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

SUBJECT: General Equipment Financial Reporting Responsibilities

The Federal Accounting Standards Advisory Board issued Technical Bulletin (TB) 2017-2, "Assigning Assets to Component Reporting Entities" in November 2017. This TB allows the Department of Defense to assign assets to component reporting entities on a "rational and consistent basis," providing flexibility to better align asset financial reporting responsibilities with the operational environment. This memorandum issues policy complementing the TB. As detailed in the attachment, entities:

- Funding construction will report construction in progress;
- With accountability responsibilities, per DoD Instruction 5000.64, will report in-service general equipment; and
- With reporting responsibility for improved assets will report capitalized improvements.

The attached guidance provides further instructions for transferring general equipment assets. Reporting entities must also disclose the nature of their general equipment reporting responsibilities in their management representation letters and notes to the financial statements.

This memorandum supersedes all previous memoranda related to assigning financial reporting responsibilities of equipment and is effective October 1, 2018. The DoD Financial Management Regulation will incorporate this policy in a future update.

My point of contact for this subject is Mr. Brian Sykes. Reach him at 703-695-5902 or brian.a.sykes4.civ@mail.mil.

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Deputy Chief Financial Officer

Attachment:
As stated

cc:
Deputy Chief Management Officer of the Department of Defense
Deputy Inspector General for Auditing, DoD Office of Inspector General
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Department of Defense
Financial Reporting Responsibilities for General Equipment
Update Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2
July 2018

I. Introduction

The Department of Defense (DoD) is a large, decentralized, and complex organization comprised of multiple component reporting entities that support the DoD's overall mission. DoD General Equipment (GE) assets are frequently funded and used by multiple component reporting entities simultaneously. This makes it difficult to consistently and efficiently implement financial reporting policies which are based on the concepts of control[1] and economic benefit[2] established in Statement of Federal Financial Accounting Concepts (SFFAC) 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. The Federal Accounting Standards Advisory Board (FASAB) recognized this challenge faced by DoD and other federal agencies, and has released Technical Bulletin (TB) 2017-2, *Assigning Assets to Component Reporting Entities*. This TB provides flexibility to assign assets to "…component reporting entities on a rational and consistent basis." The purpose of this document is to leverage the provisions in the TB to establish a new financial reporting policy for GE that will be simpler and more efficient to implement in the DoD environment.

II. Scope

This document provides new policy for establishing financial reporting responsibilities for DoD GE and their associated capital improvements. Current DoD policy defines GE as: "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."[3] This policy update addresses DoD on a departmental level and professional judgement will be required to address specific scenarios not addressed in this document. This document supplements or replaces existing DoD guidance as noted in Section VIII. This policy applies to all DoD Components including unified commands and their subordinate commands. Contents include:

- Construction-in-Progress (CIP)
- In-Service GE (including weapon systems and Government Furnished Equipment (GFE))
- Capital Improvements to GE

This policy impacts financial statement reporting responsibility and does not affect asset "accountability" requirements established in any DoD instructions. This policy does not address non-DoD GE. Nor does this policy address reporting of asset driven liabilities.

III. General Requirements

- 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, *Accountability and*

[1] SFFAC 5 paragraph 29 defines control as the ability of the federal government to obtain the economic benefits or services embodied in a resource and to deny or regulate the access of others.
[2] SFFAC 5 paragraph 26 defines economic benefit as a characteristic or ability possessed by all assets that may result in inflows of cash, cash equivalents, goods, or services to the federal government, whereas the services embodied in an asset may benefit the government in other ways.
[3] OUSD(C) Policy Memorandum, Strategy and Implementation Guidance for General Equipment Valuation, March 2016

Management of DoD Equipment and Other Accountable Property, including the responsibility for recording the asset in the DoD Component's Accountable Property System of Record (APSR).

- 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.
- 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 (See Section VII for additional information).
- This policy applies to all GE assets regardless of book value (including applicable depreciation).
- The same methodology for the financial reporting of GE will apply to both General Funds and Working Capital Funds.
- 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, and other required supplemental information (RSI).
- DoD Components will continue to follow the existing DoD Instructions for establishing and maintaining accountability for GE assets using their APSRs.
- All entities 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.

IV. Construction-In-Progress (CIP)

There is **no change** to current policy for CIP financial reporting responsibility. CIP for GE (including improvements) will be accumulated and reported by the funding entity in its CIP account until the asset is placed in service. 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 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 when the asset is placed in service. Other funding entities of the same asset will transfer their accumulated costs to the accountable entity in order to establish the full cost entry in the APSR. (See Section V for details on transfers of in-service assets). Such transfers must be recorded in the same accounting period that the asset was removed from CIP and placed in service.

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 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.*

Table 1 demonstrates the general ledger entries that are required to liquidate CIP and recognize a depreciable asset.

Table 1: Liquidation of CIP

Funding Entity	**G/L Entry – Liquidation of CIP by the Entity Funding Construction to Place Asset In Service (Transaction Codes D510)**
	Debit 175000 Equipment Credit 172000 Construction-in-Progress

V. In-Service Assets (including weapon systems and GFE)

The following provides DoD's **revised** policy for the financial reporting responsibility of in-service GE.

The entity with accountability for in-service GE is also responsible for financially reporting it. In most cases this will be the funding entity acquiring the asset for use in its operations. While financial reporting begins while the asset is under construction (i.e. CIP), physical accountability for the asset begins at the point of receipt, delivery, or acceptance.

When two entities determine that accountability should be transferred, financial reporting responsibility will follow per Section VII.A.

Accountability will need to be established for existing assets with no associated accountable entity. See section VII.B.

In-Service Asset Example: *The Army is conducting an inventory of capital assets and identifies a Humvee that was not previously reported on their 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.*

In-Service Asset Example: *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.*

Note: Should an auditor from the Navy or DHP request information on the MRI machine, the Navy and DHP will have processes in place that will allow them to easily demonstrate the designation of the responsible reporting entity based on the policy above.

In-Service Asset Example: *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.*

Note: All required financial information and supporting documentation should be provided to the Army to support their financial reporting.

If a transfer is required to implement this policy, or if a transfer is needed after an asset is placed in service, see Table 2:

Table 2: Transfer of In-Service GE 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

VI. Capital Improvements

The following section provides DoD's **revised** policy for the financial reporting responsibility of capital improvements to GE. A capital improvement extends the useful life of the asset and/or improves its capacity/capability. If the capital improvement is funded by the same entity that reports the base asset, the funding entity will also report the improvement 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:

- 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.
- 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 GE asset by the funding organization. The cost of the improvement will then be transferred and reported by the entity that has reporting responsibility for the base asset, in accordance with the entries in Table 3 below.

For GE, the objective is that the base asset and all capital improvements made to the base asset are reported by the same entity. The justification for maintaining the base asset with the cost of the improvement is to maintain assets and their improvements on the same financial statements.

Note: 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).

Capital Improvement Example: *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.*

Capital Improvement Example: *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.*

If a transfer is required to implement this policy, the transfer will be made as presented in Table 3. 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 as shown below:

Table 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

VII. Implementation Guidelines

A. Transfers

There is no change to current policy for reporting responsibility with regard to transfers. Accountability for GE 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., DD-1348, DLMS 856, or DD-1149). Each DoD Component has execution responsibility to ensure that requisite tasks are being completed in a timely manner for all transfers. 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 the 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.

Assets on loan or assets under the 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.

For additional information on transfers see DoDI 5000.64, Section 4.8.

B. GE Assets Found on Site

If a DoD GE asset is identified on site that is not recorded in the APSR of the local DoD Component, it is the local DoD Component responsibility to identify who has accountability for the asset. In this instance, the local DoD Component is defined as the DoD Component that the GE asset in question is residing closest to in distance (i.e. in a building operated by DLA, on a yard maintained by the Navy). 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 for the GE asset, and ensure that the GE 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 proper internal controls in place to support Property Management in accordance with DoDI 5010.40, *Managers' Internal Control Program Procedures*. These elements will assist the accountable DoD Component with maintaining accountability of assets on their APSR. For audit purposes, if there are GE 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.

C. Accountability Disputes

Disputes between DoD Components regarding accountability for an asset under DoDI 5000.64 guidelines may be resolved by contacting the Property and Equipment Policy office, Office of the Under Secretary of Defense for Acquisition and Sustainment (osd.pentagon.ousd-atl.mbx.p-e-policy@mail.mil).

D. Impact of Capitalization Thresholds

If an asset is 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 is 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.

E. Disclosure Requirements

The management representation letter provided to the Independent Public Accountant (IPA), and Note 1 of the financial statements will include a disclosure related to GE financial 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 that are reported by another DoD Component to complete their mission.

Example Disclosure Note:

The [DoD Component] reports the general equipment for which it is accountable. In cases where the [DoD Component] funds capital improvements to an asset that is reported by another DoD Component, the value of the capital improvement is transferred after being placed in service and reported by the DoD Component that is assigned accountability of the asset. If the [DoD Component] has determined that it is necessary to transfer an asset off its financial statements it has the ability to complete a transfer. The [DoD Component] may use assets to complete its mission that are reported by another DoD Component. This reporting policy has been implemented in accordance with FASAB Technical Bulletin TB-2017-2.

VIII. References

Applicable Requirements and Guidance:

- SFFAS 6, *Accounting for Property, Plant, and Equipment*
- SFFAS 7, *Accounting for Revenue and Other Financing Sources*
- SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*
- SFFAS 47, *Reporting Entity*
- SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*
- TB 2017-2, *Assigning Assets to Component Reporting Entities*
- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*

- OUSD(C) Policy Memorandum, *Strategy and Implementation Guidance for General Equipment Valuation,* March 2016
- DoDI 5000.64, *Accountability and Management of DoD Equipment and Other Accountable Property*
- DoDI 5010.40, *Managers' Internal Control Program Procedures*

Impact on previously issued DoD guidance:

- OUSD(C) Policy Memorandum, *Financial Reporting Responsibility for Reporting Military Equipment Under the Control of Another Entity,* March 2012 [Superseded by this memorandum]
- DoD Financial Management Regulation 7000.14-R, Volume 4, Chapter 6 [Will be amended by this memorandum]