

<p align="center"><b>SUMMARY OF MAJOR CHANGES TO DOD 7000.14-R, VOLUME 6B, CHAPTER 1 “INTRODUCTION AND SUMMARY”</b></p> <p align="center">Substantive revisions are denoted by a ★ preceding the section, paragraph, table, or figure that includes the revision</p>		
<b>PARA</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
<b>All</b>	<b>Incorporated guidance from the Office of Management and Budget (OMB) Circular A-136 regarding the formats and instructions for financial statements.</b>	<b>Update</b>
<b>0102</b>	<b>Added statement regarding the organization of the annual audited financial statements.</b>	<b>Update</b>
<b>010601</b>	<b>Deleted reference to OMB Bulletin 01-09 and replaced it with OMB Circular A-136.</b>	<b>Update</b>
<b>010602</b>	<b>Added list of stand-alone entities required by Senate Select Committee on Intelligence and renumbered subsequent paragraphs.</b>	<b>Add</b>
<b>010604</b>	<b>Deleted requirement for the Defense Finance and Accounting Service (DFAS) to send hard copies of financial statements to Other Defense Organizations (ODO).</b>	<b>Update</b>
<b>010605</b>	<b>Added requirement to follow Financial Improvement Initiative (and Audit Readiness ) Business Rules.</b>	<b>Update</b>
<b>010605</b>	<b>Added four new internally DoD-required reporting entities.</b>	<b>Update</b>
<b>010606</b>	<b>The List of Appropriation and Fund Symbols by Reporting Entity is located on the OSD website, which is now referenced in this chapter.</b>	<b>Delete</b>
<b>010701</b>	<b>Added “Agency Head Message” as one of the major sections to the annual audited financial statements and outlined requirements for unaudited quarterly financial statements.</b>	<b>Update</b>
<b>010702</b>	<b>Added new section pertaining to the Agency Head Message as referenced in OMB Circular A-136 and renumbered subsequent paragraphs.</b>	<b>Update</b>
<b>010703</b>	<b>Revised section to separate the “Agency Head Message” from the “Management’s Discussion and Analysis” section in accordance with OMB Circular A-136.</b>	<b>Update</b>
<b>010704</b>	<b>Added new section explaining Supporting Consolidating/Combining Statements and renumbered subsequent paragraphs.</b>	<b>Update</b>

**SUMMARY OF MAJOR CHANGES TO  
DOD 7000.14-R, VOLUME 6B, CHAPTER 1  
“INTRODUCTION AND SUMMARY”**

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PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
010801	Added OMB-required entities to list of OIG, DoD required audits.	Update
Table 1-1	Updated to include requirements from OMB Circular A-136.	Update

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**INTRODUCTION AND SUMMARY**

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## CHAPTER 1

### INTRODUCTION AND SUMMARY

#### ★0101 GENERAL

Under the provisions of Title 31, United States Code, section 3515, beginning with fiscal year 1996, the Department is required to have annual audited financial statements covering all accounts and associated activities of the Department. As implemented by the Office of Management and Budget (OMB), the Department is required to prepare both Agency-wide annual audited financial statements and separate audited financial statements for several individual reporting entities, e.g., Army, Navy, and the Air Force general funds (GF) and working capital funds (WCF). The financial statements are expected to provide information to the Department of Defense (DoD) program managers, the Congress, and the public, thereby facilitating both effective allocation of resources and assessment of management performance and stewardship. The objective is to produce statements that are **timely**, accurate, consistent, and meaningful--statements that can and will be used to improve the management of the Department. Additionally, consistent with the objectives of the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal Financial Accounting Standards (SFFASs), the Department continues to work toward the integration of budget and financial information in order to provide for more effective program management at all levels.

#### ★0102 BACKGROUND

Federal agencies traditionally prepared financial reports to monitor and control the obligation and expenditure of budgetary resources. With the enactment of the “Chief Financial Officers Act of 1990” (CFO Act) (Public Law 101-576), the “Government Management Reform Act of 1994” (GMRA) (Public Law 103-356) and subsequent accountability laws, the Congress called for the production of audited financial statements that fully disclose a Federal entity’s financial position and results of operations, and provide information not only for the effective allocation of resources, but also with which the Congress, agency managers, the public, and others can assess management performance and stewardship. Hence, OMB, in consultation with the CFO Council, the President’s Council on Integrity and Efficiency, and other interested parties, developed the formats and instructions for financial statements described and illustrated in this volume. **The annual audited financial statements should be organized as shown in Table 1-1, at the end of the chapter.**

#### 0103 POLICY

The provisions herein constitute guidance on the form and content of financial statements to be prepared implementing the SFFASs and the guidance issued by OMB. These guidelines set out the reporting format and disclosure requirements for financial statements. Where, through additional disclosure, the value of a financial statement to its users is enhanced, that information also should be presented. This guidance is intended to provide a framework for financial

statement preparation within which each DoD Component has the flexibility to develop and include information useful both to its financial managers and program managers in making decisions. The hierarchy of accounting standards to be followed when recording accounting transactions is found in Volume 1, Chapter 8, Appendix B of this Regulation.

#### 0104 COVERAGE

A financial statement shall be prepared for each reporting entity identified in section 0106, below, of this chapter. This volume specifies the entities that shall be reported upon, identifies the level at which functions and/or funds should be reported on a consolidated basis, notes the basis of accounting to be utilized, prescribes the specific authoritative guidance on financial statement format and disclosures that should be applied by personnel preparing the statements, and provides other instructions necessary for preparation of annual audited financial statements and quarterly unaudited financial statements.

#### ★0105 REQUIRED REPORTING DATES

The provisions of this volume require the preparation of annual audited financial statements for the period ending on September 30 of each fiscal year; and the quarterly unaudited financial statements for periods ending December 31, March 31, and June 30 of each fiscal year.

#### ★0106 DEPARTMENT OF DEFENSE REPORTING ENTITIES

010601. Audited Financial Statements and Quarterly Unaudited Financial Statements Required by OMB. Executive Branch agencies must generally prepare and submit audited financial statements to OMB. The CFO Act, as amended by GMRA, requires major agencies of the Federal Government to prepare and submit audited financial statements. Additionally, OMB requires the Department and other major agencies to prepare Agency-wide quarterly unaudited financial statements in accordance with OMB Circular A-136, Financial Reporting Requirements. The DoD Agency-wide financial statements provide the financial status of the entire Department. There are Component reporting entities within the Department that, while included in the DoD Agency-wide statements, also are required by OMB to prepare stand-alone audited financial statements and quarterly unaudited financial statements. The Component reporting entities are:

- A. Army GF
- B. Army WCF
- C. Navy GF
- D. Navy WCF
- E. Air Force GF

- F. Air Force WCF
- G. Military Retirement Fund
- H. United States Army Corps of Engineers Civil Works
- I. Medicare-Eligible Retiree Health Care Fund.

010602. Audited Financial Statements and Quarterly Unaudited Financial Statements Required by the Senate Select Committee on Intelligence. In addition to the reporting entities identified above, the following entities shall prepare audited annual and unaudited quarterly financial statements to the Senate Select Committee on Intelligence:

- A. Defense Intelligence Agency
- B. National Reconnaissance Office
- C. National Geospatial-Intelligence Agency
- D. National Security Agency

010603. Other Defense Organizations (ODO). In addition to the reporting entities identified in paragraph 010601, above, the remaining accounts of the Department are reported in two columns of the consolidating balance sheet for the DoD Agency-wide audited financial statements and quarterly unaudited financial statements. The ODO-WCF column will include the financial activity of the WCF organizations that are not identified in paragraph 010601, above. The ODO-GF column will include the financial activity of the nonWCF organizations that are not identified in paragraph 010601, above.

010604. Consolidation of ODO Audited Financial Statements and Quarterly Unaudited Financial Statements. The consolidation of reporting entity financial statements for Treasury Index “97” funds, “ODO-General Funds,” shall follow the flow of funds from the apportionment of an appropriation, to allocation, suballocation, and allotment. The primary advantage of this consolidation method is that program managers and auditors can follow the flow of funds upward and downward and validate the receipt and execution of funds at all levels. For financial statement reporting, accounting activities shall consolidate allotment and suballotment information consistent with the flow (distribution) of funds. The consolidating/combining statements shall include a column for each of its general funds and WCF subentities.

010605. Internal Stand-alone DoD Annual Audited Financial Statements and Quarterly Unaudited Financial Statements. Although excluded from the formal list of DoD reporting entities required by OMB to prepare financial statements and have those statements audited, the Department believes progress can be achieved if individual DoD Components prepare annual stand-alone financial statements and have those statements audited. In total, the DoD Components materially impact the Department’s agency-wide financial statements. Each

DoD Component below, shall prepare financial statements and, consistent with the FY 2002 National Defense Authorization Act (P.L. 107-107), have them audited to the extent they believe they are reliable. Each agency is required to comply with the Financial Improvement Initiative (and Audit Readiness) Business Rules and other guidance issued by the Office of Under Secretary of Defense, Comptroller (OUSD(C)). Each component, with the advice of the Office of the Inspector General (OIG), DoD, shall establish an audit committee to oversee its financial audit. The purpose of the audit committee is to establish audit requirements, identify contract deliverables, monitor the execution of the contract, and to identify and assist with resolution of obstacles to a clean opinion. Once the entity is deemed auditable, the audit committee role will be to provide a forum to researching, recommending, and issuing guidance on accounting and auditing issues. Each audit committee shall include a representative of OIG, DoD Office of Deputy Chief Financial Officer (ODCFO), and of Defense Finance and Accounting Service (DFAS). Also, each DoD Component listed below, shall prepare quarterly, unaudited financial statements:

- A. Defense Logistics Agency GF and WCF
- B. Defense Finance and Accounting Service GF and WCF
- C. Defense Information Systems Agency GF and WCF
- D. Defense Contract Audit Agency
- E. Missile Defense Agency
- F. Defense Advanced Research Projects Agency
- G. Defense Commissary Agency GF and WCF
- H. Defense Security Service GF and WCF
- I. Defense Threat Reduction Agency
- J. United States Special Operations Command
- K. Tricare Management Activity
- L. Service Medical Activity
- M. United States Marine Corps GF and WCF

These organizations will work with their supporting DFAS sites to ensure the financial statements are prepared according to DoD's established milestones as outlined in the quarterly guidance found on the DoD Internet website <http://www.dod.mil/comptroller> under "Financial Management Topics."

★0107 CONTENT OF ANNUAL AUDITED FINANCIAL STATEMENTS AND QUARTERLY UNAUDITED FINANCIAL STATEMENTS

010701. The annual audited financial statements shall be comprised of nine major sections. A more detailed outline appears in Table 1-1. Specific instructions for the preparation of the contents of each section are provided in individual chapters of this volume. The nine major sections and the sequence of their presentation are as follows:

- A. Agency Head Message
- B. Management's Discussion and Analysis (MD&A)
- C. Principal Statements
- D. Notes to the Principal Statements
- E. Supporting Consolidating/Combining Statements
- F. Required Supplementary Stewardship Information
- G. Required Supplementary Information
- H. Other Accompanying Information
- I. Audit Opinion.

The quarterly unaudited financial statements shall be comprised of the principal statements, notes to the principal statements and the supporting consolidating/combining statements only.

010702. Agency Head Message. This message precedes the MD&A section of the financial statements, and is a dated transmittal letter signed by the agency head. Guidance for required information in the Agency Head Message is provided in Chapter 3 of this volume.

010703. Management's Discussion and Analysis (MD&A). MD&A of the reporting entity is an integral part of the annual financial statements and should be regarded as Required Supplementary Information (RSI). Requirements are stated in Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, Statement of Federal Financial Accounting Standards (SFFAS) No. 15 "Management's Discussion and Analysis," and OMB Circular A-136. MD&A is an important vehicle for communicating managers' insights about the reporting entity; increasing the understandability and usefulness of the financial statements; and providing understandable and accessible information about the entity and its operations, service levels, successes, and challenges. MD&A also should address significant events, conditions, risks, uncertainties, trends and contingencies that may affect future operations. Guidance for the preparation of MD&A is provided in Chapter 3 of this volume.



010704. Principal Statements and Notes to the Principal Statements. Principal statements and notes to the principal statements summarize financial information for individual funds and accounts within reporting entities and subentities. The amounts reported on the principal statements are based on specific general ledger account balances. Instructions for the preparation of the principal statements are contained in [Chapters 4, 5, 6, 7 8, and 9](#) of this volume.

A. Principal Statements. The principal statements shall include:

1. Balance Sheet (Consolidated)
2. Statement of Net Cost (Consolidated)
3. Statement of Changes in Net Position (Consolidated)
4. Statement of Budgetary Resources (Combined)
5. Statement of Financing (Consolidated)
6. Statement of Custodial Activity ([Combined, as applicable](#)).

B. Notes to the Principal Statements. The notes to the principal statements are an integral part of the financial statements and include a summarization of the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the entity's significant assets, liabilities, equity, revenues, expenses, and budgetary information. The notes also provide further detail of the amounts reported on the statements. In addition, when warranted, the notes identify departures from Federal accounting standards or reporting requirements. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies shall be explained and the reason for noncompliance annotated in the notes. Where data used is known to be incomplete, deemed to be unreliable, or is an estimated (partial or full) amount, the note pertaining to the line(s) where such data is reported in the statement shall contain a reference to such data. The reference shall include the amount and explanation of the circumstances regarding the availability and use of such data. The notes also contain disclosures required by the SFFASs. Instructions for the preparation of the required footnotes are contained in [Chapter 10](#) of this volume.

C. Supporting Consolidating/Combining Statements. The consolidating and combining statements use a multi-column format to present information on the reporting entity's major component. The total column for consolidating and combining statements must equal the amount reported in the consolidated or combined statements.

010705. Required Supplementary Stewardship Information (RSSI). Stewardship resources are investments by the Federal Government for the benefit of the nation. The RSSI section provides information on resources entrusted to Federal agencies, highlights their long-term benefit nature, and demonstrates accountability over these resources. Specific guidance for reporting DoD stewardship assets is contained in Chapter 11 of this volume.

010706. Required Supplementary Information (RSI). Selected transactions are reported as RSI in the financial statements. Specific guidance for reporting RSI is contained in Chapter 12 of this volume.

010707. Other Accompanying Information (OAI). Specific guidance for reporting OAI is contained in Chapter 3 of this volume.

★0108 FINANCIAL STATEMENT AUDITS

010801. DoD Reporting Entity Audits. **OIG**, DoD shall render an audit opinion on the DoD Agency-wide financial statements and OMB required entities in paragraph 010601. In addition, **OIG**, DoD shall provide an endorsement to the audit opinion for each of the reporting entity financial statements opined on by a contract auditor.

010802. Other Defense Organizations Audits. While **OIG**, DoD will not issue separate audit opinions on the financial statements of ODO included in the DoD Agency-wide financial report, the financial statements and records of the organizations shall be included in the audits performed to support the opinion issued by **OIG**, DoD on the DoD Agency-wide audited financial statements.

★DETAILED OUTLINE OF ANNUAL AUDITED DOD FINANCIAL STATEMENTS			
Section Sequence	Major Components of Financial Statements (Hard copy and files for Internet)	DoD Entity Reports	DoD Agency-Wide
1	Cover	Required	Required
2	Table of Contents	Required	Required
3	Message(s) from the Secretary of the Military Department; Chief, U.S. Army Corps of Engineers; or the Director of a Defense Agency, as applicable, for the reporting entity.	Required	Required
4	Management's Discussion and Analysis	Required	Required
5	Performance Information	Not Required	Required
6	Financial Section		
6.1	Signed CFO letter	Required	Required
6.2	Principal Statements		
6.21	Balance Sheet, Consolidated	Required	Required
6.22	Statement of Net Cost, Consolidated	Required	Required
6.23	Statement of Changes in Net Position, Consolidated	Required	Required
6.24	Statement of Budgetary Resources, Combined	Required	Required
6.25	Statement of Financing, Consolidated	Required	Required
6.26	Statement of Custodial Activity, Combined	As Applicable	Required
6.3	Notes to the Financial Statements	Required	Required
6.4	Supporting Consolidating/Combining Statements		
6.41	Balance Sheet, Consolidated	Required	Required
6.42	Statement of Net Cost, Consolidating	Required	Required
6.43	Statement of Changes in Net Position, Consolidating	Required	Required
6.44	Statement of Budgetary Resources, Combining	Required	Required
6.45	Statement of Financing, Consolidating	Required	Required
6.45	Statement of Custodial Activity, Combining	As Applicable	Required
6.5	Required Supplementary Stewardship Information		
6.51	Stewardship Property, Plant and Equipment		
6.51A	Heritage Assets	As Applicable	Required
6.51B	Stewardship Land	As Applicable	Required
6.52	Stewardship Investments		
6.52A	Nonfederal Physical Property	As Applicable	Required
6.52B	Human Capital	As Applicable	Required
6.52C	Investments in Research and Development	As Applicable	Required
6.6	Required Supplementary Information		
6.61	Deferred Maintenance	As Applicable	Required
6.62	Intragovernmental Amounts	As Applicable	Required
6.63	Statement of Disaggregated Budgetary Resources	As Applicable	Required
6.64	Segment Information	As Applicable	Required
6.7	Other Accompanying Information (OAI)		
6.71	Additional Performance Measures	As Applicable	As Applicable
6.72	Improper Payments Information Act (IPIA) Reporting Details	As Applicable	Required
6.73	Other Supporting Statements	As Applicable	As Applicable
6.74	Management Challenges	Not Required	Required
7	Audit Opinion(s)		
7.1	Inspector General, DoD Audit Opinion or Endorsement	Not Applicable	Required
7.2	Audit Opinion of Contract Auditor (e.g., for the Military Retirement Fund)	As Applicable	Not Applicable

Table 1-1. Detailed Outline of DoD Financial Statements