VOLUME 13, CHAPTER 3: "ASSETS, LIABILITIES, AND NET WORTH"

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 2023 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Verified and updated references, hyperlinks and formatting to comply with current administrative instructions.	Revision
3.6.1, 3.6.1.1.1	Updated guidance to reflect new asset capitalization threshold of $7,500 per Office of the Deputy Assistant Secretary of Defense, Military Community and Family Policy, effective June 6, 2024.	Revision

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CHAPTER 3

ASSETS, LIABILITIES, AND NET WORTH

1.0 GENERAL

1.1 Purpose

This chapter prescribes the accounting policy and related requirements for Nonappropriated Fund (NAF) assets, liabilities, and net worth. NAF Instrumentality (NAFI) programs and facilities must be operated, maintained, and funded as an integral part of the DoD personnel and readiness program. Policies in this chapter apply to all NAFIs and their supporting accounting offices (AOs) to include the Military Exchanges, which include Army and Air Force Exchange Service, Navy Exchange Service Command, and Marine Corps Exchange.

1.2 Authoritative Guidance

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

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

1.2.2. ***Financial Accounting Standards Board*** Accounting Standards Codification (***ASC***). Users can now access the ASC without charge. This access now includes browsing by topic, searches, and print options;

1.2.3. ***DoDI 4105.67***, "Nonappropriated Fund (NAF) Procurement Policy and Procedure;" and

1.2.4. Title 5, Code of Federal Regulations (CFR), Part 1315 (***5 CFR Part 1315***).

2.0 CHART OF ACCOUNTS

The NAF Standard General Ledger (NAFSGL) chart of accounts, to include definitions and general ledger account codes (GLACs) for asset, liability, and net worth accounts, is maintained on the ***DoD NAF Accounting website***. NAF accounting systems that are used by the Military Exchanges are exempt from using this chart of accounts. A separate Defense Resale Activities chart of accounts, for use by the Military Exchanges, is also available on the DoD NAF Accounting website.

3.0 ACCOUNTING REQUIREMENTS FOR ASSETS

The NAFSGL contains eight categories in the assets group: Cash, Investments, Receivables, Inventories, Other Current Assets, NAFI-Titled Fixed Assets, Appropriated Fund (APF)-Titled Fixed Assets, and Other Long-Term Assets. Specific accounting requirements related to these categories are outlined in paragraphs 3.1 through 3.7.

3.1 Cash

NAF cash must be maintained in financial institutions that are U.S. federally insured or designated by the U.S. Department of Treasury. Cash consists of: coins; paper currency; readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; amounts on demand deposit with banks or other financial institutions; and foreign currencies, which, for accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date. Additionally, all sales of merchandise or services using credit cards must be recorded as cash at the time of sale.

3.1.1. Cash in Bank

3.1.1.1. Reconciliation of Bank Accounts. Designated accounting personnel must reconcile all bank statements or reports on a monthly basis. Any discrepancies found are reported immediately to NAFI management. To maintain separation of duties, the person performing the reconciliations cannot be any person associated with the collection or disbursement of funds.

3.1.1.2. Blank Check Stock. The AO must designate someone to maintain the records and control the blank check stock. For security reasons, this person cannot be one of the check writers. Checks are sequentially pre-numbered and stored in a locked container, which must be either a built-in vault or a safe that is burglary resistant and is fire resistant for a minimum period of two hours. For additional guidance on securing blank check stock, refer to Volume 5, Chapter 3.

3.1.1.3. Check Signing Equipment. There are three components to check signing equipment: a signature plate, a key to the machine, and the machine itself. The signatory maintains the signature plate, and a designated person, other than the signatory, maintains the key to the machine and a log to record machine usage. Whenever operating the machine, the authorized operator enters the beginning and ending readings, date, and their initials in the log. In addition to signature plates, there are other media acceptable for signing checks, e.g., digitized signatures. For comprehensive guidance on check signing, refer to Volume 5, Chapter 7.

3.1.1.4. Change of Signatory. When a change of signatory occurs, destroy the signature plates and notify the bank. A certificate of destruction is prepared, signed by two witnesses and the successor signatory, and maintained in the AO. Refer to Volume 5, Chapter 7 for additional information on the destruction of signature media.

3.1.2. Foreign Currency. For guidance on exchange rate fluctuations, refer to Volume 5, Chapter 13.

3.1.3. Change Funds

3.1.3.1. Accounting for Change Funds. Upon initial issuance of the change fund, the NAFI's cash account is reduced and the appropriate asset account (change funds issued) is increased. Increases to these funds must be requested in writing from the NAFI custodian (see DoDI 1015.15 for definition of NAFI custodian). The AO issues a check for the approved amount and increases the asset account accordingly.

3.1.3.2. Replenishment of Change Funds. The NAFI manager or designee must replenish the funds at the end of the day with cash received from operations as long as all the daily net receipts are deposited in total. Before replenishing the funds, the NAFI manager or designee must ensure all checks cashed from these funds are deposited daily. In no case will the NAFI manager or designee exchange dollars for foreign currency, except as provided in Volume 5, Chapter 13.

3.1.4. Petty Cash Funds. Disbursements from the petty cash fund are recorded to the applicable expense accounts in the month that the petty cash is disbursed by the petty cash custodian.

3.1.4.1. Establishing a Petty Cash Fund. Each NAFI must comply with the following guidelines when establishing a petty cash fund.

3.1.4.1.1. Each manager within a NAFI appoints, in writing, individuals to act as petty cash custodians.

3.1.4.1.2. The amount of a petty cash fund will not exceed one month's requirements.

3.1.4.1.3. Any one transaction will not exceed $500, and transactions will not be fragmented to circumvent this limitation. A higher limit may be approved by the Military Service proponent for NAF financial management for purchases made in foreign currency, if currency rates so warrant. This increase must be reviewed on an annual basis.

3.1.4.1.4. In foreign locations, NAFIs may have one petty cash fund in the local foreign currency as well as one in U.S. dollars. If NAFIs give cash bingo prizes in both dollars and foreign currency, two bingo petty cash funds must be established.

3.1.4.1.5. NAFIs must not use petty cash funds for cashing checks or paying salaries and wages.

3.1.4.2. Replenishment of Petty Cash Funds. The AO provides the fixed amount to the individual appointed as the petty cash custodian. Disbursements are made by the petty cash custodian and a petty cash voucher is completed to support each transaction. The petty cash custodian will submit a request with the petty cash vouchers and receipts (or equivalent) to the AO to replenish the petty cash fund as needed, but not later than the last day of each month. The AO will issue a check payable to the petty cash custodian, by name, to reimburse the fund.

3.2 Investments

For guidance on management of investments policy, refer to DoDI 1015.15.

3.3 Receivables

Receivables are amounts owed to the NAFIs for sales of merchandise, services, or dues. Receivables may result from amounts owed by APF's, Uniform Funding and Management (UFM) processes, employees, members, customers, and organizations for dues, fees, charges, rentals, credit sales (except sales of merchandise or services using credit cards, per paragraph 3.1), or travel advances. Receivable records are maintained to ensure transactions accurately identify each debt and its respective debtor. Receivable subsidiary records are reconciled on a monthly basis to the general ledger control accounts. Refer to the NAFSGL for a complete listing of receivable accounts and their definitions.

3.3.1. Accounting for Customer Accounts Receivable. A subsidiary ledger is maintained for each individual account. Dues are charged monthly where applicable. Monthly statements are sent to members or participants of the NAFIs that permit charge sales, charge dues, or deferred payments. Account balances are due and payable on the first day after the statement date. Current month dues are treated the same as current month charge sales and normally become payable the first day after the statement date. If the DoD Component authorizes delinquent fees, then they are established as a customer receivable and charged to the delinquent account each month.

3.3.2. Aged Customer Accounts Receivable Reports. An aged customer accounts receivable report is prepared for all NAFIs with internal credit systems. The aging report, at a minimum, will include the following: over 30 days (second billing statement), over 60 days (third billing statement), and over 90 days (fourth billing statement).

3.3.3. Allowance for Doubtful Accounts. ASC, Topic 326, Subtopic 20, Section 30 (ASC 326-20-30) and ASC 450-20-25-2 require the accrual of losses from uncollectible receivables if a loss is probable and the amount of the loss can be reasonably estimated. NAFIs must create and use an allowance for doubtful accounts for bad debts (credit losses) in the current accounting period. When using the allowance method for bad debts (credit losses), NAFIs must determine and record the amount of accounts receivable estimated to be uncollectible at the end of each reporting period. The estimated amount to record is based on a review of the average write-offs of accounts receivable, which is based on historical data. Supporting documentation for the calculation and associated adjustment must be maintained for audit purposes. Adjust the allowance for doubtful accounts to cover those accounts expected to become uncollectible during the next reporting period.

3.4 Inventories

Inventory is merchandise or supplies on hand, or in transit, at a particular point in time. Inventory held for sale or resale consists of goods to be sold in the normal course of business. Merchandise held on consignment is not included as part of inventory. A value is assigned, which represents the cost of acquisition. When the goods are sold, the value assigned is used to determine profit for the accounting period, as shown on the income statement, and to report assets on the balance sheet at the end of the accounting period.

3.4.1. Accounting for Inventory

3.4.1.1. Inventory Subsidiary. Inventories must be valued and recorded at cost, as required by ASC 330-10-30. The DoD Components must prescribe the method for determining cost (e.g., first in first out, last in first out, moving average) as long as the method is consistently applied and disclosed in the notes to the financial statements. The Military Exchanges must use the retail inventory method to account for retail merchandise. The cost of merchandise will include freight, distribution, purchase charges, insurance, and handling charges if they can be associated to specific items. If they cannot be identified to specific items, then record directly against the appropriate expense account. In determining the cost of purchased property or goods, discounts must be deducted from the price billed, and the cost of purchased property must be recorded, net of discounts. The value of discounts not taken must be charged to operations. If cash discounts are not material to warrant changing individual prices, then the amount of the discount is credited to the purchases account and not to individual items. Discounts lost and excise taxes paid are not included in the cost of merchandise but are recorded in the applicable operating expense account.

3.4.1.2. Stock Record. The stock record is used to record resale merchandise and supplies in a warehouse or storeroom. It requires a complete description of the merchandise and all pertinent information regarding receipt and issue.

3.4.1.3. Spoilage, Breakage, Obsolete Material, Customer Complaint, or Reject Items. Immaterial losses of inventory resulting from spoilage, breakage, obsolescence, rejection, or constant customer complaint items are absorbed in cost of goods. Material losses are recorded in a Spoilage and Breakage expense account for the applicable operation.

3.4.1.4. Consigned Merchandise and Tickets. Merchandise held on consignment is maintained and accounted for by the consignor. Revenue is to be recognized only once the consignment tickets have been sold to a third party purchaser. At that time, any selling costs and any costs due to the consignor are expensed. NAFIs only maintain inventory of consigned merchandise for accountability purposes. These items are physically inventoried monthly or at the end of an event for tickets (whichever comes first). In accordance with ASC 606, this inventory is not recorded in the general ledger. Tickets purchased for resale are to be recorded as inventory in the general ledger.

3.4.2. Physical Counts of Inventory. Inventories are required to be physically counted. The following are policies related to physical inventories of merchandise.

3.4.2.1. The inventory list is printed in the same sequence in which the merchandise is stored or arranged for display or in stock record number sequence.

3.4.2.2. A cutoff date is established for sales, issues, returns, adjustments, and transfers so inventory quantities and related accounting entries can be recorded.

3.4.2.3. Merchandise received during the inventory count is not counted unless the payable or payment will be recorded in the general ledger as of the inventory cutoff date.

3.4.2.4. Merchandise sold during the physical count is included in the inventory count if the sale and receivable is recorded in the general ledger after the cutoff date. The merchandise is not included in the count if the related sale and receivable or cash received will be recorded in the general ledger before the inventory cutoff date.

3.4.2.5. Physical inventory is conducted separately for each department.

3.4.2.6. Inventories of merchandise held on consignment are separate from NAFI-owned merchandise. Inventory lists are prepared for each owner of the goods.

3.4.2.7. At the conclusion of the inventory count, any discrepancies are provided to the NAFI custodian for resolution. The general ledger (i.e., Inventory, Central Warehouse Inventory, Purchases, and/or Purchases Discounts and Allowances GLACs) is then adjusted to match the physical count that was observed by the observation team. See DoDI 1015.15 for information on reporting fiduciary responsibility and investigations.

3.4.3. Physical Inventory Observation. At least annually, the physical inventory counts are observed by at least one person who is independent of the NAFI conducting the physical count. The objective of the count is to verify the inventory to determine the accuracy of the accounting records. Since it is frequently impractical to observe all physical inventories at one time, the observations may be staggered throughout the year.

3.5 Other Current Assets

Other Current Assets are short-term prepaid expenses that are payments and expenditures made in contemplation of future benefits or performance. Other Current Assets also consists of prepayments for supplies, contracts, insurance, franchise fees, deposits, and advance payments that are not material enough for a separate line item disclosure. Prepaid expenses are accounted for in multiple accounts in the Other Current Assets category (refer to the NAFSGL for a complete list of accounts and definitions). Under the prepaid concept, payments made for expenses that apply to a specific period of time are amortized over that period. Any unexpired portion of that expense is shown as a prepaid asset. An advance or prepayment is never amortized for more than its expected usage. Monthly expenses are computed and prorated over each month of the period covered by the advance or prepayment. If the advance or prepayment is for supplies, it is expensed based on expected usage provided by the NAFI custodian. The unexpired prepaid expense subsidiary is reconciled to the related control account. The accounting principle of materiality (see Chapter 1) must be considered before employing the prepaid concept.

3.6 NAFI-Titled Fixed Assets and APF-Titled Fixed Assets

Fixed assets are captured under two categories in the NAFSGL: NAFI-Titled Fixed Assets and APF-Titled Fixed Assets. Each category has similar accounting treatment, and the same accounts are listed under each category (refer to NAFSGL for a listing of all fixed assets).

* 3.6.1. Accounting for Fixed Assets. Fixed assets purchased with NAFs, donated, or transferred to a NAFI with a useful life expectancy of two or more years and an acquisition cost of $7,500 or more must be capitalized. Services with more stringent asset capitalization threshold policies may follow their internal policy. This applies to single items purchased or transferred to a NAFI, or multiple items that are identical and purchased or transferred to the NAFI at the same time.

3.6.1.1. Acquisition Cost. Unless otherwise stated in the following subparagraphs, fixed assets are recorded at cost plus any expenditures necessary to place those assets into use as intended (e.g., installation, freight, testing, and legal fees to establish title). The NAFI can apply purchase discounts to reduce these costs; however, late payment interest penalties must not be capitalized. Interest expenses incurred as part of the acquisition cost of fixed assets will be capitalized.

* 3.6.1.1.1. Assets Purchased in Quantity. All Services are to set the minimum threshold for asset capitalization of assets purchased in quantity at a purchase cost equal to or greater than $7,500. Services with more stringent asset capitalization threshold policies may follow their internal policy. Additionally, the assets purchased in quantity should be identical items and have a life expectancy of two years or more. The whole room capitalization concept used by the lodging and entertainment industry (i.e., when hotel rooms are furnished, all items for all rooms are purchased at one time and are all capitalized together as one room), and composite purchase capitalization, are both permitted to be used when capitalizing assets purchased in quantity. All other criteria for fixed assets listed in subparagraph 3.6.1 must be met.

3.6.1.1.2. Trade-In Assets. When an asset is traded in at the time of purchase, the new asset is recorded at the amount of the monetary consideration paid, plus the trade-in allowance for the old asset. The acquisition cost and accumulated depreciation of the traded-in asset are removed from the accounting records. If the trade-in allowance is less than the book value of the old asset, then a loss will result. These losses are recorded in the "Other Non-Operating Expense" GLAC of the NAFI. If the trade-in allowance is more than the book value of the old asset, then the difference is subtracted from the acquisition cost of the new asset. No gain is recognized.

3.6.1.1.3. Assets-in-Progress. Assets-in-progress include all costs attributable to a construction project (i.e., building and improvements). This includes, but is not limited to, construction of new buildings, renovation of existing buildings, and fixed assets that are purchased as part of the project. The DoD Components must utilize construction-in-progress to accumulate the cost of real property construction projects. The AO records amounts based on the documentation supporting the contract completion. When progress payments to contractors are based on a percentage of completion clause, record the amount of payments due or paid. In addition to costs related to a construction project, fixed assets received but not billed must be recorded. The AO will transfer the accumulated cost of assets-in-progress to the appropriate fixed asset account and commence depreciation on 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. NAFI management establishes the facility depreciation periods according to guidance in Volume 4. Fully depreciated buildings are to be maintained on the NAFI accounting books until the asset is disposed of either through a sale or retirement.

3.6.1.1.4. Donated or Transferred Assets. Record donations of assets and services material to the financial statements. Assets donated or transferred without the expenditure of funds are recorded at the fair market value on the date the asset was donated or transferred. If the fair market value cannot be determined, then the amount recorded is the book value of the donated asset in the donor's accounting records. Donated artifacts should not be included in the financial statements unless the NAFI: 1) uses or intends to use the artifact in its primary operations outside of its educational function, or 2) the NAFI sells or intends to sell the artifact and use the proceeds for something other than purchasing another artifact for educational purposes.

3.6.1.1.5. Nonmonetary Exchanges. When assets are exchanged between NAFIs without monetary consideration, it is called a nonmonetary exchange. The assets received in such exchanges are recorded on the books of the gaining NAFI at the net book value of the losing NAFI. The offsetting entry is to the "Realized Gains and Losses for Sale of Fixed Asset Income" GLAC on both the gaining and the losing NAFI.

3.6.1.1.6. APF Property Obtained for Free. These assets are recorded separately from other fixed assets because title and control of these assets remain with APFs. For APF fixed assets expected to benefit more than one accounting period, any acquisition costs such as repairs, transportation, installation, and any subsequent outlays that extend the useful life of the asset are recorded and depreciated over the useful life of the asset. For APF fixed assets held one year or less, all costs are an expense for the period the asset is held.

3.6.1.1.7. Other Fixed Assets. Fixed assets acquired through Utilization Support and Accountability (USA) process, UFM process, or ***10 U.S.C. § 2492*** authority are NAFI assets, unless APF-titled. Proceeds from the disposition of these assets revert to the NAFI. Further information on USA, UFM practices, and 10 U.S.C. § 2492 authority is included in DoDI 1015.15.

3.6.1.1.8. Artifacts. Artifacts are historical treasures or heritage assets held primarily for educational purposes in a museum with measures taken to preserve the asset. Costs incurred in acquiring artifacts must be recorded as a non-operating expense and not recognized as part of the asset value, or depreciated.

3.6.1.2. Lease Disclosures. If either capital or operating leases are material, the information concerning the leases is disclosed in the NAFI financial statement footnotes. Refer to ASC Topic 842 for additional information on leases.

3.6.1.3. Subsequent Expenditures. Subsequent expenditures for fixed assets fall into three categories: repair and maintenance, improvements, and additions. The objective is to match the expenditures with the period benefited. Therefore, expenditures that benefit only the current period are expensed and expenditures that benefit future periods are capitalized.

3.6.1.3.1. Repair and Maintenance. Expenditures in this category are designed to prevent an asset from deteriorating (e.g., painting the interior of the enlisted club) or to return the asset to its original level of performance (e.g., a tune-up on a motor vehicle). These expenditures do not improve the performance of the asset or extend the life of the asset; therefore, these expenditures are expensed in the period incurred.

3.6.1.3.2. Improvements. Improvements are expenditures that extend the useful life of an asset (e.g., an engine overhaul on a motor vehicle) or improve original asset performance. Improvements are capitalized and depreciated.

3.6.1.3.3. Additions. Expenditures which increase the size of an asset (e.g., adding a new section to the club) are called additions. Additions are capitalized and depreciated.

3.6.1.4. APF-Titled Fixed Assets. A unique aspect of NAF accounting is that some assets, particularly buildings, are purchased using NAFs, and the NAFI has exclusive use, but the title rests with the U.S. Government. NAF procured property or facilities may be transferred to APF for maintenance when allowed by the Military Service regulations. Upon receipt of approved documentation from NAFI management, record these items in the NAF property records and general ledger as APF-Titled Fixed Assets (signifies government title) and commence depreciation. Assets acquired by Memorandum of Agreement where title and maintenance are transferred to an APF, are not depreciated in the NAF accounting records.

3.6.1.5. Fixed Assets in Transit. The NAFI may receive title to fixed assets and may make payment for fixed assets before the NAFI has physical possession of the property. Typically, this happens when property destined for a NAFI overseas is delivered to a stateside port for over-water transportation by government means. Payment is made based on the receipt at the port and is recorded to the appropriate fixed asset account. When asset reaches final transit location, begin depreciation on 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.

3.6.1.6. Disposition of Property. Disposal means that the NAFI activity manager/custodian has physical control of the item and disposes of it. Documents are prepared and approved by the NAFI activity manager/custodian for the disposition of fixed assets. When property is transferred to APFs, it is evidenced on the form required by APFs.

3.6.1.7. Physical Fixed Asset Inventory. A physical inventory of all fixed assets will be conducted at least annually and observed by at least one person who is independent of the NAFI conducting the physical count. The objective of the count is to verify the inventory to determine the accuracy of the accounting records. When it is impractical to perform this inventory all at one time, the NAFI may schedule and conduct the physical inventory by area.

3.6.1.8. Property Subsidiary Ledger. Property subsidiary ledgers serve as property control records. At a minimum, the property subsidiary ledger must list each piece of property, acquisition date, acquisition value, useful life, depreciation to date, and current book value. This subsidiary ledger can be either automated or manual, but if automation is available, it must be used. The NAFI prepares the documentation necessary to change any data on the subsidiary ledger records, even when no general ledger entries are required, e.g., fixed assets transferred from one location to another within the same NAFI.

3.6.1.9 Claims. When an insured asset is destroyed or damaged and the claim is settled, the affected accounts are adjusted. Usually claim settlements do not exceed the acquisition value less accumulated depreciation of the property destroyed (book value).

3.6.1.10. Depreciation. DoD Components must utilize the straight-line method of depreciation, and must prescribe the useful lives of assets and disclose them in the notes to the financial statements. Tangible fixed assets, except construction-in-progress, must be depreciated over their expected useful lives. Accounting for depreciation as an operating expense is an integral part of the accrual basis of accounting. Accordingly, all NAF activities recognize depreciation of their fixed assets. Refer to Volume 4 for the requirements for salvage value to be subtracted from the acquisition cost of fixed assets before computing depreciation.

3.6.1.10.1. Assign an expected useful life within the following parameters:

Asset	Useful Life in Years
Buildings	30 – 40
Building Improvements	5 – 20
Furniture, Fixtures, & Equipment	2 – 10
Vehicles	2 – 10
Aircraft Engine Overhaul	2 – 6
Aircraft Avionics, Interior, Painting	2 - 5
Aircraft	5 – 10
Boats	2 – 15
Computer Hardware	2 – 10
Computer Software	2 – 5
Land Improvements	15 – 25
Land Rights of Limited Duration	Over Specified Duration
Leasehold Improvements	Lesser of the Remainder of Lease Period or 20 Years
Sewers & Other Utilities (excluding items like fiber optic cable)	10 – 50
Steam and Electric Generation Equipment	20
Other Water Transportation Equipment (e.g., barges, tugs)	15 – 20
Livestock (e.g., Horses) & Breeding Livestock	2 – 10
Relocatable/Portable Buildings	2 – 10

3.6.1.10.2. For NAF capital assets whose titles are transferred to APFs, but are still used by the NAFI, continue to depreciate these fixed assets on the NAFIs book until the items are fully deprecated. Fully depreciated assets which are still in use by the entity are to be reported on the balance sheet until disposed of via sale or retirement.

3.6.1.10.3. Commence depreciation on 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, regardless of whether the asset is actually used. In the case of constructed real property, depreciation will commence when the building is available for use, regardless of whether the building is fully occupied.

3.6.1.10.4. If an asset remains in use longer than its estimated useful life, it will be retained in the property accountability or management system, as well as in the accounting records, and the record will reflect both its recorded cost and accumulated depreciation until its disposition.

3.6.1.10.5. Depreciation of real property must not be accelerated at installations approved for realignment, closure, or re-stationing. Upon actual closure of the facility, the undepreciated value must be expensed in the applicable extraordinary expense account.

3.6.2. Information Technology Assets. In accordance with ASC 350-40-35-4, internal-use software will be amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's 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. Refer to Volume 4, Chapter 27 for detailed guidance.

3.7 Other Long-Term Assets

Other Long-Term Assets include those not identified in other asset lines of accounting that are held for longer than 1 year. Other Long-Term Assets consists of long-term pension benefit assets, long-term receivables, long-term prepaid expenses, long-term leases and capital leases, certificates of deposit (more than 12 months), marketable securities, long-term contributions, long-term franchise fees, intangible assets, and long-term royalty and trademark fees. Report pension benefit asset information when the pension plan is overfunded and classified as a long-term asset. Refer to ASC 715, "Compensation–Retirement Benefits," and Chapter 11 for reporting guidance. Cash and investments restricted for long-term purposes will be classified and reported on the balance sheet as other long-term assets.

4.0 ACCOUNTING REQUIREMENTS FOR LIABILITIES

The NAFSGL contains two categories in the liabilities group: Current Liabilities and Long-Term Liabilities. Current liabilities are due on demand or will be due on demand within 1 year; whereas, long-term liabilities are amounts due over a period of time longer than l year from the date of the balance sheet. Specific accounting requirements related to liabilities are outlined in paragraphs 4.1 through 4.3.

4.1 Recognition of Liabilities

Liabilities arise from the acquisition of goods or services. Accounts payable must be recognized upon receipt of services or when accepting title to goods. Under accrual accounting, accrued liabilities are recorded for goods or services which have been provided but for which invoices have not yet been received; and therefore, not yet included in accounts payable.

4.2 Contingent Liabilities

Contingencies are existing conditions, situations, or circumstances involving uncertainty as to possible gain or loss that will ultimately be resolved when one or more future events occur or fail to occur. Loss contingencies are accrued when the outcome is probable and the amount is reasonably estimable. Do not record gain contingencies. When a contingency is identified, the AO will footnote the year-end Military Service level consolidated financial statements explaining the contingency and the potential for gain or loss. See ASC 450-20-25 for more information on recording contingent liabilities.

4.3 Accountability for Liabilities

The NAFI manager or designee is responsible for approving the disbursement of NAFs. The AO is not authorized to make disbursements without the approval of the NAFI manager or designee or as authorized in this Regulation.

5.0 PAYMENT OF LIABILITIES

5.1 Documentation Required for Payment

DoDI 4105.67 provides policy and responsibility for procurements using NAFs. NAFIs must also comply with the Prompt Payment Act in accordance with 5 CFR 1315. The following documentation is required prior to payment of liabilities.

5.1.1. General. NAFIs will submit the following documents, properly prepared and authenticated, to the AO to support payment for procurements:

5.1.1.1. Procurement document, e.g., purchase order (PO), contract, blanket purchase agreement, or similar documents;

5.1.1.2. ***DoD (DD) Form 250***, Material Inspection and Receiving Report, or other signed document that provides evidence goods were accepted or services were received; and

5.1.1.3. Vendor invoice or claim for payment. The invoice or claim may be for a specific delivery or for deliveries made over a specified period.

5.1.2. Overseas Shipments. The AO must receive a vendor invoice and proof of shipment before payment can be made on overseas shipments. These payments may be made prior to receipt or acceptance of goods.

5.1.3. Partial Shipments. The NAFI will submit to the AO a DD 250 or locally produced receiving report showing receipt and acceptance of goods. The form must have "Partial Shipment" written on the top. The AO will establish an accounts payable open item. When the AO receives the invoice for the partial shipment, payment will be processed and the supporting documents will be annotated as partial shipment received.

5.2 Purchases From Other NAFIs

When a NAFI purchases goods or services from another NAFI, a ***DD 1149***, Requisition and Invoice/Shipping Document, or similar form will be submitted to the AO to support the transaction.

5.3 Purchases From the Government

NAFI purchases of goods or services from the Government (e.g., bills from APFs) are not usually supported by a procurement instrument. The NAFI will submit a DD 250 or other signed document to the AO to support the payment.

5.4 POs, Vendor Invoices, and Receiving Reports

5.4.1. POs. A PO is a document issued by the NAFI to a seller, indicating the type, quantity, and agreed price for goods or services to be provided. Sending a PO to a supplier constitutes a legal offer to buy goods or services. Acceptance of a PO by a seller forms a contract between the NAFI and the seller.

5.4.2. Vendor Invoices. A vendor invoice represents a claim against NAF. All invoices must be date stamped at time of receipt and meet Prompt Payment Act criteria in accordance with 5 CFR 1315.

5.4.3. Receiving Reports. A receiving report is a document prepared by the receiving activity to document the receipt of services or acceptance of goods.

5.5 Discounts

For NAFIs, a discount is the amount deducted from the total amount of the invoice when goods are supplied "Free on Board (FOB) destination." If the goods are supplied "FOB other" and a separate freight charge is shown, then the discount is taken on the cost of goods only. The FOB delivery terms are shown on the PO.

5.6 Prompt Payment Act

The Prompt Payment Act, 5 CFR 1315, requires Federal agencies (including NAF activities) to make payments in a timely manner. If a payment to a contractor is late, then an interest payment is due to the contractor. This interest payment is made without contractor request. A notice stating the amount of the interest penalty, the number of days late, and the rate used for calculation accompanies the interest payment.

6.0 ACCOUNTING REQUIREMENTS FOR NET WORTH

Net Worth or Equity consists of capital invested in NAFIs plus (minus) the net income (loss), resulting from operations since inception. Transactions into and out of equity are limited to net income, net losses, and entries associated with the establishment of the fund, as well as certain adjustments. Adjustments are rare and might include certain accounting principle changes, prior period adjustments greater than one percent (1%) of the assets in the consolidated balance sheet (or less than 1% but deemed material), and distribution of capital. The NAFSGL contains one category in the net worth/equity group: Net Worth/Equity. Specific accounting requirements related to this category are outlined in paragraphs 6.1 and 6.2.

6.1 Accounting for Net Worth/Equity

6.1.1. When a new NAF organization with preexisting capital is authorized, the capital is recorded as equity. As an example, preexisting capital is a factor when a private association converts to a membership association. Equity is disestablished when a NAF organization is dissolved.

6.1.2. Equity may be distributed by declaring dividends to other NAF organizations. An example is dividends paid by installation restaurants. Special grants for new construction and facility improvements are another method of distributing equity. The declaration of dividends by the Military Exchanges and the distribution of grants must be recorded and reported as decreases in equity. The receipt of Military Exchange dividends and of grants that support recurring operations must be recorded as non-operating income. The receipt of grants for capital items must be recorded as equity transactions. Equity is transferred in the form of cash or other assets.

6.2 Other Equity Transactions

6.2.1. The Other Equity or Earnings general ledger account consists of transfers in and out of equity that will be limited to:

6.2.1.1. Net income;

6.2.1.2. Net losses;

6.2.1.3. Declaration of dividends by Military Exchanges;

6.2.1.4. Prior year material corrections;

6.2.1.5. Components of other comprehensive income (loss) prescribed by ASC 220-10-45-10A;

6.2.1.6. Entries associated with the establishment, disestablishment, or consolidation of NAFIs; and

6.2.1.7. Distribution and receipt of capital.

6.2.2. Refer to Chapter 1 for information on materiality.