirements in Chapter 2.

2.8.1. The Components and DFAS must continue to adhere to the FBWT requirements described in Chapter 2.

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

<u>Budgetary Entry</u>
DR 490200 Delivered Orders – Obligations, Paid
CR 465000 Allotments – Expired Authority (or use 461000 if Unexpired Authority)

<u>Proprietary Entry</u>
DR 101000 Fund Balance with Treasury
DR 570500 Expended Appropriations - Prior Period Adjustments Due to Corrections of Errors - Years Preceding the Prior Year
CR 310500 Unexpended Appropriations – Prior Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year
CR 740500 Prior Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year

2.8.3. Components and DFAS must ensure they have a process in plan to address each of these critical areas to address FBWT risks, as shown in Figure 1.

VOLUME 4, CHAPTER 3: "RECEIVABLES"

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 2021 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
2.0	Revised existing definitions for clarification and accuracy. Moved a portion of the definition for the Write-off Receivable to paragraph 4.7 for clarification.	Revision
3.1	Added additional guidance to clarify the Accounts Receivable recognition.	Addition
3.3	Removed "Sales of Goods and Services" because the paragraph was repetitive.	Deletion
4.4	Added additional guidance for clarification.	Addition
4.6	Added calculation methodologies for intragovernmental and public allowance for uncollectible accounts. Clarified public allowance calculation methodology.	Revision
4.7	Revised Tax and Write-off guidance.	Revision
5.2	Revised information for clarification and accuracy.	Revision
5.3	Added additional guidance reference to clarify the reimbursable USSGL.	Addition
Table 3-1	Added a note defining the columns represented in the table.	Addition

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CHAPTER 3

RECEIVABLES

1.0 GENERAL

1.1 Purpose

This chapter prescribes policy for the recognition, recording, and reporting of public and federal (hereafter referred to as intragovernmental) accounts receivable.

1.2 Authoritative Guidance

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

1.2.1. Title 10, United States Code, sections 1095, 2201, and 3863 (***10 U.S.C. §§ 1095***, 2201, and 3863).

1.2.2. ***22 U.S.C. § 2767***.

1.2.3. ***31 U.S.C. §§ 1552(a)*** , 1555, 3321, 3351-3558, 3711, and 3717.

1.2.4. ***41 U.S.C. § 7104(a)***.

1.2.5. ***42 U.S.C. § 2651***.

1.2.6. Debt Collection Improvement Act of 1995 ***(DCIA)***.

1.2.7. Digital Accountability and Transparency Act of 2014 ***(DATA Act)***.

1.2.8. Title 31, Code of Federal Regulations, part 901.2 ***(31 CFR 901.1)***, "Aggressive agency collection activity."

1.2.9. ***31 CFR 901.9***, "Interest, penalties, and administrative costs"

1.2.10. Office of Management and Budget ***(OMB) Circular A-11***, "Preparation, Submission, and Execution of the Budget."

1.2.11. ***OMB Circular A-129***, "Policies for Federal Credit Programs and Non-Tax Receivables."

1.2.12. Federal Accounting Standards Advisory Board (FASAB) ***Statement*** of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities."

1.2.13. FASAB ***SFFAS 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."

1.2.14. FASAB Technical Bulletin ***(TB) 2020-1*** "Loss Allowance for Intragovernmental Receivables."

1.2.15. TFM Volume I Part 2 ***(I TFM 2-1500)***, "Description of Accounts Relating to Financial Operations."

1.2.16. ***I TFM 2-4700***, "Federal Entity Reporting Requirements for the Financial Report of the United States Government."

1.2.17. Treasury Report on Receivables ***(TROR)***.

1.2.18. Federal Acquisition Regulation ***(FAR) subpart 32.6***, **"**Contract Debts."

1.2.19. DoD Instruction ***(DoDI) 1015.15***, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources."

1.2.20. ***DoDI 5010.40***, "Managers' Internal Control Program Procedures."

1.2.21. Government Accountability Office "Standards for Internal Control in the Federal Government" ***(Green Book)***.

1.2.22. Defense Logistics Manual ***(DLM) 4000.25***, "Defense Logistics Management Standards."

*2.0 DEFINITIONS

2.1 Accounts Receivable

Receivables arise from claims to cash or other assets against another entity. At the time revenue is recognized and payment has not been received in advance, a receivable must be established. Receivables include, but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. Examples of indebtedness to DoD include overdue travel advances, Federal Employee Health Benefits paid while an employee is in a leave without pay status, dishonored checks, fines, penalties, interest, overpayments, fees, rent, claims, damages, and any other event resulting in a determination that a debt is owed to DoD. See Volume 16, for comprehensive debt management policy and requirements to include administrative actions associated with the collection and disposition of debts owed to DoD. An accounts receivable is categorized as either an entity or non-entity accounts receivable in accordance with SFFAS 1:

2.1.1. Entity Accounts Receivable. Entity accounts receivable are amounts that a federal entity claims for payment from other federal or non-federal entities and that the federal entity is authorized by law to include in its obligation authority or to offset its expenditures and liabilities upon collection.

2.1.2. Non-Entity Accounts Receivables. Non-entity accounts receivable are amounts due to be collected by DoD on behalf of the U.S. Government or other entities, and DoD is not authorized to use. Non-entity accounts receivables are reported separately from receivables available to DoD (entity accounts receivables). Non-entity accounts receivable include governmental receipts and collections arising from the sovereign and regulatory powers unique to the Federal Government, (e.g., interest, penalties, income tax receipts, customs duties, court fines, and certain license fees). DoD accounts receivable in canceled accounts are also non-entity receivables because collections received after an appropriation cancels are deposited in the Treasury Account 3200, "Collections of Receivables from Canceled Accounts." Non-entity receivables are recorded as a receivable and a custodial liability. In addition, federal entities should not recognize fiduciary assets, liabilities, and future cash flows in their financial statements, but only disclose them in a note disclosure.

2.2 Accounts Receivable Office

The Accounts Receivable Office (ARO) is the office responsible for the recording and reporting of receivables and may also be the office responsible for debt collection. In most but not all cases, the ARO is located at Defense Finance and Accounting Service (DFAS) centers.

2.3 Allowance for Loss on Accounts Receivable

DoD must recognize an allowance for loss on accounts receivable when it is more likely than not that DoD is not able to totally collect the receivables. The phrase "more likely than not" means more than a 50 percent chance of loss occurrence. The allowance for loss on accounts receivable is recorded as allowance for uncollectible accounts in the DoD consolidated and components financial statements and notes.

2.4 Current (Non-Delinquent) Receivables

Non-delinquent receivables, i.e., debts, are categorized as current and non-current assets. The portion of a non-delinquent debt that is scheduled to be collected in the next 12 months is recorded as current; the portion of a non-delinquent debt scheduled for collection after 12 months is recorded as non-current. The importance of these categories is to inform DoD and Treasury of the expected cash flow/liquidity of the asset (i.e., current versus non-current assets).

2.5 Close-Out (Applies to Public Debt Only)

Close-out is one of two accounting classifications for writing off debt that indicate whether or not an agency will continue debt collection efforts after write-off. The ARO, in conjunction with the DoD Component Fund Holder, closes out a debt when it is determined that further debt collection actions are prohibited (e.g., a debtor is released from liability in bankruptcy) or there are no plans to take any future active or passive actions to try to collect the debt. Close-out may occur concurrently with the write-off of an account receivable or at a later date, depending on the collection strategy and the ultimate determination that the debt has been discharged. At close-out, DoD may be required to report to the Internal Revenue Service (IRS) the amount of the debt as potential income to the debtor on IRS Form 1099C, Cancellation of Debt.

2.6 Currently Not Collectible

Currently Not Collectible (CNC) is one of two accounting classifications for writing off debt that indicate whether or not an agency will continue debt collection efforts after write-off. CNC is a category of debt that has been written off on the DoD Component's financial statements, but cost effective debt collection efforts will continue to be taken by the cognizant Debt Collection Management Office (DCMO), Debt Collection Office (DCO), or Debt Management Office (DMO).

2.7 Debt

Debt is defined in 31 U.S.C. § 3701(b)(1) as any amount of funds or property that has been determined by an appropriate official of DoD to be due to DoD by a person, organization, or entity other than another Federal agency. See Volume 16 for additional information on debt management.

2.8 Debt Collection Office

The DCO is responsible for initial debt collection actions and serving due process. The DCO refers to a general category of offices and includes, but is not limited to, the ARO, military and civilian payroll offices, and other organizational elements within the DoD Components that perform debt management/collection actions (e.g., personnel offices).

2.9 Delinquent Receivables

2.9.1. A receivable is delinquent if it has not been paid by the date specified in the DoD's initial written demand for payment or applicable agreement or instrument unless, other satisfactory payment arrangements have been made. If the contract or agreement provides for a "grace" period, DoD Components do not report the debt as delinquent until the grace period expires without payment. In such cases, however, the original due date is used for delinquency date.

2.9.1.1. Delinquent debts are aged from the date of delinquency.

2.9.1.2. If a debtor is making payments according to the terms of a repayment plan approved by the agency, the debt is not considered to be delinquent.

2.9.1.3. On the TROR:

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

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

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

2.10 Direct Cost

A direct cost includes any cost that can be identified specifically with handling cases or accounts during the debt collection process. These costs normally include the cost of personnel, computer equipment, supplies, postage, contract services, and administrative fees charged by the Treasury.

2.11 Due Process

Due process is the notice of indebtedness and the opportunity provided the debtor to dispute the indebtedness. The Fifth Amendment of the U.S. Constitution provides that no person "shall be deprived of life, liberty, or property without due process of law..." The minimum due process required is generally established by the statutes that authorize the use of a specified debt collection tool or by implementing regulations. In the context of federal debt collection, see Volume 16, Chapter 2.

2.12 Indirect Cost

Indirect cost includes costs associated with the debt collection process that benefits at least one other activity. These costs must be accumulated only when they are expected to exceed 20 percent of the direct costs.

2.13 Intragovernmental Receivables

Intragovernmental receivables are claims of a federal entity against other federal entities. Intragovernmental receivables are either within DoD (e.g., a Military Service) or outside DoD (e.g., General Services Administration).

2.14 Non-Current Non-Delinquent Receivables

Non-current non-delinquent receivables are non-delinquent accounts receivables that the due date is not within 12 months after DoD claims the receivable.

2.15 Non- Delinquent Receivables

Non-delinquent receivables are accounts receivable that have not been billed or are not due under the contract or billing document pertaining to the receivable. This also includes rescheduled receivables and receivables under an installment agreement.

2.16 Public/Non-Federal Receivables

Public/non-federal receivables are claims of DoD against non-federal entities. The term "public/non-federal entities" encompasses domestic and foreign persons and organizations outside the U.S. Government, including Nonappropriated Fund Instrumentalities (NAFIs) for purposes of processing receivables. Examples are: salary/travel overpayments; overpayments to contractors/vendors due to duplicate and erroneous billings; incorrectly computed invoices; non-Foreign Military Sales (FMS) foreign government fuel purchases; contract default; amounts due for items rejected or returned; and amounts due on payments for contractual services such as rent, insurance, and transportation purchased, where such contracts are canceled and adjustments are made for the unused portion.

2.17 Rescheduled Receivables

Rescheduled receivables are receivables that have been subject to rescheduling, forbearance, re-amortization, or any other form of extending the future of the original payment(s) or payment due dates.

2.18 DFAS Enterprise Solutions and Standards Vendor Pay Tax Office

The DFAS Enterprise Solutions and Standards (ESS) Vendor Pay Tax Office is the office that prepares the IRS Form 1099C for reporting to the IRS on closed-out, uncollected, public vendor, contractor, and individual debt.

2.19 Trading Partners

Trading Partners collectively refers to the requesting agency (buyer) and the providing agency (seller) involved in intragovernmental transactions.

2.20 Treasury Report on Receivables

The TROR is a quarterly report of public receivables prepared in compliance with the Treasury guidance. It provides a means for collecting data on the status and condition of the total receivable portfolio from public sources. See section 6.0 for additional information.

2.21 Terminate Collection Action

Terminate Collection Action is a decision to cease active collection action on a debt, in accordance with criteria set out in the Federal Claims Collection Standards, because such collection action is not economically worthwhile or is otherwise inappropriate. “Termination” of debt collection is a legal procedure, which is separate and distinct from the accounting procedure of “write-off”. See 31 U.S.C. § 3711 on additional guidance on termination collection action for additional guidance.

2.22 Write-off of Receivables

The write-off of a receivable is an accounting action that results in removing a public/non-federal receivable from the DoD Component’s financial accounting records/financial statements.

3.0 RECEIVABLES POLICY

*3.1 Recording

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

3.1.2. A receivable must be established when payment is not received in advance or at the time revenue is recognized. Receivables must be recorded when earned from the sale of goods and services or when an event results in the determination that a debt is owed to DoD, i.e., in the applicable accounting system during the month the receivable occurs. Accounting records for receivables must be maintained so that all transactions affecting the receivables are included in the reporting period of occurrence. There must be immediate recording of events not previously recorded due to error or oversight. The requirements for recording and reporting errors on the financial statements are detailed in Chapter 15.

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

3.1.4. DCOs must ensure that the appropriate ARO is advised that a receivable is to be established in the applicable accounting system. DCOs will provide the ARO with signed copies of indebtedness notices and other appropriate documentation to support entries in the accounting system and will provide the status of the debt which includes: beginning debt balance, collections, adjustments, current ending balance and notice of discontinuance of collection efforts. DoD Components must maintain the supporting documentation in the applicable accounting system. See Volume 1, Chapter 9 for records retention.

3.2 Advance Payments

3.2.1. In general, an advance payment is required for orders from the public, including state and local governments, except for fuel, as the sale of petroleum products to the public is covered by fuel purchasing agreements. The order must be accompanied by an advance equivalent to the actual or estimated cost of goods and services. If amounts are sufficient, Military Departments may use their own appropriated fund budgetary resources to perform a reimbursable order for a NAFI without an advance. However, they must not recognize budgetary resources for the order until the account receivable is paid. An advance payment from foreign governments for FMS is held and recorded in the FMS Trust Fund or investment accounts that can be drawn on to meet the foreign government's FMS obligations.

3.2.2. The Department has statutory authority to record a budgetary resource for non-federal orders without an advance for work performed under the provisions of 22 U.S.C. § 2767. Components must request approval from the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) in advance of accepting the order(s) and recording the budgetary resource. The OUSD(C) will coordinate with OMB to ensure the resulting budgetary entries will be accepted within federal-wide accounting and reporting systems.

3.2.3. Additional information regarding budgetary resources may be found in Volume 3, Chapters 13, 14 and 15. See Volume 11B, Chapter 11 and Volume 4, Chapter 5 for Defense Working Capital Funds' policy on receipt of advances on orders from public/non-federal entities.

3.3. Collection of Receivables

3.3.1. The collection of receivables must be aggressively pursued for amounts due from DoD Components, federal agencies, and the public. The due date for a receivable normally is 30 days from the date of invoice, demand letter, or notice of payment due; unless a specific due date is established by statute, contract provision, or notice of indebtedness. Collection actions must be initiated when payment becomes due. See Volume 16, Chapter 2 for additional information on due process.

3.3.2. Funds must be collected in the appropriation that earned the funds, or in the case of a refund, into the appropriation from which the excess payment was made, unless otherwise specified by law. Examples of applicable legal provisions include, but are not limited to:

3.3.2.1. In accordance with 42 U.S.C. § 2651, amounts recovered from a liable third-party or insurer due to a service member's injury or disease must be credited to current operating funds as follows:

3.3.2.1.1. Amounts recovered for hospital, medical, surgical, or dental care and treatment will be credited to the current operating funds of the facility or activity that provided the care and treatment.

3.3.2.1.2. Amounts recovered for loss of the service member's duty will be credited to current operating funds of the command, activity, or unit to which the service member was assigned at the time of the injury or illness.

3.3.2.2. In accordance with 10 U.S.C. § 1095, collection from third parties for medical services provided must be recorded against the year in which the collection is received regardless of the year in which service was provided.

3.3.3. Any collections including refunds received after an appropriation cancels must be deposited in Treasury Account 3200, "Collections of Receivables from Canceled Accounts." See paragraph 3.11 for additional guidance on accounts receivable and canceled appropriations.

3.4 Allowance Account and Aging

3.4.1. An allowance for uncollectible accounts receivable due from the public and intragovernmental customers must be estimated and recorded.

3.4.2. No allowance for uncollectible accounts will be recorded for non-loan interest, penalties, and administrative charges.

3.4.3. The AROs (on behalf of the DoD Components) must age delinquent accounts receivable within the accounting system.

3.4.4. Aging of receivables (delinquency) starts one day after the due date for both public and intragovernmental (within and outside DoD) receivables. See Figure 3-1.

3.5 Interest Penalties, and Administrative Receivable

Interest, Penalties, and Administrative (IPA) receivables are DoD assessments added to delinquent debts. The full amount of a delinquent debt is the sum of the principal, accrued program interest, and any other penalties and/or administrative charges that are due and owed to the DoD. See Volume 16, Chapter 7 for detailed IPA information.

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

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

3.6 Payment Application

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

3.7 General Ledger Accounting

Information on receivables must be developed, maintained, and reported using the United States Standard General Ledger (USSGL) accounts depicted in Volume 1, Chapter 7. The first six digits of the accounts receivable general ledger account must conform to the USSGL chart of accounts. DoD requires the use of the DoD Standard Chart of Accounts (SCOA). The DoD SCOA and accounting transactions for collections and receivables are outlined in the DoD USSGL Transaction Library, available on the Standard Financial Information Structure ***(SFIS)*** web page.

3.8 Internal Controls

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

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

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

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

3.8.4. Each DoD Component must develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data. Internal operating procedures must include a dormant account review quarterly (DAR-Q) for accounts receivable as described in Volume 3, Chapter 8. Relevant records supporting financial statements must be maintained and made available during financial statement audits.

3.9 Erroneous, Invalid, and Unsubstantiated Accounts Receivables

During the DAR-Q process, the reviewer must examine the receivables for completeness, accuracy, and supportability. Abnormal or erroneous accounts receivable must be promptly researched and resolved. If at any time it is determined that a debt was never owed and should not have been classified as an accounts receivable, the accounting records must be adjusted. Return all funds collected to the debtor for an unsubstantiated account receivable.

3.9.1. For errors detected in the year the receivable was recorded, reverse the entry. For errors detected in subsequent fiscal years, record an entry in accordance with the requirements for recording and reporting errors in the financial statements as detailed in Chapter 15.

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

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

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

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

3.10 Canceled Appropriations

AROs must retain all outstanding receivables in the residual records even though an appropriation cancels. When the appropriation cancels, the collection of a receivable is recorded in Treasury miscellaneous receipt account 3200, "Collections of Receivables From Canceled Accounts." Appropriation cancellation does not relieve DoD of the responsibility to pursue collection or recovery.

3.11 Nonappropriated Fund Instrumentalities Receivables

Receivables from NAFIs must be recorded as transactions from the public. They must be included in the quarterly TROR. With the exception of individual debt, NAFI delinquent debt will not be referred to the DMO or to Treasury for collection assistance. Refer to Volume 13, Chapter 3 for guidance on NAFI debts.

3.12 Foreign Military Sales Receivables

Receivables from the FMS Trust Fund (appropriation 97 11X8242) must be recorded as federal transactions. Other Security Assistance receivables, e.g., the Foreign Military Financing Program, Funds Appropriated to the President (appropriation 11(FY) 1082), must be recorded and reported as intragovernmental receivables. The FMS delinquent accounts receivable will not be referred to the DMO or to Treasury for collection assistance. See Volume 16, Chapter 6 for guidance on FMS receivables.

3.13 Non-FMS Foreign Government Receivables

The ARO will initiate initial billings for non-FMS foreign government accounts receivable. See Volume 16, Chapter 6 for additional information on non-FMS foreign government receivables.

3.14 Retention of Documentation

AROs and DCOs will maintain documentation to support actions taken on each accounts receivable. This includes but is not limited to documents supporting:

3.14.1. Establishing the receivable.

3.14.2. Due process requirements.

3.14.3. Research and resolution of abnormal or erroneous balances.

3.14.4. Reversal of entries establishing the receivable.

3.14.5. Termination, write-off, and close-out of receivable.

3.14.6. Bankruptcy.

3.14.7. Installment payment plan.

3.15 Undistributed Collection Balances

Undistributed collection balances placed in Treasury budget clearing (suspense) accounts F3875 and F3885 must be analyzed and reconciled monthly on the Financial Management System Form 224, "Statement of Transactions," to ensure all collected amounts are properly credited to the proper appropriation and applicable accounts receivable accounts. For any suspense account, items, or transactions more than 60 days old, investigate and document the reason why the transaction cannot be reclassified to the correct appropriation. All differences must be cleared within 60 days, with the exception of those suspense accounts that have been identified by Treasury as exempt from the 60-day requirement. Refer to Chapter 2 for the required investigatory procedures related to budget clearing account balances.

4.0 PUBLIC RECEIVABLES

4.1 General

Receivables due from the public are DoD claims (or another entity within the Federal Government) against non-federal entities, to include public entities, domestic and foreign persons and organizations outside the U.S. Government. Public receivables are also created from the sales of goods or services when an advance payment is not first received or from refunds due to the DoD. See paragraph 3.2 for more on an advance payment.

4.2 Debt Collection Policies

The DoD policies for credit management and debt collection delineated in other volumes are:

4.2.1. Policies and procedures for collection of debt from individuals are in Volume 16, Chapter 3.

4.2.2. Policies and procedures for physical loss of funds are in Volume 5, Chapter 6. Accounts receivable that are the result of improper payments may require loss of funds investigations in accordance with Volume 5, Chapter 6 for improper payments.

4.2.3. Policies and procedures for salary offset to collect debts owed to the DoD by military members or civilian employees are in Volume 7B, Chapter 28; and Volume 8, Chapter 8. Volumes 7A, 7B, and 8 also address collection of child support, alimony, or commercial debts from the pay of military members or civilian employees through garnishment or involuntary offset.

4.2.4. Policies and procedures for collection of commercial or contractor debt are in Volume 16, Chapter 5. Additionally, the FAR Subpart 32.6, prescribes policies and procedures for ascertaining and collecting contract debts, charging interest on the debts, deferring collections, and compromising and terminating certain debts.

4.2.5. Policies for collection of debts from foreign entities are available in Volume 16, Chapter 6.

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

4.3.1. Upon receipt of a collection voucher, the ARO must record the collection in the accounting system and include it in the monthly reports (Standard Forms 1218, 1219, and 1220, and FMS Form 224) to Treasury. If an abnormal balance results from recording the collection, the ARO must research and resolve the abnormal balance.

4.3.2. The ARO must refer delinquent accounts receivable for further collection action as required by debt collection policy in Volume 16, Chapter 3.

*4.4 Refunds Receivable

Refunds to appropriations represent amounts collected from outside sources for payments made in error, overpayments, or adjustments for previous amounts disbursed. They must be directly related to previously recorded expenditures and are reductions to those expenditures. There is not a separate account for refunds receivable in the USSGL. Refunds receivable are treated as accounts receivable and DoD Components must recognize and report them in their financial statements.

4.4.1. Examples of refunds receivable include, but are not limited to the following:

4.4.1.1. Salary overpayments.

4.4.1.2. Overpayments to commercial concerns due to erroneous billings, incorrectly computed invoices, or contract default.

4.4.1.3. Amounts due for items rejected or returned.

4.4.1.4. Amounts of recovery due on payments for contractual services, such as rent, insurance, and transportation purchased, where such contracts are canceled and adjustments made for the unused portion.

4.4.1.5. Amounts for advance payment of travel when the travel was canceled.

4.4.1.6. Amounts payable for "due U.S." travel vouchers.

4.4.1.7. Amounts due from advance payments for contractual purposes.

4.4.1.8. Amounts due from employees on leave without pay for employee share of benefits (i.e., health insurance).

4.4.2. Non-DCO activities (e.g., contracting offices, Fund Holders) must notify the DCO that a debt exists. For contracting offices, the FAR, Part 32, Contract Financing provides the guidance. DCOs must ensure the appropriate ARO is advised to establish a receivable in the applicable accounting system. Such notification must be made in the same accounting cycle that the debt is recognized.

4.4.3. Upon receipt of a collection voucher, the ARO must ensure that the collection is recorded in the accounting system and reported to Treasury. See sections 6.0 and 7.0 for additional guidance on reporting requirements. If an abnormal balance results from recording the collection, then the ARO must research and resolve the abnormal balance.

4.4.4. The ARO or DCO must refer delinquent accounts receivable for further collection action as required in subparagraphs 4.6.

4.4.5. OMB Circular A-11 addresses the proper budgetary accounting for refunds in section 20.10. Since refunds are the repayments of excess payments, the amounts are directly related to previous obligations incurred and outlays made against the appropriation. Refunds received are deposited to the credit of the appropriation or fund account charged with the original obligations.

4.5 Collection Actions

Accounts receivable must be aged to allow for the management of collection actions.

4.5.1. The due date for a receivable is normally 30 days from the date of invoice, demand letter, or notice of payment due unless a specific due date is established by statute, contract provision, or notice of indebtedness. The initial demand for payment, invoice, or demand letter must include a complete explanation of the debtor's rights and responsibilities, the basis of the indebtedness, the agency's intention to use various collection tools to collect the debt, additional charges (i.e., interest, penalties, and administrative charges) that may be levied, and the name, work phone number, and address of an individual to contact within the agency to resolve the delinquency. See Volume 16, Chapter 2 for additional information on debt notification requirements.

4.5.2. AROs or DCOs will refer valid and legally enforceable delinquent individual out-of-service debt to the DCMO for further collection action. See Volume 16, Chapter 3 for additional information.

4.5.3. AROs or DCOs will refer valid and legally enforceable delinquent vendor debt of $25 ($100 if vendor does not have a Taxpayer Identification Number) or more, comprised of principal, interest, administrative charges, and penalty, to the DMO for further collection action no later than 60 days after the payment due date. Multiple debts to the same vendor totaling $25 or $100 or more must be consolidated and referred to the DMO as one debt package.

4.5.4. Uncollected public vendor debt of less than $25 and individual out-of-service debt of less than $25 must be collected or written off and closed-out within 1 year of delinquency in accordance with Volume 16, Chapter 3. These debts are not referred to DMO or DCMO for further collection action unless mandated by public law.

4.5.5. The DCMO or DMO must refer valid and legally enforceable delinquent public receivables over 120 days old to Treasury for further collection action in accordance with the DCIA and the DATA Act.

4.5.5.1. Exceptions to the requirement to refer debt to Treasury include debts or claims that: (a) are in litigation or foreclosure; (b) will be disposed of under an asset sales program within one year after becoming eligible for sale, or later than one year if consistent with an asset sales program (See OMB Circular A-129, section IV); (c) have been referred to a private collection contractor for collection for a period of time approved by the Secretary of the Treasury; (d) will be collected under internal offset, if such offset is sufficient to collect the claim within three years after the date the debt or claim is first delinquent; (e) are foreign government debts; or (g) are NAFI debts.

4.5.5.2. The Treasury, after due process, returns uncollected public receivables to the sender (length of time varies based upon collection actions taken by Treasury).

4.5.5.3. Debts less than $100,000 that are referred to Treasury and later returned due to failure to collect may be terminated for further collection action by DCMO or DMO upon coordination with the appropriate Fund Holder. Debts of $100,000 to $500,000 that are referred to Treasury and later returned due to failure to collect may be terminated with Treasury's approval. Debts of $500,000 or more must be referred to the Department of Justice for approval to terminate collection action. See Volume 16, Chapter 2 for additional guidance regarding termination of collection action.

4.5.5.4. DCMO or the DMO will advise the ARO when the Treasury has returned a debt as uncollectible. The ARO will take appropriate actions to terminate collection action, write-off the receivable, and close-out the receivable, as applicable.

*4.6 Establishment of Allowance for Loss on Accounts Receivable

4.6.1. The ARO must recognize and record its projected debt losses by setting up allowance for uncollectible accounts on public and intragovernmental accounts receivable in the general ledger. By accurately estimating the potential losses and putting that amount in its allowance accounts, a reporting entity is recognizing the accounts receivable at their net realizable value.

4.6.2. SFFAS 1 requires an allowance for estimated uncollectible receivable amounts be recognized when it is more likely than not that the receivables will not be totally collected; the phrase "more likely than not" means more than a 50 percent chance of loss. TB 2020-1 clarifies that the absence of explicit guidance distinguishing between intra-governmental and nonfederal/public entities receivables, both must be recognized in accordance with SFFAS 1 requirements. The allowance for loss on accounts receivable must be re-estimated annually and when information indicates that the latest estimate is no longer accurate.

4.6.3. Losses due to uncollectible receivables should be measured through a systematic methodology. The systematic methodology should be based on analysis of groups of receivables as a whole with the option to isolate individual receivables for a separate allowance calculation. The allowance amount calculated for individual receivables and groups of receivables will be added together and will be the total amount for allowance for loss on accounts receivable. A provision to increase or decrease the allowance will result in an adjustment of nonexchange revenue, rather than a bad debt expense.

4.6.3.1. Group of Receivables. To determine the loss allowance for receivables less than $100,000, separate the receivables into groups having similar risk characteristics. Receivables may be grouped by each delinquent age category greater than 60 days old, by category of debtor, by reason that gave rise to the receivable, or by geographic regions. The methodology used to determine the percentages will be based on the history of bad debt expense from the last three years. The determined percentages will be applied to the total amount in each category. The OUSD(C) must approve exceptions when abnormal circumstance skews the three-year average.

4.6.3.2. Individual Receivables. Each receivable equal to or greater than $100,000 must be analyzed to determine the loss allowance. Loss estimation for each receivable will be based on: (a) the debtor's ability to pay, (b) the debtor's payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources, including liens, garnishments, cross collections, and other applicable collection tools. DoD Components with a low number of receivables or a large number of small dollar receivables may lower the threshold. However, consistent methodology must be used from year to year.

4.6.4. DoD must not recognize intragovernmental allowance for uncollectible accounts up to and including two years in delinquent age for intragovernmental receivables. After two years and older delinquent age, DoD must recognize 100 percent allowance for uncollectible accounts. The public allowance for uncollectible accounts is calculated:

4.6.4.1. No (0 percentage) allowance is calculated for aging categories less than 90 days.

4.6.4.2. 100 percentage allowance is calculated for public debt for aging categories greater than two years.

4.6.4.3. Allowance for public debt for aging categories greater than 90 days and less than 2 years are calculated by agency-specific Monthly Receivable Data (MRD) write-off amounts divided by total Account Receivable amounts to determine the write-off percentage. The most recent 36 months of write-off percentages are averaged to determine the allowance percentage for 91 days to 2 years aging categories.

4.6.5. In those instances, when one DoD Component sub-allots funds to another DoD Component, the office executing the funds will be responsible for establishing the allowance for loss on accounts receivable. The write-off of receivables must be processed through the allowance for uncollectible accounts.

*4.7 Write-off and Close-Out of Public Accounts Receivable

OMB Circular A-129 provide general provisions for write-off and close-out of public accounts receivable. Write-off is mandatory for public delinquent debt that has not been collected within two years of delinquency unless documented and justified to OMB in consultation with Treasury. All write-offs of non-federal receivables must be made by debiting the allowance for uncollectible account and crediting the receivable account. A direct write-off to public receivable without recording an allowance for uncollectible is prohibited. Intergovernmental receivable write-off is prohibited. In accordance with OMB Circular A-129, when a receivable is written-off, it must be classified as currently not collectible (CNC) or closed-out. Receivables that are classified as CNC must be maintained in an inactive administrative file and reported on the TROR until the receivable is closed-out.

4.7.1. Write-off. The DCO must provide the ARO with documentation to support write-off of the receivable (regardless of amount) and also must provide the history of all research and debt collection efforts. When received, the ARO must immediately provide the documentation to the Fund Holder for concurrence for write-off and notify the DCO that the request for concurrence was sent. If the Fund Holder concurs, the ARO will write-off the debt. If the Fund Holder non-concurs or does not respond, then the following applies:

4.7.1.1. The Fund Holder must respond within 30 days of request for a write-off. If a response is not received within 30 days, the ARO will write-off the debt.

4.7.1.2. If non-concurring, the Fund Holder must provide the ARO with additional written evidence to enable the collection of the debt. The ARO will only make one additional attempt to collect (i.e., issue one additional demand letter).

4.7.1.3. If payment is not received after making one additional attempt to collect, the ARO will write-off the debt. The ARO will notify the Fund Holder and the DCO that the debt was written off.

4.7.2. Currently Not Collectible. Once the debt is written off, it must either be classified as CNC or closed-out. Debts in CNC status are reported on the TROR and are still eligible for the Treasury's cross-servicing and offset programs.

4.7.2.1. Public debt will be classified as CNC only if the following criteria are met:

4.7.2.1.1. The vendor debt or the individual out-of-service debt is $25 or more.

4.7.2.1.2. All debt collection actions referenced in this chapter have been pursued.

4.7.2.1.3. It is cost effective to continue collection efforts.

4.7.2.2. CNC debt must be continuously reviewed and, as required, reclassified and closed-out.

4.7.2.3. When Treasury is able to collect on a receivable categorized as CNC and remits funds to DoD, the ARO will reverse the write-off, reestablish the receivable, and record the collection against the receivable.

4.7.3. Close-Out of Indebtedness. Debt write-off and close-out may occur at the same time, or close-out may follow write-off by a substantial period of time. When it has been determined that the debt is not collectible (e.g., returned from Treasury uncollected or further collection action would not be economically feasible), the DCO must notify the ARO. The ARO must notify the Fund Holder and request concurrence to close-out the debt. If the Fund Holder non-concurs or does not reply, the following applies.

4.7.3.1. The Fund Holder must respond within 30 days of request for close-out. If a response is not received within 30 days, then the debt must be closed-out.

4.7.3.2. If non-concurring, the Fund Holder must provide the ARO with additional written evidence to enable the collection of the debt. The ARO will only make one additional attempt to collect (i.e., issue one additional demand letter).

4.7.3.3. If payment is not received after procedures in subparagraphs 4.7, then the ARO must close-out the debt and notify the Fund Holder.

4.7.3.4. Once a debt has been closed-out, it cannot be reactivated, and the Federal Government cannot take any further administrative or legal action to collect the debt. The Federal Government, however, can accept voluntary repayment of the debt at any time. Once the Fund Holder has decided to close-out the debt, the ARO has primary responsibility for close-out actions. Volume 16, Chapter 6 provide guidance regarding the FMS arrearages write-off and close-out.

4.7.4. Tax Reporting: In most cases, when an agency closes out a debt or compromises a debt for less than the full amount owed, the debt is considered a canceled debt. DoD has a responsibility to issue tax forms and execute IRS reporting for canceled debts that meet the IRS's reporting criteria. The DFAS ESS Vendor Pay Tax Office is responsible for the tax form issuance and IRS reporting for vendor and contractor canceled debts managed in the DFAS Defense Contractor Debt System (DCDS).

5.0 INTRAGOVERNMENTAL RECEIVABLES

5.1 Receivables Due From Federal Entities

Receivables due from DoD Components or other federal entities are intragovernmental receivables and must be reported separately from receivables due from public entities in the financial statements.

*5.2 Sales of Goods and Services

5.2.1. Intragovernmental materials sold or services furnished must be authorized and documented in a support agreement between the provider (seller) and ordering entity (buyer). A providing entity (seller) must initiate the agreed upon activity by providing the cost of materials or performing the services to the ordering entity (buyer). The activity receiving the materials or services (buyer) pays the providing activity. Uncollected amounts earned from reimbursable sales are recorded as accounts receivable

5.2.2. In contrast with orders from the public/non-federal entities without an advance, under the Economy Act DoD organizations with reimbursable authority may recognize a budgetary resource upon acceptance of funded reimbursable orders from DoD and other federal agencies, because customer agencies obligate their own budgetary resources (e.g., appropriations) at the time of order placement and acceptance. DoD organizations may incur obligations to fill such orders without requiring the customer to provide an advance payment and without burdening their own budgetary resources.

*5.3 DoD Performing Entity Responsibilities

The performing entity (seller) must ensure that the costs incurred for completed performance are promptly recorded as revenue and receivable and must ensure the earned revenue amount is promptly charged and collected from the ordering entity. Refer to Chapter 9 for a description of how titles are passed on a contractual agreement. Ensure that transactions are recorded on a timely basis, in order for Treasury to perform intragovernmental eliminations. The performing entity will:

5.3.1. Receive a customer's order, which will be verified against the agreement serving as the basis for the order, such as a DD Form 448, "Military Interdepartmental Purchase Request" (MIPR). The amount of the order must be recorded as an unfilled customer order.

5.3.2. Reverse the unfilled customer order and record a filled customer order (i.e., earnings) uncollected upon receiving documentation showing that goods or services were provided. Record the receivable and charge the customer. If an abnormal balance results from reversing the unfilled customer order, research the abnormal balance and promptly resolve the issue.

5.3.3. Reverse the filled customer order uncollected (i.e., earnings) and record a filled customer order collected upon receipt of a collection voucher. If an abnormal balance results from reversing the filled customer order uncollected, research the abnormal balance and promptly resolve the issue.

5.3.4. Ensure that collection vouchers are recorded in the accounting system and reported to the Treasury in the accounting month the collection was received.

5.3.5. Review unearned and earned orders and determine that recorded orders are supported with an order or contract.

5.3.6. Research any abnormal unfilled customer order balances; such balances indicate that an order may not be recorded. Research any abnormal filled customer order uncollected balances; such balances indicate that collections may have been incorrectly recorded. Promptly resolve these abnormal balances.

5.3.7. For orders not filled from inventory (e.g., supply issues from materiel systems); obtain the accounts payable transaction history. Review obligations and accrued expenditures recorded and determine whether the accruals are supported with a reimbursable agreement or a document evidencing that a payment is due. Unsupported obligations and accrued expenditures must be thoroughly researched, and the necessary corrective actions taken. Copies of all reimbursable orders must be available to ensure that all obligations and accrued expenditures are recorded correctly. Reconcile the receivables and collections relating to the reimbursable program of the performing activity with the accrued expenditures paid and unpaid of the same performing activity.

5.3.8. Obtain the billing transaction history from the ARO. Billing transaction histories must be provided within 30 days. Ensure that billings are against the correct order and, consequently, billed against the correct obligation. Request copies of documents supporting that a payment is due; reconcile these documents with the related accounts receivable. Any discrepancies must be resolved by adjusting the accounts receivable to the appropriate amounts.

5.3.9. Upon receiving a request for supporting documentation, provide a copy of an agreement, contract, and/or proof of performance or delivery within 30 days of request.

5.3.10. If a charge is disputed or rejected, review supporting files promptly. The intragovernmental dispute process is outlined in paragraph 5.5.

5.3.11. Research unmatched disbursements and negative unliquidated obligations as required by Volume 3, Chapter 11.

5.3.12. Unless authorized by law to perform non-reimbursable work, DoD performing activities will not perform reimbursable work for another federal agency that is 90 days or more in arrears in payment of previous reimbursable billings. This restriction can be waived by the OUSD(C) if in the national interest to do so.

5.3.13. Refer to TFM Volume 1: Federal Agencies, Supplements, USSGL for reimbursable USSGL transaction entries.

5.4 DoD Ordering Agency Responsibilities

5.4.1. The ordering agency must review all charges from the performing activity to ensure that amounts due are in agreement with the reimbursable orders and are supported with a copy of the order or contract and evidence of performance.

5.4.2. Transportation charges that cannot be matched to an accounts payable transaction, or that cannot be charged back, must be researched and charged to the proper line of accounting (LOA) upon completion of research.

5.4.3. If the bill is supported, but the order or obligation is not recorded in accounting systems, then record the order or obligation immediately. Determine why the order or obligation was not recorded. The evidence obtained from research may identify internal control failures and/or process weaknesses. Any internal control failures and/or process weaknesses must be addressed and corrected. Evidence from the research should be documented and maintained by the organization.

5.5 Management of Collection Actions

Aging Accounts Receivable qualify for the collection actions. Aging (delinquency date) starts one day after the initial due date.

5.5.1. Charges arising from transactions within the DoD and with other federal departments and agencies must be recorded as accounts receivable in the accounting month earned.

5.5.2. Bills arising from transactions which contain a National Stock Number within the DoD will be collected through the Military Standard Billing System interfund billing procedures when supported by the supply and accounting systems. The provider will not accept a MIPR if interfund can be used. Manual billing (i.e., the XP fund code) will not be used unless approved by the Deputy Chief Financial Officer. For intragovernmental interfund disputes, follow the dispute process outlined in DLM 4000.25.

5.5.3. For non-interfund intragovernmental (within DoD) receivables, reimbursement will be via Defense Cash Accountability System or Intra-Government Payment and Collection (IPAC). The buyer cannot chargeback or reject the charge (other than IPAC) unless authorized by the dispute process as outlined in paragraph 5.6. The buyer must perform an IPAC reject within 30 days. The only valid reasons for reject/adjustment are:

5.5.3.1. Billing for more than the agreed amount.

5.5.3.2. Duplicate/erroneous billing.

5.5.3.3. Lack of supporting documentation.

5.5.3.4. MIPR has expired and/or appropriation has expired.

5.5.4. For intragovernmental (outside DoD) receivables, IPAC is the preferred method of billing/collection.

5.5.4.1. Include the use of IPAC as the preferred method of billing/collection on the MIPR acceptance.

5.5.4.2. Follow the intragovernmental (outside DoD) dispute process as outlined in the paragraph 5.6 if the IPAC transaction is rejected.

5.5.5. Rejected charges must require the reestablishment of a receivable and adjustments to an appropriation's Fund Balance with Treasury.

5.5.6. USSGL accounting transactions for reimbursable billings and collections, and accounts receivable corrections and adjustments are detailed in the SFIS library.

5.6 Non-Interfund Dispute Process

5.6.1. Intragovernmental Debt Within the DoD. The performer's ARO is responsible for managing intragovernmental debt. OUSD(C) oversees DoD dispute resolution processes to resolve balance discrepancies between DoD reporting entities. See Volume 6B, Chapter 13, paragraph 5.4, paragraph 5.6 for additional information on eliminations.

5.6.1.1. Intragovernmental debt cannot be referred to a debt collection activity.

5.6.1.2. The full settlement of intragovernmental accounts receivable disputed charges must take no longer than 180 days from the date of the charge.

5.6.1.3. For receivables of $2,500 or less, the buyer may accept the charge without dispute. However, these charges may be disputed as long as the process can be justified as cost effective.

5.6.1.4. For disputed receivables greater than $2,500:

5.6.1.4.1. The buyer will work with the seller during the first 60 days from the date of the charge to resolve the dispute. The buyer or seller may request assistance from DFAS. If the dispute cannot be resolved, the buyer, along with assistance from DFAS, will assemble a dispute package and send it to the seller. At a minimum, the dispute package must include copies of: MIPR or equivalent, MIPR acceptance or equivalent, voucher payment, bill, correspondence, shipment or delivery evidence, and a narrative explaining the basis of the dispute.

5.6.1.4.2. During 61-90 days from the date of the charge, the seller will review the buyer's dispute package and will provide a written response of concurrence or non-concurrence.

5.6.1.4.2.1. If the seller concurs, the seller will reverse the charge.

5.6.1.4.2.2. If no response is received from the seller, the buyer may chargeback without recourse.

5.6.1.4.2.3. If the seller non-concurs, the buyer will elevate the dispute package to their Resource Manager/Comptroller.

5.6.1.4.3. During 91-120 days from the date of the charge, the buyer's Resource Manager/Comptroller will contact the seller's Resource Manager/Comptroller to resolve the dispute. If the dispute cannot be resolved, the buyer's Resource Manager/Comptroller will elevate the dispute package to their Service Secretary, Combatant Command Commander, or Defense Agency Director.

5.6.1.4.4. During 121-150 days from the date of the charge, the buyer's Service Secretary, Combatant Command Commander, or Defense Agency Director, will contact the seller's Service Secretary, Combatant Command Commander, or Defense Agency Director, to resolve the dispute. The dispute must be resolved within 180 days.

5.6.1.5. If the resolution to the dispute is that the buyer does not have to pay the bill, then the seller must adjust their revenue to liquidate the debt if the revision reflects current fiscal year activity. The seller will decrease revenue and increase direct obligations and expenses. For material receivables established in a prior year, revenue must not be decreased, rather a prior period adjustment must be used to properly account the adjustment. See Volume 6B, Chapter 6. For immaterial receivables established in the prior year, reduce current year revenues.

5.6.2. Intragovernmental Debt Outside DoD. Disputes between government agencies (e.g., between the DoD and the General Services Administration) will be resolved in accordance with I-TFM-2-4700.

5.6.2.1. Dispute resolution will involve the program offices, the accounting offices, the contracting officer, and the agency's Chief Financial Officer (CFO), as appropriate. Disputes will be documented in writing with clear reasons for the dispute. A memorandum of agreement will be signed by the CFOs of each department and agency to acknowledge that department's or agency's active participation in the dispute resolution process.

5.6.2.2. Trading Partners will not chargeback or reject transactions that comply with 1-TFM-2-4700. Further, new transactions will not be created to circumvent the guidance contained therein.

5.6.2.3. Disputes are of two types:

5.6.2.3.1. Accounting treatment (e.g., advances and non-expenditure transfers).

5.6.2.3.2. Contractual (e.g., payment, collection, and interagency agreement).

5.6.2.4. If intragovernmental differences result from differing accounting treatment, then the trading partners have 60 calendar days from the date that the difference is identified in Treasury Government wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) or the date that a charge is disputed, whichever comes first, to agree on the treatment of an accounting entry. If agreement cannot be reached within 60 calendar days, then both trading partners' CFOs must request that a decision be rendered by the Treasury Bureau of Fiscal Service (BFS). After BFS has rendered a decision, the ARO must adjust their financial records as needed within five calendar days or the end of the quarter, whichever comes first.

5.6.2.5. If intragovernmental differences result from contractual disputes, then the trading partners have 60 calendar days from the date that the difference is identified or the date that a charge is disputed, whichever comes first, to agree on the contractual terms. If agreement cannot be reached, then both trading partners' CFOs must request that a binding decision be rendered by the CFOs Council's Committee established for this purpose. The Committee must render a decision within 90 calendar days of request. The trading partners will then coordinate to ensure any necessary IPAC transaction is needed.

5.6.2.5.1. Missing indicative data on an intragovernmental transaction is cause for a contractual dispute. Examples of indicative data include:

5.6.2.5.1.1. Order number.

5.6.2.5.1.2. Treasury Account Symbol (TAS) for both trading partners. If multiple TAS are included on one order, specify amounts for each TAS, as appropriate.

5.6.2.5.1.3. Business Event Type Code for both trading partners.

5.6.2.5.1.4. Amount to accrue, advance, or disburse.

5.6.2.5.1.5. Business Partner Network number for both trading partners.

5.6.2.5.2. The buyer may establish a monetary threshold before asking for contractual decisions; the threshold must not exceed $100,000 per order. If an amount is under the buyer's threshold, and the buyer elects not to pursue a dispute, then the buyer must pay the amount.

5.6.3. NAFI Billing, Collection and Dispute Processes. DoDI 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources," requires certain categories of NAFIs to reimburse appropriated funds (APF) for the provision of goods and services to the NAFI.

5.6.3.1. Reimbursement Agreements. The applicable APF office will prepare a reimbursement agreement with the NAFI. This could be in the form of a Memorandum of Understanding or Inter-Service Support Agreement. The agreement must be signed by the authorized representatives from APF and NAFI. At a minimum, this agreement must have:

5.6.3.1.1. Fixed price for goods and services or methodology for determining price, e.g., utilities, or both. The agreement can be for a specific sale or for a specified period of time.

5.6.3.1.2. Bill due date will be 30 days from date of the bill.

5.6.3.2. Due Process. If bill is not paid by due date, a demand letter will be sent to the NAFI. The NAFI has 30 days from the date of the demand letter to provide payment or provide reasons for non-payment. The validity of the dispute will be determined by the APF representative. If dispute is valid, the APF representative will immediately resolve. If dispute is determined not to be valid, or there is no response, the APF representative will elevate demand for payment as follows:

5.6.3.2.1. Within 31-60 days after the due date, the Installation Comptroller will send the demand for payment with supporting documentation to the NAFI Headquarters Comptroller (NHC).

5.6.3.2.2. Within 61-90 days after the due date, the NHC will make payment or dispute the bill. The validity of the dispute will be determined by the Installation APF Comptroller. If dispute is determined not to be valid, or there is no response, the Installation APF Comptroller will elevate the demand for payment with supporting documentation to the Installation Major Command.

5.6.3.2.3. Within 91-120 days after the due date, the Installation Major Command will instruct that payment be made or dispute the bill. If the Installation Major Command cannot resolve the dispute, or there is no response, the Installation APF Comptroller will elevate the demand for payment with supporting documentation to the Service Comptroller.

5.6.3.2.4. Within 121-150 days after the due date, the Service Comptroller will instruct payment or resolve the dispute.

5.6.3.3. Budgetary Resources. Military Departments may use their own appropriated fund budgetary resources to perform a reimbursable order for a NAFI without an advance. However, they may not recognize budgetary resources for the order until the account receivable is paid.

6.0 REPORTING RECEIVABLES DUE FROM THE PUBLIC

The DoD Components are required to submit the TROR on a quarterly basis. The ARO, in conjunction with the DoD Component, must report public receivables in accordance with TROR located on the Treasury website.

7.0 REPORTING RECEIVABLES IN DOD FINANCIAL STATEMENTS

7.1 Reported Accounts Receivable Quarterly

Accounts receivable are reported on the quarterly financial statements. Instructions for the reporting of receivables in the quarterly financial statements are contained in Volume 6B, Chapters 4 and 10. Receivable amounts are depicted in the Balance Sheet and are disclosed in the Notes to the Financial Statements. Public accounts receivable balances reported on the financial statements must be reconciled with the GTAS accounts receivable from the public balances (attribute non-Federal).

7.2 Gross Accounts Receivable Balances

Gross accounts receivable balances due from the public reported on the quarterly financial statements also will be reconciled with receivables reported on TROR.

7.3 Eliminating Intragovernmental Consolidated Quarterly Financial Statements

The consolidated quarterly financial statements eliminate intragovernmental accounts receivable balances in accordance with Volume 6B, Chapter 13.

8.0 CREDITING AND ACCOUNTING FOR DISPUTED COLLECTIONS UNDER THE CONTRACT DISPUTES ACT OF 1978

8.1 Crediting Collections

8.1.1. When an amount, including interest and administrative fees, is collected from a contractor and the contractor disputes the debt or indicates that they will dispute the debt, the collected amount will not be accounted for as settlement of the debt. Interest, penalties, and fees will cease to accrue and the disputed amounts will be credited to Treasury deposit account pending disposition of the contractor's dispute.

8.1.2. Collections normally are received by the disbursing or payment certifying office making or authorizing payments for the contract in dispute, but may be received by others, including ARO, supporting accounting offices, DMO, contracting officers, contract administration officers, and legal offices. Upon making a collection in a disputed situation, the collection will be documented as a disputed contract collection.

8.1.2.1. If DFAS-Columbus paid the contract or submitted the contract to the DMO for debt collection assistant, deposit the collection to Disbursing Station Symbol Number (DSSN) 6551. Offices, other than the DMO, making the collection and deposit of a disputed collection to DSSN 6551 must forward to the DMO all documentation related to the collection. If the office receiving the collection does not make deposits, then the office receiving the collection will promptly forward the contractor's check and related documentation to DSSN 6551. The collection voucher prepared for a disputed collection will serve as the basis for crediting the amount to Treasury deposit account X6501, Small Escrow Amounts, in a special subhead or limit with departmental prefix 097. If the disputed collection is related to a contractual obligation in an appropriation that has closed in accordance with 31 U.S.C. § 1552(a) or 31 U.S.C. § 1555, then annotate the collection as a "closed appropriation collection" and credit the collection to deposit fund account X6501 in a different subhead or limit. DSSN 6551 must maintain control of collections credited to this account and will prepare all vouchers for disbursement or transfer from the deposit account.

8.1.2.2. If a disputed collection is received on a contract that was not paid by DSSN 6551 and the debt was not submitted to the DMO for debt collection assistance, then deposit the collected amount to the DSSN which made the payment on the contract. The collection must be credited to deposit account X6501 with departmental prefix 017, 021, 057, 096, or 097, as appropriate.

8.1.2.3. The DMO and the responsible disbursing officer will notify the contracting officer, the contract administration officer, if applicable, and the Service or agency contract finance officer, and/or other authority for contract debt matters of any actions affecting the disputed collections. Conversely, these officers or offices must inform the responsible disbursing officer and the DMO of any actions taken that affect the disputed collection.

8.2 Accounting for Collections in Dispute

8.2.1. In accordance with 10 U.S.C. § 3863 and paragraph 8.1, disputed collections received and credited must be separately accounted for and remain available, regardless of the closing of an appropriation or fund account, for payment of:

8.2.1.1. Any settlement of the claim by the parties.

8.2.1.2. Any judgment rendered in the contractor's favor on an appeal of the decision on the claim to the Armed Services Board of Contract Appeals (ASBCA).

8.2.1.3. Any judgment rendered in the contractor's favor in an action on that claim in a court of the U.S.

8.2.2. Availability of the disputed collection expires 90 days after the expiration of the period for bringing an action on that claim in the U.S. Court of Federal Claims under section 41 U.S.C. § 7104(a), if within that 90-day period, no appeal on the claim is commenced at the ASBCA and no action on the claim is commenced in a court of the U.S.

8.2.3. If not expiring under subparagraph 8.2.2, then availability of the disputed collected amounts expires:

8.2.3.1. In the case of a settlement of a claim, 90 days after the date of the settlement.

8.2.3.2. In the case of a judgment rendered on the claim in an appeal to the ASBCA or an action in a court of the U.S, 90 days after the date on which the judgment becomes final and rendered not appealable.

8.2.4. While an amount is being separately accounted for and available in accordance with subparagraph 8.1.1, the amount may be obligated or expended in whole or in part only for the purpose.

8.2.5. When all or part of a disputed collection is determined to be repayable to the contractor, whether by settlement agreement or judgment, including payment or adjustment of interest or fees, that amount must be promptly disbursed to the contractor. Timely reimbursement must also be made to the Treasury Judgment Fund, if applicable. The foregoing disbursed amounts must be charged to the deposit account X6501. Any interest accruing since the collection and ordered to be paid in accordance with the settlement or judgment must be charged to the applicable, currently available, appropriation account.

8.2.6. Upon expiration of the period of availability of all or part of an amount credited to the deposit account in accordance with paragraph 8.1, amounts not obligated and expended, must be withdrawn and credited as follows:

8.2.6.1. If an amount was credited to the deposit account for an appropriation or fund account that closed for reasons other than those described under 31 U.S.C. § 1552(a) or 31 U.S.C. § 1555, then the principal amount collected must be properly credited to that appropriation or fund account and an adjustment made of the amounts of the contract(s) for which the disputed collection arose. Any amounts for interest and fees must be credited to the appropriate Treasury Miscellaneous Receipts accounts.

8.2.6.2. Amounts credited to the deposit account for an appropriation or fund account that was canceled, or subsequently canceled after the collection in accordance with 31 U.S.C. § 1552(a) or 31 U.S.C. § 1555, must be withdrawn and credited to the appropriate Treasury Miscellaneous Receipts accounts. The principal amount must be credited to "Collection of Receivables from Canceled Accounts", Treasury General Fund Receipt Account 3200 (and the memorandum account adjusted, as appropriate). Interest and fees must be credited to the "Miscellaneous Receipts-Defense" account. In the records maintained for the closed appropriation account and unclosed contracts associated with the collection, the unobligated and obligated balances must be adjusted to reflect the results of settlement or judgment, including any amount retained and adjusted for the amounts of the contract or contracts for which the disputed collection arose.

*Table 3-1. Aged Delinquent Accounts Receivable Groups

CATEGORY	**INTRAGOVERNMENTAL**	NON-FEDERAL
Non-delinquent		
Current		
Noncurrent		
Delinquent		
1 to 30 days		
31 to 60 days		
61 to 90 days		
91 to 120 days		
121 to 150 days		
151 to 180 days		
181 days to 1 year		
Greater than 1 year and less than or equal to 2 years		
Greater than 2 years and less than or equal to 6 years		
Greater than 6 years and less than or equal to 10 years		
Greater than 10 years		
Subtotal		
Less Supported Undistributed Collections		
Less Eliminations		
Less Other		
Total		

Note: The total of the columns must equal the gross amounts reported in the Accounts Receivable schedule in Note 6. This will require that the receivables due internally within each DoD Component and supported undistributed collections be eliminated from this schedule. Infrequently, other items may need to be deducted from the subtotal. These items require disclosure in the note narrative.

DoD 7000.14 - R

<u>DEPARTMENT OF DEFENSE</u>

FINANCIAL MANAGEMENT REGULATION

CHAPTER 3 ANNEX 1: "ARCHIVED"

UNDER SECRETARY OF DEFENSE (COMPTROLLER)

DoD 7000.14 - R

DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 3 ANNEX 2: "ARCHIVED"

UNDER SECRETARY OF DEFENSE (COMPTROLLER)

VOLUME 4, CHAPTER 4: "INVENTORY AND RELATED PROPERTY"

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 2009 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The Deputy Chief Financial Officer (DCFO) policy memorandum "Inventory and Related Property Policy Requirements," dated November 13, 2015, was incorporated into the chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum "Accounting Policy Update for Expense Recognition of Operating Materials and Supplies," dated September 4, 2015, was incorporated into the chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum, "Alternative Valuation Methodologies for Establishing Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," dated August 28, 2015, was incorporated into the chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum "Accounting Treatment of Long Range Ballistic Missiles," dated September 12, 2016, was incorporated into the chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum "Accounting Policy Update for Inventory and Related Property" dated March 1, 2013, was cancelled and was not incorporated into the chapter because it has been superseded by the revised policy in the chapter.	Cancellation
1.1 (040101)	Added a paragraph relating to the applicability of this chapter to the General Fund, the Working Capital Fund (WCF), and the National Stockpile Fund.	Addition
1.2 (040102)	Added an "Authoritative Guidance" paragraph.	Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
2.0 (0402)	Updated the definition section to include additional language/definitions.	Revision
3.2 (040302)	Added guidance for determining when the use of the purchases method recognition is appropriate for Operating Materials and Supply (OM&S).	Addition
3.3.3. (040303.C)	Revised guidance to require Department of Defense (DoD) Components with excess, obsolete, and unserviceable (EOU) inventory and OM&S to adjust the recorded value of EOU to its expected Net Realizable Value (NRV).	Revision
3.4.1. (040304.A)	Added additional General Ledger Accounts descriptions related to OM&S.	Addition
3.5 (040305)	Added guidance for minor items not meeting the definition of OM&S.	Addition
3.6 (040306)	Added guidance on accounting treatment for long-range ballistic missiles.	Addition
4.3 (040403)	Updated guidance for valuation of inventory.	Revision
4.4.1. (040404.A)	Revised guidance on the use of subaccounts, which must aggregate to one United States Standard General Ledger (USSGL) account in the DoD Standard Chart of Accounts.	Revision
5.2.4. (040502.D)	Added guidance for new or modified model of military clothing items and individual equipment.	Addition
5.2.8. (040502.H)	Added the policy for funding initial spares for newly fielded weapon systems.	Addition
5.8.2. (040508.B)	Added policy regarding supporting documentation and reconciliation regarding Depot Level Reparables.	Addition
5.10 (040510)	Added additional guidance for excess items disposition.	Addition
7.1 (040701)	Added requirement to record work-in-process for progress billings.	Addition
7.2.2.3. (040702.B.3)	Added the policy that progress billings from a supply management activity for manufacture of inventory must be recorded as inventory work-in-process.	Addition
7.2.3.1. (040702.C.1)	Deleted the policy that costs recorded in work-in-process accounts must be transferred to operating expenses/cost of goods sold upon completion or termination of a customer order. Established the policy that work-in-process costs of completed customer orders must be transferred to inventory-finished goods, and that work-in-process costs of terminated customer orders be transferred to operating expenses/program costs.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
7.2.3.2. (040702.C.2)	Deleted the policy that "all losses should be recognized no later than 120 days after the customer order was completed or the end of the fiscal year in which the order was completed, whichever is sooner, unless an existing funded customer order supports these costs." This subparagraph is revised to require that upon completion of a customer order, no costs associated with that customer order must remain in the work-in-process account.	Revision
7.2.3.3. (040702.C.3)	Added the policy that probable losses on customer orders must be recognized proportionately over the life of the contract.	Addition
7.2.3.5. (040702.C.5)	Added criteria for transfer of inventory work-in-process to inventory held for sale.	Addition
7.3 (040703)	Revised the requirement of WCF activities to capture costs at a more detailed level than the USSGL.	Revision
0408 (Deleted)	Deleted the section related to the Defense Reutilization and Marketing Service's instructions and format for estimating the NRV of EOU. The Defense Logistics Agency (DLA) policies for estimating NRV are applicable only to DLA.	Deletion
Annex A1	Added an example template for cost benefit analysis for supporting the use of the purchases method of recognition for certain OM&S items.	Addition
Annex A2	Established a Generally Accepted Accounting Principles compliant method for establishing opening balances of inventory, OM&S, and stockpile materials.	Addition

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CHAPTER 4

INVENTORY AND RELATED PROPERTY

1.0 GENERAL (0401)

*1.1 Purpose (040101)

1.1.1. This chapter prescribes the accounting policy and related requirements necessary to establish financial control over Department of Defense (DoD) inventory, operating materials and supplies (OM&S) and stockpile materials. The DoD Standard Chart of Accounts, which is located on the Deputy Chief Management Officer Standard Financial Information Structure ***(SFIS)*** website, provides detailed account descriptions of each of the general ledger accounts referenced in this chapter. The DoD Standard Chart of Accounts was developed from the United States Standard General Ledger ***(USSGL)*** published by the Department of Treasury. Posting guidance outlined in the DoD USSGL Transaction Library is also located on the SFIS website. For detailed requirements on financial statement disclosure for Inventory and Related Property (I&RP), refer to Volume 6B, Chapter 10.

1.1.2. With the exception of provisions related to the National Stockpile Fund (NSF), all of the provisions in this chapter apply to the Working Capital Fund (WCF). Some provisions in this chapter apply to the General Fund (GF) as illustrated in Table 4-1 or as otherwise separately referenced within the chapter.

Table 4-1. Applicability of Chapter Sections/Annexes

Section/Annex	Title	GF	WCF	National Stockpile Fund
1.0 (0401)	General	X	X	X
2.0 (0402)	Definitions	X	X	X
3.0 (0403)	OM&S	X	X	-
4.0 (0404)	Inventory	-	X	-
5.0 (0405)	Supply Management Operations	-	X	-
6.0 (0406)	War Reserve Material (WRM)	-	X	-
7.0 (0407)	Work-In-Process	-	X	-
8.0 (0408)	Stockpile Materials	-	X	X
Annex 1	Cost Benefit Template Example	X	X	-
Annex 2	Alternative Valuation Methodologies for Establishing Opening Balances for Inventory, OM&S, and Stockpile Materials	X	X	-
X = Section is Applicable				-

*1.2 Authoritative Guidance (040102)

The references to GF, WCF or NSF applicability in the list of authoritative guidance is specific to this chapter only. The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts ***(SFFAC) 1***, "Objectives of Federal Financial Reporting," – Applicable for GF, WCF, and NSF.

1.2.2. FASAB Statement of Federal Financial Accounting Standards ***(SFFAS) 3***, "Accounting for Inventory and Related Property," – Applicable for GF, WCF, and NSF.

1.2.3. FASAB ***SFFAS 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," – Applicable for GF, WCF, and NSF.

1.2.4. FASAB ***SFFAS 21***, "Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources," – Applicable for GF, WCF, and NSF.

1.2.5. FASAB ***SFFAS 48***, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," – Applicable for GF, WCF, and NSF.

1.2.6. FASAB Interpretation of Federal Financial Accounting Standards ***(Interpretation) 7***, "Items Held for Remanufacture," – Applicable for WCF only.

1.2.7. Title 10, United States Code (U.S.C), ***section 127***, "Emergency and extraordinary expenses," – Applicable for both GF and WCF.

1.2.8. ***10 U.S.C. § 2208***, "Working-capital funds," – Applicable for WCF only.

1.2.9. ***10 U.S.C. § 2551***, "Equipment and barracks: national veterans' organizations," – Applicable for WCF only.

1.2.10. ***10 U.S.C. § 2552***, "Equipment for instruction and practice: American National Red Cross," – Applicable for WCF only.

1.2.11. ***10 U.S.C. § 2553***, "Equipment and services: Presidential inaugural ceremonies," – Applicable for WCF only.

1.2.12. ***10 U.S.C. § 2554***, "Equipment and other services: Boy Scout Jamborees," – Applicable for WCF only.

1.2.13. ***10 U.S.C. § 2556***, "Shelter for homeless; incidental services," – Applicable for WCF only.

1.2.14. ***10 U.S.C. § 2557***, "Excess nonlethal supplies, availability for humanitarian relief, domestic emergency assistance, and homeless veterans assistance," – Applicable for WCF only.

1.2.15. ***10 U.S.C. § 2667***, "Leases: non-excess property of military departments and Defense Agencies," – Applicable for WCF only.

1.2.16. ***22 U.S.C. § 2318***, "Special authority," – Applicable for WCF only.

1.2.17. ***22 U.S.C. § 2761***, "Sales from stocks," – Applicable for WCF only.

1.2.18. ***40 U.S.C. § 503***, "Exchange or sale of similar items," – Applicable for WCF only.

1.2.19. ***50 U.S.C. Subchapter III***, "Acquisition and development of Strategic Raw Materials," – Applicable for NSF only.

1.2.20. Federal Account Symbols and Titles ***(FAST) Book*** – Applicable for GF, WCF, and NSF.

1.2.21. Federal Acquisition Regulation ***(FAR) Part 45*** "Government Property" – Applicable for GF, WCF, and NSF.

1.2.22. Defense Logistics Manual ***(DLM) 4000.25***, Chapter 16, "Disposition Services" – Applicable for WCF only.

1.2.23. DoD Manual ***(DoDM) 4160.21***, "Defense Materiel Disposition Manual," – Applicable for WCF only.

1.2.24. ***DoDM 4140.01, Volume 6***, "DoD Supply Chain Materiel Management Procedures: Materiel Returns, Retention, and Disposition," – Applicable for both GF and WCF.

1.2.25. ***DoDM 4140.26, Volume 4***, "DoD Integrated Material Management for Consumable Items: Supply Support Requests (SSRs)," – Applicable for both GF and WCF.

1.2.26. DoD Directive ***(DoDD) 3025.18***, "Defense Support of Civil Authorities (DSCA)," – Applicable for WCF only.

1.2.27. ***DoDD 5100.46***, "Foreign Disaster Relief (FDR)," – Applicable for WCF only.

1.2.28. ***DoDD 5105.65***, "Defense Security Cooperation Agency (DSCA)," – Applicable for both GF and WCF.

1.2.29. DoD Instruction ***(DoDI) 1338.18***, "Armed Forces Clothing Monetary Allowance Procedures," – Applicable for WCF only.

1.2.30. ***DoDI 3025.21***, "Defense Support of Civilian Law Enforcement Agencies," – Applicable for WCF only.

1.2.31. ***DoDI 3110.06***, "War Reserve Materiel (WRM) Policy," – Applicable for WCF only.

1.2.32. ***DoDI 4140.63***, "Management of DoD Clothing and Textiles (Class II)," – Applicable for WCF only.

1.2.33. Defense Logistics Manual ***(DLM) 4000.25-2***, "Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP)." – Applicable for both GF and WCF.

*2.0 DEFINITIONS - (Applicable to GF, WCF and NSF) (0402)

2.1 Abnormal Costs (040201)

Abnormal costs include any costs that are in excess of the cost to purchase and place in service a new item with similar features and useful life (e.g. excessive handling, expedited delivery and rework costs). Abnormal costs should be charged to operations in the period incurred. Abnormal costs, as mentioned in this chapter, should not be confused with expenses with an abnormal balance (that is, a credit value).

2.2 Acquisition Cost (040202)

Acquisition cost is the amount, net of both trade and cash discounts, paid for the property, plus transportation costs and other ancillary costs to bring the items to their current condition and location.

2.3 Approved Acquisition Objective (040203)

A logistics term, the Approved Acquisition Objective (AAO) level is the quantity of an item authorized for peacetime and wartime requirements to equip and sustain U.S. and allied forces according to current DoD policies and plans.

2.4 Construction in Progress (040204)

Construction in Progress is the amount of direct labor, direct material, and overhead incurred in the construction of General Property, Plant, and Equipment (PP&E) for which the acquiring DoD agency will be accountable for financial reporting purposes. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. Construction in Progress is not to be used for information technology software. The Internal Use Software in Development account is used for information technology software.

2.5 Consumable Items (040205)

A logistics term, a consumable item is an item of supply or an individual item that is normally expended or used up beyond recovery in the use for which it is designed or intended.

2.6 Consumption Method of Accounting (040206)

The consumption method of accounting requires that OM&S be recognized and reported as assets when they are produced or purchased. The cost of goods must be removed from the applicable OM&S asset account and reported as an operating expense in the period in which the items are issued to an end user for consumption in normal operations.

2.7 Contingency Retention Stock (040207)

A logistics term, Contingency Retention Stock is stock above the AAO and Economic Retention Stock (ERS) levels that is held to support specific contingencies. The materiel manager must be able to provide documented rationale to warrant contingency retention.

2.8 ERS (040208)

A logistics term, ERS is the level of stock above the AAO level that it is more economical to retain than to dispose and then potentially repurchase if subsequently needed.

2.9 End User (040209)

An end user is any component of a reporting entity that obtains goods for direct use in that component's normal operations. Any component of a reporting entity, including contractors, that maintain or stock OM&S for future issuance should not be considered an end user with respect to that OM&S.

2.10 Excess Inventory (040210)

Excess inventory (serviceable and unserviceable) is the amount of inventory above the sum of the AAO and inventory retained for economic and/or contingency purposes. See DoDM 4140.01, Volume 6, which calls this potential reutilization stock.

2.11 FASAB (040211)

FASAB is the Board that promulgates the accounting standards for use in the Federal Government. The Office of Management and Budget (OMB), the Department of the Treasury, and the Government Accountability Office (GAO) sponsor FASAB.

2.12 Government Furnished Material (040212)

A sub-category of Government Furnished Material (GFM) consists of inventory or OM&S that is physically transferred to the possession or custody of a contractor as Government property. GFM may be consumed or expended during the performance of a contract.

2.13 Historical Cost (040213)

Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring items to their current condition and location. Historical cost excludes abnormal costs, which should be expensed in the period incurred rather than capitalized as inventory. See the definition of Abnormal Costs.

2.14 Inventory (040214)

Inventory is defined as tangible personal property that is held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provisions of services for a fee.

2.15 Inventory in Transit (040215)

Inventory in Transit is material in transit from commercial and Government suppliers to the financial reporting entity; material that has not been received and accepted at the final designated destination but for which title has passed; or material in transit between storage locations. (Note: Inventory in transit does not include material temporarily in use or on loan with contractors or schools.)

2.16 Latest Acquisition Cost (040216)

Latest Acquisition Cost (LAC) is the last invoice price paid. Valuing inventory at LAC requires multiplying the last invoice price paid by the quantity of all like units held, including those units acquired through donation or nonmonetary exchange. When LAC valuation is used, the inventory is revalued periodically and an allowance account is established for the unrealized holding gains and losses associated with ending inventory. (Note: for the remanufactured items, the LAC value of an item will be the cost of a fully functional item with an allowance account equal to the estimated costs necessary to repair the item.) For financial accounting purposes, this method is only approved for use by the Defense Commissary Agency (DeCA) in valuing its inventory of grocery and household products.

2.17 Moving Average Cost (040217)

The Moving Average Cost (MAC) is a cost flow assumption methodology used to value inventory. Under MAC, the inventory value is recalculated each time costs are incurred for a purchase, or a reparable item is repaired/remanufactured and placed back in inventory. The MAC calculation requires dividing the cost of total units available at the time (inventory plus current purchases placed into inventory or remanufacturing costs incurred for items in inventory by the quantity of units available in inventory at that time. As illustrated in Table 4-2, increases in quantity typically CHANGE the MAC value while decreases in quantity typically USE the MAC value. MAC is the standard cost flow assumption used for DoD inventory and OM&S, with the exception of DeCA grocery and household products inventories (which are valued using LAC) and serially-managed items (which may be costed using the specific identification method).

Table 4-2. Calculating MAC

Event	Quantity	Transaction Value	Quantity	Ending Value
Beginning Balance MAC=$10,000/10=$1,000			10	$10,000
Sale of 2 units @ MAC =$1,000 per unit	(2)	($2,000)	8	$8,000
Purchase of 4 units at $1,600 MAC=$14,400/12=$1,200 per unit	4	$6,400	12	$14,400
Sale of 1 unit MAC=$1,200 per unit	(1)	($1,200)	11	$13,200
Repair of 4 units at $1,675	4	$6,000*	15	$19,200
*The repaired units would be brought into the MAC calculation at the lessor of their repaired value or the current purchase price for a new unit of inventory. If the repaired value is in excess of the current purchase price, the difference would be expensed. For example, assume that the current purchase price for the inventory item is $1,500 and the repaired value is $1,675. Since the current purchase price is less than the repaired value the difference of $175 per unit must be expensed and the $1,500 current purchase price will be used to value the repaired inventory items. The total to be expensed in this example is 4 * $175 = $700 and the amount to be brought into the MAC calculation would be 4 * $1,500 = $6,000.				
Sale of 1 unit at MAC $1,280 ($19,200/15 units = $1,280 per unit)	(1)	($1,280)	14	$17,920

2.18 NRV (040218)

The FASAB defines NRV as the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding and disposal.

2.19 Normal Operations (040219)

Normal operations are operations of a major program or activity without significant changes that would inhibit meeting objectives.

2.20 Obsolete Inventory and OM&S (040220)

Obsolete Inventory and OM&S is material that is no longer needed due to changes in technology, laws, customs, or operations.

2.21 OM&S (040221)

OM&S consist of tangible personal property to be consumed in normal operations. Items excluded are: (a) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, (b) stockpile materials, and (c) inventory. (Note: the DoD does not possess/retain goods held under price stabilization programs, foreclosed property, or seized and forfeited property, which are listed as additional exclusions in SFFAS 3.) Additionally, items meeting the definition of PP&E should be excluded from OM&S. The following items should be classified and recognized as equipment and not OM&S:

2.21.1. Not intended for sale;

2.21.2. Not held in anticipation of physical consumption;

2.21.3. Durable and have a useful life of two years or more;

2.21.4. Expected to be returned or transferred after use with the intent of reuse for their useful life; and

2.21.5. Functionally complete and ready to use for their intended purpose.

2.22 OM&S in Development (040222)

OM&S in Development are costs incurred in developing the OM&S or the value of tangible personal property that will be consumed in normal operations upon completion of development.

2.23 OM&S in Transit (040223)

OM&S in transit includes material in transit from commercial and Government suppliers; material that has not been accepted in the receiving process at the final designated destination but for which title has passed; material being moved between storage locations; or material temporarily in use or on loan with contractors or schools.

2.24 Purchases Method of Accounting (040224)

The purchases method of accounting is an accounting method whereby OM&S are expensed when purchased. The purchases method may be applied to OM&S if:

2.24.1. OM&S are not significant amounts,

2.24.2. They are in the hands of the end user for normal operations, or

2.24.3. It is not cost beneficial to apply the consumption method of accounting.

2.25 Reparables (040225)

A logistics term, reparables are inventory items that can be repaired economically and for which repair of the item (at either field or depot level) is considered in meeting computed inventory requirements. The Department authorizes supply management activities to finance reparable items, including their transportation, acquisition, overhaul, progressive maintenance, renovation, rework, repair, manufacture, reclamation, alteration, and/or software support. Reparables in an unserviceable condition, such as items returned from operating units or furnished to the contractor for repair, modification, or overhaul, are often referred to as "carcasses."

2.26 Significant Amount (040226)

Significant amounts are those that do not rise to the level of being material but are important enough to merit attention by those responsible for oversight of the Component's financial reporting. Materiality is defined in the GAO Financial Audit Manual (FAM) as "the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item."

2.27 Standard Price (040227)

The standard price is the price customers are charged which reflect DoD's stabilized price policy requiring item pricing that remains constant throughout a fiscal year for Inventory Control Point managed items. Exceptions to the requirement to maintain standard pricing throughout the fiscal year are outlined in Volume 11B, Chapter 15. The standard price is calculated based on factors that include the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence and maintenance; depreciation; and supply operations. See Volume 2B, Chapter 9 for additional guidance on pricing.

2.28 Stockpile Materials (040228)

Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held for sale in the ordinary course of business. Items specifically excluded from stockpile materials are items that are:

2.28.1. Held by an agency for sale or use in normal operations, and

2.28.2. Held for use in the event of an agency's operating emergency or contingency.

2.29 Supply Condition Code (040229)

A supply condition code is an alphabetic code designation used to classify material in terms of readiness for issue and use, or to identify action underway to change the status of material.

2.30 Unserviceable Inventory (040230)

Unserviceable inventory is damaged inventory that is more economical to dispose of than to repair.

2.31 WRM (040231)

WRM items are those materials that, in addition to peacetime assets normally available on any given date, are necessary to equip and support the increase in military requirements forecasts contingent on an outbreak of war. War reserves sustain operations until resupply can be affected.

2.32 Work-In-Process (040232)

Work-in-process is the term used to describe products that are being manufactured or fabricated but are not yet complete. The book value of work-in-process consists of the costs of direct materials, direct labor, direct purchased services, and indirect costs, including general and administrative (G&A) costs, used in producing or repairing an end item (customized equipment or personal property), whether fabricated by the DoD or by a non-DoD organization under contract. G&A costs pertain to the costs of operations such as rent, utilities, and managerial salaries, in contrast to costs that are directly related to the production of goods and services. Work-in-process accounts segregate these costs from current accounting period expenses, thus supporting accurate financial reporting in compliance with generally accepted accounting principles.

3.0 OM&S - (Applicable to GF and WCF) (0403)

3.1 Recognition of OM&S (040301)

3.1.1. The consumption method of accounting for the recognition of expenses must be applied for OM&S unless the conditions set forth in subparagraph 040301.B apply. Under the consumption method, OM&S must be recognized and reported as assets when produced or purchased. When they are issued to an end user for consumption in normal operations, the cost of the goods must be removed from the applicable OM&S asset account and reported as an operating expense (see subparagraph 040302.C for further explanation of an end user). "Purchased" is defined as when title passes to the purchasing entity. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery must be based on the terms of the contract regarding shipping and/or delivery.)

3.1.2. Under the purchases method of accounting, OM&S will be expensed (and not recorded as an asset) when purchased. The purchases method may be applied to OM&S if:

3.1.2.1. OM&S are not significant amounts,

3.1.2.2. The OM&S is in the hands of the end user for use in normal operations, or

3.1.2.3. It is not cost-beneficial to apply the consumption method of accounting.

*3.2 Determining Eligibility for Purchases Method Recognition (040302)

3.2.1. Purchases Method Evaluation. This paragraph provides guidance for evaluating the three criteria as identified in subparagraphs 040302.B through 040302.D that allow for the use of the purchases method of accounting or for determining the point in the supply chain at which OM&S should be removed from the applicable OM&S asset account and reported as an operating expense. While each criteria will be explained individually, the general rules applicable to all three criteria are:

3.2.1.1. This guidance does not replace or omit logistics, supply chain, or asset management requirements that already exist.

3.2.1.2. The OM&S under consideration must be viewed in aggregate for each DoD Component's stand-alone financial statements. Although the value of an individual local or National Item Identification Number may not be significant when assessed individually, the aggregate value could be significant.

3.2.1.3. Analyses and conclusions performed by DoD Components to support a particular accounting position must be documented, and that documentation should be retained in such a manner as to be easily available to an auditor. Such analyses must be updated and kept current from one fiscal year to the next.

3.2.2. <u>Criteria 1: Determination of Significant Amount</u>. Significant amounts are those that do not rise to the level of being material but are important enough to merit attention by those responsible for oversight of the entity's financial reporting. Materiality is defined in the GAO FAM as "the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item." Each DoD reporting entity that is considering the use of the purchases method because the amounts are not significant must perform the provided test steps 1 to 5 at their entity's consolidated statement level (e.g., the U.S. Department of the Navy would perform the test steps based on the Navy Financial Statements rather than on an individual Navy Command level). Note that the DoD Component must perform these steps in the sequence in which they are listed. For purposes of calculating the amounts in the test, the DoD Component must use the most recent fiscal year annual amounts from their general ledger and corresponding annual financial statements. If the DoD Component does not have access to the financial information necessary to perform the tests, it has no basis to support that the OM&S amounts are not significant, and thus cannot use the purchases method to record OM&S amounts.

3.2.2.1. <u>Test Step 1</u>. Determine the aggregate value of the OM&S categories for which the purchases method is being considered. A combination of general ledger balances, acquisition data, and expense data may be used to determine the aggregate value of the OM&S under consideration.

3.2.2.2. <u>Test Step 2</u>. Compare the aggregate value of the OM&S under consideration to 1 percent of the Component's Gross Cost.

3.2.2.2.1. Multiply the "Gross Cost" amount from the Component's Statement of Net Cost by 1 percent.

3.2.2.2.2. If the aggregate value of the OM&S being considered is greater than or equal to 1 percent of Gross Cost, the amount is significant and the significant amount exception cannot be used to justify the use of the purchases method for the OM&S under consideration.

3.2.2.2.3. If the aggregate value of the OM&S is less than 1 percent of Gross Cost, proceed to Test Step 3.

3.2.2.3. Test Step 3. Compare the aggregate value of the OM&S under consideration to 1 percent of Total Assets.

3.2.2.3.1. Multiply the "Total Assets" amount from the Component's Balance Sheet by 1 percent.

3.2.2.3.2. If the aggregate value of the OM&S being considered is greater than or equal to 1 percent of Total Assets, the amount is significant; the significant amount exception cannot be used to justify the use of the purchases method for the set of OM&S being considered.

3.2.2.3.3. If the aggregate value of the OM&S is less than 1 percent of Total Assets proceed to Test Step 4.

3.2.2.4. Test Step 4. Compare the aggregate value of the OM&S under consideration to 3 percent of the lesser of the financial statement line I&RP (Balance Sheet) or Operations, Readiness, and Support (OR&S) (Statement of Net Cost).

3.2.2.4.1. Select a base for performing Test Step 4. The base is the lesser of the I&RP amount from the Balance Sheet or the OR&S amount from the Statement of Net Cost.

3.2.2.4.2. Multiply the selected base by 3 percent.

3.2.2.4.3. If the aggregate value of the OM&S under consideration is greater than or equal to 3 percent of the selected base, the amount is significant and the significant amount exception cannot be used to justify the use of the purchases method for the OM&S being considered.

3.2.2.4.4. If the aggregate value of the OM&S is less than 3 percent of the selected base, the amount is not significant and the significant amount exception can be used to justify the usage of the purchases method of expense recognition for the OM&S under consideration.

3.2.2.5. Re-Performance. Components using the purchases method for a subset of OM&S under the significant amount exception (i.e., item classes that have cumulatively passed each of the provided tests) must re-perform and document the significant amount tests at least annually.

3.2.3. Criteria 2: OM&S in the Hands of the End User for Use in Normal Operations.

3.2.3.1. Under the purchases method of accounting, OM&S will be expensed (and not recorded as an asset) when purchased, if the OM&S are purchased and delivered directly to the end user for use in normal operations. SFFAS 3, paragraph 41, defines an end user as "any component of a reporting entity that obtains goods for direct use in the component's normal operations. Any component of a reporting entity, including contractors, that maintains or stocks OM&S for future issuance shall not be considered an end user." For the purposes of identifying end users, DoD Components should map their supply point structures to those described in DoDM 4140.01, Volume 2, which are:

3.2.3.1.1. Wholesale. These supply points are the highest level of organized DoD supply and conduct typical wholesale operations such as bulk receipt, repairs, and storage of OM&S. Wholesale locations maintain stocks to resupply retail supply points and to issue to the field. Depots, contractor-controlled depots, warehouses, and storage facilities are examples of wholesale sites. Wholesale locations are not considered end users, except for OM&S that is held and managed for consumption within the wholesale activity itself.

3.2.3.1.2. Retail. These supply points stock inventory below the wholesale level, either at the consumer level (directly supporting customers) or at the intermediate level (supporting a geographical area). Retail locations are not considered end users, except for OM&S that is held and managed for consumption within the retail activity itself.

3.2.3.1.3. Field. These locations are receiving organizations that are authorized to use supply items and only requisition quantities sufficient to satisfy their own immediate requirements. Receiving organizations do not reissue OM&S to other organizations; they use or consume OM&S within their normal operations. Examples of field supply points include but are not limited to ships (e.g. shipboard storage), submarines, aircraft wings, field units, and missile wings. OM&S at a field supply point can be considered to be in the hands of the end user. (Note: this does not include prepositioned stock, which can be stored in remote and field locations but is held for future issue).

3.2.3.2. In general, material furnished to contractors is not considered in the hands of an end user. If the material is stored in anticipation of being incorporated into an end item, it no longer meets the definition of OM&S and should be accounted for as construction-in-progress, work-in-process, or OM&S in development. If the material is held for further issuance, the contractor location is equivalent to a wholesale or retail location and cannot be considered an end user. Government furnished material as described in this subparagraph is different from Government furnished equipment which is a category of general equipment.

3.2.3.3. Title 41, section 101-8.705 of the Code of Federal Regulations defines a normal operation as the "operation of a program or activity without significant changes that would inhibit meeting objectives." OM&S used in normal operations are goods necessary for DoD Components to meet their objectives. Examples of evidence that OM&S is used in normal operations can be, but are not limited to, recurring requirements, high inventory turnover rates, or significant purchases activity.

3.2.3.4. Other indications that OM&S is in the hands of the end user for use in normal operations include:

3.2.3.4.1. The user only requisitions quantities sufficient to satisfy its own immediate requirements (includes regular supply levels plus emergency/safety stock);

3.2.3.4.2. The user does not requisition large quantities of OM&S to issue to other organizations outside of its own;

3.2.3.4.3. The user is not a forwarding agent – the OM&S is requisitioned for the intent of use, not to resupply other supply points;

3.2.3.4.4. The user has the right to consume the OM&S; or

3.2.3.4.5. The user is permitted to carry only certain levels of OM&S.

3.2.4. Criteria 3: Not Cost Beneficial to Apply the Consumption Method of Accounting. Under the purchases method of accounting, OM&S is expensed (and not recorded as an asset) when purchased, if it is not cost-beneficial to apply the consumption method of accounting. This is referred to as the cost benefit exception. Each DoD Component considering using the cost benefit exception should conduct an analysis comparing estimated costs and benefits for applying the consumption method. If the cost exceeds benefits, the purchases method may be used. The cost benefit analysis should be unbiased, fully documented (i.e. supporting documents for cost estimates), reviewed, and approved by the Component's management. See Annex 1 for an example of how a cost benefit analysis may be structured. If the cost benefit analysis is used to support the purchases method of accounting, it must be updated and documented at least annually.

3.3 Valuation of OM&S (040303)

3.3.1. OM&S accounted for under the consumption method of accounting must be valued at historical cost using the MAC flow assumption or the specific identification cost flow method (which may only be used for serially managed items). Historical cost must include all appropriate purchase and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs must be charged to operations of the period. Donated OM&S must be valued at their fair value at the time of donation.

3.3.2. OM&S that are maintained because they are not readily available in the market or because it is likely they will be needed in the future should be classified as OM&S Held in Reserve for Future Use. OM&S held in reserve for future use must be valued using the same basis as OM&S held for use in normal operations. The value of OM&S held for future use should be separately disclosed in the notes to the financial statements.

* 3.3.3. EOU OM&S must be valued at their estimated NRV. DoD Components are responsible for identifying inventory (including inventory held as OM&S) that is EOU. Upon identification of inventory as EOU, the DoD Component must adjust the value of the EOU inventory to its NRV as described in paragraph 040403.B.

3.3.4. SFFAS 3 does not address OM&S held for repair. Disclosures in Interpretation 7 "Items Held for Remanufacture" state that valuation methods prescribed for inventory held for repair may be reasonably applied to OM&S.

3.3.4.1. The Department's policy for accounting and reporting for Inventory Held for Repair is to use the allowance method as described in SFFAS 3 Paragraph 32. For purposes of inventory accountability and the type of inventory repairs generally made at the DoD, the Department has determined that use of the allowance method is the appropriate accounting treatment to be used among the alternatives presented in paragraphs 20 through 22, and paragraphs 32 and 33, in SFFAS 3 (and as further addressed in Paragraph 10 of FASAB Interpretation 7).

3.3.4.2. Under the allowance method, OM&S held for repair must be valued at the same value as a useable item, (i.e., at historical cost using the MAC flow assumption or specific identification). An allowance for repairs contra asset account (i.e. repair allowance) must be established. The annual (or other period) credit(s) required to bring the repair allowance to the current estimated cost of repairs must be recognized as current period operating expenses. As the repairs are made, the cost of repairs must be charged (debited) to the allowance for repairs account. Supporting documentation must be retained for the estimated repair costs used in establishing the allowance. In addition, the Component should reconcile the allowance account to the physical quantities of items held for repair on at least an annual basis.

3.4 Accounting for OM&S (040304)

* 3.4.1. General Ledger Accounts. The general ledger accounts discussed in this chapter must be reported in the financial statements required by the Treasury and for other reporting requirements mandated by Congress and OMB. Transactions/entries recorded to general ledger accounts must have adequate supporting source documentation. Source documents include contracts, invoices, receiving reports, payment vouchers, material return documents, transfer documents, inventory documents, issue and shipping documents, sales records, and documented gains and losses. Detailed posting transactions are outlined in the DoD USSGL Transaction Library. Examples of the USSGL accounts for OM&S are provided in this paragraph. Detailed account descriptions are found in the DoD Standard Chart of Accounts.

3.4.1.1. OM&S Held for Use (Account 151100). This account is used to record the value of materials and supplies held for use in normal operations. This account is also used to record the initial acceptance of materials and supplies in transit when title has passed but the items have not been received and accepted. Items in transit between DoD accounting entities must be kept under financial accounting control at all times. Activities may want to create subaccounts within the general ledger systems to record and track items in transit; however, the internal subaccounts must aggregate to one USSGL account in the DoD Standard Chart of Accounts. This account is intended to be used by any DoD Component that maintains OM&S.

3.4.1.2. OM&S Held in Reserve for Future Use (Account 151200). This account is used to record the value of stocks of materials and supplies maintained because they are not readily available in the market and there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations.

3.4.1.3. OM&S – Excess, Obsolete and Unserviceable (Account 151300). This account is used by DLA Disposition Services and other DoD Components to record the value of OM&S (serviceable or unserviceable) that exceed the amount expected to be used in normal operations and do not meet management's criteria to be held in reserve for future use. Obsolete OM&S include stocks that are no longer needed due to changes in technology, laws, customs or operations. Unserviceable OM&S are items that are physically damaged and cannot be consumed in operations. DoD Components are responsible for identifying inventory (including inventory held as OM&S) that is EOU. Upon identification of inventory as EOU, the DoD Component must write down the value of EOU inventory to its NRV as described in subparagraph 040403.B.

3.4.1.4. OM&S Held for Repair (Account 151400). This account is used to record the value of materials and supplies that are not in usable condition, but can be economically repaired. The objective is to rebuild items as an alternative and rotating source of supply. Once rebuilt, the items will be returned to OM&S Held for Use. Components with immaterial amounts of OM&S held for repair may report these amounts in USSGL account 151100, "OM&S Held for Use."

3.4.1.5. O&MS in Development (Account 151600). This account is used to record costs incurred or the value of tangible personal property, such as operating materials and supplies in development that will be consumed in normal operations upon completion of development. Upon completion, these costs will be transferred to USSGL account 151100, "Operating Materials and Supplies Held for Use," or USSGL account 151200, "Operating Materials and Supplies Held in Reserve for Future Use."

3.4.1.6. OM&S – Allowance (Account 151900). This account is used to record the amount of estimated repairs needed for damaged OM&S and the estimated gain or loss on the value of OM&S due to unrealized holding gains and losses.

3.4.1.7. Other Actual Business Type Collections From Nonfederal Sources (Account 426600). This account is used to report the amount collected during the fiscal year from nonfederal sources for which a specific USSGL account does not exist. These collections result from business type transactions such as the disposition of demilitarized or scrap EOU sold through a commercial venture resulting in a gain.

3.4.1.8. Financing Sources Transferred In Without Reimbursement (Account 572000). This account is used to record the amount of the increase of financing sources of a reporting federal entity that occurs as a result of an asset being transferred in.

3.4.1.9. Financing Sources Transferred Out Without Reimbursement (Account 573000). This account is used to record the amount of the decrease of financing sources of a reporting federal entity that occurs as a result of an asset being transferred out. The amount of the asset is recorded at book value as of the transfer date.

3.4.1.10. Other Expenses Not Requiring Budgetary Resources (Account 679000). This account is used to record other costs that do not require budgetary resources (such as accounting for the issue of operating materials and supplies when the consumption method is used).

3.4.1.11. Gains on Disposition of Assets - Other (Account 711000). This account is used to record the gain on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

3.4.1.12. Other Gains (Account 719000). This account is used to record the gain on assets resulting from events other than disposition.

3.4.1.13. Losses on Disposition of Assets - Other (Account 721000). This account is used to record the loss on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

3.4.1.14. Other Losses (Account 729000). This account is used to record the loss on assets resulting from events other than disposition.

3.4.2. Relationship of General Ledger OM&S Accounts to Logistic Supply Condition Codes. OM&S recorded in the financial records should be identifiable to OM&S recorded in logistic records and vice versa.

3.4.2.1. Supply Condition Codes. Supply condition codes classify material in terms of readiness for issue and use or identify action underway to change the status of the material. Supply condition codes currently in use within the DoD are defined in DLM 4000.25-2, "Military Standard Transaction Reporting and Accountability Procedures."

3.4.2.2. Relationship of Logistic Categories to Accounting Classifications for OM&S. Table 4-3 shows the relationship of logistics supply categories to general ledger OM&S accounts.

Table 4-3. Relationship of Logistic Supply Categories

U.S. Standard General Ledger Account	Supply Condition Codes
151100 OM&S Held for Use	A Serviceable Issuable Without Qualification B Serviceable Issuable With Qualification C Serviceable Priority Issue D Serviceable Test/Modification T Serviceable Ammunition Suitable for Training Use Only Use this account to record amounts for OM&S with condition codes A-D and T up to the AAO. **[Excludes Excess, Economic Retention and Contingency Retention OM&S]**
151200 OM&S Held in Reserve for Future Use	E Unserviceable Reparable (Limited Cost to Restore) J Suspended (In Stock) K Suspended (Returns) L Suspended (In Litigation) N Suspended (Ammunition Suitable for Emergency Combat Use Only) Q Suspended (Product Quality Deficiency) Use this account to record amounts for OM&S with condition codes A-D and T that is above the AAO and is retained for economic or contingency purposes. Include all inventory designated as E, J, K, L, N and Q in this account. **[Excludes Excess OM&S]**
151400 OM&S Held for Repair (Remanufacturing)	F Unserviceable Reparable G Unserviceable Incomplete M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination) Use this account to record amounts for all OM&S with condition codes F, G, M, and R. **[Excludes Excess OM&S]**
151300 OM&S – Excess, Obsolete, or Unserviceable	H Unserviceable (Condemned) P Unserviceable (Reclamation) S Unserviceable (Scrap) V Unserviceable (Waste Military Munitions) **[Includes Serviceable and Unserviceable Excess OM&S]**

*3.5 Classification of Minor Items Not Meeting the Definition of OM&S (040305)

3.5.1. Components have expressed difficulty in classifying stocked tangible personal property such as infantry helmets or hand tools that do not meet the definition of OM&S established in SFFAS 3. SFFAS 6 defines PP&E as tangible assets that:

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

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

3.5.1.3. Are intended to be used or available for use by the reporting entity.

3.5.2. Tangible personal property such as infantry helmets and hand tools meet all of the criteria listed in 040305.A, and therefore will be classified as equipment. Equipment will be expensed in the period purchased unless its historical cost exceeds the Component's capitalization threshold, in which case the equipment will be capitalized and depreciated over its useful life.

3.5.3. Components must analyze items in their stores to identify items that meet the criteria in 040305.A, and are encouraged to leverage system data and functions where appropriate to perform the analysis in a cost and time-efficient manner. The analysis must be documented and retained in accordance with Component audit needs and relevant document retention policies.

3.5.4. This guidance does not replace or omit existing logistics, supply chain, or asset management requirements regardless of the assets' accounting classification.

*3.6 Accounting Treatment for Long Range Ballistic Missiles (040306)

3.6.1. The DoD defines the mission of the nuclear arsenal solely as one of deterrence. Under this mission, the useful life of nuclear assets is expected to exceed two years. Therefore, nuclear long range ballistic missiles (including, but not necessarily limited to, Intercontinental Ballistic Missiles and Submarine Launched Ballistic Missiles) which are fully configured and armed in support of this mission should be classified/recorded as general equipment.

3.6.2. Long range ballistic missiles which are not a part of a fully configured nuclear armed long range ballistic missile should be classified/recorded as OM&S.

4.0 INVENTORY - (Applicable to WCF Only) (0404)

4.1 General (040401)

This section sets forth the policies for recognition, valuation, and procedures for accounting for inventory and is applicable for WCF only.

4.2 Recognition (040402)

Inventory must be recognized when title passes to the purchasing entity. Title passes to the purchasing entity based on the terms of the contract. For free on board (shipping point), title passes when the inventory is shipped. If the terms of sale are free on board (destination), title passes when the goods are delivered to the purchasing entity.

*4.3 Valuation of Inventory (040403)

The Department's policy is that inventory must be valued at historical cost using the MAC flow assumption. However, the Department has also approved the specific identification method for use with serially managed items, and the LAC flow assumption for the valuation of DeCA grocery and household product inventories. (Note: When LAC valuation is used, the inventory is revalued periodically and an allowance account is established for the unrealized holding gains and losses so that the LAC method approximates historical cost.) SFFAS 3 defines each of the methods as a means for arriving at historical cost. In addition, FASAB Interpretation 7, addresses the valuation of items held for repair that, once repaired/remanufactured/upgraded, are returned to Inventory Held for Sale. For inventory valuation of items held for repair where credit is given to the customer, the credit defines the value of the item to the WCF. Therefore, the inventory valuation is calculated as the cost to buy a new item minus the cost to repair, which would approximate the value of the credit given. When credit is not given, another valuation methodology must be employed. See Volume 2B, Chapter 9 for additional guidance. Supply management activities are not required to issue credit on any given transaction. The MAC cost flow assumption will be used as the remanufacture takes place to record appropriate production costs (normal costs to bring the item to a serviceable or upgraded condition).

4.3.1. Entities must use the MAC flow assumption to value inventory held for repair/remanufacture at historical cost. Components should value the receipt of a carcass at MAC and record a repair allowance in the allowance account. The repair allowance is calculated as the ratio of the latest representative repair cost adjusted for inflation to the latest representative acquisition cost. For example, if the latest representative repair cost adjusted for inflation is $100 and the latest representative acquisition cost is $500 and the MAC value is $490, the amount of the allowance would be $98 [(100/500) * 490]. If there is no repair history, entities will develop and document an engineering estimate of the cost to repair. The documentation should be retained for audit purposes. Upon completion of the repair, the item will be moved to Inventory Held for Sale at MAC. If the total of the carcass value plus the costs incurred to repair it exceeds MAC, the difference must be charged to the current period as an expense. The capitalized item is treated as if it was a purchase for calculating the historical cost of inventory using the MAC flow assumption as illustrated in Table 4-2. In addition, the entities should reconcile the allowance account to the physical quantities of items held for repair on at least an annual basis.

4.3.2. EOU inventory must be valued at its expected NRV. DoD Components are responsible for identifying inventory and OM&S that is excess, obsolete and unserviceable. Upon identification of inventory as EOU, the DoD Component must determine the NRV of its EOU and adjust the recorded value of the EOU to its estimated NRV by recording a gain or loss (as applicable) and a corresponding inventory allowance (for a WCF) or operating materials and supplies allowance (for a General Fund or WCF). EOU that will be transferred to DLA Disposition Services for disposition generally will not result in the DoD Component receiving any proceeds from the disposal, other than EOU that will be disposed of through a Qualified Recycling Program (QRP), and therefore, the NRV would be zero. For EOU to be disposed of through a QRP or by means other than a transfer to DLA Disposition Services, the DoD Component should estimate the NRV of the EOU based on prior disposal proceeds for comparable EOU, buyer quotes or other reasonable means. In all instances, documentation supporting the NRV calculation of the EOU must be prepared and retained by the DoD Component.

4.3.3. Supply Management activities must calculate and report the costs of all inventory sold, i.e., cost of goods sold at historical cost using the MAC flow assumption. Cost of goods sold is the balance of USSGL 650000, Cost of Goods Sold. USSGL 650000 may be verified by using this formula. Note that the inventory historical cost and increases in goods for sale include direct (e.g. labor or materials) costs and indirect costs (e.g. overhead).

Beginning Inventory at historical cost
Plus: Increases in Goods for Sale (Purchases, Remanufacturing Costs, Capitalized Inventory, Other Gains)
Less: Disposals or Other Decreases in Goods for Sale (Including Other Losses) at historical cost
Equals: Cost of Goods Available for Sale at historical cost
Less: Ending Inventory at historical cost
Equals: Cost of Goods Sold at historical cost*

* If variances between actual indirect expenses and applied indirect expenses are accounted for as cost of goods sold in accordance with paragraph 040702.A.2, this would need to be factored into the calculation.

4.4. Accounting for Inventory (040404)

4.4.1. General Ledger Accounts. Detailed posting transactions are outlined in the DoD USSGL Transaction Library. Inventory accounts are authorized for use by activities that hold items for resale, use items in the process of production for sale, and consume items in the production of goods for sale or in the provision of services for a fee. Entities that hold supplies and materials for issue without reimbursement or for use without earning a fee own OM&S rather than inventory and should refer to section 0403. Refer to section 0407 for inventory accounts for work-in-process. This paragraph provides examples of the applicable inventory accounts. Additional USSGL accounts which may be relevant to inventory can be located in the DoD Standard Chart of Accounts and the USSGL.

* 4.4.1.1. Inventory Purchased for Resale (Account 152100). This account is used to record the value of inventory purchased for resale that is in a usable condition and is available for immediate resale. The DoD USSGL Transaction Library includes entries to record receipt of material purchases, sale of inventory items at cost, issue without reimbursement, reclassification of inventory, and gains or losses when inventory is revalued. Activities may want to create subaccounts within their inventory or general ledger systems to record and track inventory in

transit; however, the internal subaccounts must aggregate to one USSGL account in the DoD Standard Chart of Accounts. See paragraph 19 of SFFAS 3.

4.4.1.2. Inventory Held in Reserve for Future Sale (Account 152200). This account is used to record the value of inventory held in reserve for future sale and includes items that have been suspended in the logistical system and are currently not available for sale. Typical entries for use of this account include entries to reclassify inventory items, record the delivery of goods and services, and record transfers in or out without reimbursement.

4.4.1.3. Inventory Held for Repair (Remanufacturing) (Account 152300). This account is used to record the inventory items currently not in a usable condition but which can be economically remanufactured. Remanufacturing is a process by which carcasses are overhauled, rebuilt, refurbished, repaired, or restored to a usable condition for sale to a customer. Under remanufacturing, repair expenses are capitalized to the cost of inventory and expensed as Cost of Goods Sold.

4.4.1.4. Excess, Obsolete, and Unserviceable Inventory (Account 152400). This account is used to record the value of inventory (serviceable and unserviceable) that exceeds the amount expected to be used in normal operations and does not meet management's criteria to be held in reserve for future use, i.e., characterized as potential reutilization stock in DoDM 4140.01-V6. Obsolete inventory includes stocks that are no longer needed due to changes in technology, laws, customs or operations or items for which the shelf life cannot be extended. Unserviceable inventory are items that are physically damaged and cannot be consumed in operation. DoD Components are responsible for identifying inventory that is EOU. Upon identification of inventory as EOU, the DoD Component must adjust the value of its EOU inventory to its NRV as described in paragraph 040403.B.

4.4.1.5. Inventory – Raw Materials (Account 152500). This account is used to record the cost or value of raw materials purchased or donated for use as a component part of inventory.

4.4.1.6. Inventory – Work-In-Process (Account 152600). This account is used to record the accumulated cost or value of inventory used in the production process. Work- in-process inventory includes the cost of raw materials, direct labor, and overhead.

4.4.1.7. Inventory – Finished Goods (Account 152700). This account is used to record the accumulated cost or value of completed products.

4.4.1.8. Inventory – Allowance (Account 152900). This account is used to record:

4.4.1.8.1. The estimated cost to repair damaged inventory;

4.4.1.8.2. The estimated gain or loss on the value of inventory because of unrealized holding gains or losses; and

4.4.1.8.3. The difference when restating the inventory from historical to standard cost (see Volume 11B, Chapter 15).

The account is either a contra asset account or an adjunct asset account depending on whether repair costs are increasing or decreasing for the subsequent fiscal year. This account is used to reflect the purchase cost variance for inventory transactions.

4.4.1.9. Cost of Goods Sold (Account 650000). This account is used to record the total cost of inventory sold including raw materials, direct labor, and overhead.

4.4.2. Relationship of General Ledger Inventory Accounts to Logistic Supply Condition Codes. Inventory recorded in financial records should be identifiable to inventory recorded in logistic records and vice versa. Table 4-4 displays the relationship of logistic supply categories to general ledger financial inventory accounts.

4.4.2.1. Supply Condition Codes. Supply condition codes classify material in terms of readiness for issue and use or to identify action underway to change the status of material. Supply condition codes currently in use within the DoD are defined in DLM 4000.25-2, "Military Standard Transaction Reporting and Accountability Procedures."

4.4.2.2. Relationship of Logistic Categories to Accounting Classifications for Inventory. Table 4-4 shows the relationship of supply condition codes to general ledger inventory accounts.

Table 4-4. General Ledger Inventory Accounts vs Supply Condition Codes

U.S. Standard General Ledger Account	Supply Condition Codes
152100 Inventory Purchased For Resale	A Serviceable Issuable Without Qualification B Serviceable Issuable With Qualification C Serviceable Priority Issue D Serviceable Test/Modification T Serviceable Ammunition Suitable for Training Use Only Use this account to record amounts for inventory with condition codes A-D and T up to the AAO. **[Excludes Excess, Economic Retention and Contingency Retention Inventory]**
152200 Inventory Held in Reserve for Future Sale	E Unserviceable Reparable (Limited Cost to Restore) J Suspended (In Stock) K Suspended (Returns) L Suspended (In Litigation) N Suspended (Ammunition Suitable for Emergency Combat Use Only Q Suspended (Product Quality Deficiency) Use this account to record amounts for inventory with condition codes A-D and T that is above the AAO and is retained for economic or contingency purposes. Include all inventory designated as E, J, K, L, N, and Q in this account. **[Excludes Excess Inventory]**
152300 Inventory Held for Repair (Remanufacturing)	F Unserviceable Reparable G Unserviceable Incomplete M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination) Use this account to record amounts for all inventory with condition codes F, G, M, and R that is above the AAO and is retained for economic or contingency purposes. **[Excludes Excess Inventory]**
152400 Inventory – Excess, Obsolete, or Unserviceable	H Unserviceable (Condemned) P Unserviceable (Reclamation) S Unserviceable (Scrap) V Unserviceable (Waste Military Munitions) **[Includes Serviceable and Unserviceable Excess Inventory]**

4.4.2.3. Logistics Inventory Categories. Table 4-5 illustrates the relationship between the logistics inventory stratification categories and the general ledger accounts.

Table 4-5. Logistics Inventory Stratification vs General Ledger Accounts

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

4.5 Reconciliations (040405)

Activities must reconcile the inventory line item(s) in their general ledger with their detailed inventory accountability records at least quarterly. Activities may require reconciliations more frequently in order to improve accuracy of the general ledger line item(s) and to help reduce the risk of material misstatement. This reconciliation must include the multiple modules within Enterprise Resource Management systems, when they are being used (e.g. Warehouse Management module to Inventory Management module to Financial Management module). This reconciliation must be designed to identify errors between the quantities reported in the warehouse management system with the quantities reported in the financial management system. When errors are identified, they must be researched and resolved timely.

4.6 Adjustments for Physical Counts of Inventory (040406)

Activities must take physical counts of inventories at least annually (generally as of the fiscal year end), in accordance with the procedures prescribed in DLM 4000.25-2, "Military Standard Transaction Reporting and Accountability Procedures." (Note: In accordance with the

Financial Statement Audit Completion Checklist contained in Section 1003 of the U.S. GAO ***FAM Volume 2***, auditors are likely to attend and observe physical counts of inventories that have been deemed as material.) Activities must adjust the general ledger for differences between the general ledger balances and the physical count. Adjustments must be supported by appropriate documentation.

4.7 Inventory Gains and Losses (040407)

4.7.1. Disposal. Disposal of an inventory item must result in

4.7.1.1. A reduction in the associated inventory account equal to the valuation of the item; and

4.7.1.2. A loss amount equal to the historical cost of the item.

4.7.2. Incoming Shipment Gains and Losses. Invoices occasionally list fewer items than (inventory loss) or more items than (inventory gain) the actual count of inventory items received. If it is not economical to resolve the difference, record the difference as a gain/loss. In such instances, debit the incoming shipment losses to USSGL 729000; credit incoming shipment gains to USSGL 719000.

5.0 SUPPLY MANAGEMENT OPERATIONS - (Applicable to WCF Only) (0405)

5.1 Description (040501)

This section prescribes the policy and accounting requirements relating to inventory applicable to the supply management activities (i.e. Department of the Army, Department of the Navy, Department of the Air Force and the DLA) and to the DeCA for commissary resale. The policy for inventory valuation and classification is also applicable to the DLA Disposition Services, which holds items for redistribution or disposal including sales of excess materiel to the public and other federal customers. It is also applicable to the Depot Maintenance or Industrial Operations activities that hold and consume items in the production of goods for sale or in the provision of services for a fee, i.e. direct material expense.

5.2 Items to be Included in Supply Management Activities (040502)

5.2.1. General. The supply management activities manage inventory held for sale to other DoD Components or activities within a Component and, when authorized by legislation, items procured for sale to members of the Armed Forces and other individuals or organizations. The Under Secretary of Defense (Comptroller) (USD(C)) and the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L)) may designate an item to be procured by the supply management activity and may reassign the management responsibility of any item from one DoD Component to another DoD Component.

5.2.2. Subsistence Items. The supply management activities and the DeCA must plan for, procure, manage, distribute, and insure wholesomeness of subsistence products throughout the supply chain. Subsistence items must be procured to provide healthy, wholesome, nutritious food items to members of the Armed Forces and other authorized persons. Subclasses of subsistence items include inflight rations, combat rations, refrigerated subsistence and non-refrigerated subsistence.

5.2.3. Military Exchange Items. DoDI 1338.18, "Armed Forces Clothing Monetary Allowance Procedures," assigns management responsibility to the supply management activities for items procured primarily for sale to members of the Armed Forces and other individuals or organizations authorized by legislation. These items include clothing sold by a military clothing resale activity and items sold in a ship's store. They also include personal items for health, comfort, and recreation.

* 5.2.4. Military Clothing Items and Individual Equipment. The Department authorizes military exchange systems to act as agents of the supply management activity to sell military clothing items to members of the Armed Forces. The DLA must procure military clothing requirements for the DoD and bill customers at standard prices. This supply class also includes combat equipment, tentage, tool sets and kits, hand tools, and cleaning equipment and supplies. When a Military Service directs the implementation of a new or modified model of these items that makes the previous model obsolete, the Military Service must reprogram resources to DLA based on DLA's estimate of the requirement to fund procurement of the item including required safety stock levels, before DLA incurs any obligations for the item. Further, the Military Service must purchase DLA's remaining stock of the obsolete model. Alternatively, the Military Service may direct DLA to dispose of the obsolete stock and pay DLA for disposal costs. See DoDM 4140.01 and DoDI 4140.63 for related materiel management guidance.

5.2.5. Fuel. DoD Components must buy their fuel through DLA. The DLA must bill DoD customers at standard prices and other federal and nonfederal government customers at cost plus the approved DLA surcharge. In isolated locations, where DLA has authorized a DoD customer to procure fuel on the local market, payment may be made by DLA or the customer depending on local circumstances. If payment is made by the DoD customer, then DLA will reimburse the customer for the actual cost of the fuel and bill for the fuel based on standard prices. Other items in this supply class are preservatives, liquid and compressed gases, chemical products, coolants, deicing, and antifreeze components.

5.2.6. Construction Materials. The supply management activities must manage construction materials including installed equipment, fortification materials, and barrier materials. This includes such items as wood, wire, cement, barrier materials, and sandbags.

5.2.7. Medical. The supply management activities must manage medical materials supported in the medical supply chain. This materiel includes pharmaceutical, medical-surgical, dental, medical laboratory, radiological, and optometric supplies. It also includes preventive medicine items and medical equipment.

* 5.2.8. Initial Spares. Initial spares are consumable or reparable spare and repair parts that support newly fielded weapons systems during the initial period of operation until the supply system can support the demand generated by the systems. Replenishment spares are spare and repair parts resupplying initial stocks.

5.2.8.1. The Component activity that owns the weapon system is responsible for funding the initial spares. Therefore, acquisition of the initial spares and stock level increases required to support a weapon system are the responsibility of the program office. The program office must acquire initial and inventory augmentation spares based on the materiel support date. Program managers must use their appropriated funds and may use supply management activities' contracting capabilities to acquire initial spares. Therefore, acquisition of initial spares required to support a weapon system are the responsibility of the program office, i.e. the office within the Component Activity that performs this acquisition function.

5.2.8.2. The Component activity may purchase the initial spares and transfer them to the supply management activity via a title transfer without reimbursement using DoD (***DD) Form 1150***, Request For Issue/Transfer/Turn in. The Component activity must record the associated entries (budgetary and proprietary) for the purchase of the initial spares as OM&S prior to their transfer to the supply management activity. The Component activity will initiate a title transfer without reimbursement to legally transfer ownership and will remove the initial spares from its accounting records. The supply management activity will add the initial spares to its WCF accounting records. The transfer of initial spares must be fully documented and the documentation must be retained.

5.2.9. Nonmilitary Programs. The supply management activities must manage material used to support nonmilitary or civic action programs and sell these materials at standard prices. These programs are intended for agricultural and economic development.

5.3 Authorized Customers (040503)

A supply management activity is authorized to sell items to:

5.3.1. A federal government funded activity or an activity empowered to perform a federal government legislated function;

5.3.2. A DoD sponsored nonappropriated fund instrumentality;

5.3.3. A State Department sponsored employee commissary located outside the United States;

5.3.4. A foreign government when an authorized contractual relationship has been established;

5.3.5. A federal government contractor, when the contract specifically provides for the purchase of items by the contractor from the Government or when using the Replenishment Parts Purchase or Borrow Program;

5.3.6. Members of the Armed Forces and other individuals authorized by law to purchase commissary and clothing items;

5.3.7. The private sector, state or local governments when purchasing non-excess personal exchange/sale property as authorized by the Federal Property and Administrative Services Act of 1949 as amended in 40 U.S.C. Chapter 5, Section 503; and

5.3.8. Other entities, when authorized by duly appointed officials.

5.4 Issues Without Reimbursement (040504)

A supply management activity item may not be issued or transferred without a funded customer order except as specifically authorized in this paragraph. Events for which an issue is authorized without receipt of a funded customer order must be accounted for in the same manner as a normal sale with the exception that an allowance for loss on accounts receivable may be established when necessary. See Chapter 3 for additional guidance on establishing allowances for loss on accounts receivable.

5.4.1. Domestic Civil Emergency. A supply management activity item may be issued without immediate reimbursement when action is being taken to provide civil emergency relief assistance in accordance with the policies and procedures provided in DoDD 3025.18. However, an accounts receivable must be established for such amounts. Subsequently, funding should be made available to cover the costs of the relief effort, and the supply management activity be reimbursed for any outstanding accounts receivable.

5.4.2. Civil Disturbances. A supply management activity item may be issued without immediate reimbursement when action is being taken to control a civil disturbance in accordance with the policies and procedures provided in DoDD 3025.18. A receivable account must be established for such amounts. Subsequently, the supply management activities must be reimbursed for any outstanding accounts receivable based upon the procedures provided in Volume 11B, Chapter 11. Volume 16 also provides guidance on the write-off of uncollectible receivables from the public.

5.4.3. Foreign Disaster. The State Department is responsible for initiating and financing foreign disaster relief efforts pursuant to the Foreign Assistance Act of 1961. Procedures for issues of supply management activities material to assist in the event of a foreign disaster and reimbursements must be in accordance with DoDD 5100.46.

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

5.4.5. Military Emergency. A supply management activity item may be issued without immediate reimbursement when a federal official or military officer has certified that an emergency exists under emergency provisions in the current DoD Appropriations Act or 10 U.S.C. § 127. A receivable account must be established for such amounts. When funding is made available to cover the costs of the emergency, the supply management activity must be reimbursed for any outstanding accounts receivable.

5.4.6. Presidential Directed Drawdown. A supply management activity item may be issued to a foreign country without reimbursement when the President has directed a drawdown of defense articles from stocks under authority of 22 U.S.C. § 2318. The standard price of such issues must be reported to the Director, Defense Security Cooperation Agency for inclusion in subsequent foreign assistance budget requests and to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Operations Directorate, in order to determine the cash impact of such issues. The cash impact must be added to the economic adjustment cost recovery element.

5.4.7. War Reserve Assets (WRA). A supply management activity item may be issued without reimbursement when an item is designated as a WRA and the issue has been approved to satisfy requirements of a mobilization of U.S. Armed Forces.

5.4.8. Deficiencies in War Reserve Requirements. A supply management activity item may be issued without reimbursement when an item is issued to satisfy deficiencies in war reserve requirements or between activities within the supply management activity. Items issued at any level, wholesale or retail, to satisfy customer requisitions must be reimbursable from war reserve reinvestment appropriations.

5.4.9. Disposal of Excess Inventory or OM&S. Disposals will be made in accordance with DoDM 4160.21, Volume 2 which includes disposals of excess inventory through the DLA for which no reimbursement will be received.

5.4.10. Items Nearing End of Shelf Life. A supply management activity item may be issued at any price or without reimbursement when the item is not a WRA, it has six months or less of remaining shelf life, and the item manager grants approval for the item to be issued on a less than cost basis.

5.4.11. Logistical Management Transfers. Logistical management transfers (also known as logistical reassignments) result from changes in the funding appropriation for an item. If the OUSD(C) and the Office of the Under Secretary of Defense (Acquisitions, Technology and Logistics (OUSD(AT&L)) designate a logistical management transfer of an item from a GF appropriation entity to the supply management activity group, an increase to inventory for a nonreimbursable transfer must be recorded at the value of the item being transferred. Normally, an item transferred as a result of a logistical management transfer is transferred without reimbursement. However, with prior approval from the OUSD(C), transfers-in of inventory may be with reimbursement to the transferring account under these conditions:

5.4.11.1. The inventory was on order but undelivered to the transferring account at the time of the transfer;

5.4.11.2. The transferring account is not financed by the WCF; and

5.4.11.3. The inventory was ordered by the transferring account as a result of a reimbursable order from a customer of that account.

5.4.12. Logistical Management Transfers between Supply Management Activities. Procedures for transferring item management responsibility between WCF activities are outlined in Volume 11B, Chapter 2. The transfer of supply inventory is handled as:

5.4.12.1. On hand inventory. Stock on hand is transferred between supply management activities without reimbursement. Reimbursement is authorized, based on DoD credit policies, between wholesale and retail supply activities when on-hand retail inventory is transferred back to the wholesale item manager's inventory control points.

5.4.12.2. On order inventory. The gaining and losing wholesale item managers must validate the on order inventory requirements to ensure the supply pipeline is adequately filled. As the gaining activity receives pipeline deliveries, the gaining item manager is responsible for payment either directly to the vendors (delivery order modification), or to the losing activity that funded the delivery order, thus ensuring cash neutrality across the WCF.

5.5 Loans and Leases (040505)

5.5.1. Authorized Activities. Supply management activities may only lend or lease items to activities specified in this paragraph for the stated purpose. The recipient must sign a receipt for the item. This receipt must include a statement of the intended purpose of the loan or lease. The accountable office, or the comptroller (or equivalent), of the accountable activity for the item must approve each loan or lease of an item. Accountability for inventory on loan remains with the activity lending the material. Inventory on loan must be valued in the same manner as is inventory on hand. Property may be lent to:

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

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

5.5.1.3. Civilian Law Enforcement Officials. Supply management activities may lend an item to a civilian law enforcement activity for a maximum of 120 days for purposes prescribed under the policies and procedures in DoDI 3025.21.

5.5.1.4. State and Local Governments. Supply management activities may lend an item to a state or local government for a maximum of 120 days for a specific purpose, under the policies and procedures prescribed in DoDI 3025.21.

5.5.1.5. National Veterans' Organizations. Under the authority of 10 U.S.C. § 2551, supply management activities may lend an item (e.g., cots, blankets, pillows, mattresses, bed sacks, and other supplies) to a recognized national veterans' organization for a maximum of 120 days to support a national or state convention or a regional youth athletic or recreational tournament sponsored by the veterans' organization. A bond equal to the current standard price of the item must be obtained before the item is loaned.

5.5.1.6. American National Red Cross. Under the authority of 10 U.S.C. § 2552, supply management activities may lend an item to an organization formed by the American National Red Cross for a maximum of 120 days for the purpose of instruction and practice needed to aid the Army, Navy, or Air Force in time of war. A bond equal to twice the value of the property is required for the care and safekeeping of the loaned property before the item is lent.

5.5.1.7. Inaugural Committee. Under the authority of 10 U.S.C. § 2553, supply management activities may lend an item to an Inaugural Committee to support an inauguration of the President of the United States for a period not to exceed nine days beyond the inauguration ceremony. A bond equal to the current standard price of the item must be obtained before the item is lent.

5.5.1.8. Boy Scout Jamborees. Under the authority of 10 U.S.C. § 2554, supply management activities may lend cots, blankets, commissary equipment, flags, refrigerators, and other equipment to the Boy Scouts of America for the use of Scouts, and officials who attend any national or world Boy Scout Jamboree. In addition, services and expendable medical supplies, as may be necessary or useful to the extent that items are in stock and items or services are available may be furnished without reimbursement. Items may be lent for a maximum of 120 days. A bond equal to the value of the loaned items must be obtained before the items are loaned.

5.5.1.9. Shelter for the Homeless, Incidental Services. Under the authority of 10 U.S.C. § 2556, the Secretary of a Military Department may provide without reimbursement bedding for support of shelters for the homeless that are operated by entities other than the DoD, but only to the extent that the Secretary determines that the provisions of such bedding will not interfere with military requirements. In addition, incidental services and other items (such as medical supplies) may be provided without reimbursement to the extent that the provision of incidental services or other items does not interfere with military preparedness or ongoing military functions. To satisfy these requirements, a supply management activity may issue to a shelter for the homeless only items that have been declared excess to the needs of the DoD.

5.5.1.10. Humanitarian Relief. Under the authority of 10 U.S.C. § 2557, supply management activities may make nonlethal excess supplies available for transfer to the Department of State for its distribution for humanitarian relief. The term "nonlethal excess supplies" means property, other than real property, of the DoD that is excess property as defined in regulations of the DoD; and that is not a weapon, ammunition, or other equipment or material that is designed to inflict serious bodily harm or death.

5.5.1.11. Foreign Countries or International Organizations. Supply management activities may lease or loan an item to an eligible foreign country or international organization under the authority of the Arms Export Control Act. Policy and procedures for the lease of material to foreign countries and international organizations is contained in DoDD 5105.65 and in Volume 15, Chapter 7. Refer to these references for approval channels and expense requirements.

5.5.1.12. Other Leases. Under the authority of 10 U.S.C. § 2667, supply management activities may lease or loan a nonexcess supply management activity item to an organization when the Secretary of Defense or the Secretary of a Military Department has determined that the item is not needed for DoD use during the proposed lease period and the lease will promote the national defense or otherwise be in the public interest.

5.5.2. Approvals. Each loan or lease of an item must be approved by the comptroller, or equivalent, of the activity responsible for accountability over the item. The approval must include a description of the item including the price, condition, anticipated return date; and a certification that the loan of the item will not jeopardize the capability to support national defense requirements.

5.5.3. Expenses. The recipient must pay for all transportation, packing, crating, and handling costs associated with the loan or lease of the item. At the time of return of the item, the recipient must be required to pay all costs necessary to restore the item to its original condition or to pay for any item the recipient does not return within the approved period of the loan or lease.

5.6 GFM (040506)

GFM may be provided to a contractor or other government agency for consumption or repair.

5.6.1. Business Rules. When GFM is provided for consumption, the business rules prescribed by this subparagraph must be followed.

5.6.1.1. Record as an expense the value of items issued by the item manager to a contractor or to another DoD or other federal government activity for consumption or incorporation in the repair, alteration, or modification of another supply management activity item for the benefit of the supply management activity.

5.6.1.2. Record as work-in-process the value of items issued by the item manager to a contractor or to another DoD or other federal government activity for fabrication, assembly, or disassembly of another supply management activity item for the benefit of the supply management activity. The use of the work-in-process account is described at section 0407.

5.6.1.3. The return of GFM items by a contractor must be accounted for in the same manner as a customer return of material without credit (see subparagraph 040403.A).

5.6.1.4. The cost of forgings and castings used as GFM should be included as a part of the acquisition cost of the item that includes the forging and casting in its production.

5.6.2. Items Issued for Repair and Return. Issuing supply activities must account for reparables or other items of inventory issued by the direction of an item manager to either a DoD activity or a contractor for repair, alteration, or modification as USSGL 152300, "Inventory Held for Repair." Such items will continue to be valued as inventory held for repair in accordance with the valuation criteria applicable to inventory held for repair that is held by the stockage point. Upon receipt of the repaired item, it must be accounted for in USSGL 152100, "Inventory Held for Sale."

5.7 Capitalized Inventory (040507)

5.7.1. Logistics Management Reassignment Transfers In Without Reimbursement. A supply management activity may capitalize, when it undertakes management responsibility for items, supply inventories that were financed by other appropriations and funds, as permitted by 10 U.S.C. § 2208 and consistent with guidance in the DoDM 4140.26. The activity that ordered the item must pay bills for inventories on order at the time of the transfer. As provided in 10 U.S.C. § 2208, a supply management activity may not make credits to an appropriation funded activity for capitalized inventories. However, stock withdrawal authorizations may be approved as provided in subparagraph 040507.C. Note, for transfers from other WCFs, the gaining supply management activity will reimburse the losing activity for any inventories on order as the deliveries are made.

5.7.2. Transfers of Reimbursable Procurements. The supply management activity may record a liability for an item transferred from a non-WCF account only if (1) the item is undelivered at the time of the transfer, and (2) the transferring organization's obligation for the item resulted from a reimbursable order from a customer. The liability must be liquidated by a payment to the transferring appropriation or fund based upon a payment to the supply management activity by the customer.

5.7.3. Stock Withdrawal Authorizations. After transferring an item from an appropriation funded activity to a supply management activity, the transferring activity may not have sufficient funds to purchase the item when needed. The transferring activity may request, as part of the formal budget submission to the Congress, that the USD(C) approve an authorization for issues without reimbursement. The supply management activity must issue items, upon receipt of an approved stock withdrawal authorization, to the specified customer without reimbursement up to the authorized limit for a fiscal year. The authorized limit is calculated as the lesser of one quarter of the quantity transferred to the supply management activity or one year's quantity based on the average amount consumed for the previous three years. When the fiscal year has passed, the supply management activity must issue items on a reimbursable basis. The supply management activity must not record a stock withdrawal authorization as a liability.

5.7.4. Logistical Management Transfers. Logistical management transfers result from changes in the funding appropriation for an item. When an approved logistical management transfer of item(s) is implemented, an increase or a decrease to inventory for a nonreimbursable transfer must be recorded at the value of the item being transferred.

5.8 Depot Level Reparables (040508)

5.8.1. General. For material management purposes, "reparables" are items of supply subject to economical repair and for which the repaired items are considered in satisfying computed requirements at any inventory level. For financial management and accounting purposes, the Department's depot level repair program for inventory replenishment and resale is considered to be a remanufacturing process. See Volume 11B for more information on Depot Level Reparables.

* 5.8.2. Financial Reporting of Depot Level Reparables (DLR). Serviceable DLR will be reported on DoD financial statements at historical cost using the MAC flow assumption. DoD will use the allowance method when accounting for DLR. Under the allowance method, the reparable must be valued at the same value as a serviceable item. However, an allowance for repairs contra asset account must be established. The annual (or other period) credit(s) required to bring the repair allowance to the current estimated cost of repairs must be recognized as current period operating expense. As the repairs are made, the cost of repairs must be charged (debited) to the allowance for repairs accounting. Supporting documentation must be retained for audit purposes. In addition, the Component should reconcile the allowance account to the physical quantities of items held for repair on at least an annual basis.

5.8.3. Exchange Transaction. Many items held for remanufacturing are obtained as the result of an exchange transaction. An exchange transaction is the sale of a serviceable item at standard price in exchange for (1) cash and (2) an item that needs rebuilding or repair (carcass). The supply management activity may record two separate transactions to represent the complete event or may bill the customer at the exchange price, that is, the standard price less credit allowed if the requisitioning activity states a reparable will be returned. If the impaired item (carcass) has not been received at the time of the exchange, it must be recorded in USSGL 152300 "Inventory Held for Repair (Remanufacture Due In)."

5.8.4. Business Rules. Remanufacturing costs must be capitalized according to the business rules prescribed by this subparagraph:

5.8.4.1. Remanufacture of items currently available from new procurement. Capitalize all costs except costs that exceed the current replacement cost and abnormal costs such as excessive rework or costs of an unusual nature that occur infrequently. Abnormal costs should be expensed as period costs without regard to current replacement cost.

5.8.4.2. Remanufacture of items not available from new procurement. Capitalize all costs except abnormal costs such as excessive rework or costs of an unusual nature that occur infrequently. Abnormal costs should be expensed as period costs without regard to current replacement cost.

5.8.5. Time Limit for Receipt of Exchange Item. If a reparable is not received from a continental United States (CONUS) customer within 90 days of the exchange sale or 120 days for a customer outside the continental United States (OCONUS), the supply management activity must reverse the credit previously allowed and bill the customer for that amount. Additionally, at the discretion of the seller, the customer may be billed for costs that would not have been otherwise incurred except for non-receipt of the item.

5.8.5.1. Carcass Received Before an Exchange Sale. Occasionally, a carcass may be received before an exchange sale when a like issue item is not available at the time the requisition is received. When this occurs, the supply management activity must record the carcass into inventory and establish a liability. When a serviceable item becomes available for issue, the liability must be reversed and the exchange sale will proceed normally.

5.8.5.2. Carcass Sent to Contractor or to Repair Facility for Repair/Remanufacture. Supply management activities may place orders and obligate funds for repair/remanufacture work placed with contractor or at a government repair facility. While being repaired/remanufactured, the carcass will remain in the inventory of Supply Management activity. Activities may continue to account for carcasses as "Inventory Held for Repair (Remanufacturing)."

5.9 Return of Items to the Supply Management Activity (040509)

5.9.1. Customers Who May Return Items. A customer within the federal government, including DoD contractors, may return an item to a supply management activity. Additionally, the Arms Export Control Act allows the return of defense articles from a foreign country or international organization under specified conditions. See 22 U.S.C. § 2761(m) for these conditions. In addition, 10 U.S.C. § 2208(g) states that the appraised value of supplies returned to working capital funds by a department, activity, or agency may be charged to that fund. The proceeds thereof shall be credited to current applicable appropriations and are available for expenditure for the same purposes that those appropriations are so available. Credits may not be made to appropriations under this subsection as a result of capitalization of inventories.

5.9.2. Customers Who May Not Return Items. A customer outside of the federal government that does not meet the conditions specified in subparagraph 040509.A may not return an item to a DoD supply management activity.

5.9.3. Credit Options. An item manager may grant credit for a returned item after receipt, inspection, and classification of the item. A return that stratifies to a war reserve requirement does not qualify for credit.

5.9.3.1. Return of a Fully Serviceable Consumable or Reparable Item When Not Part of an Exchange Transaction. If approved by an item manager, a credit may be granted to federal government customers and to nonfederal government customers who meet the requirements specified in subparagraph 040509.A. The amount of the credit for the return of an item that is within the AAO must not exceed the current standard price of the returned item less the current fiscal year's approved cost recovery elements.

5.9.3.2. Return of a Carcass When Not Part of an Exchange Transaction. An item manager may approve credit for the return of a carcass from a federal government funded customer or a nonfederal government customer who meets the requirements specified in subparagraph 040509.A without an exchange when the returned item is within the AAO. The credit may be in the amount of the value of the reparable to the supply management activity but not more than the current exchange price.

5.9.3.3. Billing. The supply management activity must bill the customer for the credit previously allowed if it granted credit before taking ownership or receipt of the returned item and the item is not received within 90 days from a CONUS customer or 120 days for an OCONUS customer. The customer also may be billed, at the discretion of the stockage point, for costs incurred due to non-receipt of the item.

5.9.3.4. Return of Defective Items. The supply management activity may grant a credit to a customer at standard price for defective items issued by a supply management activity, including specification defects, when a customer's quality deficiency report has been validated.

5.9.3.5. Credits Applied Toward Future Requirements. Credits granted may be applied against future customer demands in the current fiscal year for items or directly credited to the current year available funds of the customer.

5.9.3.6. Shipping Costs. Shipping costs include packing, crating, handling, transportation, port loading, and unloading. The supply management activity must fund transportation and other shipping costs only for items approved by an item manager for return from customers. Shipping and transportation cost for items that have not been approved by an item manager for return from customers must not be paid by the supply management activity.

*5.10 Excess Items Disposition (040510)

5.10.1. Identification and Transfer of EOU. Once the DoD Components have identified inventory as EOU and adjusted the EOU to its NRV, if they are using DLA Disposition Services to execute the disposition of the EOU, they should expeditiously transfer the EOU inventory to DLA Disposition Services using a ***DD Form 1348-1A*** (or its successor form as applicable). As described in subparagraph 040403.B, with the exception of EOU disposals by DLA Disposition Services that fall under the QRP, Components will generally have adjusted the value of this EOU to zero. The transfer to DLA Disposition Services may be a physical transfer or a “transfer receipt in place” if the EOU inventory is too large or bulky to physically transfer. When a "transfer receipt in place" occurs, the Component should physically segregate and mark the item as having been transferred in place and the inventory records should also be adjusted accordingly.

5.10.2. DLA Receipt of EOU. In accordance with DLM 4000.25, Volume 2, Chapter 16, paragraph C16.7.1.1, the DLA Disposition Services Field Office will send a Turn in Receipt Acknowledgement to the Component. This action provides confirmation to the Component that DLA Disposition Services processed the receipt transaction to record DLA Disposition Services materiel accountability and ownership for the material turned in.

5.10.3. DLA Recording of EOU. After DLA Disposition Services receives the DD Form 1348-1A, they will record an estimated NRV in their accounting system for each item of EOU inventory transferred. On a periodic basis (at least annually for the fiscal year end), DLA

Disposition Services will recalculate the NRV factor and will adjust its EOU inventory by the new recalculated factor for accounting and financial statement reporting purposes.

5.10.4. Processing EOU Classified as Explosives. DLA Disposition Services does not hold, process or dispose of EOU that are explosives, which includes ammunitions, classified items, and hazardous waste. Components possessing EOU that are explosives must arrange for their disposal through the Joint Munitions Command (JMC) of the Department of the Army unless the disposal is part of a QRP. In the case of a QRP, the Component may elect to use a third party for the disposal. In the same manner as for non-explosives EOU, the Components and JMC must adjust the EOU explosives to their NRV based on prior disposal proceeds for comparable EOU, buyer quotes or other reasonable means.

5.10.5. Issues of Excess Items to Reutilization and Marketing. An Integrated Materiel Manager (IMM) may authorize transfer without reimbursement of excess supply management activity items to DLA Disposition Services. The DLA Disposition Services must issue an item without reimbursement to a supply management activity when the item is required to satisfy a supply management activity requirement.

5.10.6. Transfer of Inventory Item. Losses for inventory items are taken at the time an item is determined to be EOU beyond repair. Both the inventory item and its related allowance are removed from the accounting records of the supply management activity.

5.10.7. Issues of Excess Items to Other DoD Activities. When the IMM directs and controls the lateral redistribution of an item excess to the immediate needs of a retail activity, supply management activities will record the event without direct reimbursement to the issuing (sending) activity from the receiving activity. Further, the IMM must bill the receiving activity for the standard price of the material and reimburse the issuing activity for the standard price of the item and its standard packing, crating, handling, and transportation costs.

5.10.8. Transfers of Excess Property from DLA Disposition Services. When an IMM or Primary Inventory Control Activity (PICA) determines that needed material is available within the disposal system, the DLA Disposition Services must provide the material to the requiring IMM/PICA without reimbursement. The supply management activity must reimburse the DLA Disposition Services, however, for costs incurred for packing, crating, handling (PCH), and transportation, if applicable or when conditions warrant. Reimbursement for PCH will be at the rate of 3.5 percent of the acquisition price of consumable material and 1 percent of the acquisition price of reparable material. Reimbursement to the DLA Disposition Services for transportation of consumable or reparable items will be at the cost recovery rate in effect for transportation by the shipping the DLA Disposition Services location. Activities must account for transfers of material from the DLA Disposition Services. Refer to the DoD Standard Chart of Accounts and DoD USSGL Transaction Library for detailed account descriptions and posting guidance for each of the general ledger accounts referenced.

5.10.9. Accounting for Customer Returns. Customer returns may have a significant impact on current period revenue and inventory for the supply management activities. Customers may or may not receive credit for returned items. Return of an item, whether issuable or not issuable, reverses the sale's effect on the Cost of Goods Sold because the sale with return brings the supply management activity back to the original level of inventory. Regardless of whether the customer does or does not receive credit, activities will record receipt of a returned item.

6.0 WRM - (Applicable to WCF Only) (0406)

6.1 Description (040601)

WRM is mission essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of Defense guidance and Joint Staff scenarios for committed forces. The WRM inventories must include peacetime operating stocks, training stocks, stocks available through industrial base partnerships, and WRM. (See DoDI 3110.06.) Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. National Defense Stockpile materials, discussed in Section 0408, are accounted for within the National Defense Stockpile Transaction Fund.

6.2 Funding for WRM (040602)

The WRM must be funded from appropriations made directly to the WCF. Such appropriated amounts must be reflected as a separate goal within the applicable supply management or Commissary Resale activity's annual operating budget letter. Items such as ammunition and/or principal and major end items procured for war reserve must not be funded through a WCF, but must be funded through amounts available to Component/Defense Agency procurement appropriations.

6.3 Accounting for WRM (040603)

Purchases of WCF war reserve items must be accounted for at the same level of detail as items procured for peacetime requirements. The value of war reserve items must be recorded in the standard inventory accounts.

6.4 Acquisition of WRM (040604)

The WRM is indistinguishable from corresponding inventory items. The WRM and inventory are, or can be, purchased at the same time, purchased from the same vendor, received at the same time and in the same shipping container, and stored together in the same warehouse/bin. As a result, the accounting for the acquisition of WRM and inventory, at the time of acquisition, is the same.

6.5 Disposition of WRM (040605)

The WRM is held in reserve to be available for transfer without reimbursement when the issuance of a WRA has been approved to satisfy requirements of a mobilization of U.S. Armed Forces. However, if authorized, war reserve and other stockpile materials may be sold.

7.0 WORK-IN-PROCESS - (Applicable to WCF Only) (0407)

*7.1 General (040701)

The WCF manufacturing activities, primarily those involved in depot maintenance or other industrial-type operations, who routinely perform tasks that take more than a month, must record operating costs within a work-in-process account. When the WCF manufacturing activity issues a progress invoice to the DoD purchasing component it will relieve its work-in-process for the amount invoiced. A work-in-process account must also be used by the DoD purchasing component to record any incremental amount billed to it by the DoD manufacturing activity for manufactured inventory. Additional information relating to revenue recognition, progress billings to customers, and disputed bills may be found at Chapter 16.

7.2 Accounting for Work-In-Process (040702)

7.2.1. This section describes the applicable USSGL accounts for recording transactions that map to the Inventory – Work-in-process account. Detailed posting transactions are outlined in the DoD USSGL Transaction Library. The USSGL accounts for work-in-process are described in this subparagraph.

7.2.1.1. Inventory–Raw Materials (Account 152500). All supplies and material purchased by a WCF activity for the purpose of providing goods or services to a customer must be accounted for in this account. Supplies and materials issued to a specific job must be recorded as a direct cost. Supplies and materials issued for the general use of a cost center (production indirect) or for G&A of an activity must be recorded as an indirect cost.

7.2.1.2. Inventory–Work-In-Process (Account 152600). This account is used to capture all costs relating to products that are in the process of being manufactured, remanufactured, repaired, or fabricated but are not yet complete. Periodically, but not less than monthly, adjust the allocated indirect expense amount to the actual indirect expense amount to record the assignment (allocation) of indirect expenses to work-in-process. The application of indirect expenses to inventory – work-in-process may be based on a formula that, over time, provides a reasonably close approximation of actual indirect expenses. Periodically, but not less than annually, adjust the allocated indirect expense amount to the actual indirect expense amount and adjust the applied overhead account. Adjustments of over and under applied overhead must be accomplished prior to the final billing on a completed customer order. Variances between actual indirect expenses and applied indirect expenses are accounted for as cost of goods sold.

7.2.1.3. Inventory–Finished Goods (Account 152700). This account is used to record the liquidation of inventory work-in-process when related work is completed and will be accepted for delivery to a customer in response to its order.

7.2.1.4. Applied Overhead (Account 660000). This account is used to record the amount of overhead cost distributed to work-in-process, construction in process or OM&S in development.

7.2.1.5. Cost Capitalization Offset (Account 661000). This account is used to record the amount of any costs originally recorded into another expense account that are directly linked to a specific job or product. These costs are transferred to an "in progress" asset account such as inventory work-in-progress, O&MS in Development, internal use software in development, and/or a completed asset account.

7.2.2. Work-in-process general ledger accounts may be used by any DoD Component or activity within those Components.

7.2.2.1. When a WCF activity incurs costs to produce a customer order, the related costs, regardless of the source of funding, should be accumulated by the use of a job order. Related costs attributed to an order may include:

7.2.2.1.1. Costs of additions, alterations, improvements, rehabilitations, and replacements of DoD fixed assets exclusive of construction in progress. Accounting guidance on construction in progress can be found in Chapter 6;

7.2.2.1.2. Costs of maintaining DoD equipment and inventory;

7.2.2.1.3. Costs of manufacturing or fabricating an end item or product; and

7.2.2.1.4. Costs of producing an output.

7.2.2.2. Actual cost of direct labor, direct materials, indirect labor, indirect materials and G&A expenses used in the production and completion of a job order/customer order must be recorded in inventory work-in-process.

* 7.2.2.3. Progress billings to a DoD purchasing component for manufacture of inventory must be recorded as inventory work-in-process by the DoD purchasing component. These costs occur when a DoD purchasing component uses an organic (i.e. DoD component manufacturer) or a private sector manufacturer (i.e. a manufacturer outside of DoD) to acquire inventory where progress billings reflect the incremental costs incurred being billed by the manufacturer. If a DoD component is the manufacturer, it will record an accounts receivable and reimbursable revenue for the amount of the progress billing.

7.2.3. Relief of Work-in-Process

* 7.2.3.1. Cost Transfer. Direct costs, indirect costs and G&A expenses recorded in inventory work-in-process accounts must be transferred upon completion or termination of the customer order to:

7.2.3.1.1. An Inventory-Finished Goods account and will then be expensed as cost of goods sold upon delivery to the customer. Costs incurred in excess of funding provided by the customer order must be recognized as a loss in proportion to the total estimated cost as costs are incurred to fulfill the order, such that the loss is recognized in proportion to total cost over the life of the order;

7.2.3.1.2. An applicable asset account, if the completed work is to be retained by the producing activity;

7.2.3.1.3. An expense account, if the completed work retained for use by the producing activity does not meet the DoD capitalization criteria; or,

7.2.3.1.4. Operating expenses/program costs upon termination of a customer order prior to completion.

* 7.2.3.2. Order Completion. Completion of a customer order occurs when all work requested on a customer order has been completed. Upon completion of a customer order, no costs associated with that customer order must remain in the work-in-process account.

* 7.2.3.3. Recognizing Losses. The costs incurred on a customer order may be more or less than the revenue earned depending upon whether costs incurred exceed or are less than the funded amount on the customer order. Therefore, a gain or loss may occur on the work performed on a customer order. Probable (more likely than not) losses should be recognized in proportion to estimated total cost when goods and services are acquired to fulfill the contract. Thus, the loss should be recognized in proportion to total cost over the life of the contract/customer order.

7.2.3.4. Disposition of Completed Products. Completed products in response to a customer order may not be retained as assets (i.e., finished goods) of WCF activities. Upon completion, goods and services resulting from customer orders must be billed promptly to customers. Billing must not be delayed or deferred pending customer acceptance of finished work. Parts and supplies manufactured for internal WCF use must be transferred, upon completion, to the OM&S account.

* 7.2.3.5. Progress Billed Manufacture. Costs that have been accumulated in inventory work-in-process because of progress or incremental billing to a supply management activity must be transferred to Inventory Held for Sale upon completion and receipt of the manufactured end items.

7.2.4. Review of Work-In-Process. Periodically, but at least annually, WCF activities must review work-in-process account balances so that appropriate actions may be taken, if necessary, to reduce significant balances in the work-in-process account. The review should focus on completed customer orders where costs incurred exceed the funding provided on the existing customer order and these costs have not been recognized as a loss. In these cases, the activity should transfer the amount of costs incurred that exceeds the funding provided on the customer order from the work-in-process account to a loss account in the period in which the costs were incurred. In addition, the review should evaluate the compliance with the accounts receivable policy and percentage of completion method for revenue recognition policy in Chapter 3 and Chapter 16.

*7.3 Inventory Work-In-Process Accounts (040703)

Due to reporting requirements, many WCF activities are required to capture costs at a more detailed level than the USSGL or DoD Standard Chart of Accounts. The inventory work-in-process should identify the performing activity and the portion of government property furnished to contractors and subcontractors for the performance of DoD contracts for other than real property. Activities may want to create subaccounts within their inventory or general ledger systems to track work-in-process at the detail level; however, the internal subaccounts must aggregate to one USSGL/DoD account. The inventory work-in-process subaccounts suggested for use by the WCF are described in this paragraph:

7.3.1. Inventory Work-In-Process (In-House). Inventory work-in-process (in-house) is used to record the cost of work-in-process performed by DoD personnel. A subsidiary account must be maintained to accumulate the costs of each job/customer order and facilitate the transfer of costs to the applicable asset or expense account. Sources of entries to this account include billings under contracts for material, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed work-in-process; and documented losses.

7.3.2. Inventory Work-In-Process (Contractor). Inventory work-in-process (contractor) is used to record the cost of work performed by a contractor. If the work is accepted and will be incorporated into in-house work, it should be recorded to work-in-process. It should be recorded to inventory available for sale upon acceptance if it will not be incorporated into in-house work.

7.3.3. Inventory Work-In-Process (Other Government Activities). Inventory work-in-process (other government activities) is used to record the cost of work-in-process performed by other federal government agencies. A subsidiary account must be maintained for each contract to track the value of work performed as represented by progress payments. Sources for entries to this account include interagency agreements, invoices, payment vouchers, and property acceptance documents.

7.3.4. Inventory Work-In-Process (GFM)

7.3.4.1. Inventory work-in-process (GFM) is used to record the value of that portion of government property furnished to contractors and subcontractors (including other federal agencies) for the performance of DoD contracts.

7.3.4.2. Details of government furnished material must be maintained for each contract where the contractor is provided material by DoD. This can be accomplished either using separate Accountable Property System of Record entries or using USSGL subsidiary accounts. For example, a subsidiary account could be maintained for each contractor that is furnished government material for use in performance of a contract(s) and that is to be returned upon completion of the contract. The subsidiary accounts should be subdivided by contract. In addition, any increases to this account must be supported by documentation evidencing issuances of government material to contractors, whether from inventory or from another contractor in accordance with DoDIs. Decreases to this account only occur when the end item is accepted by the DoD and received into inventory, or the material is returned to inventory or otherwise disposed of at DoD's direction.

7.3.4.3. Periodically, but at least annually, this account must be reconciled with the property accountability records maintained by the contractor. This reconciliation involves coordination with the assigned property administrator for the contract. Property administrators must be provided financial data on the value of GFM for use in completing contract close out or termination. On contract completion or termination, the account must be adjusted to reflect the disposition of unused GFM provided to the contractor.

7.3.4.4. Sources for entries to this account include shipping and issue documents, property acceptance documents and property administrator reports, material-return documents, collection and deposit documents, settlement agreements, and documented losses.

8.0 STOCKPILE MATERIALS - (Applicable to Revolving Fund Only) (0408)

8.1 Description (040801)

The National Defense Stockpile operates under the authority of the Strategic and Critical Stock Piling Act (50 U.S.C. Subchapter III). The Stockpiling Act provides that strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence upon foreign sources of supply in times of a national emergency. The National Defense Authorization Acts provide authority to buy and sell specific materials, set quantity and revenue levels for selling material, and mandate programs to receive the revenue from the sales and collections. There is currently no authorization to buy (acquire) any material if over 99 percent of the inventory is authorized for sale. Only accounting requirements and procedures for stockpile material transactions particular to the National Defense Stockpile Transaction Fund (NDSTF) are included in this section.

8.1.1. Operations. The Defense National Stockpile Center (DNSC) administers the acquisition, storage, management, and disposal of inventory currently maintained in the National Defense Stockpile. The NDSTF is a continuing fund that finances the operations of the National Defense Stockpile and DNSC. The NDSTF receives resources from diverse sources including direct appropriations, transfers from other appropriations, transfers of physical assets, and disposal proceeds, and thus is not strictly a revolving fund. The NDSTF's Department of the Treasury Federal account symbol is 97X4555.

8.1.2. Responsibilities. The DNSC will initiate all transactions obligating funds and accounting for inventory of the NDSTF. The Defense Finance and Accounting Service (DFAS) will establish accounting requirements and procedures, perform financial and general ledger accounting, and prepare external accounting reports for the NDSTF. The DFAS will also provide accounting reports and additional supporting supplemental financial information to the DNSC for preparation of the DoD, "Strategic and Critical Materials Report to the President and Congress."

8.2 Recognition of Stockpile Materials (040802)

The consumption method of accounting must be applied for stockpile materials. The materials must be recognized as assets and reported when produced or purchased. The cost of stockpile materials must be removed from stockpile materials and reported as an operating expense when issued for use or sale.

8.3 Valuation of Stockpile Materials (040803)

Stockpile materials must be valued based on historical cost. Historical cost must include all appropriate purchase, transportation, and production costs incurred to bring the items to their current condition and location. Abnormal costs must be charged to operations of the period. The DoD standard of using the MAC flow assumption must be applied in arriving at the historical cost of stockpile materials. The financial inventory balance of the National Defense Stockpile is maintained on a historical cost basis as supported by "laid-in cost." In accounting terms, laid-in cost is used by wholesalers or suppliers and includes additional costs incurred to place the goods in inventory (e.g., a manufacturer's invoice price and freight).

8.4 Accounting for Stockpile Materials (040804)

Because of some unique transactions used in accounting for National Defense Stockpile material (e.g., acquisitions and sales), additional breakout of information is required below the USSGL account level. When information is required for separate identification and inclusion in financial statements, combining with other accounts in the several financial statements, or preparation of notes to the financial statements, financial systems should allow for the information to be segregated in a form that would permit user analysis. The unique use of select general ledger accounts of the NDSTF is included in the discussion of each particular accounting area. Detailed posting transactions are outlined in the DoD USSGL Transaction Library. Also, see Chapter 16.

8.4.1. Stockpile Materials Held In Reserve (Account 157100). Stockpile Materials Held In Reserve are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business.

8.4.2. Stockpile Materials Held For Sale (Account 157200). This account is the account used to maintain the stockpile materials that have been authorized for sale. The materials authorized for sale must be valued using the same basis used before they were authorized for sale. Any gain (or loss) upon sale must be recognized as a gain (or loss) at that time.

8.4.3. The two USSGL inventory accounts described in subparagraphs 040804.A and 040804.B are classified in several lower level subdivisions of this account, which are used for the National Defense Stockpile inventory as shown at Table 4-6.

Table 4-6. National Defense Stockpile Inventory

A.	157100	Stockpile Materials Held In Reserve – Goal Material (Strategic and Critical Materials)
B.	157100	Stockpile Materials Held In Reserve – Inventory Custodial Transfer or Pending Survey
C.	157100	Stockpile Materials Held In Reserve – Inventory In Process Government Facility
D.	157100	Stockpile Materials Held In Reserve – Inventory In Process Contractor Facility
E.	157200	Stockpile Materials Held For Sale

8.5 Reconciling Inventory Records (040805)

The inventory accounting system maintained by the DNSC supports the value of inventory as shown in these accounts. The DNSC and DFAS are jointly responsible for reconciling the inventory records.

8.5.1. Material Acquisition. All acquisitions of material for the National Defense Stockpile are proposed in the Annual Materials Plan, which is subject to approval by Congress and the subsequent authorization of funding. Funding authorization may be in the form of new appropriations, an authorization to spend from the available balance of the Transaction Fund, or from sales proceeds from authorized disposals. Material purchase contracts are recorded as obligations against the current year acquisition program on the date of the contract. When material is received, it is recorded in the inventory accounting system and the general ledger inventory account, accounts payable, and a decrease in undelivered orders. Any other cost, such as initial testing, increases the cost of the material for inventory valuation. The inventory accounting system must be reconciled to the general ledger inventory account each month. In addition, a physical inventory should be conducted at least annually.

8.5.2. Material Upgrade. Also included in the Annual Material Plan is the program for upgrading existing National Defense Stockpile material. This work is accomplished by contracts for the value of the upgrading services. These amounts are obligated against the current year program. When material is delivered to the contractor for upgrading it is transferred on the records from the stockpile inventory to material in the hands of a contractor. When upgraded material is returned, a new unit cost is determined by adding the upgrading costs to the original inventory value. The amount of the upgrading cost and original cost of the material are transferred to the on hand stockpile inventory account from the material in the hands of a contractor account.

8.5.3. Exchange Transactions. Materials can be disposed of by offering like material as payment in kind or other material in exchange as settlement of amounts due for material upgraded or acquired. These are accounted for as exchange disposals and the original cost of the material is removed from inventory and recorded as cost of exchange disposals. Exchange settlements liquidate an obligation for material upgrade and acquisition, as would payment in cash, and is accounted for through the budgetary accounts to effect the liquidation of the original contractual obligation in the accounting records.

8.5.4. Material Disposals. Various materials in the National Defense Stockpile may become obsolete or excess to current defense stockpiling needs. The National Defense Stockpile Act authorizes the disposal of such material. These materials can be disposed of when included in the Annual Material Plan and authorized in the budget program for the NDSTF. Disposal sales of marketable commodities are offered on a bid auction or negotiated sales basis. Material disposals are accounted for as sales and the original cost of the material is removed from inventory and recorded as cost of sales.

8.5.5. Billing and Collection. All sales and disposals are billed shortly after the sales agreement is made or as of the scheduled time for delivery or pickup of the material. Bid deposits received are held as advances until returned or recorded to sales proceeds upon delivery of material to successful buyers. The purchaser of the material is allowed a specified number of days in which to pick up the material, after which time storage charges are assessed. Any such storage charges are additional billings to the purchaser. When material is disposed of by exchange settlements, credits earned for material received and accepted by DNSC are used as payment for material shipped. Additional billings for delayed pickup of material are also applicable to the exchange settlement disposals. Collections are received by the DNSC via electronic fund transfer or paper check (deposited to a local banking facility). Upon receipt of the funds, a ***DD Form 1131***, Cash Collection Voucher and confirmed deposit are sent to the DFAS Accounting and Finance Office for recording in the accounting records and financial reporting.

8.5.6. Inventory Adjustments. Inventory adjustments are made whenever there is evidence that an adjustment is required. Such instances include periodic count or measurement of material, movement of material, and complete disposal of material from a storage location. All adjustments are documented and approved before recording in the inventory accounting system and general ledger inventory account. Depending on the nature and size of the adjustment, approval is granted by the Administrator of the DNSC, delegated inventory officials, or board of survey.

8.6 Research Grants (040806)

The NDSTF receives appropriations for the award of grants to universities, colleges, and research institutions. The designated recipient of the grant is included in the appropriation act or requisite legislation. The Administrator, DNSC, is the grant administering official. See Volume 12, Chapter 5 for additional guidance on accounting for grant funds.

*Annex A1. Cost Benefit Template Example
(Applicable to both General Fund and Working Capital Fund)

Costs	Source/ Support	$	Additional Benefits Beyond Current Process/System	Source/ Support	$
System/Technology Costs • Locations/instances that need to be purchased and installed • Interfaces that need to be built • Near term sunset of current systems and implementation of new systems • Additional bandwidth or connectivity requirements • Additional hardware requirements			**Management** • More comprehensive enterprise view of location, status of OM&S • Reduction in effort for OM&S returning to supply chain • Purchasing decisions • Better financial stewardship and oversight of OM&S balances		
Human Capital Costs • Additional training required at field locations • Additional FTEs / Contractors			**Users of the Financial Statements** • Fuller picture of true OM&S and asset balances		
Process Costs • Contract modifications (for GFM) • Process reengineering, including internal controls and financial reporting			**Process Benefits** • Improved business processes and internal controls		
Total			**Total**		

*Annex A2. Alternative Valuation Methodologies for Establishing Opening Balances

This annex is applicable for inventory, operating materials and supplies (OM&S), and stockpile materials of both the General Fund, Working Capital Fund, and Revolving Fund.

1.0 Alternative Valuation Methodologies for Opening Balances (A20101)

This policy guidance sets out how Components should establish opening balances for inventory, OM&S, and stockpile materials using the methodology described in the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) 48 "Opening Balances for Inventory, Operating Material & Supplies, and Stockpile Materials." and Technical Release 18 "Implementation Guidance for Establishing Opening Balances". All Components must establish their opening balances for inventory, OM&S, and stockpile materials in alignment with established Financial Improvement and Audit Readiness milestones. The valuation methodologies outlined in this policy must be used only to establish and document opening balances. After establishing opening balances, the Components must account for and comply with the recognition, measurement, presentation, and disclosure requirements identified in this chapter and FASAB pronouncements, including SFFAS 3, "Accounting for Inventory and Related Property."

2.0 Valuation of Opening Balances (A20102)

2.1 When a Component cannot apply the initial amount measurement approach (historical cost) outlined in SFFAS 3, it is acceptable to use deemed cost as a substitute for initial amounts (historical cost) to establish the opening balances for inventory, OM&S, and stockpile materials. Deemed cost may be based on any one or a combination of the following allowable valuation methods:

2.1.1. Standard (Selling) Price or Fair Value

2.1.2. Latest Acquisition Cost

2.1.3. Replacement Cost

2.1.4. Estimated Historical Cost (initial amounts)

2.1.5. Actual Historical Cost (initial amounts)

2.2 All methods used by a Component must be identified and reported in its financial statement notes. In addition, Components must retain documentation to support deemed cost values (e.g., invoices or contracts to demonstrate latest acquisition cost; catalog price to determine fair value; basis of estimates). Further, Components should select the most cost effective method(s) to apply in arriving at a supportable balance based on deemed cost.

2.3 Any gains or losses in inventory, OM&S, and stockpile materials allowance accounts must be adjusted to zero when establishing an opening balance using deemed cost. Once established, opening balances are to be considered consistent with SFFAS 3 requirements. Opening balances should be included in ongoing inventory balances and valuation calculations (e.g., the opening balance would be one component of a Moving Average Cost (MAC) calculation, along with any newly purchased inventory). No distinction of amounts arising from the opening balances is required.

2.4 Deemed cost can only be used once by a Component to establish a beginning balance. The alternative valuation methods permitted in this guidance may not be applied to transactions or events that increase the value or quantity of inventory, OM&S, and stockpile materials after opening balances are established. Components must be prepared to comply with the recognition, measurement, presentation, and disclosure requirements of SFFAS 3 and this chapter (e.g., MAC, Specific Identification) going forward.

2.5 Where deemed cost is used to value the opening balance for inventory, OM&S, or stockpile materials, the existing values in the DoD Component accounting systems will need to be adjusted by eliminating the gross inventory, OM&S, or stockpile materials value and any related allowance account value and recording the deemed cost value. The difference between the gross value, any related allowance account value and deemed cost will be recorded to prior period adjustments due to changes in accounting principles in accordance with the reporting requirements under paragraph 13 of FASAB SFFAS 21, “Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources.” Any adjustments must be properly documented and supported to assist ongoing audit efforts.

2.6. DoD Components who apply the deemed cost methodology to adjust their opening balances for inventory, OM&S, or stockpile materials, must disclose in their financial statements that a deemed cost methodology was applied in establishing their opening balances and describe the method used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. An unreserved assertion is an unconditional statement. No disclosure of the distinction or breakout of the amount of deemed cost of inventory, OM&S, or stockpile materials included in the opening balances is required.

3.0 Relevant Guidance (A20103)

3.1 SFFAS 3, “Accounting for Inventory and Related Property”;

3.2 SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources";

3.3 SFFAS 48, “Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials”;

3.4 Statements of Federal Financial Accounting Concepts 7, “Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording”; and

3.5 Technical Release 18 "Implementation Guidance for Establishing Opening Balances".

4.0 Definitions (A20104)

4.1 Deemed Cost. Deemed cost is an amount used as a substitute for initial amounts that otherwise would be required by SFFAS 3 to establish opening balances.

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

4.3. Opening Balances. Opening balances are account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

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

4.5. Specific Identification. Specific identification is an inventory costing methodology that directly links specifically identifiable items (e.g., serially managed items) with their associated costs.

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

4.7 Additional Definitions. See section 0402 for additional definitions.

VOLUME 4, CHAPTER 5: "ADVANCES AND PREPAYMENTS"

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	Completed administrative updates in accordance with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.0	Added general clarifying language on advances and prepayments and reference to 31 United States Code Section 3324, "Advances."	Addition
1.3.1, 3.3.2 (previous version)	Removed reference regarding 10 United States Code Section 2307, "Contract financing," as this law was repealed.	Deletion
2.0	Updated definitions related to advances and prepayments.	Revision
3.0	Updated accounting policy to include Standard Financial Information Structure reference and DoD Component responsibilities. Added clarifying language on the accounting for advances and prepayments.	Revision/ Addition

Table of Contents

CHAPTER 5

ADVANCES AND PREPAYMENTS

*1.0 GENERAL

1.1 Overview

1.1.1. Advances and prepayments are reported in the Department of Defense (DoD) financial statements as assets and liabilities such as accounts receivable and accounts payable. The Office of Management and Budget ***(OMB) Circular A-11***, "Preparation, Submission, and Execution of the Budget" categorizes intragovernmental assets as claims of a federal agency against other federal agencies which, when collected, can be used in the agency's operations. Transactions with non-federal entities create governmental assets and liabilities. DoD Components must separate intragovernmental and governmental assets and liabilities.

1.1.2. DoD prepays to cover certain period expenses before those expenses are incurred. Federal agencies' advances and prepayments are accounted for and reported separately as intragovernmental transactions.

1.1.3. Support advances and prepayments with documentation that clearly shows the basis for the amounts recorded and the applicable terms. The supporting audit trail must include sufficient information to show the period the advances were made, the budget authority for the advances, the period the advances were liquidated, and the related approving authorities. Make the audit trail documentation readily available for management and auditors to review. Refer to Volume 6A, Chapter 2 for audit trail guidance.

1.1.4. Per Title 31, United States Code, section 3324 (***31 U.S.C. § 3324***) Advances may be made only if it is authorized by (1) a specific appropriation or other law; or (2) the President.

1.2 Purpose

This chapter prescribes DoD accounting policy for advances and prepayments made to employees, other federal agencies, non-federal entities, and foreign governments.

1.3 Authoritative Guidance

The accounting policy and related requirements in accordance with the applicable provisions of:

1.3.1. ***10 U.S.C. § 2396***, "Advances for payments for compliance with foreign laws, rent in foreign countries, tuition, public utility services, and pay and supplies of armed forces of friendly foreign countries;"

1.3.2. ***31 U.S.C. § 6101***, "Definitions" (Includes definitions for domestic assistance programs;)

1.3.3. ***31 U.S.C. § 6302***, "Definitions" (Using Procurement Contracts and Grant and Cooperative Agreements);

1.3.4. ***31 U.S.C. § 6303***, "Using Procurement Contracts;"

1.3.5. ***31 U.S.C. § 6304***, "Using Grant Agreements;"

1.3.6. ***31 U.S.C. § 6305***, "Using Cooperative Agreements;"

1.3.7. ***Federal Acquisition Regulation (FAR) Part 32***, "Contract Financing;"

1.3.8. Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities;" and

1.3.9. ***Grants.gov***, The Grants.gov program management office was established in 2002 as a part of the President's Management Agenda. Managed by the Department of Health and Human Services, Grants.gov is an E-Government initiative operating under OMB.

*2.0 DEFINITIONS

2.1 Advances

According to SFFAS 1, advances are federal entity cash outlays made to employees, contractors, grantees, or others for the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. OMB Circular A-11 defines advances as federal agency cash outlays to cover the recipients' anticipated expenses or for the costs of goods and services the agency is to receive. Examples include travel advances disbursed to employees prior to business trips, and cash or other governmental assets disbursed under a contract, grant, or cooperative agreement before the contractor or grantee provides the services or goods. Percentage of completion progress contract payments are not advances. A DoD Component advances only to payees under a mutually binding legal relationship for not more than the amount obligated.

2.2 Contract

FAR Subchapter A, subpart 2.1 defines a contract as a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the Government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task letters issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by ***31 U.S.C.6301***, et seq.

2.3 Cooperative Agreement

In accordance with 31 U.S.C. § 6305 cooperative agreements transfer anything of value from the federal awarding agency or pass-through entity to the non-federal entity to carry out a public purpose authorized by a United States law. The federal government or pass-through entity does not acquire property or services for their direct benefit or use. A cooperative agreement requires substantial involvement between the federal awarding agency or pass-through entity and the non-federal entity in carrying out the activity defined in the federal award.

2.4 Entity Cash

SFFAS 1, paragraph 28, defines entity cash as the amount of cash that the reporting entity holds and is authorized by law to spend.

2.5 Grants

31 U.S.C. § 6304 defines a grant as an agreement wherein the executive agency transfers a thing of value to the State or local government or other recipient to carry out a public purpose of support or stimulation authorized by a United States law.

2.6 Imprest Fund

According to ***FAR Part 13.001***, an imprest fund is a cash fund of a fixed amount, advanced to an agency finance or disbursing officer to disburse cash in relatively small amounts. An imprest fund does not use appropriations.

2.7 Intragovernmental Assets

SFFAS 1, paragraph 18 defines intragovernmental assets as claims of a federal entity against other federal entities.

2.8 Intragovernmental Liabilities

SFFAS 1, paragraph 18 defines intragovernmental liabilities as claims against the entity by other federal entities.

2.9 Prepayments

SFFAS 1 states that a federal entity prepays to cover certain periodic expenses before those expenses are incurred. Percentage of completion progress payments made to a contractor are not prepayments. Prepayments apply when it is a generally accepted industry practice to pay for items such as rents, subscriptions, and maintenance agreements in advance of the service being provided and the prepayment is authorized by law.

*3.0 ACCOUNTING FOR ADVANCES AND PREPAYMENTS

3.1 Accounting Policy

3.1.1. Refer to the DoD Standard General Ledger (USSGL) Chart of Accounts and Transaction Library for the most current general ledger account numbers, definitions, and required journal entries. DoD USSGL Transaction Library and Standard Reporting Chart of Accounts are available on the Standard Financial Information Structure (***SFIS***) web page. SFIS provides the current USSGL accounts to be used, defines these accounts, and illustrates the required proprietary and/or related budgetary accounting entries.

3.1.2. Advances and prepayments must comply with the law or regulation requirements. Organizations or individuals (other than DoD employees requesting travel advances) requesting advances must demonstrate that all external financing sources have been exhausted before DoD Components authorize an advance. When the recipient satisfies advance conditions, the DoD Component must collect unused portions of the advance immediately and return the same to the original appropriation. DoD Components must record the prepayment when it is made. At the end of each quarter and fiscal year-end, the DoD Component must review prepayments and expense the expired portion. Prepayments are recurrent transactions that do not provide financing as a precondition of performance.

3.1.3. Accounting activities must account for and segregate capitalized assets and expenses into separate line items. The Certifying Officer must consult the Requiring Activity (buyer or program office) when the related purchase request does not include sufficient information to segregate between capital and expense items. Record advances and prepayments paid out as assets. Record advances and prepayments received as liabilities. In the financial statements, do not record advances and prepayments paid out as elimination entries for advances and prepayments received. Liquidate advances and prepayments and record either an expense or capitalized asset when goods or services are received, contract terms are met, or prepaid expenses expire.

3.1.4. Receivables are claims to cash or other assets against another entity. A receivable is established when revenue is recognized, and payment has not been received in advance. Receivables include but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. DoD indebtedness examples include overdue travel advances, overpayments, and any other event resulting in a determination that a debt is owed to the DoD. Refer to Chapter 3 for further guidance.

3.1.5. SFFAS 1 categorizes federal entities' advances and prepayments as intragovernmental assets and liabilities. Account for and report these assets and liabilities separately from those made to non-federal entities.

3.1.6. SFFAS 1 states that advances and prepayments made must be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire. A travel advance, for example, must be initially recorded as an asset and must be subsequently reduced when travel expenses are incurred. Amounts of advances and prepayments that are subject to refund (for example, a settled travel claim indicating the traveler owes part of the advance to the government) must be transferred to accounts receivable.

3.1.7. SFFAS 1 states that federal entities receive advances and prepayments from other federal and non-federal entities for goods to be delivered or services to be performed. Advances and prepayments received/paid between federal entities are intragovernmental liabilities/assets. Advances and prepayments received/paid between a federal entity and a non-federal entity are governmental liabilities/assets. Before revenues are earned, the current portion of the advances and prepayments are recorded as other current liabilities. After the revenue is earned (goods or services are delivered, or performance progress is made), the federal entity records the revenue or financing source and reduces the liability accordingly. Intragovernmental liabilities are reported separately from governmental liabilities due to employees and the public.

3.1.8. Volume 3, Chapter 8 requires a quarterly review of dormant accounts. This quarterly review is an important part of exercising sound internal controls to increase each DoD Component's ability to use available appropriations before they expire and ensure remaining open obligations are valid and liquidated before the appropriations are cancelled. This increases mission readiness for the DoD.

3.2 Recoveries and Adjustments

Ensure that sound internal controls monitor advances and prepayments made. Recover unneeded and unused balances as soon as information indicates they are excess to the original purposes. Unused advance and prepayment recoveries received the same year as the original obligation are recorded as recoupments. Collections are recoveries of unused advances and prepayments of prior-year obligations. Use the SFIS web page given in subparagraph 3.1.1. to decompose DoD USSGL accounting transactions for recoveries and adjustments.

3.3 Contract Financing Payments

According to FAR 32.001, the Government authorizes disbursements of monies to a contractor prior to the acceptance of supplies or services in contract financing payments. Contract financing payments include advance payments, performance-based payments, commercial advances, interim payments, progress payments based on cost, progress payments based on a percentage or stage of completion, and interim payments under a cost reimbursement contract. Contract financing payments do not include invoice payments, payments for partial deliveries, or lease and rental payments. Contract financing payments are more fully discussed in Volume 10, Chapter 8.

3.4 Grant Awards and Cooperative Agreements

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

Periodically, the advances must be reconciled with the supporting transaction documentation as part of the quarterly review process as outlined in section 3.0. In addition, review each advance periodically to determine whether the amounts are more than the grantee's current needs. Collect excess amounts from the recipient. Time the review as each grant milestone or reporting requirement is reached. Grant agreements, disbursement vouchers, collection vouchers, and grant performance reports are sources for entries. Payment provisions for grants and other instruments of assistance are more fully discussed in Volume 10, Chapter 19 and Volume 12, Chapter 5.

3.5 Advances to Foreign Countries

10 U.S.C. § 2396 authorizes advances to foreign countries. DoD appropriations may be used to comply with the laws and ministerial regulations of a foreign country; to pay rent for periods determined by local custom, tuition, and public service utilities; and to a friendly foreign country's disbursing official or its armed forces members, for their pay and allowances, and necessary supplies and services. Assign the advances to the appropriate SFIS element (country code) found on the SFIS web page under the SFIS Values Library Service subcategory and record the advances in the related DoD Component subsidiary ledger account.

3.6 Advances in Military Pay

Refer to Volume 7A, Chapter 32, for military members' pay advance details. This includes basic allowance for subsistence and housing; overseas station allowances; family separation allowance; and clothing and uniform allowances. Pay advances to military members must only be to ease hardships imposed by the lack of regular payments when a member is mobilized; ordered to duty at a distant station; or deployed aboard a ship for more than 30 days.

3.7 Advances in Civilian Pay

Refer to Volume 8, Chapter 3, for civilian personnel pay advance details. This includes foreign post assignment advances, advance payments to evacuees, advances in pay for newly hired employees, and advances in pay for employees relocating within the U.S. or its territories.

3.8 Advances as Imprest Funds

Imprest Funds are cash advances against a specific Line of Accounting (LOA) from the Disbursing Officer to an appointed cashier. The funds are a form of "Cash Held Outside of Treasury" but because an entity LOA is cited as the Imprest Fund, the advance is "entity cash." Refer to Chapter 2 for further guidance.

3.9 Travel Advances

3.9.1. A commander or supervisor-approved travel order must be issued before military members or civilian personnel travel unless an urgent or unusual situation prevents prior issuance. Do not authorize cash travel advances unless an exception is granted. Record the maximum advance amount authorized on the travel order.

3.9.2. The DoD traveler obtains cash from an automated teller machine (ATM) with an assigned Government Travel Charge Card (GTCC) for expenses that cannot be charged to the GTCC. The traveler must not exceed the limit specified in the travel order. Personnel who are not eligible for a GTCC may obtain travel advances only via electronic funds transfer. The commander or supervisor, in coordination with the Disbursing Officer, may authorize cash advances in limited situations where no other process is available to accomplish the mission.

3.9.3. A DoD traveler must submit a travel claim voucher within five working days of return. The responsible settlement office accounts for funds in accordance with the applicable DoD Component's accounting or disbursing regulations. Refer to Volume 9, Chapter 5 for further guidance.

3.9.4. Travel advances are also permitted when criteria are met for the following:

3.9.4.1. Transportation documents or funds are lost or stolen.

3.9.4.2. Temporary lodging expense in connection with a Permanent Change of Station to a Permanent Duty Station.

3.9.4.3. House hunting trip expenses if offered and chosen under the Lodging Plus method.

3.9.4.4. Temporary quarters subsistence expense up to 30 days.

3.9.4.5. Mobile home transportation allowances.

3.9.4.6. Evacuation travel and transportation allowances under an evacuation authority.

3.9.4.7. Dislocation Allowance paid to a Service member's designated dependent in moving a household.

3.9.5. Refer to the ***Joint Travel Regulations*** sections 050402, 050602, 054007, 054207, 054407, and 060105 for details.

3.10 Defense Working Capital Fund

Defense Working Capital Fund entities must record advances and prepayments in accordance with the policies in this chapter. Refer to Volume 3, Chapter 19 for further guidance.

3.11 Inventory Bid Deposits

Record bid deposits received on inventory available for sale as advances. The advance account is relieved in two instances. Record sales proceeds when the inventory has been delivered to successful buyers. Refund the bid deposit and cancel the sale. Refer to Chapter 4 for further guidance.

DoD 7000.14 - R

DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 6: "ARCHIVED"

UNDER SECRETARY OF DEFENSE
(COMPTROLLER)

VOLUME 4, CHAPTER 7: "INVESTMENTS AND OTHER ASSETS"

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 2022 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
3.4	Clarified the types of Marketable Treasury securities, as stated in SFFAS 1	Revision
5.1.1	Added applicable statutory reference for Use of Other Investments	Addition
5.3.3.4	Corrected title for Chapter 16	Revision
5.3.3.5	Corrected title for Volume 12, Chapter 4	Revision

Table of Contents

CHAPTER 7

INVESTMENTS AND OTHER ASSETS

1.0 GENERAL

1.1 Purpose

This chapter prescribes the accounting requirements for recording transactions for investments in Treasury securities. These requirements are consistent with the accounting and reporting for federal and nonfederal securities, and are consistent with the implementation of general accounting policy for assets that is prescribed in Volume 4, Chapter 1. Other assets are those assets not used directly in performing the Department of Defense (DoD) mission. These assets consist of securities held in various trust funds, assets acquired through means other than appropriations, and assets awaiting disposal.

1.2 Authoritative Guidance

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

1.2.1. Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Concepts ***(SFFAC) 1***, "Objectives of Federal Financial Reporting."

1.2.2. FASAB Statement of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities."

1.2.3. FASAB ***SFFAS 3***, "Accounting for Inventory and Related Property."

1.2.4. FASAB ***SFFAS 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."

1.2.5. FASAB ***SFFAS 27***, "Identifying and Reporting Funds from Dedicated Collections."

1.2.6. FASAB ***SFFAS 49***, "Public-Private Partnerships: Disclosure Requirements."

1.2.7. FASAB ***SFFAS 47***, "Reporting Entity."

1.2.8. Financial Accounting Standards Board (FASB) Accounting Standards Codification ***(ASC) 323*** "Investments Equity Method and Joint Ventures."

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

1.2.10. Title 10 United States Code, sections 1111-1117**,** ***(10 U.S.C §§ 1111-1117)*** "Department of Defense Medicare-Eligible Retiree Health Care Fund."

1.2.11. ***10 U.S.C. §§ 1461-1467***, "Department of Defense Military Retirement Fund."

1.2.12. ***10 U.S.C § 2875,*** "Investments."

1.2.13. ***TFM Part 2 Chapter 4300***, "Reporting Instructions For Accounts Invested in Department of Treasury Securities."

1.2.14. DoD is authorized to invest by specific laws, including the law establishing the Medicare-Eligible Retiree Health Care Fund (MERHCF) 10 U.S.C. §§ 1111-1117 and the law establishing the Military Retirement Fund (MRF) 10 U.S.C. §§ 1461-1467. DoD invests in limited partnerships under the law allowing for alternative acquisition authority for the Military Housing Privatization Initiative 10 U.S.C. § 2875.

2.0 ACCOUNTING POLICY FOR INVESTMENTS AND OTHER ASSETS

2.1 Account References

DoD investments and other assets must be recognized and recorded as prescribed in SFFAS 1. Accounting events recognized under SFFAS 1 must be reported according to the requirements in TFM Chapter 4300, and OMB Circular A-136 using the accounting entries specified in the DoD Standard Chart of Accounts and Standard Financial Information Structure ***(SFIS)*** Transaction Library, unless otherwise stated. Financial record retention requirements are in Volume 1, Chapter 9, and in accordance with the National Archives and Records Administration.

3.0 INVESTMENTS IN FEDERAL SECURITIES

3.1 Investments

DoD is authorized to invest in Federal securities, which include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities.

3.2 Nonmarketable Par Value Treasury Securities

Nonmarketable par value Treasury securities are special issue debt securities that the U.S. Treasury issues to federal entities at face value (par value). The securities are redeemed at face value on demand; thus, investing entities recover the full amounts invested. When authorized, the DoD may invest in MERHCF and MRF may invest par value "special issue" Treasury securities.

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

Market-based Treasury securities expected to be held to maturity are debt securities that the U.S. Treasury issues to federal entities without statutorily determined interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities.

*3.4 Market-Based Treasury Securities

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

3.5 Recognition of Investments in Federal Securities

DoD Components holding investments in Federal securities must report those investments separately from investments in non-Federal securities. Federal securities should be recorded at their acquisition cost.

3.5.1. When an acquisition is made in exchange for nonmonetary assets, the acquired securities should be recognized at the fair market value (FMV) of either the securities acquired, or the assets given up, whichever is more definitively determinable.

3.5.2. When an acquisition cost differs from the face (par) value, the security should be recorded at the acquisition cost, which equals the security's face value plus or minus the premium or discount on the investment. A discount is the excess of the security's face amount over its purchase price. A premium is the excess of the purchase price over the security's face value. The balance in the valuation account is treated as a contra account to the debt security.

3.5.3. Treasury securities subsequent to their acquisition should be carried at their acquisition cost, adjusted for amortization if appropriate, as explained in SFFAS 1.

3.5.4. Investments must be carried on the Balance Sheet at acquisition cost adjusted for amortization of the premium or discount, except in two cases. If either exception is reflected, then market value should be used (except for pension and retirement plans).

3.5.4.1. When there is intent to sell securities prior to maturity or,

3.5.4.2. When there is a reduction in value that is more than temporary.

3.5.5. DoD Components holding such securities must maintain an investment subsidiary ledger that provides the name, type, amount, acquisition date, acquisition cost, yield or interest rate, discount or premium, maturity date, and other applicable information for each investment.

3.6 Disposition of Treasury Securities

3.6.1. DoD Components must maintain a subsidiary account for each trust fund that invests in U.S. Treasury securities.

3.6.2. The disposition of a U.S. Treasury security may result in a gain or loss. A comparison of principal proceeds, the book value of a U.S. Treasury security, and any remaining unamortized premium or discount will determine whether there is a gain or loss.

3.6.3. Quarterly, the "Investments in U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based" account balance must be reconciled with the trust fund portfolios. Such reconciliations must also occur whenever there is a change in trust fund managers or other employees having access to the securities, or when there is a substantial addition, disposition, or replacement in the composition of the portfolio.

3.6.4. Unless otherwise provided for by law, securities held by DoD trust funds are U.S. Treasury securities. The Treasury issues no certificates. Instead, Treasury notifies trust fund managers of portfolio increases or decreases using the "Transaction Confirmation."

3.6.5. Source documents for entries to the account include U.S. Treasury securities, the "Transaction Confirmation," collection and disbursement vouchers, amortization schedules, and journal vouchers.

4.0 INTEREST AND AMORTIZATION

4.1. Interest and Amortization Recognition

4.1.1. The accounts to be used to record accounting events related to U.S. Treasury securities include Discount on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based (Account 161100.0400), Premium on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service–Non-Marketable Market-Based (Account 161200.0400), Amortization of Discount on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service–Non-Marketable Market-Based-Discount (Account 161300.0500) and Amortization of Premium on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service–Non-Marketable Market-Based-Premium (Account 161300.0600).

4.1.2. The disposition of a U.S. Treasury security may result in a premium or discount. If an amount of premium or discount exists, the carrying amount, or original purchase cost, of the investments must be adjusted in each reporting period to reflect the amortization of the premium or the discount.

4.1.3. Premiums and discounts must be amortized over the life of the Treasury security using the interest method. Under the interest method, the effective interest rate (the actual interest yield on amounts invested) multiplied by the carrying amount of the Treasury security at the start of the accounting period equals the interest income recognized during the period (the carrying amount changes each period by the amount of the amortized discount or premium).

4.1.4. The amount of amortization of discount or premium is the difference between the effective interest recognized for the period and the nominal interest for the period as stipulated in the Treasury security.

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

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

4.1.7. The income derived from U.S. Treasury securities other than Treasury bills must be the interest stated on the face of the securities adjusted for the amortized premium or discount. For Treasury bills, the difference between the purchase price and the price received at the time of sale or maturity is income.

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

4.1.8.1. The calculated interest is the effective interest of the investment (referred to as effective yield in some literature). The amount of effective interest is compared with the stated interest of the investment. The stated interest is the interest that is payable to the investor according to the stated interest rate.

4.1.8.2. The difference between the effective interest and the stated interest is the amount by which the discount or the premium should be amortized (i.e., reduced) for the accounting period.

4.1.8.3. The discounted bonds example in Table 7-1 displays the amortization of a discount. Treasury bonds with the face amount of $100,000, purchased by a federal entity on the bonds' issuance date, January 1, 2020. The bonds' stated interest rate is 7 percent, and interest is payable at the end of each year. The bonds will mature in 5 years, on December 31, 2024. The cost of the investment is $96,007, with a discount of $3,993, which reflects an effective interest rate of 8 percent. In Table 7-1, the annual discount amortization is in column 4, which equals column 3 minus column 2.

Table 7-1. Discount Amortization

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

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

Table 7-2. Premium Amortization

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

4.1.10. Source documents for entries to this account must include amortization schedules and journal vouchers.

5.0 OTHER INVESTMENTS

*5.1 Use of Other Investments

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

5.1.2. Other investments by the DoD currently authorized include joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of the Military Housing Privatization Initiative (MHPI), authorized by DoD's "Alternative Authority for Acquisition and Improvement of Military Housing," in Subchapter IV, Chapter 169, of Title 10, United States Code, at (10 U.S.C § 2875). These joint ventures are designed as Public-Private Partnerships (P3s), also referred to as Alternative Financing Arrangements, or Privatization Initiatives, which are defined as "risk-sharing arrangements," or transactions lasting more than five years between public and private sector entities.

5.2 Reporting Other Investments

5.2.1. P3s may involve the use of appropriated funds, non-appropriated funds, third party financing, or significant amounts of private capital or investment. All business events related to the financing of MHPI must be reported in the DoD financial statements, including relevant disclosures to help the user understand the financial condition of the projects.

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

*5.3 Recognition and Measurement of Other Investments

5.3.1. In recognition of the complex and diverse nature and characteristics of the MHPI agreements and P3s, and to determine the appropriate accounting treatment for MHPIs, a comprehensive evaluation of each operating agreement and a full assessment of the relationship with each organization should be reviewed and analyzed in consultation with the Military Department's independent public accountant (IPA).

5.3.2. SFFAS 47 provides guidance for determining the considerations to properly report these complex organizational relationships as consolidation entities, or disclosure entities, and what information should be presented. When the federal government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure entity in the government-wide financial statements.

5.3.2.1. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets of an organization. If an entity is expected to assume more than 50 percent of another entity's expected losses or gains, it should either consolidate or disclose that entity- as provided in SFFAS 47.

5.3.2.2. An entity could effectively control another entity by making all of the investment decisions and obtaining a considerable portion of the economic benefits, but would not have been required to consolidate that investee if it was exposed to less than 50 percent of the investee's expected losses or gains. These such entities would generally be considered for disclosure rather than consolidation.

5.3.3. It is the Military Department's responsibility to monitor and properly report the financial condition and disclose significant risks of each of its equity investments in MHPI entities. Documentation should be furnished to the Defense Finance and Accounting Service (DFAS) based on DFAS' annual financial schedule and quarterly financial guidance for additional information including cut-off periods. Note that financial statement reporting should be based on the latest financial information for each Limited Liability Corporation (LLC) or Limited Partner (LP), which may not be consistent with the reporting periods for DoD's financial statement reporting.

5.3.3.1. Consolidation considerations and requirements are as follows:

5.3.3.1.1. Per SFFAS 47, an organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the entity is: (1) financed by taxes or other non-exchange revenue, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards to the federal government and (4) providing goods and services on a non-market basis. Goods and services are provided on a non-market basis when they are provided free of charge or at charges that bear little relationship to the cost of providing such goods or services.

5.3.3.1.2. Note, however, not all characteristics are required to be met or to be met to the same degree; classification is based on the assessment as a whole. Each entity should be assessed individually and objectively, to properly examine all of the potential differences among the entities.

5.3.3.1.3. Consolidation entities are considered federal reporting entities, and as such, should apply Generally Accepted Accounting Principles (GAAP) as defined in SFFAS 34, "The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board."

5.3.3.2. Disclosure considerations and requirements are as follows:

5.3.3.2.1. Once SFFAS 47 guidelines have been considered, disclosures for MHPI projects should be evaluated under the established principles of SFFAS 49, "Public-Private Partnerships: Disclosure Requirements," and should be provided for the initial period and all annual periods thereafter where an entity is party to a P3 arrangement/transaction. Disclosure requirements are comprised of quantitative and qualitative information to assist users in understanding the nature of P3s and direct loans and loan guarantees, to include related risks, even those deemed remote. The OMB Circular A-11, Section 185, *Federal Credit*, and OMB Circular A-136, Section II.3.8.8 (Note 8, Loans Receivable, Net and Loan Guarantee Liabilities), specify disclosure requirements for government direct loans and loan guarantees. OMB Circular A-136, Section II.3.8.33 (Note 3, Public-Private Partnerships) specifies disclosure requirements for P3s. DoD's investments in LLCs for MHPIs meet the Circular's P3 disclosure requirements.

5.3.3.2.2. The disclosures should reveal the nature of the relationship to the reporting entity, relevant activity during the reporting period, and the reporting entity's future exposures to risks and rewards resulting from the relationship. Disclosure entities may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis. Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

5.3.3.2.3. While the hierarchy of GAAP established for federal reporting entities may not necessarily apply to disclosure entities; information about such organizations is still needed for accountability purposes and to meet federal financial reporting objectives. The information should be disclosed as specified in SFFAS 49, paragraph 24:

5.3.3.2.4. The DoD, and the Military Departments must continue to disclose their respective relationships with the P3 private entities, disclose the risks inherent in the P3 arrangements, and the DoD will recognize any gains or losses associated with TI-97 contributions to the private entity.

5.3.3.3. The Military Departments and DFAS must use established accounting transaction codes in the DoD Transaction Library to record the primary accounting entries to recognize P3 contributions and any collections received upon dissolution of an arrangement that are not available for use without further Congressional action. See Tables 7-3 through 7-8. Additionally, the Military Department must obtain the agreements and supporting documentation for its equity investments in LPs/LLCs managing MHPI to support the following business events:

5.3.3.3.1. LP/LLC Operating Agreement: governing document that contains the agreements set forth by the parties including the contributed cash and/or property balances, and percent government ownership in the LP/LLC.

5.3.3.3.2. Lockbox Agreement: addresses the flow of funds and order of priority for the project. The agreement is unique to each MHPI project.

5.3.3.3.3. Revenue Agreement: containing the priority for the flow of funds from the Revenue Account, and supporting documentation for understanding the flow of funds from the Revenue Account to the Construction Escrow Account prior to the completion of the Initial Development Period (IDP) and the percentage distribution to the Reinvestment Account and Owner after completion of the IDP.

5.3.3.3.4. Dissolution of the investment at a gain or loss, property conveys back to DoD. The dissolution agreement and supporting information is to allow DFAS to account for the government's gain or loss upon termination of the LP/LLC agreement. The conveyed property must be valued at its FMV, or other GAAP compliant valuation methodology, at that point of dissolution.

5.3.3.3.5. Sale of government share of the LP/LLC, and

5.3.3.3.6. Any other accounting transactions related to financial activities to DoD equity investments of this nature. The Military Departments must provide DFAS any other transaction with a financial impact that is not listed in Tables 7-3 through 7-8, and footnote disclosures required, such as the equity method income or loss and description of events of termination or default, and the associated documentation supporting the Military Department's determination for the disclosure.

5.3.3.4. In addition to the transfer of property and cash, a ground lease may be provided to permit access to, and use of the transferred property and/or cash, to develop property consistent with the goals of the LP/LLC. Amounts received in exchange for the ground leases are revenue and the guidance for recording the revenue can be found in Chapter 16: Revenue, Other Financing Sources, Gains, and Losses. No other accounting entries are appropriate.

5.3.3.4.1. Ground leases executed in conjunction with creation of an LP/LLC do not constitute separately identifiable arrangements despite being executed through a separate agreement. Such separate agreements generally acknowledge that, in addition to a nominal rent (such as $1 for the duration of the ground lease), the LP/LLC's commitment to construct and lease military housing is a material inducement to the Military Department to enter into the ground lease. Further, success of the overall investment is dependent upon the ground lease, meaning the ground lease and the transfer of property to the LP/LLC are highly interdependent. Because the ground lease and the transferred property are highly interdependent and not distinct goods and services, the ground lease should be considered part of the initial investment made when property is transferred. ***FASB ASC 606-10-25-19 through 22***, "Revenue from Contracts with Customers," provides guidance for identifying distinct goods and services. The transfer of property and the ground lease are not distinct, separately identifiable arrangements.

5.3.3.4.2. Estimation of the FMV of the property should take into consideration relevant characteristics of the property including the related ground lease granting access to and use of the property. Therefore, no separate entries are required to recognize the ground lease. Instead, the FMV of the ground lease is integral to the FMV of the property.

5.3.3.5. See Volume 12, Chapter 4, "Direct Loans and Loan Guarantees," for additional guidance on the recognition and measurement of direct loans, the liability associated with loan guarantees, and the cost of direct loans and loan guarantees.

Table 7-3. Initial Investment Cash Only

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

1. Budgetary

Dr. 461000 - Allotments - Realized Resources
Cr. 480100 - Undelivered Orders - Obligations, Unpaid

Dr. 480100 - Undelivered Orders - Obligations, Unpaid
Cr. 490200 - Delivered Orders - Obligations, Paid

2. Proprietary

Dr. 169000 - Public-Private Partnership Investments
Cr. 101000 Fund Balance with Treasury (FBwT)

Dr. 310700 Unexpended Appropriations - Used
Cr. 570000 Expended Appropriations

(DoD invests cash in LP/LLC)

Table 7-4. Initial Investment Cash and Property

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

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

1. Budgetary

Dr. 461000 - Allotments - Realized Resources
    Cr. 480100 - Undelivered Orders - Obligations, Unpaid

Dr. 480100 - Undelivered Orders - Obligations, Unpaid
    Cr. 490200 - Delivered Orders - Obligations, Paid

2. Proprietary

Dr. 169000 - Public-Private Partnership Investments
    Cr. 101000 - FBwT

Dr. 310700 - Unexpended Appropriations - Used
    Cr. 570000 - Expended Appropriations

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

AND

3. Budgetary

No Budgetary Impact

4. Proprietary

Dr. 171900 - Accumulated Depreciation on Improvements to Land
Dr. 173900 - Accumulated Depreciation on Buildings, Improvements and Renovations
Dr. 169000 – Public-Private Partnership Investments
Dr. 721000 Losses on Disposition of Assets - Other
    Cr. 171100 - Land and Land Rights
    Cr. 171200 - Improvements to Land
    Cr. 173000 - Buildings, Improvements and Renovations
    Cr. 711000 – Gains on Disposition of Assets – Other

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

Table 7-5. Recognition of Periodic/Annual Decrease/Loss

SCENARIO 3 - YEAR XX Recognition of Periodic/Annual Decrease/Loss on P3 Investment Valuation DoD recognizes the amount of equity method earnings - based on the change in the investor claim on the investee's book value each reporting period Equity Method Loss 1. Budgetary No Budgetary Impact 2. Proprietary Dr. 729000 - Other Losses Cr. 169000 - Public-Private Partnership Investments (To recognize equity method loss based on the change in the investor's claim on the investee's book value each reporting period).

Table 7-6. Recognition of Periodic/Annual Increase/Gain

SCENARIO 4 - YEAR XX Recognition of Periodic/Annual Increase/Gain on P3 Investment Valuation DoD recognizes the amount of equity method earnings - based on the change in the investor claim on the investee's book value each reporting period Equity Method Gain 1. Budgetary No Budgetary Impact 2. Proprietary Dr. 169000 - Public-Private Partnership Investments Cr. 719000 - Other Gains (To recognize equity method gain based on the change in the investor's claim on the investee's book value each reporting period).

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

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

1. Budgetary

Dr. 426600 - Other Actual Business-Type Collections From Non-Federal Sources
445000 - Unapportioned Authority

2. Proprietary

Dr. 101000 - FBwT
Dr. 171100 - Land and Land Rights
Dr. 171200 - Improvements to Land
Dr. 173000 - Buildings, Improvements and Renovations
Dr. 721100 - Losses on Disposition of Investments
Cr. 169000 - Public-Private Partnership Investments

Table 7-8. Recognition of a Net Gain Upon Dissolution of DoD's Interest in the LLC

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

1. Budgetary

Dr. 426600 - Other Actual Business-Type Collections From Non-Federal Sources
445000 - Unapportioned Authority

2. Proprietary

Dr. 101000 - FBwT
Dr. 171100 - Land and Land Rights
Dr. 171200 - Improvements to Land
Dr. 173000 - Buildings, Improvements and Renovations
Cr. 711100 - Gains on Disposition of Investments
Cr. 169000 - Public-Private Partnership Investments

6.0 OTHER ASSETS

Use "Other Assets" to record the value of assets not otherwise classifiable to a specific asset account. Establish applicable subsidiary accounts as necessary to meet management and reporting needs. Source documents for entries to this account include receiving reports and journal vouchers.

VOLUME 4, CHAPTER 8: "LIABILITIES"

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 2020 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
1.1	Added the definition of "liability" and directed the reader to the recognition criteria section.	Addition
1.3.4	Directed readers to the Standard Financial Information Structure (SFIS) webpage for U.S. Standard General Ledger (USSGL) accounts and transaction illustrations.	Addition
2.1.3	Restructured subparagraph to provide other considerations for recognition criteria.	Revision
3.6	Updated the example for "Government-Acknowledged Events" to better align with Statement of Federal Financial Accounting Standard (SFFAS) 5.	Revision
3.10	Clarified the definition of "Liabilities Not Covered By Budgetary Resources."	Revision
Figure 8-1	Updated the Figure 8-1 title to better align with SFFAS 5.	Revision

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CHAPTER 8

FINANCIAL CONTROL OF LIABILITIES

1.0 GENERAL

*1.1 Overview

A liability is defined as a probable future outflow or other sacrifice of resources as a result of past transactions or events. For instance, a liability is an amount the Department of Defense (DoD) owes to another federal or nonfederal entity for items or services that DoD received and expenses incurred (including personnel related costs). Liabilities can also result from assets to which title has been acquired (whether delivered or in transit), ongoing shipbuilding based on incurred costs, and cash received but not yet earned. Liabilities can also result from amounts owed under grants, military and civilian pensions, certain retirement and post-employment benefits, awards, and other indebtedness. Criteria for recognizing these liabilities (e.g., transaction based events or other than transaction based events) are outlined in paragraph 2.1 and depicted in Figure 8-1.

1.2 Purpose

This chapter promulgates the general accounting policy and definitions to be followed in accounting for DoD liabilities covered in Volume 4. This guidance does not apply to liabilities accounted for by Nonappropriated Fund activities, which is located in Volume 13, Chapter 3.

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. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities";

1.3.2. FASAB ***SFFAS 5***, "Accounting for Liabilities of the Federal Government";

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

*1.3.4. The required DoD U.S. Standard General Ledger (USSGL) proprietary and budgetary accounting entries and transaction illustrations are provided in the Transaction Library and Standard Reporting Chart of Accounts which is available on the Office of the Deputy Chief Financial Officer ***Standard Financial Information Structure (SFIS)*** web page.

2.0 ACCOUNTING POLICY FOR LIABILITIES

2.1 Recognition Criteria

Pursuant to SFFAS 5, criteria for recognizing a liability, depicted in Figure 8-1, starts by identifying if the event creating the liability is transaction based or other than transaction based.

2.1.1. Transaction Based Events. Transaction based events comprise both exchange and nonexchange transactions. Transaction based events are recognized in accordance with the following criteria:

2.1.1.1. A liability for an exchange transaction is recognized (recorded and reported) when the DoD receives goods and services in exchange for a promise to provide money or other resources in the future. Probable and measurable amounts that remain unpaid as of the financial statement report date should be recognized as liabilities.

2.1.1.2. A liability for a nonexchange transaction is recognized for any probable and measurable unpaid amounts as of the financial statement report date.

2.1.1.3. The entity must estimate the liability for the financial statement reporting date if the actual amount is unknown.

2.1.2. Other Than Transaction Based Events. Other than transaction based events comprise both government-related events and government-acknowledged events. These events are recognized in accordance with the following criteria:

2.1.2.1. A liability for a government-related event is recognized at the time of occurrence, if the expected resource outflow is both probable and measurable, or soon thereafter as it becomes probable and measurable.

2.1.2.2. A liability for government-acknowledged events is recognized only when Congress appropriates or authorizes the funds for the event and an exchange or nonexchange transaction related to the event is entering into. The liability is then recognized by following the criteria in subparagraph 2.1.1 for exchange and nonexchange transactions.

*2.1.3. Other Considerations

2.1.3.1. With the exception of government-acknowledged events, the recognition of a liability is not dependent on the availability of funds. Liabilities must be recognized when they are incurred regardless of whether they are covered by available budgetary resources, including liabilities related to canceled appropriations. However, the status of funding does dictate the category of the recognized liabilities used for disclosure and reconciliation purposes as outlined in paragraph 2.2.

2.1.3.2. Accounting and reporting provisions need not be applied to immaterial liabilities. However, all assertions of immateriality must be supportable, and the materiality determination must be fully documented. Both qualitative and quantitative factors need to be considered in determining materiality.

2.1.3.3. Contingent liabilities are recorded and reported as a liability or disclosed as a contingency in a footnote to the financial statements, depending on the probability of occurrence and the ability to estimate the expected outflow of resources. Contingent liabilities should be recorded in DoD financial systems and reported in financial statements in accordance with Chapter 12.

2.2 Reporting and Disclosures

2.2.1. Pursuant to SFFAS 1, Intragovernmental liabilities must be reported separately from nonfederal entities, which include Government sponsored enterprises and the Federal Reserve. See Volume 6B, Chapter 4 for further discussion on reporting.

2.2.2. In accordance with OMB Circular A-136, liabilities are classified as liabilities covered by budgetary resources, liabilities not covered by budgetary resources, and liabilities not requiring budgetary resources. Disclosures must be made for liabilities that are not covered by budgetary resources. See Volume 6B, Chapter 10 for further discussion on disclosures.

3.0 DEFINITIONS

3.1 Contingency

Pursuant to SFFAS 5, a contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

3.2 Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet date. Liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB with further action by Congress, and without a contingency having to be met first.

3.3 Current Liability

A current liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources within one year of the reporting date.

3.4 Exchange Transactions

An exchange transaction arises when each party involved in the transaction sacrifices value and receives value in return. In an exchange transaction, a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future.

3.5 Funded Liabilities

Funded liabilities are comprised of all liabilities for which budget authority has been received and obligated.

*3.6 Government-Acknowledged Events

A government-acknowledged event is a type of an other than transaction based event that is of financial consequence to the Federal Government because the Federal Government has chosen formally to accept the associated financial responsibility. An example would be the assumption of responsibility for damage caused by a natural disaster (such as tornado damage for which Congress appropriates funds).

3.7 Governmental Liability

A governmental liability is an amount owed by a federal entity to a nonfederal entity. These liabilities are also called nonfederal or public liabilities.

3.8 Government-Related Events

A government-related event is a type of an other than transaction based event that involves interaction between the Federal Government and its environment. An example is an expense to be paid as the result of current government operations, such as the estimated cost of repairing accidental damages to private property. Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable.

3.9 Intragovernmental Liability

An intragovernmental liability is an amount owed by a federal entity to another federal entity. Intragovernmental liabilities include accounts and interest payable to federal entities and other current liabilities due to federal entities, such as receipt of federal advances and prepayments.

*3.10 Liabilities Not Covered By Budgetary Resources

Liabilities not covered by budgetary resources are those liabilities for which budget authority has not been received, i.e., funds necessary to satisfy the liabilities have not been made available through congressional action.

3.11 Liability

A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities must be recognized when they are incurred regardless of whether they are covered by available budgetary resources, including liabilities related to canceled appropriations.

3.12 Materiality

Materiality is the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

3.13 Measurable

A liability is measurable if it has a relevant attribute that can be quantified in monetary units with sufficient reliability to be reasonably estimable.

3.14 Noncurrent Liability

A noncurrent liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources beyond one year of the reporting date.

3.15 Nonexchange Transactions

A nonexchange transaction is one in which the DoD promises to provide money or other resources in the future without a promise of receiving direct value in return. An example would be grant payments to state and local governments to carry out a public purpose, when authorized by a law of the United States.

3.16 Probable

Probable refers to that which can reasonably be expected or is believed to be more likely than not to occur on the basis of available evidence or logic. In the context of assessing the outcome of matters of pending or threatened litigation and unasserted claims, and recognizing an associated liability, "probable" refers to that which is likely.

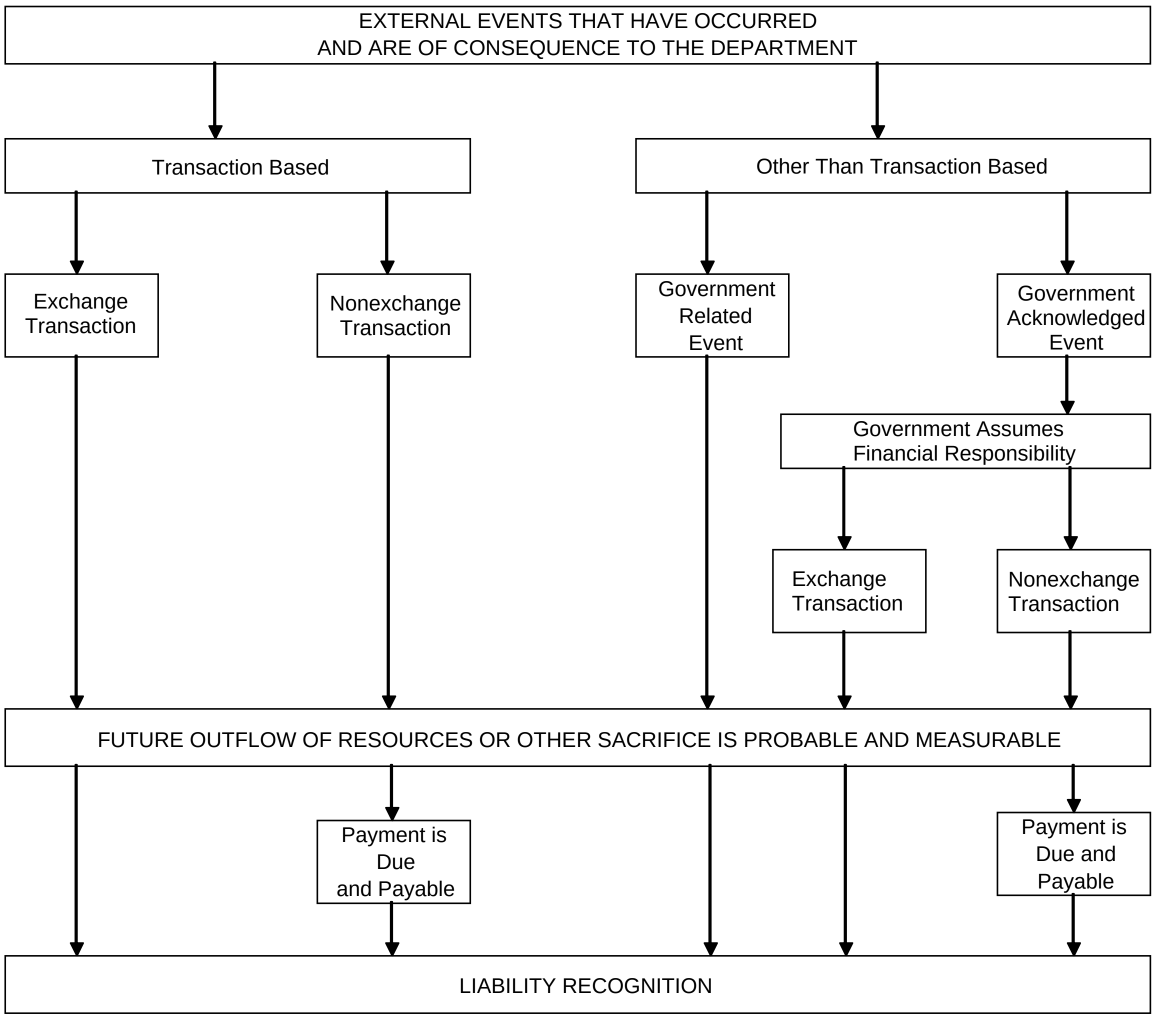
3.17 Transaction and Event

A transaction is an event involving the transfer of something of value. An event is a happening that has financial consequences to an entity. An event may be an internal event that occurs within an entity, such as placing an item in service, or an external event that involves interaction between an entity and its environment, such as an act of nature, a theft, vandalism, an injury caused by negligence, or an accident.

3.18 Transaction Recording

The accounting events discussed must be recorded in accordance with the DoD USSGL Transaction Library and reported in accordance with the regulations promulgated by the Department of the Treasury and the Office of Management and Budget.

*Figure 8-1. LIABILITY RECOGNITION SUMMARY



VOLUME 4, CHAPTER 9: "ACCOUNTS PAYABLE"

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 June 2020 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Completed administrative updates in accordance with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.1	Removed reference to Volume 11B, Chapter 9. Added reference to Volume 4, Chapter 10.	Deletion/ Addition
2.0	Updated accounting policy to include the Standard Financial Information Structure reference and DoD Component responsibilities. Replaced Treasury Financial Manual, Chapter 4700, Section 9.1.3 with Section 4750 reference. Added clarifying language on accounts payable Recognition.	Revision/ Addition

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CHAPTER 9

ACCOUNTS PAYABLE

1.0 GENERAL

*1.1 Purpose

1.1.1. This chapter provides the Department of Defense (DoD) financial management policy for recording accounts payable for both intragovernmental and non-federal accounts payable.

1.1.2. The accounts payable policy in this chapter does not address liabilities related to ongoing continuous expenses such as employees' salaries and benefits and contract holdbacks to be paid after one year of the balance sheet date, both of which are reported as other current liabilities and covered in Chapters 10 and 12, respectively.

1.2 Authoritative Guidance

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

1.2.1. Title 31, United States Code, Chapter 39 (***31 U.S.C. Chapter 39***), "Prompt Payment;"

1.2.2. ***41 U.S.C. § 7103***, "Decision by contracting officer;"

1.2.3. Title 5, Code of Federal Regulations, Section 1315.9 (***5 CFR § 1315.9***), "Required documentation;"

1.2.4. ***48 CFR § 46.501***, "General;"

1.2.5. ***48 CFR § 52.247.29***, "F.o.b. Origin;"

1.2.6. ***48 CFR § 52.247.34***, "F.o.b. Destination;"

1.2.7. ***Office of Management and Budget (OMB) Circular A-123, Appendix C***, "Requirements for Payment Integrity Improvements;"

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

1.2.9. FASAB ***SFFAS 1*****,** "Accounting for Selected Assets and Liabilities;"

1.2.9. Treasury Financial Manual ***(TFM) Chapter 4700***, "Federal Entity Reporting Requirements for the Financial Report of the United States Government"; and

1.2.10. TFM United States Standard General Ledger **(USSGL)**.

*2.0 ACCOUNTING POLICY

2.1 Accounts Payable

Accounts payable are liabilities the DoD owes for goods and services received from, progress in contract performance made by, and rents due to other entities. Refer to the DoD Standard General Ledger (USSGL) Chart of Accounts and Transaction Library for the most current general ledger account numbers, definitions, and required journal entries. DoD USSGL Transaction Library and Standard Reporting Chart of Accounts are available on the Standard Financial Information Structure (**SFIS**) web page. SFIS provides the current USSGL accounts to be used, defines these accounts, and illustrates the required proprietary and/or related budgetary accounting entries.

2.2 Accounts Payable Recognition – General

2.2.1. DoD Components must recognize a liability for the unpaid amount of the goods when accepting title to goods, whether the goods are delivered or in transit. If invoices for those goods are not available when financial statements are prepared, estimate the amounts owed.

2.2.2. When a contractor provides a DoD Component with goods that are also suitable for sale to others, the accounts payable generally arises when the contractor physically delivers the goods, and the Component receives them and takes formal title.

2.2.3. When a contractor builds or manufactures facilities or equipment to a DoD Component's specifications, the Component does not recognize the goods upon formal acceptance. DoD Components must record payable amounts based on an estimate of work completed under the contract or the agreement. The Component's engineering and management evaluates actual performance progress and incurred costs.

2.2.4. Recorded accounts payable amounts must be supported with appropriate documentation. Documentation includes:

2.2.4.1. Obligation documentation,

2.2.4.2. Agreement or transaction with another entity (e.g., a contract, DD Form 448, Military Interdepartmental Purchase Request (MIPR), project order, Reimbursable Work Order (RWO), or Intra-agency Agreement, General Terms and Condition Section ***Form 7600A*** and the Order Requirements and Funding Information Section ***Form 7600B***).

2.2.4.3. Documentation establishing the amount recognized as payable (e.g., acceptance certificate on an inspection or receiving report form or commercial shipping document/packing list).

2.2.5. Accurately record all accounts payable liabilities.

2.2.6. Obtain and maintain documentation evidencing amounts payable for the DoD Component buyer of goods or services.

2.2.7. Document audit evidence of "receipt" including the item(s) or service(s) and related applicable quantities received, the date the item(s) or the service(s) were received, and contain the authorizing official's name and signature or electronic equivalent. DoD Components must ensure the audit evidence includes the calculations determining the amount accrued, or the basis used to estimate the amount. The documentation may include monetary amounts shown on or calculated from a purchase order or contract, historical data, or documented using a contracting officer or technical representative-provided value. If audit evidence includes Personally Identifiable Information or sensitive commercial or proprietary information (such as internal labor rates provided to support certain incurred cost vouchers), such information may be redacted or described in aggregate.

2.2.8. Develop, implement, and validate internal controls are in place and effectively operating for all intragovernmental and interfund transactions and for transactions with the public. Receipt and acceptance must be accomplished and documented by authorized personnel. Make documentation available within the timeframe prescribed by the auditor when requested during audits.

2.2.9. 48 CFR §§ 52.247.29 – 52.247.49 determines the recording timing of an accounts payable liability for goods. The DoD Component must estimate the accounts payable as identified in paragraph 2.3, when amounts are not available at the end of an accounting quarter.

2.2.10. Apply the discount if economically justified when recognizing the accounts payable, whether stipulated in the contract or offered on an invoice. Refer to Volume 10, Chapter 2 for further discussion on discount offers and calculations.

2.3 Accounts Payable Recognition – Estimating the Accrual

2.3.1. Estimate and record an accrual under a condition identified in subparagraphs 2.3.1.1 – 2.3.1.3, when definitive amounts or invoices are not available, but the requirements for recording an accounts payable liability as stated in paragraph 2.2 exist. The DoD Component must reverse the estimate, and record a more definitive amount, when more complete data becomes available (e.g., upon receipt of an invoice or billing).

2.3.1.1. Services are performed but the corresponding invoices are not received at period end (e.g., professional service contract).

2.3.1.2. Equipment and facilities are being manufactured or built based on the Government's specifications, but the corresponding invoices are not received at period end (e.g., aircraft, or building).

2.3.1.3. The Government receives and accepts goods, but the corresponding invoices are not received at period end (e.g., computers delivered and accepted by the Government, but invoices are not yet received).

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

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

2.3.4. Validate methods for calculating the accrual estimate periodically for reasonableness by comparing the estimate to actual data once available. At a minimum, review the estimating methodology at fiscal year-end. Review the estimating methodology if there is a material change to the business process causing material differences between the method's estimate and actual amounts or if the initial assumptions materially change and the initial accrual estimate is materially affected. Document performance and approval of these reviews. Maintain this documentation for auditors to validate that the review was performed and approved by management.

2.4 Accounts Payable Recognition – Quarterly Accruals

2.4.1. To assist in developing more accurate financial statements, at least quarterly, DoD Components must accrue all procurements in which DoD has received a measurable benefit from, or ownership title to, but have not been documented due to the lack of a receiving report or invoice. Components may need to ask the cognizant contracting officers or the contracting officer's technical representatives to identify the material dollar value of undelivered orders not yet invoiced or captured in receiving reports to establish these quarterly accruals. If the Component cannot obtain all necessary information from the contracting representatives within the 21 days allowed for the preparation of quarterly financial statements, the DoD Component must use the best available information to estimate the accrual. Make adjusting entries in subsequent periods, as information becomes available from contracting representatives.

2.4.2. DoD Components must also accrue temporary duty (TDY) travel taken, not yet disbursed, or otherwise accounted for as an accounts payable liability at least quarterly. Additionally, Components must record an accounts payable liability for TDY travel that crosses two or more accounting quarters on an estimated/proportional basis, if significant. Record the accrued liability in the applicable accounting period, supported with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the liability amount. This supporting documentation must also provide evidence of who prepared and who received the estimate and the dates these activities were completed. If mechanized programs post accruals, the documentation of who prepared, received, and reviewed the estimate and the date the estimate was prepared may not be available. In this case, all available information captured by the mechanized program must be captured in the accrual.

2.4.3. DoD Components must accrue Permanent Change of Station (PCS) travel taken, not yet disbursed, or otherwise accounted for as a liability, as an accounts payable liability at least quarterly. Additionally, Components must record an accounts payable liability for PCS travel that crosses two or more accounting quarters on an estimated/proportional basis, if significant. Accrue the liability in the applicable accounting period. Support the liability with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount. This supporting documentation must also provide evidence of who prepared and who received the estimate and the dates these activities were completed. If mechanized programs record accruals, the documentation of who prepared, received, and reviewed the estimate and the date the estimate was prepared may not be available. In this case, all available information captured by the mechanized program must be captured in the accrual.

2.4.4. When estimating these accruals, DoD Components must follow the policy stated in paragraph 2.3.

2.4.5. Fixed-priced construction contracts containing progress payment provisions based upon the percentage or stage of completion require special consideration when recording the accounts payable liability. When accounts payable liability is expected to be paid within the year:

2.4.5.1. Components must record the payable in an amount that reflects the unpaid portion of the contractor's progress payment request for which the contracting officer concurred or approved the estimate of actual progress. The accounts payable accrual must include any amounts being withheld from the contractor pending acceptance and completion, or for other contract administration reasons, as per the terms of the contract. The supporting documentation must include engineering estimates and management evaluation of actual performance progress to validate the percentage of completion used. The contracting officer or their designee must maintain the supporting documentation and be prepared to provide it to the Defense Finance and Accounting Service or auditors to support the accounts payable amount.

2.4.5.2. The accounts payable for this type of contract is recognized because formal acceptance of the final product by the DoD Component is not the determining factor for accounting recognition. The DoD Component acquires an asset during each accounting period based on constructive or de facto receipt and thus must recognize/record an accounts payable during each accounting period to reflect the accumulation of that asset.

2.5 Accounts Payable Recognition – Availability of Funds

DoD Components must not delay recognizing an accounts payable liability pending the availability of funds. The accounts payable not covered by budgetary resources must be disclosed in the financial statement notes (refer to Volume 6B, Chapters 4 and 10). A potential violation of the Antideficiency Act (ADA) may exist if the payable amount exceeds the total availability of funds. Refer to Volume 14 for the financial management policy regarding an ADA violation.

2.6 Intragovernmental Purchases

2.6.1. Procuring a good or service from another DoD Component or Federal entity is an intragovernmental purchase under the TFM Chapter 4700. Payables due to DoD Components or other Federal entities are intragovernmental payables and must be reported separately from payables due to public entities. Note that OMB Circular A-11 uses the term "intergovernmental" for transactions between or among accounts of Federal entities and that transactions with non-appropriated fund instrumentalities are reported as transactions with the public. The United States Department of the Treasury (Treasury) considers both interdepartmental and intradepartmental transactions to be subsets of intragovernmental transactions. Identify the separation of intragovernmental and public transactions at the transaction level in accordance with Treasury regulations to allow for the proper summarization at the various reporting levels within the DoD, and ultimately the Federal Government as a whole. Identification at the transaction level supports auditability down to the transaction level where the supporting documentation normally exists. It also provides the capability to perform intragovernmental elimination entries at various organizational reporting levels, assuming the correct trading partner codes were utilized.

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

* 2.6.2.1. In accordance with the TFM Chapter 4700, Section 4750, trading partner records must resolve balance differences by year-end. The Intra-governmental Transaction (IGT) Guide (Appendix 5) contains the business rules and processes to properly record, report, and reconcile intra-governmental transactions, including the processes for dispute resolution.

2.6.2.2. The DoD Component (buyer) must identify and record all accounts payable accruals. The buyer is ultimately responsible for their financial statements and thus must engage with the seller to identify the appropriate amount to accrue.

2.6.3. DoD Components must ensure an accounts payable liability is also recorded when the goods are received, or the buying DoD Component has gained title to an asset. Component buyers must work with the intragovernmental seller to ensure this business event is identified and the corresponding accounts payable liability is recorded.

2.7 Late Payment Interest

DoD Components must record in accounts payable an amount for prompt payment interest and other penalties incurred on late payments as required under terms of the non-federal contract. Refer to Volume 10, Chapter 7 for the policy on late payment interest and penalties. Components must also consider and record a quarterly accrual estimate for late payment interest and/or penalties to reflect any expected large dollar value late payments that result in a significant interest and/or penalty liability in the reporting period. Defining what amounts are "significant" for these purposes is left to the discretion of the Component.

2.8 Refunds Due

DoD Components must record an accounts payable liability to reflect the refunds due but not paid at the end of the reporting period, when applicable. Record either the exact amount of the refund when known, positively established, and clearly documented, or estimated under the provisions in paragraph 2.3. See Chapter 5 for additional guidance on refunds due.

2.9 Monetary Credits

2.9.1. Specific statutes authorize DoD entities to issue monetary credits as compensation for property or services received from non-federal entities. If the DoD entity exercises this authority, it must also record an accounts payable liability during the period the benefit from the property or services is received. These monetary credits give the seller the agreed-upon value of the acquired property or received service. The credit holder may apply them later to reduce an amount owed (by the holder) in other, sometimes unrelated, transactions with the government. When monetary credits are used for exchange transactions, the DoD entity must record an accounts payable liability equal to the value of the monetary credit.

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

2.10 Closed Appropriations

When an appropriation account is closed, any remaining balance in the account must be canceled and unavailable for obligation or expenditure for any purpose. However, legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be reinstated to canceled payables and paid out of a current unexpired appropriation that is available for obligation for the same purpose as the closed account. Refer to Volume 3, Chapter 10 for more specific requirements for expired and closed accounts and Volume 3, Chapter 11 for more specific policies addressing payables involving closed appropriations.

2.11 Liquidating Accounts Payable

Accounts payable recorded when a particular good or service is received must be liquidated when the liability created by the payable is settled. Generally, this occurs after a three-way match of a contract, receiving report, and proper invoice is performed, and the Component disburses to satisfy the billed amount. In other than the three-way match scenario, the accounts payable liability is liquidated when all required prepayment approvals have occurred, and other payment controls satisfied result in generating a payment or recognizing an exchange-in-kind transaction business event.

2.12 Reviewing Accounts Payable Balances

2.12.1. The accounting office must review and reconcile all accounts payable balances to the transaction detail level in supporting accounting systems each quarter. As part of the accounts payable quarterly reviews, reconcile the budgetary accounts associated with the accounts payable balances (e.g., delivered order unpaid, obligations unpaid) to proprietary accounts payable balances. Research any differences, fully document the rationale for necessary adjustments, and obtain approval from the DoD Component's Comptroller or their designated representative before making the adjustments. Retain all adjustments made and associated documentation to support future financial statement-related audits.

2.12.2. The accounts payable recorded for acceptable final performance on a contract or order must remain on the account until liquidated through proper payment, or until receipt of contractual or legal documents that remove the remaining liability. DoD Components must assign financial management personnel to work through the cognizant contracting officer to request an invoice from the contractor for any accounts payable amount remaining unliquidated due to non-receipt of an invoice or billing within 180 days from the date of acceptable final contract performance. Component personnel must continue to pursue receipt of overdue invoices through the contract administration and fund holders to avoid canceled appropriations and to improve accounts payable reporting. Refer to Volume 3, Chapter 8 for a policy associated with dormant commitments and unliquidated obligations eligible for closeout on physically complete contracts.

2.12.2.1. Continued non-receipt of an invoice on firm-fixed-price contracts may extinguish the contractor's right to payment and relieve DoD's obligation to pay for the un-invoiced goods or services.

2.12.2.2. When a contractor has failed to invoice for the received and accepted goods or services after more than six years since the date of DoD acceptance, coordinate with the contracting activity and/or legal counsel, and if applicable, the Defense Contract Audit Agency and the Defense Contract Management Agency to consider accounts payable for write-off. Write-off documentation must clearly represent that the over-aged accounts payable is no longer a DoD legal liability. Consider whether the Government has acted to toll or suspend the Contract Disputes Act's six-year limitation period on assertion of claims codified at 41 U.S.C. § 7103. Include the contracting officer's determination that the legal liability to pay on the contract no longer exists. DoD Components must ensure the accounts payable amounts written off contain sufficient documentation to allow an independent third party, such as an external auditor, to verify the basis, value, and rationale for the write-off.

2.12.3. The accounting office must investigate accounts payable debit balances over $100. These debit (abnormal) balances may result from any number of circumstances (e.g., duplicate payments and unrecorded accounts payable). Correct after thorough research of the underlying documentation associated with the business events and transactions impacting the payable accounts.

2.12.3.1. DoD Components must fully document subsequent adjustments to correct the abnormal balance. Include a description of the circumstances that caused the initial abnormal balance and support the valuation of the revised amount in the documentation. Include the names and signatures (or electronic equivalent) of the management official(s) approving the adjustment and identify the correcting steps being taken to prevent reoccurrence. This documentation must be available for review by the independent auditors if necessary. Identify and report to management any recommendations for changes to internal controls or business processes to preclude incurring abnormal accounts payable balances in the future.

2.12.3.2. If the investigation of a debit balance discloses an overpayment or under-recouped funds related to a contract or vendor payment, the accounting office must coordinate with the responsible entitlement and disbursing offices to pursue collection or recoupment in accordance with the policies in Chapter 14 and Volume 10, Chapter 22.

2.12.4. If the accounting office cannot match a performance report or invoice with a corresponding obligation, a breakdown of fund control processes and a material weakness in internal controls may exist. If posting a transaction to accounts payable does not disclose a corresponding obligation, this may be evidence that either a contract has not been awarded or a posting error has occurred. The accounting office must request the necessary documentation to support the required accounting entry and notify appropriate officials that reports or invoices are being received without a corresponding recorded obligation. Refer to Volume 3, Chapter 11 for the policy on recording an obligation for an unresolved negative unliquidated obligation.

2.12.5. Disbursements in transit are disbursements that have been reported by a disbursing office, through a paying center, to the Treasury and charged against the Department's fund balances but have not yet been received or processed by the applicable accounting office for recordation against the applicable corresponding obligation. These transactions are defined as, and based on the USSGL Crosswalk, map to the accounts payable line of the balance sheet. Refer to Volume 3, Chapter 11 for disbursements in-transit policy.

2.13 Accounts Payable Document Retention

All documentation in support of accounts payable entries and adjustments must be readily available for review by auditors, management, and other DoD Component financial management personnel. The documentation retention policy is contained in Volume 1, Chapter 9.

VOLUME 4, CHAPTER 10: "PERSONNEL RELATED LIABILITIES"

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 2016 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates were completed in accordance with the Department of Defense Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.2	Added Authoritative Guidance section for policies and procedures.	Addition
2.1.4	Added a reference for disclosures.	Addition
2.1.5	Added information on imputed costs.	Addition

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CHAPTER 10

PERSONNEL RELATED LIABILITIES

1.0 GENERAL

1.1 Purpose

This chapter prescribes the accounting policy for the Department of Defense (DoD) personnel-related liabilities. The Transaction Library and Standard Reporting Chart of Accounts is available on the Office of the Deputy Chief Financial Officer Standard Financial Information Structure (***SFIS***) web page. The web page also provides the required DoD U.S. Standard General Ledger (USSGL) proprietary and budgetary accounting entries and transaction illustrations.

*1.2 Authoritative Guidance

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

1.2.1. ***Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 4***: "Managerial Cost Accounting Standards and Concepts";

1.2.2. FASAB ***SFFAS 5***: "Accounting for Liabilities of The Federal Government;"

1.2.3. FASAB ***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;"

1.2.4. FASAB ***SFFAS 55***: "Amending Inter-entity Cost Provisions;"

1.2.5. ***Title 5 United States Code Section 6303*** "Annual leave; accrual;"

1.2.6. ***Office of Management and Budget, Circular A-136:*** "Financial Reporting Requirements;"

1.2.7. FASAB ***Interpretation 4***: "Accounting for Pension Payments in Excess of Pension Expense;" and

1.2.8. ***Office of Personnel Management (OPM) Number 24-304***, "Benefits Administration Letter"

2.0 ACCOUNTING POLICY FOR PERSONNEL RELATED LIABILITIES

2.1 General Standards

2.1.1. Refer to Chapter 8 for the accounting principles and policy applicable to the financial control of liabilities. Adhere to the standards listed in the following subparagraphs in accounting for personnel-related liabilities.

2.1.2. Update the personnel-related accounting entries based on appropriate source documents reflecting the latest pay adjustments, leave balances, levels of benefits, and changes in benefit rules.

2.1.3. Do not limit the personnel-related accrued amounts to the amounts covered by available budgetary resources.

* 2.1.4. Refer to Volume 6B for the required financial statement disclosure guidance for the personnel-related liabilities discussed in this chapter.

* 2.1.5. Calculate the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program imputed costs for the DoD Components Financial Statements. Base the calculations on the annual OPM Benefits Administration Letter.

2.2 Accounting for Personnel Entitlements

2.2.1. Accrue the DoD military and civilian employees' cost of services including overtime when a pay period does not coincide with the end of an accounting period. Accrue based on journal vouchers with supporting documentation (or automated programs) showing the data and calculations in the applicable accounting period. The appropriate authorized accounting official must sign the journal vouchers. Reverse these accruals when the related pay is disbursed, and actual costs are recorded.

2.2.2. Record probable and estimable annuities, adjudicated claims, and benefit payments as of the end of the applicable accounting period. Record amounts based on journal vouchers signed by the appropriate authorized accounting official and supporting documentation clearly showing the basis for the amounts.

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

2.2.4. Compensate employee absences (ordinarily for vacation or illness). When DoD employees accrue rights to take leave with pay, DoD Components incur an expense and liability measured by the salary cost when the leave may be taken.

2.2.5. Accrue unused annual leave, including restored leave, compensatory time, credit hours earned, and the associated fringe benefit costs.

2.2.5.1. Record the expense and related liability for annual leave at the regular earned hourly rate. Calculating annual leave based on a fringe benefit rate is also acceptable.

2.2.5.2. Reflect all pay increases and unused leave balances at least quarterly for annual leave, other leave (compensatory time and credit hours), and the associated fringe benefit costs, for financial statement purposes. For general funds, unused annual leave is typically unfunded until the leave is used. However, in working capital funds unused annual leave must be funded.

2.2.6. Do not accrue sick leave, home leave, and compensatory time for travel, as unused balances are not reimbursed by the DoD. These entitlements are expensed as taken.

2.2.7. Accrue Social Security, retirement funds, Thrift Savings Plan (TSP), and group health and life insurance programs in the same manner as gross compensation (see Volume 8, Chapter 3).

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

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

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

2.3 Pensions

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

2.3.2. Recognize the pension liability when the employee's services are rendered and report the liability in the DoD Components' financial statements. Report recoverable estimated amounts as receivables with the sources of expected repayments indicated if legislation requires that payments to participants be recovered from others (e.g., employing agencies).

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

2.3.4. DoD Components recognize a pension expense equaling the employee service cost for the applicable accounting period, less employee contributions, if any, for DoD Civilian pension plans (CSRS and FERS). DoD Components apply the cost factor provided by OPM, the administrative entity.

2.3.5. Calculate the pension expense and liability using actuarial estimates for MRS.

2.3.5.1. Use the "aggregate entry age normal" actuarial cost method to calculate the pension expense and liability for the MRS financial statements. Calculate the liability using the actuarial present value of all future benefits, based on projected salaries and total service, less the actuarial present value of future normal cost contributions that would be made for and by the employees under the plan.

2.3.5.2. Base individual component expense on the actuarial cost. Recognize the difference between component expense and the amount paid by the component to OPM or MRS as an intragovernmental liability. Refer to Volume 12 for more information.

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

2.4 Other Retirement Benefits

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

2.4.2. Recognize the ORB liability when the employee's services are rendered. Report the liability in the DoD Components' financial statements. Report the recoverable estimated amount as a receivable with the sources of expected repayments indicated, if existing legislation requires that amounts paid to participants be recovered from others (e.g., employing agencies).

2.4.3. Account for and report the ORB expense, such as medical costs for retirees, in the DoD Component financial reports in a manner similar to that used for pensions. Recognize ORB expense in an amount equal to the total service cost (as determined by the DoD Office of the Actuary). Record and report the portion of the ORB liability in the DoD Component financial statements.

2.5 Other Postemployment Benefits

2.5.1. DoD Components provide Other Postemployment Benefits (OPEB) to former or inactive employees, their beneficiaries, and covered dependents outside pension or ORB plans. Inactive employees are not currently rendering services to the employer but have not been terminated, including those temporarily laid off or disabled. Postemployment benefits can include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, unemployment compensation, workers' compensation, and veterans' disability compensation benefits paid by the employer entity.

2.5.2. Recognize expense and liability when a future outflow or other sacrifice of resources is probable and measurable based on events occurring on or before the reporting date. Report the estimated recoverable amount as a receivable with the sources of expected repayments indicated, if existing legislation requires that amounts paid to participants be recovered from employing agencies. An OPEB example is the Federal Employees' Compensation Act (FECA).

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

2.5.4. The FECA fund pays benefits on behalf of Federal entities as costs are incurred and bills the entity annually for the previous period. Federal entities fund the FECA payments through appropriations reimbursed to the FECA fund. Include annual budget estimates for the fiscal year beginning in the next calendar year equal to the costs (approximately 15 months) for the appropriation-funded agencies. Once the appropriation is received, pay the Department of Labor (DOL) within 30 days.

2.5.5. The DOL sends each agency the actuarial liability estimates for future worker's compensation benefits amounts for both the current and prior years. The current amount is the new balance in the Actuarial FECA Liability. The DoD Component determines the change in actuarial liability by taking a difference of DOL's prior year to current year actuarial liability.

2.5.6. Include the following support with the Actuarial FECA Liability entry:

2.5.6.1. The DOL Memorandum for Chief Financial Officers of Executive Departments and Agencies, which contains the actuarial balances;

2.5.6.2. Agency-Wide Financial Statements Directorate allocation spreadsheet reflecting the percentage allocation to the entity level; and

2.5.6.3. A copy of the last three annual chargeback bills for the Department Level.

3.0 AUDITABILITY AND INTERNAL PROCEDURES

3.1. Each DoD Component must develop and implement internal operating procedures to ensure complete, consistent, timely, accurate, valid, and relevant financial data.

3.2. Maintain appropriate supporting records to provide an appropriate footnote disclosure in the financial statements if personnel-related liabilities are unfunded. DoD Components must disclose according to Volume 6B, Chapter 10.

VOLUME 4, CHAPTER 11: "COMPONENT DEBT"

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***.

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates in accordance with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.2.5	Added Standard Financial Information Structure (SFIS) webpage for U.S. Standard General Ledger (USSGL) accounts and transaction illustrations.	Addition
2.1	Simplified paragraph to clarify the types of DoD component debt. Removed language on DoD borrowed funds for direct and guaranteed loans to foreign governments.	Revision/ Deletion
4.0	Removed USSGL accounts found on the SFIS webpage referenced in subparagraph 1.2.5.	Deletion

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CHAPTER 11

COMPONENT DEBT

1.0 GENERAL

1.1 Purpose

This chapter provides the accounting policy for Department of Defense (DoD) Components' debt incurred in accordance with the referenced statutory and other authorities.

1.2 Authoritative Guidance

This chapter is in accordance with the following authoritative guidance:

1.2.1. ***DoD Manual 4165.63***, "DoD Housing Management";

1.2.2. ***Title 42 United States Code (U.S.C.), section 3374***;

1.2.3. ***DoD Directive 4165.50E***, "Homeowners Assistance Program" (HAP); and

1.2.4. ***Title 32 Code of Federal Regulations (CFR), Part 239*** "Homeowners Assistance Program – Application Processing"

* 1.2.5. The standard general ledger accounts used to report DoD debt and illustrative entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the Deputy Chief Financial Officer ***Standard Financial Information Structure*** web page.

2.0 TYPES OF COMPONENT DEBT

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

*2.1 Loans and Loan Guarantees

2.1.1. The Department must pay the debt on direct loans if borrowers (e.g., foreign governments, county or city governments, ship owners, or housing builders) default. For loan guarantees, the Department must pay the amount of outstanding principal guaranteed.

2.1.2. The accounting policy for loans and loan guarantees is provided in Volume 12, Chapter 4.

2.2 Housing Program Debt

2.2.1. Family Housing Program. The Defense FHP provides military and civilian families housing referral services including administration of private rental housing for DoD personnel overseas, leasing private housing for DoD personnel, or guaranteeing service members' rental, mortgage and mortgage insurance payments on privately owned housing. Guidance for financing the FHP is contained in Volume 2B, Chapter 6 and DoD Manual 4165.63, while guidance for accounting for funds made available for this program is contained in Volume 3, Chapter 5.

2.2.2. Homeowners Assistance Fund

2.2.2.1. Under 42 U.S.C., section 3374, the Secretary of Defense is authorized to aid owners of one- or two-family dwellings located at or near military installations ordered to be closed in whole or in part. In certain instances, this assistance is rendered by acquiring negotiated title to the properties from such owners. Section (d) of the statute established the HAF. Funding for this program is through annual appropriations made available by the Congress.

2.2.2.2. DoD Directive 4165.50E, "Homeowners Assistance Program," (HAP) provides overall policy guidance and information on this program. The directive also specifies that detailed guidance regarding available benefits, both foreign and domestic, will be provided in the regulations published by the Secretary of the Army as the DoD Executive Agent for the HAP, and codified in 32 CFR Part 239. The Army uses the Headquarters, United States Army Corps of Engineers to implement the program.

3.0 ACCOUNTING POLICY FOR DEBT ASSOCIATED WITH HOUSING PROGRAMS

The overall accounting policy for properties acquired under both the FHP and HAP is the same as those for real property discussed in Volume 4, Chapter 24. The accounting policy for the liabilities incurred under the FHP and HAP programs is discussed in the following paragraphs.

3.1 Liability for Amounts Owed on Housing Acquired under FHP and HAP

The liability for amounts owed on housing acquired under FHP and HAP programs will be equal to (1) borrowings from other Federal Agencies and the public to construct or acquire the properties, or (2) the mortgages assumed when title passes to the DoD.

3.2 Mortgage Balance Payable Reductions

The balance of the mortgages payable will be reduced by that portion of the periodic payments made which represent the mortgage principal.

3.3 Liabilities for Borrowing from Other Organizations

Liabilities for borrowings from other Federal Agencies and non-federal organizations will be recorded at the amounts obtained. Amounts paid to financial organizations to obtain the borrowings must be treated as a current period operating expense.

VOLUME 4, CHAPTER 12: "OTHER LIABILITIES"

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.

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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
1.1	Revised paragraph to better align with the other liabilities that are described in the chapter. Added reference to Volume 6B, Chapter 4 for financial reporting requirements.	Revision
1.2.6	Added guidance for standard general ledger accounts used to report DoD other liabilities and illustrative entries on the Standard Financial Information Structure web page.	Addition
2.2.1	Added the definitions for deposit funds and nonfiduciary deposit funds.	Addition
2.2.3	Added Treasury Financial Manual guidance for deposit fund accounts.	Addition

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CHAPTER 12

OTHER LIABILITIES

1.0 GENERAL

*1.1 Purpose

This chapter promulgates the accounting policy and related requirements that the Department of Defense (DoD) Components General Fund and Defense Working Capital Fund (DWCF) entities must follow to account for unearned revenues, contingent liabilities, and contract progress payments. These liabilities are reported on the Balance Sheet as "other liabilities" as they are often immaterial and therefore do not warrant separate reporting. See Volume 6B, Chapter 4 for financial reporting requirements for other liabilities. Each DoD Component must develop and implement internal operating procedures to implement this overarching policy in a manner that ensures accurate, complete, and relevant financial data.

1.2 Authoritative Guidance

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

1.2.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities";

1.2.2. FASAB ***SFFAS 5***, "Accounting for Liabilities of the Federal Government";

1.2.3. FASAB ***SFFAS 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting";

1.2.4. FASAB ***SFFAS 12***, "Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government";

1.2.5. Office of Management and Budget ***(OMB) Circular A-11***, "Preparation, Submission and Execution of the Budget";

* 1.2.6. The standard general ledger accounts used to report DoD other liabilities and illustrative entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the Deputy Chief Financial Officer ***Standard Financial Information Structure*** web page.

1.2.7. The U.S. Department of the Treasury (Treasury) ***Fast Book***;

1.2.8. The Treasury ***USSGL***, a supplement of the Treasury Financial Manual (***TFM***).

2.0 UNEARNED REVENUES

2.1 Advances and Prepayments

2.1.1. Advances and prepayments are amounts received in advance for goods and services that will be delivered at a future date.

2.1.2. When advance fees or payments are received by DoD Components, such as for large-scale, long-term projects, revenue should not be recognized until the goods and services are provided (regardless of whether the fee or payment is refundable). When the cash is received, an increase in cash and an increase in advances and prepayments liability should be recorded in accordance with SFFAS 7.

2.1.3. Liability for advances and prepayments includes advances received that are transfers of assets from the public and other federal entities to cover future expenses or the acquisition of other assets. The DoD Components receiving an advance or prepayment must record the amount received as a liability until payment is earned (goods or services have been delivered or contract terms met). After the payment is earned (performance has occurred), the DoD Components must record the appropriate amount as revenue and reduce advances and prepayments liability accordingly.

2.1.4. The two major activities for which DoD receives advances are as follows:

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

2.1.4.2. Defense Working Capital Funds (DWCF) Activities. The appropriation language for DoD's DWCF permits the fund to receive advances for supplies and services. Therefore, the DWCF business entities may be advanced funds identified in the DWCF customer orders during the fiscal year, as required, to enable the DWCF activity to pay for its costs of operation.

2.2 Nonfiduciary Deposit Funds

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

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

* 2.2.3. See ***TFM Volume I Part 2 Chapter 150 Section 1550*** for more details on deposit fund accounts.

2.2.4. See Treasury's ***FAST Book*** for a full list of DoD deposit accounts.

2.3 Clearing Accounts

2.3.1. Clearing accounts represent amounts known to belong to the Federal Government but held temporarily in this account until additional information is collected for the disposition or reclassification of these amounts. Examples of how to use clearing accounts are:

2.3.1.1. To record unmatched transactions from the public when there is a reasonable presumption that the amounts belong to a Federal Government account other than miscellaneous receipts in the Treasury.

2.3.1.2. To record unmatched transactions between Federal agencies, including intra-governmental payment and collection transactions.

2.3.2. Refer to Chapters 2 and 3 for a discussion of the requirements for reconciling, aging, and clearing Budget Clearing Accounts.

3.0 CONTINGENT LIABILITIES

3.1 Definition and recognition of contingent liabilities

3.1.1. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur.

3.1.2. To account for a contingency, a contingent liability should be recognized in the financial reports and statements when all of the following conditions are met:

3.1.2.1. A past event or exchange transaction has occurred (e.g., a DoD Component has breached a contract with a non-federal entity).

3.1.2.2. A future outflow or other sacrifice of resources is probable (e.g., the non-federal entity has filed a legal claim against a DoD Component for breach of contract and the Component entity's management believes the claim is likely to be settled in favor of the claimant).

3.1.2.3. The future outflow or sacrifice of resources is measurable (e.g., the DoD Component entity's management determines an estimated settlement amount).

3.1.3. The estimated contingent liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized, and the range and description of the nature of the contingency should be disclosed.

3.1.4. If any of the conditions identified in 3.1.1 are not met, the contingent liability need not be recognized in the DoD Components Balance Sheet but should be disclosed in the financial statement notes when it is at least reasonably possible that a loss or additional loss may have been incurred. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

3.2 Probability classifications for contingent liabilities

3.2.1. Probable. The future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are presumed likely to occur.

3.2.2. Reasonably Possible. The chance of the future confirming event or events occurring is more than remote but less than probable.

3.2.3. Remote. The chance of the future event or events occurring is slight.

3.3 Legal contingencies

3.3.1. Legal contingencies arise from litigation, claims, and assessments. It is the Component management's responsibility, with legal counsel's advice, to assess the likelihood of adverse outcomes for legal cases and decide whether to recognize them as liabilities and to disclose them in the notes to the financial statements. The Component should obtain evidence relevant to the following factors with respect to litigation, claims, and assessments:

3.3.1.1. The existence of a condition, situation, or set of circumstances indicating uncertainty as to the possible loss to the Component arising from litigation, claims, and assessments;

3.3.1.2. The period in which the underlying causes for a legal action occurred;

3.3.1.3. The likelihood (probable, reasonably possible, or remote) of an unfavorable outcome; and

3.3.1.4. The amount or range of potential loss, if able to estimate.

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

3.3.3. The disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. When disclosing that an estimate cannot be made, the claimed amount should be disclosed. Disclosures and amounts prescribed may be aggregated for presentation in the notes to the financial statements.

4.0 CONTRACT PROGRESS PAYMENTS

When a DoD contractor submits a request for a contract progress payment for the costs incurred in pursuit of the contract, it results in a measurable liability to the DoD. Any progress payment requests from a contractor to the DoD that are expected to be paid within one year must be recorded as an "Accounts Payable," and the estimated amount of costs incurred by the contractor that are expected to remain unpaid for more than one year until the completed asset is delivered must be recorded as "Other Liabilities." For every progress payment request, a Contracting Officer Representative, or other authorized representative, must certify that the work reflected has been performed, and is consistent with the requirements of the contract.

VOLUME 4, CHAPTER 13: "ENVIRONMENTAL AND DISPOSAL LIABILITIES"

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and 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 2022 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Throughout	Revised "environmental liabilities" to "environmental and disposal liabilities".	Revision
Throughout	Replaced all references to RACER software with generic language.	Deletion
2.0.11	Updated the definitions to provide clarification.	Revision
2.0.22	Updated the definitions to provide clarification.	Revision
3.2.2	Added clarifying language to accounting treatment.	Revision
3.2.6.1	Added clarifying language to accounting treatment.	Revision
3.2.6.6	Deleted example that is not applicable.	Deletion
3.2.7	Added clarifying language to accounting treatment.	Revision
3.3.1	Added clarifying language to accounting treatment.	Revision
3.3.2	Added clarifying language to accounting treatment.	Revision
3.3.2.1	Added clarifying language to accounting treatment.	Revision
3.3.3	Added clarifying language to accounting treatment.	Revision
3.3.5	Added clarifying language to accounting treatment.	Revision
3.3.6	Added clarifying language to accounting treatment.	Revision
3.3.8.1	Added clarifying language to accounting treatment.	Revision
Figure 2	Additional flowchart for asset-driven liabilities.	Addition
Appendix A	Added clarifying language to accounting treatment.	Revision

Table of Contents

CHAPTER 13

ENVIRONMENTAL AND DISPOSAL LIABILITIES

1.0 GENERAL

1.1 Purpose

This chapter prescribes the accounting policy for measuring, recognizing, recording, and disclosing Department of Defense (DoD) environmental and disposal liabilities. General accounting principles and policy for liabilities are contained in ***Chapter 8***. The policies prescribed in this chapter apply to all environmental and disposal liabilities regardless of the funding source or availability of funding. Refer to Volume 6B for guidance on roles and responsibilities in the preparation of related financial reports and note disclosures.

1.2 Authoritative Guidance

This chapter implements applicable provisions of:

1.2.1. Title 10, United States Code, section 2701 (***10 U.S.C. § 2701***). "Environmental Restoration Program;"

1.2.2. ***42 U.S.C. § 9607,*** "The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA);"

1.2.3. ***50 U.S.C. § 1521***, "Destruction of existing stockpile of lethal chemical agents and munitions;"

1.2.4. Title 40, Code of Federal Regulations, part 266.202 ***(40 CFR § 266.202)***;"

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

1.2.6. U.S. Department of Treasury (Treasury) Treasury Financial Manual ***(TFM)*** United States Standard General Ledger (USSGL);

1.2.7. Statement of Federal Financial Accounting Standards ***SFFAS 1***, "Accounting for Selected Assets and Liabilities;"

1.2.8. ***SFFAS 5***, "Accounting for Liabilities of the Federal Government;"

1.2.9. ***SFFAS 6***, "Accounting for Property, Plant, and Equipment;"

1.2.10. ***SFFAS 21***, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources;"

1.2.11. ***SFFAS 23***, "Eliminating the Category National Defense Property, Plant, and Equipment;"

1.2.12. Federal Accounting Standards Advisory Board ***(FASAB) Technical Bulletin (TB) 2006-1***, "Recognition and Measurement of Asbestos related Cleanup Costs," amended by ***FASAB TB 2011-2***, "Extended Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos related Cleanup Costs

1.2.13. ***FASAB Interpretation 9***, "Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6;"

1.2.14. ***FASAB Technical Release (TR) 2*** , "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government;"

1.2.15. ***FASAB TR 10***,"Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment;"

1.2.16. ***FASAB TR 11***, "Implementation Guidance on Cleanup Costs Associated with Equipment;"

1.2.17. ***FASAB TR 14***, "Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment;"

1.2.18. Statement on Auditing Standards (SAS) Number 122/AU-C Section 540A, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures; superseded by ***SAS Number 143***;"

1.2.19. U.S. Government Accountability Office (GAO) "Standards for Internal Control in the Federal Government" (***The Green Book***).

1.2.20. DoD Instruction ***(DoDI) 4165.14***, "Real Property Inventory and Forecasting;"

1.2.21. ***DoDI 4165.72***, "Real Property Disposal;"

1.2.22. ***DoDI 4715.05***, "Environmental Compliance at Installations Outside the United States;"

1.2.23. ***DoDI 4715.06***, "Environmental Compliance in the United States;"

1.2.24. ***DoDI 4715.07***, "Defense Environmental Restoration Program (DERP);"

1.2.25. ***DoDI 4715.08***, "Remediation of Environmental Contamination Outside the United States;"

1.2.26. ***DoDI 5000.61***, "DoD Modeling and Simulation Verification, Validation, and Accreditation ;"

1.2.27. ***DoDI 5000.64***, "Accountability and Management of DoD Equipment and Other Accountable Property;"

1.2.28. ***DoDI 5530.03***, "International Agreements;"

1.2.29. ***DoD Manual (DoDM) 4160.21***, "Defense Materiel Disposition: Disposal Guidance and Procedures;"

1.2.30. ***DoDM 4160.28***, "Defense Demilitarization Manual;"

1.2.31. ***DoDM 4715.20***, "Defense Environmental Restoration Program (DERP) Management."

2.0 DEFINITIONS

The following definitions apply to environmental and disposal liabilities:

2.0.1. Asset-Driven Liability. An environmental and disposal liability is the environmental and disposal cost associated with future DoD Property, Plant, and Equipment (PP&E) asset closure or disposal that involves non-routine removal of hazardous waste at the point of disposal or closure and/or environmental response explicitly required (by permit or other policy or law). Examples of an asset-driven liability include equipment environmental disposal liabilities, asbestos and environmental closure requirements.

2.0.2. Baseline. A study or survey used to establish the initial site universe of environmental and disposal liability sites. The baseline provides a starting point from which sites that contribute to financial statement reporting balances will be adjusted over time. Once the baseline is established, DoD Components must rely upon established procedures to maintain their E&DL universe.

2.0.3. Contamination. Defined as a release of a hazardous substance, or the potential release of a discarded hazardous substance, which may have a harmful effect or become injurious to the environment or to the public health, safety, or welfare.

2.0.4. Cost Model. A framework upon which an estimating methodology is developed. The model may use mathematical equations to convert resource data into cost data and require users to enter a minimal amount of information to generate cleanup cost estimates.

2.0.5. Cost-to-Complete (CTC). Represents the total estimated future costs for site level cleanup not currently funded at the end of a given fiscal year. CTC estimates assume that approved funding in the year of execution will be received and obligated in full. CTC (including DERP CTC) estimates also include program management costs.

2.0.6. DoD Component. Refers to the Office of the Secretary of Defense, the Military Departments (including their Reserve components), the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the DoD, the Defense Agencies, the DoD Field Activities, and all other organizational entities in the DoD.

2.0.7. Due Care. As defined in TR 2, due care in the context of environmental and disposal liability refers to "a reasonable effort to identify the presence or likely presence of contamination. Due care is exercised if an agency has effective policies and procedures in place to routinely identify contamination and forward that information to the responsible agency official."

2.0.8. Environmental Cleanup, Closure, and/or Disposal Costs. For financial statement reporting purposes, the term "environmental cleanup costs" includes costs associated with restoration of environmental sites funded under DERP, corrective actions, and environmental costs associated with the future closure of operations, including closure and disposal of PP&E. Cleanup costs as defined in SFFAS 6, paragraph 85, are the cost of removing, containing, and/or disposing of hazardous waste from real property, or material and/or personal property that consists of hazardous waste at the time of shutdown or disposal, and material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E. Consistent with SFFAS 6, paragraph 87, cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs. Per SFFAS 6, paragraph 93, cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards (SFFAS 1 and SFFAS 5) and are not subject to the recognition guidance provided in SFFAS 6 for environmental and disposal liabilities since the cleanup effort is not deferred until operation of the associated PP&E ceases either permanently or temporarily.

2.0.9. Environmental and Disposal Liabilities. For financial reporting purposes, a DoD environmental and disposal liability is a probable future outflow or other sacrifice of resources that exists as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events. A DoD environmental and disposal liability exists when: (1) contamination is known to be 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) DoD activities created the liability and/or an authorized legal agreement establishes DoD as the responsible entity. An environmental and disposal 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.

2.0.10. Environmental and Disposal Liability Site Universe. All sites identified after performing a due care approach to determine if "probable" and "reasonably estimable" criteria outlined in TR 2 have been met.

2.0.11. Environmental Site. An environmental site is a discrete location(s) for which there is an environmental issue that requires evaluation. A site is a distinct area of an installation containing one or more releases or threatened releases of hazardous substances treated as a discrete entity or consolidated grouping for response purposes. Environmental sites can also be created due to certain re-designation of land per the provisions contained in the environmental permitting processes.

2.0.12. Equipment. Equipment is personal property that is functionally complete for its intended purpose, durable, and nonexpendable. Equipment generally has an estimated useful life of two years or more; is not intended for sale; does not ordinarily lose its identity or become a component part of another article when put into use; has been acquired or constructed with the intention of being used or being available for use by the entity.

2.0.13. Event-Driven Liability. An event-driven liability is an environmental and disposal liability resulting from either a government-acknowledged event or a government-related event where there is a release of contamination to the environment that will require future cleanup.

2.0.14. Friable Asbestos and Non-Friable Asbestos. In accordance with 40 CFR 61.141, friable asbestos is any material containing more than one percent asbestos that, when dry and left undisturbed, can be pulverized, or reduced to powder by hand pressure. Non-friable asbestos is any material containing more than one percent of asbestos that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure during disturbance/removal.

2.0.15. Hazardous Waste. According to SFFAS 6, paragraph 86, hazardous waste is a solid, liquid, or confined gaseous waste, or combination thereof, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or in an increase in serious irreversible, or incapacitating irreversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed. DoD Components should use the hazardous waste definition provided by the Environmental Protection Agency and any materials FASAB specifically identifies as hazardous waste, such as the hazardous air pollutant asbestos. Hazardous substances, as defined under the CERCLA, are generally also hazardous wastes.

2.0.16. Non-routine Environmental and Disposal Liability. A unique cleanup cost of hazardous waste associated with the closure (either temporarily or permanently), disposal, or decommissioning of equipment that meets the "probable" and "reasonably estimable" criteria outlined in TR 2. Additional guidance on non-routine environmental and disposal liabilities is included in TR 11.

2.0.17. Permanent Removal from Service. Permanent removal from service requires two business events to occur: (1) the termination of the asset's use; and (2) documented evidence of management's decision to permanently remove the asset from service, by selling, scrapping, recycling, donating or demolishing the asset or where there has been destruction of the asset such as in an aircraft crash. If only one of these two business rules occurs, a "permanent" removal of an asset from service has not occurred.

2.0.18. Probable. As defined in SFFAS 5, probable is that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic. More likely than not is a greater than 50 percent chance that the DoD Component has a responsibility to address the contamination. The probability of a future outflow or other sacrifice of resources is assessed based on current facts and circumstances. These current facts and circumstances include the law that provides general authority for federal entity operations and specific budget authority to fund programs. If budget authority has not yet been provided, a future outflow or other sacrifice of resources might still meet the probability test if (1) it directly relates to ongoing entity operations and (2) it is the type for which budget authority is routinely provided. Therefore, the definition applies both to liabilities covered by budgetary resources and to liabilities not covered by budgetary resources. Additional guidance on determining "probable" for environmental and disposal liabilities is provided in TR 2.

2.0.19. Property, Plant, and Equipment (PP&E). Tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity.

2.0.20. Real Property. Consists of buildings, structures, linear structures, and land and improvements to the land. Real Property includes equipment affixed and built into the facility as an integral part of the facility (such as heating systems), but not movable equipment (e.g., plant equipment, industrial equipment, buoys).

2.0.21. Reasonably Estimable. The ability to reliably quantify, in monetary terms, the outflow of the required resources. The process for determining if an environmental and disposal liability is "reasonably estimable" is applied after a transaction or event has occurred that meets the definition of "probable." Additional guidance on determining "reasonably estimable" for environmental and disposal liabilities is provided in TR 2.

2.0.22. Recognition is the formal process by which an item is incorporated into an entity's financial statements as an asset, liability, revenue, expense, or other relevant category.

2.0.23. Removal from Service. Removal from service is defined as an event that terminates the use of a PP&E asset (e.g., shut down of a facility). Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to an entity or DoD Component's mission needs. General removal of an asset from service is not the same as "permanent removal from service." Removal from service must be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoD Component's decision to permanently remove the asset from service. If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

2.0.24. Roll Forward Procedures. A documented process bridging the timing gap between June 30 (or other interim date that an analysis has been performed) and September 30 to determine if any significant changes to environmental and disposal liabilities have occurred between June 30 (or other interim date that an analysis has been performed) and September 30. Any significant changes that have occurred between June 30 and September 30 must be reflected in the environmental and disposal liability balance through an adjustment to the environmental and disposal liability balance as of September 30.

2.0.25. Routine Hazardous Waste Disposal. The cost of hazardous waste disposal from day-to-day on-going operations, performed on a regular basis (for example, removing and disposing of batteries, cleaning solvents, and motor oil incurred as part of periodic routine maintenance of equipment over its useful life) should be recognized as an operating expense and accrued liability/payable the period the cleanup occurs in accordance with liability standards outlined in SFFAS 1. The cost of removing and disposing of the same routine maintenance hazardous waste at the time of equipment disposal would likewise be expensed and the associated liability is recognized when incurred (TR 11, paragraphs 12-14). In accordance with SFFAS 6, paragraph 93, if such cleanup is an ongoing part of operations and not deferred until operation of associated PP&E ceases either permanently or temporarily, the costs are not subject to the recognition guidance provided in SFFAS 6, paragraphs 97 and 98.

2.0.26. Transaction Level Detail Reports. Provide the line item details that support the summarized values reported on DoD Component financial statements. For event-driven liabilities, transaction level detail reports could include, but are not limited to, site level or program management level data from environmental and disposal liability systems and accounting systems that report CTC estimates, prior year cost incurred, current year cost incurred, and unpaid obligations as of the reporting period. For asset-driven liabilities, transaction level detail reports could include, but are not limited to, cost model outputs at the asset level.

2.0.27. Unpaid Obligations (UPO). Represents valid obligations supported by documentary evidence to conform to 31 U.S.C. § 1501(a). The amount of unpaid obligations represents the amount of orders for goods and services remaining unfilled at fiscal year-end for which the liability has not yet accrued.

3.0 ACCOUNTING POLICY FOR ENVIRONMENTAL AND DISPOSAL LIABILITIES

3.1 Audit Readiness

Each DoD Component must develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data.

3.2 Environmental and Disposal Liability Recognition

This paragraph outlines the policy for recognizing, measuring, and disclosing environmental and disposal liabilities in accordance with applicable accounting standards.

3.2.1. Environmental and disposal liabilities must be recognized on the financial statements as a result of past transactions or events when the future outflows or expenditures of resources for environmental cleanup, closure, and/or disposal actions are probable and reasonably estimable, in accordance with TR 2. A probable environmental and disposal liability exists when it is more likely than not that contamination from hazardous waste exists for which DoD is either legally liable for the cleanup or has acknowledged responsibility for the cleanup. A reasonably estimable environmental and disposal liability exists when a dollar value can be estimated for (1) the cleanup costs based on the results of remedial investigation/feasibility study or experience with similar sites and/or conditions; or (2) where there is no known technology to perform cleanup, the costs can be estimated for a remedial investigation/feasibility study and costs to contain the contamination (see subparagraph 3.2.2).

3.2.2. Cleanup costs associated with government related events resulting in a liability, such as ongoing operations that result in routine hazardous waste or accidental damage (e.g., oil spill) to property caused by federal operations, must be recognized as an operating expense in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable. If the DoD Component does not complete the cleanup, closure and/or disposal action within the current reporting period, and the cleanup is related to routine ongoing operations, the DoD Component must record an accrued liability for the non-routine cleanup, closure, and/or disposal costs incurred and not paid in accordance with Chapter 9.

3.2.3. Cleanup costs associated with government-acknowledged events (such as toxic waste damage caused by nonfederal entities and natural disasters) do not meet the definition of a "liability" until, and to the extent that, the government formally acknowledges financial responsibility for the cost from the event and an exchange or nonexchange transaction has occurred. The liability and expense should be recognized when both (1) the Congress has appropriated or authorized resources, and (2) an exchange occurs (contractor performs repairs) or nonexchange amounts are unpaid as of the reporting date (direct payments to disaster victims), whichever applies, in accordance with SFFAS 5.

3.2.4. SFFAS 5 address liabilities for environmental cleanup resulting from an accident, natural disaster, or other one-time occurrence. SFFAS 6 provides the standards related to the timing of recognition of environmental and disposal liabilities and related inter-period operating expenses when cleanup cannot be performed until permanent or temporary closures or shutdown and a portion of the estimated total cleanup costs is to be recognized as an expense during each operating period benefiting from operations of the general PP&E. This allocation must be based on a systematic and rational method. For example, the estimated cost could be allocated to operating periods based on the expected physical capacity of the PP&E and the amount of capacity used each period. In addition, disclosure of the total estimated cost is required.

3.2.5. Cleanup costs must be estimated when the associated PP&E is placed in service. The estimate must be referred to as the "estimated total cleanup cost. As cleanup costs are paid, payments must be recognized as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities. SFFAS 6, paragraph 94 describes two approaches to recognizing the total cleanup cost: one applies to Stewardship PP&E and another to general PP&E.

3.2.5.1. The estimated environmental and disposal liabilities associated with the total cleanup cost for Stewardship PP&E must be consistent with the treatment of the acquisition cost of Stewardship PP&E (i.e., expensing in the period placed in service). For Stewardship PP&E placed in service after the standard is adopted, the agency must recognize an expense and a liability for the full amount of estimated total cleanup cost when the Stewardship PP&E is placed in service. For Stewardship PP&E already in service, according to SFFAS 6, on the day the standard is adopted or upon early implementation, the agency must charge net position through a prior period adjustment and recognize a liability for the full amount of the estimated total cleanup costs. As re-estimates are made, adjustments to the liability must be recognized in expense as "changes in estimated cleanup costs from prior periods."

3.2.5.2. SFFAS 6 had an effective implementation date for periods beginning after September 30, 1997 and TB 2006-1 as amended by TB 2011-2 had an effective date for periods beginning after September 30, 2012. For the initial implementation of these standards, DoD Components must record environmental and disposal liabilities for PP&E as described in Table 13-1 (for non-asbestos related liabilities) or Table 13-2 (for asbestos related liabilities).

Table 13-1. Cleanup Cost Liability Options for PP&E-September 30, 1997 and Prior

The following table describes cleanup cost liability options for the initial implementation of SFFAS 6 for liabilities that existed on or before September 30, 1997.

Environmental and Disposal Liability	Accounting Treatment
Option 1	Liability should be recognized for the portion of the estimated total cleanup cost that is attributable to that portion of the physical capacity used or that portion of the estimated useful life that has passed since the PP&E was placed in service. In each subsequent year of the asset's useful life, recognize a proportionate amount of the remaining costs as an operating expense on the Statement of Net Cost and accumulation of liability on the Balance Sheet (SFFAS 6, paragraph 97-98, 104-105). As re-estimates are made, cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate.
Option 2	If costs are not intended to be recovered primarily through user charges, management may elect to recognize the estimated <u>total</u> cleanup cost as a liability upon implementation of the standard. In addition, in periods following the implementation period, any changes in the estimated total cleanup cost must be expensed when re-estimates occur, and the liability balance adjusted.

Note: The offsetting charge is to be recorded as a prior period adjustment on the Statement of Net Position (SFFAS 6, paragraph 104-105).

No amounts may be recognized as expense in the period of implementation. The amounts involved must be disclosed and to the extent possible the amount associated with current and prior periods should be noted.

Table 13-2. Cleanup Cost Liability Options for Asbestos-September 30, 2012 and Prior

The following table describes cleanup cost liability options for the initial implementation of TB 2006-1, as amended by TB 2011-2 for asbestos related liabilities that existed on or before September 30, 2012.

Asbestos	Accounting Treatment
Option 1	Record a liability for estimated cleanup costs equal to that portion of the physical capacity used or that portion of the estimated useful life of the asset that has passed since the PP&E was placed in service. The remaining cost must be recognized in a systematic and rational manner based on use of the physical capacity of the associated PP&E, whenever possible.
Option 2	If the asset has been in service for a substantial portion (greater than 50% of the useful life) of its estimated used life, management can elect to recognize the entire amount of the estimated cleanup cost. This option can only be used if costs are not intended to be recovered primarily through user charges (SFFAS 6, paragraphs 97-98, and 104-105).

Note 1. The offsetting charge for any liability for asbestos related cleanup costs related to general PP&E in service at the date of implementation must be made to the net position of the entity. The amount of the adjustment must be shown as a “change in accounting principle” in any statement of changes in net position that may be required (TB 2006-1, paragraphs 40-41).

Note 2. Illustrative Example of Asbestos Related Cleanup Costs calculation and reporting is presented in Appendix B of TB 2006-1.

Table 13-3. Cleanup Cost Liability Treatment for PP&E Placed in Service After Effective Date

The following table describes the cleanup cost liability treatment for assets placed in service after September 30, 1997 (for non-asbestos related liabilities), as well as the cleanup cost liability treatment for assets placed in service after September 30, 2012 (for asbestos related liabilities).

Environmental and Disposal Liability	Effective Date	Assets Placed in Service After Effective Date
Non-Asbestos	After September 30, 1997	Estimate the total cleanup costs related to the PP&E and recognize annually a portion of the costs over the useful life of the asset. Recognition of the expense and accumulation of the liability must begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation (SFFAS 6, paragraphs 97-98).
Asbestos	After September 30, 2012	A portion of estimated total asbestos related cleanup costs must be recognized as expense during each period that PP&E is in operation. The estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability. Recognition of the expense and accumulation of the liability must begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation (SFFAS 6, paragraph 98 and TB 2006-1, paragraph 38). As re-estimates are made, the cumulative effect of changes in total estimated asbestos related cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate. In certain scenarios, such as when cleanup costs have been fully expensed, the re-estimate may result in a credit to expense for that year (TB 2006-1). As asbestos related cleanup costs are paid, payments must be recognized as a reduction in the liability for asbestos related cleanup costs (SFFAS 6, paragraph 100).

3.2.5.3. The estimated environmental and disposal liabilities associated with PP&E placed in service after September 30, 1997 (i.e., after the initial implementation of SFFAS 6, paragraph 104), that have future environmental cleanup, closure, and/or disposal requirements must be systematically recognized over the useful life or physical capacity usage of the asset. In accordance with SFFAS 6, the accumulation of the liability and the recognition of the related expense should commence when the asset is placed in service, continue in each period that operation continues, and be completed when the PP&E cease operations. The accounting treatment for PP&E placed in service after September 30, 1997, is applicable irrespective of whether the costs are intended to be recovered through user charges or not. If the environmental and disposal liability is not associated with an asset having a useful life, for example an event-driven environmental and disposal liability, the total estimated cleanup cost should be recognized upon identification of the liability in accordance with SFFAS 5.

3.2.5.4. Estimates must be evaluated and revised periodically (at least annually) to account for material changes due to inflation or deflation and changes in regulations, plans, and/or technology (see subparagraph 2.3.4.5). The cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate (SFFAS 6, paragraphs 96 and 99).

3.2.5.5. For asbestos (both friable and non-friable) related environmental and disposal liabilities associated with PP&E, the initial date of the standard implementation (i.e., TB 2006-1 amended by TB 2011-2) is the effective date for the systematic liability recognition. Asbestos related environmental and disposal liabilities associated with PP&E placed in service after September 30, 2012, must be systematically recognized over the remaining useful life of the PP&E.

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

3.2.6.1. An environmental and disposal liability for military range cleanup, closure and/or disposal, including disposal of unexploded ordnance, does not exist until a formal decision is made to close the range, or hazardous waste is migrating off the range. If hazardous waste is migrating off the range, the DoD Component will recognize an environmental and disposal liability for the affected portion of the location outside the boundaries of the operational range. This accounting guidance is based on the conditional exemption provided to DoD per EPA regulation 40 CFR 266.202. The EPA regulation effectively excludes military munitions on a military range from the definition of solid waste. A military munition is not a solid waste when:

3.2.6.1.1. Used in training military personnel or explosives and munitions emergency response specialists (including training in proper destruction of unused propellant or other munitions); or

3.2.6.1.2. Used in research, development, testing, and evaluation of military munitions, weapons, or weapon systems; or

3.2.6.1.3. Recovery, collection, and on-range destruction of unexploded ordnance and munitions fragments during range clearance activities at active or inactive ranges. However, ‘‘use for intended purpose’’ does not include the on-range disposal or burial of unexploded ordnance and contaminants when the burial is not a result of product use.

3.2.6.2. Environmental and disposal liabilities related to conventional munitions that are determined to be excess and/or obsolete as of the financial reporting date are recognized for the total disposal estimate (i.e., the environmental and disposal liability). Conventional munitions are typically an inventory item intended for consumption; therefore, an environmental and disposal liability would exist only when the munitions are considered excess or obsolete, because the unused portions require special actions to ensure proper disposal. Conventional munitions are considered to be obsolete when no longer needed due to changes in technology, laws, or operations. Excess quantities of conventional munitions and obsolescence of conventional munitions must be evidenced by documentation of management’s decision to permanently remove an asset from service and the asset’s use is terminated.

3.2.6.3. Environmental and disposal liabilities for stockpile and non-stockpile chemical agents and munitions inventory, and buried chemical agents and munitions, should be recognized for cleanup, closure, and/or disposal costs when the probable and reasonably estimable criteria have been met, in accordance with TR 2. Per 50 U.S.C. § 1521, DoD is required to dispose of chemical weapons and materiel contained in the stockpile, as well as the non-stockpile. The stockpile consists of the chemical weapons and materiel in the inventory. The non-stockpile items are binary chemical weapons, miscellaneous chemical warfare materiel, recovered chemical weapons, and former production facilities. Proper action is needed to mitigate risk to human health and the environment from buried chemical agents and munitions. The determination to dispose of chemical weapons and materials must be evidenced by documentation supporting management’s decision to permanently remove an asset from service and the asset’s use is terminated.

3.2.6.4. For assets permanently removed from service, the environmental cleanup costs liability associated with the disposal, closure, and/or shutdown of the PP&E must be recognized in full. If removal of service is considered other than permanent, the liability and associated cleanup cost expense must continue to accumulate. Permanent removal from service is defined under subparagraph 2.0.17. In compliance with TR 14, documentation must exist of management’s decision to permanently remove an asset from service. Recognition of the full liability for cleanup costs associated with PP&E will not be recorded if an asset’s useful life has not been terminated and there is no documented evidence validating management’s decision to permanently remove the asset from service.

3.2.6.5. Overseas environmental and disposal liabilities are environmental cleanup, closure, and/or disposal costs associated with the operation of installations overseas in accordance with DoDI 4715.08 and international agreements as defined by DoD Directive 5530.3. Environmental and disposal liabilities resulting from DoD operations are considered “Government Related Events,” as defined by SFFAS 5, and will be recognized when the event creating the liability occurs. The requirements to be met will be based on the applicable SFFAS standards, DoD Issuances (i.e., DoD Directive, DoD Instruction, DoD Manual), and international agreements, in accordance with DoDI 4715.05.

3.2.6.6. When estimating the disposal cost of assets containing hazardous waste, non-environmental costs that are considered immaterial to the total cost of removing or disposing of the asset(s) may be recognized as an environmental and disposal liability. Materiality depends on the degree to which an omission or misstatement would change or influence the judgment of a reasonable person relying on the information and requires the application of professional judgment. Each DoD Component is responsible for supporting any materiality determinations.

3.2.6.7. Both friable and non-friable asbestos related cleanup, closure, and/or disposal costs must be estimated in accordance with TB 2006-1**,** as amended by TB 2011-2. Cost estimates for asbestos must include both friable and non-friable, however itemization of the two types of asbestos is not required in the estimate. Asbestos related cleanup, closure, and/or disposal costs are the costs of removing, containing, and/or disposing of:

3.2.6.7.1. Asbestos-containing materials from property, or

3.2.6.7.2. Material and/or property that consist of asbestos-containing material at permanent or temporary closure, or shutdown of associated PP&E (i.e., when cleanup cannot occur until the end of the useful life or at regular intervals during that life). Asbestos related cleanup, closure, and/or disposal costs associated with PP&E must be recognized in accordance with information in Table 13-2 and Table 13-3. TR 10 provides a framework for identifying assets containing asbestos, assessing assets to collect information, and/or developing assumptions needed to estimate asbestos cleanup costs.

3.2.7. Multiple reporting entities may have distinct responsibilities regarding general PP&E and related cleanup costs. Some component reporting entities are designated by law, rule, or administrative regulation to fund the cleanup liability associated with PP&E owned and operated by another reporting entity during the asset's useful life. In such cases, a component reporting entity that recognizes general PP&E during its useful life differs from the component reporting entity that will eventually be responsible for the future outflows or other sacrifices of resources required for cleanup costs or funding the cleanup liability when the asset is removed from service. FASAB Interpretation 9 clarifies that during the assets useful life, the reporting entity that owns the asset must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for PP&E on its Balance Sheet until the general PP&E and the associated liability are transferred to the entity designated responsible by law, statute or policy for cleanup. At that time, the general PP&E and the liability should be de-recognized by the component reporting entity that recognized them during the general PP&E's useful life and recognized by the component reporting entity that will liquidate the liability. De-recognition and recognition of the general PP&E and liability should be performed in accordance with existing accounting standards. The DoD Component recording the environmental and disposal liability must have sufficient supporting documentation to establish its responsibility for the liability. If the receiving entity does not provide DD 1354 Transfer and Acceptance of DoD Real Property, Certificate of Title Transfer, quit claim deed, or other instrument of transfer, the transferring entity continues to recognize the environmental and disposal liabilities.

3.2.8. Environmental and disposal liabilities are generally based on accounting estimates that are discussed in paragraph 3.3. Recognition of necessary adjustments to accounting estimates used in establishing environmental and disposal liabilities are as follows:

3.2.8.1. The cumulative effect of changes in cost estimates is recognized as an expense in the current accounting period and the corresponding liability is adjusted. Additionally, the related cleanup cost for the current period must be expensed and accrued as an environmental and disposal liability. Refer to section 3.0 for the appropriate accounting procedures for recording environmental and disposal liabilities.

3.2.8.2. Material adjustments that are required to correct errors related to prior period operations must be recognized as a prior period adjustment that restates the prior period comparative financial statements. Adjustments to correct errors typically result from mistakes, or the oversight or misuse of facts that would materially misstate the entities' financial statements. This includes errors in the calculation of estimated environmental and disposal liabilities. This type of adjustment is reflected in the Statement of Changes in Net Position and omits any expense recognition in the current period. The amounts involved must be disclosed, and to the extent possible, the amount associated with current and prior periods must be noted. Adjustments required for immaterial amounts are recognized as a current period event.

3.2.9. The risk of material misstatement of accounting estimates normally varies with the complexity and subjectivity associated with the process, the availability and reliability of relevant data, the number and significance of assumptions made, and the degree of uncertainty associated with those assumptions. DERP and non-DERP environmental sites require cleanup cost estimates to be single point estimates using the best available data. If a range is estimated for environmental and disposal liabilities and an amount within the range is considered a better estimate than any other estimate, that amount must be recognized; however, if no amount within a range is considered a better estimate, then the minimum amount in the range must be recognized. Refer to paragraph 3.4 for disclosure requirements of estimates that are based on uncertainty.

3.3 Environmental and Disposal Liability Estimates

3.3.1. Environmental and disposal liabilities are generally developed based on accounting estimates, because the extent of the environmental cleanup, closure, and/or disposal costs cannot be determined until completing cleanup/disposal operations. The DoD Component's responsible program management function and accounting function should work together to identify and support the environmental and disposal liability estimates and maintain audit records to support assumptions, methodologies, and internal controls used in developing the estimates. The responsible program management function is accountable for generating and approving the cost estimates; the accounting function is responsible for reviewing the cost estimates and ensuring the liability is recognized according to the guidance published in this chapter. Each estimate is based on subjective as well as objective factors. Accordingly, sound business judgment based on knowledge and experience about past and current events and assumptions is required. The accounting estimates are subject to audit standards of SAS Number 122/AU-C Section 540. Organizations that prepare accounting estimates must retain adequate documentation of quality review, estimator and reviewer qualifications, data sources, estimating methodologies, substantiation including the cost models, and internal control procedures. The process of establishing accounting estimates would normally consist of:

3.3.1.1. Identifying situations for which accounting estimates are required;

3.3.1.2. Identifying the relevant factors that may affect the accounting estimate;

3.3.1.3. Accumulating relevant, sufficient, and reliable data on which to base the estimate;

3.3.1.4. Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors;

3.3.1.5. Determining the estimated amount based on the assumptions and other relevant factors;

3.3.1.6. Comparing prior accounting estimates to actual results and with new estimates to assess the reliability of the process used to develop estimates;

3.3.1.7. Determining that the accounting estimate is consistent with the operational plans of the entity; and

3.3.1.8. Determining that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

3.3.2. The environmental cleanup, closure, and/or disposal costs that are probable and reasonably estimable must be estimated based on site-specific information using engineering estimates, comparison with similar sites, contaminants, equipment, parametric methodologies, or cost models validated in accordance with DoDI 5000.61. As cost estimates by definition are subjective and have an element of uncertainty, documentation to support cost estimates must be substantial and robust. The reliability of the cost estimate will depend on the amount of site-specific information available, the extent of experience and resemblance with similar site conditions or assets, availability of remediation technology, and parametric methodologies cost models. Once the DoD Component generates a cost estimate, the liability must be recognized in accordance with paragraph 3.2 and any uncertainty disclosed in the notes to the financial statements.

3.3.2.1. A cost estimate produced from a site-specific study is generally more reliable because it is based directly on environmental conditions at the site. Further, environmental personnel can evaluate the alternative cleanup, closure, and/or disposal actions identified through a site-specific study to develop engineering estimates and to identify the selected alternative.

However, understanding that DoD Components often include multiple sites on an individual contract, supporting documentation required to justify individual UPO transaction level details does not need to be at the site level. Where multiple sites are included on an individual contract, the UPO must have details of each of the sites to decipher reasonably associated costs for each site. In such circumstances, contracts and invoices supporting the UPO transaction level details for the combined multiple sites must be retained to support future audit requirements.

3.3.2.2. If a site-specific study has not been completed, then the DoD Component must determine whether the site is similar to other sites, where experience has been gained based on the completion of a comprehensive study or actual remediation. If there is no investigation and/or comparable site data available, costs are not considered reasonably estimable. In this case, the DoD Component should recognize the anticipated costs of conducting future studies as an environmental and disposal liability in accordance with paragraph 3.2 until they complete the site-specific study.

3.3.2.3. If an acceptable cleanup technology is not available to address the site, then the DoD Component must recognize the estimate to contain the hazardous waste and other relevant costs, such as the costs for future studies, as an environmental and disposal liability in accordance with paragraph 3.2. The DoD Component must also disclose the range of uncertainty in the notes to the financial statement.

3.3.2.4. When cost models are leveraged to develop cost estimates, DoD Components must:

3.3.2.4.1. Accumulate relevant, sufficient, and reliable data on which accounting estimates for a given environmental and disposal liability concern were based;

3.3.2.4.2. Ensure estimates are prepared by qualified personnel and adequately reviewed and approved by the appropriate levels of authority before being finalized;

3.3.2.4.3. Sustain the use of a cost model methodology by compiling and/or collecting and maintaining documentation from appropriate service providers (as applicable) to support review of cost factors on a regular basis and implementing a data collection process. For purposes of implementing this approach, DoD considers "performed on a regular basis" to mean at least annually. At a minimum, DoD Components must ensure that appropriate reviews have been performed and subsequent supporting documentation is available to provide to an auditor. Decisions on when to update cost factors must be driven by the impact that new information has on existing estimate;

3.3.2.4.4. Compile documentation and/or collect documentation from appropriate service providers (as applicable) supporting the reasonableness of cost factors used by cost estimation software;

3.3.2.4.5. Compile documentation and/or collect assurance from appropriate service providers (as applicable) that cost estimation software has been validated or otherwise ensure that the functions performed by the software are executed as intended; and

3.3.2.4.6. Compare a representative sample of prior accounting estimates with subsequent results to assess the reliability of the process used to develop estimates and the reasonableness of estimates developed.

3.3.3. Environmental and disposal liability estimates must be developed to include all event-driven environmental liability sites in the current asset/site universe and must include all asset-driven cleanup, closure, and/or disposal costs. Such cost estimates are calculated on a current cost basis and are based on a current plan, existing laws, and technology. Overhead management costs for environmental sites, assets, and equipment that cannot be attributed to specific sites should be added to the environmental and disposal liability at a summary level. Environmental and disposal liability estimates must include the following cost elements, as applicable:

3.3.3.1. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort;

3.3.3.2. Cost of employing contractors, engineers, and consultants;

3.3.3.3. Disposal costs (includes demilitarization, material handling, transportation, and tipping fees);

3.3.3.4. Cost of dedicated facilities, machinery, and equipment, and the related operating and maintenance costs;

3.3.3.5. Research and development costs for alternative remediation technologies;

3.3.3.6. Payments to regulatory agencies to provide technical support (e.g., document review of planned studies);

3.3.3.7. Efforts to tear down, remove, and dispose of the item(s), to include transportation, demilitarization, and dismantlement only as required by regulation and/or permit;

3.3.3.8. Planning and design efforts, to include contract advertisement and document reproduction;

3.3.3.9. Landscaping costs to replace landscaping elements damaged or destroyed by remediation efforts;

3.3.3.10. Permits, licenses, and approval to include State Historic Preservation Officer concurrence and documentation, and required for remediation by environmental regulation;

3.3.3.11. Grants or payments to state, tribal, and local governments;

3.3.3.12. Program management costs for DERP, a statutorily defined program with a limited universe of sites on active, BRAC and Formerly Used Defense Sites properties. Program management associated with DERP exists solely to support the remediation of sites specifically eligible for DERP. Since these program management costs will cease at the conclusion of the DERP site response actions, these costs must be reported as part of environmental and disposal liability. These costs are necessary to effectively manage and execute the site cleanup requirements for DERP sites; however, they cannot be directly attributed to an individual cleanup site. Per DoDM 4715.20, the DoD Components must report these costs as rolled-up CTC estimates at the appropriate program level. Estimated program management costs must be included for the Future Years Defense Program (FYDP) and beyond. DoD Components must estimate program management costs beyond the FYDP by applying the average percentage of program management costs through the FYDP to the site level requirements remaining past the FYDP. As with other environmental and disposal liability, these estimates must be supported with appropriate documentation.

3.3.4. Environmental and disposal liability estimates must be reviewed annually and revised when there is evidence that significant changes in the cost measurement have occurred, such as changes in scope, ownership, regulation, or technology. In the event a significant change has occurred between the environmental and disposal liability valuation date and September 30, roll forward procedures must be performed (see paragraph 4.2). At a minimum, long-term cost estimates should be adjusted upward or downward annually, through indexing, to maintain them on a current cost basis as if acquired in the current period. Expenditures should be managed to the transaction level to allow for comparison of prior estimates to subsequent results. Supporting documentation required to justify individual transaction level details does not need to be at the site level. However, contracts and invoices supporting the transaction level details for combined multiple sites must be retained to support future audit requirements.

3.3.5. A portion of estimated total cleanup costs must be recognized as an expense during each period the PP&E is in operation. This must be accomplished in a systematic and rational manner based on use of the physical capacity of the associated PP&E, whenever possible. If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability. A more thorough explanation of the term "useful life" is provided in Chapter 25. The current period estimated expense is equal to:

3.3.5.1. The total final estimated costs of the disposal or closure effort;

3.3.5.2. Divided by the total capacity;

3.3.5.3. Multiplied by the physical capacity used;

3.3.5.4. Minus the amounts previously recognized as expense;

3.3.5.5. Equals the current period estimated expense.

3.3.6. DoD Components must follow at least one (or some combination) of the approaches outlined (as applicable for the environmental and disposal liability considered) to establish and maintain a complete and current universe of environmental and disposal liabilities (i.e., baseline):

3.3.6.1. Reconcile PP&E asset records maintained in Accountable Property Systems of Record (APSRs) with environmental and disposal liability records in environmental databases of record;

3.3.6.2. Produce evidence of the performance of a historical fence-to-fence survey focused on identifying and recording environmental and disposal liabilities and recent efforts to maintain currency over initial survey findings; and

3.3.6.3. Reconcile environmental and disposal liability records with other appropriate source lists.

3.3.7. After an initial baseline has been established, DoD Components must maintain site universes by using the following techniques:

3.3.7.1. For asset-driven and event-driven liabilities, leverage PP&E asset acquisition and disposal processes/systems to update routinely the established baseline;

3.3.7.2. For event-driven liabilities, document and adhere to standard operating procedures for responding to typical site addition processes (e.g., spill programs, environmental surveys) and update the baseline; accordingly, and

3.3.7.3. For event-driven liabilities, document and adhere to standard operating procedures for removing future cost estimates when remediation requirements have been met and no additional future liability exists and update the baseline accordingly.

3.3.8. When implementing guidance outlined in subparagraphs 3.3.6 and 3.3.7, DoD Components must establish and maintain environmental and disposal liability universe baselines for event-driven and asset-driven environmental and disposal liabilities:

3.3.8.1. Event-driven environmental and disposal liabilities. In these instances, it is important that DoD Components define the history, timeline, and activities employed in the environmental surveys to demonstrate that a due care approach was taken, in accordance with TR 2, to establish an initial baseline using current factors (e.g., technology, cost, and the regulatory environment), and that there are sufficient procedures in place to identify and update the baseline to reflect the impact of changes in these factors. Documentation must be readily available to support the baseline, allowing auditors to verify the completeness of established cleanup site universes.

3.3.8.2. Asset-driven environmental and disposal liabilities. To apply the recognition and measurement principles and disclosure requirements for general PP&E in accordance with SFFAS 6, DoD Components may categorize PP&E into categories (base units) of PP&E against which the category definitions will be applied to identify relevant environmental and disposal liabilities. If only a subset of the PP&E asset universe is applicable to a given environmental and disposal liability subcategory, DoD Components must begin by considering the entire PP&E asset universe and demonstrate why individual subcategories are not applicable.

3.3.9. DoD Components must identify and account for environmental and disposal liabilities that are non-routine at the time of equipment disposal, in accordance with TR 11. When using the methodology described in TR 11, DoD Components should:

3.3.9.1. Leverage APSRs to define and categorize equipment assets that should be assessed using TR 11 guidelines.

3.3.9.2. Focus on establishing documentation consistent with guidelines set forth in TR 11 to establish an audit trail for reported equipment environmental and disposal liabilities. An audit trail must be produced even if the resulting value of equipment environmental disposal liabilities is deemed immaterial.

3.3.9.3. Review applicable contractual agreements to understand better the responsibilities and obligations during disposal of equipment assets being considered. In some instances, other contractual parties may assume all or part of a liability at the point of disposal, which could affect DoD financial reporting requirements.

3.3.9.4. Coordinate with the following communities (as applicable): Acquisition, Financial Management, Program Management, and Environmental.

3.4 Environmental and Disposal Liability Disclosures

3.4.1. Financial statement disclosures provide pertinent information in notes or narratives about the amounts reported on the face of the financial statements. (Refer to Volume 6B, Chapter 10 for guidance on completing the financial statement notes.) Disclosure requirements for liabilities, including environmental and disposal liabilities, differ depending on the underlying event and the probability and measurability (reasonably estimable) of loss. Key determinants of probable are the likelihood of contamination, the contamination is government related, the government is legally liable, or government acknowledges the financial responsibility, and whether remediation technology exists. The classifications of likelihood are probable, reasonably possible and remote. Probable means that the future confirming event or events are more likely than not to occur; reasonably possible means that the chance of the future confirming event or events is more than remote but less than probable; and, remote means the chance of the future event or events occurring is slight

3.4.2. Environmental and disposal liabilities meeting the criteria in TR 2 for “probable” and “reasonably estimable” must be recognized on the Balance Sheet. The recognition of environmental and disposal liabilities requires the following disclosures associated with the cleanup, closure, and/or disposal cost estimates that must be addressed each reporting period within the financial statement note for environmental and disposal liabilities:

3.4.2.1. The sources (list applicable laws and regulations) of cleanup, closure, and/or disposal requirements;

3.4.2.2. The method for assigning estimated total cleanup, closure, and/or disposal costs to current operating periods (i.e., based on consumed useful life or physical capacity of the assets);

3.4.2.3. The unrecognized amounts of environmental and disposal liabilities for assets that require the systematic recognition of the total estimated cleanup, closure, and/or disposal costs. The DoD Component must recognize the portion of the total cost that is attributed to the useful life of the asset that has expired since the asset was placed in service. The balance of the total estimated cleanup, closure and/or disposal cost is the unrecognized portion of the liability;

3.4.2.4. Material changes in the total estimated cleanup, closure and/or disposal costs due to changes in laws, technology, or plans, and the portion of the change in estimate that relates to prior period operations;

3.4.2.5. The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, plans, or applicable laws and regulations; and

3.4.2.6. A description of the type of environmental and disposal liabilities identified.

3.4.3. Environmental and disposal liabilities that are not recognized because they do not meet the criteria of "probable" and "reasonably estimable" but for which there is at least a reasonable possibility that a loss may have been incurred are contingent environmental and disposal liabilities that must be disclosed in the notes to the financial statements. OMB Circular A-136 provides details for this disclosure. The financial statement disclosure should include the nature of the environmental and disposal liability and an estimate of the possible liability, an estimate of the range of dollar amounts for the possible liability, or a statement that such an estimate cannot be made.

3.4.4. Environmental and disposal liabilities that are classified as remote or with a slight chance of occurring do not require disclosure in the general-purpose financial statements and accompanying notes, but the law may require disclosure in special purpose reports. If such information is included in general purpose financial reports (e.g., the total face amount of insurance and guarantees in force), it should be labeled in such a way to avoid the misleading inference that there is more than a remote chance of a loss of that amount.

3.4.5. DoD Components must disclose Intragovernmental Liabilities Not Covered by Budgetary Resources separately from Liabilities Covered by Budgetary Resources in accordance with Volume 6B, Chapter 10.

3.4.5.1. Liabilities Covered by Budgetary Resources are liabilities incurred which are covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include:

3.4.5.1.1. New budget authority;

3.4.5.1.2. Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year;

3.4.5.1.3. Spending authority from offsetting collections (credited to an appropriation or fund account); and

3.4.5.1.4. Recoveries of unexpired budget authority through downward adjustments of prior year obligations.

3.4.5.2. Liabilities are considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the Balance Sheet date, provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first.

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

3.4.6. DoD reports environmental litigation liabilities separately from other environmental and disposal liabilities in the notes to the financial statements. DoD Components must report estimates of certified third-party damage claims that are probable or reasonably possible. See Volume 6B, Chapters 4 and 10 for information regarding reporting and disclosing requirements on environmental and disposal liabilities arising from litigation claim.

3.4.7. Documentation to support the environmental and disposal liability recognition and disclosures, including management reviews, must be retained for the life of the liability. Once the liability has been eliminated, the documentation must be retained according to applicable retention and disposal instructions in accordance with Volume 1, Chapter 9.

4.0 ACCOUNTING PROCEDURES FOR RECORDING ENVIRONMENTAL AND DISPOSAL LIABILITIES

4.1 Standard Line of Accounting and Accounting Transactions

4.1.1. The ***Standard Financial Information Structure (SFIS)*** is a comprehensive data structure that supports requirements for budgeting, financial accounting, cost/performance, interoperability, and external reporting needs across the DoD enterprise. It is a common business language that enables budgeting, performance-based management, and the generation of financial statements. SFIS standardizes financial reporting across DoD and allows revenues and expenses to be reported by programs that align with major goals, rather than basing reporting primarily on appropriation categories. It also enables decision-makers to efficiently compare programs and their associated activities and costs across DoD and provides a basis for common valuation of DoD programs, assets, and liabilities.

4.1.2. Volume 1, Chapter 4 prescribes the requirements for SFIS and Standard Line of Accounting/Accounting Classification compliance for DoD business systems to meet statutory requirements and additional requirements implemented by the OMB and the Treasury. As stated in Volume 1, Chapter 4, subparagraph 1.3.8, the Treasury Bureau of the Fiscal Service publishes the USSGL which is updated annually in the TFM. TFM Volume 1 Supplements include the latest USSGL Bulletin and seven major sections that comprise the Treasury USSGL guidance: (I) Chart of Accounts, (II) Accounts and Definitions, (III) Account Transactions, (IV) Account Attributes for USSGL Proprietary Account and Budgetary Account Reporting, (V) Crosswalks to Standard External Reports for Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reporting, (VI) Crosswalks to Reclassified Statements for Reporting, and (VII) GTAS Validations and Edits for Reporting. Refer to the Office of the Deputy Chief Financial Officer SFIS website, the authoritative source for the DoD Standard Chart of Accounts (including point accounts), the Transaction Library and data element definitions when recording financial transactions related to environmental and disposal liabilities and environmental contingent liabilities.

4.2 Performing Roll Forward Procedures

4.2.1. Environmental and disposal liabilities reported in the financial statements must reflect the liability as of the Balance Sheet date (i.e., as of September 30, or as of June 30), not an earlier date. Thus, when the annual evaluation of the environmental and disposal liabilities is performed as of a date earlier than September 30, DoD Components must develop, document, and execute a process for performing roll forward procedures. These procedures are to determine if any changes that meet the "probable" and "reasonably estimable" criteria occurring during the roll forward period have a significant impact (see Appendix A) on the estimates to be reported as of September 30. To limit the time period covered by the roll forward procedures, DoD Components need to complete a robust cost estimation process at least as recently as June 30 of each year. Subsequent significant changes that have occurred between June 30 and September 30 must be reflected in the environmental and disposal liability reported as of the Balance Sheet date. To assist DoD Components with segmenting their universe to identify subsets of environmental and disposal liability cleanup sites that may not require a reassessment during the roll forward period, a decision tree has been developed and included in Figure 1.

4.2.2. While performing the roll forward procedures, each DoD Component must identify and assess any potential qualifying events to determine their significance to reported financial statement balances. To roll forward the environmental and disposal liability for event-driven liabilities, the DoD Component must consider:

4.2.2.1. Whether the process for developing supporting justification to determine the significance of a roll forward event may not be as robust as the process for developing supporting justification produced to support the initial estimates or annual evaluation. Sufficient evidence must be available to support the roll forward assessments.

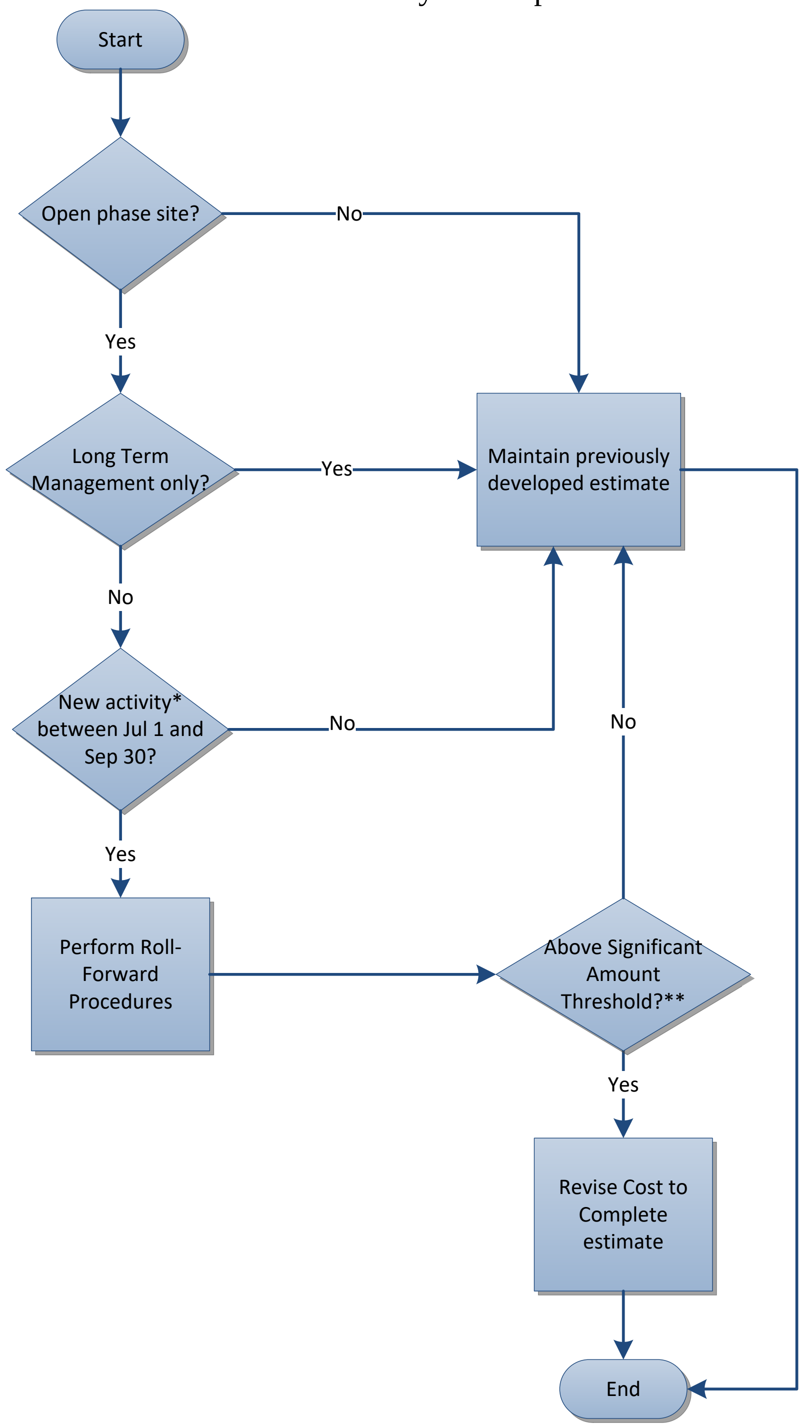
4.2.2.2. Establishing or adjusting liabilities for discoveries/changes occurring in the roll forward period based on prior experience with similar sites and/or conditions for the total cost of cleanup. If several similar sites and/or conditions are considered with no single scenario more likely than any other, the scenario with the minimum associated amount in the range should be used.

4.2.2.3. Macroeconomic factors (e.g., raw materials, regulatory standards, technology) that changed during the roll forward period to determine if they will have a significant impact to the overall cost estimates.

4.2.2.4. Establishing, documenting, and performing roll forward procedures that can sufficiently support the determination of whether any significant changes occurred or alternatively those changes are insignificant. Even if the result of those procedures determines that very few or no events are significant to the financial statements and/or balances as of September 30, the documented process for arriving at that determination will need to be available for auditor’s review.

4.2.3. To update the environmental and disposal liability balance for asset-driven liabilities during the roll forward period of July, August and September, DoD Components must consider changes in asset inventories and/or significant occurrence impacting established cost factors developed to predict disposition of non-routine, environmentally hazardous waste at the point of PP&E asset disposal.

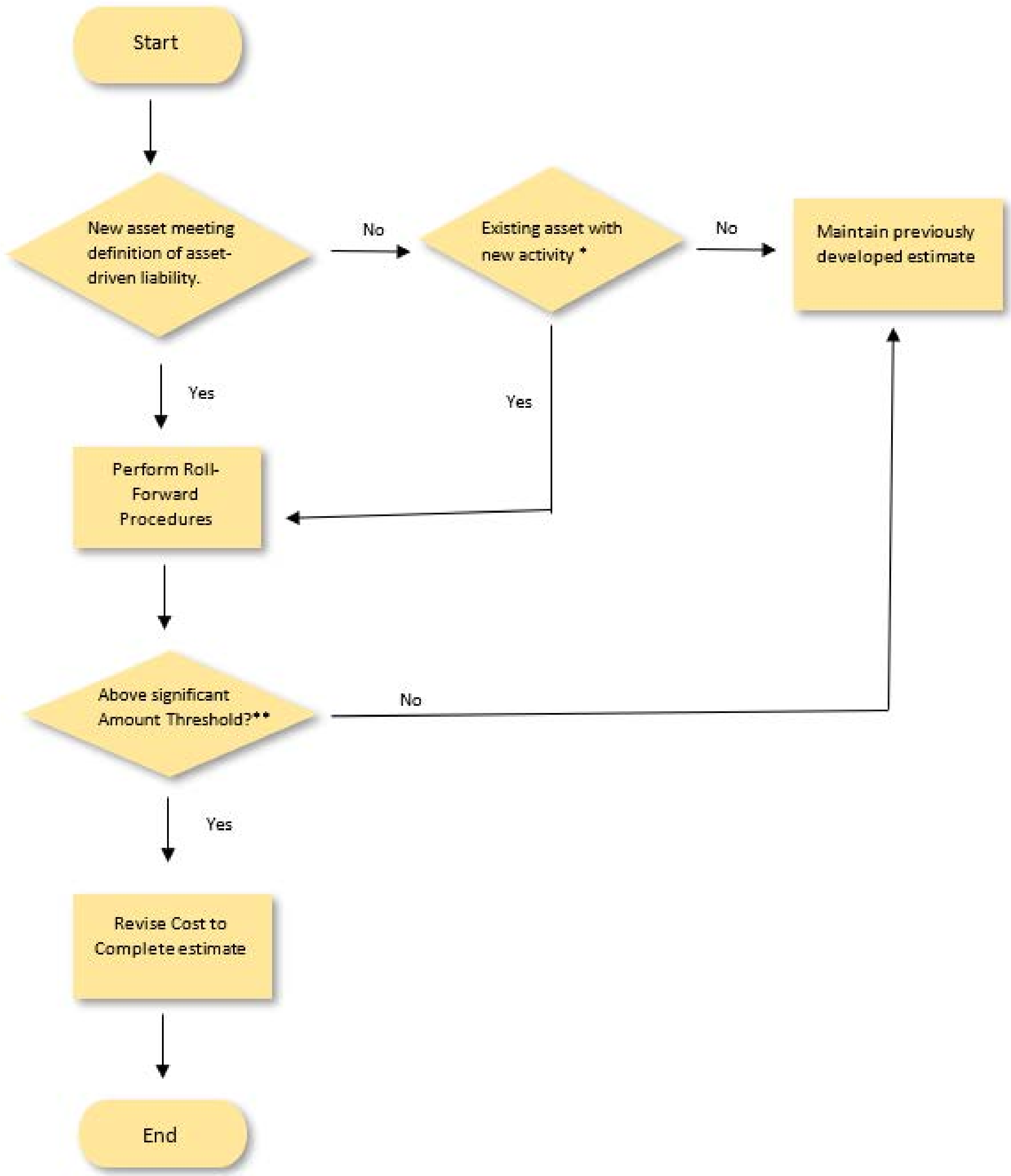
Figure 1. Roll Forward Decision Tree for Event-Driven Environmental and disposal Liabilities
Note: This decision tree assumes an interim analysis was performed as of June 30.



*New activities could include: change in project scope, change in standards or regulations, new technology, new obligation, change in DoD policy, new or additional contamination discovered.

**See Appendix A for determination of significant amounts in the roll forward period.

* Figure 2. Roll Forward Decision Tree for Asset-Driven Environmental and Disposal Liabilities
Note: This decision tree assumes an interim analysis was performed as of June 30.



*New activities could include: change in capacity, change in standards or regulations, new technology, new obligation, change in DoD policy, new or additional contamination discovered.

**See Appendix A for determination of significant amounts in the roll forward period.

Appendix A. Quantitative Determination of Significant Amounts in the Roll Forward Period

DoD Components should use this quantitative approach to determine what are considered significant amounts in the roll forward period. Significant amounts that have occurred between June 30 and September 30 must be reflected in environmental and disposal liability through an adjustment to the environmental and disposal liability as of September 30. To assist DoD Components with segmenting their cleanup universe to identify subsets of environmental and disposal liability cleanup sites that may not require a reassessment during the roll forward period, decision trees have been developed and included in Figure 1 and Figure 2. DoD Components should leverage Figure 1 and Figure 2 or methods consistent with Figure 1 and Figure 2. The intent of Figure 1 and Figure 2 is to assist DoD Components with segmenting their cleanup universe to identify high risk subsets, subsequently reducing the overall effort required to implement roll forward procedures. Subsequently, DoD Components must assess qualifying events to determine significance to the reported financial statement balances.

Approach to calculate significant amount threshold:

Environmental & Disposal Liability Balance [1]	$XXXXX
Multiply by 1%	x .01
Materiality[2]	$XXXXX
Multiply by no more than 3%[3]	x .03
Significant Amount Threshold	$XXXXX

Note: DoD Components must use the calculated significant amount threshold or $1 million, whichever is greater.

The significant amount threshold calculation has been developed to compensate for the possible aggregation of misstatements in the recorded liability amount by a DoD Component (i.e., misstatements for multiple environmental and disposal liability sites) and among DoD Components at the consolidated DoD financial statement level. While individual misstatements may not be material to the financial statements, when aggregated with other misstatements they could result in a material misstatement.

[1] Total Environmental and Disposal Liabilities balance on the DoD Component's financial statements as of the most recently reported period.
[2] This materiality amount is equivalent to Performance Materiality as described in the GAO FAM §230.12.
[3] Based on OUSD's judgment to compensate for the potential aggregation of amounts at the DoD Component level.

VOLUME 4, CHAPTER 14: "PAYMENT INTEGRITY"

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 2020 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
2.0	Replaced the list of Department of Defense (DoD) Payment Integrity programs with a new section on DoD Program Payment Integrity Activities by Phases.	Addition
3.0	Updated the Compliance with Payment Integrity Information Act (PIIA) requirements section; and added Table 14.1 "DoD Program Compliance Requirements by Payment Integrity Phase Classification."	Revision
4.2.5	Added baseline and reduction target responsibilities.	Addition
5.2.3.1	Added the current threshold determination for High-Priority Programs and moved the definition to subparagraph 5.2.3.1.	Revision
6.0.1.1	Added Confirmed Fraud Reporting.	Addition
7.0	Added Office of Management and Budget Circular A-136 Payment Integrity reporting requirements.	Addition
8.1	Added the definition of Baseline.	Addition
8.4	Added the definition of a Recovery Audit.	Addition
8.7	Added the definition of the Tolerable Improper Payment and Unknown Payment Rate.	Addition
8.8	Added the definition of an Unknown Payment.	Addition

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CHAPTER 14

PAYMENT INTEGRITY

1.0 GENERAL

1.1 Overview

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

1.2 Purpose

The purpose of this policy is to provide guidance to the DoD Components (i.e., Military Services, Defense Agencies, DoD Field Activities, and Combatant Commands) to implement the requirements from the authorities identified in paragraph 1.3. This policy applies to all DoD Components who make "payments" (as defined in the PIIA).

1.3 Authoritative Guidance

1.3.1 ***Public Law, 116-117, PIIA***

1.3.2. ***Title 31, United States Code, Section 3351 et. seq***

1.3.3. ***OMB Circular No. A-123, Appendix C***, "Requirements for Payment Integrity Improvement"

1.3.4. ***OMB Circular No. A-136***, "Financial Reporting Requirements"

*2.0 DoD PROGRAM PAYMENT INTEGRITY ACTIVITIES BY PHASE

Programs with annual outlays greater than $10,000,000 will be classified into one of two possible categories: Phase 1 or Phase 2. Programs that are not likely to have an annual amount of improper payments (IP) plus an annual unknown payments (UP) above the statutory threshold (which is either (1) both 1.5 percent of program outlays and $10,000,000 of all program payments made during the fiscal year (FY) or (2) $100,000,000, regardless of the IP percentage of total program outlays) are referred to as being in Phase 1. If a program in Phase 1 determines that it is likely to annually make IPs plus UPs above the statutory threshold, then the program will move into Phase 2 the following year. Once in Phase 2, a program will have additional compliance requirements such as reporting an annual IP and UP estimate.

2.0.1. Phase 1 Payment Integrity Activities Performed by the DoD Components. PIIA requires that federal agencies assess all programs with annual outlays greater than $10,000,000 for IP risk at least once every three years. The purpose of an IP risk assessment is to adequately conclude whether the program is likely to make total annual IPs plus UPs above or below the statutory threshold, and thus, may be susceptible to significant improper payments for the given year.

2.0.1.1. If the IP risk assessment demonstrates that the program is not likely to make IPs plus UPs above the statutory threshold, then the program will not produce a statistically valid estimate in the following year and instead will conduct another IP risk assessment in three years.

2.0.1.2. An IP risk assessment is a tool that can help a program understand the points within the payment process that may be vulnerable to IPs and UPs. The results of the IP risk assessment help identify weaknesses in internal controls that, if strengthened, could prevent future IPs and UPs from occurring. Establishing and maintaining effective internal controls, including an internal control system that prevents IPs and UPs from being made and promptly detects and recovers any IPs that are determined to be recoverable, should be a priority.

2.0.1.3. Programs must perform an adequate reconciliation of any population used in the creation of the IP risk assessment to conclude on the likelihood of the program being susceptible to significant improper payments. The reconciliation process should be documented in the IP risk assessment. See the ***DoD Payment Integrity Risk Appetite Statement*** for further guidance on the allowable materiality threshold for what percentage of payments from a given universe must be reconciled for the sample population to be considered "complete."

2.0.2. Phase 2 Payment Integrity Activities Performed by the DoD Components. If the results of a program's IP risk assessment determine that the total annual IPs plus UPs for the program are likely to be above the statutory threshold, the program will report a statistically valid IP estimate and UP estimate in the subsequent FY in which the determination was made. Programs that report IP and UP estimates are referred to as being in 'Phase 2'. The main purpose of an IP estimate is to reflect the annual estimated known IPs and UPs made by the program.

2.0.2.1. Sampling and Estimation Methodology Plan (S&EMP). Programs reporting IPs for the first time must produce a S&EMP. A program's S&EMP should have a mechanism for identifying, accounting for, and estimating the annual IPs and the annual UPs separately. The program will be responsible for designing and documenting a S&EMP that produces an IP and UP estimate that is accurate and appropriate given program characteristics, and it will be the DoD Office of Inspector General's (OIG) responsibility to evaluate whether the explanation provided by the program and the S&EMP without point estimates and confidence intervals around those estimates warrants compliance during the annual DoD OIG compliance review. S&EMPs will be considered statistically valid if they produce point estimates and confidence intervals around those estimates. Components must work with a statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable. If a program is unable to develop a S&EMP that produces a point estimate and confidence interval around the estimate, then it must include in their S&EMP a detailed explanation as to why it is not possible. Once a program has submitted a S&EMP to OMB, the program does not need to resubmit a S&EMP unless an update to the plan is warranted (i.e., if the program is impacted by any significant legislative, funding, structural, or guidance changes).

2.0.2.2. Programs must perform an adequate reconciliation of any population such as the disbursement systems used in the creation of the S&EMP. The reconciliation process should be documented in the S&EMP. See the ***DoD Payment Integrity Risk Appetite Statement*** for further guidance on the allowable materiality threshold for what percentage of payments from a given universe must be reconciled for the sample population to be considered "complete."

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

2.0.3. DoD Components will sample, conduct post payment reviews, estimate the amount of improper payments and unknown payments using statistically valid sampling methodologies, and report improper payments and unknown payments to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for reporting in the consolidated DoD Agency Financial Report (AFR) and the annual OMB Payment Integrity data call.

*3.0 COMPLIANCE WITH PIIA REQUIREMENTS

3.0.1. The DoD OIG, on an annual basis, will evaluate the Department's compliance with the requirements under PIIA. The Department is not considered compliant under PIIA if one or more of its programs are found non-compliant with one or more PIIA requirements. Refer to Table 14.1 for applicable compliance requirements by program phase classification type (Phase 1 or Phase 2). The six PIIA requirements are:

3.0.1.1. Published a Payment Integrity section in the Other Information section of the consolidated DoD ***AFR*** for the most recent fiscal year and posted the consolidated AFR and any accompanying materials required by OMB. The payment integrity information that is published on PaymentAccuracy.gov is the most common accompanying materials to the annual DoD AFR and the primary location for the comprehensive detailed Department payment integrity program information. OUSD(C) Financial Management Policy and Reporting (FMPR) achieves the OMB and PIIA statutory requirements by reporting the Department's payment integrity information through OMB's Annual Data Call, which OMB subsequently publishes on PaymentAccuracy.gov.

3.0.1.1.1. DoD Components are not required to include payment integrity information in their individual AFRs.

3.0.1.1.2. DoD Components must include the following statement under the Payment Integrity section in their individual AFRs: "DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD Agency Financial Report. For detailed reporting on DoD payment integrity, refer to PaymentAccuracy.gov and to the Other Information section of the consolidated DoD AFR."

3.0.1.2. Conducted a program-specific risk assessment for each DoD program or activity and adequately concluded whether the program is likely to make improper payments plus unknown payments above or below the statutory threshold.

3.0.1.3. Published improper payment and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the consolidated DoD AFR.

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

3.0.1.5. Published a reduction target for each DoD program that has reported improper payment and unknown payment estimates above the statutory threshold, demonstrated improvements to payment integrity or reached a tolerable improper payment or unknown payment rate, and developed a plan to meet the established reduction target.

3.0.1.6. Reported an improper payment and unknown payment estimate of less than 10 percent for each DoD program and activity for which an improper payment and unknown payment estimate was published in the accompanying materials to the annual financial statement.

3.0.2. To be fully compliant with the PIIA, the DoD Components must meet each of the applicable requirements based on the program's phase classification described in subparagraph 2.1.

Table 14.1 DoD Program Compliance Requirements by Payment Integrity Phase Classification

Program Phase	AFR Published In Accordance with OMB Guidance	Conducted Risk Assessment	Published Adequate Estimate	Published CAP	Published Reduction Targets	Reported Rate Under 10 Percent
Phase 1	✓	✓	N/A	N/A	N/A	N/A
Phase 2	✓	N/A	✓	✓	✓	✓

3.0.3. If the DoD OIG determines that a program is non-compliant for any requirement, then the final OIG report must provide concrete recommendations to the program or DoD Component with specific actions the program must take to achieve compliance with the requirement.

4.0 OUSD(C) ROLES/RESPONSIBILITIES

4.1 Financial Management Policy and Reporting Directorate Role

The Deputy Chief Financial Officer designated the FMPR Directorate as the Executive Agent (EA) for the DoD Payment Integrity portfolio. As the EA for the DoD Payment Integrity portfolio, the FMPR Directorate provides oversight to the DoD Components to ensure compliance with the authoritative guidance listed in paragraph 1.3. Additionally, OUSD(C), FMPR must be notified by the audit agency of any stand-alone audits regarding Payment Integrity.

4.2 FMPR Directorate Responsibilities

4.2.1. Interpret and provide proactive Payment Integrity related guidance and strategy to the DoD Components to ensure compliance with the authoritative guidance listed in section 3.0.

4.2.2. Review, collaborate and coordinate Senior Executive approval (as appropriate) for the DoD Components' performance and execution of their program-specific risk assessments in determining the susceptibility to significant improper and unknown payments.

4.2.3. Review, collaborate and coordinate Senior Executive approval (as appropriate) for the DoD Components' statistical sampling plans and if required, submit them to OMB.

4.2.4. Coordinate progress in reducing monetary loss, and compile and submit quarterly High-Priority Program Quarterly Payment Integrity Scorecard reports to OMB on DoD programs and activities reporting more than $100 million projected in improper payments that resulted in monetary losses that are designated as "high-priority" by OMB.

* 4.2.5. Establish and report baselines and subsequently collaborate with DoD Components to establish reduction targets and develop a plan to meet the reduction targets for applicable program(s).

4.2.6. Review, adjudicate, and consolidate the DoD Components' payment integrity data and report the consolidated results in the Payment Integrity section of the consolidated DoD AFR and to OMB through their Annual Data Call.

4.2.7. Review the DoD Components' CAPs to ensure they are complete and link planned actions and improper payments and unknown payments to their root causes.

4.2.8. Review the DoD Components' CAP milestones to track and monitor progress.

4.2.9. Prepare and submit all DoD-wide reports regarding Payment Integrity.

4.2.10. Serve as the primary liaison for annual DoD OIG performance audits and Government Accountability Office (GAO) audits to ensure that all requested information is transmitted to the auditor in a timely manner and that the auditor recommendations are implemented.

4.2.11. Provide administrative and technical support to the DoD PIIA Senior Accountable Officials (SAOs) Steering Committee. This committee comprises SAOs from the Military Services and several Defense Agencies responsible for proactive oversight of the DoD Payment Integrity program. The SAO Steering Committee implements best practices, monitors performance, and drives actions for achieving compliance with PIIA. The OUSD(C) FMPR schedules the committee meetings; prepares agendas and briefing materials; prepares meeting minutes; tracks action items to completion; and communicates necessary information to Committee members and stakeholders.

4.2.12. Ensure that the policy contained within the DoD Financial Management Regulation regarding Payment Integrity is current.

4.2.13. Retain documentation submitted by the DoD Components. Refer to Volume 1, Chapter 9, for additional information on financial records retention.

5.0 DoD COMPONENT ROLES/RESPONSIBILITIES

5.1 DoD Components' Role

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

5.2 DoD Components' Responsibilities

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

5.2.2. For each DoD program under Phase 2 that has been determined to be susceptible to significant improper payments, develop a statistically valid S&EMP. In addition, implement the S&EMP to produce statistically valid improper payment and unknown payment estimates for all DoD programs and activities determined to be susceptible to significant improper payments.

5.2.2.1. For the payment integrity programs in phase 2, the Defense Finance and Accounting Service (DFAS) Enterprise Solutions and Standards, Enterprise Accounting and Audit Support Office (EAAS) performs most of the annual post-payment reviews, with coordinated support and concurrence from the DoD Components and executive oversight from the OUSD(C), FMPR Payment Integrity team.

5.2.2.1.1. The Army performs annual post-payment reviews of its travel payments and vendor payments that are outside the continental United States.

5.2.2.1.2. The Department of the Air Force performs annual post-payment reviews of its travel payments that are made from the Reserve Travel System.

5.2.2.2. Ensure all payments are subject to improper and unknown payment testing either internally or through the sampling methodologies and post-payment review processes performed by the DFAS, Enterprise Solutions and Standards, EAAS Office. The PIIA does not require agencies to test payments made by a Federal agency to another Federal agency. Therefore, DoD Components are not required to test for intergovernmental and intragovernmental payments transactions and these payments may be excluded from all testing populations.

5.2.2.3. Report annual results of improper payments and unknown payments to OUSD(C), FMPR, for adjudication, consolidation, and reporting in the Payment Integrity section of the consolidated DoD AFR and to OMB through their Annual Data Call. DoD Intelligence Agencies must follow the Office of the Director of National Intelligence, National Intelligence Program, PIIA guidelines and reporting requirements. Classified payments are excluded from public reporting.

5.2.3. For programs or activities determined to be susceptible to significant improper payments and unknown payments above the statutory threshold designated by OMB, identify the root causes of improper payments and unknown payments and develop cost-effective CAPs that eliminate the root causes of improper payments and unknown payments and prevent and reduce improper payments and unknown payments.

* 5.2.3.1. Submit results on a quarterly basis to OUSD(C), FMPR, for consolidation and reporting in accordance with OMB for high-priority programs. This designation is for programs with improper payments resulting in monetary losses that exceed $100 million annually. High-priority programs must provide quarterly Payment Integrity Scorecard reporting on PaymentAccurancy.gov.

5.2.3.2. Measure the effectiveness and progress of each CAP by assessing the results of actions taken to eliminate the root causes of improper payments and unknown payments.

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

5.2.5. Support the annual DoD OIG performance audit and relevant GAO audits in a timely manner by furnishing all required provided-by-client documentation, providing responses to auditor's inquiries, and implementing auditor recommendations.

5.2.5.1. Provide support for all ad-hoc requests from external oversight bodies (i.e., OMB, GAO, and Congress).

5.2.5.2. Notify OUSD(C), FMPR of any stand-alone audits regarding Payment Integrity that directly impact their Component.

5.2.6. Use the DNP Initiative resources to review payment or award eligibility for purposes of identifying and preventing improper payments.

5.2.7. Retain documentation submitted by the DoD Components. Refer to Volume 1, Chapter 9, for additional information on financial records retention.

6.0 OMB Circular No. A-123, Appendix C

DoD Components must implement the requirements in OMB Circular No. A-123, Appendix C, or its successor publication. The following paragraphs of this section provide a cursory overview of the key Appendix C requirements.

6.0.1. Programs or Activities Not Susceptible to Significant Improper Payments. PIIA requires that all DoD programs or activities not currently reporting an annual improper payment estimate assess their risk for improper payments. If a DoD component determines that a program or activity is not susceptible to significant improper payments, the DoD component must reassess that program's improper payment risk at least once every three years.

6.0.2. Programs or Activities Susceptible to Significant Improper Payments. If a DoD component determines a program to be susceptible to significant improper payments, the DoD component must estimate and report improper payments for that program annually.

6.0.3. Annual Improper Payment Estimates. In accordance with PIIA, DoD programs that are determined to be susceptible to significant improper payments must produce a statistically valid estimate of the improper payments and unknown payments made.

6.0.4. Annual Reporting. Most payment integrity reporting requirements are met through annual data requests from OMB and by reporting data in the consolidated DoD AFR. For more details on annual payment integrity reporting, see paragraph 7.0 for a summary of OMB Circular A-136 reporting requirements.

6.0.5. High-Priority Programs. PIIA requires OMB to designate the programs with the most egregious cases of improper payments and unknown payments as high-priority; and requires those programs to submit semi-annual or quarterly actions to track the progress towards reducing improper payments and unknown payments. Refer to subparagraph 7.0.2 for more information on the reporting requirements for high-priority programs.

6.0.6. Preventing Improper Payments. If a DoD Component determines that a program or activity is susceptible to significant improper payments, the DoD component must identify the root causes of the improper payments and unknown payments and implement appropriate corrective actions to prevent and reduce these types of payments.

6.0.7. Internal Control Over Payments. As DoD Components implement Appendix C, they should approach improper payments and unknown payments with an Enterprise Risk Management framework in mind and link agency efforts in establishing internal controls and preventing improper payments and unknown payments. For more information see ***OMB Circular No. A-123, Appendix A***, "Management of Reporting and Data Integrity Risk."

6.0.8. Payment Recovery Audits. One fundamental requirement that DoD Components must meet is to recover any Federal dollars that are a monetary loss to the Government unless legislation specifically prevents such recovery. Monetary loss to DoD represents overpayments such as duplicate payments or amounts that should not have been paid and can be recovered. PIIA requires any DoD program or activity that expends at least $1 million during the year to implement payment recovery audits, if cost effective to the agency, in order to recover improper payments. Volume 10, Chapter 22, provides additional detail on payment recovery audits. The requirement to conduct payment recovery audits is independent of whether a program is susceptible to significant improper payments.

6.0.9. Annual Inspector General Compliance Review. The PIIA contains an important component of accountability to the entire spectrum of improper payment efforts. Every year, the DoD OIG reviews DoD Components' improper payment reporting in the consolidated DoD AFR and any accompanying material (such as the information provided on PaymentAccuracy.gov) to determine if the agency complies with PIIA and OMB guidance.

6.0.10. The Do Not Pay (DNP) Initiative. The ***DNP Initiative*** encompasses multiple resources that are designed to help DoD Components review payment eligibility for purposes of identifying and preventing improper payments.

* 6.0.1.1. Confirmed Fraud Reporting. As part of the annual OMB Payment Integrity reporting requirements, OUSD(C) FMPR collaborates with the DoD Components to report FY confirmed fraud results. It is important to note the classification of confirmed fraud is determined to be fraudulent through the adjudication process. Confirmed fraud does not include transactions determined by management to be anomalous or indicative of potential fraud that were referred to the DoD OIG or the Department of Justice, unless the appropriate judicial or adjudicative process has made the determination.

*7.0 OMB Circular No. A-136

The Department must implement the requirements in OMB Circular No. A-136, or its successor publication. The following paragraphs of this section provide a cursory overview of the key PIIA reporting requirements.

7.0.1. The Department must complete the Annual Data Call issued by OMB and provide a link to PaymentAccuracy.gov in the annual consolidated AFR. The Department is responsible for: (1) contacting OMB (PaymentIntegrity@omb.eop.gov) by September 1st of the reporting year to gain access to the Annual Data Call and (2) reviewing the Annual Data Call guidance to determine which requirements are applicable. If the Department performs recovery audits and the recovery audit contractor recommends actions that can be taken to prevent overpayments, the Department should report on the actions taken in the consolidated AFR.

7.0.2. Beginning in FY 2023, high-priority programs will be required to provide in the annual consolidated AFR a summary of their payment integrity activities and results. The summary must include:

7.0.2.1. A description of improper payments made by the agency; an estimate of the improper payment amount and rate; an explanation of the causes of improper payments; and any major actions taken or planned to mitigate those causes;

7.0.2.2. An explanation for changes in payment integrity methodologies, activities, or results that occurred during the reporting period; and

7.0.2.3. A hyperlink for PaymentAccuracy.gov. The summary must not conflict with data that is available on PaymentAccuracy.gov, which is intended to be the complete source for all qualitative, quantitative, and contextual payment integrity information.

8.0 DEFINITIONS

*8.1 Baseline

A baseline is a starting point or benchmark against which future progress can be assessed or compared. If a program had a 24-month reporting cycle where no significant changes occur in the S&EMP, the program will most likely be considered to have established a baseline.

8.2 Improper Payment

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service (as defined in the PIIA), or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

8.3 Payment

The term payment in this chapter means any transfer or commitment for future transfer of Federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies, to any non-Federal person, non-Federal entity, or Federal employee, that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity.

*8.4 Recovery Audit

A recovery audit is the review and analysis of an agency's or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, that is specifically designed to identify overpayments.

8.5 Root Cause

Root causes may be due to anomalies, random events, or due to process vulnerabilities and other systemic factors (e.g., failure to obtain documentation or failure to update recipient eligibility). A root cause is the origin of a problem or condition that led to the failure in a program or activity that resulted in an improper payment. Root cause analysis must identify the internal control deficiency or underlying problems and events that directly contributed to the improper payment.

8.6 Significant Improper Payments

Significant improper payments are defined as gross annual improper payments and unknown payments (i.e., the total amount of monetary loss of improper payments, non-monetary loss improper payments, and unknown payments) in the program exceeding: (1) both 1.5 percent of program outlays and $10 million of all reported program or activity payments made during the fiscal year reported, or (2) $100 million (regardless of the improper payment percentage of total program outlays).

*8.7 Tolerable Improper Payment and Unknown Payment Rate

The Tolerable Improper Payment and Unknown Payment Rate is the improper payment and unknown payment estimate achieved with a balance of payment integrity risk and controls. The tolerable improper payment and unknown payment rate for a program is determined by agency senior management and often includes improper and unknown payments, which are unavoidable, cost prohibitive, and sometimes mission prohibitive for the agency to prevent. If a program's tolerable Improper Payment and Unknown Payment Rate is above the statutory threshold, then the Improper Payment and Unknown Payment reduction target will eventually be set to equal that tolerable IP and UP rate.

*8.8 Unknown Payment

An unknown payment is a payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper because of insufficient or lack of documentation.

VOLUME 4, CHAPTER 15: "NET POSITION"

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 December 2019 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
2.0	Added introduction, providing source guidance references from the Department of Defense, Office Deputy Chief Financial Officer Standard Financial Information Structure.	Addition
2.3	Added definition for "Unexpended Appropriations While Awaiting a Warrant, Account Number 309000" to better align with United States Standard General Ledger (USSGL).	Addition
2.9	Added definition for "Unexpended Appropriations – Used – Disbursed, Account Number 310710" to better align with the USSGL.	Addition

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CHAPTER 15

NET POSITION

1.0 GENERAL

1.1 Overview

Net Position is the difference between the total assets and total liabilities recognized in the Federal Government's or a component reporting entity's Balance Sheet. Net Position may be positive (assets greater than liabilities) or negative (assets less than liabilities). Net Position accounts represent the net investment of the United States (U.S.) Government in the Department of Defense (DoD) or to the reporting entities of the DoD. As such, for the DoD agency-wide statements, it includes all operations of DoD activities, including General Funds, Working Capital Funds, and Special and Trust funds. The general policy to account for the Net Position of the U.S. Government in DoD is contained in this chapter.

1.2 Purpose

This chapter provides descriptions of the primary United States Standard General Ledger (USSGL) accounts that comprise Net Position on the Balance Sheet and the Statement of Changes in Net Position (SCNP) financial statements. It also outlines the reporting of prior-period adjustments on the financial statements.

1.3 Authoritative Guidance

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

1.3.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ***(SFFAS) 21***, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources;"

1.3.2. FASAB ***SFFAS 27***, "Identifying and Reporting Funds from Dedicated Collections;"

1.3.3. FASAB ***SFFAS 43***, "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds;"

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

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

*2.0 STANDARD GENERAL LEDGER ACCOUNTS FOR NET POSITION

The standard general ledger accounts for Net Position presented are derived from the Treasury USSGL. Posting entries and account listings for the Net Position accounts are provided in the "DoD USSGL Transaction Library" and "DoD Standard Reporting Chart of Accounts," respectively, which are available on the Office of the Deputy Chief Financial Officer ***Standard Financial Information Structure*** web page. Paragraphs 2.1 through 2.12 identify some relevant USSGL accounts to Net Position, but not limited to:

2.1 Unexpended Appropriations – Cumulative, Account Number 310000

This account is used to record the amount of unexpended appropriations after fiscal year-end closing. The balance in this account remains the same during the fiscal year. Activity to increase or decrease unexpended appropriations is reflected in other USSGL accounts in the 310000 series. At year-end, the nominal USSGL accounts in the 310000 series are closed to this USSGL account, including special and trust funds that receive appropriations from the General Fund of the U.S. Government. During the fiscal year, the net of debit and credit balances in the 310000 series accounts reflects the total remaining balance of unused appropriations. Special and trust funds that receive appropriations from the General Fund of the U.S. Government are to record this account. This account does not close at year-end.

2.2 Unexpended Appropriations – Appropriations Received, Account Number 310100

This account is used to record the amount of new appropriations received during the fiscal year. Special and trust funds do not use this USSGL account to record appropriations of dedicated collections. However, special and trust funds that receive appropriations from the General Fund of the U.S. Government are to use this account.

*2.3 Unexpended Appropriations While Awaiting a Warrant, Account Number 309000

This account is used to record the amount of new appropriations expected to be received during the fiscal year from the General Fund of the U.S. Government. This is equal to the funding provided under a continuing resolution and apportioned in accordance with OMB's automatic apportionment bulletin. Pursuant to a continuing resolution or enacted annual appropriation act, the account may be used while awaiting a warrant to be issued for an appropriation by the Treasury's Bureau of the Fiscal Service (Fiscal Service). Special and trust funds do not use this USSGL account to record appropriations for dedicated collections. However, special and trust funds that receive appropriations from the General Fund of the U.S. Government are to use this account. The balance in this account will adjust to zero when the Fiscal Service issues a warrant and must adjust to zero by year-end. This account does not close at year-end.

2.4 Unexpended Appropriations – Transfers-In, Account Number 310200

This account is used to record the amount of unexpended appropriations, from current or prior years, transferred in during the fiscal year. Special and trust funds that receive appropriations from the General Fund of the U.S. Government are to use this account for transfers of unexpended appropriations.

2.5 Unexpended Appropriations – Transfers-Out, Account Number 310300

This account is used to record the amount of unexpended appropriations, from current or prior years, transferred out during the fiscal year. Special and trust funds that receive appropriations from the General Fund of the U.S. Government are to use this account for transfers of unexpended appropriations.

2.6 Unexpended Appropriations – Prior-Period Adjustments Due to Corrections of Errors - Years Preceding the Prior Year, Account Number 310500

This account is used to record the amount of net increase or decrease to unexpended appropriations due to errors in years preceding the prior-year's financial statements that resulted from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. Use only when comparative financial statements are being presented. Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

2.7 Unexpended Appropriations – Adjustments, Account Number 310600

This account is used to record the amount of adjustments during the fiscal year to unexpended appropriations from current or prior years. Examples of adjustments include rescissions, and cancellations of expired appropriations. Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

2.8 Unexpended Appropriations – Used – Accrued, Account Number 310700

This account is used to record the amount of accruals representing a reduction during the fiscal year to unexpended appropriations from current or prior years that is paired with USSGL account 570000, "Expended Appropriations - Used - Accrued," when goods and services are received or benefits provided. Any funds that receive appropriations from the General Fund of the U.S. Government are to use this account.

*2.9 Unexpended Appropriations – Used – Disbursed, Account Number 310710

This account is used to record the amount of reduction during the fiscal year to unexpended appropriations from current or prior years that is paired with USSGL account 570010, "Expended Appropriations – Disbursed" when goods and services are received or benefits provided. Any funds that receive appropriations from the General Fund of the U.S. Government are to use this account when Fund Balance with Treasury is disbursed.

2.10 Unexpended Appropriations – Prior-Period Adjustments Due to Corrections of Errors, Account Number 310800

This account is used to record the amount of net increase or decrease to unexpended appropriations due to errors in prior-period financial statements that resulted from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. Use USSGL account 310500, "Unexpended Appropriations - Prior-Period Adjustments Due to Corrections of Errors - Years Preceding the Prior-Year" for the amount of net increase or decrease to unexpended appropriations due to errors occurring in years preceding the prior-year's financial statements. Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

2.11 Unexpended Appropriations – Prior-Period Adjustments Due to Changes in Accounting Principles, Account Number 310900

This account is used to record the amount of net increase or decrease to unexpended appropriations from a prior period due to a change from one generally accepted accounting principle to another one that can be justified as preferable or the adoption of a new FASAB standard. Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

2.12 Cumulative Results of Operations, Account Number 331000

This account is used to record the amount of net difference since the inception of the activity between (1) expenses and losses, and (2) financing sources including appropriations, revenues, and gains. Although the normal balance for this account is credit, it is acceptable in certain instances for this account to have a debit balance. This account does not close at year-end.

3.0 ACCOUNTING POLICY FOR NET POSITION

3.1 Activities Financed By Appropriations

Activities whose operations are financed by appropriations must show the results of their operations as reductions to the Unexpended Appropriations account on a transaction basis and as changes in the Cumulative Results of Operations account with respect to the equity effect of transactions. The Unexpended Appropriations account is increased for the receipt of appropriations or other appropriation like resources and reduced for amounts expended for assets or operating expenses, and any appropriation withdrawals.

3.2 Activities Financed by Revenues

Activities whose operations are financed by revenues, generally defined as exchange revenue, must have their results of operations reflected as increases or decreases to the Cumulative Results of Operations account, which will include transfers of assets, which are recognized as financing sources. Appropriations received for a specific funding purpose will be accounted for in the Unexpended Appropriations account until used as a financing source.

4.0 RECOGNITION IN FINANCIAL STATEMENTS

The Component reporting entity's Net Position accounts are Unexpended Appropriations and Cumulative Results of Operations and each must be shown in the consolidated Balance Sheet and SCNP. See Volume 6B, "Form and Content of the Department of Defense Audited Financial Statements."

4.1 Unexpended Appropriations

This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances. Unexpended appropriations on the Balance Sheet must equal unexpended appropriations on the SCNP. Unexpended appropriations attributable to Funds from Dedicated Collections, if material, must be shown separately on the face of the Balance Sheet and should equal unexpended appropriations in the notes to the financial statements as prescribed in OMB Circular A-136.

4.2 Cumulative Results of Operations

This amount represents the net results of operations since inception plus the cumulative amount of prior-period adjustments. This includes the cumulative amount of donations and transfers of assets in and out without reimbursement. Cumulative results of operations on the Balance Sheet should equal cumulative results of operations on the SCNP. Cumulative results of operations attributable to Funds from Dedicated Collections, if material, must be shown separately on the face of the Balance Sheet and should equal the cumulative results of operations in the Funds from Dedicated Collections Note, in accordance with SFFAS 27, as amended.

5.0 ACCOUNTING FOR NET POSITION

Transactions affecting net position frequently require a compound entry; that is, entries must be made in both the proprietary (asset, liability, revenue, expense, and equity) and the budgetary accounts. Entries to the proprietary accounts normally require compound entries to budgetary accounts in the 400000 series of accounts. See the "DoD USSGL Transaction Library" for the listing of the transaction postings to the 300000 series accounts. Entries that affect direct program Delivered Orders, Paid and Unpaid must also include postings to Appropriation Used and Unexpended Appropriation.

6.0 CORRECTION OF AN ERROR OR A CHANGE IN ACCOUNTING PRINCIPLE

6.1 Errors in Financial Statements

Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. When errors are discovered after the issuance of financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:

6.1.1. If only the current period statements are presented, then the cumulative effect of correcting the error should be reported as a prior-period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the SCNP.

6.1.2. If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period presented is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior-period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the SCNP for the earliest period presented.

6.1.3. The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed. Financial statements of subsequent periods need not repeat the disclosures.

6.1.4. Prior-period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated. See SFFAS 21 for additional guidance.

6.2 Changes in Accounting Principles

A change in accounting principle is a change from one Generally Accepted Accounting Principle to another one that can be justified as preferable. Changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards. Unless otherwise specified in the transition instructions section of a new FASAB standard, for all changes in accounting principles that would have resulted in a change to prior-period financial statements:

6.2.1. The cumulative effect of the change on prior periods should be reported as a "change in accounting principle." The adjustment should be made to the beginning balance of cumulative results of operations in the SCNP for the period that the change is made.

6.2.2. Prior-period financial statements presented for comparative purposes should be presented as previously reported; and

6.2.3. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure. See SFFAS 21 for additional guidance.

VOLUME 4, CHAPTER 16: "REVENUE, OTHER FINANCING SOURCES, GAINS AND LOSSES"

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 2012 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
1.0 (1601)	Revised "General" section to comply with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures dated June 2015.	Revision
2.2.4. (160202.D)	Added clarification that Nonappropriated Fund Activities are non-federal activities.	Addition
2.3.3.6. (160203.C.6)	Added clarification that Nonappropriated Fund Activities are non-federal activities.	Addition
3.2 (160302)	Added "Fund Balance with Treasury Under a Continuing Resolution" as an account to be used before an apportionment is warranted.	Addition
3.5 (160305)	Added recognition of multi-use heritage assets at fair market value.	Revision
3.6 (160306)	Added the reclassification of excess, obsolete, or unserviceable inventory will usually result in a loss.	Addition
4.1 (160401)	Updated revenue recognition policy to agree with DoD Manual 4140.01.	Addition
4.2.1. & 4.2.3. (160402.A & C.)	Added caveat that customer orders from non-federal entities do not become budgetary resources until collected.	Addition
4.2.2. & 4.2.4. (16402.B & D.)	Added caveat that general ledger accounts 510900 and 520900 are not to be used for credit losses.	Addition
4.3.5. (160403. F)	Added Administrative Fee Revenue to nonexchange revenue accounts.	Addition
4.4 (160404)	Revised definition of Other Financing Sources to correspond with that in Statement of Federal Accounting Standards 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."	Revision

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CHAPTER 16

REVENUE AND OTHER FINANCING SOURCES, GAINS, AND LOSSES

*1.0 GENERAL (1601)

1.1 Purpose (160101)

This chapter describes the accounting principles and concepts that the Department of Defense (DoD) Components must follow to account for revenues, other financing sources, gains, and losses. Expenses are discussed in Chapter 17. Losses are discussed in both this chapter and Chapter 17 because the same type of transaction sometimes results in a gain and at other times a loss, e.g., disposition of real property at a price above or below the book value. The "Table of Transactions" in Appendix A assists in classifying exchange and nonexchange revenues, other financing sources, and gains and losses. Also see Volume 6B for information about how to report revenue on the financial statements.

1.2 Authoritative Guidance (160102)

The authoritative source for accounting guidance on Revenue and Other Financing Sources is ***Statement of Federal Financial Accounting Standards (SFFAS) 7,*** "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." Additional guidance is promulgated by the Department of the Treasury (Treasury) on the ***United States Standard General Ledger (USSGL)*** website. USSGL information is adapted for the DoD in the ***Standard Financial Information Structure (SFIS)*** DoD Standard Chart of Accounts and Transaction Library.

2.0 REVENUE (1602)

2.1 Sources of Revenue (160201)

Within the DoD, revenues are amounts earned as a result of normal operations while gains or losses relate to other transactions. Revenues result from the sale of, or reimbursement for, goods and services provided to DoD activities, other Federal Government agencies and the public. Revenue is an inflow of resources that results in an increase of assets, a decrease in liabilities (or a combination of both), and an increase in Net Position during a reporting period. Decreases in Liabilities for Advances and Prepayment after delivery of goods or services are examples of how decreases in liabilities impact revenue.

2.1.1. The distinction between revenues and gains or losses is whether the transaction is usual or recurring. Revenues are recorded at gross amount while gains are shown net of related costs.

2.1.1.1. Revenue comes from two sources: exchange transactions and nonexchange transactions.

2.1.1.2. Exchange revenues must be recognized when something of value is provided to another government entity or to the public.

` 2.1.1.3. Exchange revenue must be posted at the actual price that is received or receivable under the established pricing arrangement.

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

2.1.1.5. Refunds received are recoveries of overpayments and, as such, are not revenue. Refunds can result from errors in paying invoices or items returned to vendor.

2.2 Special Revenue Situations (160202)

2.2.1. When appropriated funds are used to furnish goods and services on a reimbursable basis, the appropriated fund must have specific legal authority to retain the collections. Otherwise, the funds collected must be transferred to a miscellaneous receipt account. The expenses incurred in providing the goods or service must be recorded in the appropriate expense accounts and must not be reduced, even though the collection is deposited to miscellaneous receipts. See Volume 11A, Chapter 1 for additional information about reimbursements.

2.2.2. Revenue must be recorded in the financial records, collected promptly, and deposited in the appropriate Treasury account. Amounts received in advance of performance, however, must be accounted for as Liability for Advances and Prepayments until performance is accomplished in accordance with Chapter 12.

2.2.3. When revenues are generated by providing goods and services, the cost of the goods and services provided must be recorded as a cost of goods sold. Use of the cost of goods sold account is discussed in Chapter 17.

* 2.2.4. Revenues from Nonappropriated Funds Activities must be accounted for in accordance with Volume 13, Chapter 5. Nonappropriated Fund Activities are not included in federal financial statements and are considered as non-federal activities for budgetary and proprietary accounting purposes. They follow accounting standards promulgated by the Financial Accounting Standards Board rather than Federal Accounting Standards Advisory Board.

2.3 Exchange Revenue (160203)

2.3.1. Exchange revenues are inflows of resources to a governmental entity that the entity has earned. They arise from transactions that occur when each party to the transaction sacrifices value and receives value in return. Exchange revenue includes most user charges other than taxes. Exchange transactions also include those intragovernmental transactions where the price serves as a full or partial reimbursement for the costs incurred.

2.3.2. Revenue from exchange transactions must be recognized at the time goods or services are provided to the public or another government entity for a price.

2.3.3. Revenue from specific types of exchange transactions must be recognized as follows:

2.3.3.1. When services are provided to the public or another government entity (except for specific services performed to order under a contract), revenue must be recognized when the services are performed.

2.3.3.2. When goods are made to order under a contract (either short or long term), or specific services are performed under a contract (either short or long term), revenue must be recognized monthly in proportion to estimated total cost when goods and services are acquired to fulfill the contract. The amount of revenue to recognize is based on the ratio of the costs incurred to date to the total estimated costs of completing the contract. If a loss is probable (more likely than not), revenue must continue to be recognized in proportion to the estimated total cost and costs must continue to be recognized when goods and services are acquired to fulfill the contract. Thus, the loss must be recognized in proportion to total cost over the life of the contract.

2.3.3.3. When goods are kept in inventory and are available for sale to customers when ordered, revenue must be recognized when the goods are issued to the customer.

2.3.3.4. When services are rendered continuously over time or the right to use an asset extends continuously over time, such as the use of borrowed money or the rental space in a building, the revenue must be recognized in proportion to the passage of time or the use of the asset.

2.3.3.5. When an asset other than inventory is sold, any gain (or loss) must be recognized when the asset is delivered to the purchaser.

* 2.3.3.6. Revenue received from Nonappropriated funds is accounted for as non-federal revenue from transactions with the public. Nonappropriated funds are not included in federal financial statements.

2.3.4. The source of balances for some trust funds and special funds may not be predominantly nonexchange revenue, and the source of balances for working capital funds and trust revolving funds may not be predominantly exchange revenue. For example, the main source of balances for two major trust funds, the Civil Service Retirement and Disability Fund and the DoD Military Retirement Trust Fund, consists of exchange revenue and other financing sources. In such exceptional cases, the interest must be classified in the same way as the predominant source of funds, as exchange revenue. See SFFAS 7, paragraphs 154-160 for more information.

2.4 Nonexchange Revenue (160204)

2.4.1. Nonexchange revenues include income taxes, excise taxes, duties, fines, penalties, and other inflows of resources arising from the Government's power to demand payments, as well as voluntary donations. Nonexchange revenue must be recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable (i.e., more likely than not) and the amount is measurable (i.e., reasonably estimable).

2.4.2. Nonexchange revenue should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue (the recipient entities). SFFAS 7, paragraphs 48 through 63 describe the application of this general standard.

3.0 OTHER FINANCING SOURCES (1603)

3.1 Other Financing Sources (160301)

The term "revenue" does not encompass all financing sources of government reporting entities, such as most of the appropriations they receive. These other financing sources do, however, provide resource inflows to government reporting entities, although not to the government as a whole. Other sources of financing include appropriations used, transfers of assets from other government entities, and imputed financing with respect to any cost subsidies.

*3.2 Appropriations (160302)

Until used, appropriations are not a financing source. They must be recognized in capital as "unexpended appropriations" (and among assets as "Fund Balance with Treasury" or "Fund Balance with Treasury Under a Continuing Resolution") when made available for apportionment, even if a Treasury Warrant has not yet been received, or the amount has not been fully apportioned. Unexpended appropriations must be reduced for appropriations used and adjusted for other changes in budgetary resources, such as certain types of rescissions and transfers. The net increase or decrease in unexpended appropriations for the period must be recognized as a change in net position of the entity. When used, appropriations must be recognized as a financing source in determining net results of operations. Appropriations are used in operations when goods and services are received or benefits and grants are provided. Goods and services (including amounts capitalized) are considered received when a liability is established. Benefits are considered to be provided when the related liability is established. Grants are considered to be provided when grantees meet the requirements that allow them to use the grant funds.

3.3 Imputed Financing (160303)

Government entities often receive goods and services from other government entities without reimbursing the providing entity for all the related costs. In addition, government entities often incur costs such as pensions, which are paid in total or in part by other entities. These goods and services constitute subsidized costs to be recognized by the receiving entity to the extent required by other accounting standards. An imputed financing source must be recognized equal to the imputed cost. This offsets any effect of imputed cost on net results of operations for the period. Within the DoD, imputed costs can include military personnel costs, pensions, other retirement benefits, other postemployment benefits, costs unreimbursed by tenants of real property, and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity.

3.4 Transfers (160304)

An intragovernmental transfer of cash or of a capitalized asset without reimbursement changes the resources available to both the receiving entity and the transferring entity. The receiving entity must recognize a transfer-in as an additional financing source in its result of operations for the period. Similarly, the transferring entity must recognize the transfer-out as a decrease in its result of operations. The value recorded must be the transferring entity's book value of the asset. If the receiving entity does not know the book value, the asset must be recorded at its estimated fair market value as of the date of transfer. See Appendix A for more information on property, plant, and equipment (PP&E) transfers.

*3.5 Donations (160305)

Donations are contributions to the government, i.e., voluntary gifts of resources to a government entity by a non-federal entity. Donations may be financial resources, such as cash or securities, or non-financial resources such as land or buildings. Revenue arising from donations must be recognized for those inflows of resources that meet recognition criteria for assets and must be measured at the estimated fair market value of the contribution. In cases of the donation of assets classified as heritage assets or stewardship land, no amount is recognized because such PP&E would have been expensed when purchased. Multi-use heritage assets should be recognized at fair market value, similar to general PP&E. See Chapter 6 and Appendix A for additional information about real property donations and PP&E.

*3.6 Gains or Losses (160306)

When a transaction occurs with the public or another government entity for a price which is unusual or nonrecurring, a gain or loss must be recognized rather than revenue or expense so as to differentiate such transactions. Gains or losses result from the sale, exchange, trade or disposition of government assets, with the exception of inventory held for sale. The reclassification of excess, obsolete, or unserviceable inventory will generally result in a loss when revalued because the value is now less than the acquisition or moving average cost of the item. The amount of revaluation is recognized as a loss or gain in determining the net cost of operations. As a rule, any difference between the sales proceeds at more or less than the book value of an asset is recognized as a gain or loss when the asset is sold. This general rule applies to the sale of PP&E, receivables, investments, and other assets where the selling entity is entitled to retain the proceeds of the sale. In addition, the distinction between revenues and gains or losses is a matter of classification in the general ledger accounts and their presentation in financial statements. Revenues are commonly reported at their gross amount while gains or losses are shown net of related book value.

4.0 ACCOUNTING FOR REVENUES, OTHER FINANCING SOURCES, DONATIONS, TRANSFERS, AND GAINS AND LOSSES (1604)

4.1 Transaction Library (160401)

The DoD SFIS Transaction Library is the transaction library for recording business events for revenue and other financing sources within the DoD. Also see Volume 1, Chapter 7. Additional information about how to classify transactions is available in SFFAS 7 and Appendix A. The following series of accounts are the primary USSGL accounts used to record revenue, other financing sources transaction, donations, transfers, and gains and losses. Specific account definitions for all USSGL accounts and subaccounts are included in the DoD Standard Chart of Accounts.

*4.2 Exchange Revenue Accounts (160402)

4.2.1. Revenue From Goods Sold (510000). Use this account to record exchange revenue earned from the sale of purchased or finished goods processed for sale or use under a program of trading or manufacturing. When goods are kept in inventory so that they are available to customers when ordered, revenue must be recognized in the same accounting period that the goods are delivered to the customer, or in the case of Defense Working Capital Fund (DWCF) when the ordered goods are placed into an in-transit status, (consistent with Fee On Board Shipping Point revenue recognition). Performers (DoD activities providing goods and/or services at cost) include the DWCF activities, working capital funds within the Military Departments, working capital funds within the "Other Defense Organizations," and construction agents, such as the United States (U.S.) Army Corps of Engineers. Customers include any DoD Component, organization, office or other element; non-DoD Federal Government agencies; others officially representing the Federal Government; and members of the public (as specified by law). Federal customer orders (funded requests for goods and services) provide budgetary resources to finance reimbursable operations; consequently, customer orders must be obligations of a Federal Government activity unless otherwise specified by law. Customer orders from non-federal entities do not become budgetary resources until collected. Customer orders from Nonappropriated Funds are accounted for as orders from non-federal entities.

4.2.2. Contra Revenue for Goods Sold (510900). Use this account to offset revenue for goods sold when collection of accrued revenue is not expected. Record amounts based on adjustments, returns, allowances, price redetermination, and refunds other than taxes where revenue is earned, but does not include credit losses.

4.2.3. Revenue From Services Provided (520000). This account is used to record exchange revenue earned from the sale of services provided, including sale of power and transportation. Most often associated with revenue earned by working capital funds, revenue posted to this account is generally recorded at the point of sale. When services are provided to the public or another government entity, revenue must be recognized in the same accounting period that the services are performed. Service providers include DWCF activities, working capital funds within the Military Department, working capital funds within the "Other Defense Organizations," the U.S. Army Corps of Engineers, and appropriation funded activities.

Customers of the Department include any DoD Component, organization, office or other element; non-DoD Federal Government agencies and others officially representing the Federal Government; and members of the public (as specified by law). Federal customer orders (funded requests for goods and services) provide budgetary resources to finance reimbursable operations; consequently, customer orders must be obligations of a Federal Government activity unless otherwise specified by law. Customer orders from non-federal entities do not become budgetary resources until collected. Customer orders from Nonappropriated Funds are accounted for as orders from non-federal entities.

4.2.4. Contra Revenue for Services Provided (520900). Use this account to offset revenue for services provided when collection of accrued revenue is not expected. Record amounts based on adjustments, returns, allowances, price redetermination, and refunds other than taxes where revenue is earned, but does not include credit losses.

4.2.5. Interest Revenue - Other (531000). This account is used to record revenue earned from interest not associated with investments or borrowings/loans. Depending on the source of the funds, this revenue can be exchange or nonexchange revenue. For example, revenue resulting from interest charges on delinquent receivables is considered exchange revenue (refer to Chapter 3, Annex 1). For interest revenue transactions not related to investments, consult the SFIS Transaction Library.

4.2.6. Interest Revenue - Investments (531100). This account is used to record investment interest revenue. Depending on the source of the funds used to make an investment, the revenue can be exchange or nonexchange revenue. For example, invested balances for the Civil Service Retirement and Disability Fund and DoD Military Retirement Trust Fund are predominantly derived from exchange revenue and other financing sources and the interest earned on those balances must be classified as exchange revenue.

4.2.7. Contra Revenue for Interest Revenue - Investments (531800). Record a reduction in revenue for interest accrued on investments when realization is not expected.

4.2.8. Contra Revenue for Interest Revenue - Other (531900). Record a reduction in other revenue for interest accrued not associated with investments or borrowings/loans when realization is not expected. Amounts recorded are based on abatements, adjustments, returns, allowances, or price redeterminations.

4.2.9. Administrative Fees Revenue (532500). Record revenue from administrative fees to this account including revenue from administrative fees associated with collections on delinquent accounts (refer to Chapter 3, Annex 1).

4.2.10. Contra Revenue for Administrative Fees (532900). Record a reduction in revenue for administrative fees when realization is not expected as defined in SFFAS 7, paragraph 41.

4.2.11. Benefit Program Revenue (540000). Revenue received by agencies administering retirement plans, insurance plans, and other annuity programs are recorded to this account. Employees of the Federal Government provide service to their employer in exchange for compensation, of which some is received currently (the salary); and some is deferred (pensions, retirement health benefits, and other retirement benefits). The financing of these benefits includes contributions paid by the employer entity to the retirement fund and is an inflow of resources to the retirement fund as part of this exchange transaction. It is a payment by the employer in exchange for the future provision of a pension or other retirement benefit to its employees. Therefore, it is exchange revenue of the entity that administers the retirement plan and, thus, is an offset to that entity's gross cost in calculating its net cost of operations.

4.2.12. Contra Revenue for Benefit Program Revenue (540900). Record a reduction in revenue for a benefit program based on adjustments as stipulated by law not including credit losses.

4.2.13. Insurance and Guarantee Premium Revenue (550000). Revenue earned from insurance and guaranteed premiums. The premiums are recorded as exchange revenue in this account and any interest earned on investments made with premium revenue is therefore exchange revenue recorded to Account 531100.

4.2.14. Contra Revenue for Insurance and Guarantee Premium Revenue (550900). Record a reduction in revenue for an insurance and guarantee premium based on adjustments stipulated by law not including credit losses.

4.2.15. Other Revenue (590000). Use this account to record the amount of revenue received but not otherwise classified. For example, funds received for administering international and other agreements when the U.S. Government is reimbursed represent Other Revenue. Other uses of this account include the sale of stockpile materials or the cancellation of a receivable for a reimbursable activity.

4.2.16. Contra Revenue for Other Revenue (590900). Record a reduction in revenue recorded in account 590000 when realization is not expected to this account. Amounts recorded are based on adjustments, returns, allowances, price redetermination, and refunds other than taxes. Credit losses on other nonexchange revenue also are recorded in this account.

*4.3 Nonexchange Revenue Accounts (160403)

4.3.1. Nonexchange revenues that can be retained by the collecting entity in accordance with permanent provisions of law or through the authorization and/or appropriations process are not matched with costs because they are not earned in the operations process. Because they are inflows that finance operations, nonexchange revenues must be classified and recognized only in determining the overall financial results of operations for the period. See Volume 6B, Chapter 6, for information about how to report nonexchange revenue in the notes to the financial statements. Collections not authorized by law for retention and used as appropriation reimbursements may be considered exchange or nonexchange revenue and must be deposited to the General Fund of the Treasury as miscellaneous receipts.

4.3.2. Interest Revenue - Other (531000). This account is used to record revenue earned from interest not associated with investments or borrowings/loans. Depending on the source of the funds used to make the investment, the revenue can be exchange or nonexchange revenue. For example, interest revenue resulting from the Military Housing Privatization Program is considered nonexchange revenue. For interest revenue transactions not related to investments, consult the SFIS Transaction Library.

4.3.3. Interest Revenue - Investments (531100). This account is used to record investment interest revenue. Depending on the source of the funds used to make the investment, the revenue can be exchange or nonexchange revenue. Interest on securities held by trust and special funds (except trust revolving funds) is often nonexchange revenue because the investment is made with funds derived from the government's sovereign authority. The key is the source of the funds used to make the investment, i.e., exchange or nonexchange. For example, invested balances for the U.S. Army Corps of Engineers' Harbor Maintenance Trust Fund are predominantly derived from nonexchange revenue and the interest earned on those balances must be classified as nonexchange revenue.

4.3.4. Penalties and Fines Revenue (532000). Record revenue derived from penalties and fines to this account. Penalties and fines revenue should be reported as a non-entity custodial activity in accordance with SFFAS 7, paragraphs 260 and 262. The custodial activity will be presented at net value on the Balance Sheet along with a corresponding amount recorded as a custodial liability. Collection and disposition of custodial revenue to the General Fund Receipt Account will not impact the Net Position of the collecting entity. Refer to Volume 6B, for additional information on reporting of custodial revenue. Refer to Chapter 3, Annex 1, for more information about penalties and administrative charges.

4.3.5. Contra Revenue for Penalties and Fines (532400). Record an amount reflecting a reduction in revenue for penalties and fines when realization is not expected as defined in SFFAS 7, paragraph 41.

* 4.3.6. Administrative Fee Revenue (532500). This account is used to record revenue associated with administrative fees assessed on delinquent receivables. Refer to Volume 4, Chapter 3, Annex 1, for more information about penalties and administrative charges.

4.3.7. Donated Revenue - Financial Resources (560000). Record the donation of financial resources to a Federal Government entity from a non-federal source, for example, cash or securities. Donations should be measured at the estimated market value of the contribution.

4.3.8. Contra Revenue for Donations - Financial Resources (560900). Record an amount reflecting a reduction in revenue for donated financial resources that are returned.

4.3.9. Donated Revenue - Nonfinancial Resources (561000). Record the donation of nonfinancial resources to a Federal Government entity from a non-federal source, for example, land or buildings. Nonfinancial donations are calculated on the estimated fair market value at the time of the donation.

4.3.10. Contra Donated Revenue - Nonfinancial Resources (561900). Record an amount reflecting a reduction in revenue for donated nonfinancial resources that are returned.

*4.4 Other Financing Sources (160404)

Financing sources, other than exchange and nonexchange revenues, that provide inflows of resources that increase results of operations during the reporting period include expended appropriations, transfers of assets from other government entities, and financing imputed with respect to any cost subsidies. Financing outflows may result from transfers of an entity's assets to other Government entities or from exchange revenues earned by the entity that must be transferred to the general fund or another government entity.

4.4.1. Expended Appropriations (570000). This account is used to record the amount of appropriations used during the fiscal year when goods and services are received or benefits are provided. Special and trust funds that receive appropriations from the General Fund of the Treasury must use this account.

4.4.2. Transfer Accounts (572000 and 573000). These accounts are used to record the transfers of capitalized assets between DoD Components without the receipt of a direct appropriation or transfer document from the Office of Management and Budget (OMB). These accounts are not to be used to transfer Fund Balance with Treasury.

4.4.2.1. Financing Sources Transferred In Without Reimbursement (572000). The amount determined to increase the financing source of a reporting entity that occurs as a result of an asset being transferred in. If the transfer is general PP&E, the amount of the asset is recorded at the book value of the transferring entity. However, if the asset is classified as stewardship PP&E in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operation or net position of either entity; therefore, it is not revenue, a gain or loss, or other financing source.

4.4.2.2. Financing Sources Transferred Out Without Reimbursement (573000). This account is used to record the amount determined to decrease the financing source of a reporting entity that occurs as a result of an asset being transferred out. The amount of the asset is recorded at book value as of the transfer date. If the asset is general PP&E for the transferring entity but stewardship for the recipient entity, it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity.

4.4.3. Other Transfer Accounts. Transfers reduce budgetary resources (budget authority and unobligated balances) in one account and increase them in another. Refer to the ***OMB Circular A-11***, "Preparation and Submission of the Budget," Section 20.4(j)), for guidance on the budgetary impact of transfers.

4.4.3.1. Appropriated Dedicated Collections Transferred In (574000). Record the amount in the expenditure account of dedicated collections appropriated via warrant from an unavailable receipt account. Transactions using this account will have a budgetary impact.

4.4.3.2. Appropriated Dedicated Collections Transferred Out (574500). These accounts are used to record the amount in the unavailable receipt account of dedicated receipts appropriated, via warrant, to an expenditure account.

4.4.3.3. Expenditure Financing Sources - Transfers-In (575000). Record the amount of financing sources of a federal entity representing funds transferred in, or to be transferred in, occurring as a result of a nonexchange expenditure transfer-in from a trust or federal fund. Transactions using this account will have a budgetary impact.

4.4.3.4. Nonexpenditure Financing Sources - Transfers-In - Other (575500). This account is used to record the amount of financing sources of a reporting federal entity representing funds transferred in, or to be transferred in, occurring as a result of a nonexchange, nonexpenditure transfer-in between two trust funds or two federal funds where a credit to unexpended appropriations is not valid. This account excludes nonexpenditure transfers classified as capital transfers. Transactions using this account will have a budgetary impact.

4.4.3.5. Expenditure Financing Sources - Transfers-Out (576000). Record the amount of financing sources of a reporting federal entity representing funds transferred out, or to be transferred out, occurring as a result of a nonexchange expenditure transfer-out to a trust or federal fund. Transactions using this account will have a budgetary impact.

4.4.3.6. Nonexpenditure Financing Sources - Transfers-Out - Other (576500). This account is used to record the amount of financing sources of a reporting federal entity representing funds transferred out, or to be transferred out, occurring as a result of a nonexchange, nonexpenditure transfer-out between two trust funds or two federal funds where a debit to unexpended appropriations is not valid. This account excludes nonexpenditure transfers classified as capital transfers. Transactions using this account will have a budgetary impact.

4.4.4. Imputed Financing Sources (578000). Record the imputed financing amounts the federal entity received to cover imputed costs. The balance in this account must equal the balance in USSGL account 673000, "Imputed Costs." Examples of costs that may be imputed include military personnel costs, pensions, other retirement benefits, other postemployment benefits, and unreimbursed tenant cost when occupying a facility that is not under the jurisdiction of the tenant. Another example is environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity. See ***Interpretation of Federal Financial Accounting Standards 6***: "Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4," for additional information about imputed costs. Additionally, imputed financing sources and costs are incurred when one DoD reporting entity uses another federal agency's (including other DoD reporting entities) asset without financial compensation.

5.0 GAINS AND LOSSES (1605)

5.1 Gain Accounts (160501)

Specific guidance on gains and losses is included in each subject area. For example, Base Realignment and Closure gains and losses are discussed in Volume 12, Chapter 13.

5.1.1. Gains on Disposition of Assets - Other (711000). Record the gain on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

5.1.2. Gains on Disposition of Investments (711100). Record the gain on the disposition (such as sale, exchange, disposal, or retirement) of investments.

5.1.3. Unrealized Gains (718000). Record unrealized gains that include, but are not limited to, unrealized holding gains on available for sale securities in accordance with Financial Accounting Standard (FAS) 115, deferred gains on qualified hedges under FAS 133, and qualified foreign currency translation adjustments under FAS 52.

5.1.4. Other Gains (719000). Record the gain on assets resulting from events other than a disposition. This excludes amounts related to the gain on the change in long term assumptions from experience and gain on the change in long term assumptions for federal employee pension, other retirement benefit and other postemployment benefit liabilities, including veteran's compensation. This account includes amounts related to the Federal Employees Compensation Act (FECA) Program. Uses for this account include transactions for:

5.1.4.1. Miscellaneous gains such as a gain resulting from converting foreign currency holdings to U.S. dollars.

5.1.4.2. Used by activities to record miscellaneous gains, e.g., ammunition, resulting from inventory counts of operating materials and supplies.

5.2 Loss Accounts (160502)

Specific guidance on gains and losses is included in each subject area. For example, Base Realignment and Closure gains and losses are discussed in Volume 12, Chapter 13.

5.2.1. Losses on Disposition of Assets - Other (721000). Record the loss on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

5.2.2. Losses on the Disposition of Investments (721100). Record the loss on the disposition (such as sale, exchange, disposal, or retirement) of investments.

5.2.3. Unrealized Losses (728000). To record unrealized losses that include, but are not limited to, unrealized holding losses on available for sale securities in accordance with FAS 115, deferred losses on qualified hedges under FAS 133, and qualified foreign currency translation adjustments under FAS 52.

5.2.4. Other Losses (729000). Record the loss, damage, or obsolescence on assets resulting from events other than disposition. This excludes amounts related to the losses on the change in long term assumptions from experience and gain on the change in long term assumptions for federal employee pension, other retirement benefit and other postemployment benefit liabilities, including veteran's compensation. This account includes amounts related to the FECA Program. Uses for this account include transactions for:

5.2.4.1. Recording a contingent liability.

5.2.4.2. Recording the loss of inventory that is deemed material.

5.2.4.3. Foreign currency.

VOLUME 4, CHAPTER 16, APPENDIX A: "TABLE OF TRANSACTIONS"

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 2012 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
1.0 (A01)	Revised format to comply with the Department of Defense Financial Manual Regulation Revision Standard Operating Procedure dated June 2015.	Revision
2.1 (A0201)	Added clarification that nonexchange revenues are inflows that finance operations and must be recognized only in determining the overall financial results of operations for the period.	Addition
3.0 (A03)	Added references to the applicable paragraphs within Statement of Federal Financial Accounting Standards (SFFAS) 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."	Revision
4.2.2. (A0402.B)	Added language to address transfer of multi-use heritage assets.	Addition
4.2.4. (A0402.D)	Added language to address donations of stewardship property, plant and equipment.	Addition
6.0 (A06)	Added sections to address additional transaction types identified by SFFAS 7.	Addition
6.7 (A0607)	Added paragraph addressing acquisition of property, plant and equipment through exchange.	Addition
6.8 (A0608)	Added paragraph addressing foreclosed properties associated with Post-1991 direct loans and loan guarantees.	Addition
6.9 (A0609)	Added paragraph addressing negative subsidies.	Addition
6.10 (A0610)	Added paragraph addressing downward subsidy reestimates.	Addition
6.11 (A0611)	Added paragraph addressing fees on Post-1991 direct loans and loan guarantees.	Addition

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CHAPTER 16 APPENDIX A

TABLE OF TRANSACTIONS

*1.0 GENERAL (A01)

1.1 Overview (A0101)

The Government of the United States (U.S.) has many ways to finance its cost of operations. These include: exchange transactions; nonexchange transactions; other financing sources; revaluations; or transactions not recognized as revenues, gains, or other financing sources. Transactions may be between a government reporting entity and the public or between two reporting entities within the government (i.e., intragovernmental transactions).

1.2 Purpose (A0102)

This appendix provides information concerning accounting standards that may be used for classifying transactions that finance the Department of Defense's (DoD) cost of operations and a significant number of lesser transactions. The transactions in this appendix are divided into groups: nonexchange transactions; exchange transactions that produce revenue; other financing sources; gains and losses due to revaluation; and transactions that produce amounts not recognized as revenues, gains, or other financing sources.

1.3 Authoritative Guidance (A0103)

Statement of Federal Financial Accounting Standards ***(SFFAS) 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting" established the standards for the classification of specific revenue transactions. Consult SFFAS 7, Appendix B when a transaction does not fall within any of the classifications included in this appendix. For the classifications included in this appendix, the SFFAS 7 paragraph number(s) is provided.

2.0 NONEXCHANGE TRANSACTIONS (A02)

*2.1 Nonexchange Transactions (A0201)

A nonexchange transaction arises when one party to a transaction receives value without directly giving or promising value in return. There is a one-way flow of resources or promises. Nonexchange revenue transactions do not require a Government entity to give value directly in exchange for the inflow of resources. The Government does not "earn" the nonexchange revenue. Because nonexchange revenues are inflows that finance operations, nonexchange revenues must be classified and recognized only in determining the overall financial results of operations for the period. Refer to SFFAS 7, Paragraph 240.

2.2 Nonexchange Transactions With the Public (A0202)

The Harbor Maintenance Trust Fund is an example of a "user fee" tax while classified in the budget as a governmental receipt together with other taxes and duties. It is an ad valorem tax imposed on commercial cargo loaded and unloaded at specified U.S. ports open to public navigation. The receipt is a dedicated collection to the Harbor Maintenance Trust Fund administered by the U.S. Army Corps of Engineers (USACE). It is similar in nature to other excise taxes that result from the government's power to compel payment and that are dedicated to a trust fund or special fund to be spent for a designated purpose (for example, the gasoline excise tax, which is dedicated to the Highway Trust Fund). It, therefore, must be recognized as nonexchange revenue for the Harbor Maintenance Trust Fund by the USACE. Refer to SFFAS 7, Paragraph 249.

2.3 Nonexchange Transactions - Intragovernmental (A0203)

An example of this type of transaction is interest earned from Treasury securities held by trust funds and special funds. Paragraphs 306-310 of SFFAS 7, Appendix B deal with nonexchange revenue and Paragraphs 311-313 contain nonexchange gains and losses.

*3.0 EXCHANGE TRANSACTIONS (A03)

3.1 Revenue from Exchange Transactions (A0301)

Exchange revenues arise when a Government entity provides goods and services to the public or to another Government entity for a price. Revenue from exchange transactions is subtracted from gross cost in determining the net cost of operations and the change in net position. Refer to SFFAS 7, Paragraph 240.

3.2 Exchange Transactions with the Public - Sales of Goods and Services (A0302)

The cost of production for goods and services, such as electricity, mail delivery, and maps, is defrayed in whole or in part by revenue from selling the goods or services provided. The sales may be made by a revolving fund (such as the Defense Working Capital Fund (DWCF)) or a general fund (such as a Military Departments appropriated fund). Customers of the Department may include private parties and businesses when authorized by law, including foreign governments, state and local governments, and others not officially representing the Federal Government. Customer orders (requests for goods and services) should be accompanied by a cash advance unless otherwise specified by law. Customer orders from nonfederal entities do not become budgetary resources until collected. Each party receives and sacrifices something of value. The sale is, therefore, an exchange transaction, and the revenue is exchange revenue for the entity making the sale. Refer to SFFAS 7, Paragraph 270. Additionally, interest and rents, such as those collected from DoD owned homes in the Homeowners Assistance Program represent exchange revenue.

3.3 Exchange Transactions with the Public - Sales of Property Plant and Equipment (A0303)

When the Reporting Entity has legal authority to retain the proceeds from the sale of the asset, the transaction is an exchange transaction because each party receives and sacrifices something of value. If the sales price equals book value, then there is no gain or loss, because a cash inflow equal to book value is the exchange of one asset for another of equal recorded value and, therefore, not a net inflow of resources. If the sales price is more or less than book value, a gain or loss, respectively, is recognized to the extent of the difference. The amount of the difference ordinarily is a gain or loss rather than revenue or an expense, because sales of property, plant, and equipment (PP&E) ordinarily represent a nonrecurring inflow of resources. The entire sales price is a gain when the book value of the asset is zero. The book value is zero (a) when the asset is general PP&E that is fully depreciated or otherwise has been written-off or (b) when the asset is stewardship PP&E, for which the entire cost was expensed when the asset was purchased**.** Refer to SFFAS 7, Paragraphs 295-296.

3.4 Exchange Transactions - Intragovernmental Revenue (A0304)

3.4.1. Intragovernmental Sales of Goods and Services by a Revolving Fund. The cost of providing goods or services by a revolving fund is defrayed in whole or in part by selling the goods or services provided. Performers (DoD activities providing goods and/or services at cost) include DWCF activities, revolving funds within the Military Department reporting entities, revolving funds within the "Other Defense Organizations" reporting entity, and USACE. Customers of the Department include any DoD Component, organization, office or other element; non-DoD Federal Government Agencies; and others officially representing the Federal Government. Each party receives and sacrifices something of value. The proceeds are exchange revenue. Refer to SFFAS 7, Paragraph 314.

3.4.2. Intragovernmental Sales of Goods and Services by an Appropriated Fund or Trust Fund Activity (Other Than a Revolving Fund). The cost of providing goods or services is defrayed in whole or in part by selling the goods or services provided. Performers (DoD activities providing goods and/or services at cost) include the Military Departments, Defense Agencies, and USACE. Customers of the Department include any DoD Component, organization, office or other element, non-DoD Federal Government Agencies, and others officially representing the Federal Government. Each party receives and sacrifices something of value. The proceeds are exchange revenue. Refer to SFFAS 7, Paragraph 315.

3.4.3. Employer Entity Contributions to Pension and Other Retirement Benefit Plans for Federal Employees. Employees of the Federal Government provide service to their employer in exchange for compensation, of which some is received currently (the salary); and some is deferred (pensions, retirement health benefits, and other retirement benefits). This is an exchange transaction, because each party sacrifices value and receives value in return. As part of this transaction, the government promises a pension and other retirement benefits to the employees after they retire. The financing of these benefits may include contributions paid by the employer entity to the retirement fund. In broad terms, the employer entity contribution is an inflow of resources to the retirement fund as part of this exchange transaction. More narrowly, it is a payment by the employer entity in exchange for the future provision of a pension or other retirement benefit to its employees. Therefore, it is exchange revenue of the entity that administers the retirement plan and, thus, is an offset to that entity's gross cost in calculating its net cost of operations. Within the DoD, the reporting of this category of revenue applies specifically to the DoD Military Retirement Trust Fund. Any other DoD Component contemplating the use of this category of exchange revenue must first obtain approval from the Office of the Deputy Chief Financial Officer, DoD. Refer to SFFAS 7, Paragraphs 316-317.

3.4.4. Interest on Treasury Securities Held by Trust Revolving Funds. A trust revolving fund is a revolving fund that also is classified by law as a trust fund. Like other revolving funds, it earns exchange revenue, which is an offset to its gross cost. Trust revolving funds need capital in their operations, just like other revolving funds, the source of which predominantly is the revenue they have earned. When some of their capital is invested in Treasury securities, the interest is related to their cost of operations in the same way as the revenue earned from selling services. Furthermore, the source of the invested balances is predominantly revenue earned from the sales of services, for which they incurred costs of operations when the revenue was earned. The interest they receive must, therefore, be classified in the same way as the interest received by other revolving funds, which is exchange revenue. The source of balances for some trust revolving funds may not be predominantly exchange revenue. For such exceptions, the interest must be classified in the same way as the predominant source of balances rather than according to the normal rule. Refer to SFFAS 7, Paragraph 324-325.

3.4.5. Interest on Treasury Securities Held by Trust Funds. A major source of revenue for many trust and special funds (such as the DoD Military Retirement Trust Fund, the DoD Education Benefits Fund, the National Security Education Trust Fund, and the Voluntary Separation Incentive Fund) consists of exchange and other financing sources. When some of their capital is invested in Treasury securities, the interest is related to their cost of operations in the same way as the revenue earned from selling services. Furthermore, the source of the invested balances is predominantly revenue earned from the sales of services, for which they incurred costs when the revenue was earned. Classify the interest received in the same way as the interest received by other revolving funds, which is exchange revenue. Refer to SFFAS 7, Paragraph 308.

3.4.6. Interest on Uninvested Funds Received by Direct Loan and Guaranteed Loan-Financing Accounts. A guaranteed loan financing account holds uninvested balances as reserves against its loan guarantee liabilities and earns interest on these balances that adds to its resources to pay these liabilities. A direct loan financing account may hold uninvested balances to bridge transactions that are integral to its operations, such as when it borrows from Treasury to disburse direct loans prior to the time of disbursement; it earns interest on these balances to reflect the time value of money and, thereby, finance the interest it pays on its debt to Treasury. Thus, in both cases, the interest received by the financing account is earned through exchange transactions with Treasury and is an offset to the financing accounts related costs of operations. The interest is, therefore, exchange revenue of the financing account. Within the DoD, the reporting of this category of revenue applies specifically to the Family Housing Improvement Fund, Direct Loan Financing Account (97X4166); Family Housing Improvement Fund, Guaranteed Loan Financing Account (97X4167); Defense Export Loan Guarantee Financing Account (97X4168); and Arms Initiative Guarantee Loan Financing Account, Army (21X4275).

Any other DoD Component contemplating the use of this category of exchange revenue must first obtain approval from the Office of the Deputy Chief Financial Officer, DoD. Refer to SFFAS 7, Paragraph 326.

3.5 Exchange Transactions - Intragovernmental-Gains and Losses (A0305)

Treasury securities held by revolving funds, trust and trust revolving funds (e.g., Military Retirement Trust Fund) are primarily issued in the government account series, which can generally be redeemed on demand. Other Treasury securities held by these funds also may be callable or redeemable on demand. If these debt securities are retired before maturity, the difference, if any, between the reacquisition price and the net carrying value of the extinguished debt must be recognized as a gain or loss by the fund that owned the securities. The gain or loss must be accounted for as a nonexchange gain or loss if the interest on the associated debt securities is classified as nonexchange revenue, and it must be accounted for as an exchange gain or loss if the interest on the associated debt securities is classified as exchange revenue. Intragovernmental transactions that produce gains or losses must be classified as producing revenue or expense if they are usual and recurring for a particular reporting entity. Refer to SFFAS 7, Paragraph 329.

4.0 OTHER FINANCING SOURCES – INTRAGOVERNMENTAL (A04)

4.1 Cost Subsidies: Difference Between Internal Sales Price and Full Cost (A0401)

One entity may receive goods or services from another entity without paying the full cost of the goods or services or without paying any cost at all. In these cases, the difference between full cost and the internal sales price or reimbursement (sometimes called a “transfer price”) is an imputed cost to the receiving entity. In addition, the financing of the imputed cost also is imputed to the receiving entity. Imputed financing is necessary so that the imputed cost does not reduce the entity’s operating results. The imputed financing equals the imputed cost and is recognized as other financing source. It is not revenue, because the receiving entity does not earn the amount imputed or demand its payment. Within the DoD, examples include military personnel costs not reimbursed by Defense Agencies to the military personnel appropriations and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity. Refer to SFFAS 7, Paragraphs 333-334.

4.2 Transfer of General PP&E and Stewardship Assets without Reimbursement (A0402)

General PP&E and Stewardship Assets (Heritage Assets and Stewardship Land) may be transferred from one government entity to another. Refer to SFFAS 7, Paragraph 358.

4.2.1. If the asset that is transferred was classified as general PP&E for the transferring entity and general PP&E for the recipient entity, it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity and as a transfer-in (other financing source) of capitalized assets by the recipient entity, at the book value of the asset.

* 4.2.2. If the asset that is transferred was classified as general PP&E for the transferring entity but stewardship PP&E for the recipient entity, it is recognized as a transfer-out of capitalized assets by the transferring entity. No amount is recognized by the entity that receives the asset. Refer to SFFAS 7, Paragraph 346. Similarly, if multi-use heritage assets are transferred and cost remains on the books of the transferring entity, that cost is recognized as a transfer-out of capitalized assets. The receiving entity should not recognize any amount.

4.2.3. If the asset that is transferred was classified as stewardship PP&E for the transferring entity but general PP&E for the recipient entity, it is recognized as a transfer-in (other financing source) of capitalized assets by the recipient entity. No amount is recognized by the transferring entity.

* 4.2.4. If the asset was classified as a stewardship asset in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operations or net position of either entity. In such a case, it is not revenue, a gain or loss, or other financing source. Refer to SFFAS 7, Paragraph 345. Likewise, when stewardship PP&E is donated to the Government, no amount is recognized as a cost or revenue.

5.0 REVALUATIONS (A05)

Refer to SFFAS 7, Appendix B for these classifications.

*6.0 TRANSACTIONS NOT RECOGNIZED AS REVENUES, GAINS, OR OTHER FINANCING SOURCES (A06)

6.1 Disposition of Revenue to Other Entities - Custodial Transfers (A0601)

Revenue, primarily nonexchange revenue, may be collected by an entity acting on behalf of the General Fund or another entity within the government on whose behalf it was collected. The collecting entity accounts for the disposition of these by debiting a “nonentity” liability account and crediting its “nonentity” Fund Balance with Treasury account. These custodial transfers, by definition, do not affect the collecting entity’s net cost of operations or operating results, nor are they part of the reconciliation between its obligations and net cost of operations. The receiving entity recognizes the revenue as nonexchange or exchange revenue, depending on its nature, according to the applicable revenue standards. Refer to SFFAS 7, Paragraph 353.

6.2 Sales of Different Types of Government Assets (A0602)

The sale of government assets (other than forfeited property) is an exchange transaction, because each party receives and sacrifices something of value. As a general rule, any difference between the sales proceeds and book value is recognized as a gain or loss when the asset is sold. The remainder of the transaction does not provide a net inflow of resources, so no gain, revenue, or other financing source is recognized. If the sales proceeds equal book value, there is no gain or loss, because the exchange of one asset for another of equal recorded value is not a net inflow of resources. This general rule applies to PP&E, receivables (other than direct loans), foreclosed property associated with pre-1992 direct loans and loan guarantees, and miscellaneous assets. It does not apply to inventory, nor does it apply to forfeited property. It also does not apply to the sale of direct loans and the sale of foreclosed property associated with post-1991 direct loans and loan guarantees. Refer to SFFAS 7, Paragraphs 354-355.

6.3 Repayment of Post-1991 Direct Loans (A0603)

The present value of estimated loan repayments is included in the calculation of the subsidy cost of direct loans, and this subsidy cost is recognized as an expense when the loans are disbursed. The present value of estimated loan repayments is likewise included in the value of the loans receivable. When cash is received for the repayment of loans, decrease the loans receivable by an equal amount. The increase in one asset is offset by an equal decrease in another asset. Therefore, cash inflow from the repayment is not recognized as a revenue, a gain, or other financing source. If the actual repayment is different from the previous estimate, the present value of the difference between cash inflows and outflows over the term of the loan, calculated as of the date of disbursement, is re-estimated and recognized as a subsidy expense or a reduction in subsidy expense. Refer to SFFAS 7, Paragraph 365.

6.4 Repayment of Pre-1992 Direct Loans (A0604)

When pre-1992 direct loans are repaid in whole or in part, the entity exchanges one asset (loans receivable) for another (cash) with equal value. There is no net inflow of resources. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or other financing source. If the loan is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources. Refer to SFFAS 7, Paragraph 366.

6.5 Repayment of Receivables - Except Direct Loans (A0605)

When receivables other than direct loans are paid or repaid in whole or in part, the entity exchanges one asset (loans receivable) for another (cash) with equal value. There is no net inflow of resources. Therefore, the amount of cash inflow equal to book value is not recognized as revenue, gain, or other financing source. If the receivable is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources. Refer to SFFAS 7, Paragraph 367.

6.6 Sales of Direct Loans (A0606)

The sale of a direct loan is a modification according to the Federal Credit Reform Act of 1990 regardless of whether the loan being sold was obligated after Fiscal Year (FY) 1991 or before FY 1992. The book value loss (or gain) on a sale of direct loans equals the book value of the loans sold (prior to sale) minus the net proceeds of the sale. It normally differs from the cost of modification, which is recognized as an expense. This difference is due to the different interest rates used to discount future cash flows for calculating the subsidy cost (and subsidy allowance) when the loan is disbursed and for calculating the cost of modification at a later time. If the sale is with recourse, the present value of the estimated loss from the recourse is also recognized as an expense. Any difference between the book value loss (or gain) and the cost of modification is recognized as a gain or loss. The amount of cash inflow equal to book value is not a net inflow of resources to the entity, because it is an exchange of one asset for another of equal recorded value. Therefore, the amount of cash inflow equal to book value is not recognized as revenue, gain, or other financing source. Refer to SFFAS 7, Paragraph 368.

*6.7 Acquisition of PP&E through Exchange (A0607)

The cost of PP&E acquired through an exchange of assets with the public is the fair value of the PP&E surrendered at the time of exchange. If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost is the fair value of the PP&E acquired. If neither fair value is determinable, the cost of the PP&E acquired is the cost recorded for the PP&E surrendered net of any accumulated depreciation or amortization. In the event that cash consideration is included in the exchange, the cost of PP&E acquired is increased (or decreased) by the amount of the cash surrendered (or received). Refer to SFFAS 7, Paragraph 356.

*6.8 Sales of Foreclosed Property Associated with Post-1991 Direct Loans and Loan Guarantees (A0608)

The net present value of the cash flow from the estimated sales of foreclosed property is included in calculating the subsidy cost of post-1991 direct loans and loan guarantees. This subsidy cost is recognized as an expense when the loans are disbursed. When property is foreclosed, the property is recognized as an asset at the net present value of its estimated net cash flows. When the foreclosed property is sold, any difference between the sales proceeds and the book value (i.e., the net present value as of the time of sale) requires a reestimate of the subsidy expense, which is recognized as a subsidy expense or a reduction in subsidy expense. The amount of cash flow equal to book value is an exchange of one asset for another of equal recorded value and therefore is not recognized as a gain, revenue, or other financing source. Refer to SFFAS 7, Paragraph 369.

*6.9 Negative Subsidies on Post-1991 Direct Loans and Loan Guarantees (A0609)

A negative subsidy means that the direct loans or loan guarantees are estimated to make a profit, apart from administrative costs (which are excluded from the subsidy calculation by law). The amount of the subsidy cost is recognized as an expense when the direct loan or guaranteed loan is disbursed. A negative subsidy is recognized as a direct reduction in expense, not as revenue, gain, or other financing source. Refer to SFFAS 7, Paragraph 362.

*6.10 Downward Subsidy Reestimates for Post-1991 Direct Loans and Loan Guarantees (A0610)

A downward subsidy reestimate means that the subsidy cost of direct loans or loan guarantees is estimated to be less than had previously estimated. The initial subsidy cost is recognized as an expense; a positive subsidy reestimate is recognized as an expense; and a downward subsidy reestimate is recognized as a direct reduction in expense, not as revenue, gain, or other financing source. Refer to SFFAS 7, Paragraph 363.

*****6.11 Fees on Post-1991 Direct Loans and Loan Guarantees (A0611)

The present value of estimated fees is included as an offset in calculating the subsidy cost of direct loans and loan guarantees, which is recognized as an expense when the loans are disbursed. The present value of estimated fees is likewise included as one component in calculating the value of loans receivable or loan guarantee liabilities. When cash is received in payment of fees, the loans receivable decrease by an equal amount (or the loan guarantee liabilities increase by an equal amount). The increase in one asset is offset by an equal decrease in another asset (or by an equal increase in liabilities). Therefore, fees are not recognized as revenue, a gain, or other financing source. Refer to SFFAS 7, Paragraph 364.

VOLUME 4, CHAPTER 17: "EXPENSES AND MISCELLANEOUS ITEMS"

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 June 2021 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Checked references, hyperlinks, and format in accordance with the DoD Financial Management Regulation Standard Operating Procedures and added clarifying language where appropriate.	Revision

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CHAPTER 17

EXPENSES AND MISCELLANEOUS ITEMS

1.0 GENERAL

1.1 Purpose

This chapter provides guidance to account for expenses and miscellaneous items, such as gains and losses, incurred in carrying out Department of Defense (DoD) operations. Additionally, it describes how to identify and account for extraordinary items and adjustments to prior period financial statements.

1.2 Authoritative Guidance

The Federal Accounting Standards Advisory Board concluded in Statement of Federal Financial Accounting Standards ***(SFFAS) 5***, "Accounting for Liabilities of the Federal Government" that expenses are not independent of assets and liabilities and do not have their own essential characteristics. Expenses are changes in assets and/or liabilities during a reporting period resulting in a change in net position. Thus, the definition of expenses is dependent on the definitions of assets and liabilities. Additional guidance for expenses is found in the following:

1.2.1. ***SFFAS 3***, Accounting for Inventory and Related Property.

1.2.2. ***SFFAS 4***, Managerial Cost Accounting Standards and Concepts.

1.2.3. ***SFFAS 6***, Accounting for Property, Plant, and Equipment.

1.2.4. ***SFFAS 7***, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.

1.2.5. ***SFFAS 21***, Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources.

1.2.6. ***SFFAS 55***, Amending Inter-entity Cost Provisions.

1.2.7. Statement of Federal Financial Accounting Concepts ***(SFFAC) 5***, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements.

1.2.8. ***SFFAC 7***, Measurement of Accrual-Basis Financial Statements in Periods after Initial Recording.

1.2.9. ***Treasury Financial Manual***, Volume 1, Part 2, United States Standard General Ledger Part 2 Fiscal Year 2023 Reporting.

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

2.0 AUDIT REMEDIATION AND INTERNAL PROCEDURES

Each DoD Component must develop and implement internal operating procedures and guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data. Relevant records supporting financial statements must be maintained and made available during financial statement audits.

3.0 EXPENSE OVERVIEW

3.1 Definition

Expenses represent the outflow or consumption of assets or the incurrence of liabilities (or a combination of both) during a period of providing goods, rendering services, or carrying out other normal operating activities related to the entity's programs and missions which results in a decrease in the entity's net position.

3.2 Exceptions to Cash Outlays

Most expenses require cash outlays. There are exceptions such as depreciation, other losses, bad debt expenses and miscellaneous items. Miscellaneous items may result from extraordinary transactions, prior period adjustments, and changes in actuarial liabilities.

3.3 Unusual or Nonrecurring Transactions

Costs attributable to extraordinary or unexpected events are classified as miscellaneous items. Unusual or nonrecurring transactions or having resulted from peripheral or incidental activities of an entity should be recognized as a gain or loss, rather than as a revenue or expense.

3.4 Budgetary Accounts

An expense normally includes an application of budgetary or other resources. Goods and services ordered and received are recorded in the budgetary accounts as expended authority (Delivered Orders – Obligations, Unpaid) and in the proprietary accounts as an expense. The budgetary accounts provide financial control over the resources provided to the entity and ensure accurate accounting during the budget execution process.

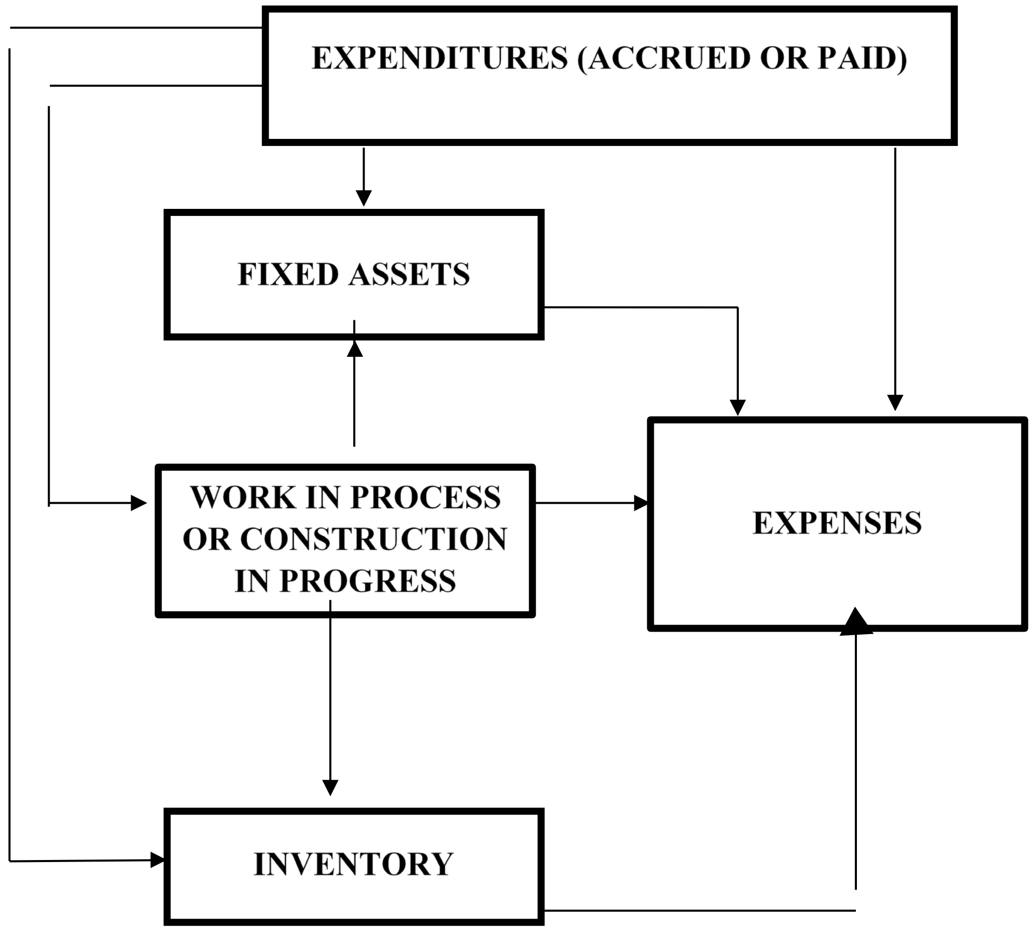
3.5 Defense Working Capital Funds (DWCF) Expenses

The treatment of expenses by some DWCF activities differ compared to the treatment of appropriation funded activities. Expenses accumulated in asset accounts are costs. For some activity groups in the DWCF, such as depot maintenance, costs are accumulated by job order in Construction in Progress (account 172000) or Inventory Work in Process (account 152600) and subsequently billed to customers. Other activity groups, such as supply management, record civilian personnel costs as an expense to the activity or cost center as a whole, in the same manner as appropriated funded activities. Refer to Volume 11B, Chapter 12 for DWCF policy.

FIGURE 17-1. BUDETARY AND PROPRIETARY RELATIOSNHIPS

Figure 17-1 illustrates the relationship between Expended Budgetary Authority and Proprietary accounts.

EXPENDED BUDGETARY AUTHORITY AND
PROPRIETARY ACCOUNT RELATIONSHIPS



Compound budgetary and proprietary entries are required when goods or services are received and/or accepted. Purchased goods or services are recorded in the budgetary accounts as expended authority or expenditures (Delivered Orders – Obligations Unpaid and Paid) and in the proprietary accounts as an expense (or asset, when DoD capitalization criteria are met).

4.0 PRESENTATION IN FINANCIAL STATEMENTS

4.1 Expense Recording

Expenses are commonly reported at the time they are incurred, not when invoices are received. Goods and services (costs) acquired from or provided to other government trading partners or programs (i.e., intragovernmental) must be recorded separately from those purchased from nonfederal entities (i.e., the public). The accounting entries are specified in the DoD United States General Ledger (USSGL) Standard Financial Information Structure ***(SFIS)*** Transaction Library.

4.2 Reporting Program Costs

4.2.1. Program costs must be reported in the Statement of Net Cost as required by Volume 6B, Chapter 5.

4.2.2. Program costs include the full costs of the program outputs and consist of the direct costs and all other costs directly traced, assigned on a cause and effect basis, or reasonably allocated to a program's outputs. Program costs also include any nonproduction costs assigned to a program but not to its outputs.

4.2.3. The costs of program outputs must include the costs of services provided by other entities regardless of whether the providing entity is fully reimbursed. The costs of program outputs must also include costs paid in total or in part by other entities to the extent accounting standards require them to be recognized in financial statements. For example, DoD Components must recognize imputed costs of pensions and other retirement benefit expenses in their financial statements.

4.2.4. Imputed costs represent the unreimbursed portion of the full cost of goods and services received from another source. In the case of post-employment benefits for retired, terminated, and inactive employees, imputed costs are the excess of the costs actually incurred by employing agencies for covered employees over the total contributions made by and for covered employees. Imputed costs encompass all unreimbursed portions of the full cost of goods and services received by a DoD entity from a providing DoD entity according to SFFAS 55.

4.3 Production and Nonproduction Costs

4.3.1. Costs related to the production of outputs must be reported separately from costs not related to the production of outputs (i.e., nonproduction costs) on the Statement of Net Cost. Nonproduction costs are reported as a separate item in the financial statements and are addressed in the SFFAS 4.

4.3.2. The following nonproduction costs must be reported separately from other nonproduction costs, if incurred:

4.3.2.1. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets. Costs associated with multi-use heritage assets are capitalized and depreciated over the expected useful life if they meet the capitalization criteria discussed in Chapter 28.

4.3.2.2. The acquisition cost of acquiring stewardship land.

4.3.2.3. The cost of maintenance not performed but delayed to a future period (deferred maintenance) reported in the Required Supplementary Information section of the financial statements (refer to Volume 6B, Chapter 12).

5.0 ACCOUNTING TREATMENT FOR EXPENSES

5.1 Accounting Treatment for Expenses and Miscellaneous Items

5.1.1. Operating expenses include personnel costs, contractual services, and operating materials and supplies. Expenses also can include an allocation of prior capital outlays (depreciation/amortization) or to recover costs of operations.

5.1.2. Refer to Chapters 24-28 for expenses incurred by research and development programs, or related to the search for knowledge and the conversion of knowledge into use for DoD missions as related to capitalization or expense of assets.

5.2 Operating Expenses/Program Costs

5.2.1. Operating expenses/program costs include costs associated with carrying out a specific program or function. Examples include personnel, travel, communications, contractual services, and other program expenses. Amounts paid often represent transactions requiring a budgetary entry, recording obligations from the unexpended obligation (undelivered order) to the expended authority (delivered order). DWCF activities routinely record operating expenses/program costs to a cost of goods sold account (either directly or via work in process accounts) so costs may be matched to revenue upon completion of the task or filling an order.

5.2.2. Accounting systems must have the ability to report expenses related to operating expenses/program costs at the detail necessary to support budget preparation and applicable cost accounting requirements.

5.3 Costs for Property, Plant and Equipment (PP&E)

Costs for PP&E acquired or constructed for a project must be capitalized if the acquisition cost exceeds the Department’s capitalization threshold (refer to Chapters 24-28), the items are not intended for sale in the ordinary course of operations, the items have been acquired or constructed with the intention of being used by the entity, and the items have a life expectancy of more than two years. An asset may be expensed (account 615000) if the amount of the expenses recognized by a purchasing agency when a capitalized asset acquired from another federal agency does not meet the purchasing agency’s capitalization threshold or has a useful life of less than two years.

5.4 Work in Process Account

Work in process accounts must be used to accumulate the costs of goods or services in accordance with guidance contained in Chapters 4, 5, and 24-28. The amounts recorded in these accounts, as well as amounts recorded in applicable inventory accounts, must be the basis for determining the amounts to be recorded as cost of goods sold.

5.5 Depreciation, Amortization and Depletion Account

Depreciation, Amortization and Depletion is used to record the allocation of the cost of an asset (tangible or intangible) over the period of time benefited or the asset's useful life. The amounts to be recorded in these accounts must be determined in accordance with the guidance contained in Chapters 1, 7, and 24-28**.**

5.6 Depreciation Expense for Capitalized and Donated Assets

Depreciation expense for capitalized and donated assets is recorded with a debit to Depreciation, Amortization, and Depletion (account 671000) and a credit to the appropriate Accumulated Depreciation account related to the asset. No budgetary entry is recorded. For the DWCF, depreciation expense is an element included in the cost recovery rates, used to finance the capital programs. Refer to the DoD USSGL SFIS Transaction Library for additional information on account descriptions for reporting depreciation.

5.7 Benefits Expense

5.7.1 The employer's contribution portion of the following employee benefit programs are: retirement funds, life insurance, Voluntary Separation Incentive Payment (VSIP), Federal Employee's Compensation Act (FECA), unemployment for Federal employees, Social Security (Federal Old-Age, Survivors Insurance, and Federal Disability Insurance) and Medicare (Federal Hospital Insurance (Medicare Part A), Federal Supplementary Medical Insurance (Medicare Part B). The amount of benefit expense (such as employment benefits, entitlement benefits due and payable, or insurance and guarantee benefits) incurred by the program agency and/or administering agency for benefit payments must be recorded in the entity's General Ledger.

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

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

5.8 Cost of Goods Sold Account

The cost of goods sold account is used to record the cost of goods or services sold from inventory, by DWCF activities, or by other DoD activities authorized to provide services or material to other federal government agencies (including other DoD Components) or nonfederal organizations. This account is used predominantly by revolving fund activities. Appropriated fund activities must also use this account to support reimbursable programs.

5.9 Imputed Costs Account

The Imputed Cost account must be used by all DoD activities receiving goods or services without reimbursement from an activity outside the reporting entity. SFFAS 55 provides for recognition of significant inter-entity costs among and between federal agencies by business-type activities and allows non-business-type activities to elect not to recognize inter-entity costs, with the exception of inter-entity costs for personnel benefits and the United States Department of the Treasury Judgement Fund settlements unless otherwise directed by OMB. Business-type activity is significantly self-sustaining activities financing their accounting cycle of operations through collections of exchange revenues. For example, DWFC would be considered business-type activities.

5.10 Future Funded Expenses

Future funded expenses represent the amount of accrued expenses which are required to be funded from future year appropriations. Examples of future funded expenses are, accrued annual leave expense (except for working capital funds), accrued worker's compensation, upward re-estimates for credit reform loan programs, and projected future cleanup costs associated with the removing, containing, and/or disposing of hazardous materials associated with PP&E.

5.11 Expense Transactions Not Requiring Budgetary Resources

Some expense transactions do not require the use of budgetary resources and, therefore, only proprietary accounts are used to record these transactions. These expenses are usually allocated over more than one reporting period (e.g., depreciation expense), costs incurred that are paid in total or in part by other entities (e.g., imputed costs), or recognizing costs to be funded from future year appropriations (e.g., future funded expenses).

6.0 LOSSES

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

6.1 Losses on Disposition of Assets Account

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

6.2 Components of Losses on Disposition of Assets Account

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

6.3 Other Losses

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

7.0 EXTRAORDINARY ITEMS

Events distinguished by unusual nature and infrequency of occurrence. Both criteria of unusual nature and infrequency of occurrence must be met to classify an event as an extraordinary item, taking into account the environment in which the entity operates. Unusual nature criteria is the underlying event or transaction must possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity. The criteria for infrequency of occurrence are the underlying event or transaction must be of a type not reasonably be expected to recur in the foreseeable future. The total amount of all extraordinary items is included in the applicable Gross Program Cost or Non Production Cost lines of the Statement of Net Cost. Disclosure of the nature and amount of each extraordinary item is included in the notes to the financial statements.

8.0 PRIOR PERIOD ADJUSTMENTS

8.1 Adjustments to Prior Period Financial Statements

Circumstances may arise requiring an entity to make adjustments to prior period financial statements due to a change in accounting principle or correction of a material error (or an aggregation of errors). Such circumstances include the retrospective application of a change in accounting principle or the correction of an error in prior period financial statements pursuant to SFFAS 21. See Volume 6B, Chapter 6 for information on reporting prior period adjustments in the financial statements.

8.2 Change in Accounting Principle

A change in accounting principle results from adoption of one Generally Accepted Accounting Principle to another that can be justified as preferable. Changes in accounting principles also include adoption of new federal financial accounting standards. The newly adopted accounting principle should result in more accurate and meaningful financial statement disclosures.

8.2.1. The term, accounting principle, includes not only accounting principles and practices but also the methods of applying them. Unless otherwise specified in the transition instructions section of a new federal financial accounting standard, the cumulative effect of the change on prior periods should be reported as a change in accounting principle, with the adjustment made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position.

8.2.2. Prior period financial statements presented for comparative purposes should be presented as previously reported.

8.2.3. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

8.3 Correction of Errors

When errors are discovered after the issuance of the financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:

8.3.1. If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period 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 with the adjustment made to the beginning balance of cumulative results of operations in the Statement of Changes in Net Position for the earliest period presented.

8.3.2. The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed. Financial statements of the subsequent periods need not repeat the disclosures.

8.3.3. Prior period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated.

DoD 7000.14 - R

DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 18: "ARCHIVED"

UNDER SECRETARY OF DEFENSE (COMPTROLLER)

VOLUME 4, CHAPTER 19: "MANAGERIAL COST ACCOUNTING"

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 2020 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates in accordance with Department of Defense Financial Management Regulation (FMR) Revision Standard Operating Procedures.	Revision

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CHAPTER 19

MANAGERIAL COST ACCOUNTING

1.0 GENERAL

1.1 Overview

1.1.1. Managerial cost accounting standards and concepts are focused on providing reliable and timely information on the full cost of federal programs, projects, activities, and outputs. This information provides the structure needed for accurate, consistent, and reliable managerial cost accounting.

1.1.2. The concepts of managerial cost accounting describe the relationship among cost accounting, financial reporting, and budgeting. Managerial cost accounting concepts are an integral part of the financial management system in that they provide a basis of accounting, recognition, and measurement appropriate for the intended purpose.

1.1.3. The five standards set forth are fundamental elements of managerial cost accounting:

1.1.3.1. Accumulating and reporting costs of activities on a regular basis for management information purposes,

1.1.3.2. Establishing responsibility segments to match costs with outputs,

1.1.3.3. Determining full costs of government goods and services,

1.1.3.4. Recognizing the costs of goods and services provided among Federal entities, and

1.1.3.5. Using appropriate costing methodologies to accumulate and assign costs to outputs.

1.2 Purpose

The purpose of this chapter is to provide the DoD policy for managerial cost accounting to improve financial management and managerial decision making in five essential areas:

1.2.1. Budgeting and cost control,

1.2.2. Performance measurement,

1.2.3. Determining reimbursements and setting fees and prices,

1.2.4. Program evaluations, and

1.2.5. Making economic choice decisions.

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. Chief Financial Officers Act ***(CFO) Act of 1990***;

1.3.2. Government Performance and Results Act ***(GPRA) of 1993***;

1.3.3. Government Management Reform Act ***(GMRA) of 1994***;

1.3.4. Federal Financial Management Improvement Act ***(FFMIA) of 1996***;

1.3.5. Statement of Federal Financial Accounting Standards ***(SFFAS) 4***, "Managerial Cost Accounting Standards and Concepts";

1.3.6. ***SFFAS 8***, "Supplementary Stewardship Reporting";

1.3.7. Federal Accounting Standards Advisory Board (FASAB) Handbook ***Appendix E: Consolidated Glossary***;

1.3.8. Office of Management and Budget (OMB) ***Circular A-25***, "User Charges";

1.3.9. The United States (U.S.) Department of Treasury (Treasury) U.S. Standard General Ledger (USSGL) ***Treasury Financial Manual***; and

1.3.10. Chief Financial Officers' Council's Governmentwide Cost Accounting Committee Managerial Cost Accounting Implementation Guide ***(MCAIG) Glossary*** – February 1998

2.0 DEFINITIONS

The following definitions primarily originate from the FASAB Handbook, Appendix E: Consolidated Glossary, and/or the MCAIG Glossary.

2.1 Activity

An activity is the actual work task or step performed in producing and delivering products and services, or an aggregate of actions performed within an organization that is useful for purposes of activity based costing.

2.2 Activity Based Costing

Activity Based Costing (ABC) is a cost accounting method that measures the cost and performance of process related activities and cost objects. It assigns cost to cost objects, such as products or customers, based on their use of activities. It recognizes the causal relationship of cost drivers to activities.

2.3 Budgetary Accounting

Budgetary accounting is the system that measures and controls the use of resources according to the purposes for which budget authority was enacted, and that records receipts and other collections by source. It is undertaken to assess and ensure compliance with fiscal legal requirements applicable to an appropriation or fund. It tracks the use of each appropriation for specified purposes in separate budgetary accounts through the various stages of budget execution—from appropriation to apportionment and allotment to obligation and eventual outlay.

2.4 Cost Accounting System

A cost accounting system is a continuous and systematic cost accounting process, which may be designed to accumulate and assign costs to a variety of objects routinely or as desired by management.

2.5 Cost Accumulation

Cost accumulation is the collection of costs in an organized fashion by means of a cost accounting system. There are two primary approaches to cost accumulation: job order and process costing. Under a job order system, the three basic elements of costs: direct materials, direct labor, and overhead, are accumulated according to assigned job numbers. Under a process cost system, costs are accumulated according to processing department or cost center.

2.6 Cost Allocation

Cost allocation is a method of assigning costs to activities, outputs, or other cost objects. The allocation base used to assign a cost to objects is not necessarily the cause of the incurred cost. For example, assigning the cost of power to machine activities by machine hours is an allocation because machine hours are an indirect measure of power consumption.

2.7 Cost Assignment

Cost assignment is a process that identifies costs with activities, outputs, or other cost objects. In a broad sense, costs can be assigned to processes, activities, organizational divisions, goods, and services. There are three approaches of cost assignment: (a) directly tracing costs wherever economically feasible, (b) using cause and effect, and (c) allocating costs on a reasonable and consistent basis.

2.8 Cost Finding

Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are appropriate for certain kinds of costs, such as indirect costs, items with costs below set thresholds within programs, or for some programs in their entirety. Cost finding techniques support the overall managerial cost accounting process and can represent nonrecurring analysis of specific costs.

2.9 Cost Object (Also Referred to as Cost Objective)

A cost object is an activity, output, or item whose cost is to be measured. In a broad sense, a cost object can be an organizational division, function, task, good, service, or customer. It is also defined as an activity, operation, or completion of a unit of work to complete a specific job for which management decides to identify, measure, and accumulate costs. The cost object must be discrete enough and described in writing to such a level of detail as to form a basis to establish cost centers and output products.

2.10 Direct Costs

Direct costs are the costs of resources directly consumed by an activity. Direct costs are assigned to activities by direct tracing of units of resources consumed by individual activities.

2.11 Financial Accounting (Proprietary Accounting)

Financial accounting is the accounting for assets, liabilities, net position, revenues, and expenses as a basis for reports to external parties. It is a methodology that focuses on reporting financial information primarily for use by owners, external organizations, and financial institutions. This methodology is constrained by rule making bodies such as the Financial Accounting Standards Board, Securities Exchange Commission, and the American Institute of Certified Public Accountants. For Federal Agencies, the rule making bodies include FASAB, the Treasury, and the OMB. Financial accounting supports accrual accounting and attempts to show actual financial position and results of operations.

2.12 Fixed Cost

A fixed cost is a cost that does not vary in the short term (usually less than one year) with the volume of activity. Fixed cost information is useful for cost savings by adjusting existing capacity or by eliminating idle facilities.

2.13 Full Cost

2.13.1. Full costs are the sum of all costs required by a cost object including the costs of activities performed by other entities regardless of funding sources. More specifically, the full cost of an output produced by a responsibility segment is the sum of (a) the costs of resources consumed by the responsibility segment that directly or indirectly contributes to the output, and

(b) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities.

2.13.2. Full cost is all direct and indirect costs to any part of the Federal Government of providing goods, resources, or services (OMB Circular A-25).

2.14 Indirect Cost

Indirect costs are costs that cannot be identified specifically with or traced to a given cost object in an economically feasible way.

2.15 Inter-Entity Costs

Inter-entity is a term meaning between or among different federal reporting entities. It commonly refers to activities or costs between two or more agencies, departments, or bureaus.

2.16 Intra-Entity Costs

Intra-entity costs are costs from organizational components within the reporting entity that provide support for the responsibility segment's programs, projects, or activities. These costs include the direct and indirect costs of other organizational components of the reporting entity.

2.17 Job Order Costing

Job order costing is a method of cost accounting that accumulates costs for individual jobs or lots. A job may be a service or manufactured item, such as the repair of equipment or the treatment of a patient in a hospital.

2.18 Latest Acquisition Cost

Latest acquisition cost is a method in which all units are valued at the invoice price of the most recent items purchased less any discounts, plus any additional costs incurred to bring the item to a form and location suitable for its intended use.

2.19 Managerial Cost Accounting

Managerial cost accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups concerned with the way in which the organization uses, accounts for, safeguards, and controls its resources to meet its objectives. Managerial cost accounting is the integration of budgetary and financial accounting, and management reporting because it provides information for decision making purposes and performance measurement. Managerial cost accounting is the organization and procedures, whether automated or not, and whether part of the general ledger or stand-alone, that accumulate and report consistent and reliable cost data from various agency feeder systems.

2.20 Outcome

2.20.1. Outcome is defined in broad terms in Statements of Federal Financial Accounting Concepts ***(SFFAC) 1***, "Objectives of Federal Financial Reporting (OFFR)", paragraphs 204-208, as accomplishments or results that occur (at least partially) because of the service efforts of government entities. Some authorities use terms like "impact," "effect," or "results" to distinguish the change in outcomes specifically caused by the government activity from the total change in conditions that can be caused by many factors.

2.20.2. Outcome is an assessment of the results of a program compared to its intended purpose. Outcomes must: (a) be capable of being described in financial, economic, or quantitative terms, and (b) provide a plausible basis for concluding that the program has had or will have this intended effect. For measuring outcomes for research and development programs, results may be reported by a narrative discussion of the major results achieved by the program during the year (SFFAS 8, paragraphs 93 and 99).

2.21 Output

Output is any good or service generated from the consumption of resources. It is measured as a tabulation, calculation, or recording of activity or effort that can be expressed in a quantitative or qualitative manner. It must have two key characteristics:

2.21.1. Systematically or periodically captured through accounting or management information system, and

2.21.2. A logical connection between the reported measures and the program's purpose.

2.22 Performance Measurement

Performance measurement is a means of evaluating efficiency, effectiveness, and results. A balanced performance measurement scorecard includes financial and nonfinancial measures focusing on quality, cycle time, and cost. Performance measurement should include program accomplishments in terms of outputs (quantity of goods or services provided, e.g., how many items are efficiently produced) and outcomes (results of providing outputs, e.g., are outputs effectively meeting intended agency mission objectives).

2.23 Pricing

Pricing is the process to determine the amount at which to sell a product or service. Setting prices is a policy matter, sometimes governed by statutory provisions and regulations, and other times by managerial or public policies. The price of a good or service does not necessarily equal the cost of the good or the service determined under a particular set of principles (SFFAS 4, paragraph 37).

2.24 Product

A product is any discrete, traceable, or measurable good or service provided to a customer. Often goods are referred to as tangible products, and services are referred to as intangible products. A good or service is the product of a process resulting from the consumption of resources.

2.25 Program

Program is defined as a mission program, whose products or services the Agency delivers as part of its strategic plan. Agencies decide the exact classification of programs based on the entity's budget structure, the missions and outputs described in the GPRA strategic and annual plans and the guidance for defining and structuring responsibility segments.

2.26 Project

A project is a planned undertaking, usually related to a specific activity, such as the research and development of a new product or the redesign of the layout of a plant.

2.27 Process Costing

Process costing is a method of cost accounting that first collects costs by processes and then allocates the total costs of each process equally to each unit of output flowing through it during an accounting period.

2.28 Recovery of Cost

Recovery of cost is the method of recovering the costs of any given expenditure.

2.29 Relevant Costs

Relevant costs are those cost elements that are necessary for particular management analyses and/or decision making purposes when full cost is not appropriate. Relevant costs may include expected or potential costs that differ among alternative courses of action.

2.30 Resource

A resource is an economic element that is applied or used in the performance of activities. Salaries and materials, for example, are resources used in the performance of activities.

2.31 Responsibility Segment

A responsibility segment is a significant organizational, operational, functional, or process component which has the following characteristics: (a) its manager reports to the entity's top management, (b) it is responsible for carrying out a mission, performing a line of activities or services, or producing one or a group of products, and (c) for financial reporting and cost management purposes, its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments of the entity.

2.32 Service

A service is an intangible product or task rendered directly to a customer. (Also, see Product as defined in paragraph 2.24.)

2.33 Service Department

A service department is also known as an Intermediate Cost Object. A service department is an organizational unit of a facility that has the responsibility for providing support for the work of the production departments. Examples are purchasing, building and ground personnel, and power departments. All of these activities are necessary parts of the production process and primarily supportive of production departments. Service department costs must be allocated to production departments before overhead rates are determined.

2.34 Standard Costing

Standard costing is a costing method that attaches costs to cost objects based on reasonable estimates or cost studies and by means of budgeted rates rather than according to actual costs incurred. It is the anticipated cost of producing a unit of output. It is a predetermined cost to be assigned to products produced. Standard cost implies a norm, or what costs should be. Standard costing may be based on either absorption or direct costing principles, and may apply to all or some cost elements. Refer to Volume 11B and Volume 3, Chapter 19 for use of standard costing in the Working Capital Fund (WCF).

2.35 Unit Price

Unit price is the cost of a selected unit of a good or service.

2.36 Variable Cost

Variable cost is a cost that varies with changes in the level of an activity, when other factors are held constant. The cost of material handling to an activity, for example, varies according to the number of material deliveries and pickups to and from that activity.

3.0 MANAGERIAL COST ACCOUNTING POLICY

3.1 Concepts

3.1.1. As described in SFFAS 4, paragraphs 41-45, the concepts and standards of managerial cost accounting explain the relationship among budgetary, financial, and cost accounting. Managerial cost accounting is the process of accumulating, measuring, analyzing, and reporting cost information useful to both internal and external groups concerned with how DoD uses, accounts for, safeguards, and controls its resources to meet its objectives. Managerial costing uses a basis of accounting, recognition, and measurement that is appropriate for the intended purpose. Managerial cost accounting is an essential element of proper financial planning, control, performance evaluation, and program accountability.

3.1.2. Managerial cost accounting is a basic, integral part of the DoD financial management system. Information from a common data source provides cost information relevant to budgetary and financial accounting and reporting while providing useful information directly to management for control and decision making. Financial, budgetary, and cost accounting processes ultimately produce the Department's audited general purpose financial statements and special purpose reports from the DoD general and sub ledgers to achieve cost accountability and transparency to stakeholders. Cost information developed for different purposes are drawn from a common data source so that output reports are reconcilable to each other.

3.2 Standards

3.2.1. SFFAS 4 requires each reporting entity to accumulate and report the cost of its activities on a regular basis for management. Costs may be accumulated through cost accounting systems or through cost finding techniques. The standard provides flexibility based on organization mission, operations, size, capabilities, and resources. Agencies have flexibility in designing a cost accounting methodology that meet both internal and external user needs.

3.2.2. The following are the five standards referenced in SFFAS 4:

3.2.2.1. Requirement: Accumulate and report costs of activities on a regular basis for management information purposes (see section 4.0),

3.2.2.2. Responsibility Segments: Establish responsibility segments to match costs with outputs (see section 5.0),

3.2.2.3. Full Cost: Determine the full cost of goods and services (see sections 4.0, 5.0, and 6.0),

3.2.2.4. Inter-Entity Costs: Recognize the cost of goods and services provided among federal entities (see sections 5.0 and 6.0), and

3.2.2.5. Methodology: Use appropriate costing methodologies to accumulate and assign costs to outputs (see section 5.0).

3.3 Uses

In managing DoD programs, cost accounting information assists managers and other stakeholders in making informed decisions in the areas of budget and cost control, performance measurement, reimbursement and fee/price setting, program evaluations, and economic choice decisions. An organization should be able to answer the following types of questions:

3.3.1. Given the current spend plan and rate of execution, at what interval (if applicable) could the program experience a cost over-run?

3.3.2. What are the full costs to deliver goods and/or services by organization, line of business, or region?

3.3.3. How well is the organization managing its available resources in terms of mission effectiveness and cost efficiency?

3.3.4. How well has the organization met its strategic plan and the expected outcomes based on resources available?

3.4 Assignment and Methodologies

3.4.1. Cost assignment approaches link expenses from a financial accounting perspective using the USSGL, as further defined in the Office of the Deputy Chief Financial Officer Standard Financial Information Structure ***(SFIS)*** to outputs of an organization (see paragraph 5.3). Users should assign costs with one of the following approaches listed in the order of preference:

3.4.1.1. Directly trace costs wherever feasible and economically practicable,

3.4.1.2. Assigning costs on a cause and effect basis, or

3.4.1.3. Allocating costs on a reasonable and consistent basis.

3.4.2. Methodologies are processes used to accumulate and allocate costs to specific outputs. Although SFFAS 4 does not require the use of a particular costing methodology, the standard requires that a costing methodology, once adopted, be used consistently. The standard recognizes that the agency management is in the best position to select a type of costing system that would meet its needs and describes the four costing methodologies in section 5.0, which include (a) job order costing, (b) process costing, (c) standard costing, and (d) ABC. The DoD Component must select the costing methodologies that best meet the organization's operational need and mission requirement.

3.5 Systems, Sources and Cost Finding

Managers must establish appropriate procedures and practices to enable the collection, measurement, accumulation, analysis, interpretation, and communication of consistent and periodic cost information with a system or the use of cost finding techniques.

3.5.1. A system is a continuous and systematic process, which may be designed to accumulate and assign costs from a common data source to a variety of objects routinely or as desired by managers. The common data source may include many different kinds of data from many financial and non-financial sources of information to support cost, financial and budgetary accounting. Costs are traced using the accounts described in the USSGL as the standard to produce financial and budgetary general purpose reports and special purpose performance reports. Cost accumulation is facilitated by the SFIS structure, which includes the Standard Line of Accounting (SLOA). See paragraph 5.3.

3.5.2. When data systems are unable to provide the needed cost information or where information is required on a non-recurring basis (e.g., budget estimates, Business Case Analysis, Cost Benefit Analysis, and/or Analysis of Alternatives), cost finding techniques may provide the needed results through analytical or sampling methods and special cost studies and analysis. Cost finding techniques should not replace consistent and regular managerial cost reporting when available.

4.0 REPORTING AND ANALYSIS

4.1 Overview

4.1.1. Reliable costs of federal programs and activities is important to managers. Cost reporting and analysis provides a better understanding of specific programs and activities (e.g., products and services) to include costs and changes in costs; efforts and accomplishments over time; efficiency and effectiveness of assets and liabilities in support of budgetary, financial, and managerial cost reporting; and program business decisions. Additional benefits are derived when planned and actual performance data are aligned, such as the ability to capture full costs of products and/or manpower, transparency into pricing and fees, and consistency in standardized cost reporting for historic and forecasting value. Benefits derived will vary based on organization, model maturity, and department mission.

4.1.2. Managerial cost accounting improves both financial management and decision making by providing:

4.1.2.1. An understanding of the reporting requirements as seen by management,

4.1.2.2. The type of information management needs, and

4.1.2.3. An approach to developing the analysis that will eventually support the reporting and performance structure.

4.2 Users

4.2.1. Regardless of a stakeholder’s function, users need accurate reporting to identify cash, disbursements, collections, full cost of resources, activities, capabilities, and operations for various needs. Specifically, for the DoD Reporting Components, some of these needs include:

4.2.1.1. Making better decisions at the cost element levels,

4.2.1.2. Knowing the cost of operations and activities,

4.2.1.3. Linking budget planning and allocation to actual expenditures, 4.2.1.4. Responding to both external and internal cost related inquiries, and

4.2.1.5. Making costs visible to DoD leadership, component leadership, operational commanders, and program managers.

4.2.2. Internal Users

4.2.2.1. Government managers are the primary users of cost information. They are responsible for carrying out program objectives with resources entrusted to them. Reliable and timely cost information helps ensure that resources are spent to achieve expected results and outputs as well as identify waste and inefficiency.

4.2.2.2. Program Managers use cost information to (a) effect cost control, (b) make resource acquisition decisions, (c) evaluate and improve efficiency and cost effectiveness of various program activities, and (d) make budget and planning proposals to agency heads and Congress.

4.2.2.3. Financial Managers, including accountants and budget analysts, use cost information to (a) calculate unit costs of outputs, (b) analyze and explain cost variances, (c) formulate standard costs, (d) compile period financial reports, and (e) analyze the cost behavior to quantify variable, fixed, and/or incremental costs for decisions such as buy or lease.

4.2.2.4. Franchise Activity Managers use cost information to set prices or reimbursements for the goods or services they provide (MCAIG A-xxv).

4.2.2.5. Government executives use cost information to (a) evaluate the overall performance of the programs, (b) assess future resource requirements for financial plans and budgets, and (c) develop proposals to the President and Congress on resource allocations and program expansion, modification, or downsizing.

4.2.3. External Users

4.2.3.1. Congress makes policy decisions on program priorities and allocates resources among programs through the appropriations process. These officials need cost information to compare alternative courses of action and to make program authorization decisions by assessing costs and benefits and evaluating program performance outcomes and outputs.

4.2.3.2. Citizens, including news media and interest groups, use cost information to assess the efficiency and effectiveness of resource allocation.

4.3 Decision Making

4.3.1. To interpret cost data appropriately, it is important to distinguish between direct and indirect costs, fixed and variable costs, and full and relevant costs. Analysis of these cost components help managers understand the demand their program places on federal resources of other organizational units and contributes to their organizational costs.

The accurate recording and availability of detailed historical cost information is important in providing insight into budgets, cost estimates, and performance metrics.

4.3.2. Cost information should allow organizations to address:

4.3.2.1. Current spend plan and program expense status, and

4.3.2.2. The full costs to deliver goods and/or services by an organization, line of business, or region,

4.3.3. Cost information assists managers in budget and cost control, performance measurement, reimbursement and fee/price setting, program evaluations, and economic choice decisions.

4.4 Budget and Cost Control

4.4.1. Budget planning and control serves an important function within the Federal Government. Managers use historical and current costs of program activities as a basis in estimating future budgets and to measure actual performance against established goals.

4.4.2. Once budgets are approved and executed, current cost information serves as feedback on the budgets. DoD financial managers use the feedback derived from the current costs to budget analysis to control and reduce costs, as well as find and avoid waste. With appropriate cost information collected through managerial cost accounting, federal managers can:

4.4.2.1. Explain variances between actual and budgeted costs of a cost object,

4.4.2.2. Compare cost changes over time and identify their causes,

4.4.2.3. Compare costs of similar activities and identify cost differentials, and

4.4.2.4. Produce budgets at a detailed level which will improve accuracy, insight, and increased transparency of an agency’s expenditures.

4.4.3. Organizations should produce a Statement of Net Cost (actual to budget) in accordance with Volume 6B, Chapter 5.

4.5 Performance Measurement

4.5.1. The GPRA requires Federal Agencies to develop five-year strategic plans and annual performance plans and report annually on actual performance compared to goals. The GMRA reduces duplicative administrative services by establishing a self-sustaining franchise fund to provide common and efficient administrative support services on a reimbursable basis. Participation in these franchise funds requires proper costing procedures. Subsequently, the FFMIA was enacted to help improve compliance with accounting standards resulting in reporting full costs of programs and activities, which increases accountability and improves cost efficiency, performance, and productivity. The FFMIA builds upon and complements the CFO Act, GPRA, and GMRA, and increases the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities. Cost information is necessary to aid organizations in evaluating and comparing actual costs to planned performance measures, outputs, and outcomes.

4.5.2. In defining annual performance plans, program managers can establish performance goals based upon an understanding of both the direct and indirect costs of programs, and thereby align strategic resources to results.

4.5.3. Results are often stated in terms of an "output," because they are easier to identify and measure. Leading practice in performance management prefers to measure an "outcome" or a result or measureable goal, which is often more difficult to identify and measure. The utilization of managerial cost accounting can provide the performance details useful to leadership for determining whether the organization achieves an "outcome" or not. Defined cost goals will assist managers in deploying resources more efficiently to achieve the desired performance.

4.5.4. An annual performance plan defines measurements for each major activity, good, and service. Plans and performance goals are developed based upon anticipated resource levels. In the budget formulation process, program managers begin to connect federal resources to results. Managerial cost accounting policies require that financial managers base their planning upon all federal resources allotted to their programs. This includes resources for both direct and indirect costs. The indirect allocated support for activities, goods, and services that are separately appropriated or covered through relevant activities are often overlooked and not included. A complete and fully inclusive performance report will include both direct and indirect (from all sources within program or support programs) costs of the cost object. When the cost of a program is managed through managerial cost accounting, and cost goals are defined, the costs of the activity, good, and service can be monitored and managed more efficiently.

4.5.5. Performance measurement can be viewed as the government equivalent of private sector profitability measurements. However, selecting appropriate measurements is quite difficult and requires exercise of judgment. Cost itself can be a performance metric, but cost should also be combined with an effectiveness measure, such as the percent of a goal achieved at a level of expected performance, to ensure the resulting output is cost effective.

4.5.6. As suggested by SFFAS 4, paragraph 35, measuring cost is an integral part of measuring performance for efficiency and cost effectiveness. Efficiency is measured by relating outputs to inputs, often expressed as cost per unit of output. Effectiveness is measured by the outcome or the degree to which a predetermined objective is met, commonly expressed as "cost effectiveness." Therefore, the service efforts and accomplishments of a government entity can be evaluated with the following measures:

4.5.6.1. Measures of an organization's efforts (inputs), which include the costs of resources used or consumed, and non-financial measures, 4.5.6.2. Measures of an organization's accomplishments (outputs), which include the quantity of goods and services provided and outcomes (the results of those goods and services), or

4.5.6.3. Measures that relate efforts to accomplishments, such as cost per unit of output or cost effectiveness.

4.6 Reimbursements and Fee/Price Setting

4.6.1. Cost information is important for setting prices and user fees for government provided goods and services. Pricing and costing, however, conceptually use cost information differently. In the Federal Government, setting prices is a policy matter, sometimes governed by statutory provisions and regulations, and at other times, by department or managerial policies.

4.6.2. SFFAS 4, paragraph 37 and OMB Circular A-25 requirements include:

4.6.2.1. With respect to goods and services that the government provides in its sovereign capacity to a particular group of individuals as a special benefit, user charges should be sufficient to recover the full cost of those goods and services.

4.6.2.2. With respect to goods and services that the government provides under business-like conditions, user charges for those goods and services need not be limited to the recovery of full cost and may yield net revenue. WCFs are revolving funds that rely on a cost recovery methodology to finance operations. WCF activities are designated as zero profit/loss or breakeven activities. The full costs of the goods and services delivered are reimbursed through the associated sales. Those sales represent receipts from the appropriated funds. For this to happen, it is critical that reimbursement rates be as accurate as possible. If the rates are set too high, the organization will overcharge its customers. If rates are set too low, costs will not be fully recovered. To set rates accurately, the DoD needs a comprehensive understanding of the goods and services that are delivered, the activities and tasks required for delivery, and the resources consumed by those activities. For more information on WCF see Volume 3, Chapter 19 and Volume 11B.

4.6.3. Cost information is also important in calculating reimbursements for goods and services provided by one federal agency to another. Hence, reimbursable accounting allows one federal organization to recover its cost from another federal organization for the direct and indirect costs of providing those goods and services. The reimbursable fee structure, best displayed in the reimbursement of communication, data, and accounting services by some of the DoD agencies, is specifically established for providing those goods and services. Even if fees or reimbursements do not recover the full costs due to policy or economic constraints, management needs to be aware of the difference between cost and price. With this information, program managers can properly inform the public, Congress, and federal executives about the costs of providing the goods or services. For more information on reimbursable fees, see Volumes 11A and 11B.

4.7 Program Evaluations

The cost of federal resources required by programs is an important factor in making policy decisions related to program authorization, modification, consolidation, or discontinuation. These decisions are usually subject to policy constraints. They often require the consideration of both social and economic costs and benefits affecting different sectors of the economy and society. For complete program cost evaluation, it may be necessary to obtain advice from outside the entities' data systems. The Office of the Director, Cost Assessment and Program Evaluation (CAPE), provides independent analytic advice to the Secretary of Defense on all aspects of the Defense program, including alternative weapon systems and force structures, the development and evaluation of defense program alternatives, and the cost effectiveness of defense systems.

4.8 Economic Choice Decisions

As noted in SFFAS 4, agencies and programs often face decisions involving choices among alternative actions, such as whether to do a project in-house or contract it out, to accept or reject a proposal, or to continue or discontinue a good or service. Making these decisions requires cost comparisons among available alternatives. In the case of outsourcing, decisions may involve comparing the incremental cost and benefits of continuing a government activity with the incremental cost and benefits of turning the project over to a private sector business. In federal terms, it may use an analysis of alternatives, for example, in the selection of software application, an upgrade to an enhanced good or service, or a capital investment project. Cost studies of various types can help to decide whether to accept or reject a proposal for a government capital project, to continue or drop a government good or service, or to contract with a private sector vendor.

5.0 COST ASSIGNMENT AND COSTING METHODOLOGY

5.1 Overview

SFFAS 4, paragraph 116, requires that managers accumulate the cost of resources consumed by responsibility segments and type of resource; accumulate outputs produced and, if practicable, measured in units; and that the full cost of direct and/or indirect resources be assigned to outputs through consistently-applied and appropriate costing methodologies or cost finding techniques.

5.1.1. When assessing cost accounting requirements, reporting entities must determine the appropriate detail for processes and procedures based the following factors:

5.1.1.1. Nature of the entity's operations,

5.1.1.2. Precision desired and needed in cost information (accuracy, frequency, granularity, transparency, and cost benefit of obtaining data),

5.1.1.3. Practicality of data collection and processing,

5.1.1.4. Availability of service departments for indirect services, 5.1.1.5. Cost of installing, operating, and maintaining the cost accounting processes, and

5.1.1.6. Any specific information needs of management.

5.1.2. Management should evaluate alternative costing methods and select those that provide the best results considering its operating environment and economic feasibility (e.g., the benefits resulting from implementing the methods outweigh the costs).

5.1.3. SFFAS 4 requires that a costing methodology, once adopted, be used consistently so that cost information can be compared from year to year. This requirement, however, does not preclude necessary improvements and refinements to the system or methodology, so long as the effect of any change is documented and explained. Documenting the changes assists in appropriately incorporating the new processes over historic years and provides support to any forecast adjustments.

5.2 Cost Accumulation

5.2.1. SFFAS 4 states that cost accumulation is the process of collecting cost data in an organized way and that the accumulation is for costs incurred within each responsibility segment; this does not involve the assignment or allocation of costs incurred by other supporting segments.

5.2.2. Of the five standards in SFFAS 4, two reference cost accumulation:

5.2.2.1. Accumulating and reporting costs of activities on a regular basis for management information purposes, and

5.2.2.2. Using appropriate costing methodologies to accumulate and assign costs to outputs.

5.2.3. Cost accumulation for cost objectives or outputs is achieved by selecting costing methods (e.g., standard costing, job order costing, ABC) or cost finding techniques that are suited to the operational environment. For more information on cost finding techniques, see section 6.0.

5.2.4. SFFAS 4 requires organizations to accumulate costs for the identified types of outputs produced for various programs or projects. Organizations may establish a network of cost centers to accomplish this cost accumulation task. Cost centers are a tool that groups relevant costs that support a consistent output or objective. Cost centers can be used to simplify the various costs incurred by aggregating costs into a cost center that provides a product, be it a service or a good. A project management office is a common type of cost center.

5.2.5. Responsibility segments should accumulate the costs of resources consumed by the type of resource, such as costs of employees, employee benefits, and office space or rent. Accumulating the costs incurred by resource type supports detailed reporting and provides transparency of cost by type. Outputs (if practical, measured in units) produced by responsibility segments should also be accumulated; the full cost of resources that directly or indirectly contribute to the production of outputs should be assigned, if the purpose is to support billing a customer (refer to Volumes 11A and 11B).

5.3 Cost Assignment Authoritative Guidance

The SFIS is a comprehensive DoD enterprise data structure and common business language for budgeting, financial accounting, cost, performance, and standardized reporting requirements. SFIS enables budgeting, performance-based management, and the generation of financial statements. Through the SLOA classification, SFIS improves interoperability between business systems, provides better end-to-end funds traceability and linkage between budget and expenditures, complies with Treasury requirements, and helps achieve audit readiness. SLOA provides additional granularity to accounting transactions that improves the appropriate assignment of costs. Volume 1, Chapters 4 and 7, and the ***SFIS resources web page*** provide complete information, including the SFIS matrix, Compliance Checklist, USSGL Transaction Library, the Standard Chart of Accounts (SCOA) and the SLOA.

5.4 Cost Assignment Approaches

5.4.1. Cost assignment is the process that identifies the accumulated costs to cost objects (an activity or item whose cost is measured). As per SFFAS 4, there are three approaches, summarized in Table 19-1, for assigning costs to outputs listed in order of preference:

5.4.1.1. Directly tracing costs wherever feasible and economically practicable,

5.4.1.2. Assigning costs on a cause and effect basis, and

5.4.1.3. Allocating costs on a reasonable and consistent basis

Table 19-1. Cost Assignment Approaches

Approach	General Cost Behaviors	Accuracy/ Frequency	Granularity/ Transparency	Project/ Program Requirement
Direct Tracing	Job Order Direct and/or Indirect Actual or Standard	High	High to Moderate	Activity / Task Level
Cause and Effect	Job Order Direct and/or Indirect Process Direct and/or Indirect Variable Actual or Standard	High to Moderate	High to Moderate	Task / Delivery Order
Allocation	Job Order Indirect Process Indirect Fixed Actual or Standard	Lowest	Lowest	Project / Program

5.4.2. Agencies and responsibility segments select the appropriate cost assignment approach based on their operational needs. Operational needs tend to follow historic practices (if reliable historic data is available); however, cost assignment approaches can change if the operating environment or regulations change. SFFAS 4 requires organizations to identify the full cost of outputs (the goods or services produced, the missions or tasks performed, and the customers or markets served) including:

5.4.2.1. Direct and indirect costs incurred within the responsibility segment,

5.4.2.2. Intra-entity costs from other responsibility segments, and

5.4.2.3. Inter-entity costs recognized by the receiving entity.

5.4.3. Responsibility segments that produce only one output assign costs of the resources used in production to the output. Responsibility segments that deliver intermediate goods or provide supporting services assign the costs to the segments that receive the goods and services. Inter-entity costs are assigned to the responsibility segments that use the inter-entity goods and services. A receiving entity should also recognize assigned inter-entity costs from other Federal Entities.

5.4.4. It is a requirement to document changes to a cost assignment approach. Documenting changes may also require noting in the financial statements. It is important to maintain a consistent cost assignment approach, where possible, for reporting and pricing efforts.

5.5 Direct Tracing

5.5.1. Direct tracing applies to resources directly used in the production of an output. Examples include materials used in production, employees providing direct effort, facilities, and equipment used exclusively in the production of the output, and goods or services received from other entities (inter-entity) directly used in support of the output. Direct tracing also applies to specific resources dedicated to particular outputs, such as resources tracked to a single task or objective.

5.5.2. Direct costs tend to originate internally by program, responsibility segment, or reporting entity; however, outside entities may also assign direct costs to a segment. Additionally, the direct tracing approach is not limited to direct costs. Indirect costs from these outside entities can also use the direct tracing approach to capture costs in more detail. Regardless of origin or funding profile, all direct costs are included in the cost of the output.

5.5.3. As noted in Table 19-1, directly tracing costs provides the highest level of granularity and yields the highest level of reporting information; however, it is not necessary to apply direct tracing to all elements of a cost object or output. For example, directly tracing office supplies to a particular weapon system upgrade would not be cost effective, but if a program or activity explicitly budgets for administrative or clerical services, then direct traceability is relevant for costing purposes.

5.6 Cause and Effect Basis

5.6.1. Costs that cannot be traced directly to a final output (such as activities or work elements), or it is cost prohibitive to do so, but a relationship can be made between the resource costs and outputs, are assigned to intermediate cost objects. The cause and effect basis recognizes that activities have incurred costs, outputs have required these activities, and therefore, a reasonable relationship can be derived between the two. The causal beneficial relationship permits the activity costs to be accumulated and assigned using the cause and effect basis.

5.6.2. Establishing an intermediate cost object requires the identification of homogenous activities to an output and determining the rate of allocation to receiving cost objects. For example, a laboratory's costs can first be assigned to various tests it runs. The costs of the tests can then be assigned to the operating units that ordered the tests.

5.6.3. The cause and effect basis is useful when production is consistent and manageable. The cause and effect basis must not be used if cost cannot be normalized or linked to a final output; instead, costs are assigned using a more general process.

5.7 Cost Allocation

5.7.1. Cost allocation is the process of assigning costs that cannot be directly traced or assigned using the cause and effect basis. General and Administrative services used by various common segments apply cost allocation to assign costs to benefiting cost objects. Cost allocation provides the least detail in costs incurred and is used for indirect costs only.

5.7.2. General and Administrative support costs are allocated initially to the segments and then to the outputs of that segment on a pro rata basis. This involves two steps:

5.7.2.1. Allocate the accumulated costs of services to the segment, and

5.7.2.2. Allocate the accumulated costs to the outputs of each segment.

5.7.3. The usual basis for cost allocations is the relevant common denominator. The basis of cost allocation may include the number of employees, direct hours worked, or the amount of direct costs incurred in segments. The common denominator is also referred to as the allocation base. Grouped costs should be accumulated and assigned using a consistent and relevant base. The allocation frequency and base should remain consistent to allow cost comparison over a period of time.

5.7.4. Cost allocation is similar to cause and effect in that it may use an intermediate cost object to accumulate costs; however, it differs in that a single benefiting segment or output is unable to be identified for allocation purposes. Cost allocation is commonly used for general and administrative costs. A responsibility segment may use more detailed costing methods to accumulate costs within the intermediate cost object for more detailed internal reporting, but the allocation remains based on the accumulated cost.

5.7.5. Costs accumulated for intermediate cost objects must be homogeneous. Examples in homogeneity accumulation include, but are not limited to: human resource departments, program management offices, and general and administrative offices. Activities within these examples are often difficult to measure in meaningful amounts per unit or per cost object.

5.8 Costing Methodologies and Cost Behaviors

It is important to note that the costing methodologies described in paragraphs 5.9 through 5.12 are not mutually exclusive nor all inclusive, and can be utilized in combination based on the objective, job order, or process costing and can be applied to both ABC and standard costing systems.

5.9 Job Order Costing

5.9.1. Job order costing is a costing methodology that accumulates and assigns costs to discrete jobs. Job order costing systems are used by organizations that produce unique products or special order products, projects, assignments or groups of similar outputs. Job order costing is used if:

5.9.1.1. The production or service is being performed to meet customer specifications or requirements, or

5.9.1.2. Products or services require different amounts and types of direct material, labor and indirect costs.

5.9.2. In a job order costing system, different products with varying degrees of production time and different amounts of direct materials consumed are tracked separately by work orders. Job order costing provides more control, less estimation, and more direct and reliable allocation of costs.

5.9.3. Direct materials and supplies owned by the performing activity, acquired from a WCF or from an inventory account financed by appropriated funds, are charged to a job order in accordance with established costing procedures for the segment.

5.9.4. The structure for job order data must be consistent with the SFIS and the SFIS Business Rules (see paragraph 5.3). Where relevant, subsidiary ledger accounts or proprietary accounts will be incorporated into the structure for job order data.

5.9.5. A job order number is given to each identified cost object, similar to a project Work Breakdown Structure, in which a number is assigned to each task that is being tracked or reported. Job order numbers are the framework for identifying each job and a means of accumulating departmental direct labor, direct material, and overhead (indirect, general, and administrative) cost by job order. Detailed DoD specific transactions are available in the DoD USSGL Transaction Library and must be consistent with Volume 1, Chapters 4 and 7. Refer to Volumes 11A and 11B for reimbursable policies applicable to activities financed with annual appropriations and WCFs.

5.10 Process Costing

5.10.1. Process costing accumulates costs by individual processing cost center. These processing cost centers are involved in a continuous flow of effort, with each center contributing towards the completion of the end products. The output of a processing center becomes the input of the next processing cost center or becomes a part of the end product.

5.10.2. Process costing is appropriate for production of goods or services with the following characteristics:

5.10.2.1. The production involves a regular pattern of processes, and

5.10.2.2. The output consists of homogeneous units, and

5.10.2.3. All units are produced through the same process procedures.

5.10.3. Each cost center accumulates costs, assigns the costs to its outputs, and calculates the unit cost of its output. For each period, cost centers prepare a cost and performance report showing the costs, the completed effort, and the work-in-process. When a certain number of completed units are transferred from the cost center to the next cost center, the cost of those units are also transferred and are eventually incorporated into the costs of the end product. Therefore, the cost flow follows the physical flow of the production. The unit cost of the end product is the sum of the unit costs of all the divisions.

5.11 Standard Costing

5.11.1. Standard costs are carefully predetermined or expected costs that can be applied to activities, services or products on a per unit basis. The purpose of standard costing is to have a standard cost per product used as a goal to compare with actual costs.

5.11.2. A standard cost outlines how a task should be accomplished in nonfinancial terms (hours, minutes, board feet) and how much it should cost. Standard costing can be done for components such as direct materials, direct labor, and indirect costs. Standard costs are a fixed price per unit and are commonly used in production or service center models.

5.11.3. Standard costing is used in conjunction with job order costing, process costing, and activity based costing and it can be applied to specific outputs or activities, or to a responsibility segment in aggregate by comparing total actual costs with total standard costs based on outputs produced within a certain time period. Standard costing is appropriate for operations that produce services or products on a consistently repetitive basis. (Refer to Volumes 11A for Reimbursable Operations and 11B for WCF activities).

5.12 ABC

5.12.1. ABC focuses on activities of a production cycle, based on the premises that:

5.12.1.1. Output requires activities to produce, and

5.12.1.2. Activities consume resources.

5.12.2. ABC uses cost drivers to assign costs through activities to outputs.

5.12.3. The ABC cost assignment process is a two-stage process. The first stage assigns the cost of resources to activities. The second stage assigns activity costs to outputs.

5.12.4. Implementing ABC is a four step process:

5.12.4.1. Identifying activities within a segment. This may require an in-depth analysis of the operating processes, as some processes may consist of one or more activities. Activities may be classified into unit level, batch level, product sustaining, and facility sustaining activities. Management may combine related small activities into larger activities to avoid excessive costing efforts.

5.12.4.2. Assigning resource costs to activities to capture the full cost of the final output. Assigned resource costs should include direct and indirect costs as well as any inter- or intra-department costs relevant to the activity. Resource costs are assigned to activities in three ways, depending on feasibility and cost benefit considerations:

5.12.4.2.1. Direct tracing,

5.12.4.2.2. Standard costing or cost finding report, or

5.12.4.2.3. Allocations.

5.12.4.3. Identifying outputs. Outputs are any good or service generated by a segment, and can include information or paperwork generated by the completion of the tasks or customers (e.g., persons or entities to whom a federal agency is required to provide goods or services). Omitting a resource cost, activity, or output in the ABC process will result in overcharging costs to other outputs.

5.12.4.4. Assigning activity costs are assigned to outputs using activity drivers based on individual outputs' consumption or demand for activities. For example, a driver may be the number of times an activity is performed or the length of time an activity is performed in the production of an output. These are referred to as transactional and durational drivers, respectively.

5.12.5. ABC can be used in conjunction with job order costing or process costing. Job order or process costing would be costing activities that occur in the production of a final output. For example, a contracting office has many activities that lead into the finalization of a contract.

There are routine processes relevant to all contracts, such as document formatting, printing, and delivery activities, that are likely allocated using a standard cost methodology (established rate per output), while other activities such as research and negotiation are not common and vary depending on contract type, are allocated using ABC methods.

5.12.6. A major advantage of using ABC is that it avoids or minimizes distortions in product costing that result from arbitrary allocations of indirect costs. By tracing costs through activities, ABC can provide more accurate good or service costs. Ranking activities by the degree to which they add value to the organization or its outputs encourages management to evaluate the efficiency and cost effectiveness of activities. An ABC method starts with identifying and examining the following:

5.12.6.1. What value-added activities are really needed in order to accomplish a mission, deliver a service, or meet customer demand?

5.12.6.2. How can activities be modified to achieve cost savings or product improvements?

5.12.6.3. What activities do not actually add value to services or products?

5.12.6.4. Where can cycle time analysis and value-added analysis be incorporated?

6.0 DATA SYSTEMS, DATA SOURCES AND COST FINDING

6.1 Data System

6.1.1. Financial accounting, budgeting, and managing are three essential ingredients of accountability. Data systems are the source of cost and programmatic information used for reporting. SFFAS 4 requires that each reporting entity accumulate and report the cost of activities on a regular basis.

6.1.2. A data "system" is an organized grouping of methods, source information, and activities surrounding data collection used to produce reliable cost information on a consistent basis. Data systems include a collection of system tools and sources used for automating managerial cost accounting reporting, but can also include manual processes, such as cost finding reports. System based reporting should be used first before relying on cost finding reports in order to routinely collect reliable data from a common data source, process the data, and report cost and output information for general and special purposes. Data systems will integrate sources of information across an organization and may need to include data sources that cross multiple reporting segments of an entity in order to provide the proper cost information, such as accounting information, time records, or asset data. A data system can also include evaluation and decision source information derived as a result of prior reporting and feedback.

6.1.3. Cost information developed for managerial cost accounting purposes from established data systems should be reconcilable to financial, budgetary, or managerial accounting items. When possible, information produced from a data system should be corroborated with other reporting tools to validate the content in the systems (quantity of line items or sum of dollars). This task may be included in a recurring internal control assessment to reduce redundancy. DoD financial managers will decide the best approach based on the complexity of the data and its reliance.

6.1.4. DoD data systems, to the extent practicable, should be integrated with an organization's accounting, budgetary, and financial system(s). As SFFAS 4, paragraph 72 prescribes, a system should take into consideration:

6.1.4.1. The nature of the entity's operations,

6.1.4.2. Precision desired and needed in cost information,

6.1.4.3. Practicality of data collection and processing,

6.1.4.4. Availability of electronic data handling,

6.1.4.5. Cost of installing, operating and maintaining the cost accounting processes, and

6.1.4.6. Any specific management information needs.

6.1.5. Data systems will support cost analyses used to compare actual to anticipated costs. To meet managerial cost accounting needs, data systems should use uniform and basic cost, transactional, or programmatic data. Examples of these data are units of output produced and input used, to include the amount of labor in terms of employees or employee hours.

6.2 Data Sources

6.2.1. Data sources, as SFFAS 4 describes it, "consists of all financial and programmatic information used by the budgeting, cost accounting, and financial accounting processes. The common data source may include many different kinds of data, which may be spread among multiple systems or locations, including non-computerized sources. These data are far more than the information about financial transactions found in the standard general ledger, although that is a significant part of the data source." Non-financial data may include human capital, logistical, and operational data. Common data sources will include information about financial transactions found in the standard general ledger along with various other data types. The use of the term "data source" is not limited to the use of computerized systems for information, but includes a broad array of sources of information (for example, manually prepared reports or audit findings).

6.2.2. Data sources integrated into the data system must be relevant to the reporting segment and its reporting requirements. Data sources may originate from within the reporting segment or from an external entity. Data sources must be capable of retaining pertinent data over periods sufficient to provide historical reference and allow for forecasting. Managers will examine non-systematic data sources for content, accuracy, and reliability on a recurring basis.

6.2.3. Reporting needs will vary depending upon the circumstances and purpose for which the measurement is used. Data sources established within an entity's data system may need to change as the operational needs change. However, as stated in SFFAC 1, the focus is on developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the Federal Government and its component entities and other useful financial information. This implies a variety of data sources that complement budget information will be required and must be adapted to fit OFFR, SFIS, and SLOA standards.

6.3 Cost, Budget, and Financial System Relationships

6.3.1. Proper financial management requires that cost, budget, and financial systems work closely together to provide useful information. Per FASAB, OFFR should consider the needs of both internal and external users, the decisions they make and the information they need. The established data systems must follow the DoD USSGL Transaction Library and DoD SCOA for consistency of the cost information.

6.3.2. Budgetary accounting ensures compliance with fiscal legal requirements and tracks the use of each appropriation for specified purposes in separate budgetary accounts through the various stages of budget execution—from appropriation to apportionment and allotment to obligation and eventual outlay. Cost accounting informs budget formulators and decision makers with the full cost of federal resources required to support policy and program goals. Cost accounting also assists the budget execution process by consistently accumulating and reporting the costs of the federal resources consumed, and by comparing actual against planned federal resource consumption (MCAIG Glossary, page I-19). Managerial cost accounting uses the defined data elements prescribed by SLOA to produce a more detailed Statement of Net Cost for budget reconciliation (see paragraph 5.3).

6.3.3. Financial accounting tracks financial events of DoD Reporting Entities and produces results of operations, including assets, liabilities, and changes in net position, revenues, and expenses. Federal financial reporting derived from cost accounting data systems will encompass general and special purpose report capabilities to meet the needs of the four user groups: program managers, executives, Congress, and citizens. Information produced by managerial cost accounting appears in or influences both general and special purpose reports.

6.3.4. Data systems for cost accounting should provide sufficient cost detail on a timely basis to support performance reporting. Measuring and reporting actual performance against established goals is essential to assess governmental accountability. Cost information is necessary in establishing strategic goals, measuring service efforts, determining whether expected outcomes were achieved, and relating efforts to accomplishments.

6.3.5. Data systems that use different accounting bases or different recognition and measurement methods than the norm should be reconcilable and should fully explain the accounting bases and measurement methods. Regardless of the type of report in which it is presented, cost information should ultimately be traceable back to the original source.

6.3.6. As per SFFAS 4, to be reconcilable, the amount of the differences in the information reported should be ascertainable and the reasons for the differences should be explainable. In some situations, informational differences may be clearly understandable without further explanation. However, other cases may require a narrative statement concerning the differences. In complicated situations, a schedule or table may be required to fully explain the differences. Any variances observed in data system reports to budgetary, financial, or managerial cost accounting reports must be documented noting the reason for the variance (if discernable), the source of the variance, and the resolution, if applicable.

6.4 Cost Finding

6.4.1. Cost finding is a tool used to perform cost examinations when a data system cannot provide sufficient data. Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are only appropriate for certain kinds of projects or programs that have limited scopes or costs. Organizations may use thresholds to limit the use of cost finding technique. When cost finding techniques are used, the value of the report should be limited and a timeframe for updating the cost finding report established. As cost information becomes available and normalized on the project or program, the cost finding report should be replaced with actual data.

6.4.2. Special purpose cost reports and analyses, or cost finding techniques, can be performed for financial based decision making. Cost finding techniques will vary depending on the type, level, and significance of the financial decision, e.g., planning decisions for replacement costs, capital costs, or sustainment of operations. It is important that the basis and method used be appropriate for the circumstances and consistent with the intended purpose.

6.4.3. Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are used for indirect costs, items with costs below set thresholds within programs, or for programs in their entirety. Cost finding techniques support the overall managerial cost accounting process and can represent nonrecurring analysis of specific costs.

6.5 Cost Finding Application

6.5.1. Cost findings generated manually outside of the standard reporting tools should utilize an established managerial cost accounting data system where possible. Cost finding techniques will vary. It is crucial that the process be thoroughly documented. Documentation must be sufficient to replicate the cost finding process used with consistent results.

6.5.2. Within the DoD, cost finding techniques will be used to compare costs of different organizational units or operations performing the similar output. Cost finding is one tool in estimating full costs, and can be used to compare organizational efficiency. For example, the costs for an intermediate object, such as processing a personnel action at a personnel office, can be compared with the cost at other personnel offices to determine the efficiency of one over the other or value of both.

6.5.3. Cost finding techniques are used for a number of different circumstances, but there are four general circumstances:

6.5.3.1. A cost accounting system is not in place for full cost of a cost objective.

6.5.3.2. The data system does not have the full costs incurred to provide an output or product. In this scenario, the output is often new or unique.

6.5.3.3. Activities do not have formal cost accounting capability as part of their financial management system, but periodically provide outputs to other DoD Components, Federal agencies, or to the public.

6.5.3.4. The cost of an item has not been recorded in the accounting system and the item is being transferred, sold, or recorded in the accounting system for the first time.

6.5.4. When the purpose of a cost finding includes the preparation of an internal report or an external report for another Federal agency or non-Federal organization, General Fund (GF) Components should follow the guidance contained in Volume 11A, Chapter 1 to ensure that all applicable costs are considered. WCF Components must follow the guidance in Volume 11B. When the purpose is to establish the cost of an activity associated with the Security Cooperation Program, managers and users will follow the guidance contained in Volume 15, Chapter 7.

6.6 Cost Finding Requirements

6.6.1. Cost finding techniques must be repeatable and set up in a manner that is consistent with similar prior cost finding reports in the cost collection approach, even if the effort is associated with a one-time cost accounting requirement. This is required to sustain an audit or assessment of the cost later.

6.6.2. Although cost finding practices are outside of the standard processes, cost finding techniques must align with the SFIS Business Rules for financial data (see paragraph 5.3).

6.6.3. A thoroughly documented cost finding approach requires:

6.6.3.1. The cost objects or outputs (both intermediate and final) to which cost finding techniques are to be applied, in addition to the relevant funds used to support the organization (WCF and GF),

6.6.3.2. The organizations involved in performing the cost objects and the tasks performed by each,

6.6.3.3. The applicable cost elements,

6.6.3.4. A plan that includes the specific cost finding techniques to be used and the criteria followed in selecting the specific cost finding technique, and

6.6.3.5. A description of how those techniques will be used to estimate the cost object.

6.6.4. The documented statement and the related work papers should be retained for the same length of time as other documentation used to support billings to federal agencies or the public. Refer to Volume 1, Chapter 9, for document retention and audit readiness.

6.6.5. Identifying and describing cost objects are an important element of the documentation requirement. When the cost object identified is at a reporting entity or organizational level, the cost finding approach could rely on more estimation techniques and fewer details in the cost estimates. If the cost object identified is at the specific function or operation level, additional granularity will be required to provide useful cost object data. At the specific function or operation level, the data may not be available in the legacy financial systems.

6.6.6. The task is to classify the direct or indirect cost objects. A cost object responsible for actually performing the work is direct. A cost object that provides support or performs an administrative function is indirect.

6.6.7. Organizations or cost objects may be either direct or indirect costs depending on the activities identified. For example, when using cost finding techniques to collect costs for paying a contractor invoice, the costs of the accounting technicians at the Defense Finance and Accounting Service (DFAS) disbursement function would be considered direct costs, as they are assigning their time directly to the specific customer. However, when using cost finding to collect costs for the operation of an aircraft carrier battle group, the disbursing function at DFAS is considered an indirect cost and allocated to all benefiting organizations. In the two examples, the difference is the activity scope performed and how cost is recognized as a singular cost easily identifiable in a cost summary or multiple cost aggregated into a single assignment.

6.6.8. An organization classified as indirect cost will not always be recognized in the computation of costs for a final cost object. At the macro level, service center type organizations generally will be recognized as indirect and the related costs allocated among direct organizations. At the micro level, materiality and usefulness will be determining factors on recording the costs as direct. Specifically, if some cost assignment amounts are not readily available, and they are estimated to be relatively insignificant in the context of the total costs, cost finding techniques would allow them to be excluded from the overall costs with a notation that they are not material.

6.6.9. An important aspect of any cost finding technique is identifying the direct and indirect cost elements applicable to the good or service. Even within a direct cost organization, there may be indirect cost elements. Both the direct and indirect activities may have the same cost elements, such as civilian personnel costs. The difference is in whether the costs are considered direct or indirect. If indirect, allocate across the direct cost elements.

6.6.10. All possible cost elements must be identified and determined if they are significant. Personnel compensation, purchased services, supplies, and materials are typical major categories within the SFIS Cost Element Code (see paragraph 5.3).

6.6.11. After the potential elements are identified, it must be decided which cost elements are sufficiently significant to the final cost object and if they warrant separate consideration. An evaluation of the elements would also include the relevance and materiality of each cost element to the cost object. Materiality is determined by analyzing whether excluding the data could distort the computed value for the final cost object.

6.6.12. Before the values for each cost finding can be determined, the source documents for the required data must be identified and physical hardcopies or softcopies retained for audit or performance examination purposes. Source documentation is cost information on a prior project, effort, or purchase that is the same or similar in nature. Examples include: invoices of procurements, contracts, statement on costs, and funding reports. When WCF organizations are part of the cost finding, detailed cost or pricing documentation should already be available since these data are needed for the customer rate setting process. Depending on the significance and intended use of the cost finding report, the identification of specific documents may not be necessary if it is insignificant to the operating costs to which it will be applied.

6.6.13. The following principles are intended to help guide the collection of comprehensive data:

6.6.13.1. Provide a comprehensive data structure for the cost object that specifies the source of all data,

6.6.13.2. Rely on the financial management system to the maximum extent possible and ensure the source data is complete and representative for its intended purpose (reflective of all debits, credits, cost transfers, and journal adjustments),

6.6.13.3. Document the rationale for direct and indirect costs,

6.6.13.4. Pricing lists, costing sheets, benchmarking studies on standard items such as direct and indirect labor and materials, and

6.6.13.5. Create an auditable, repeatable process to support cost management analysis over time.

6.6.14. The following guidance using cost finding techniques should be applied when determining the individual costs of intermediate and final cost objects:

6.6.14.1. Civilian direct labor costs are computed using the average pay grade for applicable General Schedule series personnel (e.g., step 5). For Wage Grade employees, use the average applicable pay grade (e.g., step 4). Amounts included as direct labor costs should recognize only productive time that is, the time actually used to perform the function. All other times, such as training or annual leave, are indirect labor and are included in indirect costs. Actual costs may be used, if known, provided appropriate documentation is available to support their substitution. Prior to applying the labor costs, it will be necessary to develop an approach for collecting the number of hours associated with an activity reflected in a cost object.

6.6.14.2. Civilian Personnel Fringe Benefit costs are computed using the rates published annually on the Office of the Under Secretary of Defense, Comptroller (OUSD(C)) ***Financial Management Reports*** website in accordance with Volume 11A, Chapter 6 or Volume 15, Chapter 7.

6.6.14.3. Costs for Military Personnel are calculated using standard military composite rates in accordance with guidance in Volume 11A, Chapter 1 and Chapter 6, Appendix G. Military Personnel Composite Standard Pay and Reimbursement Rates are published annually on the OUSD(C) Financial Management Reports website.

6.6.14.4. Both military and civilian labor should be included, as applicable. Labor that is directly traceable to jobs should be recorded as direct labor. Indirect labor (labor that cannot be charged to a specific job) should be used in computing indirect costs. Volume 11A, Chapter 1, reimbursable policy controls whether military labor costs actually are includable in charges to other DoD entities.

6.6.14.5. Direct material cost is determined using standard prices, unless the actual cost is known from vendor invoices. Standard prices can be obtained from vendor catalogs, supply system stock databases, recent contract purchases of similar items, or any other available data source.

6.6.14.6. Depreciation and amortization of capitalized property and real property represent an additional cost of an activity, project, or service. Chapters 24-27 provide additional guidance on calculation of depreciation and amortization for general equipment; assets under capital leases, internal use software, government furnished equipment, contractor acquired property, and real property.

6.6.14.7. Other costs that can be directly related to the cost object are determined using source documents, such as vendor invoices and travel vouchers.

6.7 Pricing for a Cost Finding Report

Pricing elements (labor, materials and overhead) for cost finding reports are estimates based on prior same or similar purchases, projects, or programs. When pricing for a cost finding primarily uses financial system data, it improves the accuracy and confidence in the estimate. Common elements such as labor, raw materials, and materiel are examples of standard costs found in financial systems. Pricing practices and standards should be researched for each agency before developing a new practice or procedure.

6.7.1. Information available from CAPE, such as full cost of manpower, and defense employment and purchase projection system are available to support pricing of labor costs. In addition to base pay, these sources provide additional costs related to labor, including fringe benefits and training. When pricing labor, it is important to include the full cost of labor, as fringe benefits will increase total labor costs significantly.

6.7.2. Materials and supply pricing tools are also available from CAPE. These tools can support costs for common purchase items. Pricing for materials and supplies should include the full cost of procurement, which can include material handling and destination charges. Supporting agencies like Washington Headquarters Services or Defense Logistics Agency may supply the full cost of procurement. It is important to identify where services and goods originate from as part of the pricing documentation. The life cycle of a procurement will need to be included as part of a procurement pricing estimate.

6.7.3. A pricing Basis of Estimate (BoE) will vary for services provided by a GF Component vice a WCF Component. Volume 11A, Chapter 1, paragraph 2.4 provides guidance on the pricing of reimbursements for providing authorized services or materiel unless a specific DoD issuance authorizes alternative reimbursement policies. Volume 11B provides WCF guidance for products and services cost recovery. A WCF-financed activity must include general and administrative costs and other overhead in a BoE to satisfy requirements for full cost recovery. Under reimbursable policies set forth in Volume 11A, Chapter 1, DoD activities that finance reimbursable operations using annual appropriations generally do not include such costs in charges to customer activities within the DoD.

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DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 23: "ARCHIVED"

UNDER SECRETARY OF DEFENSE (COMPTROLLER)

VOLUME 4, CHAPTER 24: "REAL PROPERTY"

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 June 2019 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The Deputy Chief Financial Officer policy memorandum, "Real Property Financial Reporting Responsibilities Policy Update (FPM #19-05)," dated March 15, 2019, was incorporated into the chapter and cancelled.	Cancellation
2.4 (240204)	Revised the accountability and financial reporting requirements for real property assets based on implementation of the Federal Accounting Standards Advisory Board Technical Bulletin 2017-2, "Assigning Assets to Component Reporting Entities."	Revision
2.5.6. (240205.F)	Revised the accounting and financial reporting requirements for capital improvements.	Revision
3.5.2. (240305.B)	Added requirement that the management representation letter and the notes to the financial statements must include a disclosure related to the Department of Defense real property reporting policy.	Addition
Annex 5	Added illustrative examples, journal entries, and note disclosures relating to financial reporting responsibilities for real property.	Addition

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CHAPTER 24

REAL PROPERTY

1.0 GENERAL (2401)

1.1 Overview (240101)

This chapter prescribes Department of Defense (DoD) accounting policy for real property, which is a subset of General Property, Plant, and Equipment (General PP&E).

1.1.1. Description. General PP&E, which includes real property, consists of tangible assets that:

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

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

1.1.1.3. Are acquired or constructed with the intention of being used or being available for use by the entity.

1.1.2. Characteristics of Real Property. Real property items are used in providing goods or services, or support the mission of the entity, and typically have one or more of these characteristics:

1.1.2.1. The item could be used for alternative purposes (e.g., by other DoD or federal programs, state or local governments, or nongovernmental entities), but it is used to produce goods or services, or to support the mission of the entity;

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

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

1.1.3. Inclusions. Real property also includes:

1.1.3.1. Items acquired through capital leases, including leasehold improvements (see Chapter 26 for a discussion of accounting for real property acquired through leases);

1.1.3.2. Items under the accountability of the reporting DoD Component even though it may be in the possession of others (e.g., state and local governments, colleges and universities, or contractors);

1.1.3.3. Land, other than Stewardship Land that was specifically acquired for, or in connection with other General PP&E. See paragraph 240204 for election to expense land under Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 50.

1.1.3.4. Land rights held by a DoD Component in land owned by others. See paragraph 240204 for election to expense land rights under FASAB SFFAS 50.

1.1.4. Examples. Real property examples include:

1.1.4.1. Real property including land, land rights, and facilities (includes buildings, structures, and linear structures) (addressed in this chapter);

1.1.4.2. Construction-in-progress (CIP) (addressed in this chapter);

1.1.4.3. Assets under capital lease (addressed in chapter 26); and

1.1.4.4. Leasehold improvements (addressed in this chapter).

1.1.5. Exclusions. Real property excludes items:

1.1.5.1. In which the DoD has a reversionary interest (for example, the DoD sometimes retains an interest in real property acquired with grant money in the event that the recipient no longer uses the real property in the activity for which the grant was originally provided and the real property reverts to the DoD); and

1.1.5.2. Classified as non-Multi-Use Heritage Assets or Stewardship Land (as described in Chapter 28).

1.2 Purpose (240102)

This chapter prescribes DoD accounting policy for real property, a subset of General PP&E. The applicable general ledger accounts are listed in the United States Standard General Ledger (USSGL) contained in Volume 1, Chapter 7, and the accounting entries for these accounts are specified in the ***DoD USSGL Transaction Library***. Unless otherwise stated, this chapter is applicable to all DoD Components, both General Fund and Working Capital Fund (WCF) activities.

1.3 Authoritative Guidance (240103)

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

1.3.1. FASAB Statement of Federal Financial Accounting Concepts ***(SFFAC) 5***, "Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements;"

1.3.2. FASAB ***SFFAC 7***, "Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording;"

1.3.3. FASAB ***SFFAS 1***, "Accounting for Selected Assets and Liabilities;"

1.3.4. FASAB ***SFFAS 4***, "Managerial Cost Accounting Standards and Concepts;"

1.3.5. FASAB ***SFFAS 6***, "Accounting for Property, Plant, and Equipment;"

1.3.6. FASAB ***SFFAS 23***, "Eliminating the Category National Defense Property, Plant, and Equipment;"

1.3.7. FASAB ***SFFAS 29***, "Heritage Assets and Stewardship Land;"

1.3.8. FASAB ***SFFAS 40***, "Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment;"

1.3.9. FASAB ***SFFAS 42***, "Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32;"

1.3.10. FASAB ***SFFAS 44***, "Accounting For Impairment of General Property, Plant, and Equipment Remaining In Use;"

1.3.11. FASAB ***SFFAS 50***, "Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35;"

1.3.12. FASAB ***SFFAS 55***, "Amending Inter-entity Cost Provisions;"

1.3.13. FASAB Technical Bulletin ***(TB) 2017-2***, "Assigning Assets to Component Reporting Entities;"

1.3.14. FASAB Technical Release ***(TR) 13***, "Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment;"

1.3.15. FASAB ***TR 14***, "Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment;"

1.3.16. FASAB ***TR 15***, "Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation;"

1.3.17. FASAB ***TR 17***, "Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment;"

1.3.18. FASAB ***TR 18***, "Implementation Guidance for Establishing Opening Balances;"

1.3.19. FASAB ***Staff Implementation Guidance 23.1***, "Guidance for Implementation of SFFAS 23, Eliminating the Category National Defense Property, Plant, and Equipment: Classification of Items Formerly Considered National Defense PP&E;"

1.3.20. FASAB ***Staff Implementation Guidance 6.1***, "Clarification of Paragraphs 40 – 41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as Amended;"

1.3.21. Office of Management and Budget ***(OMB) Circular No. A-136***, "Financial Reporting Requirements;"

1.3.22. DoD Directive (***DoDD) 4165.06***, "Real Property;"

1.3.23. ***DoDD 5110.04***, "Washington Headquarters Services (WHS);"

1.3.24. DoD Instruction ***(DoDI) 1015.15***, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;"

1.3.25. ***DoDI 4000.19***, "Support Agreements;"

1.3.26. ***DoDI 4165.14***, "Real Property Inventory (RPI) and Forecasting;"

1.3.27. ***DoDI 4165.70***, "Real Property Management;"

1.3.28. ***DoDI 4165.71***, "Real Property Acquisition;"

1.3.29. ***DoDI 4165.72***, "Real Property Disposal;"

1.3.30. Treasury Financial Manual ***(TFM) Volume 1, Part 2, Chapter 4700***, "Federal Entity Reporting Requirements for the Financial Report of the United States Government;"

1.3.31. Title 10, United States Code, section 2674 (***10 U.S.C. § 2674***)

1.3.32. ***10 U.S.C. § 2682;***

1.3.33. ***10 U.S.C. § 2721;*** and

1.3.34. Title 41, Code of Federal Regulations, part 102-75 ***(41 CFR 102-75)***

2.0 ACCOUNTING FOR REAL PROPERTY (2402)

2.1 Definitions (240201)

2.1.1. Facility. A facility is a building, structure, or linear structure whose footprint extends to an imaginary line surrounding a facility at a distance of five feet from the foundation that, barring specific direction to the contrary such as a utility privatization agreement, denotes what is included in the basic record for the facility (e.g., landscaping, sidewalks, and utility connections). This imaginary line is commonly referred to as the "5-foot line." A facility will have a Real Property Unique Identifier (RPUID) received from the Data Analytics & Integration Support platform, which is entered into an Accountable Property System of Record (APSR) as a unique real property record.

2.1.2. Funding DoD Component. The funding DoD Component is the entity paying to acquire the real property asset or improvement, regardless of the specific types of funds used (e.g., appropriation or working capital funds).

2.1.3. Installation Host. Installation Host is a term used by the DoD to describe the Military Department (i.e., Department of the Army, Department of the Navy which includes the U.S. Marine Corps, or Department of the Air Force) or Washington Headquarter Services (WHS) on whose installation a real property asset is located. An Installation Host may be either a General Fund or a WCF operation.

2.1.4. Materiality. Materiality, as defined by the SFFAS 1, is the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

2.1.5. Net Realizable Value (NRV). NRV is the estimated amount that can be recovered from selling, or any other method of disposing, of an item less estimated costs of completion, holding, and disposal.

2.1.6. Real Property. Real property assets consist of buildings, structures, linear structures (collectively called facilities), land, and land rights.

2.1.6.1. A building is a roofed and floored facility enclosed by exterior walls and consisting of one or more levels that is suitable for single or multiple functions and that protects human beings and their properties from direct harsh effects of weather such as rain, wind, sun and other natural factors.

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

2.1.6.3. A linear structure is a facility whose function requires that it traverse land (e.g., runway, road, rail line, pipeline, fence, pavement, electrical distribution line) or is otherwise managed or reported by a linear unit of measure at the category code (commonly known as CATCODE) level.

2.1.6.4. Land is defined as a portion of the earth's surface distinguishable by boundaries. Land must be accountable by parcel starting when the parcel was transferred into an Installation Host's custody and control. Excluded from the definition are natural resources (e.g., depletable resources, such as mineral deposits and petroleum, renewable resources such as timber and the outer continental shelf resources) related to land.

2.1.6.5. A land right is an interest and privilege held by DoD or a DoD Component in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights and other like interests in land.

2.1.7. Value-In-Use. SFFAC 7 describes value-in-use as the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life.

2.2 Relevant USSGL Accounts (240202)

2.2.1. Land and Land Rights (USSGL 171100). The amount of identifiable cost of land and land rights of unlimited duration acquired for or in connection with General PP&E used in general operations and permanent improvements are recorded in this account.

2.2.2. Construction-in-Progress (USSGL 172000). The CIP is used to accumulate the costs of new construction of General PP&E (except for internal use software) and capital improvements while the asset is under construction. CIP accounts include all costs (e.g., direct labor, direct material, supervision, inspection and overhead) incurred in construction. Upon completion, these costs will be transferred to the appropriate General PP&E account.

2.2.3. Buildings, Improvements, and Renovations (USSGL 173000). The Buildings, Improvements, and Renovations account is used to record the cost of buildings acquired and improvement(s) to them, under the legal jurisdiction of the Installation Hosts, which are used in providing DoD services or goods. This account also includes the cost of renovation, improvement, or restoration of multi-use heritage assets classified as buildings after transfer from the CIP account.

2.2.4. Accumulated Depreciation on Buildings, Improvements, and Renovations (USSGL 173900). The Accumulated Depreciation on Buildings, Improvements, and Renovations account is used to record the amount of accumulated depreciation charged to expense for assets and improvements recorded in the USSGL 173000 account.

2.2.5. Other Structures and Facilities (USSGL 174000). The Other Structures and Facilities account is used to record the cost or appraised value of structures and linear structures and improvements to them, under the legal jurisdiction of the Installation Hosts, which are used in providing DoD services or goods. This account also includes the cost of renovation, improvement, or restoration of multi-use heritage assets classified as structures or linear structures after transfer from the CIP account.

2.2.6. Accumulated Depreciation on Other Structures and Facilities (USSGL 174900). The Accumulated Depreciation on Other Structures and Facilities account is used to record the amount of accumulated depreciation charged to expense for assets and improvements recorded in the USSGL 174000 account.

2.2.7. General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed (USSGL 199500). The General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed account is used to record the value of General PP&E assets, which have been permanently removed from service but not yet disposed. Upon permanent removal from service, General PP&E assets must be recorded at their expected NRV and must cease to be depreciated.

2.2.8. Financing Sources Transferred In Without Reimbursement (USSGL 572000). The amount determined to increase the financing source of a reporting Federal entity that occurs as a result of an asset being transferred in. The amount of the asset is recorded at book value of the transferring Federal entity.

2.2.9. Financing Sources Transferred Out Without Reimbursement (USSGL 573000). The amount determined to decrease the financing source of a reporting Federal entity that occurs as a result of an asset being transferred out. The amount of the asset is recorded at book value as of the transfer date.

2.2.10. Depreciation, Amortization and Depletion (USSGL 671000). The expense recognized by the process of allocating costs of an asset (tangible or intangible) over the period of time benefited or the assets useful life is recorded in this account.

2.3 Valuation of Acquisitions and Transfers (240203)

2.3.1. Recorded Cost. When acquiring a real property asset, the recorded cost must be recognized in accordance with paragraph 240204. The recorded cost of a real property asset is the basis for computing depreciation. The recorded cost must include all amounts paid to bring the real property asset to its form and location suitable for its intended use. This subparagraph defines and prescribes the use of acquisition cost, net book value (NBV), fair value, and ancillary cost when recording the cost of newly acquired real property assets. The funding source (e.g., appropriation and WCFs) is not a factor in determining whether or not an item should be capitalized.

2.3.1.1. Acquisition Cost. For purposes of this chapter, acquisition cost refers to the original purchase or construction cost, net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses must not be included as a cost of the asset; rather, such costs must be recognized as operating expenses. Although the measurement basis for valuing real property remains historical cost, for purposes of establishing auditable opening balances, DoD Components should use the Plant Replacement Value as the methodology for calculating deemed cost as a surrogate for the historical cost for real property as described in SFFAS 6 as amended by SFFAS 50 (see Annex 4 for additional guidance).

2.3.1.2. NBV. NBV is the recorded cost of a real property asset, less its accumulated depreciation.

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

2.3.1.4. Ancillary Cost. Ancillary costs are included in the recorded cost in addition to the acquisition cost of the asset. These costs are identifiable and necessary to bring the asset to its form and location suitable for its intended use including other direct and indirect costs. Examples include:

2.3.1.4.1. Labor and other direct or indirect production costs (for assets produced or constructed);

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

2.3.1.4.3. Acquisition and preparation costs of buildings and other facilities;

2.3.1.4.4. An appropriate share of the cost of the equipment used in construction work;

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

2.3.1.4.6. Allowable direct costs of inspection, supervision, and administration of construction contracts and construction work;

2.3.1.4.7. Legal and recording fees and damage claims;

2.3.1.4.8. Fair value of facilities and installed equipment donated to the DoD;

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

2.3.2. Method of Acquisition or Transfer Determines Recorded Cost

2.3.2.1. Purchased Real Property. The cost to be recorded for real property assets acquired by purchase from a third party (private, commercial, or state or local government) is its purchase contract cost plus applicable ancillary costs. Examples of ancillary costs are included in the listing in subparagraph 240203.A.4. For purposes of this guidance, purchase includes procurements of real property by cash, check, or installment or progress payments on contracts or purchase agreements.

2.3.2.2. Constructed Real Property. The cost to be recorded for constructed real property asset(s) is the sum of all the costs incurred to bring the real property asset(s) to a form and condition suitable for its intended use. These costs include the costs of project design and actual construction such as labor, materials, and overhead costs (see Annex 1 for a list and description of the costs to be accumulated for constructed assets). Note that preliminary planning and design costs accumulated prior to funding and design authorization must be expensed and not be captured as part of the recorded cost of constructed assets. The cost of real property under construction must be recognized in accordance with the CIP guidance prescribed in subparagraph 240204.G.

2.3.2.3. Donated Real Property. The cost to be recorded for real property received through donation, execution of a will, or judicial process excluding forfeiture must be its estimated fair value at the time received by the DoD and any costs incurred by the DoD to bring the asset into service (e.g., legal fees).

2.3.2.4. Exchanged Real Property. The cost to be recorded for real property acquired through exchange between the DoD and a nonfederal entity is the fair value of the consideration surrendered at the time of exchange. If the fair value of the real property acquired is more readily determinable than that of the consideration surrendered, the cost will be the fair value of the real property acquired. If neither fair value can be determined, the cost of the real property acquired will be the cost recorded for the consideration surrendered, net of any accumulated depreciation/amortization. Any difference between the net recorded amount of the consideration surrendered and the cost of the real property acquired must be recognized as a gain or loss. In the event that additional cash consideration is included in the exchange, the cost of real property acquired will be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received. If the DoD Component enters into an exchange in which the fair value of the real property acquired is less than that of the consideration surrendered, the real property acquired will be recognized at the amount of consideration surrendered, as described previously and subsequently reduced to its fair value. A loss must be recognized in an amount equal to the difference between the amount of consideration surrendered for the real property acquired and its fair value. This guidance on exchanges applies only to exchanges between a DoD Component and a nonfederal entity. Exchanges between a DoD Component and another DoD Component or federal agency must be accounted for as a transfer.

2.3.2.5. Capital Leases. The recorded cost of real property acquired under a capital lease is the present value of the rental and other minimum lease payments during the lease term, excluding that portion of the payments representing executory costs (e.g., insurance, maintenance and taxes) to be paid by the lessor. The present value is the value of future cash flows (e.g., lease payments) discounted to the present at a certain interest rate (such as the reporting entity's cost of capital), assuming compound interest. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded will be the fair value. If the portion of minimum lease payments representing executory costs is not determinable from the lease provisions, the amount should be estimated. See Chapter 26 for additional guidance on capital leases.

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

2.3.2.7. Vested and Seized Property During Times of War. See Volume 12, Chapter 29, for discussion of vested and seized property during times of contingency operations.

2.3.2.8. Transferred Real Property from a non-DoD Federal agency to DoD. The cost recorded for real property transferred from a non-DoD Federal agency to a DoD Component is the cost recorded on the transferring entity's books for the real property, net of any accumulated depreciation/amortization. If the receiving DoD Component cannot reasonably ascertain those amounts, the cost of the asset will be its fair value at the time of transfer.

2.3.2.9. Transfer of Capitalized Real Property between DoD Components. DoD Components must adhere to the following:

2.3.2.9.1. The cost recorded for real property transferred from one DoD Component to another DoD Component shall be the gross cost recorded net of accumulated depreciation/amortization on the transferring DoD Component's books. The DoD Component transferring the real property is responsible for providing the gross cost net of accumulated depreciation/amortization of the asset being transferred to the DoD Component receiving the transfer. Both parties must agree to the transfer and the agreement must be documented using the appropriate documentation. Each DoD Component has execution responsibility to ensure that requisite tasks are being completed in a timely manner for all transfers.

2.3.2.9.2. When completing a transfer, the transferring DoD Component, is required to provide financial reporting information to the receiving DoD Component whenever the asset is transferred throughout the asset lifecycle. When transfers are implemented, supporting documentation which includes financial reporting information, trading partner information, and associated data elements must be provided. These data elements include, Project/Work Order Number, Name, RPUID, Real Property Site Unique Identifier (RPSUID), Contract Number(s), Operational Status Code, Acquisition Original Recorded Cost Amount and Capital Improvement Recorded Cost Amount (for all capitalized improvements), Placed in-Service Date, Capital Improvement Placed in-Service Date (for all capitalized improvements), Facility Total Accumulated Depreciation Amount, Capital Improvement Estimated Useful Life Year Quantity, Facility Estimated Useful Life Quantity, Facility Estimated Useful Life Adjustment Quantity, transaction details to include Acquisition Fund Source Code, Acquisition Method Code, and Real Property Asset Predominate Design Use Facility Analysis Code (FAC). If this information is not available, the receiving and transferring entities must develop and document an estimate to support the financial transfer of the asset. See Volume 12, Chapter 14, for further policy on transfers of DoD real property between Installation Hosts.

2.3.2.9.3. Within DoD Components, there are different capitalization thresholds. For transferred real property between DoD Components if an asset was capitalized at acquisition, it will continue to be capitalized and depreciated after transfer regardless of the new financial reporting entity's capitalization threshold. If an asset was expensed at acquisition, it will not be capitalized and depreciated after transfer to the new financial reporting entity, even if the new financial reporting entity has a lower capitalization threshold than the original entity that acquired the asset. The receiving DoD Component will include the item in its APSR as accountable real property.

2.3.2.10. Joint Venture Type Arrangements. Joint venture type arrangements should be accounted for as follows:

2.3.2.10.1. There may be situations where a DoD Component jointly funds the acquisition or construction of real property with a Nonappropriated Fund Instrumentality (NAFI). As defined in DoDI 1015.15, a NAFI is a DoD organizational and fiscal entity that is supported in whole or in part by nonappropriated funds (NAFs). It acts in its own name to provide or assist Secretaries of Military Departments in providing programs for DoD personnel. It is not incorporated under the laws of any State or the District of Columbia, but has the legal status of an instrumentality of the U.S. Under current GAAP, NAFI entities are not included in the DoD consolidated financial statements. An example of a NAFI would be an Armed Services Exchange.

2.3.2.10.2. Where a DoD Component jointly funds the acquisition or construction of real property with a NAFI, the DoD Component will, assuming the amount meets the capitalization threshold in effect at the time of the acquisition, record the real property on its Balance Sheet and report it in its financial statements in the amount of its share of the funding. For example, if a DoD Component and a NAFI each fund $10 million in the acquisition of a real property asset with a total of 50,000 square feet (with each acquiring 25,000 square feet); the DoD Component would record the real property at $10 million. Subsequent to the acquisition, the DoD Component, that jointly funded the acquisition, should evaluate whether the real property asset should be transferred to another DoD Component in accordance with paragraph 240204 and follow the requirements to transfer the real property asset to another DoD Component, if applicable.

2.3.3. <u>Documentation</u>. When recording the acquisition of a real property asset in the APSR and/or accounting system, the asset must be assigned a dollar value (i.e., recorded cost) as detailed in this chapter. The dollar value must be supported by appropriate documentation. A complete discussion of supporting documentation can be found at paragraph 240302. To establish proper financial control when acquiring real property from another DoD Component or Federal agency, the acquiring DoD Component must request from the transferring DoD Component or other Federal agency, the necessary source information and financial transfer documents. Such information and documents must include unique identifier(s) for the asset(s); location; original acquisition cost(s); cost of any improvements; the date the asset was constructed, or acquired; the estimated useful life; the amount of accumulated depreciation; the condition; and other relevant information linked to that asset. If this information is not available, the receiving and transferring entities must develop and document an estimate to support the financial transfer of the asset. See Volume 12, Chapter 14 for further policy on transfers of DoD real property between Installation Hosts. See Volume 12, Chapter 14 and DoDI 4165.70 for further policy on transfers of DoD real property between Installation Hosts.

*2.4 Recognition (240204)

All real property assets acquired by DoD Components must be recognized for accountability and financially reported as required by this chapter. Recognition requires the appropriate accounting treatment (expensed or capitalized) and the reporting of capitalized amounts and accumulated depreciation/amortization on the appropriate DoD Component's financial statements.

Note, SFFAS 50 applies to a reporting DoD Component that is presenting financial statements, or one or more line items in the financial statements, following Generally Accepted

Accounting Principles (GAAP) promulgated by FASAB either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP based financial statements without use of the alternative methods for opening balances set out in SFFAS 50. A reporting DoD Component meeting either one of these criteria may elect to apply the alternative valuation method described in SFFAS 50, including the election to record a zero value for land and land rights. However, if the reporting DoD Component has previously undergone a financial statement audit and received an unmodified audit opinion, they would not meet either of these two criteria and therefore would not be able to elect this alternative valuation method. Refer to Annex 4 for additional guidance on alternative valuation methodology for establishing opening balances for buildings, structures, linear structures, land and land rights.

2.4.1. Recognition Responsibility.

2.4.1.1. General Requirements for Recognition Responsibility

2.4.1.1.1. 10 U.S.C. § 2682 states "a real property facility under the jurisdiction of the Department of Defense which is used solely by an activity or agency of the Department of Defense (other than a military department) shall be under the jurisdiction of a military department designated by the Secretary of Defense." The DoD determined that because the entities with jurisdiction over real property assets have existing requirements to manage the asset-related data required for financial reporting, it is rational and consistent that those entities carry the financial reporting responsibility for those assets in accordance with FASAB TB 2017-2. In addition, WHS is delegated jurisdiction over its facilities via 10 U.S.C. § 2674 and DoDD 5110.04.

2.4.1.1.2. Real property is generally reported on the General Fund's financial statements of a Military Department or WHS, but a Military Department WCF can report real property on its financial statements if it has been given jurisdiction over a specific installation.

2.4.1.1.3. Financial reporting responsibility for real property assets includes all aspects of financial reporting and disclosures such as, but not limited to, footnote disclosures, deferred maintenance and repair (DM&R), and other required supplemental information (RSI).

2.4.1.1.4. Financial reporting responsibility for real property assets must be supported by documentation establishing the rights and obligations of the reporting entity for each asset (see paragraph 240302). Such documentation may include real property records reflecting the jurisdiction of an Installation Host over real property, as well as inter- and intra-agency agreements and records reflecting host-tenant support relationships.

2.4.1.1.5. See Annex 5 for illustrative examples and journal entries relating to financial reporting responsibilities for real property.

2.4.1.2. Construction-In-Progress

2.4.1.2.1. The funding DoD Component reports CIP for real property (including improvements) in its CIP account until the asset or improvement is placed in service. The funding DoD Component also relieves CIP when the asset or improvement is placed in service. At this time, an asset or improvement will be recorded by the funding DoD Component and an interim DoD ***(DD) Form 1354*** will be used to document the construction in accordance with existing DoD real property policy. If additional costs continue to be incurred after the asset or improvement is placed in service, those costs will continue to be recorded in the funding DoD Component's CIP account. Upon final contract closeout, the CIP will be relieved and a final DD Form 1354 will be completed.

2.4.1.2.2. Once the asset is placed in service, if the funding DoD Component is not the Installation Host, then the asset will need to be transferred from the funding DoD Component to the Installation Host.

2.4.1.3. In-Service Real Property

2.4.1.3.1. Real property must be reported on the financial statements of the Installation Host on whose installation a real property asset is located.

2.4.1.3.2. DoD real property that is not located on a DoD installation (including property located on an installation that is hosted by an entity other than DoD) will be reported on the financial statements of the Military Department that is the Installation Host having jurisdiction of the real property asset. Jurisdiction of real property is identified in the Office of the Secretary of Defense (OSD) consolidated real property database. This database is maintained and managed by the Office of the Assistant Secretary of Defense (Sustainment). Disputes between Installation Hosts regarding who should be the financial reporting organization may be resolved by contacting the Office of the Assistant Secretary of Defense (Sustainment). If a real property asset is located on a DoD installation that is funded by an entity that is not part of the consolidated DoD financial statements, it will be the financial reporting responsibility of the non-DoD entity.

2.4.1.3.3. For DoD Components that do not already have an unmodified audit opinion, existing land and land rights will be valued at zero dollars and future land acquisitions will be expensed as described in SFFAS 50.

2.4.1.3.4. Assets assigned to/from one reporting DoD Component to another reporting DoD Component should be treated as transfers of assets per SFFAS 7, "Accounting for Revenue and Other Financing Sources."

2.4.1.4. Capitalized Improvements to Real Property

2.4.1.4.1. Capital improvements to an asset will be reported by the DoD Component that reports the real property asset that is being improved. Capital improvements that are under construction will be reported in accordance with subparagraph 240204.A.2.

2.4.1.4.2. The cost of a capitalized improvement will be accumulated and reported by the funding DoD Component until the improvement to the asset is placed in service, at which time it will be transferred to the entity responsible for reporting the real property base asset. The funding DoD Component will coordinate the delivery of the final DD Form 1354 and supporting documentation to the Installation Host.

2.4.2. Intra-DoD Transfers

2.4.2.1. Both parties must agree to the transfer and the agreement must be documented using the appropriate documentation (e.g., DD Form 1354). In addition, the entity transferring the real property must provide adequate and appropriate supporting documentation for financial statement reporting (financial reporting information). Data elements included in the financial reporting information, should include but are not limited to, Project/Work Order Number, Name, RPUID, RPSUID, Contract Number(s), Operational Status Code, Acquisition Original Recorded Cost Amount and Capital Improvement Recorded Cost Amount (for all capitalized improvements), Placed in-Service Date, Capital Improvement Placed in-Service Date (for all capitalized improvements), Facility Total Accumulated Depreciation Amount, Capital Improvement Estimated Useful Life Year Quantity, Facility Estimated Useful Life Quantity, Facility Estimated Useful Life Adjustment Quantity, transaction details to include Acquisition Fund Source Code, Acquisition Method Code, and Real Property Asset Predominate Design Use FAC. The financial reporting information will be maintained with the asset throughout the asset lifecycle.

2.4.2.2. Transfers between DoD Components may occur regularly due to construction or improvement of real property. When a transfer occurs due to the construction or improvement of real property, the Installation Host will accept the transfer on their installation when the funding entity provides the appropriate transfer documentation. In cases where property is transferred, the values transferred should be the same on each side of the transfer to ensure there are no discrepancies between DoD Components. Adjustments to the transferred value recorded may subsequently be made to record value at deemed cost in accordance with SFFAS 50.

2.4.3. Memorandum of Agreement (MOA). All DoD Component tenants must have MOAs in place with the Installation Host. A MOA will be executed to establish rights and obligations between the Installation Host and the DoD Component using the real property asset. All tenants must maintain a list of real property facilities they occupy and for which they have facility operations and maintenance or facility improvement responsibility. The MOA should also identify the respective maintenance and other operational responsibilities of the host and tenant. DoDI 4000.19 prescribes DoD policy on intra-departmental support, to include establishment of MOAs to document host-tenant relationships.

2.4.4. WCF Capital Recovery Rate and Accounting Treatment. WCF will continue to recover costs associated with the construction of real property that is funded by the WCF regardless of financial reporting responsibility. In cases where a capital improvement is transferred to a different reporting entity, the WCF will record an imputed cost in lieu of an actual depreciation expense for the improvement. Capital recovery rates will be set in accordance with Volume 2B, Chapter 9.

2.4.5. Inter-Entity Costs.

2.4.5.1. SFFAS 55 requires the continued recognition of significant inter-entity costs among and between federal agencies by business-type activities (e.g., WCFs) and allows non-business type activities to elect not to recognize inter-entity costs, with the exception of inter-entity costs for personnel benefits and the U.S. Department of the Treasury (Treasury) Judgment Fund settlements unless otherwise directed by the OMB. DoD has elected to not recognize imputed costs and corresponding imputed financing from non-business-type-activities, aside from the exceptions stated in this subparagraph.

2.4.5.2. WCFs or other business like activities must impute costs in accordance with SFFAS 55. These imputed costs would include depreciation expense. The imputed costs will include what would otherwise have been depreciation expense for real property assets and improvements that were funded by the WCF and subsequently transferred to the General Fund, as well as any depreciation expense or other costs for assets not funded by the WCF (see Annex 2). Imputed costs are recorded as a debit to Imputed Cost (USSGL 673000) and a credit to Imputed Financing Sources (USSGL 578000).

2.4.5.3. Disclosure requirements for inter-entity costs are described in subparagraph 240305.D.

2.4.6. Recognition Uncertainty. It is important that the overall accounting records of the DoD and the Federal Government are not duplicative.

2.4.6.1. In situations where doubt exists as to which DoD Component should recognize the real property asset, DoD Components involved must reach agreement with the other applicable DoD Components or Federal agencies as to which DoD Component or Federal Agency will record the asset for financial reporting purposes.

2.4.6.2. If an agreement cannot be reached, the matter must be referred to Office of the Assistant Secretary of Defense (Sustainment) for resolution. Requests for resolution must be accompanied by adequate supporting documentation to assist in resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting DoD Component.

2.4.7. Recognition Timing. Recognition of real property for financial reporting purposes must occur upon acceptance to the acquiring DoD Component. Contract progress payments made must be recorded in the CIP account until the real property asset is accepted. See subparagraph 240204.I for guidance on the use of the CIP account.

2.4.8. Capitalization Thresholds. The capitalization threshold for real property is $250,000 for both the General Fund and WCF, except for the National Security Agency and the Office of the Director of National Intelligence for which the threshold is $1 million. Real property assets with a recorded cost that equals or exceeds the capitalization threshold and have a useful life of at least two years must be capitalized as an asset in the appropriate DoD Component's accounting records and depreciated/amortized over its useful life. Real property assets with a recorded cost below the applicable capitalization threshold or which has a useful life of less than two years must be expensed.

2.4.9. CIP Process. CIP must be used to accumulate costs of new real property construction and capital improvements, which are anticipated to meet the capitalization criteria.

2.4.9.1. A CIP account will be created when either of these triggering events occurs: (i) work order and funding authorizations are received for an in-house construction project; or (ii) design and fund authorizations are received for construction projects performed by a construction agent (i.e., another DoD Component, Federal agency or commercial entity). When a DoD Component is constructing a real property asset to be transferred to another DoD Component, as the construction agent they must accumulate all costs since project inception in a CIP account until the costs are billed to the funding (purchasing) DoD Component. The billed costs in such a scenario must be removed from the CIP account of the construction agent when billed to the funding (purchasing) DoD Component entity and the funding (purchasing) DoD Component must record such billed amounts in their appropriate CIP account. See Volume 3, Chapter 17 for additional guidance on inter-governmental construction work or services.

2.4.9.1.1. When there is a cost shared project between Federal and nonfederal entities, a CIP account must only be created when the real property asset will be federally owned. Only the federal share of construction costs in conjunction with a nonfederal cost shared project should be captured in a CIP account. In the case of a cost shared project between DoD and another Federal agency (e.g., Department of State), only the DoD share of construction costs should be captured in a CIP account within DoD's financial statements. At the time the asset is placed in service, the real property asset must be recognized in the financial statements of the acquiring DoD Component for the value of the DoD Component's share of the costs.

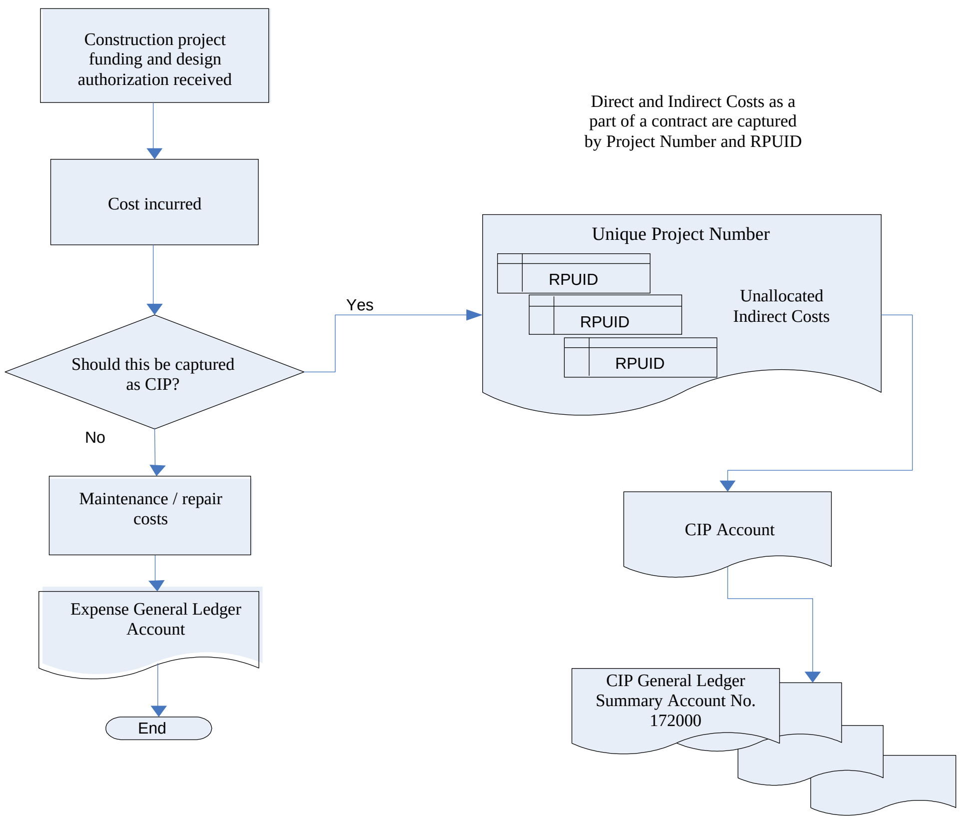
2.4.9.1.2. For cost shared projects where a DoD Component is the construction agent and constructing a non-federally owned real property asset, costs must be accumulated in a CIP account to be billed to the customer. If a DoD Component is not the construction agent and the real property asset is not DoD owned, the DoD Component's share of construction cost must be expensed as incurred. If the real property asset's final ownership was not determined at project funding and design authorization, this cost must be relieved from the CIP account and properly expensed when it is determined that the real property asset will not be federally owned.

2.4.9.2. DoD Components must assign a Component unique project number and the Installation Host will assign at least one RPUID for each approved construction project. The project number and RPUID will be associated to a CIP account when created. The Component unique project number must remain the same and be used for all phases of a particular construction project regardless of the fiscal year.

2.4.9.3. All costs for a construction project will be accumulated in a CIP account. A reasonable allocation methodology must be established and documented to assign project costs, direct and indirect, to all real property assets that will be constructed or improved with corresponding RPUIDs. Any indirect project costs must be allocated to the project CIP account as they are incurred. Thus, the full cost of constructed items must be adequately captured, reported and distributed across real property assets by RPUID, no later than the time the real property assets are placed in service and available for use. See Chapter 19 Managerial Cost Accounting for additional information on indirect costs.

2.4.9.4. CIP costs must be tracked by both the Component unique project number and the RPUID to ensure visibility, traceability, and accountability. The relationship among a construction project, RPUID and CIP account is provided in Figure 24-1.

Figure 24-1. Relationships among a Construction Project, RPUID, and CIP Account



2.4.9.5. The funding DoD Component must continue to report CIP on their financial statements until the constructed item is accepted by the accountable DoD Component (if the accountable DoD Component is different than the funding DoD Component). The minimum information associated with the CIP amount reported for financial statement preparation purposes must include the funding DoD Component's Project Number, Project Detail Fund Code(s), Project Detail Fund Code Cost Amount, Project Detail Organization Code(s), Programmed Amount, and RPUID(s). For a specified project and for the purpose of an audit trail of the CIP account, the construction agent and the funding DoD Component must retain the supporting documentation for their respective portion(s) of the project to which they have fiscal accountability. For additional information regarding representative documentation for a construction project, refer to paragraph 240302. Upon acceptance of the constructed real property asset(s) or improvements, the construction agent must provide the funding DoD Component and the military service real property accountable officer with auditable supporting documentation. The funding DoD Component and military service real property accountable officer, in turn, must ensure the documentation is retained in accordance with applicable laws, regulations, and instructions.

2.4.9.6. When constructed real property asset(s) or improvements are accepted and placed in service, the costs accumulated in the CIP account must be relieved in a manner that recognizes the cost of each individual real property asset with a RPUID (i.e., transferred to the appropriate real property account). To ensure constructed real property asset(s) or improvements are recorded at full cost, the recorded cost of the real property asset(s) or improvements accepted must equal the sum of all construction and applicable design costs. (See Annex 1 for a comprehensive list of cost types.) In addition, the funding DoD Component of a construction project must ensure that all costs incurred by the funding DoD Component are provided to the construction agent on a formal document for inclusion in the full cost of the real property asset(s) or improvements prior to acceptance by the accountable DoD Component.

2.4.9.7. For construction projects that are completed in multiple phases, the cost of each phase is transferred from the CIP account to the appropriate asset account, by RPUID, at the time each real property asset or useable portion of the asset in the phase is placed in service. Each constructed real property asset or useable portion of the asset, therefore, may have one or more placed in-service dates, which will be used to initiate the capitalization of each corresponding phase. Each phase must be depreciated over its estimated useful life when placed in service.

2.4.9.8. If a construction project is cancelled, all cost accumulated in the associated CIP account must be expensed. When a portion of a project is cancelled or decreased in scope, the cost directly associated to that portion of the project, and an allocated portion of the common cost in the CIP, must be expensed. All projects deferred for more than two years must be reviewed for continuance or cancellation during the review cycle.

2.4.10. Accounting for Real Property Outside of the U.S. As used in this chapter, U.S. means the 50 States of the U.S., the District of Columbia, and the commonwealths, territories, and possessions of the U.S. In carrying out their mission, operations and objectives, there are circumstances in which DoD Components occupy and use real property facilities outside of the U.S. DoD's rights to real property outside of the U.S. are different from those within the U.S. For financial reporting purposes, a DoD Component that occupies and uses facilities outside of the U.S. must adhere to the following guidance:

2.4.10.1. DoD real property that is not located on a DoD installation (including property located on an installation of a host nation) will be reported on the financial statements, (including capital improvements) of the Installation Host that is identified in the OSD approved Enduring Location Master List, which is maintained and managed by the Office of the Under Secretary of Defense for Policy, when all of the following criteria are met:

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

2.4.10.1.2. The U.S. Government/DoD Component funded the asset's acquisition (e.g., purchase and construction) and/or capital improvements. See subparagraphs 240204.A and 240204.B for transfers between DoD Components when the real property acquisition is funded by a DoD Component other than an Installation Host having jurisdiction over the installation on which the real property resides.

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

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

2.4.10.1.5. The DoD Component is using the asset in its operations.

2.4.10.2. Such capitalized assets will be depreciated over their estimated useful lives. Should the use of the asset terminate earlier than the estimated useful life, the asset's remaining NBV will be written off.

2.4.10.3. When a DoD Component occupies a facility but the DoD did not fund its acquisition, the DoD Component will recognize such facilities on its financial statements as assets under a capital lease, if a specific agreement with the host nation/foreign government exists and addresses the use of the facility. See Chapter 26 for guidance on applying the lease criteria for real property outside of the U.S.

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

2.4.10.5. The Installation Host with jurisdiction over the installation outside of the U.S. must record all real property occupied and used by it in an APSR, regardless of interest type, including those that have not been capitalized for accounting and financial reporting purposes, in accordance with 10 U.S.C. § 2721, DoDI 4165.14 and subparagraphs 240204.J.1 and 240204.J.3. Assets that do not meet the criteria for capitalization in accordance with subparagraphs 240204.J.1 and 240204.J.3 will be expensed in the period received for use by DoD.

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

2.5 Capital Improvements (240205)

2.5.1. Capital improvements to real property assets must be capitalized when (1) the improvement increases the asset's useful life by two or more years, or increases its capacity or size, and (2) the cost of the improvement equals or exceeds the capitalization threshold (see subparagraph 240204.H). If capital improvements do not meet these two criteria, they should be expensed. Funding source (e.g., appropriation or WCFs) is not a factor in determining whether or not an improvement will be capitalized. If the capital improvement increases the underlying asset's useful life by two years or more, the DoD Component must capitalize and depreciate the improvement with the original asset over the revised estimated useful life. Costs of capital improvements which do not extend the useful life of an existing real property asset but enlarge or improve its capacity and have a useful life of two years or more must be capitalized and depreciated over the lesser of the useful life of the improvement or the remaining economic useful life of the underlying asset. Note that the economic life of the real property asset, in certain instances, may be different than the original estimated accounting useful life. The economic life reflects the remaining period of utility for the real property.

2.5.2. The cost of improvements to more than one real property asset as identified by a RPUID when constructed under a single project or work order, and that cannot be specifically identified by asset, will be capitalized only if the allocated cost per real property asset equals or exceeds the capitalization threshold. When more than one improvement is made to a single real property asset, in a single project and the improvements are part of one effort to increase the real property's capacity, size, and/or useful life, the sum of the costs of the improvements must be capitalized, if the summed costs equal or exceed the capitalization threshold. This is required even when the improvements are funded by different fund sources. Once a determination has been made that the aggregate costs of the improvements will be capitalized, the summed costs of improvements should be capitalized and depreciated upon being placed in service as described in paragraph 240205.A.

2.5.3. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds the capitalization threshold. Per SFFAS 42, maintenance and repairs are defined as activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repair activities include preventative maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain assets. Maintenance and repair activities also include cyclic work done to prevent damage that would be more costly to restore than to prevent (e.g., painting). A roof or a heating and air conditioning system that is replaced due to failure should be classified as a repair and should be expensed, even if the replacement incorporated a better quality and longer life shingle or a more efficient heating and air conditioning unit.

2.5.4. Although maintenance and repairs are generally expensed in the period incurred, certain replacements of parts, systems, or components may or may not be an improvement for accounting purposes. Crucial to the determination of whether a replacement must be recognized as a repair or an improvement is the intent behind the replacement. Replacement of parts, systems, or components that have failed, are in the incipient stages of failing, or are no longer performing the functions for which they were designated are classified as a repair; replacements falling into this category must be expensed. If the replacement was undertaken to expand the capacity or extend the life of a real property asset that was in good working order, then the replacement must be recognized as an improvement. A replacement classified as a repair does not include rebuilding entire structures within the same physical area (footprint).

2.5.5. For the purpose of capital improvements, capacity is defined as an increased footprint, or internal structural reconfiguration that increases the amount of usable space, number of personnel, or increased throughput. Increased capacity includes activities that upgrade the asset to serve needs different from, or significantly greater than its current use.

* 2.5.6. Capital Improvements (which includes leasehold improvements), at or over the capitalization threshold in effect at the time the capital improvements/leasehold improvements are acquired, must be capitalized. The cost of a capitalized improvement should be accumulated and reported by the funding DoD Component in a CIP account until the improvement to the asset is placed in service, at which time it will be transferred to the entity responsible for reporting the real property base asset. See subparagraph 240204.B for intra-DoD transfers. Only Installation Hosts with jurisdiction over a specific installation have financial reporting responsibility for real property and completed capital improvements.

2.6 Depreciation (240206)

2.6.1. The recorded cost of real property and capital improvements which have been capitalized in accordance with the guidance prescribed by paragraphs 240204 and 240205 must be depreciated over the shorter of (i) the period of time benefited, or (ii) the asset's useful life. Such capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, must be reflected in DoD financial statements.

2.6.2. Depreciation is the systematic and rational allocation of the recorded cost of an asset over its estimated useful life. Estimates of useful life for real property assets must consider factors such as usage, physical wear and tear and technological change. For purposes of computing depreciation on DoD real property assets, specific useful lives are prescribed. Table 24-1 reflects the useful lives to be used for DoD real property in establishing opening balances as well as for real property acquired after establishment of opening balances.

Table 24-1. DoD Useful Lives for Depreciable Real Property Assets

Real Property Classification	Real Property Useful Lives	Capital Improvements (if useful life is not provided by an engineering estimate)(ii)
Buildings	45 years	20 years
Structures	35 years	15 years
Linear Structures	40 years	20 years
Land Rights of a Limited Duration (i)	Over the specified duration	-

i. Land Rights are included on the balance sheet in General PP&E only if the DoD Component did not make the election to implement the provisions of SFFAS 50, paragraph 13 to exclude land rights from the opening balance of General PP&E and expense future land rights acquisitions after establishment of the opening balance.
ii. Engineering estimates are of particular importance when evaluating full restoration or conversion.

2.6.3. The event that triggers the calculation of depreciation is the date the real property asset is placed in service (regardless of whether it is actually used). The actual commencement of depreciation will generally be based on the Month Available for Service method. Under this method, the month the asset was available for use, regardless of whether it was actually used, is the month used to commence the calculation of depreciation expense for the first year.

2.6.4. DoD policy permits only the use of the straight-line method of depreciation for real property assets. Straight-line depreciation expense is calculated as the recorded cost divided equally among accounting periods during the asset's useful life based on useful lives in Table 24-1.

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

2.6.6. WCF activities are required to depreciate real property assets in accordance with the guidance in this chapter without regard to whether such assets are procured through the WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers. The recognition of real property assets and the depreciation of such assets by WCF activities, therefore, may be different for financial statement reporting purposes than the depreciation amounts used for WCF rate development and budget presentation. All real property depreciation of WCF activities must be recognized as an expense on the Statement of Net Cost, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report [Accounting Report (Monthly) 1307] (AR(M)1307)." Depreciation recorded on real property that was not acquired nor will be replaced through use of Defense WCF resources must be classified as non-recoverable for rate setting purposes and reported appropriately on the AR(M)1307. Defense WCF rates charged to customers are based on guidance in Volume 2B and Volume 11B.

2.7 Impairment (240207)

2.7.1. Description. SFFAS 44 defines impairment as a significant and permanent decline in the service utility of General PP&E (which includes real property assets) or expected service utility of CIP that results from events or changes in circumstances that are not considered normal and ordinary. Identified real property (i.e., real property for which a significant decline in the service utility has occurred) should be tested for impairment by determining whether the magnitude of the decline in the service utility is significant and whether the decline in the service utility is expected to be permanent.

2.7.1.1. See subparagraph 240207.B.2 for a discussion of determining the significance and permanence of a service utility decline.

2.7.1.2. The service utility of real property is the usable capacity that, at acquisition or after improvement, was expected to be used to provide service. The current usable capacity of real property may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment of approval of laws or regulations or other changes in environmental or economic factors, or changes in the manner or duration of use.

2.7.1.3. Normal and ordinary events or circumstances are those that fall within the expected useful life of the real property such as standard maintenance and repair requirements. Events or circumstances that are not considered normal are those that, at the time the real property was acquired or improved, the event or change in circumstance would not have been expected to occur during the useful life of the real property or, if expected, was not sufficiently predictable to be considered in estimating the real property's useful life.

2.7.2. Identification of Potential Impairment Loss. The determination of whether real property remaining in use is impaired is a two-step process which includes (1) identifying potential impairment indicators and (2) testing for impairment.

2.7.2.1. Step 1 – Identify Indicators of Potential Impairment. Indicators of potential impairment can be identified and brought to DoD Component's attention in a variety of ways, such as procedures related to DM&R. Although DoD Components are not required to establish additional or separate procedures beyond those that may already exist, they should evaluate existing processes and internal controls to determine if they are sufficient to reasonably assure the identification of potential impairment indicators and implement appropriate additional processes and internal controls if necessary. Once identified, indicators are not conclusive evidence that a measurable or reportable impairment exists; DoD Components should carefully consider the surrounding circumstances to determine whether a test of potential impairment is necessary given the circumstances. Some common indicators of potential impairment include:

2.7.2.1.1. Evidence of physical damage;

2.7.2.1.2. Enactment or approval of laws or regulations which limit or restrict the usage of the real property asset;

2.7.2.1.3. Changes in environmental factors (e.g., change in floodplain);

2.7.2.1.4. Technological changes or evidence of obsolescence (however, if obsolete real property continues to be used, the service utility expected at acquisition may not be diminished);

2.7.2.1.5. Changes in the manner or duration of use of real property;

2.7.2.1.6. Construction stoppage or contract termination; and

2.7.2.1.7. Real property idled or unserviceable for excessively long periods.

2.7.2.2. Step 2 – Impairment Test. Identified real property should be tested for impairment by determining whether these two factors are present: (1) the magnitude of the decline in service utility is significant and (2) the decline in service utility is expected to be permanent.

2.7.2.2.1. Significant declines in service utility are those that cause costs (including operational and maintenance costs) to be disproportionate to the new expected service utility. The determination of whether or not an impairment is significant is a matter of professional judgement and is distinct from materiality considerations. Such judgements may be based on the relative costs of maintaining the service utility of the facility before and after the decline, the percentage decline in service utility, or other considerations.

2.7.2.2.2. The decline in service utility is considered permanent when the DoD Component has no reasonable expectation that the lost service utility will be replaced or restored; that is, the DoD Component expects that the real property will remain in service so that its remaining service utility will be utilized. In contrast, reasonable expectation that the lost service utility will be replaced or restored may exist when the DoD Component has:

2.7.2.2.2.1. Specific plans to replace or restore the lost service utility of the real property,

2.7.2.2.2.2. Committed or obligated funding for remediation efforts, or

2.7.2.2.2.3. A history of remediating lost service utility in similar cases or for similar real property.

2.7.2.3. For CIP, the testing of impairment in subparagraph 240207.B.2 should be performed over the period of expected future service utility rather than current service utility.

2.7.3. Determining the Appropriate Measurement Approach. Impairment losses on real property that will continue to be used by the DoD Component should be estimated using a measurement approach that reasonably estimates the portion of NBV associated with the diminished service utility of the real property. A measurement method would not be considered appropriate if it would result in an unreasonable NBV associated with the remaining service utility of the real property. Conversely, a reasonable measurement method may result in no impairment loss to be recorded. Regardless of the method used, recognition of impairment loss should be limited to the asset's NBV at the time of impairment. Widely recognized methods for measuring impairment include:

2.7.3.1. Replacement Approach. Impairment of real property with physical damage generally may be measured using a replacement approach. This approach uses the estimated cost to replace the lost service utility of the real property at today's standards (i.e., at current market prices and in compliance with current statutory, regulatory, or industry standards) to identify the portion of the historical cost of real property that should be written off due to impairment. It may be appropriate to apply the ratio of estimated cost to replace the diminished service utility over total estimated cost to replace the real property, to the NBV of real property to determine the impairment amount.

2.7.3.2. Restoration Approach. This approach uses the estimated cost to restore the diminished service utility of the real property to identify the portion of the historical cost of the real property that should be written off. This approach does not include any amounts attributable to improvements and additions to meet today's standards. The estimated restoration cost can be converted to historical cost by restating (i.e., deflating) the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the NBV of the real property to determine the impairment amount.

2.7.3.3. Service Unit Approach. Impairment of real property that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally may be measured using a service unit approach. This approach compares the service units (e.g., operational capacity) provided by the real property before and after the impairment to isolate the historical cost of the service utility that cannot be used due to the impairment to determine the impairment amount.

2.7.3.4. Deflated Depreciated Current Cost Approach. Impairments of real property that are subject to a change in manner or duration of use generally may be measured using a deflated depreciated current cost approach. Under this approach, a current cost for a real property asset to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the real property is not new, and is then subsequently deflated to convert it to historical cost dollars. A potential impairment loss results if the NBV of the real property exceeds the estimated historical cost of the current service utility (i.e., deflated depreciated current cost).

2.7.3.5. Cash Flow Approach. Recognizes an impairment loss only if the NBV (i) is not recoverable and (ii) exceeds the higher of its NRV or value-in-use estimate.

2.7.3.5.1. The NBV of real property is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the real property.

2.7.3.5.2. If the NBV is not recoverable, the impairment loss is the amount by which the NBV of the real property exceeds the higher of its NRV or value-in-use estimate. No impairment loss exists if the NBV is less than the higher of the real property's NRV or value-in-use estimate.

2.7.3.6. Lower of (a) NBV or (b) Higher of NRV or Value-In-Use Approach. Real property impaired from either construction stoppages or contract terminations, which are expected to provide service, should be reported at their recoverable amount; the lower of (i) the real property's NBV or (ii) the higher of its NRV or value-in-use estimate. Impaired real property, which is not expected to provide service, should be accounted for in accordance with paragraph 240208.

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

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

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

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

2.8 Removal/Disposal (240208)

2.8.1. FASAB TR 14 defines removal from service as an event that terminates the use of a real property asset. Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to mission needs. Removals from service should be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoD

Component's decision to permanently remove the asset from service (e.g., by selling, donating, or demolishing the asset). If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

2.8.2. If an asset's normal use is terminated (i.e., it no longer provides service in the operations of the entity) but the DoD Component has not yet decided to permanently remove the asset from service, the removal from service must be accounted for as other than permanent. Other than permanent removal from service is evidenced by activities such as continuing low-level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted. There is no change in the reported value for assets that have been other than permanently removed from service and the assets must continue to be depreciated.

2.8.3. If (1) an asset's use is terminated and (2) the DoD Component has documented its decision to permanently remove the asset from service, the removal from service must be accounted for as permanent. Assets permanently removed from service are no longer depreciated. Permanent removal from service is evident from the DoD Component's documented decision to dispose of an asset by selling, donating, or demolishing the asset. The recorded cost as well as the accumulated depreciation/amortization of an asset permanently removed from service must be removed from the accounts in which they are reported, and the asset must be recorded at its NRV in General PP&E Permanently Removed But not Yet Disposed (USSGL Account 199500). Any difference between the NBV of the asset and its expected NRV must be recognized as a gain or loss. The expected NRV should be evaluated at the end of each fiscal year and any change in NRV should be recognized as a gain or loss. Assets permanently removed from service are no longer depreciated.

2.8.4. When an asset is disposed of (e.g., by selling, donating, or demolishing the asset) the asset must be written off and the difference between any disposal proceeds and the asset's NBV must be recognized as a gain or loss. The disposal start date is the calendar date of a legally enforceable and recognizable obligation to complete the disposal action. For demolitions, this represents the demolition contract's start date. For transfers to a non-DoD entity and sales, this represents the date on which the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident if the asset is a complete loss.

3.0 ADDITIONAL CONSIDERATIONS (2403)

3.1 Use of Cancelled Treasury Account Symbol (240301)

3.1.1. The Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) is a data collection system that replaces the reporting functionalities of Federal Agencies Centralized Trial Balance System I and II, Intra-governmental Fiduciary Confirmation System, and Intra-governmental Reporting and Analysis System, as the primary means for DoD Components to report their trial balance data to Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been cancelled. If a capitalized asset has not been moved to a cancelled ("C") TAS as described in subparagraph 240301.B; GTAS will provide a "C" TAS on the GTAS Super Master

Account File (SMAF) for each fund family represented on the SMAF. The system generated "C" TAS will have three components: the three-digit agency identifier, availability type "C", and a four-digit main account.

3.1.2. All DoD Components must use the "C" availability type TAS to report capitalized assets. Assets may be moved to a "C" TAS at any time from the purchase date to the date the original purchasing fund cancels. (Refer to the TFM Volume 1, Part 2, Chapter 4700 for additional information.)

3.1.3. To transfer an asset to a "C" TAS:

3.1.3.1. Use USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

3.1.3.2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate "C" TAS.

3.2 Supporting Documentation (240302)

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

3.2.1. Be supported by source documents that reflect all transactions affecting the DoD Component's investment in the real property.

3.2.1.1. All real property acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date the DoD Component takes custody of the real property. The documents listed in Table 24-2, where applicable, must be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital improvement.

Table 24-2. Examples of Supporting Documentation for Real Property Acquisition
(Note: These examples may not be all inclusive for all circumstances)

Evidence	Examples
Unique Identification	Assignment of RPUID
Project Approval	Such as, but not limited to a Work Order
Obligation on Behalf of the Government	Such as, but not limited to: 1. For contracts, contract modifications, or change orders: • Statement of Work; • Dollar Amount of Contract; • Location; • Source of Funds; • Parties to the Contract; and • Signature Page [Signature of All Parties]. 2. Documentation of troop labor hours; 3. Approved Work Order.
Payment Submitted	Such as, but not limited to: 1. Approved last invoice reflecting the total amount submitted for payment and received to date; 2. Evidence of in-house construction costs, including labor; 3. Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement.
Acceptance	Such as, but not limited to: 1. ***General Services Administration Form 1334***, Request for Transfer of Excess Real and Related Personal Property; 2. Interim and final DD Form 1354, Transfer and Acceptance of DoD Real Property, with associated source documentation retained by the responsible party. Note: All cost information transferred from the CIP account to the real property asset account at the time the asset or improvement is placed in-service, must be included as support for the DD Form 1354; 3. Executed acquisition document and appraisal results for the donated assets; 4. Signed judgment documents for condemnations; 5. Deed; 6. Signed lease for leased property; 7. Letter of withdrawal for property withdrawn from public domain; 8. Executed occupancy agreement; 9. Executed reversionary document; 10. Transfer letter and documents for transferred assets; and 11. Collection voucher.
Project Closeout	Such as, but not limited to a final DD Form 1354, with associated source documentation retained by the responsible party.

3.2.1.2. All disposals must be supported as of the date the real property leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of an asset. The execution of certain disposal events will generate financial or administrative accountability transactions. These documents, where applicable, must be readily available to support disposals:

3.2.1.2.1. Declaration of excess document;

3.2.1.2.2. Disposal approval documentation (to include disposal of land);

3.2.1.2.3. Original acquisition documents;

3.2.1.2.4. Legal instruments (such as a deed or contract) to indicate legal obligation to dispose of an asset;

3.2.1.2.5. Document showing the disposal completion date;

3.2.1.2.6. Receipt documentation; and

3.2.1.2.7. Transfer documents for transferred assets or as otherwise stated.

3.2.1.3. Documents that support the recorded cost of real property assets must be retained by the DoD Component in accordance with the National Archives and Records Administration requirements described in Volume 1, Chapter 9. Documentation (original documents and/or hard and electronic copies of original documentation) must be maintained in a readily available location during the applicable retention period to permit the validation of information pertaining to the asset such as the purchase cost, purchase date, and cost of improvements. The documentation must also be linked to the appropriate RPUID(s). Supporting documentation may include, but is not limited to, the documentation as outlined in this subparagraph.

3.2.2. Include sufficient information indicating the physical size, location, and unit cost of each real property asset. The APSR and/or other systems must be designed to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess real property that may be available for reuse, transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements.

3.2.3. Enable periodic, independent verification of the accuracy of the accounting and APSR and/or other systems through periodic physical counts/inventories of real property existence and completeness (known as "book to floor and floor to book"). Such periodic inventories also must include reconciling the APSR and/or other systems with the general ledger accounts and physical counts. Personal hand receipt self-validations are not acceptable for meeting the independent verification of physical inventory requirements (see DoDI 4165.14).

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

3.2.4.1. The Installation Host having jurisdiction over the real property, in accordance with DoDD 4165.06 and DoDI 4165.70, is required to record real property assets in their APSR.

3.2.4.2. The Installation Host must reconcile their real property APSR to their financial statements (or to their trial balance if financial statements are not required to be prepared) on a quarterly basis.

3.2.4.3. All DoD Components funding CIP must reconcile their recorded CIP balances on a quarterly basis with any construction service provider working on the CIP. CIP should reflect the value associated with the actual progress payments and other costs incurred based on the progress of work completed as of the quarter end.

3.2.5. Be based on the same documents, to ensure that entries to the financial accounting/reporting and APSR are the same. This will ensure that the APSR is integrated and subsidiary to the financial accounting system and such records can be reconciled with the accounting system.

3.2.6. Include documents used to accumulate the cost of construction projects. Each document must link to the appropriate RPUID(s). For a listing of those costs that may be incurred during the construction, see Annex 1.

3.2.7. Include all real property in which the DoD has a legal interest.

3.2.8. Provide information to identify and account for leased real property, regardless of whether the real property was acquired by a capital lease or operating lease or whether the value of the real property exceeds DoD capitalization thresholds.

3.2.9. Provide information to identify and account for capitalized improvements to real property.

3.3 Physical Inventories of Real Property (240303)

DoD Components must perform periodic physical inventories of real property in accordance with DoDI 4165.14.

3.4 DM&R (240304)

3.4.1. Description

3.4.1.1. FASAB SFFAS 42 defines DM&R as maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed to a future period.

3.4.1.2. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repairs include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset in working condition.

3.4.1.3. Maintenance and repairs exclude activities aimed at expanding the capacity or capability of an asset or otherwise upgrading it to serve needs different from or significantly greater than its current use.

3.4.2. Measurement

3.4.2.1. The values reported for real property DM&R must be consistent with the Facility Condition Index ratings and Facility Plant Replacement Values of the applicable real property facilities.

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

3.4.2.3. DM&R must be measured for capitalized and non-capitalized real property, and fully depreciated real property. In addition, DM&R associated with inactive real property should only be included when the asset is reported with an operational status of caretaker (CARE), closed (CLSD) or non-functional (NONF). In addition, DM&R must measure funded maintenance and repairs that have been delayed for a future period as well as unfunded maintenance and repairs. The reported data should not include DM&R that would be funded with NAFs commissary surcharge, or funding from non-DoD sources.

3.4.3. Required Supplemental Information

The Installation Host that reports real property must report material amounts of DM&R as RSI to the financial statements (see Volume 6B, Chapter 12). At a minimum, the following information must be presented as RSI:

3.4.3.1. Estimates of the beginning and ending balances of DM&R for each major category of real property;

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

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

3.4.3.4. Factors the DoD Component considers in determining acceptable condition standards;

3.4.3.5. Whether DM&R relates solely to capitalized facilities or also to amounts relating to non-capitalized or fully depreciated real property;

3.4.3.6. Capitalized real property for which the DoD Component does not measure and/or report DM&R and the rationale for the exclusion; and

3.4.3.7. If applicable, explanation of any significant changes to

3.4.3.7.1. DM&R amounts from the prior year; and

3.4.3.7.2. The policies and factors subject to the reporting requirements established in subparagraphs 240304.C.2 through 240304.C.6.

3.5 Financial Statement Disclosure Reporting and Representation Requirements (240305)

3.5.1. DoD Components that financially report real property should reference a note on the Balance Sheet that discloses information about the reported real property assets.

* 3.5.2. The management representation letter provided to the Independent Public Accountant (for those DoD Components that undergo a financial statement audit), and the notes to the financial statements must include a disclosure related to real property reporting accounting policy. Examples of note disclosures are included in Appendix 5, paragraph A50104. It is the responsibility of each DoD Component to ensure that they are making a full and complete disclosure of how real property is being reported in accordance with the policies in this chapter.

3.5.3. DoD Components must disclose in the notes to the financial statements those instances in which they are using real property provided by a host nation/foreign government without reimbursement by DoD to the host nation/foreign government, as applicable, that:

3.5.3.1. The DoD Component is utilizing real property provided by and owned by a host nation/foreign government in its operations outside of the U.S. without reimbursement by DoD to the host nation/foreign government and that there are no amounts recorded in the financial statements related to these properties.

3.5.3.2. The general nature of the agreement with the host nation/foreign government. It is not intended or recommended that the geographic location of the host nation/foreign government be disclosed.

3.5.4. In accordance with SFFAS 55, DoD Components must disclose in the notes to the financial statements that only certain inter-entity (imputed) costs are recognized for goods and services that are received from other federal entities and/or DoD Components at no cost or at a cost less than the full cost as applicable. Such imputed costs and revenues relate to business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified in the preceding sentence are not included in DoD financial statements.

3.5.5. Refer to Volume 6B, Chapter 10 for additional disclosure reporting requirements.

3.6 Environmental Liabilities/Cleanup Costs (240306)

The accounting policy for environmental liabilities/cleanup costs pertaining to real property is contained in Chapter 13.

Annex 1. Construction-in-Progress Cost Matrix

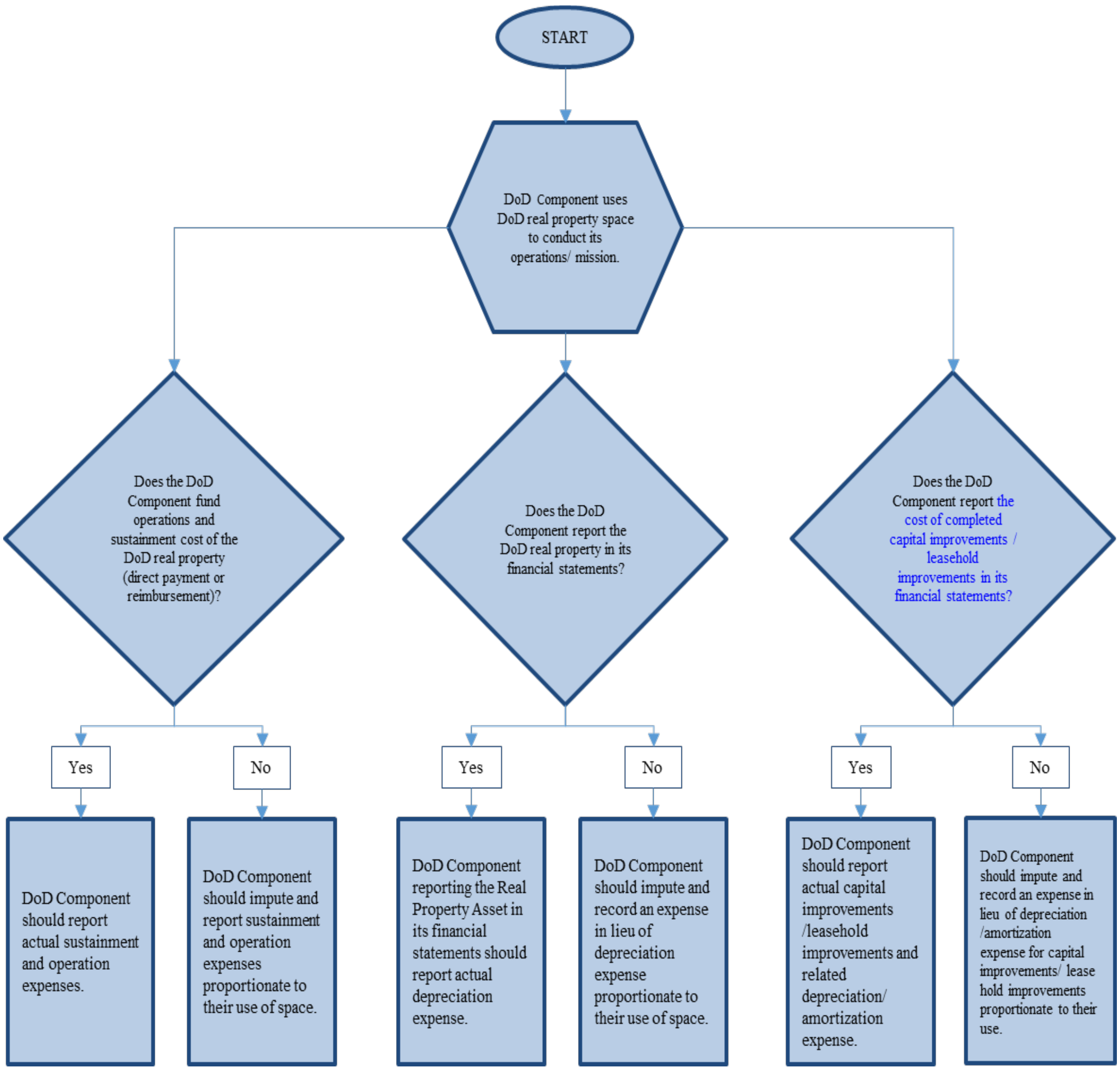
(Costs to be accumulated for constructed assets)

Cost Type	**Description**
Cost of contract work	Amounts paid for work performed under contract, as well as any incentive fees paid to contractors to reward performance goals.
Direct cost of labor	The direct cost of labor and all associated fringe benefits in connection with the construction project. Includes both military and civilian labor costs.
Direct cost of materials and supplies	The purchase price and the cost of inspection.
Cost of Supervision, Inspection, and Overhead	Support associated with the administration of contracts for facility projects. Support may include processing of contract award and payments, performing inspections, and other actions taken during project execution.
Cost of transportation	Amounts paid for transportation of workers, materials, and supplies in connection with the construction project.
Cost of handling and storage	Amount paid for packaging and storing the materials and supplies and equipment used in the construction project.
Cost of legal and recording fees	Legal fees incurred to bring the asset to its intended use (e.g., title or recording fees).
Cost of architecture and engineering studies	Amounts paid for engineering, architectural, and other outside services for designs, plans, specifications, and surveys after funding and design authorization. May include design reviews, environmental impact studies, and soil testing for the new construction projects.
Cost of facility and site preparation	Amounts paid to prepare the site for new construction, such as soil removal and restoration. Includes amount paid to prepare the asset for its intended use, such as installation of utilities in a facility.
Cost of installed equipment	Fixed equipment and related installation costs required for activities in a facility.
Cost of government furnished property	An appropriate share of the cost of the government furnished equipment and material used in construction work.
Cost of donated assets	The fair market value of equipment donated to the government, as authorized by a special legislation, in connection with the construction project.

Annex 2. Decision Tree for Determining Imputed Costs

Accounting for imputed costs as displayed in the decision tree is applicable only to business-type activities (e.g., Working Capital Funds (WCFs)). See Chapter 24, subparagraph 240204.E for further guidance on inter-entity costs.

The following decision tree provides an illustrative guide to determine what real property asset-related costs should be imputed and reported by a Department of Defense (DoD) Component which is business-type activity (e.g., WCF) based on specific business case scenario attributes.



Note 1: With regard to imputed costs, if only partial direct payment or reimbursement is made by the DoD Component, it would record an imputed cost for the difference between the full value/benefit received and the direct payment or reimbursement.
Note 2: Quantitative information for imputing costs should be provided by the DoD Component incurring those costs (i.e., depreciation, amortization, operation costs and sustainment costs).

Annex 3. Capital Improvement Depreciation

3.1 As stated in paragraph 37 of Statement of Federal Financial Accounting Standards 6 (SFFAS 6), “costs which either extend the useful life of existing General PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/amortized over the remaining useful life of the associated General PP&E.”

3.2 The following Scenarios I and II illustrate application of the depreciation methodology for capital improvements and the underlying real property asset as directed by SFFAS 6 for improvements that equal or exceed the Department of Defense’s (DoD’s) capitalization threshold. When improvements extend the useful life of the associated General PP&E, the original estimated useful life will be adjusted for the estimated extension created by the improvement. When an improvement increases the capacity, size, or functionality/use of the associated General PP&E, but does not extend its useful life, the improvement should be capitalized and depreciated over the lesser of the useful life of the improvement or the remaining economic useful life of the underlying asset. Note that the economic life of the real property asset, in certain instances, may be different than the original estimated accounting useful life. The economic life reflects the remaining period of utility for the real property.

3.3 Examples and Scenarios of Capital Improvements

3.3.1. Extends the useful life: Major restoration or reconstruction restore facilities damaged by a natural disaster or event of similar consequence (e.g., reconstruction of a building on an existing foundation).

3.3.2. Increase capacity: Raising the roof of the warehouse to increase cubic feet.

3.3.3. Increase size: Build an addition, expansion or extension to the building, i.e., increase the footprint.

3.3.4. Modify functionality: Convert an office to a warehouse; upgrade architectural elements of a facility that is or is not failing; e.g., upgrade a flat roof to a pitched roof; install elevator where none existed.

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

In this scenario, the estimated extension of the useful life is combined with the remaining useful life of the original asset to establish a revised useful life. The remainder of the revised useful life at the date the improvement is placed in service is then used as the basis for calculating depreciation for the combined NBV of the original asset plus the value of the improvement.

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

Scenario I	Value
Original Building Acquisition Cost	$450,000
Original Estimated Useful Life in years (yrs.)[1]	45
Annual Depreciation Expense (using straight-line depreciation) ($450,000 ÷ 45)	$10,000
Accumulated Depreciation at the end of year 25 (25 yrs. X $10,000 per year)	$250,000
NBV of original asset at the end of year 25 ($450,000 - $250,000)	$200,000
Capital Improvement – added at the beginning of year 26 of original building's useful life	$280,000
Extension of useful life (yrs.) of existing building from capital improvement based on documented Engineering Estimate[2]	30
Revised remaining useful life for building with the capital improvement (45 yrs.(original useful life) less 25 yrs. (expired useful life) plus 30 yrs. (capital improvement useful life))	50
Revised depreciable value of building including capital improvement ($200,000 (original NBV) plus $280,000 (capital improvement))	$480,000
Revised annual depreciation for the building and capital improvement ($480,000 ÷ 50 yrs.)	$9,600
[1]From Table 24-1 [2] If an Engineering Estimate for the extended useful life of the capital improvement were not available; the 20 year useful life from Table 24-1 would be used.	

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

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

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

Scenario II	Value
Original Linear Structure Acquisition Cost	$500,000
Original Estimated Useful Life (yrs.)[1]	40
Annual Depreciation Expense (using straight-line depreciation) ($500,000 ÷ 40)	$12,500
Accumulated Depreciation at the end of year 15 (15 yrs. X $12,500 per year)	$187,500
NBV of original asset at the end of year 15 ($500,000 - $187,500)	$312,500
Capital Improvement – added at the beginning of year 16 of original linear structure useful life	$270,000
Useful life of capital improvement (yrs.)[2]	20
Annual Depreciation Expense (using straight-line depreciation) ($270,000 ÷ 20)	$13,500
Depreciation for the original value of linear structure would continue on an annual basis for the next 25 years ((40 yrs. (original useful life) - 15 yrs. (expired useful life))	$12,500 annual depreciation
Depreciation for the capital improvement would be recorded over the estimated 20 year useful life of the improvement	$13,500 annual depreciation
[1] From Table 24-1 [2] If an Engineering Estimate were available for the useful life of the capital improvement were available, the Engineers Estimate would be used rather than the amount from Table 24-1	

Annex 4. Alternative Valuation Methodology for Establishing Opening Balances for Buildings, Structures, Linear Structures, Land and Land Rights

4.1 Establishing Opening Balances for Buildings, Structures and Linear Structures (A40101)

4.1.1. The alternative valuation methods for establishing opening balances for Property, Plant and Equipment described in Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 50, "Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35," is available only once to each reporting Department of Defense (DoD) Component. Therefore, prior to the establishment of opening balances for buildings, structures and linear structures (real property facilities), DoD Components must validate that they are prepared to account for and comply with the recognition, measurement, presentation and disclosure requirements for real property in accordance with FASAB SFFAS 6, "Accounting for Property, Plant and Equipment."

4.1.2. If historical cost, as described in SFFAS 6, has not already been recorded and included in financial statements that have been audited by an Independent Public Accountant and received an unmodified opinion, deemed cost will be used as a surrogate to establish opening balances for real property. In this context, deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required by SFFAS 6 to establish opening balances. Although deemed cost may be based on any one of, or a combination of, allowable valuation methods such as fair value, estimated historical cost, or replacement cost (which includes Plant Replacement Value (PRV)), DoD's selected valuation method for real property facilities is PRV. Once established using PRV, opening balances will be used as a surrogate for the initial amounts that would have existed had an SFFAS 6 compliant valuation method been used.

4.1.3. Only existing real property assets with a gross PRV value equal to or over the current real property capitalization threshold and with a remaining book value will be recorded as a part of the opening balance. When evaluating real property for the purpose of establishing opening balances, DoD Components should apply the applicable capitalization threshold to their entire population of real property retroactively, irrespective of the capitalization thresholds in effect for years prior to October 1, 2013. The current real property threshold is $250,000 for both the General Fund and Working Capital Fund (WCF), except for the National Security Agency (NSA) and the Office of the Director of National Intelligence (ODNI) for which the threshold is $1 million. When establishing real property opening balances, DoD Components need to take the appropriate steps to ensure all relevant prior period adjustments and note disclosures are included in their annual financial statements in accordance with SFFAS 50. As part of their evaluation, DoD Components should not simply value assets already recorded above the capitalization threshold. DoD Components should perform additional analytical procedures to identify any assets that have been improperly capitalized or expensed. Examples of this type of review can include searching for real property assets with values of $0 or $1 which are indications of erroneous values. An additional example can include real property for which an additional zero was added in error, incorrectly placing the asset above the capitalization threshold.

4.1.4. When establishing opening balances using deemed cost:

4.1.4.1. DoD Components will calculate a gross value and an accumulated depreciation value for real property assets. Both the gross value deemed cost and accumulated depreciation deemed cost will be recorded in the accounting records. The difference between the net book value (NBV) of the deemed cost on the opening Balance Sheet of the current fiscal year presented and the existing/historical NBV of the real property as of the ending Balance Sheet of the previous fiscal year, is considered a prior period adjustment. This prior period adjustment represents a change in accounting principle in accordance with paragraph 13 of FASAB SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources." If any depreciation based on the original historical real property value has been recorded in the year in which the prior period adjustment for deemed cost is recorded, that depreciation expense should be reversed and depreciation for the deemed cost value should be recorded.

4.1.4.2. Any adjustment must be properly documented and supported to assist ongoing audit efforts including retaining documentation of the existing/historical real property value in the Accountable Property System of Record (APSR) and documentation supporting the deemed cost value. The existing/historical gross value and accumulated depreciation of the real property will need to be removed from the APSR and be replaced with the new gross value and accumulated depreciation for deemed cost.

4.2 Financial Statement Disclosure Requirements (A40102)

DoD Components who apply the PRV deemed cost methodology to adjust their opening real property balances, must disclose in their financial statements that an alternative valuation method was applied in establishing their opening balances and describe the method used in the first reporting period in which the reporting DoD Component makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). An unreserved assertion is an unconditional statement. No disclosure of the distinction or breakout of the amount of deemed cost of real property included in the opening balances is required.

4.3 Deemed Cost Methodology (A40103)

4.3.1. The DoD's selected deemed cost methodology for establishing opening balances in the absence of previously audited historical costs is current replacement cost or PRV, as calculated using the DoD's PRV model. The PRV approach has been selected as the preferred method for the following reasons:

4.3.1.1. Cost and time effectiveness: The PRV model already exists and values are required to be updated annually for all assets;

4.3.1.2. Many of the key data elements required by the PRV model have been validated by the DoD Components during their existence and completeness procedures;

4.3.1.3. Consistency: The PRV model provides a common approach for DoD to establish and support its opening balances for these assets.

4.3.2. The use of deemed cost does not change the requirement that documentation be available to support asset values. Therefore, documentation must exist to support the values (e.g., support for data element inputs for PRV model calculations).

4.4 PRV Responsibilities (A40104)

The successful use of the PRV model in establishing opening balances requires specific actions on the part of the DoD Components, and the Office of the Secretary of Defense (OSD). OSD specific actions are carried out by the Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Remediation Directorate; and the Office of the Assistant Secretary of Defense (Sustainment). A summary of responsibilities is:

4.4.1. DoD Components are responsible for ensuring:

4.4.1.1. First, key PRV data element inputs are accurate. The critical data elements for the PRV model are:

4.4.1.1.1. Real Property Site Unique Identifier (RPSUID);

4.4.1.1.2. Real Property Unique Identifier (RPUID);

4.4.1.1.3. Real Property Asset (RPA) Interest Type;

4.4.1.1.4. Asset Allocation Current Use Category Code;

4.4.1.1.5. Asset Allocation Current Use Facility Analysis Category (FAC) Code;

4.4.1.1.6. Asset Allocation Size Quantity;

4.4.1.1.7. Asset Allocation Unit of Measure Code; and

4.4.1.1.8. RPA Historic Status Code.

4.4.1.2. Second, additional data elements are required to apply and report the PRV values are accurate.

4.4.1.2.1. RPA Placed in-Service Date. This data element is important for depreciation purposes. See subparagraph A40106 for guidance on determining placed in-service date.

4.4.1.2.2. Government Investment Percentage (For Government / Private Agreement (GVPV) interest type only). The amount of the Government's investment as a percentage of an asset's total value is required for GVPV interest types in order to allocate DoD's portion of the total PRV.

4.4.1.3. Third, documentation exists and is readily available to support the Asset Allocation Size Quantity, RPA Historic Status Code, RPA Placed in-Service Date, and Government Investment Percentage (for GVPV interest types).

4.4.1.4. Fourth, processes, controls, and systems are in place to value newly acquired assets at actual cost in accordance with SFFAS 6.

4.4.1.5. Fifth, valuation calculations are performed correctly using the PRV formula and appropriate cost factors and adjustments found in the Unified Facilities Criteria 3-701-01 (***UFC 3-701-01***), "DoD Facilities Pricing Guide."

4.4.1.6. Sixth, resulting accounting adjustments are performed accurately and timely, are supported with sufficient documentation, and are reflected in the DoD Component's APSR, general ledger, and financial statements.

4.4.2. OSD is responsible for ensuring that:

4.4.2.1. The PRV model itself is supportable from a financial statement audit perspective. OSD will evaluate the processes, procedures, systems and controls that produce the PRV tables, factors, indexes, and functions, and reviewing the model outputs for overall reasonableness.

4.4.2.2. DoD estimated useful lives for depreciation purposes are supportable.

4.5 Steps to Establish Deemed Cost Using PRV (A40105)

DoD Components will perform several steps to develop opening balances using the PRV approach. In summary, DoD Components will:

4.5.1. Validate all asset data that the DoD Components used to calculate and apply PRV values (paragraph A40104.A.1 PRV Responsibilities);

4.5.2. Calculate each asset's PRV as found in the DoD UFC 3-701-01. Capital improvements are included within the PRV calculation and do not need to be valued or depreciated separately from the base asset as part of this initial process. Each DoD Component's management must formally document the review and acceptance of the resulting values;

4.5.3. For assets with a GVPV interest type, the percentage of DoD's interest in the asset will be multiplied by the asset's total PRV to calculate the amount the DoD Component will report. Only assets where DoD's portion of the PRV equal to or more than $250,000 for both General Fund and WCF and $1 million for NSA and ODNI will be reported;

4.5.4. Identify all DoD accountable General Property, Plant, and Equipment (General PP&E) (commonly known as FEE assets) with a PRV equal to or more than $250,000 for both the General Fund and WCF and $1 million for NSA and ODNI. These assets will be considered capitalized assets and must be reported on the DoD Component's Balance Sheet. For the purpose of establishing opening balances, the current real property capitalization threshold of $250,000 for both the General Fund and WCF and $1 million for NSA and ODNI will be applied to all existing real property assets;

4.5.5. Adjust, as appropriate, the DoD Component's APSR, general ledger, and financial statements upon establishing the beginning balance. Documentation supporting any adjustments must be maintained.

4.6 Determining Placed in-Service Date (A40106)

4.6.1. The Real Property Information Model (RPIM) defines RPA Placed in-Service Date as "the calendar date the real property asset is available for use by DoD and the Government assumes liability and the warranties and receives legal interest." The ***UFfC 1-300-08***, "Criteria for Transfer and Acceptance of DoD Real Property," notes this date as "the date an interim Transfer and Acceptance of Military Real Property document (DoD (DD) Form 1354) is signed and title for assets listed on the acceptance form is transferred to the DoD on behalf of the United States (U.S.) Government."

4.6.2. To assure consistent and accurate placed in-service dates, DoD Components must adhere to one of the following methods, and ensure that sufficient supporting documentation exists for auditors to validate the date recorded. Existing guidance that describes how placed in-service dates for real property assets will be determined is presented in Table A4-1

Table A4-1

Acquisition Method	Source Document	Acceptance Date	Effective Date	Acquisition Date[1]	RPA Place in-Service Date[2] (Depreciation Triggering Event)
New construction	DD form 1354	Executed interim DD Form 1354 transaction	Date specified in DD Form 1354 transaction	Date first interim DDForm 1354[3] transaction is executed	Date interim DD Form 1354 transaction is executed
Purchase[4] (can include Exchange)	Deed	Executed interim DD Form 1354[5] transaction	Date of delivery/ recordation	Date of delivery/ recordation	Acquisition Date
Lease/Grant	Lease/Grant	Signed lease/grant	Grant Start Date	Date lease signed	Grant start date (Not applicable for depreciation)
Transfer between Services	DD Form 1354	Executed interim DD Form 1354 transaction	Date specified in transaction	Date of original transaction when United States Government acquired title or legal interest in the asset (Acquisition Date for the transferring Service)	Original DoD RPA Placed in-Service Date as shown by the transferring Service
Inventory Adjustment	Tier documentation noted in Table A5-3	Executed interim DD Form 1354 transaction	Date based on Tier documentation noted in Table A5-3	Date based on Tier documentation noted in Table A5-3	Date based on Tier documentation noted in Table A5-3
Transfer from one federal Component to another	Transfer letter, SF 1334	Executed interim DD Form 1354 transaction	Date specified in document	Date the United States Government acquired title or legal interest in the asset	Acquisition Date
Condemnation	Judgment document	Executed interim DD Form 1354 transaction/ Signed Judgment	Declaration of Taking is accepted by a court	Declaration of Taking is accepted by a court	Acquisition Date
Reversion	Reversion legal document	Executed interim DD Form 1354 transaction	Date of executed reversionary document	Date of executed reversionary document	Date of executed reversionary document

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

4.6.3. In the absence of information noted in Table A4-1, the guidance in Table A4-2 should be used.

Table A4-2

Governing Document Reference	Placed in-Service Date Determination
FASAB - SFFAS 6, Paragraph 34	"PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or an agent of the entity."
FASAB - SFFAS 6, Paragraph 40 and SFFAS 50, Paragraph 13	"In some cases, the in-service date must be estimated. In estimating the year that the base unit was placed in service, if only a range of years can be identified, then the midpoint of the range is an acceptable estimate of the in-service date." "It is not necessary to separately identify the in-service date for material improvements included in the opening balances of a base unit. All improvements included in the opening balances at deemed cost may be treated as if they were placed in-service at the date the base unit was placed in-service."
Chapter 24, Paragraph 240206.C	"The event that triggers the calculation of depreciation is the date the real property asset is placed in service (regardless of whether it is actually used)."
Defense Finance and Accounting Service 7900.4-M, Financial Management Systems Requirements Manual Volume 3, Property, Plant and Equipment, page 41, August 2014	"Property, Plant and Equipment (PP&E) shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed Property, PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E in the system."

4.6.4. DoD Components must review real property asset records for the existence and adequacy of documentation to support placed in-service information. In reviewing asset records, answers to the following questions must be answered:

4.6.4.1. Does sufficient documentation exist?

4.6.4.2. Does alternative documentation need to be used?

4.6.4.3. Is the placed in-service date clearly identified and marked on supporting documents?

4.6.4.4. Are all required appropriate/authorized signatures noted on documentation?

4.6.5. Documentation to support the placed in-service date is vital to the completeness of both functional and financial records. GAAP allows for alternative placed in-service methodologies where adequate historical documentation does not exist. These estimates of cost and placed in-service date must be fully supported, and information retained in accordance with National Archives and Records Administration requirements described in Volume 1, Chapter 9. Table A4-3 lists examples of supporting documentation for placed in-service date in descending order of preference.

Table A4-3

Documentation for Placed in-Service Date	**Description**	**Tier**
Source Documentation (noted in Table A4-1)	Noted in the second column of Table A4-1.	1
Tax Assessor Records	If adequate historical placed in-service date is not available, a search of the county tax assessor's website for the asset and the purchase date should be used to determine a reasonable estimate for placed in-service date.	1
Dedication Plaque	If adequate historical placed in-service date is not available, a search of the asset should be conducted for a dedication plaque. Once the dedication plaque has been found, ensure that it references the DoD as owners. If DoD is listed as owners, obtain a photograph of the dedication plaque with an inscription indicating the dedication date. If DoD is not listed on the plaque, the date shall not be used as an alternative for placed in-service date.	2
Cornerstone	If adequate historical placed in-service date is not available, search the asset for a cornerstone. If the cornerstone is found, obtain a photograph of the cornerstone. The cornerstone should be located on the outside of the building or structure with an inscription on the stone indicating the construction date. This date would be used for the placed in-service date.	2
Earliest Site Plot of Asset	If adequate historical placed in-service date is not available, search online in the DoD Component database for the earliest site plot or asset drawing available. Once found, the date on the earliest plot or asset drawing may be used as a reasonable alternative for placed in-service date.	2

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

4.7. Definitions (A40107)

4.7.1. Asset Allocation Current Use Category Code: A Military Service designator that represents the current use by the assigned user of a specific portion of a RPA.

4.7.2. Asset Allocation Current Use FAC Code: An OSD level designator that represents the current use by the assigned user of a specific portion of the RPA.

4.7.3. Asset Allocation Size Quantity: The amount of the asset granted for use based on the Asset Allocation Current Use FAC and expressed in terms of the Asset Allocation Unit of Measure Code.

4.7.4. Asset Allocation Unit of Measure Code: The unit of measure code used for the measurement of the associated Asset Allocation Size Quantity.

4.7.5. Building: A roofed and floored facility enclosed by exterior walls and consisting of one or more levels that is suitable for single or multiple functions and that protects human beings and their properties from direct harsh effects of weather such as rain, wind and sun.

4.7.6. City Code: The code used to identify the city or the nearest city to where the real property asset or real property site is located. The nearest city shall be in the same county as the asset.

4.7.7. Country Code: The Geopolitical Component Names, and Codes standard, code used to identify the country in which the real property asset or site is located.

4.7.8. County Code: The code used to identify the county in which the real property asset or site is located. This code identifies counties and equivalent administrative entities of the U.S., its possessions, and associated areas as defined by the Federal Information Processing Series (FIPS) and found in the General Services Administration (GSA) Geographic Locator Codes (GLCs) or the county equivalent for countries not covered in the GSA GLCs. A County Code is only unique if it is combined with a State or Country Primary Subdivision Code in the areas listed in the GSA GLCs or with the Country Code for areas not in the GSA GLCs.

4.7.9. Deemed Cost: An amount used as a surrogate for initial amounts that otherwise would be required by SFFAS 6 to establish opening balances.

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

4.7.11. GVPV: An interest in a real property asset held by the U.S. Government acquired by a mutually beneficial partnership agreement between a Military Department or WHS and a private entity, where equity interest in a project is shared for a specific business purpose. This interest type applies when the DoD has ongoing reported financial statement costs directly associated with an asset(s) gained by the project or the asset is located on a military installation.

4.7.12. Linear Structure: A facility whose function requires that it traverse land (e.g., runway, road, rail line, pipeline, fence, pavement, electrical distribution line) or is otherwise managed or reported by a linear unit of measure at the category code level.

4.7.13. Opening Balances: Account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

4.7.14. PRV: A value, recorded in U.S. dollars, which represents the cost to design and construct a facility to current standards for replacement of an existing facility at the same location.

4.7.15. RPA Historic Status Code: A code used to identify the current historical status of a RPA.

4.7.16. RPA Interest Type Code: A code used to identify the type of legal interest that DoD holds in a RPA.

4.7.17. RPSUID: A unique non-intelligent code used to permanently identify real property sites. A real property site is a specific geographic location that has individual land parcels and/or facilities assigned to it. The City Code, County Code, State or Country Primary Subdivision Code and Country Code associated to the RPSUID will provide location information necessary for location cost factors.

4.7.18. RPUID: A unique non-intelligent code used to permanently identify a real property asset.

4.7.19. State or Country Primary Subdivision Code: The code used to identify the primary subdivision of a country such as a state, the District of Columbia, or a possession in which the real property asset or site is located.

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

4.8 Establishing Opening Balances for Land and Land Rights (A40108)

4.8.1. This paragraph does not change existing accounting or financial reporting guidance regarding Stewardship Land, including guidance in Chapter 28.

4.8.2. All DoD Components that have not yet undergone a financial statement audit where they received an unmodified audit opinion will exclude the value of General PP&E land and land rights from opening balances of GPP&E on their Balance Sheet. This means that DoD Components who have not undergone a financial statement audit where they received an unmodified audit opinion will adjust their land and land rights opening balances to zero. A DoD Component that has received an unmodified audit opinion will continue to account for land and land rights in accordance with SFFAS 6.

4.8.3. Entries in the DoD Component accounting systems/records to adjust the value of land and land rights to zero are subject to the reporting requirements under paragraph 13 of FASAB SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources." Accordingly, the entries will be reflected as a change in accounting principle. Any adjustments must be properly documented and supported to assist ongoing audit efforts.

4.8.4. DoD Components adjusting their land and land rights to zero in accordance with subparagraph A40108.B will also expense future General PP&E land and land rights acquisitions.

4.8.5. DoD Components must disclose, in the notes to their financial statements, with a reference on the Balance Sheet, the number of acres of General PP&E land and land rights (where the types of land rights are conducive to measurement in acres) held as of the period of its first audited financial statement. This acreage amount must be reported separately from the DoD

Component's Stewardship Land. There are no disclosure requirements for General PP&E land rights not measured in acres in establishing opening balances.

4.8.6. For all years after the initial financial statements, where land and land rights were reported as zero, DoD Components must disclose, in the notes to their financial statements, with a reference on the Balance Sheet, the number of acres of General PP&E land and land rights measured in acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period. These acreage amounts must be reported separately from the DoD Component's Stewardship Land. There are no disclosure requirements for General PP&E land rights not measured in acres.

*Annex 5. Illustrative Examples, Journal Entries and Note Disclosures Relating to Financial Reporting Responsibilities for Real Property

5.1 Construction-In-Progress (CIP) Illustrative Example and Journal Entries (A50101)

5.1.1. CIP Example: The Department of Defense Education Activity (DoDEA) funds the construction of a new high school on an Army Installation. DoDEA reports the CIP on its financial statements. When the asset is placed in service, DoDEA relieves the appropriate CIP amount, recognizes the asset, and transfers the asset to the Army along with all relevant supporting documentation. Upon transfer, the Army reports the school on its financial statements.

5.1.2. Table A5-1 depicts illustrative General Ledger (G/L) journal entries to demonstrate the relief of CIP in the accounting records and initial recording of the asset by the funding Department of Defense (DoD) Component and the subsequent transfer of that asset to the Installation Host when the funding DoD Component is not the Installation Host.

Table A5-1. Liquidation of CIP and Transfer of Completed Asset

<table>
<tr><td rowspan="4">Funding DoD Component</td><td>G/L Entry – Liquidation of CIP by the DoD Component Funding Construction to Place the Asset in Service (Transaction Code D510)</td></tr>
<tr><td>Debit 173000 Buildings, Improvements, and Renovations
Debit 174000 Other Structures and Facilities
Credit 172000 Construction-in-Progress</td></tr>
<tr><td>G/L Entry – Transfer Out to Installation Host (Transaction Code E510)</td></tr>
<tr><td>Debit 573000 Financing Sources Transferred Out Without Reimbursement
Credit 173000 Buildings, Improvements, and Renovations
Credit 174000 Other Structures and Facilities</td></tr>
<tr><td rowspan="2">Installation Host</td><td>G/L Entry – Transfer In by Installation Host (Transaction Code E606)</td></tr>
<tr><td>Debit 173000 Buildings, Improvements, and Renovations
Debit 174000 Other Structures and Facilities
Credit 572000 Financing Sources Transferred in Without Reimbursement</td></tr>
</table>

Note: If the transfer is not completed during the month CIP is relieved and depreciation has been recorded by the funding DoD Component, the recorded amount of accumulated depreciation recorded will also be transferred.

5.2. In-Service Real Property Illustrative Examples and Journal Entries (A50102)

5.2.1. In-Service Real Property Examples:

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

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

5.2.2. Table A5-2 depicts illustrative G/L journal entries to demonstrate the transfer of in-service real property from one DoD Component to the Installation Host.

Table A5-2. Transfer of In-Service Real Property Reporting Responsibility

	G/L Entry – Transfer Out to Installation Host (Transaction Code E510)
DoD Component	Debit 573000 Financing Sources Transferred Out Without Reimbursement Debit 173900 Accumulated Depreciation on Buildings, Improvements, and Renovations Debit 174900 Accumulated Depreciation on Other Structures and Facilities Credit 173000 Buildings, Improvements, and Renovations Credit 174000 Other Structures and Facilities
	G/L Entry – Transfer In by Installation Host (Transaction Code E606)
Installation Host	Debit 173000 Buildings, Improvements, and Renovations Debit 174000 Other Structures and Facilities Credit 173900 Accumulated Depreciation on Buildings, Improvements and Renovations Credit 174900 Accumulated Depreciation on Other Structures and Facilities Credit 572000 Financing Sources Transferred In Without Reimbursement

5.3 Capitalized Improvements to Real Property Illustrative Examples and Journal Entries (A50103)

5.3.1. Capitalized Improvements to Real Property Examples:

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

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

5.3.2. Table A5-3 depicts illustrative G/L journal entries to demonstrate the transfer of in-service capital improvements from one DoD Component to the Installation Host.

Table A5-3. Transfer of In-Service Capital Improvements to Real Property

Funding DoD Component	**G/L Entry – Transfer Out to Installation Host (Transaction Code E510)**
	Debit 573000 Financing Sources Transferred Out Without Reimbursement Debit 173900 Accumulated Depreciation on Buildings, Improvements, and Renovations Debit 174900 Accumulated Depreciation on Other Structures and Facilities Credit 173000 Buildings, Improvements, and Renovations Credit 174000 Other Structures and Facilities
Installation Host	**G/L Entry – Transfer In by Installation Host (Transaction Code E606)**
	Debit 173000 Buildings, Improvements, and Renovations Debit 174000 Other Structures and Facilities Credit 173900 Accumulated Depreciation on Buildings, Improvements and Renovations Credit 174900 Accumulated Depreciation on Other Structures and Facilities Credit 572000 Financing Sources Transferred In Without Reimbursement

5.4 Note Disclosure Examples (A50104)

5.4.1. The following is an example of a note disclosure for Installation Hosts, which could be Military Departments, WHS or Military Department WCFs:

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

5.4.2. The following are examples of note disclosures for DoD Components utilizing real property assets in their operations that are being financially reported by an Installation Host:

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

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

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

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

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

*VOLUME 4, CHAPTER 25: "GENERAL EQUIPMENT"

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*****.**

This is the initial publication.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	This chapter contains updated policy for general equipment and supersedes policy contained in Volume 4, Chapter 6 dated June 2009 related to general equipment.	New Chapter
Policy Memo	The Deputy Chief Financial Officer (DCFO) policy memorandum, "Application of Capitalization Thresholds for General Property, Plant, and Equipment," dated March 5, 2019, was incorporated into this chapter as applicable.	*
Policy Memo	The DCFO policy memorandum, "General Equipment Financial Reporting Responsibilities," dated July 2, 2018, was incorporated into this chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum, "Strategy and Implementation Guidance for General Equipment Valuation," dated March 14, 2016, was incorporated into this chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum, "Requests to Increase Capitalization Thresholds," dated March 14, 2014, was incorporated into the chapter as applicable.	*
Policy Memo	The DCFO and Director, Acquisition Resources and Analysis, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics policy memorandum, "Elimination of Military Equipment Definition and Increase to Capitalization Thresholds for General Property, Plant and Equipment," dated September 20, 2013, was incorporated into this chapter as applicable.	*

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The DCFO policy memorandum, "Financial Statement Responsibility for Reporting Military Equipment under the Operational Control of Another Entity," dated March 6, 2012, was incorporated into this chapter and cancelled.	Cancellation

* Cancellation of the policy memo is not applicable with this publication.

Table of Contents

*CHAPTER 25

GENERAL EQUIPMENT

1.0 GENERAL (2501)

1.1 Overview (250101)

This chapter prescribes Department of Defense (DoD) accounting policy for general equipment including Government-Furnished Property (GFP) and Contractor-Acquired Property (CAP) that fall under the category of general equipment, all of which are subsets of general Property, Plant, and Equipment (PP&E).

1.1.1. Description. General equipment, such as Military Equipment (weapon systems), consists of tangible assets that:

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

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

1.1.1.3. Are acquired or constructed with the intention of being used or being available for use by the entity.

1.1.1.4. Were previously defined as Military Equipment, and before that as National Defense Property, Plant and Equipment (weapon systems).

1.1.2. Characteristics of General Equipment. General equipment items are used in providing goods or services, or support the mission of the entity, and typically have one or more of these characteristics:

1.1.2.1. The item could be used for alternative purposes (e.g., by other DoD or federal programs, state or local governments, or nongovernmental entities), but it is used to produce goods or services, or to support the mission of the entity;

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

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

1.2 Purpose (250102)

This chapter prescribes DoD accounting policy for general equipment including GFP and CAP that fall under the category of general equipment, all of which are subsets of general PP&E. The applicable general ledger accounts are listed in the United States Standard General Ledger (USSGL) contained in Volume 1, Chapter 7, and the accounting entries for these accounts are specified in the ***DoD USSGL Transaction Library***. Unless otherwise stated, this chapter is applicable to all DoD Components, both General Fund and Working Capital Fund (WCF) activities.

1.3 Authoritative Guidance (250103)

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

1.3.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts ***(SFFAC) 5***, "Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements";

1.3.2. FASAB ***SFFAC 7***, "Measurement of the Elements of Accrual-Basis Financial Statements in Periods after Initial Recording";

1.3.3. FASAB Statement of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities";

1.3.4. FASAB ***SFFAS 4***, "Managerial Cost Accounting Standards and Concepts";

1.3.5. FASAB ***SFFAS 6***, "Accounting for Property, Plant, and Equipment";

1.3.6. FASAB ***SFFAS 23***, "Eliminating the Category National Defense Property, Plant, and Equipment";

1.3.7. FASAB ***SFFAS 40***, "Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment";

1.3.8. FASAB ***SFFAS 42***, "Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32";

1.3.9. FASAB ***SFFAS 44***, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use";

1.3.10. FASAB ***SFFAS 50***, "Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35";

1.3.11. FASAB ***SFFAS 55***, "Amending Inter-entity Cost Provisions";

1.3.12. FASAB ***Technical Bulletin 2017-2***, "Assigning Assets to Component Reporting Entities";

1.3.13. FASAB Technical Release ***(TR) 13***, "Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment";

1.3.14. FASAB ***TR 14***, "Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment";

1.3.15. FASAB ***TR 15***, "Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation";

1.3.16. FASAB ***TR 17***, "Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment";

1.3.17. FASAB ***TR 18***, "Implementation Guidance for Establishing Opening Balances";

1.3.18. FASAB ***Staff Implementation Guidance 23.1***, "Guidance for Implementation of SFFAS 23, Eliminating the Category National Defense Property, Plant, and Equipment: Classification of Items Formerly Considered National Defense PP&E";

1.3.19. FASAB ***Staff Implementation Guidance 6.1***, "Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as Amended";

1.3.20. Office of Management and Budget ***Circular A-136***, "Financial Reporting Requirements";

1.3.21. Federal Acquisition Regulation ***(FAR)***;

1.3.22. Defense FAR Supplement ***(DFARS)***;

1.3.23. DFARS Procedures, Guidance, and Information ***(PGI)***;

1.3.24. DoD Instruction ***(DoDI) 5000.02***, "Operation of the Defense Acquisition System";

1.3.25. ***DoDI 5010.40*** "Managers' Internal Control Program Procedures";

1.3.26. ***DoDI 5000.64***, "Accountability and Management of DoD Equipment and Other Accountable Property";

1.3.27. DoD Manual ***(DoDM) 4160.21***, "Defense Materiel Disposition: Disposal Guidance and Procedures";

1.3.28. Title 40, United States Code, section 571 (***40 U.S.C. § 571***) – Public Buildings, Property, and Works; Subtitle 571 – General Rules for Deposit and Use of Proceeds; and

1.3.29. United States Department of the Treasury (Treasury) Financial Manual ***(TFM) Volume 1, Part 2, Chapter 4700*** "Agency Reporting Requirements for the Financial Report of the United States Government."

2.0 ACCOUNTING FOR GENERAL EQUIPMENT (2502)

2.1 Definitions (250201)

2.1.1. CAP. CAP is property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the Government has title. CAP may be equipment, material, special tools, and special test equipment.

2.1.2. Constructive Delivery. Delivery that is inferred to have taken place from the conduct of the parties (such as when one transfers a title to another) involved in a transaction, even if the physical delivery did not take place. Constructive delivery must be based on the terms of the contract regarding shipping and/or delivery.

2.1.3. General Equipment. General equipment refers to tangible items that are used by DoD in providing goods and services.

2.1.3.1. General equipment items are those items that:

2.1.3.1.1. Are durable and have a useful life of two years or more;

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

2.1.3.1.3. Are not held in anticipation of physical consumption;

2.1.3.1.4. Are functionally complete and ready to use for their intended purpose; and

2.1.3.1.5. Do not ordinarily lose their identity or become a component part of another asset when put into use.

2.1.3.2. GFP and CAP that meet the criteria of subparagraphs 250201.A.1.a through 250201.A.1.e are general equipment.

2.1.3.3. General equipment excludes internal use software. However, any computer software that is integrated into (embedded) and necessary to operate equipment (rather than perform an application) will be considered part of the general equipment item of which it is an integral part. Embedded software is not classified as internal use software. Guidance relating to software that is not integrated, i.e., internal use software is contained in Chapter 27.

2.1.3.3.1. An Automated Data Processing (ADP) system, including Information Technology Systems, for accounting and financial statement reporting purposes consists of dedicated equipment or components linked together and used in the performance of a service or function in support of a mission of a DoD Component, command, or installation. This definition should not be confused with budgetary or property accountability policy and/or regulations which may be different. ADP systems for the purpose of this definition and the requisite accounting treatment are typically referred to as mainframe or minicomputer systems and generally, do not include personal computers (PCs) linked to a central server and used in an office environment. ADP systems must be capitalized and depreciated when the total cost of the system (considering the individual components as a whole system) equals or exceeds the applicable DoD capitalization threshold (see subparagraph 250204.D) and has an expected useful life of two years or more.

2.1.3.3.2. PCs that are not organic to an ADP system (attached PCs and used solely for the operation of the ADP system) are excluded from the accounting and financial statement reporting definition of an ADP system. The cost of such PCs, therefore, is not included in the capitalized cost of an ADP system. Such nonorganic PCs must be recognized in accordance with the guidance prescribed in paragraph 250204.

2.1.3.4. Items that had previously been classified as Military Equipment, i.e., weapon systems and related support equipment, are now classified as general equipment. Weapon systems are those items that are intended to be used by the Armed Forces to carry out battlefield, intelligence, or surveillance missions; examples include combat aircraft, pods, combat ships, support ships, satellites, and combat vehicles.

2.1.3.4.1. Weapon systems do not ordinarily lose their identity or become component parts of another article; and are available for the use of the reporting entity for their intended purpose.

2.1.3.4.2. Intangible items, such as software, are not considered weapon systems; however, computer software that is integrated into (embedded) and necessary to operate weapon systems (rather than perform an application) must be considered part of the weapon system of which it is an integral part.

2.1.3.4.3. Weapon systems are generally functionally complete and must be valued based on the cost of the final assembly, including the cost of embedded items.

2.1.4. GFP. GFP is property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract. GFP includes, but is not limited to equipment, material, special tools, special test equipment, spares and property furnished for repair, maintenance, overhaul, or modification.

2.1.5. Indirect Project Costs. Costs incurred, such as construction administration, legal fees, and various office costs, that clearly relate to projects under development or construction.

2.1.6. Material. Material is property that may be consumed or expended during the performance of a contract, component parts of a higher assembly, or items that lose their individual identity through incorporation into an end item. Material does not include equipment, special tooling, or special test equipment.

2.1.7. Materiality. Materiality, as defined by the SFFAS 1, is the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

2.2 Relevant USSGL Accounts (250202)

2.2.1. Construction-in-Progress (USSGL 172000). The Construction-in-Progress (CIP) account is used to accumulate the costs of new construction of general PP&E (except for internal use software for which capitalized development costs are accumulated in USSGL 183200 - Internal Use Software in Development Account) and capital improvements while the asset is under construction. CIP accounts include all costs (i.e., direct labor, direct material, supervision, inspection and overhead) incurred in construction. Upon completion, these costs will be transferred to the appropriate general PP&E account. See subparagraph 250204.G for a discussion of the CIP process.

2.2.2. Equipment (USSGL 175000). The Equipment account is used to record the capitalized cost of tangible equipment items of a durable nature that are used by DoD in providing goods and services. This account excludes internal use software but includes the cost of computer software that is integrated into (embedded) and necessary to operate the equipment of which it is an integral part.

2.2.3. Accumulated Depreciation on Equipment (USSGL 175900). The Accumulated Depreciation on Equipment account is used to record the amount of accumulated depreciation charged to expense for assets recorded in the Equipment account (USSGL 175000). See paragraph 250206 for guidance on calculating and recording depreciation.

2.3.4. General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed (USSGL 199500). The General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed account is used to record the value of general PP&E assets which have been permanently removed from service. Upon permanent removal from service, general PP&E assets must be recorded at their expected net realizable value (NRV) and must cease to be depreciated. See paragraph 250208 for guidance on reporting general PP&E assets which have been permanently removed from service.

2.3.5. Depreciation, Amortization and Depletion (USSGL 671000). The expense recognized by the process of allocating costs of an asset (tangible or intangible) over the period of time benefited or the asset's useful life is recorded in this account.

2.3 Acquisition/Valuation (250203)

2.3.1. Recorded Cost. When acquiring a general equipment item, the recorded cost must be recognized in accordance with paragraph 250204. The recorded cost of general equipment items is the basis for computing depreciation. The recorded cost must include all amounts paid to bring the equipment to its form and location suitable for its intended use, including the costs of any embedded items and/or integral software plus ancillary costs. This subparagraph defines and prescribes the use of acquisition cost, net book value, fair value, and recorded cost when recording the cost of newly acquired general equipment assets. The funding source (e.g., appropriation and WCFs) is not a factor in determining whether or not an item should be capitalized.

2.3.1.1. Acquisition Cost. For the purposes of this chapter, acquisition cost refers to the original purchase, construction, or development cost; net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses must not be included as a cost of the asset; rather, such costs must be recognized as operating expenses. Although the measurement basis for valuing general equipment remains historical cost, reasonable estimates maybe used to establish the historical acquisition cost for general equipment as described in SFFAS 6 as amended by SFFAS 50.

2.3.1.2. Net Book Value. Net Book value is the recorded cost of a general equipment asset, less its accumulated depreciation.

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

2.3.1.4. Ancillary Cost. Ancillary costs are included in the recorded cost in addition to the acquisition cost of the asset. These costs are identifiable and necessary to bring the asset to its form and location suitable for its intended use including other direct and indirect costs. Examples include:

2.3.1.4.1. GFP installed in end items (e.g., engines installed in aircraft);

2.3.1.4.2. An appropriate share of the cost of Government-furnished materials used in the production of end items;

2.3.1.4.3. Transportation charges to the point of initial use;

2.3.1.4.4. Handling and storage costs;

2.3.1.4.5. Labor and other direct or indirect production costs (for assets produced or constructed);

2.3.1.4.6. Engineering and other outside services for designs, plans, specifications, and surveys;

2.3.1.4.7. An appropriate share of the cost of the equipment and facilities used in construction work;

2.3.1.4.8. Acquisition and preparation costs of equipment;

2.3.1.4.9. Direct costs of inspection, supervision, and administration of construction contracts and construction work;

2.3.1.4.10. Allowable direct cost of maintaining the Program Management Office, if material;

2.3.1.4.11. Legal and recording fees and damage claims;

2.3.1.4.12. Fair value of equipment donated to the DoD;

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

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

2.3.2. Method of Acquisition or Transfer Determines Recorded Cost

2.3.2.1. Purchased Equipment. The cost to be recorded for general equipment items acquired by purchase from a third party (private, commercial, or state or local government) is its purchase contract cost plus applicable ancillary costs. Examples of ancillary costs are included in the listing in subparagraph 250203.A.4. For purposes of this guidance, purchase includes procurements of general equipment by cash, check, or installment or progress payments on contracts.

2.3.2.2. Constructed Equipment. The cost to be recorded for constructed general equipment items is the sum of all the costs incurred to bring the item(s) to a form and condition suitable for their intended use. These include costs incurred after project design authorization for actual construction such as labor, materials, and overhead costs (see Annex 1 for a list and description of the costs to be accumulated for constructed items). Note that preliminary planning costs accumulated prior to design authorization must be expensed and not be captured as part of the recorded cost of constructed items. The cost of general equipment under construction must be recognized in accordance with the CIP guidance prescribed in subparagraph 250204.G.

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

2.3.2.4. Exchanged Equipment. The cost to be recorded for general equipment acquired through exchange between the DoD and a nonfederal entity is the fair value of the consideration surrendered at the time of exchange. If the fair value of the equipment acquired is more readily determinable than that of the consideration surrendered, the cost will be the fair value of the equipment acquired. If neither fair value can be determined, the cost of the equipment acquired will be the cost recorded for the consideration surrendered, net of any accumulated depreciation. Any difference between the net recorded amount of the consideration surrendered and the cost of the equipment acquired must be recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of general equipment acquired will be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received. If the DoD Component enters into an exchange in which the fair value of the equipment acquired is less than that of the consideration surrendered, the equipment acquired will be recognized at the amount of the consideration surrendered, as described previously and subsequently reduced to its fair value. A loss must be recognized in an amount equal to the difference between the amount of the consideration surrendered for the equipment acquired and its fair value. This guidance on exchanges applies only to exchanges between a DoD Component and a nonfederal entity. Exchanges between a DoD Component and another DoD Component or Federal agency must be accounted for as a transfer.

2.3.2.5. Capital Leases. The recorded cost of general equipment acquired under a capital lease is the present value of the rental and other minimum lease payments during the lease term, excluding that portion of the payments representing executory cost (e.g., insurance, maintenance and taxes) to be paid by the lessor. The present value is the value of future cash flows (e.g., lease payments) discounted to the present at a certain interest rate (such as the reporting entity's cost of capital), assuming compound interest. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded will be the fair value. If the portion of minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated.

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

2.3.2.7. Vested and Seized Property During Contingency Operations. See Volume 12, Chapter 29, for discussion of vested and seized property during times of contingency operations.

2.3.2.8. Transferred Equipment. Transfers of equipment must adhere to the following:

2.3.2.8.1. Generally, the cost recorded for general equipment transferred from another DoD Component or Federal agency is the cost recorded on the transferring entity's books for the general equipment, net of any accumulated depreciation (i.e., net book value). If the receiving DoD Component cannot reasonably ascertain those amounts, the cost of the asset will be its fair value at the time of transfer. Accountability for general equipment can be transferred between entities in accordance with DoDI 5000.64 and financial reporting responsibilities will follow. Both parties must agree to the transfer and the agreement must be documented using the appropriate documentation (e.g., DoD (DD) Form 1348-1A, DLMS 856S, or DD Form 1149). Each DoD Component has execution responsibility to ensure that requisite tasks are being completed in a timely manner for all transfers.

2.3.2.8.2. When completing a transfer, the transferring DoD Component, is required to provide financial reporting information to the receiving DoD Component whenever the asset is transferred throughout the asset lifecycle. When transfers are implemented, supporting documentation which includes financial reporting information, trading partner information, and associated data elements must be provided. These data elements include, but are not limited to, Name, Unique Identifier, Status, General Ledger Classification, Value, Estimated Useful Life, Date Placed in Service, and Transaction Date. If this information is not available, the receiving and transferring entities must develop and document an estimate to support the financial transfer of the asset. See Volume 12, Chapter 14, for further policy on transfers of DoD general equipment between Military Departments.

2.3.2.8.3. Within DoD Components, there are different capitalization thresholds. For transferred equipment between DoD Components if an asset was capitalized at acquisition, it will continue to be capitalized and depreciated after transfer regardless of the new financial reporting entity's capitalization threshold. If an asset was expensed at acquisition, it will not be capitalized and depreciated after transfer to the new financial reporting entity, even if the new financial reporting entity has a lower capitalization threshold than the original entity that acquired the asset. The transferring DoD Component will remove the transferred general equipment from its Accountable Property System of Record (APSR) and the receiving DoD Component will include the item in its APSR as accountable general equipment.

2.3.2.9. <u>Equipment Acquired by Trade-In</u>. The cost to be recorded for general equipment acquired when trading in another general equipment asset is the sum of the net book value of the asset(s) traded plus (minus) any cash paid (received) or liabilities assumed (relinquished) for the new asset. The net book value is the recorded cost of a general equipment asset, less its accumulated depreciation.

2.3.2.10. <u>CAP</u>. The recorded cost for general equipment acquired as CAP will be in accordance with the contractual arrangement used to acquire the item as follows:

2.3.2.10.1. For fixed price type line, subline, or exhibit line items, the unit price identified in the contract at the time of delivery;

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

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

2.3.3. Documentation. When recording the acquisition of a general equipment item in the APSR and/or accounting system, the item must be assigned a dollar value (i.e., recorded cost) as detailed in this chapter. The dollar value must be supported by appropriate documentation. A complete discussion of supporting documentation can be found at paragraph 250302.

2.4 Recognition (250204)

All general equipment items acquired by DoD Components must be recognized for accountability in accordance with DoDI 5000.64 and financially reported as required by this guidance. Recognition requires the appropriate accounting treatment (expense or capitalization with depreciation) and the reporting of capitalized amounts and accumulated depreciation on the appropriate DoD Component's financial statements.

2.4.1. Recognition Responsibility. Financial reporting responsibility for a given general equipment asset will reside with the same entity that has accountability for that asset as defined in DoDI 5000.64, including the responsibility for recording the asset in the DoD Component's APSR. In most cases, the entity with accountability and financial reporting responsibility for in-service general equipment will be the funding entity acquiring the asset for use in its operations. While financial reporting begins while the asset is under construction, physical accountability for the asset begins at the point of receipt, delivery, or acceptance. See Annex 3 for illustrative examples of financial reporting responsibilities for general equipment and related journal entries.

2.4.1.1. The base asset and all capital improvements to the base asset will be reported by the same reporting entity in order to maintain consistency between the financial reporting and the physical assets.

2.4.1.2. In cases where accountability changes from one entity to another, the financial reporting of the asset will transfer with the accountability of the asset. When transferring financial reporting responsibility for assets, supporting documentation for assets is required as described in subparagraph 250203.B.8.

2.4.1.3. Financial reporting responsibility for the asset also includes all aspects of financial reporting and disclosures such as, but not limited to, footnote disclosures, deferred maintenance and repair (DM&R), and other required supplemental information (RSI).

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

2.4.1.5. All DoD Components who are responsible for the financial reporting of an asset should be prepared to support the financial statement assertions. These assertions include: existence and completeness, rights and obligations, accuracy and valuation, occurrence, and presentation and disclosure.

2.4.1.6. CAP must be recognized by the funding DoD Component as general equipment when the item is delivered and accepted by the DoD Component or an authorized representative thereof in accordance with the terms and conditions of the contract. Until acceptance, constructive delivery of the CAP item and its cost will be recognized in the CIP account. Delivery and acceptance of CAP will be in accordance with ***DFARS PGI 245.402-71***.

2.4.1.7. A capital improvement that is funded by the same entity that reports the base asset will also be reported by that same entity by first accumulating the costs of the improvement in a CIP account and then transferring those costs to the same account as the base asset when the improvement goes into service. However, if the entity that funds the improvement is different than the entity that reports the base asset the following applies:

2.4.1.7.1. The entity or entities funding the improvement will accumulate the cost of the improvement in their CIP account(s) until the implementation of the improvement is complete.

2.4.1.7.2. When the improvement is placed in service, the CIP will be relieved by the funding organization(s) and the improvement will be recognized as a general equipment asset by the funding organization(s). The cost of the improvement will then be transferred and reported by the entity that has reporting responsibility for the base asset (see Annex 3, subparagraph A30103 for illustrative examples and journal entries).

2.4.1.7.3. The accounting objective is that the base asset and all capital improvements made to the base asset are reported by the same entity. The rationale for maintaining the base asset with the cost of the improvement is to maintain assets and their improvements on the same financial statements.

2.4.1.8. If a DoD general equipment asset is identified on site that is not recorded in the APSR of the local DoD Component, it is the local DoD Component's responsibility to identify who has accountability for the asset. In this instance, the local DoD Component is defined as the DoD Component that the general equipment asset in question is residing closest in distance. For example, if the general equipment was in a building operated by the Defense Logistics Agency (DLA), then DLA would be the local DoD Component. Another example would be, if the general equipment were located on a yard maintained by the Navy, then the Navy would be the local DoD Component. It should be noted that it will not be uncommon for certain types of assets to be under the accountability of a DoD Component that is not the local DoD Component. When this situation occurs it will be critical for the local DoD Component and the accountable DoD Component to have a clear understanding of accountability of the general equipment asset, and ensure that the general equipment asset is recorded in the appropriate APSR. The accountable entity is required to inventory property in accordance with DoDI 5000.64 as well as have the proper internal controls in place to support Property Management in accordance with DoDI 5010.40. These elements will assist the accountable DoD Component with maintaining accountability of assets in their APSR. For audit purposes, if there are general equipment assets for which the local DoD Component is not accountable, it may be beneficial to maintain a listing of those assets and their respective accountable DoD Components.

2.4.1.9. Assets on loan or assets under temporary or stewardship control of another entity will not result in a transfer of accountability or financial reporting. The entity with stewardship control must maintain supporting documentation (e.g., hand receipt, Memorandum of Understanding) that identifies them as having physical control, but not financial reporting responsibility, and provide it to the accountable entity. Additionally, the custodial entity must support any audit requests from the accountable entity related to property in their control.

2.4.2. Recognition Uncertainty. It is important that the overall accounting records of the DoD and the Federal Government are not duplicative.

2.4.2.1. In situations where doubt exists as to which DoD Component should recognize an item, DoD Components involved must reach agreement with the other applicable DoD Components or Federal agencies as to which entity will record the item for financial reporting purposes.

2.4.2.2. Disputes between DoD Components regarding accountability for an asset under DoDI 5000.64 guidelines may be resolved by contacting the Office of the Deputy Assistant Secretary of Defense for Logistics.

2.4.3. Recognition Timing. Recognition of general equipment for financial reporting purposes must occur upon delivery and acceptance to the acquiring DoD Component even though title passage can occur either at the time of delivery or at an earlier contractually specified date. For weapon systems the recognition date will normally be the date source shown on the Invoicing, Receipt, Acceptance, and Property Transfer (iRAPT) receiving report.

2.4.3.1. Upon delivery or constructive delivery, the cost of general equipment items must be capitalized in the appropriate USSGL equipment account if the delivery is for finished goods; if the delivery is not for finished goods, the costs must be accumulated in the CIP USSGL account by the funding DoD Component, assuming the estimated total costs will reach the capitalization threshold. DoD Components must estimate whether the total cost will reach the capitalization threshold and if not, document and expense costs as they are incurred. Upon the date the asset is placed in service, the CIP will be relieved by the funding entity, and a depreciable asset will be recognized. In cases where there are multiple DoD funding entities, the entity with accountability according to DoDI 5000.64 will become the financial reporting entity and record the completed asset at full cost in their APSR. See subparagraph 250203.B.8 for details on transfers of in-service assets. Such transfers must be recorded in the same month that the asset was removed from CIP and placed in service (see Annex 3 for illustrative examples and journal entries). The property must be accounted for in the APSR regardless of whether it is capitalized or expensed subject to the accountability requirements set out in DoDI 5000.64.

2.4.3.2. For general equipment acquired by a contractor on behalf of a DoD Component (i.e., CAP), the assets must be recognized upon delivery or constructive delivery, whether to the contractor for use in performing the service or to the DoD Component. Delivery or constructive delivery will be based on the terms of the contract regarding delivery, receipt, and acceptance in accordance with DFARS PGI 245.402-71. Contract financing payments for work performed (e.g., progress payments, performance-based payments, and commercial interim payments) made to a contractor prior to delivery or constructive delivery must be recorded in the CIP account until the goods are received, assuming estimated total costs will reach the capitalization threshold. Upon completion and contractual delivery of general equipment CAP to the Government, the CAP should either be capitalized in the appropriate USSGL account or, if the CAP does not meet the capitalization threshold, such item should be recorded in the appropriate expense account. DoD Components must estimate whether the total costs of the item under construction will reach the capitalization threshold and if not, document and expense costs as they are constructed. See subparagraph 250204.G for guidance on the use of the CIP account.

2.4.4. Capitalization Thresholds. The current capitalization threshold for general equipment is $1 million for the Department of Air Force and the Department of Navy general funds; $1 million for the National Security Agency and the Office of the Director of National Intelligence reporting entities; and $250,000 for all other DoD Component general funds and WCFs. A general equipment item with a recorded cost that equals or exceeds the applicable capitalization threshold and has a useful life of at least two years must be capitalized as an asset in the appropriate DoD Component's accounting records and depreciated over its useful life. A general equipment item with a recorded cost below the applicable capitalization threshold or which has a useful life of less than two years must be expensed, with the exception of general equipment items acquired as part of a qualifying bulk purchase. See subparagraph 250204.F for guidance on bulk purchases.

2.4.5. CAP. All special tooling, special test equipment or equipment items meeting or exceeding the appropriate capitalization threshold with a useful life of at least two years must be capitalized at the time of delivery. Per SFFAS 6, general equipment should be recognized when title passes to the acquiring entity or when the general equipment is delivered to the entity or to an agent of the entity. Delivery or constructive delivery should be based on the terms of the contract regarding shipping and/or delivery. For general equipment acquired by a contractor on behalf of the DoD Component where the Government will ultimately hold title to the equipment, the equipment should be recognized upon delivery or constructive delivery whether to the contractor for use in performing services or to the entity. In the case of constructed equipment, the costs should be accumulated in the CIP USSGL account until the item is delivered, at which time the costs should be transferred from the CIP account to the appropriate equipment USSGL account. An accountable property record in the appropriate APSR for CAP should be established upon its delivery and acceptance. Valuation of the delivered item should be at the contractor provided fully burdened cost, (i.e., normal or provisional burdens to the direct costs in accordance with the applicable disclosed accounting practices; including an appropriate amount for fee or profit (as reflected in the contract under which the estimate is prepared)) in addition to the direct and indirect costs. Placed in service dates for equipment (e.g., special tooling or special test equipment) will be the date of acquisition by the contractor or date of completed manufacture, if a contractor fabricated the asset.

2.4.6. Bulk Purchases.

2.4.6.1. For accounting consideration purposes, a bulk purchase is a single contractual/purchase arrangement of multiple like general equipment items within a fiscal year. For bulk purchases made on a single multiple year contractual/purchase arrangement, purchases should be aggregated and evaluated on an individual fiscal year basis. Each DoD Component should evaluate whether the amounts of bulk purchases are considered material. This evaluation should be documented in writing. Each DoD Component should establish guidance on applying DoD capitalization thresholds to their bulk purchases.

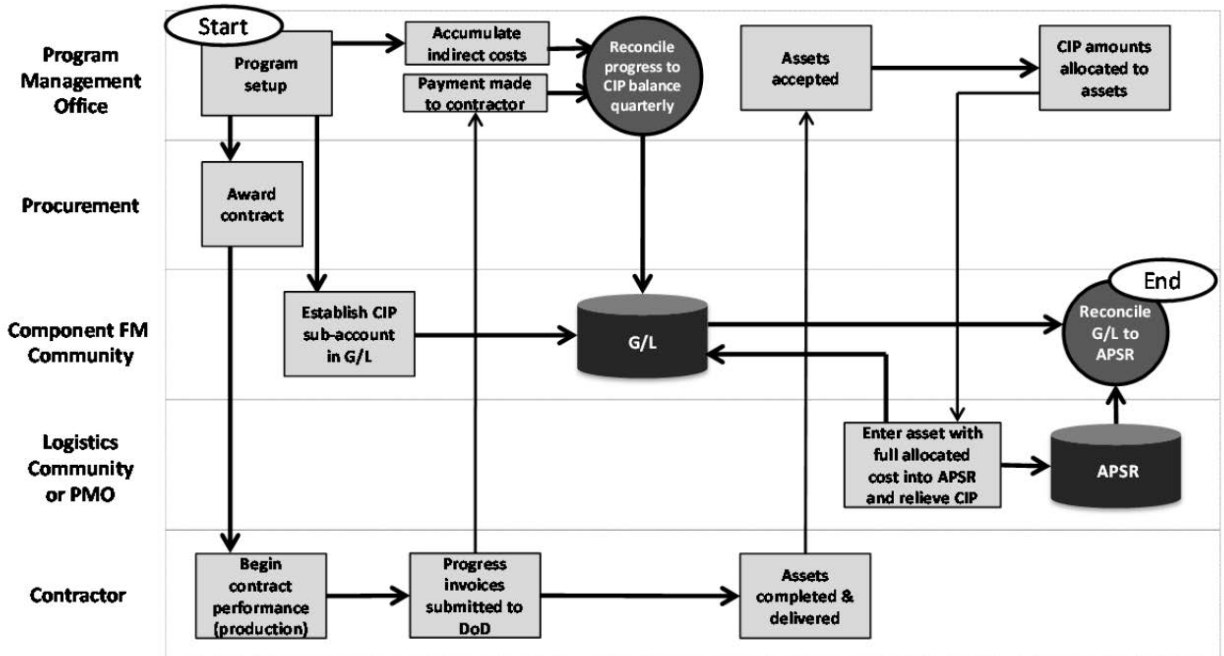
2.4.6.2. The DoD Component evaluation should consider whether period costs on the Statement of Net Costs would be materially overstated and/or asset values on the Balance Sheet would be materially understated by expensing bulk purchases. Determining materiality requires appropriate and reasonable professional judgment. In making such a judgment, the DoD Component may review, for example, recent fiscal year bulk purchases, and consider if such purchases are likely to trend in a similar buying pattern in the current and subsequent years based on their understanding of the DoD Component's specific operational and mission needs. Based on a quantitative analysis aggregating bulk purchases from prior fiscal years, the DoD Component may compare these amounts to recorded amounts on the Balance Sheet and expenditures in the Statement of Net Costs to determine whether such amounts will or will not be considered material in the current fiscal year.

2.4.6.3. In the instance where more than one DoD Component has the authority to place orders under the same contractual/purchase arrangement, they should evaluate only those orders they fund for purposes of the bulk purchase evaluation and not those funded by other DoD Components.

2.4.7. CIP Process.

2.4.7.1. Constructed general equipment must be recorded in the CIP USSGL account until it is placed in service at which time the balance must be transferred to the general equipment USSGL account. Capital expenditures or progress payments paid to contractors, for general equipment being manufactured or constructed, are to be recorded in a CIP account. Reporting entities must be able to capture and accumulate capital costs separately for each acquisition program or acquisition contract. As completed assets are delivered and accepted by DoD or constructive delivery occurs, capital costs will be relieved from the CIP account and transferred to the general equipment asset account. See Figure 25-1 for the typical steps involved in the CIP process for construction to completion of the asset.

Figure 25-1. CIP Process Flow



Note: Asset acquisition cost based on financial transactions and cost allocation (SFFAS 6)

2.4.7.2. Advance Payments, as defined in ***FAR 32.202-2***, are to be recorded in an advance account until the end items are delivered. Advances should be recorded to USSGL 141000, "Advances and Prepayments." All other contract financing payments must be recorded as CIP. CIP must reflect actual progress on the contract. To ensure that CIP amounts reflect actual progress on the contract, DoD Components must perform a periodic reconciliation (at least quarterly) between amounts recorded in CIP and the actual progress on the contract. Generally, the reconciliation should be performed by the DoD Contracting Officer's Representative. This may require working with the contractor to perform the reconciliation. Costs incurred in excess of finance payments should be reported as a liability.

2.4.7.3. For acquisition programs or acquisition contracts, the contract(s) must be written to reflect the general equipment items being manufactured or constructed. In order to trace commitments, obligations, and expenditures to the general equipment recorded in the DoD Component's accounting records, it is essential that the level of detail in the contract be aligned to the level at which items will be delivered, recorded in the accounting records, and managed. ***DFARS Subpart 204.71*** – Uniform Contract Line Item Numbering System provides specific instructions for the composition of the contract line item numbers (CLINs) and accounting classification reference numbers, which ensures funding citations are appropriately designated for items and services being acquired. Based on the terms of the contract and nature of the item or service being acquired, each CLIN will be determined to be either capital or noncapital. Table 25-1 provides examples of cost types that may be included in a contract and whether those costs would be capitalized or expensed.

Table 25-1. Examples of Cost Types and Accounting Treatment

Acquisition Deliverable	Accounting Treatment
Air Vehicle	Capitalize the cost, if the full cost is greater than the capitalization threshold and a useful life of two years or more Expense the cost, if the full cost is less than the capitalization threshold
Research, Development, Test and Evaluation (RDT&E)*	Expense costs*
Acquired Data	Expense costs
Support Equipment	Capitalize the cost, if the full cost is greater than the capitalization threshold and a useful life of two years or more Expense the cost, if the full cost is less than the capitalization threshold
Initial Spares and Repair Parts	Report as Inventory for WCF activities or Operating Materials and Supply for general fund activities in accordance with Chapter 4
* RDT&E costs, which are typically expensed, will be capitalized if they are associated with the production of functional end items that will be placed in service or have alternative future uses.	

2.4.7.4. A CIP account will be created following the decision to proceed with an acquisition program granted at Milestone C (design authorization) as described in DoDI 5000.02 and the successful completion of the funding authorization document. When a DoD entity is constructing an item for another DoD entity on a cost reimbursable basis, the constructing entity must accumulate all costs since project inception in a CIP account until the costs are billed to the funding entity. The billed costs in such a scenario must be removed from the CIP account of the DoD constructing entity when billed to the funding entity and the funding entity must record such billed amounts in their appropriate CIP account.

2.4.7.5. DoD Components must assign a service unique project number to each approved acquisition project when the CIP account is created to accumulate costs. When portions of CIP for the same construction project are performed by multiple entities, the same project number must be used for all phases of the construction project regardless of the performing entity.

2.4.7.6. All costs to be capitalized for a construction project will be accumulated in the CIP account of the funding entity. A reasonable allocation methodology should be established to assign project costs (including non-recurring costs as described in 250203.A.4.m) to the end items received and accepted by the DoD Component and placed into service. Any indirect project costs must be allocated across CIP accounts periodically as they are incurred, and no later than the date the items are placed in service based on the direct cost of each constructed item as a percentage of the total direct cost of all constructed items in the project. Thus, the full cost of constructed items can be adequately captured and reported. Allocation and cost identification are addressed in Chapter 19.

2.4.7.7. The DoD entity constructing the item must continue to report CIP on their financial statements until the constructed item is accepted by the accountable DoD Component or its agent. The minimum information associated with the CIP amount reported for financial statement preparation purposes must include the DoD Component's project number, project fund code(s), project detail cost, project detail organization code(s), and programmed amount. For a specified project and for the purpose of an audit trail of the CIP account, the Government's project construction agent and the DoD constructing entity must retain the supporting documentation for their respective portion(s) of the project to which they have fiscal accountability. For additional information regarding representative documentation for a construction project, refer to paragraph 250302. Upon acceptance of constructed items, the Government's project construction agent and the DoD constructing entity must provide the accountable property officer with the legible copies of auditable supporting documentation that must be provided, along with their location. The accountable property officer, in turn, must ensure the documentation is retained in accordance with applicable laws, regulations, and instructions.

2.4.7.8. When constructed items are accepted, the costs accumulated in the CIP account must be relieved (i.e., transferred to the appropriate general PP&E account). To ensure constructed items are recorded at full cost, the recorded cost of the item(s) accepted must equal the sum of all the costs incurred to bring the item(s) to a form and condition suitable for their intended use. These include costs incurred after project design authorization for actual construction such as labor, materials, and overhead costs (see Annex 1 for a list and description of the costs to be accumulated for constructed 090385items). In addition, the funding entity of a construction project must ensure that all costs incurred by the funding entity are provided to its construction agent on a formal document for inclusion in the full cost of the item(s).

2.4.7.9. If a construction project is cancelled, each cost accumulated in the associated CIP account must be expensed. When a portion of a project is cancelled or decreased in scope, the cost directly associated to that portion of the project, and an allocated portion of the common cost in the CIP, must be expensed. All projects deferred for more than two years must be reviewed for continuance or cancellation during the review cycle.

2.4.8. Accounting for General Equipment Outside of the United States. As used in this chapter, "United States" means the 50 States of the United States, the District of Columbia, and the commonwealths, territories, and possessions of the United States. In carrying out their mission, operations and objectives, there are circumstances in which DoD Components use general equipment outside of the United States. DoD's rights to general equipment outside of the United States may be different from those within the United States. For financial reporting purposes, a DoD Component that uses general equipment outside of the United States must adhere to the following guidance:

2.4.8.1. A DoD Component will recognize a general equipment asset on its financial statements in accordance with the guidance provided throughout the other provisions of this chapter if the DoD Component purchases the general equipment asset outside of the host nation/foreign country to which it is bringing the general equipment.

2.4.8.2. If a DoD Component both purchases and uses the general equipment in the foreign country then the DoD Component must evaluate any foreign legal restrictions, or terms of any agreements with the host nation/foreign government to determine the accounting treatment for the general equipment asset as follows:

2.4.8.2.1. If there are no foreign legal restrictions, terms of agreement with the host nation/foreign government or similar barriers for owning general equipment purchased within the foreign country, the DoD Component will account for such general equipment in accordance with the other provisions of this chapter.

2.4.8.2.2. If there are foreign legal restrictions, terms of agreement with the host nation/foreign government or other restrictions that preclude the DoD's ownership of the general equipment imposed by the host nation/foreign government, the DoD Component should estimate the period of time it will use the general equipment in the foreign country. If the estimated period of use is two years or greater and the cost of the general equipment equals or exceeds the capitalization threshold (see subparagraph 250204.D), the general equipment should be capitalized and depreciated over the lesser of the estimated period of use in the foreign country or the useful life in Table 25-2 for the particular type of general equipment.

2.4.8.3. If a general equipment acquisition is not funded/purchased by DoD but instead the general equipment is provided by the host nation/foreign government and the terms and use of the general equipment are set out in an agreement between the DoD Component and the host nation/foreign government, the DoD Component will recognize the general equipment as an asset under capital lease if it meets the lease criteria in Chapter 26.

2.4.8.4. SFFAS 4 and SFFAS 55 address imputed costs between Federal agencies but do not extend to entities outside of the federal context. The concept of imputed costs does not apply to activities between a DoD Component and a host nation/foreign government. Therefore, a DoD Component will not record imputed costs for the use of general equipment, for which it does not pay directly or pay through reimbursement, provided by international organizations (e.g., North Atlantic Treaty Organization) or host nations/foreign governments.

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

2.4.8.5.1. General equipment which do not meet the criteria for capitalization in accordance with subparagraphs 250204.H.1, 250204.H.2 or 250204.H.3 will be expensed in the period acquired or built.

2.4.8.5.2. If the DoD Component does not pay the host nation/foreign government for use of general equipment provided to the DoD Component, then this general equipment will not be reflected in financial statements (other than through note disclosure as described in subparagraph 250305.B).

2.4.8.5.3. All other property attributes and data elements must be entered and maintained in the APSR for all general equipment regardless of the dollar value assigned to the asset.

2.4.8.6. The DoD Component must record an expense for any maintenance and sustainment costs relating to the general equipment paid, or to be paid by them in the period incurred.

2.4.8.7. See also the reporting requirements for disclosure at subparagraph 250305.B.

2.4.9. Accounting Treatment for Long Range Ballistic Missiles.

2.4.9.1. DoD defines the mission of the nuclear arsenal solely as one of deterrence. Under this mission, the useful life of nuclear assets is expected to exceed two years. Therefore, nuclear long range ballistic missiles (including, but not necessarily limited to, Intercontinental Ballistic Missiles and Submarine Launched Ballistic Missiles) which are fully configured and armed in support of this mission should be classified/recorded as general equipment.

2.4.9.2. Long range ballistic missiles which are not a part of a fully configured nuclear armed long range ballistic missile should be classified/recorded as operating materials and supplies, see Chapter 4.

2.5 Capital Improvements/Enhancements (250205)

Capital improvements/enhancements for general equipment are often referred to as modifications, modernizations, upgrades and improvements.

2.5.1. Capital improvements to general equipment must be capitalized when (1) the improvement increases the asset's useful life by two or more years, or increases the assets capability, or increases its capacity or size, and (2) the cost of the improvement equals or exceeds the capitalization threshold (see subparagraph 250204.D). If capital improvements do not meet these two criteria they should be expensed. Funding source (e.g., appropriation and WCFs) is not a factor in determining whether or not an improvement will be capitalized. If the capital improvement increases the underlying general equipment asset’s useful life by two years or more, the DoD Component must capitalize and depreciate the improvement with the original general equipment over the revised estimated useful life. Costs of capital improvements that do not extend the useful life of an existing general equipment asset but enlarge or improve its capacity and have a useful life of two years or more must be capitalized and depreciated over the lesser of the estimated useful life of the improvement or the remaining economic estimated useful life of the underlying general equipment asset. Note that the economic life of the asset, in certain instances, may prove to be different than the original estimated accounting useful life. The remaining economic life reflects the remaining period of utility for the equipment.

2.5.2. The cost of improvements to more than one general equipment item as identified by a unique identifier when performed under a single contract or work order, and that cannot be specifically identified by asset, should be capitalized only when the allocated cost per general equipment item equals or exceeds the applicable capitalization threshold and the estimated useful life is two or more years. When more than one improvement is made to a single item and the improvements are part of one overall effort to increase the item's capability, size, and/or useful life, the sum of the costs of the improvements must be capitalized, if the summed costs equal or exceed the applicable capitalization threshold. This is required even when the improvements are funded separately. Once a determination has been made that the aggregate costs of the improvements will be capitalized, each improvement should be capitalized and depreciated upon being placed in service as described in subparagraph 250205.A.

2.5.3. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds the applicable capitalization threshold. In SFFAS 42, the FASAB defines maintenance and repairs as activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repair activities include preventative maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain assets. Maintenance and repair activities also include cyclic work done to prevent damage that would be more costly to restore than to prevent (e.g., painting). For example, for a wheeled vehicle or an aircraft that has a new engine installed due to the existing engine failing, the cost of the new engine and installation must be expensed even if the new engine provides improved performance and/or longer use.

2.5.4. Although maintenance and repairs are generally expensed in the period incurred, certain replacements of parts, systems, or components may or may not be an improvement for accounting purposes. Crucial to the determination of whether a replacement must be recognized as a repair or an improvement is the intent behind the replacement. Repair by replacement occurs when parts, systems, or components have failed, are in the incipient stages of failing, or are no longer performing the functions for which they were designated. Replacements falling into this category must be expensed. If the replacement was undertaken to improve or extend the life of an item that was in good working order, then the replacement must be recognized as an improvement.

2.6 Depreciation (250206)

2.6.1. The recorded cost of general equipment and capital improvements which have been capitalized in accordance with the guidance prescribed by paragraphs 250204 and 250205 must be depreciated. Such capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, must be reflected in DoD financial statements.

2.6.2. Depreciation is the systematic and rational allocation of the recorded cost of an asset, less its estimated salvage or residual value, over its estimated useful life. Estimates of useful life for general equipment assets must consider factors such as usage, physical wear and tear, and technological change.

2.6.2.1. The salvage value, also known as the residual or scrap value, is the amount that would be expected to be obtained from selling an asset at the end of its useful life, but only when such proceeds (from recycle, resale, or salvage) are permitted to be retained and used by the DoD Component. Typically, general equipment will not have a salvage value. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value. For purposes of computing depreciation, weapon systems do not have salvage values.

2.6.2.2. The depreciable basis of an asset is the recorded cost reduced by the asset's salvage value (if applicable).

2.6.2.3. For purposes of computing depreciation on DoD general equipment assets, specific useful lives are prescribed. Table 25-2 reflects the useful lives to be used for DoD general equipment, except for certain weapon systems and general equipment assets with a useful life of less than five years.

2.6.2.3.1. DoD policy specifies using the straight line method of depreciation only. However, alternate depreciation methods such as activity based depreciation may be permitted. DoD Components that would like to implement a method of deprecation different from straight line must submit an approved written request from the DoD Component's Accounting Policy Office to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C))/Office of the Deputy Chief Financial Officer (ODCFO) for approval to proceed.

2.6.2.3.2. If a DoD Component determines that a newly acquired general equipment asset costing more than the applicable DoD capitalization threshold has a useful life of at least two years, but less than five years, the DoD Component may elect to depreciate the asset over a useful life that more accurately reflects its useful life (two to four years, as appropriate). The DoD Component making this election must document the basis for that decision.

2.6.2.3.3. If a DoD Component acquires a general equipment asset costing more than the applicable DoD capitalization threshold which has a useful life of at least five years for which the DoD Component determines that a different useful life than that stated in Table 25-2 is justified, they must receive written approval from the DoD Component's Accounting Policy Office prior to deviating from the standards in Table 25-2. The justification must be supported by sufficient evidentiary matter (e.g., an engineering estimate). OUSD(C)/ODCFO is the approving office for the DoD Components other than the Military Departments, unless delegated by the DCFO to the DoD Component.

Table 25-2. DoD Useful Lives for Depreciable General Equipment Including GFP and CAP

Categories	Sub-Categories	Useful Life
GENERAL EQUIPMENT ASSETS (EXCLUDING WEAPON SYSTEMS)		
General Purpose Vehicles		
	Heavy-duty Trucks and Buses	5
ADP Systems and Hardware		
	Computers and Peripherals	5
Communication and Medical Equipment		
	High Tech Medical Equipment	5
	Radio and Television Broadcasting Equipment	5
All Other Equipment and Machinery		
	All Other Equipment and Machinery	10
	Equipment used in Research, Development, Test, and Evaluation (RDT&E)	5
Vessels		
	Tugs	20
	Barges	20
	Similar Water Transportation Equipment	20
Generation Equipment		
	Steam Generation Equipment (12.5K pounds per hour or more)	20
	Electric Generation Equipment (500 Kilowatt or more)	20
Capital Improvements *		
GENERAL EQUIPMENT WEAPON SYSTEMS		
Ground Systems		
	Armored/Assault Vehicle	15
	Cargo Vehicle	15
	Tracked Vehicle	20
Fixed Wing Aircraft		
	Combat Fixed Wing	20
	Cargo Fixed Wing	25
	Utility Fixed Wing	20
Rotary Wing		
	Combat Rotary Wing	25
	Cargo Rotary Wing	25
	Utility Rotary Wing	30
Ships		
	Combat Ship	35
	Cargo Ship	40
	Aircraft Carrier	50
Submarines		
	Submarine	33
Unmanned Aerial Vehicle Systems (UAVS)		
	UAVS	15
Combat Support Systems		
	Combat Support System	15
	Missile Defense System	20
*See Capital Improvements/Enhancements in paragraph 250205.		

2.6.3. The event that triggers the calculation of depreciation is the date of receipt shown on the asset receiving document in cases where no installation is required; the date installed (if required); or the date the asset is available for use, also known as the acceptance date (regardless of whether it is actually used). Generally, the actual commencement of depreciation will be based on the Month Available for Service method. Under this method, the month the asset was accepted, installed, or available for use as applicable, is the month used to commence the calculation of depreciation expense for the first year.

2.6.4. DoD policy permits only the use of the straight line method of depreciation. In some cases, exceptions can be made to using the straight line method. Straight line depreciation expense is calculated as the depreciable basis (recorded cost less salvage value, if applicable) divided equally among accounting periods during the asset's useful life based on useful lives in Table 25-2. DoD Components may desire to depreciate certain weapon systems using an activity based or usage based method of depreciation. Activity based depreciation, referred to in DoD as Operational Tempo (OPTEMPO) recognizes changes in expected utilization rates and fatigue caused by operating environment and mission as set forth in the OPTEMPO methodology. DoD Components wanting to implement the OPTEMPO methodology for a certain weapon system should submit an approved written request from the DoD Component's Accounting Policy Office to the OUSD(C)/ODCFO for approval to proceed.

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

2.6.6. WCF activities are required to depreciate general equipment assets in accordance with the guidance in this chapter without regard to whether such assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers. The recognition of general equipment assets and the depreciation of such assets by WCF activities therefore may be different for financial statement reporting purposes than the depreciation amounts used for WCF rate development and budget presentation. All general equipment depreciation of WCF activities must be recognized as an expense on the Statement of Net Cost, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report [Accounting Report (Monthly) 1307] (AR(M)1307)." Depreciation recorded on general equipment that was not acquired nor will be replaced through use of Defense WCF resources must be classified as non-recoverable for rate setting purposes and reported appropriately on the AR (M) 1307. Defense WCF rates charged to customers are based on guidance in Volume 2B and Volume 11B.

2.7 Impairment (250207)

2.7.1. Description. SFFAS 44 defines impairment as a significant and permanent decline in the service utility of general equipment (which includes general equipment assets) or expected service utility of CIP that results from events or changes in circumstances that are not considered normal and ordinary.

2.7.1.1. See subparagraph 250207.B.2 for a discussion of determining the significance and permanence of a service utility decline.

2.7.1.2. The service utility of general equipment is the usable capacity that, at acquisition, was expected to be used to provide service. The current usable capacity of general equipment may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment or approval of laws or regulations or other changes in environmental or economic factors, or changes in the manner or duration of use.

2.7.1.3. Normal and ordinary events or circumstances are those that fall within the expected useful life of the general equipment such as standard maintenance and repair requirements. Events or circumstances that are not considered normal are those that, at the time the general equipment was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the general equipment or, if expected, was not sufficiently predictable to be considered in estimating the general equipment's useful life.

2.7.2. Identification of Potential Impairment Loss. The determination of whether general equipment remaining in use is impaired is a two-step process which includes (1) identifying potential impairment indicators and (2) testing for impairment.

2.7.2.1. Step 1 - Identify Indicators of Potential Impairment. Indicators of potential impairment can be identified and brought to DoD Component's attention in a variety of ways, such as procedures related to DM&R. Although DoD Components are not required to establish additional or separate procedures beyond those that may already exist, they should evaluate existing processes and internal controls to determine if they are sufficient to reasonably assure the identification of potential impairment indicators and implement appropriate additional processes and internal controls if necessary. Once identified, indicators are not conclusive evidence that a measurable or reportable impairment exists; DoD Components should carefully consider the surrounding circumstances to determine whether a test of potential impairment is necessary given the circumstances. Some common indicators of potential impairment include:

2.7.2.1.1. Evidence of physical damage;

2.7.2.1.2. Enactment or approval of laws or regulations which limit or restrict general equipment usage;

2.7.2.1.3. Changes in environmental or economic factors;

2.7.2.1.4. Technological changes or evidence of obsolescence (however, if obsolete general equipment continues to be used, the service utility expected at acquisition may not be diminished);

2.7.2.1.5. Changes in the manner or duration of use of general equipment;

2.7.2.1.6. Construction stoppage or contract termination; and

2.7.2.1.7. General equipment idled or unserviceable for excessively long periods.

2.7.2.2. Step 2 - Impairment Test. Identified general equipment should be tested for impairment by determining whether these two factors are present: (i) the magnitude of the decline in service utility is significant and (ii) the decline in service utility is expected to be permanent.

2.7.2.2.1. Significant declines in service utility are those that cause costs (including operational and maintenance costs) to be disproportionate to the new expected service utility. The determination of whether or not an item is significant is a matter of professional judgement and is distinct from materiality considerations. Such judgements may be based on the relative costs of providing the service before and after the decline, the percentage decline in service utility, or other considerations.

2.7.2.2.2. The decline in service utility is considered permanent when the DoD Component has no reasonable expectation that the lost service utility will be replaced or restored; that is, the DoD Component expects that the general equipment will remain in service so that its remaining service utility will be utilized. In contrast, reasonable expectation that the lost service utility will be replaced or restored may exist when the DoD Component has:

2.7.2.2.2.1. Specific plans to replace or restore the lost service utility of the general equipment,

2.7.2.2.2.2. Committed or obligated funding for remediation efforts, or

2.7.2.2.2.3. A history of remediating lost service utility in similar cases or for similar general equipment.

2.7.2.3. For CIP, the testing of impairment in subparagraph 250207.B.2 should be performed over the period of expected future service utility rather than current service utility.

2.7.3. Determining the Appropriate Measurement Approach. Impairment losses on general equipment that will continue to be used by the entity should be estimated using a measurement approach that reasonably estimates the portion of net book value associated with the diminished service utility of the general equipment. A measurement method would not be considered appropriate if it would result in an unreasonable net book value associated with the remaining service utility of the general equipment. Conversely, a reasonable measurement method may result in no impairment loss to be recorded. Regardless of the method used, recognition of impairment loss should be limited to the asset's net book value at the time of impairment. Widely recognized methods for measuring impairment include:

2.7.3.1. Replacement Approach. Impairment of general equipment with physical damage generally may be measured using a replacement approach. This approach uses the estimated cost to replace the lost service utility of the general equipment at today's standards (i.e., at current market prices and in compliance with current statutory, regulatory, or industry standards) to identify the portion of the historical cost of general equipment that should be written off due to impairment. It may be appropriate to apply the ratio of estimated cost to replace the diminished service utility over total estimated cost to replace the general equipment, to the net book value of general equipment to determine the impairment amount.

2.7.3.2. Restoration Approach. This approach uses the estimated cost to restore the diminished service utility of the general equipment to identify the portion of the historical cost of the general equipment that should be written off. This approach does not include any amounts attributable to improvements and additions to meet today's standards. The estimated restoration cost can be converted to historical cost by restating (i.e., deflating) the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the net book value of the general equipment to determine the impairment amount.

2.7.3.3. Service Unit Approach. Impairment of general equipment that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally may be measured using a service unit approach. This approach compares the service units provided by the general equipment before and after the impairment to isolate the historical cost of the service utility that cannot be used due to the impairment to determine the impairment amount.

2.7.3.4. Deflated Depreciated Current Cost Approach. Impairment of general equipment that are subject to a change in manner or duration of use generally may be measured using a deflated depreciated current cost approach. Under this approach, a current cost for a general equipment to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the general equipment is not new, and is then subsequently deflated to convert it to historical cost dollars. A potential impairment loss results if the net book value of the general equipment exceeds the estimated historical cost of the current service utility (i.e., deflated depreciated current cost).

2.7.3.5. Cash Flow Approach. Recognizes an impairment loss only if the net book value (i) is not recoverable and (ii) exceeds the higher of its NRV or value-in-use estimate.

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

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

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

2.7.3.6. Lower of (a) Net Book Value or (b) Higher of NRV or Value-in-Use Approach. General equipment impaired from either construction stoppages or contract terminations, which are expected to provide service, should be reported at their recoverable amount; the lower of (i) the general equipment's net book value or (ii) the higher of its NRV or value-in-use estimated. Impaired general equipment, which are not expected to provide service, should be accounted for in accordance with paragraph 250208.

2.7.4. Recognizing and Reporting Impairment Losses. The loss from impairment, if any, should be recognized and reported in the Statement of Net Cost in the period in which the DoD Component concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Such losses may be included in program costs or costs not assigned to programs. A general description of the general equipment for which an impairment loss is recognized, the nature (e.g., damage or obsolescence) and amount of the impairment and the financial statement classification of the impairment loss must be disclosed in the notes to the financial statements in the period the impairment loss is recognized.

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

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

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

2.8 Removal/Disposal (250208)

2.8.1. FASAB TR 14 defines removal from service as an event that terminates the use of a general equipment asset. Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to mission needs. Removals from service should be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoD Component's decision to permanently remove the asset from service (e.g. by selling, donating, or demolishing the asset). If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

2.8.2. If an asset's normal use is terminated (i.e., it no longer provides service in the operations of the entity) but the DoD Component has not yet decided to permanently remove the asset from service, the removal from service must be accounted for as other than permanent. Other than permanent removal from service is evidenced by activities such as continuing low-level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted. For example, assets that have been removed from service and sent to a depot for temporary storage with the intent to use the assets again in the future and other assets taken out of service on a temporary basis are considered other than permanently removed from service. There is no change in the reported value for assets that have been other than permanently removed from service and the assets must continue to be depreciated.

2.8.3. If (1) an asset's use is terminated and (2) the DoD Component has documented its decision to permanently remove the asset from service, the removal from service must be accounted for as permanent. Permanent removal from service is evident from the DoD Component's documented decision to dispose of an asset by selling, scrapping, recycling, donating, or demolishing the asset. For example, assets that are part of a Base Realignment and Closure or are declared as excess under a special legislation are considered permanently removed from service. The recorded cost as well as the accumulated depreciation of an asset permanently removed from service must be removed from the accounts in which they are reported, and the asset must be recorded at its NRV in general PP&E Permanently Removed But not Yet Disposed (USSGL Account 199500). USSGL Account 199500 is defined therein as the NRV of general PP&E that is permanently removed from service but not yet disposed and is reclassified in accordance with FASAB TR 14, paragraphs 10 and 12. NRV is the estimated amount that can be recovered from disposing of the asset less estimated costs of completion, holding, and disposal. Any difference between the net book value of the asset and its expected NRV must be recognized as a gain or loss. The expected NRV should be evaluated at the end of each fiscal year and any change in NRV should be recognized as a gain or loss. Assets permanently removed from service are no longer depreciated.

2.8.4. When an asset is disposed of (e.g., by selling, scrapping, recycling, donating, or demolishing the asset) the asset must be written off and the difference between any disposal proceeds and the asset's net book value must be recognized as a gain or loss. Disposals of general equipment will be conducted in accordance with DoDM 4160.21. The disposal start date is the calendar date of a legally enforceable and recognizable obligation to complete the disposal action. For demolitions, this represents the demolition contract's start date. For transfers to a non-DoD entity and sales, this represents the date on which the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident if the asset is a complete loss.

2.8.5. Absent separate contract terms and conditions for GFP and CAP disposition, and provided the property was not reutilized, transferred, or otherwise disposed of, the contractor, as directed by the Plant Clearance Officer or authorizing official, must use ***Standard Form 1428***, Inventory Disposal Schedule or electronic equivalent, to identify and report:

2.8.5.1. GFP that is no longer required for performance of the contract;

2.8.5.2. CAP, which is no longer required for performance of the contract; and

2.8.5.3. Termination Inventory.

2.8.6. Plant clearance officers follow the direction of ***FAR Subpart 45.6***, DFARS ***Subpart-245.6***, and ***DFARS PGI 245.602-70***. Following the plant clearance officer's acceptance of an inventory disposal schedule, the property must be screened for reutilization DoD-wide. Surplus personal property with commercial value that is processed through the reutilization screening process without success may be sold. Proceeds of any sale of surplus property are to be creddited to the Treasury as miscellaneous receipts, unless otherwise provided by statute or the contract or any subcontract thereunder authorizing the proceeds to be credited to the price or cost of the work (40 U.S.C. § 571 and § 574, FAR 45.604-3).

3.0 ADDITIONAL CONSIDERATIONS (2503)

3.1 Use of Cancelled Treasury Account Symbol (250301)

3.1.1. The Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) is a data collection system that replaced the reporting functionalities of Federal Agencies Centralized Trial-Balance System I and II, Intragovernmental Fiduciary Confirmation System, and Intragovernmental Reporting and Analysis System as the primary means for DoD Components to report their trial balance data to the Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been cancelled. If a capitalized asset has not been moved to a cancelled ("C") TAS as described in 250301.B; GTAS will provide a "C" TAS on the GTAS Super Master Account File (SMAF) for each fund family represented on the SMAF. The system generated "C" TAS will have three components: the three-digit agency identifier, availability type "C", and a four-digit main account.

3.1.2. All DoD Components must use the "C" availability type TAS to report capitalized assets. Assets may be moved to a "C" TAS at any time from the purchase date to the date the original purchasing fund cancels. (Refer to the TFM Volume 1, Part 2, Chapter 4700 for additional information.)

3.1.3. To transfer an asset to a “C” TAS:

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

3.1.3.2. Use USSGL account transaction E606 to transfer in the asset into the appropriate “C” TAS.

3.2 Supporting Documentation (250302)

Entries to record financial transactions in accounting system general ledger accounts and/or the APSR and/or other systems must:

3.2.1. Be supported by source documents that reflect all transactions affecting the Component’s investment in the general equipment.

3.2.1.1. All general equipment acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date of delivery and acceptance (including acceptance where constructive receipt has occurred) by the DoD Component. The documents listed in Table 25-3, where applicable, must be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital improvement.

Table 25-3. Examples of Supporting Documentation for General Equipment Acquisition (Note: These examples may not be all inclusive for all circumstances.)

Evidence	Examples
Unique Identification	Assignment of unique identifier
Project Approval	Such as, but not limited to a Work Order
Obligation on Behalf of the Government	Such as, but not limited to: 1. For contracts, contract modifications, or change orders: • Statement of Work; • Dollar Amount of Contract; • Location; • Source of Funds; • Parties to the Contract; and • Signature Page [Signature of All Parties]. 2. Documentation of troop labor hours; 3. Approved Work Order; or Purchase Order; or Reimbursable Agreement; or Military Interdepartmental Purchase Requests
Payment Submitted	Such as, but not limited to: 1. Approved last invoice reflecting the total amount submitted for payment and received to date; 2. Evidence of in-house construction costs, including labor; 3. Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement.
Acceptance/Receipt (Acceptance of New Acquisitions and receipt or requisition of equipment items)	Such as, but not limited to: 1. ***DD Form 250***, Material Inspection and Receiving Report; 2. General Services Administration ***(GSA) 1334***, Request for Transfer of Excess Real and Related Personal Property; 3. Executed acquisition document and appraisal results for the donated assets; 4. Signed lease for leased property; 5. Executed reversionary document; 6. Transfer letter and documents for transferred assets to include ***DD Form 1348-1A***, Issue Release/Receipt Document; and equivalent Electronic Turn-In Document; 7. Receiving report, e.g., iRAPT receiving report; 8. ***DD Form 1149***, Requisition and Invoice/Shipping Document; 9. ***DD Form 1150***, Request for Issue/Transfer/Turn-In; 10. ***DD Form 1155***, Order for Supplies or Services.
Project Closeout	Such as, but not limited to a final DD 1354 with associated source documentation retained by the responsible party.

3.2.1.2. All disposals or retirements must be supported as of the date the general equipment leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of the asset. The execution of certain disposal events will generate financial or administrative accountability transactions. These documents, where applicable, must be readily available to support disposals:

3.2.1.2.1. 'Declaration of excess' document;

3.2.1.2.2. Approval documentation;

3.2.1.2.3. Original acquisition documents;

3.2.1.2.4. Legal instruments (such as a contract) to indicate legal obligation to dispose of an asset;

3.2.1.2.5. Document showing the disposal start date and disposal end date;

3.2.1.2.6. Receipt documentation; and

3.2.1.2.7. Transfer documents for transferred assets or as otherwise stated.

3.2.1.3. Documents that support the recorded cost of general equipment assets must be retained by the DoD Component in accordance with the requirements contained in Volume 1, Chapter 9 or as otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) must be maintained in a readily available location during the applicable retention period to permit the validation of information pertaining to the asset such as the purchase cost, purchase date, and cost of improvements. The documentation must also be linked to the appropriate unique identifier(s). Supporting documentation may include, but is not limited to, the documentation as outlined in this subparagraph.

3.2.2. Include sufficient information indicating the physical quantity, location, and unit cost of the general equipment. The APSR and/or other systems must be designed to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess general equipment that may be available for reuse, transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements.

3.2.3. Enable periodic, independent verification of the accuracy of the accounting and APSR and/or other systems through periodic physical counts/inventories of general equipment (existence and completeness--"book to floor and floor to book"). Such periodic inventories also must include reconciling the APSR and/or other systems with the general ledger accounts and physical counts. Personal hand receipt self-validations are not acceptable for meeting the independent verification of physical inventory requirements (see DoDI 5000.64).

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

3.2.4.1. All DoD Components (i.e., Military Departments, Washington Headquarters Service and Other Defense Organizations) must reconcile their APSR to their financial statements (or to their trial balance if financial statements are not required to be prepared) on a quarterly basis.

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

3.2.5. Be based on the same documents, to ensure that entries to the financial accounting/reporting and APSR are the same. This will ensure that the APSR is integrated and subsidiary to the financial accounting system and that such records can be reconciled with the accounting system.

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

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

3.2.8. Provide information to identify and account for leased general equipment, regardless of whether the general equipment was acquired by a capital lease or operating lease or whether the value of the general equipment exceeds DoD capitalization thresholds. Refer to DoDI 5000.64 for accountability requirements for general equipment.

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

3.3 Physical Inventories of General Equipment (250303)

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

3.4 DM&R (250304)

3.4.1. Description

3.4.1.1. Per SFFAS 42, DM&R is defined as maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed to a future period.

3.4.1.2. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repairs include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset.

3.4.1.3. Maintenance and repairs exclude activities aimed at expanding the capacity or capability of an asset or otherwise upgrading it to serve needs different from, or significantly greater than its current use.

3.4.2. Measurement

3.4.2.1. Amounts for DM&R may be measured using condition assessment surveys, life-cycle cost forecasts, or other methods that are similar to the condition assessment survey or life-cycle costing methods.

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

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

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

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

3.4.3. RSI

DoD Components who report general equipment must report material amounts of DM&R as RSI to the financial statements (see Volume 6B, Chapter 12). At a minimum, this information must be presented as RSI for all general equipment:

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

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

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

3.4.3.4. Factors the Components consider in determining acceptable condition standards;

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

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

3.4.3.7. If applicable, explanation of any significant changes to

3.4.3.7.1. DM&R amounts from the prior year; and

3.4.3.7.2. The policies and factors subject to the reporting requirements established in subparagraphs 250304.E.2 through 250304.E.6.

3.4.4. Weapon Systems

Maintenance and repair of weapon systems is accomplished by two different, yet complementary components—depot level maintenance and repair activities and field level maintenance and repair activities. The term "field level maintenance and repair" includes all non-depot level maintenance and repair activities (e.g., organizational, intermediate, and regional). DoD Components should determine whether the year-end amounts of field level DM&R on weapon systems are material when compared to their component depot level amounts of DM&R. This determination should be updated and documented on an annual basis. Material amounts of weapon systems field level DM&R should be reported in the financial statements. Materiality is defined in subparagraph 250201.G.

3.4.4.1. Depot level maintenance and repair includes: major repair, overhaul, or complete rebuilding of weapon systems, end items, parts, assemblies, and subassemblies; manufacture of parts; technical assistance; and testing. Material amounts of depot level deferred maintenance due to the unavailability of funding and/or capacity constraints have been historically reported through the DoD's budget process by the Military Departments. Such amounts are provided annually to the Congress in the President's Budget submission and also satisfy the intent of the federal accounting standard definition. The same budget submission amounts must be reported in the financial statements of the Military Departments.

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

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

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

3.5 Reporting Requirements (250305)

3.5.1. DoD Components with general equipment should reference a note on the Balance Sheet that discloses information about the reported general equipment assets. Note 1 of the financial statements should include a disclosure related to the DoD Component's general equipment reporting accounting policy. DoD Components should state that they are financially reporting property that they have accountability for according to DoDI 5000.64. Additionally, DoD Components should disclose that they may use assets to complete their mission which are financially reported by another DoD Component. See Volume 6B, Chapter 10 for the specific reporting requirements.

3.5.2. DoD Components must disclose in the notes to the financial statements those instances where they are using general equipment provided by a host nation/foreign government without reimbursement by DoD to the host nation/foreign government, as applicable, that:

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

3.5.2.2. The general nature of the agreement with the host nation/foreign government. It is not intended or recommended that the geographic location of the foreign government/host nation be disclosed.

3.6 Environmental Liabilities/Cleanup Costs (250306)

The accounting policy for environmental liabilities/cleanup costs pertaining to general equipment is contained in Chapter 13.

Annex 1. Construction-in-Progress Cost Matrix
(Costs to be accumulated for construction items)

Cost Type	**Description**
Cost of contract work	Amounts paid for work performed under contract, as well as any incentive fees paid to contractors to reward performance goals.
Direct cost of labor	The direct cost of labor and all associated fringe benefits in connection with the construction project. Includes both military and civilian labor costs.
Direct cost of materials and supplies	The purchase price, the cost of inspection, and loading assumed by the carrier.
Cost of Supervision, Inspection, and Overhead	Support associated with the administration of contracts for facility projects. May include contract award, payments, inspections, material testing, and other actions taken during contract execution.
Cost of transportation	Amounts paid for transportation of workers, materials, and supplies in connection with the construction project.
Cost of handling and storage	Amount paid for packaging and storing the materials and supplies and equipment used in the construction project.
Cost of legal and recording fees	Legal fees incurred to bring the asset to its intended use (e.g., title or recording fees).
Cost of architecture and engineering studies	Amounts paid for engineering, architectural, and other outside services for designs, plans, specifications, and surveys.
Cost of government-furnished property	An appropriate share of the cost of the government-furnished equipment and material and facilities used in construction work.
Cost of donated assets	The fair value of facilities and equipment donated to the government, as authorized by a special legislation, in connection with the construction project.

Annex 2. Alternative Valuation Methodologies for Establishing Opening Balances for General Equipment

1.0 Establishing Opening Balances for General Equipment (A20101)

The alternative valuation methodologies for establishing opening balances for general equipment including Government-Furnished Property (GFP), Contractor-Acquired Property (CAP) and Construction-in-Progress (CIP) for Equipment are:

1.1 The alternative valuation methods for establishing opening balances for Property, Plant and Equipment described in Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 50, “Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35” is available only once to each reporting entity. Therefore, prior to the establishment of opening balances for general equipment, including GFP, CAP and CIP for equipment (general equipment), Department of Defense (DoD) Components must validate that they are prepared to account for and comply with the recognition, measurement, presentation and disclosure requirements for general equipment at historical cost in accordance with FASAB SFFAS 6, as amended, “Accounting for Property, Plant and Equipment.”

1.2 If historical cost, as described in SFFAS 6 has not already been recorded and included in financial statements that have been audited by an Independent Public Accountant and received an unmodified (“clean”) opinion, deemed cost will be used as a surrogate to establish opening balances for general equipment. In this context, deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required by SFFAS 6 to establish opening balances. Deemed cost may be based on any one of, or a combination of, allowable valuation methods such as cost of similar assets at the time of acquisition, contract based estimates and budget based estimates. Once established using deemed cost, opening balances will be used as a surrogate for the initial amounts that would have existed had an SFFAS 6 compliant valuation method been used.

1.3 When evaluating general equipment for the purpose of establishing opening balances, DoD Components should apply the applicable capitalization threshold to their entire population of general equipment retroactively, irrespective of the capitalization thresholds in effect for years prior to October 1, 2013. When doing so, DoD Components need to take the appropriate steps to ensure all relevant prior period adjustments and note disclosures are included in their annual financial statements in accordance with SFFAS 50. As part of their evaluation, DoD Components should not simply value assets already recorded above the capitalization threshold. DoD Components should perform additional analytical procedures to identify any assets that have been improperly capitalized or expensed. Examples of this type of review can include searching for equipment with values of $0 or $1 which are indications of erroneous values. An additional example can include equipment for which an additional zero was added in error, incorrectly placing the asset above the capitalization threshold.

1.4 When establishing opening balances using Deemed Cost:

1.4.1. DoD Components will calculate a gross value and an accumulated depreciation value for General Equipment assets. Both the gross value Deemed Cost and accumulated depreciation Deemed Cost will be recorded in the accounting records. The difference between the Net Book Value (NBV) of the Deemed Cost on the opening Balance Sheet of the current fiscal year presented and the existing/historical NBV of the general equipment as of the ending Balance Sheet of the previous fiscal year, is considered a prior period adjustment. This prior period adjustment represents a change in accounting principle in accordance with paragraph 13 of FASAB SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources." If any depreciation based on the original historical equipment value has been recorded in the year in which the prior period adjustment for Deemed Cost is recorded, that depreciation expense should be reversed and depreciation for the Deemed Cost value should be recorded.

1.4.2. Any adjustment must be properly documented and supported to assist ongoing audit efforts including retaining documentation of the existing/historical equipment value in the Accountable Property System of Record (APSR) and documentation supporting the Deemed Cost value. The existing/historical gross value and accumulated depreciation of the general equipment will need to be removed from the APSR and be replaced with the new gross value and accumulated depreciation for Deemed Cost.

2.0 Financial Statement Disclosure Requirements (A20102)

DoD Components who apply the deemed cost methodology to adjust their opening general equipment balances, must disclose in their financial statements that an alternative valuation method was applied in establishing their opening balances and describe the method used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with Generally Accepted Accounting Principles. An unreserved assertion is an unconditional statement. No disclosure of the distinction or breakout of the amount of deemed cost of general equipment included in the opening balances is required.

3.0 Deemed Cost Methodology (A20103)

3.1 When a Component cannot apply the initial amount measurement approach (historical cost) outlined in SFFAS 6, it is acceptable to estimate the initial amounts (historical cost) to establish the opening balances for general equipment. Estimates should be based on any one or a combination of the following allowable valuation methods:

3.1.1. Replacement Cost;

3.1.2. Fair Value;

3.1.3. Cost of similar assets at the time of acquisition;

3.1.4. Contract based estimates; or

3.1.5. Budget based estimates.

3.2 DoD Components must estimate the historical cost for establishing opening balances of general equipment based on a deemed cost method if historical costs cannot be adequately supported with appropriate documentation as described in paragraph A20104. The DoD Components must consider the deemed cost methods described in subparagraph A20103.B.1 through A20103.B.3 and select the approach that will be most efficient in producing an auditable value. DoD Components that anticipate substantial use of replacement cost or fair value methodologies for equipment valuation must contact the Office of the Under Secretary of Defense (Comptroller)/Office of the Deputy Chief Financial Officer and the Office of the Deputy Assistant Secretary of Defense for Logistics prior to committing significant resources to these methods.

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

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

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

3.2.1.3. Apply appropriate price indices to estimate the cost of the general equipment in the period when it was placed into service if the comparable general equipment has a different in-service date. See FASAB Federal Financial Accounting and Auditing Technical Release 13, "Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment," for additional details for using indices to inflate or deflate costs.

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

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

3.2.2.2. Working with Financial Managers, Procurement Contracting Officers, and PMOs will review all line items in the contract to identify costs that will be included in the capitalized acquisition costs and the costs that will be excluded;

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

3.2.2.4. Documenting the process and results.

3.2.3. Budget Based Estimates. This methodology utilizes information included in DoD Component budget exhibits to estimate the value of the general equipment. The key requirement is that the available procurement budget detail must allow DoD Components to clearly associate budgeted amounts with the general equipment end items. When using this methodology DoD Components must consider that acquisition programs can span many years; and, not all costs associated with the budgeted amount should be capitalized. Steps for performing budget based estimates include:

3.2.3.1. Reviewing the relevant President's Procurement Budget documentation for the general equipment acquisition program to determine whether the budget has adequate detail to support the budget valuation methodology. Specifically, determining whether the budget detail provides visibility of the various cost estimates comprising the general equipment acquisition program (e.g., end items versus spares);

3.2.3.2. Identifying costs and determining which costs should be included in the capitalized costs of the general equipment;

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

3.2.3.4. Documenting the process and results.

4.0 Historical Cost for Commercial Off-the-Shelf General Equipment (A20104)

4.1 Some general equipment is acquired "off-the-shelf" and not developed as part of a program. This includes commercially available items acquired via Simplified Acquisition Procedures (see Federal Acquisition Regulation ***(FAR) Part 13***); Sealed Billing (see ***FAR Part 14***); or Contracting by Negotiation (see ***FAR Part 15***). Examples of general equipment in this category include:

4.1.1. Commercial vehicles;

4.1.2. Heavy-duty construction equipment;

4.1.3. Railroad engines;

4.1.4. Dockside Cranes;

4.1.5. Depot machinery (e.g., computer driven lathes);

4.1.6. Computer hardware; and

4.1.7. Medical equipment.

4.2 The procurement of general equipment following these existing acquisition processes, require obtaining an approved purchase request, following the acquisition procedures in accordance with either FAR Part 13, FAR Part 14, or FAR Part 15, receiving and accepting the general equipment, receiving a vendor invoice, and submitting payment for the invoice. The acquisition cost for these assets is determined from the invoice amount and may also be shown on the receiving report. If this supporting documentation is readily available, valuing these assets based on actual historical cost is encouraged but not required to establish opening balances. The DoD Component must determine the most efficient and cost effective approach to assign and support auditable values for general equipment opening balances.

5.0 CIP for Equipment (A20105)

5.1 Capital expenditures or progress payments paid to contractors, coinciding with the portion of the work completed for general equipment being manufactured or constructed, should be recorded in a CIP account. The CIP balance is included in the notes to the financial statements (generally Note 10) and is included in the general equipment line of the Balance Sheet, and must therefore be included in the general equipment opening balance. As a result, each DoD Component's Financial Management Community, working with their Acquisition Community, must establish a CIP balance for each existing/ongoing acquisition program with outstanding general equipment deliverables at the date for which the opening balance is established. To create the CIP balances, DoD Components must determine capital versus non-capital costs (if the expected value of the completed general equipment asset will be equal to or greater than the applicable capitalization threshold and it will have a useful life of two years or more then it is a capital cost and should be accumulated in CIP). Where possible, transaction detail should be evaluated to identify costs that need to be capitalized. The opening balance for CIP should represent the amount disbursed to contractors (capital costs only) from program inception less the acquisition cost of general equipment delivered and capitalized. The difference between the two amounts should be the CIP opening balance. The CIP opening balance formula is:

CIP Opening Balance	=	**Total Capital Costs Paid to Contractor**	-	**Total Amount of General Equipment Capitalized based on Deemed Cost**

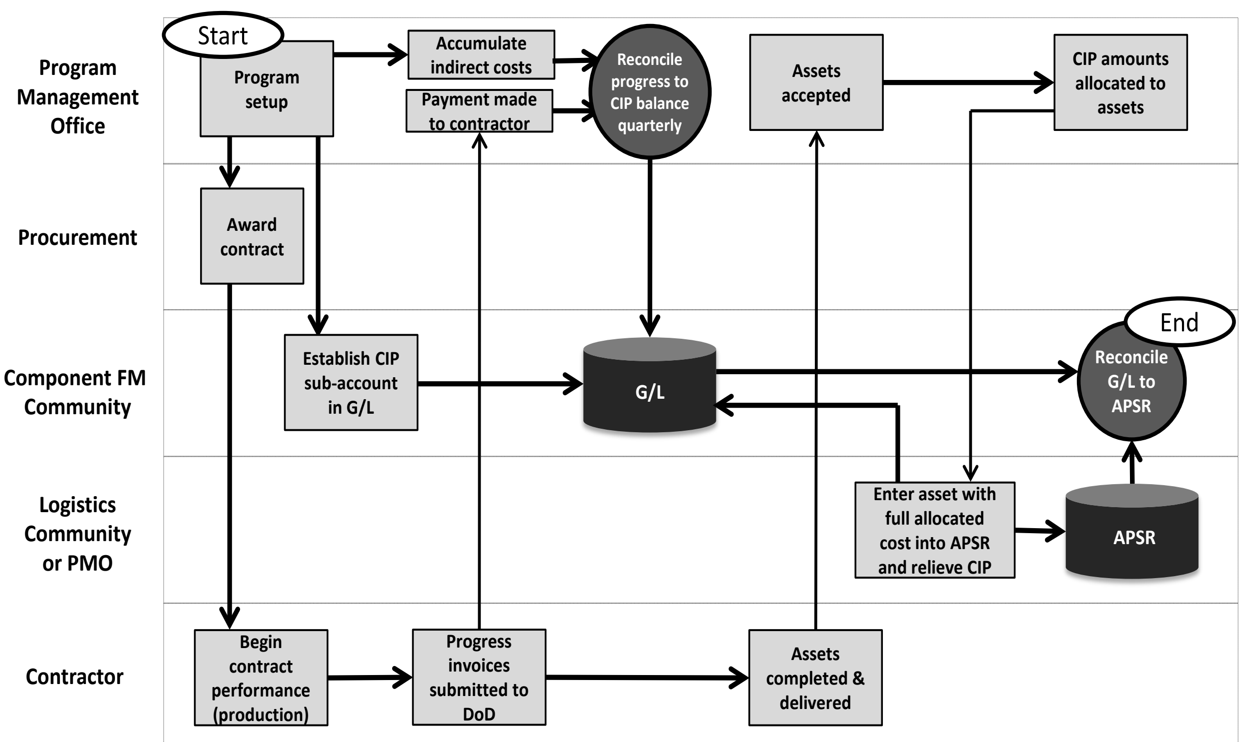
5.2 For some contract types that include contract finance payments, the Component must reconcile the payments to actual progress completed by the Contractor. If the CIP balance based on the formula in this subparagraph surpasses progress on the contract and is material, the DoD Component must move the appropriate amount from CIP into the Advances account (USSGL 141000).

5.3 CIP Go Forward Process – End State Target Environment

5.3.1. DoD Components must be able to capture capital costs paid to contractors and accumulate them (where they meet the criteria for capitalization) in CIP. DoD Components must maintain reasonable estimates of per unit costs which will be used to relieve CIP and capitalize the resulting general equipment asset. Costs which should be capitalized include other direct and indirect costs such as program management costs. These costs need to be captured as incurred, recorded in CIP, and allocated to the end item value. DoD Components need to determine how they will capture actual program management costs as well as other costs and the method for how they will allocate these costs.

5.3.2. Advance Payments, as defined in FAR 32.202-2, are to be recorded in an advance account until the end items are delivered. All other contract financing payments must be recorded as CIP. CIP must reflect actual progress on the contract. To ensure that CIP amounts reflect actual progress on the contract, DoD Components must perform a periodic reconciliation (at least quarterly) between amounts recorded in CIP and the actual progress on the contract. This may require working with the contractor to perform the reconciliation. Costs incurred in excess of finance payments should be reported as a liability. Figure A2-1 illustrates the CIP go forward process.

Figure A2-1. CIP Go Forward Process

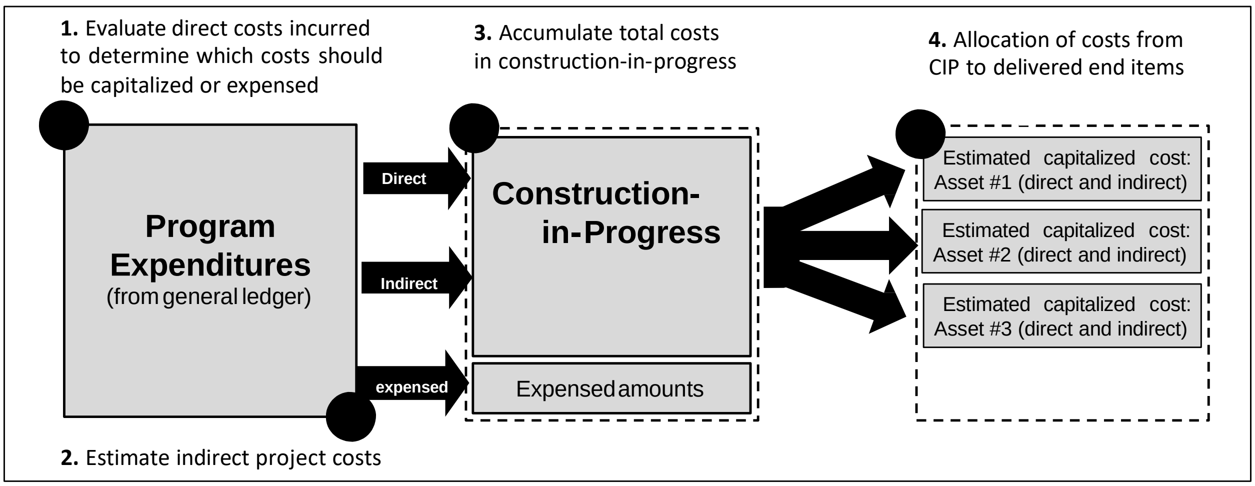


Note: Asset acquisition cost based on financial transactions and cost allocation (SFFAS 6)

5.4. Programs and Contracts in Effect as of the Opening Balance

5.4.1. Figure A2-2 illustrates the process for capturing actual capital costs paid to a contractor and accumulating them in a CIP account for existing programs with remaining deliverable equipment end items. Capital costs will be relieved from CIP as the assets are delivered. The value of an asset constructed after the opening balance can be based upon a reasonable estimate of the per unit cost in accordance with SFFAS 6 and SFFAS 4, "Managerial Cost Accounting Standards and Concepts." Reasonable estimates may be based on established methods that will approximate historical cost such as contracts, budget documents, engineering and acquisition documents, or reports reflecting amounts to be expended. Figure A2-2 also illustrates the allocation of estimates based on expenditures.

Figure A2-2. Allocation of Estimates Based on Expenditures



5.4.2. Some assets will be under construction at the time the opening balance is established. The value assigned to these assets will consist of two parts. One part will be the portion of the asset under construction as of the opening balance. The value of this portion will be based on how it was estimated when initially calculated and recorded as a Deemed Cost. The second part of the value will be the portion of the asset constructed after the opening balance. The value of this portion of the asset will be recorded in accordance with SFFAS 4 and SFFAS 6 as described in subparagraph A20105.C. The resulting value of the asset that will be debited to the general equipment account and credited to the CIP account, upon completion of the construction when the asset is available for use, will be the sum of both parts.

Annex 3. Illustrative Examples and Journal Entries Relating to Financial Reporting Responsibilities for General Equipment

1.0 Construction-In-Progress (CIP) (A30101)

1.1 CIP Example: The Air Force, Missile Defense Agency (MDA), and National Geospatial-Intelligence Agency (NGA), fund the construction of a satellite to be launched into space. Each entity will report their portion of CIP in their CIP accounts until a depreciable asset is recognized. The Air Force is the accountable entity under DoD Instruction (DoDI) 5000.64 once the asset is placed in service. When the satellite is placed into service all funding entities will recognize the capitalized costs of the satellite and transfer the capitalized costs to their Equipment account. MDA and NGA will then transfer the costs in their Equipment account to the Air Force's Equipment account. The Air Force will subsequently record depreciation for the full cost of the asset.

1.2 Table A3-1 illustrates the general ledger (G/L) entries that are required to liquidate CIP and recognize a depreciable asset.

Table A3-1. Liquidation of CIP

Funding Entity	G/L Entry – Liquidation of CIP by the Entity Funding Construction to Place the Asset in Service (Transaction Code D510)
	Debit 175000 Equipment Credit 172000 Construction-in-Progress

2.0 In-Service Assets (including weapon systems and Government-Furnished Property) (A30102)

2.1 Following are three illustrative examples for In-Service Assets:

2.1.1. The Army is conducting an inventory of capital assets and identifies a Humvee that was not previously reported on their Accountable Property System of Record (APSR). They are unable to locate any procurement documentation for the asset, but the Army has been using and maintaining the asset and will assume accountability for the asset in accordance with DoDI 5000.64. Because the Army has accountability for the asset it will also be responsible for the financial reporting of the asset.

2.1.2. The Defense Health Program (DHP) funds the acquisition of a magnetic resonance imaging (MRI) machine, and records it in its APSR as the accountable entity in accordance with DoDI 5000.64. The MRI machine will be located at a Navy hospital, but will remain in DHP's APSR. DHP will have financial reporting responsibility for the asset. To facilitate an information request from an auditor of the Navy or DHP on the MRI machine, the Navy and DHP must have processes in place that will allow them to easily demonstrate the designation of the responsible reporting entity based on the policy in Chapter 25.

2.1.3. The US Special Operations Command (USSOCOM) funds the acquisition of a mine resistant ambush protected (MRAP) vehicle and records it in its APSR as the accountable entity in accordance with DoDI 5000.64. The MRAP is later issued to an Army special operations unit, where it is added to the Army's APSR. USSOCOM transfers accountability and financial reporting responsibility to the Army at the time of issuance. All required financial information and supporting documentation should be provided to the Army to support their financial reporting.

2.2 Table A3-2 illustrates the G/L entries to be recorded if a transfer is required to implement the policy in Chapter 25 or if a transfer is needed after an asset is placed in service.

Table A3-2. Transfer of In-Service General Equipment Reporting Responsibility

Entity Transferring Out	G/L Entry Upon Transfer Out to New Reporting Entity (Transaction Code E510)
	Debit 573000 Financing Sources Transferred Out Without Reimbursement Debit 175900 Accumulated Depreciation on Equipment Credit 175000 Equipment
Entity Transferring In	G/L Entry for New Reporting Entity Upon Transfer In (Transaction Code E606)
	Debit 175000 Equipment Credit 175900 Accumulated Depreciation on Equipment Credit 572000 Financing Sources Transferred In Without Reimbursement

3.0 In-Service Capital Improvements (A30103)

3.1 Once capital improvements are placed in service they become a part of the total recorded value of the depreciable asset (regardless of whether or not the asset is tracked or depreciated separately from the base asset). Following are two illustrative examples for capital improvements:

3.1.1. The Air Force provides USSOCOM a C-130 for use in its operations. USSOCOM makes an improvement to convert it to an AC-130 aircraft. Because the Air Force is responsible for the financial reporting of the base asset, it is also responsible for the financial reporting of any capital improvements to the base asset.

3.1.2. An F-18E Super Hornet (i.e., the base asset) that was the financial reporting responsibility of the Navy received a capital improvement package that significantly increased its capacity to perform its mission. The improvement package was added to a Navy asset so the Navy is responsible for the financial reporting of the capital improvement.

3.2 Table A3-3 illustrates the G/L entries to be recorded if a transfer is required to implement the policy in Chapter 25. If the transfer is not completed during the month the improvement was placed in service and depreciation has been incurred, the accumulated depreciation will transfer with the asset.

Table A3-3. Transfer of In-Service Capital Improvements

Funding Entity of Capital Improvement	G/L Entry Upon Transfer Out from Funding Entity (Transaction Code E510)
	Debit 573000 Financing Sources Transferred Out Without Reimbursement Debit 175900 Accumulated Depreciation on Equipment Credit 175000 Equipment
Funding Entity of Base Asset	G/L Entry for Base Asset Funding Entity upon Transfer In (Transaction Code E606)
	Debit 175000 Equipment Credit 175900 Accumulated Depreciation on Equipment Credit 572000 Financing Sources Transferred In Without Reimbursement

VOLUME 4, CHAPTER 26: "ACCOUNTING FOR LEASES"

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 August 2018 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The Deputy Chief Financial Officer memorandum, "Implementation of Federal Financial Accounting Standard 54, Leases (FPM20-03)," dated September 25, 2020, was incorporated into this chapter and cancelled.	Cancellation
Various	The Federal Accounting Standards Advisory Board issued new accounting standards, technical releases, and a technical bulletin for leases, which required substantive changes to the policy contained in this chapter.	Revision
1.0	Updated the General section to incorporate the Statement of Federal Financial Accounting Standards 54.	Revision
2.0	Added lease-related definitions.	Addition
3.0	Revised the Accounting for Leases section.	Revision
3.4 (previous version)	Removed the Deferred Maintenance and Repair Costs section as these costs no longer apply to leases.	Deletion
4.1	Added reference for Standard Financial Information Structure webpage for United States Standard General Ledger accounts and transaction illustrations.	Addition
4.6	Added list of required supporting documentation.	Addition
Table 26-1	Added Capitalization Threshold table.	Addition

Table of Contents

CHAPTER 26

ACCOUNTING FOR LEASES

*1.0 GENERAL

1.1 Purpose

This chapter prescribes the Department of Defense (DoD) accounting policy for leases. This chapter addresses lease accounting for both DoD lessees and lessors. The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards 54 (***SFFAS 54***) to update the financial reporting policy for Federal Agencies, including DoD. This chapter does not apply to leases (licenses) of internal use software (see Chapter 27) or leases of assets under construction. Budgetary accounting treatment of capital leases and lease purchases are found in the Office of Management and Budget Circular A-11, "Preparation, Submission, and Execution of the Budget," Appendix B, and does not fall under the scope of this chapter.

1.2 Authoritative Guidance

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

1.2.1. FASAB Statement of Federal Financial Accounting Standards ***(SFFAS 1)***, "Accounting for Selected Assets and Liabilities:"

1.2.2. FASAB ***SFFAS 4***, "Managerial Cost Accounting Standards and Concepts;"

1.2.3. FASAB ***SFFAS 5***, "Accounting for Liabilities of The Federal Government;"

1.2.4. FASAB ***SFFAS 6***, "Accounting for Property, Plant, and Equipment;"

1.2.5. FASAB ***SFFAS 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;"

1.2.6. FASAB ***SFFAS 21***, "Statement of Federal Financial Accounting Standards 21: Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources;"

1.2.7. FASAB ***SFFAS 44***, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use;"

1.2.8. FASAB ***SFFAS 47***, "Reporting Entity;"

1.2.9. FASAB SFFAS 54, "Leases;"

1.2.10. FASAB ***SFFAS 58***, "Deferral of the Effective Date of SFFAS 54, Leases;"

1.2.11. FASAB ***SFFAS 60***, "Omnibus Amendments 2021: Leases-Related Topics;"

1.2.12. FASAB ***SFFAS 61***, "Omnibus Amendments 2023: Leases-Related Topics II;"

1.2.13. FASAB ***SFFAS 62***, "Transitional Amendment to SFFAS 54;"

1.2.14. FASAB Technical Release ***(TR) 20***, "Implementation Guidance for Leases;"

1.2.15. FASAB ***TR 21***, "Omnibus Technical Release Amendments 2022: Conforming Amendments;"

1.2.16. FASAB ***TR 22***, "Leases Implementation Guidance Updates;"

1.2.17. FASAB ***Technical Bulletin (TB) 2023-1***, "Intragovernmental Leasehold Reimbursable Work Agreements;"

1.2.18. ***DoD Directive 5110.4***, "Washington Headquarters Services;"

1.2.19. ***DoD Instruction (DoDI) 4165.14***, "Real Property Inventory and Forecasting;" and

1.2.20. ***DoDI 5000.64***, "Accountability and Management of DoD Equipment and Other Accountable Property."

*2.0 DEFINITIONS

2.0.1. Consolidation Entity. An organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the organization: (1) is financed through taxes and other non-exchange revenues, (2) is governed by the Congress and/or the President, (3) imposes or may impose risks and rewards to the federal government, or (4) provides goods and services on a non-market basis.

2.0.2. Embedded Lease. A contract or agreement that contains both a lease element and a non-lease element, or a lease that contains multiple underlying assets. The lease element in the contract or agreement is an embedded lease.

2.0.3. Initial Direct Lease Costs. Initial direct lease costs are costs that are directly attributable to negotiating and arranging a lease or portfolio of leases that would not have been incurred without entering into the lease.

2.0.4. Intragovernmental Lease. An intragovernmental lease is a contract or agreement occurring within a consolidation entity (e.g., between two or more DoD Components) or between two or more consolidation entities (e.g., between DoD and one or more federal agencies), whereby one entity (lessor) conveys the right to control the use of Property, Plant, & Equipment (PP&E)

(the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

2.0.5. Intragovernmental Leasehold Reimbursable Work Agreement. An agreement whereby one federal entity (the provider-lessor) acquires, constructs, improves, and/or alters an underlying asset that is or will be leased to another federal entity (the customer-lessee), and the customer-lessee agrees to reimburse the provider-lessor for direct and indirect costs for the acquisition, construction, improvement, and/or alteration.

2.0.6. Lease. A lease is a contract or agreement whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

2.0.7. Lease Asset. An expression of the economic benefit that the lessee expects to receive from the right to control the underlying asset.

2.0.8. Lease Concessions. Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. For example, lease concessions may include rent holidays/free rent periods or reduced rents.

2.0.9. Lease Incentives. Lease incentives include lessor payments made to, or on behalf of, the lessee to entice the lessee to sign a lease. Lease incentives may include up-front cash payments to the lessee; for example, moving costs, termination fees to the lessee's prior lessor, or the lessor's assumption of the lessee's lease obligation under a different lease with another lessor.

2.0.10. Lease-Leaseback Transactions. An asset is leased by one party (first party) to another party and then leased back to the first party.

2.0.11. Lease Liability. An expression of the amount to be paid by the lessee for the right to control the underlying asset.

2.0.12. Lease Term. The lease term is the non-cancelable period plus certain periods subject to options to extend or terminate the lease. The noncancelable period is the shorter of the (1) period identified in the lease contract or agreement that precedes any option to extend the lease or (2) the period identified in the lease contract or agreement that precedes the first option to terminate the lease.

2.0.13. Leasehold Improvements. Leasehold improvements are additions, alterations, remodeling, renovations, or other changes to leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessee. Leasehold improvements may include easements and rights-of-way, buildings, structures, and linear structures utilized by the United States Federal Government.

2.0.14. Lessee. Refers to the entity receiving the right to control the use of PP&E from another entity (lessor) through a contract or agreement that qualifies as a lease.

2.0.15. Lessor. The entity that conveys the right to control the use of PP&E (underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

2.0.16. Lessor Improvements. Lessor improvements are additions, alterations, remodeling, renovations, or other changes to the leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessor rather than by the lessee.

2.0.17. Materiality. Materiality, as defined by the SFFAS 1, is 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.

2.0.18. Probable. That which can reasonably be expected or is believed to be more likely than not (greater than 50% probability) based on available evidence or logic.

2.0.19. Right to Control. To determine whether a contract or agreement conveys the right to control the use of the underlying asset, assess whether the lessee receives both: (1) the right to obtain, and (2) the right to control access to the economic benefits or services from the use of the underlying asset as specified in the contract or agreement.

2.0.20. Sale-Leaseback. The sale of an underlying asset by the owner and a lease of the property back to the seller (the original owner).

2.0.21. Short-Term Lease. A short-term lease is a non-intragovernmental lease with a lease term of 24 months or less.

2.0.22. Sublease. A lease involves three parties – the original lessor, the original lessee (who is also the lessor in the sublease), and the new lessee.

2.0.23. Variable Payments. A payment where the amount is not fixed. One type may include payments based on an index or rate (e.g., Consumer Price Index), the future performance of the lessee (e.g., percentage of sales), or usage of the underlying asset.

*3.0 ACCOUNTING FOR LEASES

3.1 Short-Term Leases (Non-Intragovernmental)

3.1.1. Lessee Treatment of Short-Term Leases. A DoD Component as the lessee must recognize short-term lease payments as an expense based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. The DoD Component (lessee) must recognize an asset if payments are made in advance of the reporting period to which they relate or liability for rent due and unpaid at the end of the reporting period to which they relate. Rental increases, rental decreases, lease incentives, and lease concessions must be recognized when incurred as increases/reductions to lease rental expenses.

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

3.2 Contracts or Agreements That Transfer Ownership

A contract or agreement that (a) transfers ownership of the underlying asset to a lessee by the end of the contract or agreement and (b) does not contain options to terminate, but that may contain availability of funds or cancellation clause that is not probable of being exercised, must be reported as a purchase of that asset by a lessee or a financed sale of the asset by the lessor. For this purpose, options to purchase the underlying asset prior to the transfer of ownership are not considered options to terminate.

3.3 Intragovernmental Leases

3.3.1. Any lease, regardless of the lease term, that meets the definition of an intragovernmental lease must follow the accounting and disclosure guidance described in subparagraphs 3.3.2 – 3.3.3.

3.3.2. Lessee Treatment of Intragovernmental Leases

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

3.3.2.2. Leasehold Improvements. Leasehold improvements that meet or exceed the capitalization threshold and are placed in service at or after the beginning of the lease term must be amortized over the useful life (the normal operating life in terms of utility to the lessee) of the leasehold improvement, but no longer than the expected lease term. This recognition is consistent with PP&E capital improvements outlined in SFFAS 6, paragraph 37. Refer to paragraph 3.13 for capitalization thresholds.

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

3.3.3. Lessor Treatment of Intragovernmental Leases

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

3.3.3.2. Lessor Improvements. Lessor improvements, which are elements of the leased property that meet or exceed the capitalization threshold, must be capitalized, and depreciated by the lessor over their useful life. This accounting treatment aligns with the lessor's handling of PP&E and is consistent with the capital improvement guidelines outlined in SFFAS 6, paragraph 37.

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

3.3.4. Other Considerations for Lessees and Lessors

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

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

3.3.4.3. Treatment of Rental Increases/Decreases, and Lease Incentives/Concessions. Rental increases/decreases and lease incentives/concessions must be recognized by the lessee and lessor when incurred as increases/reductions to lease rental expense and income, respectively. Refer to paragraph 3.6 for lease incentives and lease concessions.

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

3.3.4.5. Lease terminations and modifications. Refer to paragraph 3.9.

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

3.4.1. At the commencement of the lease term, a DoD Component as the lessee must recognize a lease liability and a right-to-use lease asset (hereinafter referred to as the lease asset), for leases other than short-term leases, contracts, or agreements that transfer ownership, and intragovernmental leases, that meet the capitalization thresholds in section 3.13. For leases that do not meet the capitalization threshold, a lease expense must be recognized in the current period.

3.4.2. Lease Liability. A lessee must initially measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability must include the following if required by a lease:

3.4.2.1. Fixed payments;

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

3.4.2.3. Variable payments that are fixed in-substance as described in 3.4.3;

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

3.4.2.5. The exercise price of a purchase option if it is probable that the lessee will exercise that option;

3.4.2.6. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) an availability of funds or cancellation clause;

3.4.2.7. Any lease incentives/concessions (see paragraph 3.6) receivable from the lessor; and

3.4.2.8. Any other payments to the lessor that are probable of being required based on an assessment of all relevant factors.

3.4.3. Variable payments based on the future performance of the lessee or usage of the underlying asset must not be included. Rather, these variable payments must be recognized as an expense in the reporting period in which those payments are incurred. However, any portion of these variable payments that is fixed in-substance must be included in the lease liability. An example is a lease payment based on a percentage of sales or usage but with a required minimum amount to be paid. That required minimum payment is fixed in-substance.

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

3.4.4.1. The interest rate may be based on a recent interest rate on marketable Treasury securities or a historical average interest rate on marketable Treasury securities of similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

3.4.4.2. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities must be consistent from period to period.

3.4.4.3. DoD Components must not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, they must select the longest Treasury maturity. For example, if the longest Treasury maturity at the commencement of the lease term is 30 years, DoD Components must select the 30-year rate as the discount rate for a lease with a 75-year term.

3.4.4.4. In subsequent financial reporting periods, the lessee must calculate the amortization of the discount on the lease liability and recognize that amount as interest expense for the period. Any payments made must be allocated first to the accrued interest liability and then to the lease liability.

3.4.5. Remeasurement of Lease Liability. The lessee must remeasure the lease liability at subsequent financial reporting dates if one or more of the stipulated changes in subparagraphs 3.4.5.1 through 3.4.5.6 have occurred at or before that financial reporting date, based on the most recent lease contract or agreement before the changes, and if the changes individually or in the aggregate, are expected to significantly affect the amount of the lease liability since the previous measurement. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of paragraph 3.9 for lease modifications and terminations.

3.4.5.1. There is a change in the lease term;

3.4.5.2. An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being required to be paid has changed from probable to not probable or vice versa;

3.4.5.3. An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa;

3.4.5.4. There is a change in the estimated amounts for payments already included in the liability (except as provided in subparagraph 3.4.5.7);

3.4.5.5. There is a change in the interest rate the lessor charges the lessee if used as the initial discount rate; or

3.4.5.6. A contingency, upon which some or all of the variable payments that will be made over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease liability. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying asset to become fixed payments for the remainder of the lease term.

3.4.5.7. If a lease liability is remeasured for any of the changes in subparagraphs 3.4.5.1 through 3.4.5.6., the liability also must be adjusted for any change in an index or rate used to determine variable lease payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments.

3.4.5.8. The lessee also must update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability: (1) There is a change in the lease term or (2) An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa.

3.4.5.9. A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the interest rate on marketable Treasury securities.

3.4.5.10. If the discount rate is required to be updated based on the provisions in subparagraph 3.4.5.8., the discount rate must be based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the interest rate on marketable Treasury securities with a similar maturity to the term of the lease at the time the discount rate is updated must be used as described in subparagraph 3.4.4.

3.4.6. Lease Asset. A lessee must initially measure the lease asset as the sum of subparagraphs 3.4.6.1 through 3.4.6.3:

3.4.6.1. The amount of the initial measurement of the lease liability, as determined by section 3.4.2;

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

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

3.4.6.4 A lease asset must be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset, except as provided in subparagraph 3.4.6.5. For example, if the useful life for the asset is five years but the lease term is 4 years, the amortization of the lease asset is 4 years. If the useful life of the asset is five years, but the lease term is 7 years, the amortization of the lease asset is 5 years. The amortization of the lease asset must be reported as amortization expense. Refer to Chapter 25 for more information on asset useful life.

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

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

3.4.6.7. Leased assets are subject to SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use. The presence of impairment indicators to the underlying asset may result in a change in the manner or duration of use of the lessee's rights to obtain and control access to economic benefits and services derived from the underlying asset and the application of SFFAS 44. The change in the manner or duration of use of the underlying asset is an indicator that the lease asset may be impaired. If impaired, the lease asset must be reduced first for any change in the lease liability resulting from remeasurement under subparagraph 3.4.5., or terminations or modifications under paragraph 3.9. Any remaining amount must be recognized as an impairment loss. SFFAS 44 provides criteria for testing for impairment, along with recognizing, reporting, and disclosing impairment losses. This guidance must be applied to lease assets to the extent that impairment losses exceed any reduction to the lease liability and lease asset that may stem from the impairment.

3.4.7. Lease Term. The lessee’s lease term includes the noncancelable period and the following periods, if applicable:

3.4.7.1. Those periods specified in the lease contract or agreement that relate to a lessee’s option to extend the lease if it is probable, based on all relevant factors, that the lessee will exercise that option; and

3.4.7.2. Those periods specified in the lease contract or agreement that follow a lessee’s option to terminate the lease (up until the point in time when there is another option or, if none, the end of the lease) if it is probable, based on all relevant factors, that the lessee will not exercise that option.

3.4.8. Disclosure Requirements for Lessees

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

3.4.8.1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease liability are determined;

3.4.8.2. The total amount of lease assets and the related accumulated amortization, are to be disclosed separately from PP&E assets;

3.4.8.3. The amount of lease expense recognized for the reporting period for variable lease payments not previously included in the lease liability;

3.4.8.4. Principal and interest requirements to the end of the lease term, presented separately, for the lease liability for each of the five subsequent years and in five-year increments thereafter; and

3.4.8.5. The amount of the annual lease expense and the discount rate used to calculate the lease liability.

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

3.5.1. At the commencement of the lease term, a DoD Component as the lessor must recognize a lease receivable and unearned revenue, for leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases. Any initial direct lease costs incurred by the lessor must be reported as an expense of the period.

3.5.2. Lease Receivable. A lessor initially must measure the lease receivable at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts. Measurement of the lease receivable must include the following types of payments that might be required by a lease:

3.5.2.1. Fixed payments;

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

3.5.2.3. Variable lease payments that are fixed in-substance;

3.5.2.4. Residual value guarantees that are fixed payments in-substance; and

3.5.2.5. Any lease incentives payable to the lessee.

3.5.3. Variable payments based on the future performance of the lessee or usage of the underlying asset must not be included in the measurement of the lease receivable. Rather, those payments must be recognized as revenue in the reporting period to which those payments relate. However, any portion of those variable payments that are fixed in-substance must be included in the lease receivable. For example, if a lease payment is based on a percentage of sales but has a required minimum payment, that required minimum is a fixed payment in-substance. Similarly, a residual value guarantee is an in-substance fixed payment if it stipulates the underlying asset will be sold at the end of the lease term, with the lessee assuming liability for any shortfall if the sales price is less than an agreed-upon minimum amount.

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

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

3.5.5.1. If the interest rate is based on marketable Treasury securities, it must be consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or the interest rate on marketable Treasury securities on the subsequent financial reporting date).

3.5.5.2. The interest rate may be based on a recent interest rate on marketable Treasury securities or a historical average interest rate on marketable Treasury securities of similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

3.5.5.3. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities must be consistent from period to period.

3.5.5.4. DoD Components must not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, they must select the longest Treasury maturity. For example, if the longest Treasury maturity at the commencement of the lease term is 30 years, DoD Components must select the 30-year rate as the discount rate for a lease with a 75-year term.

3.5.5.5. In subsequent financial reporting periods, the lessor must calculate the amortization of the discount on the receivable and report that amount as interest revenue for the period. Any payments received must be allocated first to the accrued interest receivable and then to the lease receivable.

3.5.6. Remeasurement of Lease Receivable. The lessor must remeasure the lease receivable at subsequent financial reporting dates if one or more of the changes in subparagraphs 3.5.6.1 through 3.5.6.3 have occurred at or before that financial reporting date, based on the most recent lease contract or agreement before the changes and the changes individually or in the aggregate, are expected to significantly affect the amount of the lease receivable since the previous measurement. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of paragraph 3.9 for lease modifications and terminations.

3.5.6.1. There is a change in the lease term;

3.5.6.2. There is a change in the interest rate the lessor charges the lessee;

3.5.6.3. A contingency, upon which some or all of the variable payments that will be received over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease receivable. For example, an event occurs that results in variable payments that are contingent on the performance or use of the underlying asset becoming fixed payments for the remainder of the lease term.

3.5.6.4. If a lease receivable is remeasured for any of the changes described in subparagraphs 3.5.6.1 through 3.5.6.3, the receivable also must be adjusted for any change in an index or rate used to determine variable lease payments if that change in the index or rate is expected to significantly affect the amount of the receivable since the previous measurement. A lease receivable is not required to be remeasured solely for a change in an index or rate used to determine variable lease payments.

3.5.6.5. The lessor also must update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease receivable: (1) there is a change in the lease term, or (2) there is a change in the interest rate the lessor charges the lessee.

3.5.7. Unearned Revenue.

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

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

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

3.5.9. Lease Term. The lessor's lease term includes:

3.5.9.1. Those periods specified in the lease contract or agreement that relate to a lessor's option to extend the lease if there is significant evidence, based on all relevant factors, that the lessor will exercise that option; and

3.5.9.2. Those periods specified in the lease contract or agreement that follow a lessor's option to terminate the lease (up until the point in time when there is another option or, if none, the end of the lease) if there is significant evidence, based on all relevant factors, that the lessor will not exercise that option.

3.5.9.3. Lease term options should be considered in chronological order - with the lessee options considered first. If a determination is made that an additional period will not be added to the lease term for an option based on the likelihood criteria listed in section 3.5.9, subsequent options will not be considered.

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

3.5.10.1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease receivable are determined;

3.5.10.2. The carrying amount of assets on lease by major classes of assets, and the amount of related accumulated depreciation;

3.5.10.3. The total amount of revenue (for example, lease revenue, interest revenue, and any other lease-related revenue) recognized in the reporting period from leases; and

3.5.10.4. The amount of revenue recognized in the reporting period for variable lease payments and other payments not previously included in the lease receivable, including revenue related to residual value guarantees and termination penalties.

3.5.10.5. If a DoD Component's principal ongoing operations consist of leasing assets through the use of non-intragovernmental leases, the DoD Component must disclose a schedule of future lease payments that are included in the lease receivable, showing principal and interest, for each of the five subsequent years and in five-year increments thereafter.

3.6 Lease Incentives and Lease Concessions

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

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

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

3.7 Contracts or Agreements With Multiple Elements

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

3.7.2. If a lessor or lessee enters into a contract or agreement that contains both a lease (such as the right to use a building) and non-lease elements (such as maintenance services for the building), the lease and non-lease elements must be accounted for as separate contracts or agreements unless the contract or agreement meets the exception in subparagraph 3.7.5.

3.7.3. If a lease involves multiple underlying assets and the assets have different lease terms, the lessor and lessee must account for each underlying asset as a separate lease element. The provisions of paragraph 3.7 must be applied unless the contract or agreement meets an exception in subparagraph 3.7.5.

3.7.4. To allocate the contract or agreement price to the different elements, lessors and lessees must first use any prices for individual elements that are included in the contract or agreement, as long as the price allocation does not appear to be unreasonable based on the terms of the contract or agreement and professional judgment, maximizing the use of observable information, for example, using readily available observable stand-alone prices. Stand-alone prices are those that would be paid or received if the same or similar assets were leased individually or if the same or similar non-lease elements (such as services) were contracted individually. Some contracts or agreements provide discounts for bundling multiple leases or lease and non-lease elements together in one contract or agreement. These discounts may be considered when determining whether individual element prices do not appear to be unreasonable. For example, if the individual element prices are each discounted by the same percentage from normal market prices, those element prices would not be considered unreasonable.

3.7.5. If a contract or agreement does not include prices for individual elements or if any of those prices appear to be unreasonable, lessors and lessees must use professional judgment to determine their best estimate for allocating the contract or agreement price to those elements, maximizing the use of observable information. If it is not practicable to determine the best estimate for price allocation for some or all elements in a contract or agreement, those elements must be accounted for as a single lease unit.

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

3.8 Contract or Agreement Combinations

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

3.8.2. If multiple contracts or agreements are determined to be part of the same lease contract or agreement, that contract or agreement must be evaluated in accordance with the guidance for contracts or agreements with multiple elements as described in paragraph 3.7.

3.9 Lease Terminations and Modifications

3.9.1. The provisions of a lease contract or agreement may be amended while the contract or agreement is in effect. Examples of amendments to lease contracts or agreements include changing the contract or agreement price, lengthening, or shortening the lease term, and adding or removing an underlying asset. An amendment must be considered a lease modification unless the lessee's right to use the underlying asset decreases, in which case the amendment must be considered a partial or full lease termination. By contrast, exercising an existing option, such as an option to extend or terminate the lease, is subject to the guidance for remeasurement.

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

3.9.2.1. Lessee Treatment of Lease Terminations. A lessee generally must account for the partial or full lease termination by reducing the carrying values of the lease asset and lease liability and recognizing a gain or loss for the difference. However, if the lease is terminated because of the lessee purchasing the underlying asset from the lessor, the lease asset must be reclassified to the appropriate class of owned asset.

3.9.2.2. Lessor Treatment of Lease Terminations. A lessor must account for the full or partial termination of a lease by reducing the carrying values of the lease receivable and related unearned revenue and recognizing a gain or loss for the difference. However, if the lease is terminated because of the lessee purchasing an underlying asset from the lessor, the carrying value of the underlying asset also must be derecognized and included in the calculation of any resulting gain or loss.

3.9.3. Lease Modifications. The lessee and lessor must account for an amendment during the reporting period resulting in a modification to a lease contract or agreement as a separate lease (that is, separate from the most recent lease contract or agreement before the modification) if both of the following conditions are present: (1) the lease modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease contract or agreement; and (2) the increase in lease payments for the additional lease asset does not appear to be unreasonable based on (a) the terms of the amended lease contract or agreement and (b) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).

3.9.3.1. Lessee Treatment of Lease Modifications. Unless a modification is reported as a separate lease, a lessee must account for a lease modification by remeasuring the lease liability. The lease asset must be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. However, if the change reduces the carrying value of the lease asset to zero, any remaining amount must be reported in the statement of net cost as a gain.

3.9.3.2. Lessor Treatment of Lease Modifications. Unless a modification is reported as a separate lease, a lessor must account for a lease modification by remeasuring the lease receivable. The unearned revenue must be adjusted by the difference between the remeasured receivable and the receivable immediately before the lease modification. However, to the extent the change relates to payments for the current period, the change must be recognized as revenue or expense for the current period.

3.10 Subleases

3.10.1. A sublease involves three parties: the original lessor, the original lessee (who also is the lessor in the sublease), and the new lessee. The original lessor must continue to apply the general lessor guidance. The DoD Component that is the original lessee and becomes the lessor in the sublease must account for the original lease and the sublease as two separate transactions, as a lessee and a lessor, respectively. Those two separate transactions must not be offset against one another. The new lessee must apply the general lessee guidance.

3.10.2. The original lessee (and now the lessor in a sublease) must include the sublease in its disclosure of the general description of lease arrangements. Its lessor transactions related to subleases must be disclosed separately from its lessee transactions related to the original lease.

3.11 Sale-Leaseback Transactions

3.11.1. Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback must include a transaction that qualifies as a sale to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a transaction that qualifies as a sale must be accounted for as a borrowing by both the seller-lessee and the buyer-lessor. Refer to SFFAS 7, "Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting," paragraph 295 (with the public) and paragraphs 314-315 (intragovernmental).

3.11.2. The sale and lease portions of a sale-leaseback transaction must be accounted for as two separate transactions: (1) a sale transaction; and (2) a lease transaction, except that the difference between the carrying value of the capital asset that was sold and the net proceeds from the sale must be reported as unearned revenue or deferred expense to be recognized in the statement of net cost systematically and rationally over the term of the lease. However, if the lease portion of the transaction qualifies as a short-term lease, any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale must be recognized immediately.

3.11.3. A sale-leaseback transaction is considered to have off-market terms if there is a significant difference between: (a) the sales price and the estimated fair value of the asset; or (b) the present value of the contractual lease payments and the estimated present value of what the lease payments for that asset would be at a market price, whichever of the two differences is more readily determinable. The difference must be reported based on the substance of the transaction (for example, as a borrowing, a non-exchange transaction, or an advance lease payment) rather than as a part of the sales-leaseback transaction.

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

3.12 Lease-Leaseback Transactions

In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. The leaseback may involve an additional asset (such as leasing a building that has been constructed by a developer on land owned by and leased back to a DoD Component) or only a portion of the original asset (such as leasing back only one floor of a building to the owner). A lease-leaseback transaction must be displayed in the financial statements as a net transaction. Both parties to a lease-leaseback transaction must disclose the amounts of the lease and the leaseback separately.

3.13 Capitalization Thresholds

A capitalization threshold is the amount that determines the financial reporting of an asset or expensing its cost. See Table 26-1 for capitalization thresholds. The applicable capitalization threshold for the underlying assets (PP&E) is applied to the lease assets. Refer to Chapters 4 and 25 for additional guidance on capitalization thresholds for real property and general equipment, respectively.

3.14 Intragovernmental Leasehold Reimbursable Work Agreements

3.14.1. Normally, for intragovernmental reimbursable leasehold work agreements, the customer-lessee is expected to be the predominant beneficiary of the acquisition, construction, improvement, and/or alteration to the underlying asset. The customer-lessee must recognize the leasehold improvement, which is a type of PP&E asset in accordance with subparagraphs 3.3.2.2 and paragraph 3.13.

3.14.2. The provider-lessor would not be expected to derive significant residual economic benefits or services from such reimbursable work under these types of agreements. The provider-lessor must expense the costs incurred for the reimbursable work and recognize the amounts received as reimbursement as intragovernmental revenue. The provider-lessor must account for the underlying asset other than the leasehold improvement (recognized by the customer-lessee in these types of agreements) in a manner consistent with subparagraph 3.5.8.

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

3.14.3.1. Customer-Lessee. The federal entity paying for the acquisition/ construction of, or improvements and/or alterations to, the underlying asset provided by the provider-lessor on a reimbursable basis.

3.14.3.1.1. Customer-lessees must initially recognize an intragovernmental reimbursable work asset for the amount payable for reimbursable work acquisition, construction, improvement, and/or alteration costs (in accordance with subparagraph 3.3.3.1).

3.14.3.1.2. Customer-lessees must amortize the intragovernmental reimbursable work asset systematically and rationally over the shorter of: (a) the remainder of the lease term; or (b) the useful life of the underlying asset acquired/constructed, or improvements/alterations thereto associated with the reimbursable work. The amortization of the intragovernmental reimbursable work asset must commence when the customer-lessee has access to economic benefits and services resulting from the reimbursable work and be reported as amortization expense.

3.14.3.1.3. Coordination with the provider-lessor on asset amount and subsequent amortization can facilitate the elimination of inter-entity balances and costs in a manner consistent with SFFAS 4 (i.e., paragraphs 108-113) when appropriate for purposes of recognizing the full cost of goods and services provided for inter-entity business-type activities, and the elimination of inter-entity balances and transactions.

3.14.3.1.4. Customer-lessees must disclose a general description of significant reimbursable work agreement activities. Such disclosures may be separate from or incorporated within the general description disclosures provided for under subparagraph 3.3.2.3.

3.14.3.2. Provider-lessor. The federal entity providing the acquisition/ construction of, or improvements and/or alterations to, the underlying asset to the customer-lessee on a reimbursable basis.

3.14.3.2.1. Provider-lessors must initially recognize an intragovernmental unearned reimbursable work revenue liability for the amount receivable for reimbursable work acquisitions, construction, improvements, and/or alterations (in accordance with subparagraph 3.3.3.1).

3.14.3.2.2. Provider-lessors must recognize the intragovernmental reimbursable work revenue systematically and rationally over the shorter of (a) the remainder of the lease term or (b) the useful life of the underlying asset acquired/constructed, or improvements/alterations thereto associated with the reimbursable work. Revenue recognition must commence when the provider-lessor provides access to the economic benefits and services resulting from the reimbursable work.

3.14.1.3.3. Coordination with the customer-lessee on revenue recognition can facilitate the elimination of inter-entity balances and earned revenues (in accordance with subparagraph 3.3.3.1).

3.14.1.3.4. Provider-lessors must disclose a general description of significant reimbursable work agreement activities. Such disclosures may be separate from or incorporated within the general description disclosures provided for under subparagraph 3.5.10.

4.0 ADDITIONAL CONSIDERATIONS

*4.1 Standard General Ledger Accounts

The U.S. Standard General Ledger (USSGL) accounts used to report DoD lease entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the Deputy Chief Financial Officer Standard Financial Information Structure (***SFIS***) web page.

4.2 Recognition Uncertainty

4.2.1. In situations where doubt exists as to which DoD Component must record an item, the DoD Components involved must reach an agreement with the other applicable DoD Component(s) or federal agencies as to which entity will record the item.

4.2.2. If the DoD Components cannot reach an agreement, the matter must be referred to the Office of the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) for resolution. Requests for resolution must be accompanied by adequate supporting documentation to assist in the resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense Agency.

4.2.3. The DoD Component that procures an item of PP&E by entering a lease will be the DoD Component that must initially record the lease transaction. In the event a DoD Component other than the initial lessee uses and benefits from a lease asset, the recognition responsibility of the lease asset must be re-evaluated.

4.3 Bulk Acquisitions Through Leases

Other than short-term contracts or agreements that transfer ownership, and intragovernmental leases, a bulk acquisition is defined as the acquisition of like items, of which their individual value does not meet the capitalization threshold, as part of multiple leases with a single lessor within a fiscal year. Acquisitions through multiple leases with a single lessor during separate fiscal years are to be considered separately within each fiscal year. To determine proper recognition of bulk acquisitions through leases, the acquisition cost of all like items leased, under multiple leases with a single lessor within a fiscal year must be totaled, and the resulting total must be considered against the lease criteria for capitalization and the capitalization threshold prescribed by paragraph 3.13. Refer to Volume 4 Chapter 25 for additional guidance regarding Bulk Acquisitions.

4.4 Accounting for Real Property Leases Outside of the United States and Managed by the Department of State.

As used in this chapter, the term "outside of the United States" means other than the 50 States of the United States, the District of Columbia, and the commonwealths, territories, and possessions of the United States. For real property leases that are managed by the Department of the State, the Department of State's Bureau of the Comptroller and Global Financial Services (CGFS) will provide relevant lease data to any agencies who occupy real property overseas and will allocate the residential housing pool lease balances (i.e., liability, corresponding right to use asset, and amortization) across the participating agencies. The applicable DoD Component with the assigned leases, will have to record the applicable allocation/portion in their book and records. The housing pool allocation will be based on each federal agency's share of the estimated expenses for the next fiscal year and will be applied across the entire housing pool's net present value calculation. For further information or assistance contact CGFS at ***sffas54leases-cgfs@state.gov***.

4.5 Use of Canceled Treasury Account Symbol

4.5.1. The Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) is a data collection system that replaces the reporting functionalities of Federal Agencies Centralized Trial Balance System I and II, Intra-governmental Fiduciary Confirmation System, and Intra-governmental Reporting and Analysis System, as the primary means for DoD Components to report their trial balance data to Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been canceled. If a capitalized asset has not been moved to a canceled ("C") TAS as described in subparagraph 4.5.2; GTAS will provide a "C" TAS on the GTAS Super Master Use of Canceled Treasury Account Symbol Account File (SMAF) for each fund family represented on the SMAF. The system-generated "C" TAS will have three elements: the three-digit agency identifier, availability type "C", and a four-digit main account.

4.5.2. All DoD Components must use the "C" availability type TAS to report capitalized assets. Assets may be moved to a "C" TAS at any time from the purchase date to the date the original purchasing fund is canceled. (Refer to the ***TFM Volume 1, Part 2, Chapter 4700*** for additional information.)

4.5.3. To transfer an asset to a "C" TAS

4.5.3.1. Use USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

4.5.3.2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate "C" TAS

*4.6 Supporting Documentation

4.6.1. Entries to record financial transactions must be supported by source documents reflecting all transactions affecting the DoD Component's investment in assets under a lease.

4.6.2. All leases must be supported as of the date the DoD Component takes custody of the asset. The documents listed in Table 26-2 must be readily available to support the changes in lease asset value or physical attributes because of a new lease, leasehold improvements, impairments, modifications, and terminations:

4.6.3. Lease documents must be retained by the DoD Component in accordance with the Volume 1, Chapter 9 requirements or as otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) must be maintained in a readily available location during the applicable retention period. The documentation must also be linked to the appropriate unique identifier(s).

4.6.4. Include sufficient lease information indicating the physical quantity, location, and unit cost of the PP&E underlying assets. The accountable property records must support procurement and utilization decisions, including identifying potential excess PP&E for reuse, transfer to other DoD Components, or disposal.

4.6.5. Documentation must enable periodic, independent verification of the accounting and accountable property records through periodic physical counts/inventories of PP&E underlying assets (existence and completeness – "book to floor and floor to book"). Reconcile the Accountable Property System of Record (APSR) and accounting systems with the USSGL accounts and physical counts. Personal hand receipt self-validations are not acceptable. See DoDI 5000.64 (excluding real property) and DoDI 4165.14 for real property.

4.6.6. Identify and classify PP&E that was capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

4.6.7. Use the same documents for the accounting and accountable property records. Property accountability records must be integrated and reconciled with the accounting system.

4.6.8. Include all PP&E possessed by the Department (to include DoD leased property held by contractors).

4.6.9. Identify and account for all leased PP&E.

4.6.10. Identify and account for improvements to PP&E lease assets.

4.7 Physical Inventories of PP&E

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

4.8 Reporting Requirements

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

4.9 Environmental Liabilities/Cleanup Costs

The lease agreement must clearly identify the party responsible for environmental liabilities/cleanup costs. The accounting policy for environmental liabilities/cleanup costs on PP&E is contained in Chapter 13.

*Table 26-1 Capitalization Thresholds

Entity	Capitalization Threshold
Army Real Property	$1,000,000
Air Force Real Property	$1,000,000
Air Force General Fund General Equipment	$1,000,000
Navy Real Property	$1,000,000
Navy General Fund General Equipment	$1,000,000
Marine Corps Real Property	$500,000
Army Corps of Engineers Buildings and Structures Related to Hydropower	Capitalized regardless of cost
Army Corps of Engineers General PP&E Other than Buildings and Structures Related to Hydropower	$25,000
DoD Intelligence Community Entities (All PP&E)	$1,000,000
All Other DoD Component General Funds and Working Capital Funds' PP&E	$250,000

Table 26-2 Supporting Documentation

Evidence	Examples
Unique Identification	Assignment of a unique identifier
Project Approval	Work Order or similar document
Obligation on Behalf of the Government	1. For leases or lease modifications: • Statement of Work; • Dollar Amount of Lease; • Location; • Source of Funds; • Parties to the Lease agreement; and • Signature Page [Signature of All Parties]. 2. Approved Work Order 3. Evidence supporting asset impairment.
Payment Submitted	Approved last invoice reflecting the total amount submitted for payment to date.
Acceptance	1. DoD ***(DD) Form 250***, Material Inspection and Receiving Report; 2. ***General Services Administration Form 1334***, Request for Transfer of Excess Real and Related Personal Property; 3. ***DD Form 1354***, Transfer and Acceptance of DoD Real Property (interim or final), with associated source documentation retained by the responsible party; 4. Signed lease for leased property; 5. Executed Occupancy agreement; and 6. Transfer letter and documents for transferred assets.

*VOLUME 4, CHAPTER 27: "INTERNAL USE SOFTWARE"

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***.

This is the initial publication.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Various	This chapter contains updated policy for internal use software (IUS) based upon IUS policy contained in Volume 4, Chapter 6, dated June 2009. As a result, the existing policy in Volume 4, Chapter 6 related to IUS is no longer applicable.	Revision
Various	The Federal Accounting Standards Advisory Board issued a new accounting standard for leases with an effective date for reporting periods beginning after September 30, 2020. Policy has yet to be fully developed to implement this new standard, which may result in changes to the capital lease criteria. Until the new standard becomes effective, the policy guidance in this chapter must be followed.	Revision
Policy Memo	The Deputy Chief Financial Officer policy memorandum, "Strategy for Internal Use Software Audit Readiness," dated September 30, 2015 has been incorporated into the chapter as applicable and is cancelled.	Cancellation
1.3 (270103)	Added "Authoritative Guidance" paragraph.	Addition
2.1 (270201)	Added a definition for software and additional guidance for distinguishing internal use software from integrated software.	Addition
2.2 (270202)	Added relevant United States Standard General Ledger accounts and their descriptions.	Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
2.3 (270203)	Updated guidance for capitalized costs of internally developed software; treatment of software development costs; software developed by one activity and used by others without reimbursement; software development phases; and documentation. Added guidance for different software development methods; cross-functional Internal Use Software (IUS) reviews; determining accounting treatment of different software development activities; and capitalizable cost.	Revision/ Addition
2.4 (270204)	Updated guidance for recognition responsibility, including recognition timing of contractor acquired property and progress payments. Updated capitalization threshold amounts and capitalization guidance. Revised recognition guidance for bulk purchases of software. Added guidance for IUS developed through a joint venture; for software licenses; cloud and other subscription based services, shared services; and guidance on accountable records of IUS.	Revision/ Addition
2.5 (270205)	Added guidance addressing IUS enhancements.	Addition
2.6 (270206)	Updated guidance for maintenance and repair of IUS.	Revision
2.7 (270207)	Added guidance addressing amortization of IUS.	Addition
2.8 (270208)	Added guidance addressing impairment of IUS.	Addition
2.9 (270209)	Updated guidance addressing the removal/disposal of IUS.	Revision
3.1 (270301)	Added guidance on the use of the “Canceled” Treasury Account Symbol.	Addition
3.3 (270303)	Added guidance for reporting requirements.	Addition
Figure 27-2	Added a capitalization decision tree for IUS.	Addition
Annex 1	Added an annex containing common terms used by information technology and software programming professionals, with corresponding examples, that are relevant to IUS.	Addition
Annex 2	Added guidance for use as an alternative methodology for establishing opening balances for IUS.	Addition

Table of Contents

*CHAPTER 27

INTERNAL USE SOFTWARE

1.0 GENERAL (2701)

1.1 Overview (270101)

1.1.1. This chapter prescribes Department of Defense (DoD) accounting policy for Internal Use Software (IUS), which is a subset of General Property, Plant, and Equipment (PP&E). This overview paragraph will define and describe the characteristics of General PP&E.

1.1.2. General PP&E items are used in providing goods or services, or support the mission of the entity, and typically have one or more of the following characteristics:

1.1.2.1. The item could be used for alternative purposes (e.g., by other DoD or Federal Programs, state or local governments, or nongovernmental entities), but it is used to produce goods or services, or to support the mission of the entity;

1.1.2.2. The item is used in business-type activities; and/or

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

1.2 Purpose (270102)

The applicable general ledger accounts are listed in the government-wide United States Standard General Ledger (USSGL) contained in Volume 1, Chapter 7. The accounting entries for these accounts and the DoD Standard Chart of Accounts are specified in the ***DoD USSGL Standard Transaction Library***. Unless otherwise stated, this chapter is applicable to all DoD Components, including Working Capital Fund (WCF) activities.

*1.3 Authoritative Guidance (270103)

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

1.3.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts ***(SFFAC) 5***, "Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements;"

1.3.2. FASAB ***SFFAC 7***, "Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording;"

1.3.3. FASAB Statement of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities;"

1.3.4. FASAB ***SFFAS 4,*** "Managerial Cost Accounting Standards and Concepts;"

1.3.5. FASAB ***SFFAS 10***, "Accounting for Internal Use Software;"

1.3.6. FASAB ***SFFAS 50***, "Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, and SFFAS 23, and Rescinding SFFAS 35;"

1.3.7. FASAB Technical Release ***(TR) 13***, "Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment;"

1.3.8. FASAB ***TR 14***, "Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment;"

1.3.9. FASAB ***TR 15***, "Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation;"

1.3.10. FASAB ***TR 16***, "Implementation Guidance for Internal Use Software;"

1.3.11. FASAB ***TR 17***, "Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment;"

1.3.12. FASAB ***TR 18***, "Implementation Guidance for Establishing Opening Balances;"

1.3.13. Office of Management and Budget ***Circular No. A-136***, "Financial Reporting Requirements;"

1.3.14. DoD Instruction ***(DoDI) 5000.76***; "Accountability and Management of Internal Use Software (IUS);" and

1.3.15. T***reasury Financial Manual (TFM) Volume1, Part 2, Chapter 4700*** "Agency Reporting Requirements for the Financial Report of the United States Government."

2.0 ACCOUNTING FOR IUS (2702)

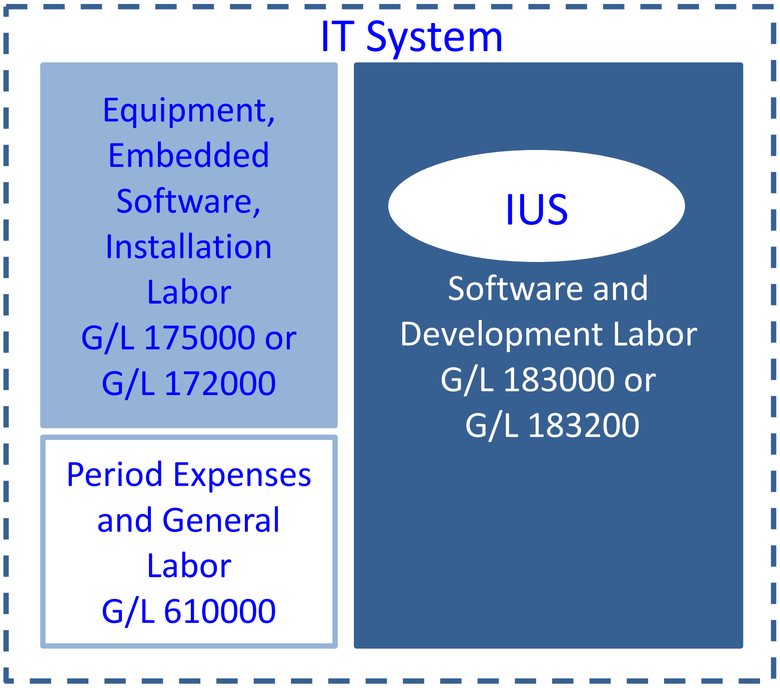
*2.1 Definition (270201)

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

2.1.1.1. Is acquired or developed to meet the entity's internal or operational needs (*intended purpose*); and

2.1.1.2. Is a stand-alone application, or the combined software components of an information technology (IT) system that can consist of multiple applications, modules, or other software components integrated and used to fulfill the entity's internal or operational needs (*software type*).

Figure 27-1. IUS is Generally One Component of an IT System



2.1.2. IUS can be:

2.1.2.1. Purchased from commercial off-the-shelf (COTS) vendors and be ready for use with little or no changes;

2.1.2.2. Internally developed by employees of DoD, including new software and existing or purchased software that is modified with or without a contractor's assistance; or

2.1.2.3. Contractor-developed software that a DoD Component paid a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software.

2.1.3. IUS includes software that is:

2.1.3.1. Used to operate an entity's programs (e.g., financial and administrative software, including that used for project management);

2.1.3.2. Used to produce the entity's goods and to provide services (e.g., maintenance work order management and loan servicing); and

2.1.3.3. Developed or obtained for internal use and subsequently provided to other Federal Entities with or without reimbursement.

2.1.4. Integrated (embedded) software is not IUS.

2.1.4.1. IUS does not include computer software that is integrated into and necessary to operate General PP&E, rather than perform an application. Such software must be considered part of the PP&E of which it is an integral part, and capitalized and amortized accordingly (e.g., software embedded in airport radar, computer-operated lathes, military equipment/weapon systems and special test equipment). The aggregate cost of the hardware and software must be used to determine whether to capitalize or expense the costs. In situations where software and the hardware on which it runs have independent service lives, the determination of the useful life of the software must be viewed independently of the useful life of the hardware. The determination must be made on a case-by-case basis. The rationale for this determination must be documented.

2.1.4.2. Software used in conjunction with the operation of equipment, which is not the same as the integrated or embedded software, can be considered IUS if all of the following criteria apply:

2.1.4.2.1. The software was developed separately from the equipment;

2.1.4.2.2. The software is not required for the equipment to perform its core purpose and functions; and

2.1.4.2.3. The quantity of equipment items on which the software will be installed is unknown.

2.1.5. DoD entities may purchase IUS as part of a package of products and services (e.g., training, maintenance, data conversions, reengineering, site licenses and rights to future upgrades and enhancements). If the costs are not readily separable between the IUS and the services on the invoice, contract or other procurement documents, costs should be allocated based on the relative fair values of the IUS and the services. The cost of the IUS should be capitalized (assuming it meets the capitalization criteria) and the cost of the training/maintenance should be expensed. Non-IUS costs (e.g., training and maintenance services) that are not susceptible to allocation between maintenance and relatively minor enhancements must be expensed.

2.1.6. Materiality, as defined by the SFFAS 1, is the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

2.1.7. Additional definitions can be found in Annex 1.

*2.2 Relevant USSGL Accounts (270202)

2.2.1. Fund Balance with Treasury (Account 101000). This account is used to record the aggregate amount of funds on deposit with the United States Department of the Treasury, excluding seized cash deposited.

2.2.2. Internal Use Software (Account 183000). This account is used to record the amount of capitalized cost of IUS for those costs that are to be capitalized in accordance with Table 27-1. It includes (1) purchased COTS software, (2) contractor-developed software, and (3) internally developed software.

2.2.3. Internal Use Software in Development (Account 183200). This account is used to record the full cost amount incurred for those costs that are to be capitalized in accordance with Table 27-1 during the software development phase of (1) contractor-developed software and (2) internally developed software, (as defined in SFFAS 10). Upon completion, these costs will be transferred to USSGL account 183000, Internal Use Software. There is no Generally Accepted Accounting Principles (GAAP) requirement to establish a separate account for each software under development. However, DoD Components may elect to create separate subaccounts to better differentiate and track costs.

2.2.4. Accumulated Amortization on Internal Use Software (Account 183900). This account is used to record the accumulated amount of amortization charges to expense for IUS.

2.2.5. General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed (Account 199500). The General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed account is used to record the value of General PP&E assets that have been permanently removed from service. Upon permanent removal from service, IUS assets must be recorded at their expected net realizable value (NRV) and must cease to be amortized. See paragraph 270209 for guidance on reporting IUS assets that have been permanently removed from service.

2.2.6. Gains on Disposition of Assets – Other (Account 711000). This account is used to record the gain on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

2.2.7. Losses on Disposition of Assets – Other (Account 721000). This account is used to record the loss on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

*2.3 Acquisition/Valuation (270203)

2.3.1. Recorded Cost. When acquiring IUS, the acquisition cost and other costs necessary to bring the software to an operable condition must be recognized in accordance with paragraph 270204.

2.3.1.1. COTS Software. The capitalized cost of COTS software must be the actual purchase price, plus any costs incurred to place the software in service or otherwise make the software ready for use.

2.3.1.2. Contractor-Developed Software. The capitalized cost of contractor-developed software must include the amount paid to the contractor to design, program, install, and implement new software or to modify existing or COTS software, plus any costs incurred to implement or otherwise make the software ready for use.

2.3.1.3. Internally Developed Software. The capitalized costs of internally developed software must include the full cost (direct and indirect costs, as described in subparagraphs 270203.A.4.a, 270203.A.4.b and 270203.A.4.c) incurred after:

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

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

2.3.1.4. Table 27-1. This table provides a matrix of the software project phases and their related processes. The treatment of costs must be applied based on the nature of the costs incurred, not the exact sequence of the work. Full cost includes the costs of new software (e.g., salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies and overhead) and technical documentation. The development of technical documentation and manuals must be capitalized, but the costs of mass-producing manuals should be expensed in the period incurred. The various types of costs incurred during the software project phases include:

2.3.1.4.1. Direct Labor Costs. Direct labor costs are typically the labor costs of project teams (e.g., programmers, engineers, managers) incurred during the Design/Development and Testing/Implementation Phase and are capitalized as part of the costs of the software project. Project managers and/or program managers must track direct labor cost and allocate to individual software projects. The allocation methodology must be consistent between projects and must be auditable.

2.3.1.4.2. Indirect Labor Costs. Indirect labor costs are typically the labor costs associated with the Program Management Office (PMO) personnel responsible for overseeing more than one software project. In many instances, PMO indirect labor costs are immaterial when compared with the overall costs of a software project, and if determined to be immaterial, can be expensed. Decisions regarding the materiality of indirect labor costs, when such costs are expensed, must be justified, documented, and must be able to stand up to audit scrutiny. If indirect labor costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs must be allocated based on a distribution methodology that is consistently applied, documented and auditable.

2.3.1.4.3. Overhead Costs. Overhead costs are those costs associated with utilities, building maintenance, and supplies that are essential to the overall accomplishment of a software project. In many instances, overhead costs are immaterial when compared with the overall costs of a software project and if determined to be immaterial, the DoD Components should expense these costs. Decisions regarding the materiality of overhead costs when such costs are to be expensed must be justified, documented, and must be able to stand up to audit scrutiny. If overhead costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs must be allocated based on a distribution methodology that is consistently applied, documented and auditable.

2.3.1.4.4. Contractor Costs. Contractor costs must be evaluated to determine whether the costs are to be expensed or capitalized. Such determination is based on the type of work performed by the contractors. Table 27-1 provides a breakdown of the various work activities and whether the cost of such activities must be expensed or capitalized.

2.3.1.4.5. Data Conversion Costs. All data conversion costs incurred for internally developed, contractor developed, or COTS software must be expensed as incurred, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data, and the creation of new or additional data.

2.3.2. Software Development Phases Determine Recorded Cost (Internally Developed Software). Software's life-cycle phases include planning, development, and operations. This subparagraph provides a framework for identifying software development phases and processes to help isolate the capitalization period for IUS that the DoD entity is developing. The three phases of software development described in subparagraph follow a linear software development method. Generally, costs incurred during the development phase are to be capitalized and costs incurred in other phases are to be expensed. However, software development under other methods does not follow this linear approach and capitalization decisions absent distinct phases are more difficult. Regardless of timing, the cost incurred for development phase activities must be capitalized or expensed based on their substance/task activity rather than their phase. The three phases of software development are:

2.3.2.1. Conceptual Planning/Planning and Requirements Phase. In this phase, the DoD Components will most likely do the following:

2.3.2.1.1. Make strategic decisions to allocate resources between alternative projects at a given time. For example, should programmers develop new software or direct their efforts toward correcting problems in existing software?

2.3.2.1.2. Determine performance requirements (i.e., what it is that they need to do)?

2.3.2.1.3. Invite vendors to perform demonstrations of how their software will fulfill a DoD Component's needs.

2.3.2.1.4. Explore alternative means of achieving specified performance requirements. For example, should a DoD Component make or buy the software? Should the software run on a mainframe or client server system?

2.3.2.1.5. Determine that the technology needed to achieve performance requirements exists.

2.3.2.1.6. Select a vendor if a DoD Component chooses to obtain COTS software.

2.3.2.1.7. Select a consultant to assist in the software's development or installation.

2.3.2.2. Software Design/Development and Testing/Implementation Phase. In this phase, the DoD Components will likely to do the following:

2.3.2.2.1. Use a system to manage the project;

2.3.2.2.2. Track and accumulate life-cycle cost and compare it with performance indicators;

2.3.2.2.3. Determine the reasons for any deviations from the performance plan and take corrective actions;

2.3.2.2.4. Test the deliverable to verify that they meet the specifications.

2.3.2.3. Operations and Maintenance/Disposition Phase. In this phase, the DoD Components will likely to do the following:

2.3.2.3.1. Operate the software, undertake preventative maintenance, and provide ongoing training for users;

2.3.2.3.2. Convert data from the old to the new system;

2.3.2.3.3. Undertake post-implementation review comparing asset usage with the original plan; and/or

2.3.2.3.4. Track and accumulate life-cycle cost and compare it with the original plan.

Table 27-1. Capital versus Expense IUS Activities
(Adapted from SFFAS 10, paragraph 11)

Project Phase	Task	Treatment
Conceptual Planning/ Planning & Requirements	Project Evaluation	Expense
	Concept testing	Expense
	Evaluation of alternatives	Expense
	Project approval	Expense
Design/ Development & Testing/ Implementation	Design	Capitalize
	Coding	Capitalize
	Installation to Hardware	Capitalize
	Project personnel costs	Capitalize
	Technical Acceptance Testing	Capitalize
	Quality assurance testing	Capitalize
	Documentation	Capitalize
	Overhead costs	Allocate
	Data conversion software	Expense
Operations & Maintenance/ Disposition	Training	Expense
	Data conversion	Expense
	Help desk	Expense
	Enhancement	See "IUS Enhancements" paragraph 270205.
	Maintenance/Bug Fix	Expense
PROGRAM MANAGEMENT The costs of program management and the PMO that may be incurred during each phase of software development or acquisition are indirect costs. PMO indirect costs should be expensed or capitalized, depending on: 1) their materiality to overall costs of individual software development projects, and 2) in which phase the costs are incurred.		

2.3.3. Software Development Methods. Software development methods are ever evolving, with new methods and techniques being introduced over time. Included in the following subparagraphs are several descriptive examples of common software development methods.

2.3.3.1. Linear/Waterfall Software Development Method. The linear/waterfall software development method is a sequential design process, used in software development in which progress is seen as flowing steadily downwards (like a waterfall) through the software development phases. The linear/waterfall software development method follows the phases outlined in Table 27-1 in sequence, whereas the other software development methods as described in subparagraphs 270203.C.2 through 270203.C.4 can move between phases during the life of the development. Regardless of the development method (e.g., waterfall, prototyping, agile, or spiral), the capitalization decisions follow the tasks identified.

2.3.3.2. Prototyping Software Development Method. The prototyping software development method is a system development method in which a prototype (an early approximation of a final system or product) is built, tested, and then reworked as necessary until an acceptable prototype is finally achieved from which the complete system or product can be developed. This model works best in scenarios where not all of the project requirements are known in detail ahead of time. An iterative, trial-and-error process takes place between the developers and the users.

2.3.3.3. Agile Software Development Method. The agile software development method is a group of software development methods in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams.

2.3.3.3.1. In an agile project, working software is deployed in iterations of typically one to eight weeks in duration, each of which provides a segment of functionality. Initial planning regarding cost, scope, and timing is usually conducted at a high level, and the project status is primarily evaluated based on software demonstrations.

2.3.3.3.2. The IUS development phases listed in subparagraph 270203.B could be applied to agile development projects on an iteration basis. If an iteration developed meets the module or component asset description in accordance with subparagraph 270203.F.3 and the capitalization cut-off period described in subparagraph 270203.F.6, then it could be treated as an individual IUS project. If the numbers of iterations are dependent on the outcomes of multiple processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with paragraph 270205.

2.3.3.4. Spiral Software Development Method. The spiral software development method combines the features of the waterfall and prototyping incremental models, but with more emphasis placed on risk analysis and management.

2.3.3.4.1. The spiral methodology projects are typically separated into phases like the waterfall method: planning, risk analysis, engineering, and evaluation. However, they are broken up into incremental releases of the product, or incremental refinement through each time around the spiral and through continuously analyzing the requirements and improving the definition and implementation. At each iteration around the cycle, the project is improved and extended.

2.3.3.4.2. The IUS development phases listed in subparagraph 270203.B could be applied to a spiral development project on a process iteration basis. If an iteration developed meets the module or component asset description in accordance with subparagraph 270203.F.3 and the capitalization cut-off period described in subparagraph 270203.F.6, then it could be treated as an individual IUS project. If the number of iterations are dependent on the outcomes of multiple spiral processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with paragraph 270205.

2.3.4. Cross-Functional IUS Reviews. Software development can be complex and accounting decisions often require a measure of judgment and expertise found throughout an organization. Examples of these decisions can include identifying assets that meet the IUS definition, determining the point at which an IUS project is more likely than not to be completed, whether an enhancement should be capitalized, and determining the useful life. DoD Components will ensure that key stakeholders from the IUS program, acquisition, and accounting organizations have adequate visibility into the major milestones throughout the acquisition process to make these decisions. This could take the form of an IUS acquisition review board, consisting of knowledgeable stakeholders who assess pending and active IUS projects to make such decisions. It could also include leveraging portfolio management processes already in place at some DoD Components. Stakeholders will meet periodically and with enough frequency to make timely decisions concerning the IUS and the decisions will be documented. Additional cross-functional decisions and deadlines for making them are found in Table 27-2. This review activity can also serve as a key control.

Table 27-2. Cross-Functional Review Decisions and Timeline

Decision	**Decision Timeline**
Identify potential IUS	During the budget process and not later than end of planning phase
Determine that it is more likely than not that the IUS project will be completed	Prior to the completion of the planning phase
Assign a useful life	Prior to the end of final technical acceptance testing
Confirm that cost has been correctly accumulated and assigned to the asset	Prior to the end of final technical acceptance testing
Confirm that indirect costs have been appropriately allocated	Prior to the end of final technical acceptance testing
Assign an in-service date	Upon completion of final technical acceptance testing
Determine if licenses meet capital lease criteria	Upon license agreement execution
Decision	**Decision Timeline**
Identify potential capital enhancements	During the budget process and not later than end of planning phase
Management Oversight Decisions • Impairment • Evaluation of suspended projects o More likely than not that the project will be completed o More likely than not that the project will be cancelled	On-going

2.3.5. Capital Versus Expense IUS Activities. Many IUS programs and contracts include a variety of activities that are conducted by government and/or contractor personnel throughout the software development life cycle. Some costs associated with these activities should be capitalized as part of the cost of the IUS and some costs should be expensed. Regardless of the software development method (e.g., waterfall, prototyping, agile, or spiral), the capitalization decisions follow the activity. When reviewing contracts and budget documentation, care must be taken to distinguish between activities that are to be capitalized and those that are to be expensed. Refer to Table 27-1 for additional details on capital versus expense for IUS activities.

2.3.6. Capitalizable Cost

2.3.6.1. DoD Components must capitalize the cost of software when such software meets the criteria for General PP&E (see subparagraph 270204.E).

2.3.6.2. Costs related to capitalized activities identified in Table 27-1 must be accumulated in account 183200 (Internal Use Software in Development), but are not amortized until the software is placed-in-service. Costs should begin accumulating in this account if the IUS is anticipated to meet capital criteria and the criteria listed in subparagraph 270203.A.3 have been met.

2.3.6.3. Accumulated costs must be transferred to account 183000 (Internal Use Software) when the IUS is placed-in-service (see placed-in-service dates in subparagraph 270207.C). Many larger and more complex software systems, such as Enterprise Resource Planning systems, are developed and placed-in-service over time. For each module or component of a software project, costs must be moved from account 183200 (Internal Use Software in Development) to account 183000 (Internal Use Software), and amortization must begin when a module or component has been successfully tested. If the use of a module is dependent on the completion of another module(s), the movement from 183200 to 183000 will take place and amortization will begin when both that module and the other module(s) have successfully completed testing. For example, a DoD Component may develop an accounting software system containing three modules: a general ledger, an accounts payable sub-ledger, and an accounts receivable sub-ledger. In this example, each module could be analyzed to determine whether it could be treated as a separate IUS asset. Specifically, if the module provides economic benefit through distinct, substantive functionality, and meets the tests for capitalization threshold, ownership, and eligibility for capital treatment, then the module could be treated as a separate IUS asset.

2.3.6.4. Capitalized IUS costs must have sufficient supporting documentation as discussed in paragraph 270302, including support for costs incurred in the development of the IUS. Documentation in the form of narratives, software architectural documentation, user manuals and other similar documents supporting the functionality of the components/modules of a software system must be available to substantiate whether the IUS should be treated as separate IUS assets.

2.3.6.5. The full cost (direct and indirect cost as described in subparagraphs 270203.A.4.a through 270203.A.4.d) incurred during the software development phase must be capitalized. Considering economic feasibility, a cost estimation technique could be developed to trace the costs to outputs based on the SFFAS 4, paragraph 124, provision that “[in] principle, costs should be assigned to outputs in one of the methods listed in the order of preference:

2.3.6.5.1. Directly tracing costs wherever economically feasible;

2.3.6.5.2. Assigning costs on a cause-and-effect basis; and

2.3.6.5.3. Allocating costs on a reasonable and consistent basis.

2.3.6.6. Costs incurred after final technical acceptance testing has been successfully completed must be expensed (see Table 27-1). Technical acceptance testing is testing undertaken to verify if a software product meets technical specifications. Technical acceptance testing costs are capitalizable costs. Operational testing and evaluation and other functional testing conducted after technical acceptance must be expensed. Similarly, if the software consists of multiple individual components or modules, the capitalization phase must end for each component/module after technical acceptance testing is complete for that component/module. In some development practices, each iteration within an IUS development has its own acceptance testing before moving forward to the next iteration and final acceptance testing may not always be performed. The entity should identify a pre-determined agency milestone such as the go-live or in-service date, which is equivalent to a final technical acceptance test for capitalization cut-off purposes.

2.3.6.7. For COTS software, capitalized costs must include the amount paid to the vendor for the software. For contractor-developed software, capitalized costs must include the amount paid to a contractor to design, program, install, and implement the software. Material internal costs incurred by the Federal Entity to implement the COTS or contractor-developed software and otherwise to make it ready for use must be capitalized.

2.3.7. Documentation

2.3.7.1. When recording the acquisition of IUS in the Accountability Property System of Record (APSR) and/or accounting system, the software must be assigned a dollar value (i.e., recorded cost) as detailed in this chapter. Appropriate documentation must be available to support the dollar value. Paragraph 270302 includes a complete discussion of supporting documentation related to IUS.

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

*2.4 Recognition (270204)

DoD Components must recognize all acquired IUS for accountability and financial reporting purposes. Recognition requires the proper accounting treatment (expense or capitalization with amortization) and the reporting of capitalized amounts and accumulated amortization on the appropriate DoD Component's financial statements. For financial reporting purposes, all IUS that has a useful life of two years or more and meets the capitalization criteria described in subparagraph 270204.E must be capitalized. IUS that does not meet the capitalization threshold must be expensed.

2.4.1. Recognition Responsibility

2.4.1.1. The DoD Component's financial reporting responsibility can be determined using a two tier criteria:

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

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

2.4.1.2. DoD Components that possess and/or control IUS items that materially contribute to the Component's mission must maintain accounting and financial reporting for such items, regardless of the organization that originally acquired or provided the funding for the items. If a DoD Component prepares financial statements, such IUS items must be appropriately recognized in its financial statements.

2.4.2. Recognition Uncertainty

2.4.2.1. It is important that the overall accounting records of the DoD and the Federal Government are not duplicative. In situations where doubt exists as to which DoD Component should recognize an item, DoD Components involved must reach agreement with the other applicable DoD Components or Federal agencies as to which entity will recognize the item. The process used to reach this agreement and the terms of the agreement must be documented in a memorandum of agreement and be considered supporting documentation.

2.4.2.2. If an agreement cannot be reached, the matter must be referred to the Office of the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) for resolution. Requests for resolution must be accompanied by adequate supporting documentation to assist in resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense Agency.

2.4.3. Recognition Timing

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

2.4.3.2. IUS in development must be recorded in the Internal Use Software in Development account (USSGL 183200) during the design, development and testing, and implementation phases. After technical acceptance testing is completed, an IUS asset will be recognized, capital costs will be transferred to the Internal Use Software account (USSGL 183000), and accountability must be established in the APSR.

2.4.3.3. For IUS assets acquired by a contractor on behalf of a DoD Component (i.e., the DoD Component that will ultimately hold title/license to the assets), the software must be recognized upon completion of the technical acceptance testing by the contractor performing the service, or by the DoD Component. Contract financing payments (e.g., progress payments, performance-based payments, and commercial interim payments) made to a contractor prior to completion of final technical acceptance testing must be recorded in a Software in Development account until the IUS is placed-in-service. Upon completion of technical acceptance testing, the Contractor Acquired Property (CAP) must be capitalized in the appropriate USSGL account. See subparagraph 270203.F for guidance on the use of the Software in Development account.

2.4.4. Capitalization Thresholds

2.4.4.1. The current IUS capitalization threshold for all DoD Components is $250,000, except for the Office of the Director of National Intelligence, for which the capitalization threshold is $1 million.

2.4.4.2. IUS with a cost that equals or exceeds the appropriate capitalization threshold must be capitalized according to subparagraph 270204.E as an asset in the appropriate DoD Component's accounting records and amortized over its useful life. IUS items with a cost below the appropriate capitalization threshold must be expensed; with the exception of IUS items acquired as part of a qualifying bulk purchase (see subparagraph 270204.G).

2.4.4.3. The capitalization threshold described in subparagraph 270204.D.1 is for financial reporting purposes. The requirement for accountability of IUS is discussed in subparagraph 270204.K.

2.4.5. Capitalization Criteria

2.4.5.1. IUS is recognized and capitalized if it meets the following criteria for General PP&E:

2.4.5.1.1. Useful life of two years or more;

2.4.5.1.2. Intended for use or being available for use by the entity;

2.4.5.1.3. Not intended for sale in the normal course of business; and

2.4.5.1.4. Total cost is greater than DoD Component's capitalization threshold (as described in subparagraph 270204.D).

2.4.5.2. As development work accumulates, the costs must be entered into an Internal Use Software In Development account (183200). When the IUS passes final technical acceptance testing, the accumulated costs must be removed from the "In Development" account and transferred to the Internal Use Software account (183000). Accounting entries for this account are specified in the DoD USSGL Transaction Library.

2.4.6. Joint Ventures

If IUS is developed through a joint venture between two or more entities, including at least one entity outside of the DoD, the DoD Component must capitalize the IUS asset if it meets the criteria for capitalization, based on its portion of the development cost in relation to the capitalization threshold. The DoD Component will only record the portion it funded which will be capitalized if it meets the criteria for capitalization.

2.4.7. Bulk Purchases of Software Applications/Programs

2.4.7.1. Bulk purchases must be considered if they may materially affect the fiscal year financial statements during which they were purchased. 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. To ensure that the statements are not materially affected, new bulk purchases of software with an aggregate cost that exceeds the capitalization threshold must be capitalized.

2.4.7.2. An exception to this requirement includes license agreements that do not meet the criteria established for capital leases in subparagraph 270204.H. Costs related to such purchases must be expensed in the period incurred.

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

2.4.7.4. Bulk purchases of licensed IUS with terms less than two years in length do not need to be considered for capitalization. Table 27-3 provides capitalization guidelines for bulk purchase licenses.

Table 27-3. Capitalization is Dependent on Term and Aggregate Purchase Amount

Bulk Purchased License Terms	Aggregate Purchase Amount	Guidance
License Term < 2 years	N/A	Expense
License Term = / > 2 years or Perpetual	Under capitalization threshold	Expense
License Term = / > 2 years or Perpetual	Equal to or exceeding capitalization threshold*	Capitalize
*Maintenance agreements included in the purchase of licenses are not to be considered part of the cost for this determination.		

2.4.8. Software Licenses

2.4.8.1. Software licenses are defined as licenses for which the license holder is only entitled to use the software for a specified time period, after which the right to use the software expires and the license must be renewed or a new license purchased in order to continue using the software. License agreements to use software come in many forms and vary in length of the license period. Software licenses can be term or perpetual.

2.4.8.1.1. Term licenses provide the right to use the software for a specified period of time. The determination of whether term licensed IUS will be capitalized or not must be based on lease accounting concepts in which the criteria in Table 27-3 are applied.

2.4.8.1.2. Perpetual software licenses give the DoD Component the right to use the software in perpetuity in exchange for an upfront cost, which could be charged as a one-time payment or financed over a set period of time. If the license is perpetual, then the entity is purchasing the IUS and must apply the capitalization criteria to determine if the license must be capitalized or expensed.

2.4.8.2. If one of the following criteria applies, the IUS can be expensed and the lease criteria analysis does not need to be conducted:

2.4.8.2.1. The license term is less than two years;

2.4.8.2.2. The license cost (excluding any maintenance agreements) is less than the capitalization threshold; or

2.4.8.2.3. The aggregate cost of a bulk license purchase (excluding any maintenance agreements) is less than the capitalization threshold. See subparagraph 270204.G for guidance related to bulk purchases of software.

2.4.8.3. If none of the criteria listed in subparagraph 270204.H.2 is applicable, the capital lease criteria described in Table 27-4 must be applied. If any one or more of the criteria listed in Table 27-4 apply, the IUS must be recorded as a capital lease.

Table 27-4. Capital Lease Criteria as Applied to Licenses

Criteria	Comment
The license transfers ownership of the property to the licensee by the end of the license term.	For IUS, this would mean that the license transfers ownership of the intellectual property (e.g., source code) to the licensee by the end of the license term.
The license contains an option to purchase the software at a bargain price.	For IUS, this would mean that the license contains an option to purchase the software intellectual property (e.g., source code) at a bargain price.
The present value of minimum license payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the software.*	It is very unusual for software to meet this criteria. The value of the software itself typically far outweighs a license to use a copy of it.
The license term is equal to or greater than 75 percent of the estimated economic life of the software.*	Some licenses may meet this criteria. Economic life is defined as the estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term. For example, a perpetual license will always be equal or greater than 75 percent of the estimated economic life. A license term of 5 years for software that has an economic life of 10 years would not meet this criteria.
* The last two criteria are not applicable when the beginning of the license term falls within the last 25 percent of the total estimated economic life of the software.	

2.4.8.4. A license agreement may include executory costs for maintenance and technical support. DoD Component judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. Assuming lease capitalization criteria and thresholds are met, software license capitalization amounts may be derived from the payment schedule contained in the license agreement. As stated in SFFAS 5, if the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated. DoD Components may also want to consider having each license agreement specifically identify the various costs throughout the license life cycle, for example, initial license, maintenance, and enhancement.

2.4.8.5. Additional guidance regarding accounting for license agreements includes:

2.4.8.5.1. Maintenance costs agreed to as part of the initial license agreement are to be expensed in the period they are incurred;

2.4.8.5.2. "True-up" costs associated with unlimited license agreements or enterprise licenses that may occur (depending on the agreement terms) at the end of each year to reconcile and account for the actual quantity of users will also be expensed; and

2.4.8.5.3. Software upgrades that are included in annual maintenance and security assurance agreements should be expensed, not be capitalized as enhancements or separate assets.

2.4.8.6. License agreements that do not meet the criteria established for capital leases set out in Table 27-4 must be expensed by the DoD Component in the period incurred.

2.4.9. Cloud and Other Subscription Based Services

2.4.9.1. A cloud computing service is any resource that is provided over the Internet. It has the following essential characteristics: on-demand self-service, broad network access, resource pooling, rapid elasticity, and measured service. The most common cloud service resources are: software as a service, platform as a service, and infrastructure as a service. Cloud services can take a number of forms. To determine whether the arrangement includes capitalized IUS, the DoD Component will need to examine the nature of the arrangement and apply the capitalization criteria.

2.4.9.2. When a DoD Component pays regular subscription fees to access and use software that is funded, maintained, and owned by a non-DoD entity, the subscription costs are to be expensed in the period incurred. This scenario is a service and does not constitute an IUS asset for the DoD Component.

2.4.9.3. A subscription arrangement using a cloud with a non-DoD entity can result in DoD-owned IUS if the using DoD Component takes possession, or has the ability to take possession of a software application without incurring a significant penalty. DoD Components must capitalize this IUS if it meets the capitalization criteria as described in subparagraphs 270204.D and 270204.E.

2.4.9.4. When a cloud or subscription arrangement exists between DoD Components, the Component that owns the software (see subparagraph 270204.A) will report it as IUS. The subscribing DoD Component(s) will expense any fees paid for the service in the period incurred.

2.4.9.5. If a cloud computing arrangement includes a software license, the customer must account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with the lease criteria discussed in subparagraph 270204.H. SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license. The entity that develops and owns the software, platform or infrastructure used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform or infrastructure must account for the software in accordance with SFFAS 10 and the full cost/inter-entity cost requirements of SFFAS 4.

2.4.10. Shared Services

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

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

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

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

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

2.4.10.3. For intra-agency shared services, a cost allocation methodology could be developed in accordance with SFFAS 4, paragraphs 120-125. Additional guidance on cost allocation methodology can be found in the Volume 4, Chapter 19. For inter-agency shared services and commercial shared services, the service provider entity that owns (receives funding/responsible for maintaining) the software must account for the software in accordance with SFFAS 10. In the event that the entity receiving the service (the customer) has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software, then the customer must account for the software in accordance with SFFAS 10.

2.4.10.4. If the shared service arrangement includes a software license, the DoD Component must account for the software license element of the arrangement consistent with the acquisition of their other software licenses, as discussed in subparagraph 270204.H. SFFAS 10 is not applicable to a shared service arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license.

2.4.11. Accountable Records of IUS

DoD Components must establish accountable records for all government IUS purchased or otherwise obtained. IUS which meets the criteria for capitalization must be accounted for in an APSR. IUS which does not meet the criteria for capitalization must be accounted for in either an APSR or approved managerial system. Managerial systems must contain all general data elements that would be contained in a data compliant APSR. In addition, managerial systems must have documented controls and procedures in place that are sufficient to withstand potential audit scrutiny and support the audit requirement of a complete universe of assets. The primary Accountable Property Officer or designated delegate should grant managerial system approval. See DoDI 5000.76.

*2.5 IUS Enhancements (270205)

2.5.1. An IUS enhancement is a modification to existing IUS that provides it with significant additional capabilities and enables the software to perform tasks that it was previously incapable of performing. DoD Components must capitalize an enhancement that increases the capability of the IUS when its cost meets or exceeds the capitalization threshold. Criteria to capitalize enhancements to IUS differs from that of other PP&E in that changes that merely extend the useful life or improve efficiency are to be expensed, irrespective of the cost. (Even though the costs associated with the extension of useful life are expensed, the amortization of any previously capitalized amount must be extended to reflect that new useful life period.) Capitalizable enhancements normally require new software specifications and may require a change to all or part of the existing software specifications. For example, DoD Components should capitalize the cost of modifying existing software for making ad hoc queries, if it required new software specifications and/or changes to existing software specifications and it also exceeds the capitalization threshold. In addition, the DoD Components should expense the nominal charges paid for enhanced versions of software in the period incurred.

2.5.2. If one module is dependent upon another to function, then those modules must be evaluated together as one enhancement. Components must amortize all costs of an enhancement that have been capitalized based on the IUS capitalization criteria, including any costs carried over or allocated from the original software, over the enhancements estimated useful life, which should not exceed five years.

2.5.3. DoD Components must begin accumulating costs for enhancements when it is determined that it is more likely than not that the enhancement will result in new capabilities; and the project phase in which the costs are being incurred and the nature of the cost meets the criteria for capitalization treatment set out in Table 27-1; and the estimated total cost of the enhancement meets the IUS capitalization threshold. When the development of the enhancement takes place over multiple periods, the costs will accumulate in account 183200 (Internal Use Software in Development) until the completion of the enhancement (see subparagraph 270207.C on placed-in-service dates), at which time the costs are moved to account 183000 (Internal Use Software).

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

2.5.5. An enhancement to IUS that meets or exceeds the capitalization threshold to correct a design flaw, and in effect doubles its useful life, must be expensed in the period incurred, unless the enhancement adds new capabilities to the software. However, the useful life of the IUS is subject to adjustment and must reflect the enhancement. Knowledgeable personnel must determine and document the additional useful life, which should not exceed five years added to the existing useful life.

2.5.6. The cost of minor enhancements resulting from ongoing systems maintenance or incurred solely to repair a design flaw without adding additional capabilities must be expensed in the period incurred. Examples of minor enhancements include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Enhancements that extend the useful life of the software without adding significant capabilities are to be considered minor enhancements and expensed. However, in instances where the useful life of the software is extended, the amortization period must be adjusted as described in subparagraph 270205.E.

2.5.7. A specific software development project may include expenditures for enhancements and maintenance that cannot be easily separated but may be reasonably and consistently allocated. One approach that can be used is a ratio based on the projected work hours for development phase activities relative to other types of work. Such a ratio can be applied to determine the expenditures that should be capitalized when the expenses meet the other capitalization criteria. The basis for allocating costs must be applied consistently and in accordance with GAAP.

2.5.8. Documentation related to IUS enhancement decisions, such as the justification for capitalizing the enhancement, a change of useful life, and the amount capitalized must be retained. Specific documents that support these decisions can vary by organization and asset, but could include an analysis from software developers or a cross-functional review team that defines the enhancement's impact on functionality and useful life.

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

2.5.10. When a single IUS goes under more than one enhancement and the enhancements are part of one overall effort to increase the software's functionality, and/or useful life; the sum of the costs of the enhancements must be capitalized, if the summed costs equal or exceed the appropriate DoD capitalization threshold. This is required even when the enhancements are funded separately. The enhancements must be capitalized when the determination has been made that it is more likely than not that the enhancements will result in new significant capabilities.

*2.6 Maintenance and Repair (270206)

2.6.1. Maintenance and repair costs are not considered capital enhancements, regardless of whether the cost equals or exceeds DoD capitalization threshold. Maintenance and repairs are activities directed toward keeping IUS asset in an acceptable condition so that it continues to provide services and achieves its expected useful life. Maintenance and repair activities include subsequent security accreditations (not included in user acceptance testing); software diagnostics; repair processing and/or performance failures; updates to documentation; minor software updates; minor corrections to design flaws; and other activities needed to preserve or maintain the software. Maintenance and repairs, as distinguished from enhancements, exclude activities directed towards expanding the capacity of IUS or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

2.6.2. The costs of maintenance agreements purchased with a software license are not included in the historical cost of IUS when determining whether to capitalize the IUS. If maintenance costs are not distinguishable from the cost of the license itself, reasonable and documented estimating methods must be used. Upgrades that are included in annual maintenance and security assurance agreements will not be capitalized as enhancements or separate assets.

*2.7 Amortization (270207)

2.7.1. Amortization is the systematic and rational allocation of the acquisition cost of IUS, over its estimated useful life. The DoD recovery periods (useful life) for IUS amortizable assets are set out in Table 27-5. The useful life must be determined during the planning phase of the software development, based on the length of time it is expected to have economic benefit or service potential to the DoD Component. The decision on the useful life must be documented and made with input from personnel familiar with the software's technical characteristics and planned use. Software acquired for research and development with no alternative future use will be amortized over the period of the project as opposed to the normal life-cycle amortization.

2.7.2. The recorded cost of IUS and enhancements to IUS, which have been capitalized according to the guidance in Table 27-1, must be amortized. Such capitalized amounts, as well as associated amounts of accumulated amortization and amortization expense, must be reflected in DoD Component's financial statements.

2.7.3. DoD Components must document the placed-in-service dates for both acquired IUS and developed IUS. Documented placed-in-service dates are critical in determining when to start amortization of capitalized IUS costs. IUS is considered placed-in-service when final technical acceptance testing is completed. The point at which this milestone is reached can vary for different types of software acquisitions.

2.7.3.1. For IUS acquired through a Major Automated Information System acquisition program, the Full Deployment Decision date made by the Milestone Decision Authority will serve as the placed-in-service date.

2.7.3.2. For other IUS system acquisitions, the Initial Operational Capability (IOC) date will be used as the placed-in-service date. System's Capability Development Document (CDD) and/or Capability Production Document (CPD) often define the IOC. DoD Components can use other supporting documents for acquisitions that do not require a CDD or CPD.

2.7.3.3. If knowledgeable parties within a DoD Component determine that a placed-in-service date other than the ones listed in subparagraphs 270207.C.1 and C.2 better align to the completion of final technical acceptance testing for a specific software acquisition, the alternate placed-in-service date can be used. However, the DoD Components must document and justify the decision.

2.7.4. Before beginning amortization, the IUS must have successfully completed final acceptance testing. This criteria is necessary, especially for internally developed software but also for contractor-developed and COTS software because testing plays a major role for software assets by demonstrating that the software product can meet the requirements and of the need for a clear point for ending the developmental phase.

2.7.5. When IUS is replaced with new software, the unamortized cost of the old software must be expensed when the new software successfully completes testing. No adjustments will be made to the previously recorded amortization. Any additions to the book value or changes in useful life must be treated prospectively. The change should be accounted for during the period of the change and future periods.

2.7.6. All IUS must be accounted for in an APSR. Figure 27-2 provides a decision tree to assist in determining what elements of an IUS project should be capitalized for financial reporting purposes.

2.7.7. Proper supporting documentation must be retained by the program office to justify the estimated useful life of the program. Examples of proper documentation are engineering estimates, operational requirements documents, mission needs statements, commercial industry-equivalent information, contracts, and acquisition documents (such as the Select Acquisition Report). See paragraph 270302 for additional information on supporting documentation requirements.

2.7.8. In the case of IUS assets, after the successful completion of the final technical acceptance testing described in subparagraph 270270.D, the event that triggers the calculation of amortization is the date the asset is installed and placed-in-service (regardless of whether it is actually used). In the case of internally developed IUS, the costs of developing the IUS that are capitalizable should be recorded in the Internal Use Software in Development account (183200) but are not amortized until the software is placed-in-service, at which time the balance (total capitalizable development costs) should be transferred to the Internal Use Software account (183000). Amortization should begin when a module or component has been successfully tested. If the use of a module is dependent on the completion of another module(s), the movement from account 183200 to account 183000 will take place and amortization will begin when both that module and the other module(s) have successfully completed testing and are placed-in-service.

2.7.9. DoD policy permits the use of only the straight-line method of amortization. Straight-line amortization expense is calculated based on the recorded cost divided equally among accounting periods during the software's useful life based on recovery periods in Table 27-5. The salvage value for all capitalized IUS for the DoD Components should be zero.

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

2.7.11. WCF activities are required to recognize and amortize IUS assets in accordance with the guidance in this chapter without regard to whether such assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether amortization for such assets is included in rates charged to customers. The recognition of IUS assets and the amortization of such assets by WCF activities therefore may be different for financial statement reporting purposes than the amortization amounts used for WCF rate development and budget presentation. All IUS asset amortization of WCF activities must be recognized as an expense on the Statement of Net Cost, reflected in the Statement of Changes in Net Position, included in accumulated amortization amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report [Accounting Report (Monthly) 1307] (AR(M)1307)." Accounting Report 1307 is described in Volume 6a Chapter 15. Amortization recorded on IUS assets that was not acquired nor will be replaced through use of Defense WCF resources must be classified as non-recoverable for rate setting purposes and reported appropriately on the AR(M)1307. Defense WCF rates charged to customers are based on guidance in Volume 2B and Volume 11B.

Table 27-5. DoD Recovery Periods for Amortizable IUS Assets

DOD RECOVERY PERIODS FOR AMORTIZABLE IUS ASSETS (IUS is capitalized only if it meets the capitalization threshold)	
Description of IUS Assets	Recovery Period
Capitalized IUS	2, 3, 4, 5 or 10 Years*
Licenses	Term of the license agreement
Perpetual Licenses	5 Years
IUS Upgrades	Not capitalized**
Enhancements	Not more than 5 years***

* The useful life will be determined during the planning phase of the asset's development based on the length of time it is expected to have economic benefit or service potential to the DoD Component.

** The amortization period of an IUS must be adjusted (not extending more than 5 years) if minor upgrades resulting from ongoing systems maintenance or repair of a design flaw extend the useful life of the software without adding additional capabilities. The cost of the upgrades should be expensed in the period incurred. Also note the upgrades that do add additional capabilities would be considered enhancements and would be capitalized and amortized if they meet the capitalization criteria in subparagraph 270204.E.

***See paragraph 270205 on the criteria for capitalizing versus expensing of IUS enhancements.

*2.8 Impairment (270208)

2.8.1. Impairment must be recognized and measured when one of the following occurs and is related to post-implementation/operational software:

2.8.1.1. The software is no longer expected to provide substantive service potential and will be removed from service; or

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

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

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

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

2.8.3. The loss must be recognized upon impairment, and the book value of the asset reduced accordingly. If neither criteria listed in subparagraph 270208.B can be determined, the DoD Component should continue to amortize the book value over the remaining useful life of the software. However, this decision and associated analyses must be documented and retained.

2.8.4. If the impaired software is to be removed from use, the loss due to impairment must be measured as the difference between the book value and the NRV, if any. The loss must be recognized upon impairment, and the book value of the asset reduced accordingly. The NRV, if any, must be transferred to an appropriate asset account until the software is disposed of and the amount is realized.

2.8.5. When it is more likely than not that a developmental software project will not be completed, no further costs are to be capitalized and any costs that have been capitalized must be expensed. Indications that the software development may no longer be completed include:

2.8.5.1. The expenditures are neither budgeted nor incurred to fund further development;

2.8.5.2. The discontinuance of the business segment for which the software was designed;

2.8.5.3. The inability to resolve programming difficulties timely;

2.8.5.4. A decision to obtain COTS software instead and abandon the current software development; or

2.8.5.5. Major cost overruns occur.

2.8.6. When a developmental software project is suspended pending management's evaluation as to whether to resume or terminate the project, the software development cost may remain capitalized in an Internal Use Software in Development account (USSGL 183200) as long as it is more likely than not that the developmental software project will eventually be completed and the cost incurred or expected to be incurred meets the capitalization threshold. The status of the project must be reevaluated periodically and the capitalized cost must be written off if management concludes that it is more likely than not that the software will not be placed-in-service in the future.

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

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

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

*2.9 Removal/Disposal (270209)

2.9.1. In TR 14, FASAB defines removal from service as an event that terminates the use of a General PP&E asset. Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to mission needs. Removal from service must be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoD Component's decision to permanently remove the asset from service. If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

2.9.2. If an IUS's normal use is terminated (i.e., it no longer provides service in the operations of the entity) but the DoD Component has not yet decided to permanently remove the IUS from service, the removal from service is considered other than permanent. Other than permanent removal from service is evidenced by activities such as continuing low-level maintenance to sustain the IUS in a recoverable status or until reutilization efforts are exhausted. For example, IUS taken out of service on a temporary basis is considered other than permanently removed from service. In such cases, the recorded cost of the IUS will remain in the Internal Use Software account (USSGL 183000). There is no change in the reported value for IUS that have been other than permanently removed from service and the IUS must continue to be amortized. Amortization charges to expense for IUS will continue to be recorded in USSGL 183900.

2.9.3. If (1) an IUS's use is terminated and (2) the DoD Component has documented its decision to permanently remove the IUS from service, the removal from service must be accounted for as permanent. Permanent removal from service is evident from the DoD Component's documented decision to dispose of an IUS by selling, recycling, or donating the IUS. The recorded cost as well as the accumulated amortization of an IUS permanently removed from service must be removed from the accounts in which they are reported, and the IUS must be recorded at its NRV in a General Property, Plant and Equipment Permanently Removed But not Yet Disposed account (USSGL 199500). USSGL account 199500 is defined in the DoD Standard Reporting ***Chart of Accounts*** under the DoD Account Definitions tab as the NRV of General PP&E that is permanently removed from service but not yet disposed and is reclassified in accordance with FASAB TR 14, paragraphs 10 and 12. NRV is the estimated amount that can be recovered from disposing of the asset less estimated costs of completion, holding, and disposal. Any difference between the net book value of the asset and its expected NRV must be recognized as a gain or loss. Any gain should be recorded in the Gains on Disposition of Assets – Other account

(USSGL 711000); any loss should be recorded in the Losses on Disposition of Assets – Other account (USSGL 721000). The expected NRV should be evaluated at the end of each fiscal year and any change in NRV should be recognized as a gain or loss. IUS permanently removed from service is no longer amortized.

2.9.4. When an IUS is disposed of (e.g., by selling, recycling, donating, or destruction) the IUS must be written off from the financial records and financial statements and the difference between any disposal proceeds and the IUS's net book value must be recognized as a gain or loss as described in subparagraph 270209.C. In such case, if the DoD Component receives a consideration (e.g., cash) for the disposal, a receipt of cash should be recorded in the Fund Balance with Treasury account (USSGL 101000). If the funds (consideration received) are not apportioned to the DoD Component, the fund must be transferred to miscellaneous receipts of the Treasury. There will be no consideration received for a donation. The disposal start date is the calendar date of a legally enforceable and recognizable obligation to complete the disposal action. For transfers and sales, this represents the date on which the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident.

3.0 ADDITIONAL CONSIDERATIONS (2703)

*3.1 Use of Canceled Treasury Account Symbol (270301)

3.1.1. The Department of Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) is a data collection system that replaces the reporting functionalities of Federal Agencies Centralized Trial-Balance System I and II, Intragovernmental Fiduciary Confirmation System and Intragovernmental Reporting and Analysis System as the primary means for DoD Components to report their trial balance data to the Department of Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been canceled. If a capitalized asset has not been moved to a "C" TAS as described in 270301.B. GTAS will provide a "C" TAS on the GTAS Super Master Account File (SMAF) for each fund family represented on the SMAF. The system generated "C" TAS will have three components: the three-digit agency identifier, availability type "C", and a four-digit main account.

3.1.2. All DoD Components must use the "C" availability type TAS to report capitalized assets. Assets may be moved to a C TAS at any time from the purchase date to the date the original purchasing fund cancels. (Refer to the ***TFM, Part 2, Chapter 4700*** for additional information.)

3.1.3. To transfer an asset to a C TAS:

3.1.3.1. Use USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

3.1.3.2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate C TAS.

3.2 Supporting Documentation (270302)

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

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

3.2.1.1. All acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date the DoD Component takes custody of the IUS. The documents listed in Table 27-6, where applicable, must be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital enhancement.

Table 27-6. Supporting Documentation for IUS Acquisition

Evidence	Examples
Unique Identification	Assignment of unique identifier
Project Approval	Such as, but not limited to, a Work Order
Obligation on Behalf of the Government	Such as, but not limited to: 1. For contracts, contract modifications, or change orders: • Statement of Work; • Dollar Amount of Contract; • Location; • Source of Funds; • Parties to the Contract; and • Signature Page [Signature of All Parties]. 2. Documentation of labor hours; 3. Approved Work Order.
Payment Submitted	Such as, but not limited to: 1. Approved last invoice reflecting the total amount submitted for payment and received to date; 2. Evidence of in-house development costs, including labor; 3. Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital enhancement.
Acceptance	Such as, but not limited to: 1. DoD ***(DD) Form 250***, Material Inspection and Receiving Report; 2. Executed acquisition document and appraisal results for the donated IUS; 3. Signed agreement for software licenses; 4. A signoff document confirming key development milestones such as technical acceptance tests are met; 5. Documents to support the amount that has been expensed versus capitalized during the software development phase. 6. Executed reversionary document; and 7. Transfer letter and documents for transferred assets.

3.2.1.2. All disposals or retirements must be supported as of the date the IUS leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of an asset. The execution of certain disposal events will generate financial or administrative accountability transactions. These documents, where applicable, must be readily available to support disposals:

3.2.1.2.1. 'Declaration of excess' document;

3.2.1.2.2. Approval documentation for the disposal;

3.2.1.2.3. Original acquisition documents;

3.2.1.2.4. Legal instruments (such as a license agreement or contract) to indicate legal obligation to dispose of an asset;

3.2.1.2.5. Document showing the disposal start date;

3.2.1.2.6. Receipt documentation; and

3.2.1.2.7. Transfer documents for transferred assets or as otherwise stated.

3.2.1.3. Documents that support the recorded cost of IUS assets must be retained by the DoD Component in accordance with the requirements contained in Volume 1, Chapter 9 or as otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) must be maintained in a readily available location during the applicable retention period to permit the validation of information pertaining to the asset such as the purchase cost, purchase date, and cost of enhancements. The documentation must also be linked to the appropriate unique identifier(s). Supporting documentation may include, but is not limited to, the documentation as outlined in this subparagraph. DoD Component asset managers will maintain all applicable documentation for the retention period outlined in Volume 1, Chapter 9.

3.2.2. Include sufficient information indicating the quantity (as applicable would include the number of seats for which the IUS asset is loaded; the number of licenses; and/or the number of copies of a computer disk purchased), location and unit cost (as measured consistently with the criteria for quantification) of the IUS. The accountable property records must be designed to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess IUS that may be available for reuse, transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements.

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

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

3.2.5. Include documents used to accumulate the cost of developmental projects. Each document must link to the appropriate asset unique identifier. For a listing of those costs that may be incurred during the development, see Table 27-1.

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

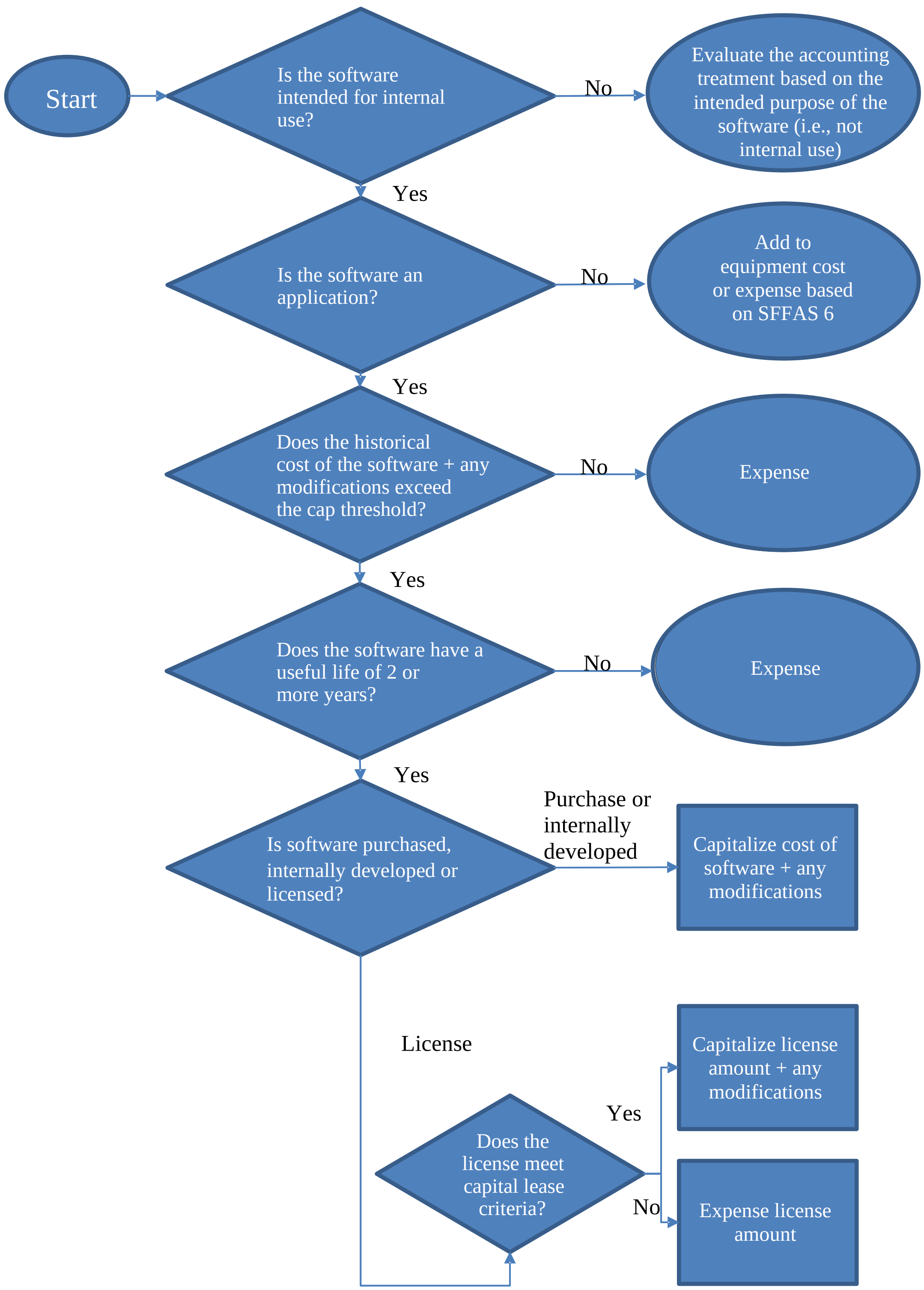
3.2.7. Provide information to identify and account for licenses, regardless of whether the license meets the capital lease criteria or whether the value of the licenses exceeds DoD capitalization thresholds.

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

*3.3 Reporting Requirements (270303)

DoD Components with IUS should reference a note on the Balance Sheet that discloses information about the reported IUS assets. See Volume 6B, Chapter 10 for the specific reporting requirements.

*Figure 27-2. Capitalization Decision Tree for IUS Purchased from Commercial Off-the-Shelf Vendors; IUS Internally Developed by DoD and IUS Developed by a Third Party on Behalf of DoD



*Annex 1. Definitions and Examples

The following table contains common terms as they are generally defined by information technology and software programming professionals. It also includes scenarios relevant to IUS.

Definition	Classified as IUS?	Capitalization	DoD Examples*
Access Control Software			
This type of software, which is external to the operating system, provides a means of specifying who has access to a system and the specific capabilities authorized users are granted.	No	Include with equipment costs	CA-ACF2, RACF
Application Software			
A software program that performs a specific function directly for a user and can be executed without access to system control, monitoring, or administrative privileges.	Yes	Yes - When capitalization criteria is met	Microsoft Excel, Adobe Photoshop
Cloud – Public			
A cloud based environment that is generally external to the Department with infrastructure owned and managed by a third party. Public cloud services are generally subscription based.	No	No	Dropbox
Cloud – Private			
A cloud based environment that is generally internal to the Department and used solely by DoD Components.	Yes	Yes – When the capitalization criteria is met, the DoD Component that controls the IUS has financial reporting responsibility	DISA milCloud
Database Management System (DBMS)			
Computer software applications that interact with the user, other applications, and the database itself to capture and analyze data.	Yes	Yes - When capitalization criteria is met	Oracle Enterprise Manager

*** Date**

Definition	Classified as IUS?	Capitalization	DoD Examples*
Enterprise Resource Planning System			
Commercial software that integrates business information flowing through the Component. ERP systems contain functional modules (e.g., financial, accounting, human resources, supply chain, and customer information) that are integrated within the core system or interfaced to external systems.	Yes – portions of ERP systems are IUS (excluding any hardware acquired as part of the system)	Yes – portions of ERP systems are capitalized	Navy ERP, GFEBS, LMP, DAI
Firmware			
A program recorded in permanent or semi-permanent computer memory.	No – may be capitalized as part of equipment	May be capitalized a part of equipment	Radar system software, lathe
Freeware / Open Source Software (OSS)			
Software that is offered at no cost.	No	No	Internet browser
Hardware			
The physical components of IT, including the computers, peripheral devices such as printers, disks, and scanners, and cables, switches, and other IT equipment.	No	May be capitalized as general equipment depending on applicable capitalization criteria being met	Router, Server, Modem, Switch
License – Annual			
A software license that must be renewed annually to continue using the software.	Yes	No - an annual license does not meet the useful life criteria of 2 years for capitalization	Microsoft Lync, VMWARE vSphere
License – Enterprise			
A license that allows use of the software throughout an organization or for a specified number of users.	Yes	Only if it meets capitalization threshold and capital lease criteria	Microsoft Office, Oracle
License – Perpetual			
A software license that gives the Department the right to use the software in perpetuity.	Yes	Only if it meets capitalization threshold	SAP Chrystal Reports

*** Date**

Definition	Classified as IUS?	Capitalization	DoD Examples*
Middleware			
Computer software that provides services to software applications beyond those available from the operating system.	Yes	Yes - If the system it is part of meets capital criteria	Linux Kernel
Portal			
Web-based application that provides personalization, single sign-on, and content aggregation from different sources, and hosts the presentation layer of information systems.	Yes	Yes – When capitalization criteria is met	Audit Response Center (ARC) Tool
Simulation Software			
Based on the process of modeling a real or proposed system with a set of mathematical formulas that allows the user to observe an operation before performing it.	Yes	Yes – When capitalization criteria is met	F-35 Lightning II Training Software
Operating System			
The software that controls the execution of other computer programs, schedules tasks, allocates storage, manages the interface to peripheral hardware, and presents a default interface to the user when no application program is running.	No	Include in equipment costs	Windows, Linux
System / IT System			
The term “system” by itself is not limited to any specific resource. A system may be any two resources that work together to produce a specific outcome. Internal use software may or may not be one component of an overall “system”.	Yes – software components of a system or IT system are IUS	Yes - When capitalization criteria is met	Navy ERP, GFEBS, DAI, CAMIS, MC4
Utility Program			
System software designed to perform a particular function or system maintenance.	No	Include in equipment costs	CD burner, Disk defragmenter, virus scan
Web Application			
An application that is accessed via the web over a network.	Yes (assuming it is owned by a DoD Component)	Yes - When capitalization criteria is met	Outlook Webmail

*DoD examples provided may or may not be capitalized

*Annex 2. Alternative Valuation Methodology for Establishing Opening Balances for Internal Use Software

1.0 Establishing Opening Balances for Internal Use Software (A20101)

1.1 The alternative valuation method for establishing opening balances for Internal Use Software (IUS) described in Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 50, "Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35" is available only once to each reporting entity. Therefore, prior to the establishment of IUS opening balances, DoD Components must validate that they are prepared to account for and comply with the recognition, measurement, presentation and disclosure requirements for IUS in accordance with FASAB SFFAS 10, "Accounting for Internal Use Software."

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

1.3 Entries in the DoD Component accounting systems/records to record IUS opening balances at zero are subject to the reporting requirements under paragraph 13 of FASAB SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources". Accordingly, the entries will be reflected as a change in accounting principle. Any adjustments must be properly documented and supported to assist ongoing audit efforts.

2.0 Financial Statement Disclosure Requirements (A20102)

DoD Components who adjust their opening IUS balances, including development costs, in accordance with subparagraphs A.20101.B and A.20101.C, must disclose in their financial statements that an alternative valuation method was applied in establishing their opening balances. This disclosure must describe the alternative valuation method used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with Generally Accepted Accounting Principles. An unreserved assertion is an unconditional statement.

3.0 Prospective Accounting for Internal Use Software (A20103)

3.1 Once the opening balances for IUS have been recorded at zero as described in paragraph A.20101.B, the DoD Components shall capitalize IUS costs for IUS placed-in-service and IUS in development in accordance with the provisions of FASAB SFFAS 10 for which guidance is provided in Chapter 27. This capitalization requirement includes IUS development costs incurred after the establishment of opening balances for projects started prior to the establishment of opening balances. The DoD Components must have sufficient source documentation to support the capitalized amounts of IUS based on actual historical cost. The DoD Components must apply the provisions of FASAB SFFAS 10 regarding amortization and impairment to any unamortized capitalized cost of the IUS.

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

*VOLUME 4, CHAPTER 28: "HERITAGE ASSETS, MULTI-USE HERITAGE ASSETS AND STEWARDSHIP LAND"

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***.

This is the initial publication.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	This chapter contains updated policy for heritage assets, multi-use heritage assets and stewardship land; and supersedes policy contained in Volume 4, Chapter 6 dated June 2009 related to heritage assets, multi-use heritage assets and stewardship land.	New Chapter
Policy Memo	The Deputy Chief Financial Officer's policy memorandum, "Elimination of Military Equipment Definition and Increase to Capitalization Thresholds for General Property, Plant and Equipment," dated September 20, 2013, was incorporated into the chapter as applicable.	Revision
Policy Memo	The Deputy Chief Financial Officer's policy memorandum, "Requests to Increase Capitalization Thresholds," dated March 14, 2014, was incorporated into the chapter as applicable.	Revision
Policy Memo	The Deputy Chief Financial Officer's policy memorandum, "Financial Reporting Policy for Real Property Estimated Useful Lives, Land Valuation, and Accounting for Real Property Outside of the United States," dated June 27, 2016, was incorporated into the chapter as applicable.	Revision

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*CHAPTER 28

HERITAGE ASSETS, MULTI-USE HERITAGE ASSETS AND STEWARDSHIP LAND

1.0 GENERAL (2801)

1.1 Purpose (280101)

This chapter prescribes Department of Defense (DoD) accounting policy for heritage assets, multi-use heritage assets and stewardship land, which are subsets of property, plant and equipment (PP&E). Within PP&E, two categories have been defined for accountability and financial reporting purposes. The categories are: (1) general PP&E which includes multi-use heritage assets; and, (2) stewardship PP&E. Stewardship PP&E includes heritage assets and stewardship land. The applicable general ledger accounts are listed in the United States Standard General Ledger (USSGL) discussed in Volume 1, Chapter 7. Both the DoD Standard Chart of Accounts and the accounting entries for these accounts are specified in the ***DoD USSGL Transaction Library***. Unless otherwise stated, this chapter is applicable to all DoD Components, including Working Capital Fund (WCF) activities.

1.2 Authoritative Guidance (280102)

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

1.2.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ***(SFFAS) 1***, "Accounting for Selected Assets and Liabilities";

1.2.2. FASAB ***SFFAS 5***, "Accounting for Liabilities of the Federal Government";

1.2.3. FASAB ***SFFAS 6***, "Accounting for Property, Plant, and Equipment";

1.2.4. FASAB ***SFFAS 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting";

1.2.5. FASAB ***SFFAS 29***, "Heritage Assets and Stewardship Land";

1.2.6. FASAB ***SFFAS 40***, "Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant and Equipment";

1.2.7. FASAB ***SFFAS 42***, "Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32";

1.2.8. FASAB ***SFFAS 44***, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use";

1.2.9. FASAB ***SFFAS 50***, "Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35";

1.2.10. FASAB ***SFFAS 55***, "Amending Inter-entity Cost Provisions";

1.2.11. FASAB Federal Financial Accounting and Auditing Technical Release ***(TR) 9***, "Implementation Guide for SFFAS 29: Heritage Assets and Stewardship Land";

1.2.12. FASAB ***TR 13***, "Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment";

1.2.13. FASAB ***TR 14***, "Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment";

1.2.14. FASAB ***TR 15***, "Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation";

1.2.15. Office of Management and Budget ***Circular No. A-136***, "Financial Reporting Requirements";

1.2.16. DoD Instruction ***(DoDI) 4165.14***, "Real Property Inventory (RPI) and Forecasting";

1.2.17. ***DoDI 4165.70***, "Real Property Management";

1.2.18. ***DoDI 4715.16***, "Cultural Resources Management";

1.2.19. ***DoDI 5000.64***, "Accountability and Management of DoD Equipment and Other Accountable Property";

1.2.20. ***Title 54 United States Code, Section 306131 (54 U.S.C. § 306131)***, "Standards and Guidelines";

1.2.21. Code of Federal Regulations, Title 36, Chapter 1, Part 60, National Register of Historic Places, ***Section 60.4 Criteria for Evaluation***; and

1.2.22. ***Treasury Financial Manual (TFM) Volume 1, Part 2, Chapter 4700*** "Agency Reporting Requirements for the Financial Report of the United States Government."

2.0 ACCOUNTING FOR HERITAGE ASSETS, MULTI-USE HERITAGE ASSETS AND STEWARDSHIP LAND (2802)

2.1 Definitions (280201)

2.1.1. Heritage Assets. Heritage assets are PP&E that are unique for one or more of the following reasons:

2.1.1.1. Historical or natural significance;

2.1.1.2. Cultural, educational, or artistic (e.g., aesthetic) importance; or

2.1.1.3. Significant architectural characteristics.

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

2.1.2. Multi-use Heritage Assets. Heritage assets may in some cases serve two purposes: (a) a heritage function and (b) a government operations function. In cases where a heritage asset serves two purposes, and the predominant use of the asset is in general government operations, the heritage asset should be considered, and classified as, a multi-use heritage asset (e.g., the main Treasury building used as an office building). Another example of a multi-use heritage asset is the Pentagon, which has been listed on the National Register of Historic Places and also is used as an office building. Heritage assets having an incidental (i.e., not significant or predominant) use in government operations are not considered and are not classified as multi-use heritage assets; they are simply heritage assets. Cultural resources and historic properties, as defined in DoDI 4715.16, may be categorized as multi-use heritage assets for financial accounting purposes, if they have the attributes of multi-use heritage assets as described in this definition.

2.1.3. PP&E: PP&E consists of tangible assets, including land, that meet the following criteria – (i) they have estimated useful lives of two years or more; (ii) they are not intended for sale in the ordinary course of operations; and, (iii) they have been acquired or constructed with the intention of being used, or being available for use by the entity.

2.1.4. Stewardship Land. Stewardship land includes land and land rights owned by the Federal Government but not acquired for or in connection with the acquisition or construction of real property facilities. Examples of stewardship land include public land withdrawn for military purposes such as buffer zones and land used for forests, wildlife or grazing.

2.1.5. Materiality. Materiality, as defined by the SFFAS 1, is the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item. Since the value of heritage assets and stewardship land are expensed when acquired, the focus for considering their materiality should be based on the DoD required accountability for the asset.

2.2 Relevant USSGL Accounts (280202)

2.2.1. Land and Land Rights (USSGL 171100). The amount of identifiable cost of land and land rights of unlimited duration acquired for or in connection with general property, plant and equipment used in general operations and permanent improvements. Stewardship land (national park or forest and land in public domain), materials beneath or above the surface, and Outer Continental Shelf resources are excluded. Under SFFAS 50, entities can elect to expense land and land rights. If this election is made, there would not be an amount for land and land rights recorded in this USSGL account.

2.2.2. Construction-in-Progress (USSGL 172000). The Construction-in-Progress (CIP) account is used to accumulate the costs of new construction of general PP&E (except for internal use software) and capital improvements while the asset is under construction. CIP accounts include all costs (i.e., direct labor, direct material, supervision, inspection and overhead) incurred in construction. Upon completion, these costs will be transferred to the appropriate general PP&E account.

2.2.3. Buildings, Improvements, and Renovations (USSGL 173000). The Buildings, Improvements, and Renovations account is used to record the cost, fair value or appraised value of DoD-owned buildings acquired and building improvements which are used in providing DoD services or goods. This account also includes the cost of renovation, improvement or restoration of multi-use heritage assets classified as buildings after transfer from the CIP account.

2.2.4. Accumulated Depreciation on Buildings, Improvements, and Renovations (USSGL 173900). The Accumulated Depreciation on Buildings, Improvements, and Renovations account is used to record the amount of accumulated depreciation charged to expense for assets and improvements recorded in the USSGL 173000 account.

2.2.5. Other Structures and Facilities (USSGL 174000). The Other Structures and Facilities account is used to record the cost, fair value or appraised value of DoD-owned structures and linear structures and structures and linear structure improvements which are used in providing DoD services or goods. This account also includes the cost of renovation, improvement or restoration of multi-use heritage assets classified as structures or linear structures after transfer from the CIP account.

2.2.6. Accumulated Depreciation on Other Structures and Facilities (USSGL 174900). The Accumulated Depreciation on Other Structures and Facilities account is used to record the amount of accumulated depreciation charged to expense for assets and improvements recorded in the USSGL 174000 account.

2.2.7. Equipment (USSGL 175000). The Equipment account is used to record the capitalized cost of tangible equipment items of a durable nature that are used by DoD in providing goods and services.

2.2.8. Accumulated Depreciation on Equipment (USSGL 175900). The Accumulated Depreciation on Equipment account is used to record the amount of accumulated depreciation charged to expense for assets recorded in the USSGL 175000 account.

2.2.9. General Property, Plant and Equipment Permanently Removed but Not Yet Disposed (USSGL 199500). The General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed account is used to record the value of general PP&E assets which have been permanently removed from service. Upon permanent removal from service, general PP&E assets must be recorded at their expected net realizable value (NRV) and must cease to be depreciated. See paragraph 280210.B.3 for guidance on reporting general PP&E assets which have been permanently removed from service.

2.2.10. Depreciation, Amortization and Depletion (USSGL 671000). The expense recognized by the process of allocating costs of an asset (tangible or intangible) over the period of time benefited or the asset's useful life is recorded in this account.

2.3 Heritage Assets (280203)

2.3.1. As described in subparagraph 280201.A, heritage assets are PP&E that are unique for one or more of the following reasons:

2.3.1.1. Historical or natural significance;

2.3.1.2. Cultural, educational, or artistic (e.g., aesthetic) importance; or

2.3.1.3. Significant architectural characteristics.

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

2.3.3. The cost or value should not serve as a precursor when deciding if an asset should be classified as a heritage asset. DoD Components should refer to cultural resources and collections policies, published registers, and consult with DoD subject matter experts (i.e., the DoD cultural resources or museum staffs), when making this assessment. Designation of a PP&E asset (including such assets as museum, library and art collections) as a heritage asset can be done at any time in its life-cycle, based on application of evaluation criteria by qualified staff. Historic significance may be identified if a property/asset meets at least one of the following criteria adapted from the National Register of Historic Places as determined by the relevant DoD Component with concurrence by the relevant State Historic Preservation Officer, or as determined by the guidelines of the National Register of Historic Places in the Code of Federal Regulations, Title 36, Part 60, Section 60.4:

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

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

2.3.3.3. Distinctive design or physical characteristics of a type, period, or method of construction (e.g., work of a master architect, landscape architect, planner, or engineer; work representative of a particular approach to military design or a particular type or style of architecture or engineering; a formative example of standardized planned military housing); or

2.3.3.4. Potential to provide important information about prehistory or history (e.g., an archeological site on a military installation).

2.3.4. As contrasted with multi-use heritage assets (see subparagraph 280201.B), heritage assets are not used predominantly in general government operations.

2.4 Stewardship Land (280204)

2.4.1. Land and land rights owned by the Federal Government but not acquired for, or in connection with the acquisition or construction of real property facilities, is stewardship land.

2.4.2. "Acquired for or in connection with" is defined as including land or land rights acquired with the intent to construct general PP&E and land or land rights acquired in combination with general PP&E.

2.4.3. Land is defined as the solid part of the surface of the earth. Excluded from the definition are natural resources (e.g., depletable resources, such as mineral deposits and petroleum, renewable resources such as timber and the outer continental shelf resources) related to land.

2.4.4. Land and land rights owned by DoD or a DoD Component, but not acquired for or in connection with real property facilities must be reported as stewardship land.

2.4.5. Land and land rights owned by DoD or a DoD Component, and acquired for or in connection with real property facilities must be accounted for and reported as general PP&E and expensed under SFFAS 50, if elected.

2.4.6. Land rights are interests and privileges held by DoD or a DoD Component, in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights, and other like interests in land.

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

2.5 Acquisition/Valuation (280205)

2.5.1. Heritage Assets and Stewardship Land

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

2.5.1.2. Maintenance or renovation contracts, historical maintenance records or a history of payment of invoices, minutes of meetings, historical data bases, surveys of land records, a history of past/historical practices (e.g., establishing defacto ownership), or other relevant sources of information may provide acceptable alternative evidence of government ownership of heritage assets and stewardship land.

2.5.2. Multi-use Heritage Assets

2.5.2.1. Recorded Cost. When acquiring a multi-use heritage asset, which is a subset of general PP&E, the recorded cost must be recognized in accordance with paragraph 280206. The recorded cost of multi-use heritage assets is the basis for computing depreciation (if applicable). The method of acquisition determines the cost recorded for multi-use heritage assets, which are part of general PP&E, as described in subparagraph 280205.B.6. The recorded cost must include all amounts paid to bring the asset to its form and location suitable for its intended use, including the costs of any embedded items and/or integral software plus ancillary costs. This subparagraph defines and prescribes the use of acquisition cost, net book value, fair value, ancillary costs, and recorded cost when recording the cost of newly acquired multi-use heritage asset items.

2.5.2.2. Acquisition Cost. For the purposes of this chapter, acquisition cost refers to the original purchase, construction, or development cost; net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses must not be included as a cost of the asset; rather, such costs must be recognized as operating expenses.

2.5.2.3. Net Book Value. Net Book value is the recorded cost of a general PP&E asset, less its accumulated depreciation.

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

2.5.2.5. Ancillary Costs. Ancillary costs are included in the recorded cost in addition to the acquisition cost of the asset. These costs are identifiable and necessary to bring the asset to its form and location suitable for its intended use including other direct and indirect costs. Examples include:

2.5.2.5.1. Government-furnished property installed in end items (e.g., engines installed in aircraft);

2.5.2.5.2. An appropriate share of the cost of government-furnished materials used in the production of end items;

2.5.2.5.3. Transportation charges to the point of initial use;

2.5.2.5.4. Handling and storage costs;

2.5.2.5.5. Labor and other direct or indirect production costs (for assets produced or constructed);

2.5.2.5.6. Engineering, architectural, and other outside services for designs, plans, specifications, and surveys;

2.5.2.5.7. Acquisition and preparation costs of buildings and other facilities;

2.5.2.5.8. An appropriate share of the cost of the equipment and facilities used in construction work;

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

2.5.2.5.10. Direct costs of inspection, supervision, and administration of construction contracts and construction work;

2.5.2.5.11. Allowable direct cost of maintaining the Program Management Office, if material;

2.5.2.5.12. Legal and recording fees and damage claims;

2.5.2.5.13. Fair value of facilities and equipment donated to the DoD;

2.5.2.5.14. Material amounts of interest paid directly to providers of goods or services related to the acquisition or construction (not including late payment interest penalties); and

2.5.2.5.15. A prorated share of nonrecurring cost associated with the development and production of the property.

2.5.2.6. The method of acquisition determines the cost recorded for multi-use heritage assets, which are a part of general PP&E.

2.5.2.6.1. Purchased General PP&E. The cost to be recorded for assets acquired by purchase from a third party (private, commercial, or government) is its purchase contract cost plus applicable ancillary costs. Examples of ancillary costs are included in the listing in subparagraph 280205.B.5. For purposes of this guidance, purchase includes procurements by cash, check, or installment or progress payments on contracts.

2.5.2.6.2. Constructed General PP&E. The cost to be recorded for constructed items is the sum of all the costs incurred to bring the item(s) to a form and condition suitable for their intended use. These include costs incurred after project design authorization for actual construction such as labor, materials, and overhead costs. Note that preliminary planning costs accumulated prior to design authorization must be expensed and not be captured as part of the recorded cost of constructed items.

2.5.2.6.3. Donated General PP&E. The cost to be recorded for general PP&E acquired through donation, execution of a will, or judicial process excluding forfeiture must be its estimated fair value (except for land expensed under SFFAS 50, if elected) at the time acquired by the DoD.

2.5.2.6.4. Exchanged General PP&E. The cost to be recorded for general PP&E acquired through exchange between the DoD and a nonfederal entity is the fair value of the consideration surrendered at the time of exchange. If the fair value of the general PP&E acquired is more readily determinable than that of the consideration surrendered, the cost will be the fair value of the general PP&E acquired. If neither fair value can be determined, the cost of the general PP&E acquired will be the cost recorded for the consideration surrendered, net of any accumulated depreciation. Any difference between the net recorded amount of the consideration surrendered and the cost of the general PP&E acquired must be recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of general PP&E acquired will be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received. If the DoD Component enters into an exchange in which the fair value of the general PP&E acquired is less than that of the consideration surrendered, the general PP&E acquired will be recognized at the amount of the consideration surrendered, as described previously and subsequently reduced to its fair value. A loss must be recognized in an amount equal to the difference between the amount of the consideration surrendered for the general PP&E acquired and its fair value. This guidance on exchanges applies only to exchanges between a DoD Component and a nonfederal entity. Exchanges between a DoD Component and another DoD Component or federal agency must be accounted for as a transfer.

2.5.2.6.5. Capital Leases. The recorded cost of general PP&E acquired under a capital lease is the present value of the rental and other minimum lease payments during the lease term, excluding that portion of the payments representing executory cost (e.g., insurance, maintenance and taxes) to be paid by the lessor. The present value is the value of future cash flows (e.g., lease payments) discounted to the present at a certain interest rate (such as the reporting entity's cost of capital), assuming compound interest. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded will be the fair value. If the portion of minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated.

2.5.2.6.6. Seized and Forfeited General PP&E. The cost recorded for general PP&E items acquired through seizure or forfeiture is its fair value, less an allowance for any liens or claims from a third party.

2.5.2.6.7. Vested and Seized Property During Times of War. See Volume 12, Chapter 29 for discussion of vested and seized property during times of war.

2.5.2.6.8. Transferred General PP&E. The cost recorded for general PP&E transferred from another DoD Component or federal agency is the cost recorded on the transferring entity's books for the general PP&E, and its accumulated depreciation. If the receiving DoD Component cannot reasonably ascertain those amounts, the cost of the asset will be its fair value at the time of transfer.

2.5.2.6.9. General PP&E Acquired by Trade-In. The cost to be recorded for general PP&E acquired when trading in another PP&E asset is the sum of the net book value of the asset(s) traded plus (minus) any cash paid (received) or liabilities assumed (relinquished) for the new asset. The net book value is the recorded cost of a general PP&E asset, less its accumulated depreciation.

2.6 Recognition and Measurement (280206)

All heritage assets, multi-use heritage assets, and stewardship land acquired by DoD Components must be recognized for accountability (in accordance with DoDI 4165.14, DoDI 4165.70, and DoDI 5000.64) and financial reporting purposes. Recognition requires the proper accounting treatment (expense or capitalization with depreciation) and the reporting of capitalized amounts and applicable accumulated depreciation and expensed amounts on the appropriate DoD Component's financial statements.

2.6.1. Heritage Assets

2.6.1.1. The cost of acquiring, improving, restoring or renovating heritage assets, other than multi-use heritage assets, should be recognized as a cost on the Statement of Net Cost for the period in which the cost is incurred. The cost should include all costs incurred to bring the asset to its current condition and location. The DoD Components will include heritage assets in its financial statement note disclosures only if it has both ownership and control of the asset and is also responsible for maintenance or sustainment of the asset. If no one DoD Component meets all the criteria, then the DoD Component that has control over the heritage asset must report the heritage asset in its financial statement note disclosures (see paragraph 280305, Reporting Requirements).

2.6.1.2. Except for assets classified as multi-use heritage assets, no amounts for heritage assets acquired through donation or devise (a will or clause of a will disposing of property) should be recognized in the cost of heritage assets.

2.6.1.3. Transfers of heritage assets, except for multi-use heritage assets, from one DoD Component to another or to another Federal agency do not affect the net cost of operations or net position of either entity. In some cases, assets included in general PP&E may be transferred to a DoD Component for use as heritage assets. In this instance, the transferring DoD Component should recognize a transfer-out of capitalized assets and the receiving DoD Component recognizes a transfer-in to facilitate reconciliation and a corresponding cost on the Statement of Net Cost.

2.6.2. Multi-use Heritage Assets

2.6.2.1. The costs of acquisition, improvement, or restoration of multi-use heritage assets should be capitalized as general PP&E and depreciated if the costs equals or exceeds the DoD capitalization threshold. Such multi-use heritage assets should be depreciated over their estimated useful life.

2.6.2.2. The capitalization threshold for general PP&E assets is:

2.6.2.2.1. $1 million for the Department of Air Force and the Department of Navy general funds General Equipment;

2.6.2.2.2. $1 million for the National Security Agency (NSA) and the Office of the Director of National Intelligence (ODNI) general PP&E; and

2.6.2.2.3. $250,000 for real property (other than NSA and ODNI), and all other General Equipment assets for all other general funds and WCFs.

2.6.2.3. Assets classified as multi-use heritage assets and acquired through donation or devise should be recognized as general PP&E at the fair value of the assets at the time received and the amount should also be recognized as non-exchange revenues as defined in FASAB SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.

2.6.2.4. Transfers of multi-use heritage assets from one Federal entity to another (including those between DoD Components or between a DoD Component and another Federal entity) should be recognized by the receiving entity as a transfer-in and as an additional financing source and the transferring entity should recognize a transfer-out. The value recorded should be the transferring entity's net book value of the multi-use heritage asset. If the receiving entity has not been provided the net book value, the multi-use heritage asset should be recorded at its estimated fair value.

2.6.3. Stewardship Land

2.6.3.1. Land classified as stewardship land must be reported as basic information within the financial statements of the DoD Component responsible for such land (see paragraph 280305, Reporting Requirements). The cost of the acquisition of stewardship land should be recognized as an expense on the Statement of Net Cost for the period in which the cost is incurred.

The cost should include all costs to prepare stewardship land for its intended use (e.g., grading the land). In such cases, land may be acquired along with existing facilities. The following treatments should apply:

2.6.3.1.1. To determine whether the facility itself would be deemed a heritage asset, the DoD Component should consult with Component cultural resources staff about whether the acquisition cost of the facility should be treated as the cost of stewardship land, heritage asset, or both;

2.6.3.1.2. The cost in its entirety should be treated as an acquisition of stewardship land, if the facility is to be used in operations (e.g., as general PP&E), and

2.6.3.1.2.1. The value of the facility is insignificant; or

2.6.3.1.2.2. Its acquisition is merely a byproduct of the acquisition of the land.

2.6.3.1.3. Facilities of significant value that have an operating use (e.g., a constructed hotel or employee housing block) should be treated as general PP&E by identifying the cost attributable to general PP&E and segregating it from the cost of stewardship land acquired.

2.6.3.2. No amounts for stewardship land acquired through donation or devise should be recognized as an expense in the Statement of Net Cost.

2.6.3.3. Transfers of stewardship land from one DoD Component to another or to another Federal agency, do not affect the net cost of operations or net position of either entity. In some cases, land included in general PP&E may be transferred to a DoD Component for use as stewardship land. In this instance, the transferring DoD Component should recognize a transfer-out for the amount it has capitalized in its financial accounting records (if land was not expensed under SFFAS 50) for the asset and the receiving DoD Component recognizes a transfer-in to facilitate reconciliation.

2.7 Improvements/Enhancements (280207)

2.7.1. Heritage Assets. The cost of improvement or renovation of heritage assets should be recognized on the Statement of Net Cost for the period in which the cost is incurred.

2.7.2. Multi-use Heritage Assets

2.7.2.1. Capital improvements to multi-use heritage assets must be capitalized when (1) the improvement increases the asset's useful life by two or more years, or increases its capacity or size, and (2) the cost of the improvement equals or exceeds the capitalization threshold (see subparagraph 280206.B.2). If capital improvements do not meet these two criteria they should be expensed. Funding source is not a factor in determining whether an improvement will be capitalized. If the capital improvement increases the underlying asset's useful life by two years or more, the DoD Component must capitalize and depreciate the improvement with the original asset over the revised estimated useful life. Costs of capital improvements that do not extend the useful life of an existing real property asset but enlarge or improve its capacity and have a useful life of two years or more must be capitalized and depreciated over the lesser of the estimated useful life of the improvement or the remaining economic estimated useful life of the underlying asset. Note that the economic life of the multi-use heritage asset may be different than the original estimated accounting useful life. The economic life reflects the remaining period of utility for the multi-use heritage asset.

2.7.2.2. The cost of improvements to more than one multi-use heritage asset as identified by a unique identifier when performed under a single contract or work order, and that cannot be specifically identified by asset, should be capitalized only if the allocated cost per multi-use heritage asset equals or exceeds the capitalization threshold. When more than one improvement is made to a single asset and the improvements are part of one overall effort to increase the asset's capability, size, and/or useful life, the sum of the costs of the improvements must be capitalized, if the summed costs equal or exceed the capitalization threshold. This is required even when the improvements are funded separately. Once a determination has been made that the aggregate costs of the improvements will be capitalized, each improvement should be capitalized and depreciated upon being placed in service.

2.7.2.3. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds the capitalization threshold. In SFFAS 42, the FASAB defines maintenance and repairs as activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repair activities include preventative maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain assets. Maintenance and repair activities also include cyclic work done to prevent damage that would be more costly to restore than to prevent (e.g., painting).

2.7.2.4. Although maintenance and repairs are generally expensed in the period incurred, certain replacements of parts, systems, or components may or may not be an improvement for accounting purposes. Crucial to the determination of whether a replacement must be recognized as a repair or an improvement is the intent behind the replacement. Repair by replacement occurs when parts, systems, or components have failed, are in the incipient stages of failing, or are no longer performing the functions for which they were designated. Replacements falling into this category must be expensed. If the replacement was undertaken to expand the capacity or extend the useful life of an item that was in good working order, then the replacement must be recognized as an improvement. A roof or a heating and air conditioning system that is replaced due to the failing of the existing asset should be classified as a repair and should be expensed, even if the replacement incorporated a better quality and longer life shingle or a more efficient heating and air conditioning unit. Repair by replacement does not include rebuilding entire structures within the same physical area (footprint).

2.7.2.5. Capital Improvements at or over the capitalization threshold in effect at the time the capital improvements are completed, will be recorded and depreciated by the DoD Component acquiring the capital improvement irrespective of whether they are the Primary Economic Beneficiary responsible for sustainment requirements of the property containing the capital improvement. A WCF activity of a DoD Component using a capital improvement in property that does not pay/reimburse the acquirer of the capital improvements for property use, will record an imputed cost in their financial statements for the value of the depreciation expense of the capital improvements from which they benefit. The requirement to impute costs is not applicable to DoD Component General Funds except for inter-entity costs for personnel benefits and Treasury Judgment Fund settlements. A DoD Component using space in a multi-use heritage asset that reports capital improvements for that asset and subsequently ceases use of the asset will transfer the book value of those capital improvements (acquisition value and accumulated depreciation) along with supporting documentation to the DoD Component responsible for reporting the multi-use heritage asset in its financial statements at the time they no longer are using the asset.

2.8 Depreciation (280208)

2.8.1. Heritage Assets. The cost of acquisition, improvement, or renovation of heritage assets should be recognized as an expense on the Statement of Net Cost for the period in which the cost is incurred. These costs are not capitalized and not subsequently depreciated. The cost should include all costs incurred during the period to bring the item to its current condition.

2.8.2. Stewardship Land. The cost of acquiring stewardship land is expensed in the period incurred. These costs are not capitalized and subsequently depreciated.

2.8.3. Multi-Use Heritage Assets. The recorded cost of capitalized multi-use heritage assets must be depreciated in accordance with the general PP&E guidance as described in 280208.C.1 through C.7. Such capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, must be reflected in DoD financial statements.

2.8.3.1. Depreciation is the systematic and rational allocation of the recorded cost of an asset, less its estimated salvage or residual value, over its estimated useful life. Estimates of useful life for general PP&E assets must consider factors such as usage, physical wear and tear and technological change.

2.8.3.2. The salvage value, also known as the residual or scrap value, is the amount that would be expected to be obtained from selling an asset at the end of its useful life, but only when such proceeds (from recycle, resale, or salvage) are permitted to be retained and used by the DoD Component. Typically, personal property will not have a salvage value. DoD real property does not have a salvage value. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value.

2.8.3.3. The depreciable basis of an asset is the recorded cost reduced by the asset's salvage value, if the asset has a salvage value.

2.8.3.4. For purposes of computing depreciation on DoD general PP&E assets, specific useful lives are prescribed. Table 28-1 and Table 28-2 provide guidance on the useful lives to be used for DoD multi-use heritage assets that are real property or general equipment. Heritage assets and stewardship land are not capitalized and depreciated.

3.8.3.4.1. DoD policy permits the use of only the straight-line method of depreciation.

3.8.3.4.2. If a DoD Component determines that a newly acquired general PP&E asset with a cost equal to or greater than the applicable DoD capitalization threshold which has a useful life of at least two years, but less than five years, the Component may elect to depreciate the asset over a useful life that more accurately reflects its useful life (two to four years, as appropriate). The DoD Component making this election must document the basis for that decision.

Table 28-1. DoD Useful Lives for General Equipment (Including Multi-Use Heritage Assets)

Categories	Sub-Categories	Useful Life
GENERAL EQUIPMENT ASSETS (EXCLUDING WEAPON SYSTEMS)		
General Purpose Vehicles		
	Heavy-duty Trucks and Buses	5
ADP Systems and Hardware		
	Computers and Peripherals	5
Communication and Medical Equipment		
	High Tech Medical Equipment	5
	Radio and Television Broadcasting Equipment	5
All Other Equipment and Machinery		
	All Other Equipment and Machinery	10
	Equipment used in Research, Development, Test, and Evaluation (RDT&E)	5
Vessels		
	Tugs	20
	Barges	20
	Similar Water Transportation Equipment	20
Generation Equipment		
	Steam Generation Equipment (12.5K pounds per hour or more)	20
	Electric Generation Equipment (500 Kilowatt or more)	20
Capital Improvements *		
GENERAL EQUIPMENT WEAPON SYSTEMS		
Ground Systems		
	Armored/Assault Vehicle	15
	Cargo Vehicle	15
	Tracked Vehicle	20
Fixed Wing Aircraft		
	Combat Fixed Wing	20
	Cargo Fixed Wing	25
	Utility Fixed Wing	20
Rotary Wing		
	Combat Rotary Wing	25
	Cargo Rotary Wing	25
	Utility Rotary Wing	30
Ships		
	Combat Ship	35
	Cargo Ship	40
	Aircraft Carrier	50
Submarines		
	Submarine	33
Unmanned Aerial Vehicle Systems (UAVS)		
	UAVS	15
Combat Support Systems		
	Combat Support System	15
	Missile Defense System	20
*See Capital Improvements/Enhancements in paragraph 280207.		

Table 28-2. DoD Useful Lives for Real Property (Including Multi-Use Heritage Assets)

Real Property Classification	Real Property Useful Lives	Capital Improvements (if useful life is not provided by an engineering estimate)(i)
Buildings	45 years	20 years
Structures	35 years	15 years
Linear Structures	40 years	20 years
(i) Engineering estimates are of particular importance when evaluating full restoration or conversion.		

2.8.3.5. The event that triggers the calculation of depreciation is the date of receipt shown on the asset receiving document in cases where no installation is required; the date installed (if required); or the date the asset is available for use, also known as the acceptance date, (regardless of whether it is actually used). The actual commencement of depreciation should be based on the Month Available for Service Method. Under this method, the month the asset was accepted, installed, or available for use as applicable, is the month used to commence the calculation of depreciation expense for the first year.

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

2.8.3.7. WCF activities are required to depreciate general PP&E assets in accordance with the guidance in this chapter without regard to whether such assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers. The recognition of general PP&E assets and the depreciation of such assets by WCF activities therefore may be different for financial statement reporting purposes than the depreciation amounts used for WCF rate development and budget presentation. All general PP&E depreciation of WCF activities must be recognized as an expense on the Statement of Net Cost, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report [Accounting Report (Monthly) 1307] (AR (M) 1307)." Depreciation recorded on general PP&E that was not acquired nor will be replaced through use of Defense WCF resources must be classified as non-recoverable for rate setting purposes and reported appropriately on the AR (M)1307. Defense WCF rates charged to customers are based on guidance in Volume 2B and Volume 11B.

2.9 Impairment (280209)

2.9.1. Description. SFFAS 44 defines impairment as a significant and permanent decline in the service utility of general PP&E or expected service utility of CIP that results from events or changes in circumstances that are not considered normal and ordinary. The guidance in this paragraph is applicable to multi-use heritage assets only. Due to the nature of heritage assets and stewardship land and the fact that they are expensed when acquired, impairment is not calculated for these assets. Heritage assets are expected to be preserved indefinitely. Multi-use heritage assets are subject to impairment guidance for general PP&E as described in SFFAS 44.

2.9.1.1. See subparagraph 280209.B.2 for a discussion of determining the significance and permanence of a service utility decline.

2.9.1.2. The service utility of general PP&E is the usable capacity that, at acquisition, was expected to be used to provide service. The current usable capacity of general PP&E may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment or approval of laws or regulations or other changes in environmental or economic factors, or changes in the manner or duration of use.

2.9.1.3. Normal and ordinary events or circumstances are those that fall within the expected useful life of the general PP&E such as standard maintenance and repair requirements. Events or circumstances that are not considered normal are those that, at the time the general PP&E was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the general PP&E or, if expected, was not sufficiently predictable to be considered in estimating the general PP&E's useful life.

2.9.2. Identification of Potential Impairment Loss. The determination of whether general PP&E remaining in use is impaired is a two-step process, which includes (1) identifying potential impairment indicators and (2) testing for impairment.

2.9.2.1. Step 1 - Identify Indicators of Potential Impairment. Indicators of potential impairment can be identified and brought to DoD Component's attention in a variety of ways, such as procedures related to deferred maintenance and repair (DM&R). Although DoD Components are not required to establish additional or separate procedures beyond those that may already exist, they should evaluate existing processes and internal controls to determine if they are sufficient to reasonably assure the identification of potential impairment indicators and implement appropriate additional processes and internal controls if necessary. Once identified, indicators are not conclusive evidence that a measurable or reportable impairment exists; DoD Components should carefully consider the surrounding circumstances to determine whether a test of potential impairment is necessary given the circumstances. Some common indicators of potential impairment include:

2.9.2.1.1. Evidence of physical damage;

2.9.2.1.2. Enactment or approval of laws or regulations which limit or restrict general PP&E usage;

2.9.2.1.3. Changes in environmental or economic factors;

2.9.2.1.4. Technological changes or evidence of obsolescence (however, if obsolete general PP&E continues to be used, the service utility expected at acquisition may not be diminished);

2.9.2.1.5. Changes in the manner or duration of use of general PP&E;

2.9.2.1.6. Construction stoppage or contract termination; and

2.9.2.1.7. General PP&E idled or unserviceable for excessively long periods.

2.9.2.2. Step 2 - Impairment Test. Identified general PP&E should be tested for impairment by determining whether these two factors are present: (i) the magnitude of the decline in service utility is significant and (ii) the decline in service utility is expected to be permanent.

2.9.2.2.1. Significant declines in service utility are those that cause costs (including operational and maintenance costs) to be disproportionate to the new expected service utility. The determination of whether or not an item is significant is a matter of professional judgment and is distinct from materiality considerations. Such judgments may be based on the relative costs of providing the service before and after the decline, the percentage decline in service utility, or other considerations.

2.9.2.2.2. The decline in service utility is considered permanent when the DoD Component has no reasonable expectation that the lost service utility will be replaced or restored; that is, the DoD Component expects that the general PP&E will remain in service so that its remaining service utility will be utilized. In contrast, a reasonable expectation that the lost service utility will be replaced or restored may exist when the DoD Component has: (i) specific plans to replace or restore the lost service utility of the general PP&E, (ii) committed or obligated funding for remediation efforts, or (iii) a history of remediating lost service utility in similar cases or for similar general PP&E.

2.9.2.3. For construction work in process, the testing of impairment in subparagraph 280209.B.2 should be performed over the period of expected future service utility rather than current service utility.

2.9.3. Determining the Appropriate Measurement Approach. Impairment losses on general PP&E that will continue to be used by the entity should be estimated using a measurement approach that reasonably estimates the portion of net book value associated with the diminished service utility of the general PP&E. A measurement method would not be considered appropriate if it would result in an unreasonable net book value associated with the remaining service utility of the general PP&E. Conversely, a reasonable measurement method may result in no impairment loss being recorded. Regardless of the method used, recognition of impairment loss should be limited to the asset's net book value at the time of impairment. Widely recognized methods for measuring impairment include the following. Note that the restoration approach should generally be used for multi-use heritage assets.

2.9.3.1. Replacement Approach. Impairment of general PP&E with physical damage generally may be measured using a replacement approach. This approach uses the estimated cost to replace the lost service utility of the general PP&E at today's standards (i.e., at current market prices and in compliance with current statutory, regulatory, or industry standards) to identify the portion of the historical cost of general PP&E that should be written-off due to impairment. It may be appropriate to apply the ratio of estimated cost to replace the diminished service utility over total estimated cost to replace the general PP&E, to the net book value of general PP&E to determine the impairment amount.

2.9.3.2. Restoration Approach. Impairment of multi-use heritage assets with physical damage should generally be measured by using a restoration approach. This approach uses the estimated cost to restore the diminished service utility of the general PP&E to identify the portion of the historical cost of the general PP&E that should be written-off. This approach does not include any amounts attributable to improvements and additions to meet today's standards. The estimated restoration cost can be converted to historical cost by restating (i.e., deflating) the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the net book value of the general PP&E to determine the impairment amount.

2.9.3.3. Service Unit Approach. Impairment of general PP&E that are affected by enactment or approval of laws or regulations or other changes in environmental/economical factors or are subject to technological changes or obsolescence generally may be measured using a service unit approach. This approach compares the service units provided by the general PP&E before and after the impairment to isolate the historical cost of the service utility that cannot be used due to the impairment to determine the impairment amount.

2.9.3.4. Deflated Depreciated Current Cost Approach. Impairment of general PP&E that are subject to a change in manner or duration of use generally may be measured using a deflated depreciated current cost approach. Under this approach, a current cost for a general PP&E to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the general PP&E is not new, and is then subsequently deflated to convert it to historical cost dollars. A potential impairment loss results if the net book value of the general PP&E exceeds the estimated historical cost of the current service utility (i.e., deflated depreciated current cost).

2.9.3.5. Cash Flow Approach. Recognizes an impairment loss only if the net book value (i) is not recoverable and (ii) exceeds the higher of its NRV or value-in-use estimate.

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

2.9.3.5.2. NRV is the estimated amount that can be recovered from selling, or any other method of disposing, of an item less estimated costs of completion, holding, and disposal. SSFAC 7 describes value-in-use as the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life. Value-in-use can be measured at the present value of future cash flows that an entity expects to derive from an asset, including cash flows from use of the asset and eventual disposal.

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

2.9.3.6. Lower of Net Book Value or Higher of NRV or Value-in-Use Approach. General PP&E impaired from either construction stoppages or contract terminations, which are expected to provide service, should be reported at their recoverable amount; the lower of (i) the general PP&E's net book value or (ii) the higher of its NRV or value-in-use estimate. Impaired general PP&E, which are not expected to provide service, should be accounted for in accordance with SFFAS 6.

2.9.4. Recognizing and Reporting Impairment Losses. The loss from impairment, if any, should be recognized and reported in the Statement of Net Cost in the period in which the DoD Component concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Such losses may be included in program costs or costs not assigned to programs. A general description of the general PP&E for which an impairment loss is recognized, the nature (e.g., damage or obsolescence) and amount of the impairment and the financial statement classification of the impairment loss must be disclosed in the notes to the financial statements in the period the impairment loss is recognized.

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

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

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

2.10 Removal/Disposal (280210)

2.10.1. Heritage Assets and Stewardship Land. Heritage assets and stewardship land can be removed from service or otherwise disposed. For example, stewardship land can be granted to the DoD Component by the Department of Interior (DOI) for a definite period with the expectation the land will be returned at the end of the period. In this example, the stewardship land is considered to be removed from service when it is returned to DOI.

2.10.2. Multi-Use Heritage Assets

2.10.2.1. In TR 14, the FASAB defines removal from service as an event that terminates the use of a general PP&E asset. Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to mission needs. Removals from service should be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoD Component's decision to permanently remove the asset from service. If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

2.10.2.2. If an asset's normal use is terminated (i.e., it no longer provides service in the operations of the entity) but the DoD Component has not yet decided to permanently remove the asset from service, the removal from service must be accounted for as other than permanent. Other than permanent removal from service is evidenced by activities such as continuing low-level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted. For example, assets that have been removed from service and sent to a depot for temporary storage with the intent to use the assets again in the future and other assets taken out of service on a temporary basis are considered other than permanently removed from service. There is no change in the reported value for assets that have been other than permanently removed from service and the assets must continue to be depreciated.

2.10.2.3. If (i) an asset's use is terminated and (ii) the DoD Component has documented its decision to permanently remove the asset from service, the removal from service must be accounted for as permanent. Permanent removal from service is evident from the DoD Component's documented decision to dispose of an asset by selling, scrapping, recycling, donating, or demolishing the asset. The recorded cost as well as the accumulated depreciation of an asset permanently removed from service must be removed from the accounts in which they are reported, and the asset must be recorded at its NRV in General PP&E Permanently Removed but Not Yet Disposed (USSGL Account 199500). USSGL Account 199500 is defined in the Treasury Financial Manual Chart of Accounts as "the NRV of general PP&E that is permanently removed from service but not yet disposed and is reclassified in accordance with FASAB TR 14, paragraphs 10 and 12." NRV is the estimated amount that can be recovered from disposing of the asset less estimated costs of completion, holding, and disposal. Any difference between the net book value of the asset and its expected NRV should be recognized as a gain or loss. The expected NRV should be evaluated at the end of each fiscal year and any change in NRV should be recognized as a gain or loss. Assets permanently removed from service are no longer depreciated.

2.10.2.4. When an asset is disposed of (e.g., by selling, scrapping, recycling, donating, or demolishing the asset) the asset must be written-off from the financial records and statements and the difference between any disposal proceeds and the asset's net book value must be recognized as a gain or loss. The disposal start date is the calendar date of a recognizable obligation to complete the disposal action. For demolitions, this represents the demolition contract's start date. For transfers to a non-DoD entity and sales, this represents the date on which the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident if the asset is a complete loss.

3.0 ADDITIONAL CONSIDERATIONS (2803)

3.1 Use of Canceled Treasury Account Symbol (280301)

3.1.1. Heritage assets and stewardship land are not reported in the Department of Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

3.1.2. Multi-use heritage assets are required to be reported in GTAS, a data collection system that has replaced the reporting functionalities of Federal Agencies Centralized Trial-Balance System I and II, Intragovernmental Fiduciary Confirmation System and Intragovernmental Reporting and Analysis System as the primary means for DoD Components to report their trial balance data to the Department of Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been canceled. If a capitalized asset has not been moved to a cancelled ("C") TAS as described in 280301.B.1; GTAS will provide a "C" TAS on the GTAS Super Master Account File (SMAF) for each fund family represented on the SMAF. The system generated "C" TAS will have three components: the three-digit agency identifier, availability type "C", and a four-digit main account.

3.1.2.1. All DoD Components must use the "C" availability type TAS to report capitalized assets. Assets may be moved to a "C" TAS at any time from the purchase date to the date the original purchasing fund cancels. (Refer to the ***TFM, Part 2, Chapter 4700*** for additional information.)

3.1.2.2. To transfer an asset to a "C" TAS:

3.1.2.2.1. Use USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

3.1.2.2.2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate "C" TAS.

3.2 Supporting Documentation (280302)

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

3.2.1.1. All acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date the DoD Component accepts the heritage assets, multi-use heritage assets and/or stewardship land. The documents listed in Table 28-3, where applicable, must be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital improvement. Agencies should maintain historical files evidencing ownership of heritage assets, multi-use heritage assets and stewardship land; and for some types of heritage assets, records and documentation pertaining to the asset's historical significance are required to be maintained pursuant to U.S.C. and DoD policy (e.g., 54 U.S.C. § 306131 and DoDI 4715.16). However, when original property records or other documentation (e.g., deeds, tax assessments, insurance records) for heritage assets and stewardship land do not exist, a methodology must be employed in order to develop alternative documentation to support management's assertions of Federal ownership.

3.2.1.2. As discussed in SFFAS 29 paragraphs 86 through 88 and in TR-9, since the historical records for items acquired long ago may not have been retained, other reasonable approaches and methods must be developed by the program offices to support the existence and completeness of heritage assets and stewardship land. When definitive documentation for stewardship land and/or heritage assets is not available, management must identify and use alternative methods for supporting management's assertions for these assets. For assessing land, for example, these methods could mirror the areas used to determine major categories for Note disclosure in the financial statements, such as the number of areas of recreational use, geographic management areas, and federal water projects of fish hatcheries. Heritage assets also have many of the same documentation issues since antiquities laws and preservation acts did not go into effect prior to artifacts having been collected and preserved. Many of these assets may reside in federal and nonfederal repositories. However, records and detailed listings from these periods generally do not exist.

3.2.1.3. All disposals or retirements must have sufficient supporting documentation as of the date the PP&E leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of the asset. The execution of certain disposal events will generate financial or administrative accountability transactions. These documents, where applicable, must be readily available to support disposals:

3.2.1.3.1. "Declaration of excess" document;

3.2.1.3.2. Approval documentation (to include disposal of land);

3.2.1.3.3. Original acquisition documents;

3.2.1.3.4. Legal instruments (such as a deed or contract) to indicate legal obligation to dispose of an asset, if applicable;

3.2.1.3.5. Document showing the disposal start date and disposal end date;

3.2.1.3.6. Receipt documentation; and

3.2.1.3.7. Transfer documents for transferred assets.

3.2.2. In their internal accounting policies and procedures, the DoD Components should document the identification, categorization, and method used to physically quantify the assets to ensure the consistent reporting for all similar heritage assets and stewardship land. As described in paragraph 280206, the cost of acquiring heritage assets and stewardship land should be recognized as a cost on the Statement of Net Cost for the period in which the cost is incurred. In addition, financial statement note disclosure for the physical quantities of heritage assets and stewardship land are required. As further described in paragraph 280206, the cost to acquire a multi-use heritage asset that meets the capitalization threshold and has a useful life of two years or more is capitalized and depreciated over the asset's estimated useful life.

3.2.3. Heritage assets should be quantified in terms of physical units (unit of measure) to facilitate the required financial statement note reporting. The appropriate level of aggregation and physical units of measure for each major category should be meaningful and determined by the preparer based on the entity's mission, types of heritage assets, and how the entity manages the assets. For each major category of heritage asset, the following should be documented:

3.2.3.1. The number of physical units by major category. The major categories should be classified by collection- or non-collection-type heritage assets for which the entity is the steward as of the end of the reporting period;

3.2.3.2. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period; and

3.2.3.3. A description of the major methods of acquisition and withdrawal of heritage assets during the reporting period. This should include disclosure of the number of physical units (by major category) of transfers of heritage assets between federal entities and the number of physical units (by major category) of heritage assets acquired through donation or devise, if material. In addition, the fair value of heritage assets acquired through donation or devise during the reporting period should be disclosed, if known and material.

3.2.4. Stewardship land should be quantified in terms of physical units (acres). The appropriate level of aggregation and physical units (acres) of measure for each major category (e.g., Land Predominate Use Code) of stewardship land use should be meaningful and determined by the preparer based on the entity's mission, types of stewardship land use, and how the entity manages the assets. For each major category of stewardship land, the following should be documented:

3.2.4.1. The number of physical units (acres) by major category of stewardship land use for which the entity is the steward as of the end of the reporting period;

3.2.4.2. The number of physical units (acres) by major category of stewardship land use that were acquired and the number of physical units (acres) by major category of stewardship land use that were withdrawn during the reporting period; and

3.2.4.3. A description of the major methods of acquisition and withdrawal of stewardship land during the reporting period. This should include disclosure of physical units (acres) (by major category of stewardship land use) of transfers of stewardship land between federal entities and the number of physical units (acres) (by major category of stewardship land use) of stewardship land acquired through donation or devise, if material. In addition, the fair value of stewardship land acquired through donation or devise during the reporting period should be disclosed, if known and material.

Table 28-3. Examples of Supporting Documentation for Heritage Assets, Multi-Use Heritage Assets and Stewardship Land Acquisition

Note: These examples are not all inclusive for all circumstances.

Evidence	Examples
Unique Identification	Assignment of unique identifier
Project Approval	Such as, but not limited to a Work Order
Obligation on Behalf of the Government	Such as, but not limited to: 1. For contracts, contract modifications, or change orders: a. Statement of Work; b. Dollar Amount of Contract; c. Location; d. Source of Funds; e. Parties to the Contract; and f. Signature Page [Signature of All Parties]. 2. Documentation of troop labor hours; 3. Approved Work Order.
Payment Submitted	Such as, but not limited to: 1. Approved last invoice reflecting the total amount submitted for payment and received to date; 2. Evidence of in-house construction costs, including labor; 3. Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement.
Acceptance	Such as, but not limited to: 1. DoD ***(DD) Form 250***, Material Inspection and Receiving Report; 2. General Services Administration (***GSA) Form 1334***, Request for Transfer of Excess Real and Related Personal Property; 3. ***DD Form 1354***, Transfer and Acceptance of DoD Real Property (Interim or final), with associated source documentation retained by the responsible party; 4. Executed acquisition document and appraisal results for the donated assets; 5. Signed judgment documents for condemnations; 6. Deed; 7. Signed lease for leased property; 8. Letter of withdrawal for property withdrawn from public domain; 9. Executed Occupancy Agreement; 10. Executed Reversionary Document; 11. Transfer letter and documents for transferred assets; and 12. ***DD Form 1131***, Cash Collection voucher.
Project Closeout	Such as, but not limited to a Final DD Form 1354 with associated source documentation retained by the responsible party.

3.2.5. Sufficient documentation must:

3.2.5.1. Indicate the physical quantity, location, and unit cost of the multi-use heritage assets. The APSR must be designed to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying general PP&E that may be available for reuse, transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements.

3.2.5.2. Enable periodic, independent verification of the accuracy of the accounting and APSR through periodic physical counts/inventories (existence and completeness, i.e., "book to floor and floor to book"). Such periodic inventories also must include reconciling the APSR and/or other systems with the general ledger accounts and physical counts for multi-use heritage assets, heritage assets and stewardship land. Personal hand receipt self-validations are not acceptable for meeting the independent verification of physical inventory requirements. See DoDI 4165.14 for real property and DoDI 5000.64 for personal property.

3.2.5.3. Identify and classify multi-use heritage assets that were capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

3.2.5.4. Be based on the same documents, to ensure that entries to the financial accounting/reporting and APSR are the same. This will ensure that the APSR is integrated and subsidiary to the financial accounting system, and that such records can be reconciled with the accounting system for multi-use heritage assets, heritage assets and stewardship land.

3.2.5.5. Include all multi-use heritage assets, heritage assets and stewardship land possessed by DoD (to include property held by others) and multi-use heritage assets, heritage assets and stewardship land of others held by DoD through seizure, forfeiture, loss, or abandonment.

3.2.5.6. Provide information to identify and account for improvements to multi-use heritage asset.

3.3 Physical Inventories of Heritage Assets, Multi-use Heritage Assets and Stewardship Land (280303)

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

3.4 DM&R (280304)

3.4.1. Description

3.4.1.1. In SFFAS 42, the FASAB defines DM&R as maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed to a future period.

3.4.1.2. For purposes of this policy, maintenance and repairs are activities directed toward keeping general PP&E assets in an acceptable condition. Maintenance and repairs include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset.

3.4.1.3. Maintenance and repairs exclude activities aimed at expanding the useful life, capacity or capability of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

3.4.2. Measurement

3.4.2.1. Amounts for DM&R may be measured using condition assessment surveys, life-cycle cost forecasts, or other methods that are similar to the condition assessment survey or life-cycle costing methods.

3.4.2.1.1. Condition assessment surveys are periodic physical inspections of assets to determine their current condition and estimated cost to correct any deficiencies. DoD Components should assess the condition of heritage assets as a function of their day-to-day operations and document condition through periodic assertion/assessment statements provided by their field office managers. Components also need to evaluate the cost and benefits of doing condition assessment surveys. Such things as cycling the assessments on a rotating basis, the frequency of assessments (i.e., every three or five years) and the criteria and methodology used for making such assessments need to be considered. SFFAS 42 rescinded the requirement to report condition information for heritage assets and stewardship land. See DoDI 4165.70 and DoDI 4715.16 for additional guidance.

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

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

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

3.4.3. RSI

SFFAS 42 eliminated the requirement to report condition information and optional reporting of low-high DM&R estimates and critical and non-critical DM&R in the Required Supplementary Information (RSI) of the Agency Financial Report. However, DoD Components must report material amounts of DM&R as RSI to the financial statements (see Volume 6B, Chapter 12). At a minimum, the following information must be presented as RSI for all PP&E:

3.4.3.1. Estimates of the beginning and ending balances of DM&R for each major category of PP&E (i.e., heritage assets and multi-use heritage assets);

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

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

3.4.3.4. Factors the DoD Component considers in determining acceptable condition standards;

3.4.3.5. Whether DM&R relates solely to capitalized general PP&E and non-capitalized heritage assets or also to amounts relating to non-capitalized or fully depreciated general PP&E;

3.4.3.6. Capitalized general PP&E, and non-capitalized heritage assets for which the DoD Component does not measure and/or report DM&R and the rationale for the exclusion; and

3.4.3.7. If applicable, explanation of any significant changes to DM&R amounts from the prior year and the policies and factors subject to the reporting requirements established in subparagraphs 280304.C.2 through 280304.C.6.

3.5 Reporting Requirements (280305)

3.5.1. SFFAS 29 reclassifies the reporting of all heritage assets and stewardship land from Required Supplemental Stewardship Information to basic information in the financial statements, except for DM&R which must be reported as RSI (see subparagraph 280304.C). The standard requires that entities reference a note on the balance sheet that discloses information about heritage assets and stewardship land, but does not require the reporting of acquisition cost.

3.5.2. DoD Components with heritage assets and stewardship land should reference a note on the balance sheet that discloses information about the heritage assets and stewardship land, but no asset dollar amount should be shown. Instead the minimum reporting requirements for note disclosure include a description of major categories, physical unit information for the end of the reporting period, physical units added or withdrawn during the period, and a description of the methods of acquisition and withdrawal. The DoD Components should also include in the disclosures, the entity stewardship policies and an explanation of how heritage assets and stewardship land relate to the mission of the entity. See Volume 6B, Chapter 10, Note 10 for the specific reporting requirements. Supporting documentation requirements for financial statement disclosures is described in paragraph 280302, Supporting Documentation.

3.5.3. Multi-use heritage assets require additional descriptive information in the heritage asset note disclosure as set forth in SFFAS 29, paragraph 25, with cross references directing the reader from the balance sheet to the note disclosure. Multi-use heritage assets are to be reported in both the principal financial statements (in dollars) as general PP&E and in the heritage asset note disclosure (in physical units). This reporting and note disclosure would not be considered duplicative as each category is considered unique for this reporting purpose.

3.6 Environmental Liabilities/Cleanup Costs (280306)

The accounting policy for environmental liabilities/cleanup costs pertaining to heritage assets, multi-use heritage assets and stewardship land is contained in Chapter 13.