

## VOLUME 6B, CHAPTER 1: “INTRODUCTION TO THE FORM AND CONTENT OF THE FINANCIAL STATEMENTS”

### SUMMARY OF MAJOR CHANGES

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

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

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

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

The previous version dated **July 2021** is archived.

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

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## CHAPTER 1

**INTRODUCTION TO THE FORM AND CONTENT OF THE FINANCIAL STATEMENTS**

## 1.0 GENERAL

## 1.1 Overview

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

## 1.2 Purpose

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

## 1.3 Authoritative Guidance

[The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:](#)

1.3.1. [OMB Circular A-136](#), “Financial Reporting Requirements;”

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

1.3.3. [DoD Financial Statements Audit Guide](#); and

#### 1.3.4. Defense Finance and Accounting Service [\*\(DFAS\) Financial Reporting Guidance.\*](#)

## 2.0 BACKGROUND

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

## 3.0 REQUIRED REPORTING DATES

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

### \*4.0 [DOD CONSOLIDATION ENTITIES](#)

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

#### \*4.1 [OMB Required Consolidation Entities](#)

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

[4.1.2.](#) These [Components](#) are listed in Appendix B of OMB’s annual bulletin, [\*“Audit Requirements for Federal Financial Statements.”\*](#)

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

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

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

\*4.3 Non-OMB Consolidation Entities

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

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

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

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

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

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

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

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

#### 4.4 Pass-Through Accounts

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

#### 5.0 DISCLOSURE ENTITIES

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

#### 6.0 AUDIT COMPLIANCE

##### 6.1. OUSD(C) Audit Requirements

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

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

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

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

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

## 6.2. OMB Audit Requirements

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

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

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

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

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

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

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

7.0.3.3. Financial Section; and

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

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

7.0.4.1. CFO Message;

7.0.4.2. Audit Report;

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

7.0.4.3.1. Balance Sheet (Consolidated);

7.0.4.3.2. Statement of Net Cost (Consolidated);

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

7.0.4.3.4. Statement of Budgetary Resources (Combined)

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

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



Table 1-1. Outline of the Agency Financial Report

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