



OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAR 15 2019

COMPTROLLER

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

SUBJECT: Real Property Financial Reporting Responsibilities Policy Update (FMP #19-05)

This memorandum issues real property financial reporting responsibility policy that leverages flexible guidance found in Federal Accounting Standards Advisory Board Technical Bulletin (TB) 2017-2, "Assigning Assets to Component Reporting Entities." Implementing the policy will take effort, but once in practice it will yield long term value in easing reconciliations and reporting real property on a rationale and consistent basis. The policy is effective October 1, 2019.

The attachment to this memo details the new key policy elements below.

- An entity funding construction will report the construction in progress.
- The military department or Washington Headquarters Services (installation host) where the asset is located will report in-service real property.
- Capitalized improvements will be financially reported by the entity with reporting responsibility for the improved asset.
- Working capital funds will continue to financially report real property on sites where they are the installation host and will impute costs as needed.
- Reporting entities will disclose the nature of their real property reporting responsibilities in their management representation letters and notes to their financial statements.

This memorandum supersedes all previous memoranda related to assigning real property financial reporting responsibilities. A future update of the DoD Financial Management Regulation will incorporate the new policy. My point of contact for this subject is Ms. Rebecca Evertsz. Reach her at rebecca.z.evertsz.civ@mail.mil or (703) 695-9338.

A handwritten signature in black ink, appearing to read "Mark E. Easton".

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated:

cc:

Department of Defense Deputy Chief Management Officer
Assistant Secretary of Defense for Energy, Installations, and Environment
Deputy Inspector General for Audit, DoD Office of Inspector General

Department of Defense
Real Property Financial Reporting Responsibilities Policy Update
Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2



March 2019

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 real property assets are frequently funded and used by multiple DoD Component reporting entities simultaneously. This makes it difficult to consistently and efficiently implement financial reporting policies which are based on the concepts of control¹ and economic benefit² 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 recognized this challenge faced by DoD and other federal agencies, and has released Technical Bulletin (TB) 2017-2, *Assigning Assets to Component Reporting Entities*. The TB provides DoD the flexibility of assigning its assets to "...component reporting entities on a rational and consistent basis," and provides guidance that would be helpful in resolving assignment of asset questions that were not readily resolved through consideration of concepts level guidance within SFFAC 5. The purpose of this document is to update financial reporting policy for real property based on the provisions in the TB, that will be simpler and more efficient to implement in the DoD environment, with its complex funding and governance structures.

II. Scope

This policy is effective October 1, 2019. This document provides new policy in establishing financial reporting responsibilities for DoD real property and the associated capital improvements that are or will be a part of the consolidated DoD financial statements. It establishes policy at a departmental level and professional judgement will be required to address specific scenarios not expressly addressed in this document. This document supplements or replaces existing DoD policy as noted in Section X. This policy applies to all DoD components including the Combatant Commands and all other organizational entities within DoD. It establishes financial reporting responsibility guidance for:

- Construction-in-Progress (CIP),
- In-service real property, and
- Capitalized improvements to real property.

This policy does not supersede or replace:

- Real property asset accountability requirements established in any DoD instructions,
- General fund or working capital fund reimbursable operations policy,
- Reporting of asset driven environmental liabilities,

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.

Department of Defense
Real Property Financial Reporting Responsibilities Policy Update
Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2



March 2019

- Previously issued policy regarding what real property assets are to be reported by the DoD outside of the United States (this policy does impact the determination of the financial reporting entity), or
- Military construction funding policy or responsibility.

III. General Requirements

- Title 10 of the US Code § 2682 states “a real property facility under the jurisdiction of the Department of Defense which is used by an activity or agency of the Department of Defense (other than a military department) shall be under the jurisdiction of a military department designated by the Secretary of Defense.” The DoD has determined that because the entities with jurisdiction over real property assets have existing requirements to manage the asset-related data required for financial reporting, it is rational and consistent that those same entities carry the financial reporting responsibility for those assets.³
- Financial reporting responsibility for the asset 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).
- Financial reporting responsibility for real property assets must be supported by documentation establishing the rights and obligations of the reporting entity for each asset (See Section VII Implementation Guidance for additional information). Such documentation may include real property records reflecting the jurisdiction of a Military Department or the Washington Headquarters Service (WHS) over real property, as well as inter- and intra-agency agreements and records reflecting host-tenant support relationships.

IV. Construction-In-Progress (CIP)

There is **no change** to current policy for CIP financial reporting responsibility. The funding entity⁴ reports CIP for real property (including improvements) in its CIP account until the asset or improvement is placed in service. The funding entity also relieves CIP when the asset or improvement is placed in service. At this time, an asset or improvement will be recorded by the funding entity and an interim DD Form 1354 will be used to document the construction, in accordance with existing DoD real property policy. The asset will then be reported by the entity in accordance with Section V. If additional costs continue to be incurred after the asset or improvement is placed in service, those costs will continue to be recorded in the funding entity’s CIP account. Upon final contract closeout, CIP will be relieved with the final DD Form 1354, and reported in accordance with Section V, as applicable.

Real Property CIP Example: *The Department of Defense Education Activity (DoDEA) funds the construction of a new high school on an Army installation. DoDEA reports the CIP on its financial statements. When the asset is placed in service, DoDEA relieves the appropriate CIP amount,*

³ Washington Headquarters Services is delegated jurisdiction over its facilities via Title 10 of the US Code § 2674 and DoD Directive 5110.04.

⁴ The funding entity is the entity regardless of specific types of funds used (e.g. appropriation or working capital funds) and paying to acquire the asset or modification.

Department of Defense
Real Property Financial Reporting Responsibilities Policy Update
Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2



March 2019

recognizes the asset, and transfers the asset to the Army along with all relevant supporting documentation, as detailed in the Key Supporting Documentation section of the FIAR Guidance (Appendix B). Upon transfer, the Army reports the school on its financial statements.

General Ledger Entries

If a transfer is required (see Section V), the transfer will be made as presented in Table 1.

Table 1: Liquidation of CIP and Transfer of Completed Asset

Funding Entity	G/L Entry – Liquidation of CIP by the <u>Entity Funding Construction</u> to Place Asset in Service (Transaction Codes D510)
	Debit 173000 Buildings, Improvements, and Renovations Debit 174000 Other Structures and Facilities Credit 172000 Construction-in-Progress
	G/L Entry Upon Transfer Out to <u>Installation Host</u> (Transaction Codes E510)
	Debit 573000 Financing Sources Transferred Out Without Reimbursement Credit 173000 Buildings, Improvements, and Renovations Credit 174000 Other Structures and Facilities
Installation Host	G/L Entry for <u>Installation Host</u> upon Transfer In (Transaction Code E606)
	Debit 173000 Buildings, Improvements, and Renovations Debit 174000 Other Structures and Facilities Credit 572000 Financing Sources Transferred In Without Reimbursement

Note: If the transfer is not completed during the month the CIP is relieved and depreciation has been incurred, the appropriate amount of accumulated depreciation will also be transferred.

V. In-Service Real Property

The following section provides DoD’s **revised** policy for the financial reporting responsibility of in-service real property.

Real property will be reported on the financial statements of the installation host which is a term used by DoD to describe the Military Department (Army, Department of the Navy, and the Air Force) or Washington Headquarters Services (WHS) on whose installation a real property asset is located. Real property is usually reported on the Military Department General Fund financial statements, but a Military Department Working Capital Fund (WCF) can report real property on its financial statements if it has been given jurisdiction over a specific installation.

DoD real property that is not located on a DoD installation (including real property located on an installation that is hosted by an entity other than DoD) will be reported on the financial statements of the Military Department that is the installation host having jurisdiction of the real property asset. Jurisdiction of real property is identified in the OSD-approved Enduring Location Master List. If a real property asset is located on a DoD installation that is funded by an entity that is not a part of the consolidated DoD financial statements, it will be the financial reporting responsibility of the non-DoD entity.

Real Property Example: *The Missile Defense Agency (MDA) operates a facility that includes other defense agency tenants located on an Army Installation. The Army does not have operations*

Department of Defense
Real Property Financial Reporting Responsibilities Policy Update
Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2



March 2019

in the facility but is the designated installation host and carries the MDA facility as Army real property in its real property database. The Army is the financial reporting entity for the facility.

Real Property Example: *The Army WCF operates and has jurisdiction over a maintenance depot. The Army WCF will report the real property on that installation on its financial statements and is responsible for maintaining supporting documentation to support audit.*

Note: Financial statement reporting responsibilities for General Property, Plant, and Equipment (GPP&E) Land and Stewardship Land will follow the same rules as other real property. However, for entities that do not already have an unmodified audit opinion, existing land will be valued at zero dollars and future land acquisitions will be expensed as described in Statement of Federal Financial Accounting Standard (SFFAS) 50: *Establishing Opening Balances for General Property, Plant, and Equipment.*

General Ledger Entries

If a transfer is required to implement this policy, see Table 2:⁵

Table 2: Transfer of In-Service Real Property Reporting Responsibility

Entity Transferring Out Asset	G/L Entry Upon Transfer Out to <u>Installation Host</u> (Transaction Code E510)
	Debit 573000 Financing Sources Transferred Out Without Reimbursement
	Debit 173900 Accumulated Depreciation on Buildings, Improvements, and Renovations
	Debit 174900 Accumulated Depreciation on Other Structures and Facilities
	Credit 173000 Buildings, Improvements, and Renovations Credit 174000 Other Structures and Facilities
Entity Transferring In Asset	G/L Entry for <u>Installation Host</u> upon Transfer In (Transaction Code E606)
	Debit 173000 Buildings, Improvements, and Renovations
	Debit 174000 Other Structures and Facilities
	Credit 173900 Accumulated Depreciation on Buildings, Improvements, and Renovations Credit 174900 Accumulated Depreciation on Other Structures and Facilities
	Credit 572000 Financing Sources Transferred In Without Reimbursement

VI. Capitalized Improvements to Real Property

The following section provides DoD’s **revised** policy for the financial reporting responsibility of capitalized improvements to real property. Capital improvements to an asset will be reported by the entity that reports the real property asset that is being improved. Capital improvements that are under construction will be reported in accordance with Section IV.

The cost of a capitalized improvement will be accumulated and reported by the funding entity until the improvement to an asset is placed in service, at which time it will be transferred to the entity responsible for reporting the real property base asset. Only Military Departments and WHS will have financial reporting responsibility for real property and completed improvements.

⁵ In the year of implementation, assets assigned to another component reporting entity should be treated as transfers of assets per SFFAS 7, Accounting for Revenue and Other Financing Sources. [TB – 2017-2 paragraph 8]

Department of Defense
Real Property Financial Reporting Responsibilities Policy Update
Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2



March 2019

Real Property Improvement Example: *The Defense Logistics Agency (DLA) WCF funds an improvement to a building on an Army base. DLA reports the CIP until the improvement is complete, then transfers the improvement to the Army to be reported on the Army's General Fund financial statements. DLA will set its capital recovery rates related to the capital improvement in accordance with DoD 7000.14-R Financial Management Regulation, Volume 2B, Chapter 9, recording the imputed cost instead of actual depreciation expense as the basis for their budget.*

Real Property Improvement Example: *The Defense Advanced Research Projects Agency (DARPA) funds a conversion of an office suite to another purpose that it occupies on a Navy installation. DARPA reports the CIP until the conversion is complete, then transfers the improvement to the Navy to be reported on the Navy's General Fund financial statements.*

General Ledger Entries

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/enhancement was placed in service and depreciation has been incurred, the transfer of accumulated depreciation will be included in the general ledger entries:

Table 3: Transfer of In-Service Capital Improvements

Funding Entity or Entity Transferring Asset Out	G/L Entry Upon Transfer Out to <u>Installation Host</u> (Transaction Code E510)
	Debit 573000 Financing Sources Transferred Out Without Reimbursement
	Debit 173900 Accumulated Depreciation on Buildings, Improvements, and Renovations
	Debit 174900 Accumulated Depreciation on Other Structures and Facilities
	Credit 173000 Buildings, Improvements, and Renovations
	Credit 174000 Other Structures and Facilities
Installation Host Transferring Asset In	G/L Entry for <u>Installation Host</u> upon Transfer In (Transaction Code E606)
	Debit 173000 Buildings, Improvements, and Renovations
	Debit 174000 Other Structures and Facilities
	Credit 173900 Accumulated Depreciation on Buildings, Improvements, and Renovations
	Credit 174900 Accumulated Depreciation on Other Structures and Facilities
	Credit 572000 Financing Sources Transferred In Without Reimbursement

VII. Implementation Guidance

Financial reporting responsibilities for real property will be assigned to the Military Department or WHS with jurisdiction over the real property to be reported on their respective financial statements. In order to implement this policy, transfers will be conducted between Military Departments and DoD Components, in accordance with footnote 1 on page 3 in TB 2017-2 which states, "In the year of implementation, assets assigned to another component reporting entity should be treated as transfers of assets per SFFAS 7, Accounting for Revenue and Other Financing Sources."

A. Intra DoD Transfers

Both parties must agree to the transfer and the agreement must be documented using the appropriate documentation (e.g., DD Form 1354). In addition, the entity transferring the real property must provide adequate and appropriate supporting documentation for financial statement reporting (financial reporting information). Data elements included in the financial reporting

Department of Defense
Real Property Financial Reporting Responsibilities Policy Update
Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2



March 2019

information, but are not limited to, Project/Work Order Number, Real Property Unique Identifier (RPUID), Real Property Site Unique Identifier (RPSUID), Contract Number(s), RPA Placed In Service Date, transaction details to include Acquisition Fund Source Code, Acquisition Method Code, RPA Predominate Design Use Category Code, etc. The financial reporting information will be maintained with the asset throughout the asset lifecycle.

Transfers will regularly occur due to the implications of this policy as stated in Section IV, Section V, and Section VI. When a transfer occurs due to the construction or improvement of real property, a Military Department or WHS will accept the transfer on their installation in accordance with this policy when the funding entity provides the appropriate transfer documentation. In cases where property is transferred, the values transferred should be the same on each side of the transfer to ensure there are no discrepancies between trading partners. Adjustments to value may be implemented in the future in accordance with SFFAS 50.

B. Memoranda of Agreement (MOA)

All DoD Component tenants must have MOAs in place with the installation host. A MOA will be executed to establish rights and obligations between the installation host and the DoD Component using the real property asset. The MOA must identify the roles and responsibilities of the host and tenant. All tenants must maintain a list of real property facilities that they occupy and for which they have facility operations and maintenance or facility improvement responsibility. The MOA also should identify the respective maintenance and other operational responsibilities of the host and tenant. DoDI 4000.19, Support Agreements, prescribes DoD policy on intradepartmental support, to include establishment of MOAs to document host-tenant relationships.

C. Working Capital Fund Capital Recovery Rate and Accounting Treatment

Working Capital Funds will continue to recover costs associated with the construction of real property that is funded by the WCF regardless of financial reporting responsibility. In cases where a capital improvement is transferred to a different reporting entity, the WCF will record an imputed cost in lieu of an actual depreciation expense, for the improvement. Capital recovery rates will be set in accordance with DoD 7000.14-R, Volume 2B, Chapter 9.

VIII. Inter-Entity Costs

WCFs or other business like activities must impute costs in accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions*. These imputed costs would include depreciation expense used in the formulation of their rates. The imputed costs will include what would otherwise have been depreciation expense for real property assets and improvements that were funded by the working capital fund and subsequently transferred to the general fund, as well as any depreciation expenses or other costs for assets not funded by the WCF.



March 2019

IX. Disclosure Requirements

The management representation letter provided to the Independent Public Accountant (IPA), and the notes to the financial statements will include a disclosure related to real property reporting accounting policy. There are three examples of disclosure notes in the sections below. It is the responsibility of each DoD Component to ensure that they are making a full and complete disclosure of how real property is being reported in accordance with this policy. Of the examples below, one is for the Military Departments or WHS stating that as installation host they have financial reporting responsibility for all real property assets on their installations and the percentage of assets not solely used by the host. The other examples are for DoD Components and DoD WCF components where the installation host has the financial reporting responsibility for real property.

A. Installation Host (Military Departments and WHS)

Military Departments will need to state in their management representation letters and in the notes to the financial statements that they are responsible for the financial reporting of all real property assets on installations where they are the host. The following is an example of this note:

Example for Military Department:

The [Military Department or WHS] reports the real property within the jurisdiction of [Military Department or WHS] installations, in its financial statements because it is the designated installation host. This includes real property on [Military Department or WHS] installations including real property used and occupied by the [other Military Departments or WHS and DoD Components (who are not the installation host)]. The [Military Department or WHS] who is the installation host does not report assets on its installation that were funded and are exclusively used by an entity not included in the consolidated DoD financial statements. While the [Military Department or WHS] is responsible and accountable for accepting, controlling, managing, and utilizing real property assets, the [Military Department or WHS] may enter into Memoranda of Agreement, with another military department, WHS, or other DoD Components, and license or permit with a non-DoD governmental agencies, transferring the right to control the use of a [Military Department or WHS] real property asset to the [other Military Department, WHS, and other DoD Components and non-DoD governmental agencies (who are not the installation host)]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset under the jurisdiction of the [Military Department or WHS].

B. DoD Components

DoD Components will need to state in their management representation letters and in the notes to the financial statements that they are utilizing in their operations real property assets being financially reported by other DoD entities, and they do not report such assets in their financial statements. They will also state who is responsible for the financial reporting of the assets, and that they have entered into substantive MOAs with the installation hosts that establish rights and obligations for the assets.

Department of Defense
Real Property Financial Reporting Responsibilities Policy Update
Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2



March 2019

Example for DoD Component:

The [DoD Component] does not report in its financial statements real property that they occupy within the jurisdictions of [Military Department or WHS]. This includes all real property used and occupied by the [DoD Component]. The [DoD Component] may enter into Memoranda of Agreement, with the [Military Department or WHS] that is the installation host which transfers the right to control the use of a [Military Department or WHS] real property asset to the [DoD Component]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset of the [Military Department or WHS] acting as installation host.

Example for DoD WCF Component:

The [DoD WCF Component] does not report in its financial statements real property that they occupy within the jurisdictions of [Military Departments or WHS]. This pertains to all real property used and occupied by the [DoD WCF Component] including real property that was funded with WCF outlays that are being recovered through the capital recovery rate. The [DoD WCF Component] may enter into Memoranda of Agreement, with the [Military Department or WHS] that is the installation host which transfers the right to control the use of a [Military Department or WHS] real property asset to the [DoD WCF Component]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset of the [Military Department] acting as installation host.

X. 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*
- SFFAS 55, *Amending Inter-Entity Cost Provisions*
- TB 2017-2, *Assigning Assets to Component Reporting Entities*
- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*
- Title 10, United States Code Armed Forces
- DoDI 4000.19: Support Agreements
- DoDI 4165.70: Real Property Management
- DoD Financial Management Regulation 7000.14-R, Volume 2B, Chapter 9
- Enduring Location Master List

Department of Defense
Real Property Financial Reporting Responsibilities Policy Update
Based on Federal Accounting Standards Advisory Board Technical Bulletin 2017-2



March 2019

Impact on previously issued DoD guidance:

- OUSD(C) Policy Memorandum, *Accounting Policy Update for Financial Statement Reporting for Real Property Assets*, September 2015 [Superseded by this memorandum]
- OUSD(C) Policy Memorandum, *Financial Reporting Policy for Real Property Estimated Useful Lives, Land Valuation, and Accounting for Real Property Outside of the United States*, June 2016 [Section IV. A. h. is amended by this memorandum]
- DoD Financial Management Regulation 7000.14-R, Volume 4, Chapter 6 [Amended by this memorandum]