OFFICE OF THE UNDER SECRETARY OF DEFENSE
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COMPTROLLER

MAR 1 2013

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Accounting Policy Update for Real Property Financial Reporting

Reference: Department of Defense (DoD) Financial Management Regulation (FMR), Volume 4, Chapter 6, Section 06014.C.2 and Annex 4

The DoD's accounting policy requires entities funding real property asset acquisition to report the assets and associated depreciation expense on their financial statements. This policy went into effect October 2010, superseding the "preponderance-of-use" policy. However, the current policy – using funding of initial acquisition cost to determine the reporting entity – causes assets that are no longer controlled by the funding Component to be reported improperly. Adherence to this policy can cause a conflict with the generally accepted accounting principles (GAAP), specifically the reporting requirements for assets in the Statement of Federal Financial Accounting Concepts 5, "Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements."

Federal accounting concepts, as referenced above, require that assets are reported on the financial statement of the entity which controls access to the economic benefits or services provided by the asset and, therefore, can obtain them or deny or regulate the access of other entities. For DoD real property assets, evidence of control may include the functional use of the asset (i.e., exclusive use of the asset); renovation or conversion; sustainment; and management of the space.

The attached policy revision is issued to align with the federal accounting concepts and supersedes the policy and scenarios contained in the referenced DoD FMR section and annex. This affects other applicable chapters of the DoD FMR as well. The DoD FMR will be updated to incorporate this policy as soon as possible. DoD Components should implement this revised policy immediately by transferring any assets they have reported under previous policy that should have been reported by another Component under GAAP.

My point of contact is Ms. Alaleh Jenkins. Please contact her at alaleh.jenkins@osd.mil or (703) 614-6524.

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

cc:
Under Secretary of Defense for Acquisition, Technology, and Logistics

Accounting Policy Update to Department of Defense (DoD) Financial Management Regulation (FMR), Volume 4, Chapter 6, Section 060104.C.2., "Reporting of the Real Property Assets on the Balance Sheet"

a. **Accountability vs. Financial Reporting.** As a consequence of provisions within ***Title 10 U.S.C. Chapter 159*** that govern the acquisition of interests in real property by Military Departments, all DoD real property must be under the jurisdiction of a designated accountable entity. Chapter 159 provides that the Military Departments have jurisdiction over all DoD real property assets with the exception of the Pentagon Reservation and certain defense facilities in the national capital region. ***DoD Directive 5110.4*** directs the Washington Headquarters Service to serve as the accountable entity for the Pentagon Reservation and such defense facilities. The designated accountable entity may be different than the entity which reports the real property asset on its financial statements in accordance with the policy below.

b. **Financial Reporting Entity Requirement.** Federal accounting concepts require that assets be reported on the financial statement of the entity which controls access to the economic benefits or services provided by the asset and, therefore, can obtain them or deny or regulate the access of other entities.

(1). For real property assets, control may be evidenced by such things as the functional use of the asset (i.e., exclusive use of the asset); renovation or conversion; sustainment; and management of the space. Therefore, the DoD entity that controls the real property asset (to include capital leases) will record the total acquisition cost (recorded cost) (see section 0602 of DoD FMR Volume 4 Chapter 6) and associated depreciation of the asset on its financial statements (see paragraph 060105 of DoD FMR Volume 4 Chapter 6). If the DoD entity that controls the real property asset is different from the sponsoring entity (the military department, DoD agency or combatant command that sponsors the construction project), the sponsoring entity shall report the construction in progress (CIP) on its financial statement until the asset is placed in service, at which time and in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) 6, paragraph 31, the sponsoring entity will record a transfer-out on its financial records and the controlling entity will record a transfer-in for the asset at its full acquisition cost (recorded cost). For additional information regarding CIP reporting, refer to paragraph 060202 of DoD FMR Volume 4 Chapter 6).

(2). If an entity no longer controls or utilizes an asset, the asset should be financially transferred to the entity currently in control of the asset (see paragraph a above for what constitutes control) along with all the supporting documentation. Transfer transactions should record the acquisition cost (recorded cost) net of any accumulated depreciation of the asset on the new entity's financial statement. Accounting entries are specified in the USSGL SFIS Transaction Library. Such financial accounting transfers have no impact on asset accountability; however the property system of the accountable entity should be updated to reflect the financial reporting entity.