

CHAPTER 6**FORM AND CONTENT OF
AUDITED FINANCIAL STATEMENTS****0601 GENERAL**

060101 The Chief Financial Officers (CFO) Act requires the Department of Defense (DoD) to prepare, and have audited, financial statements covering each fiscal year's financial activity. Those financial statements are expected to provide information to DoD program managers, the Congress and the public, thereby facilitating both effective allocation of resources and assessment of management performance and stewardship. The objective is to produce statements that are accurate, consistent and meaningful--statements that can and will be used to improve the management of the Department. Additionally, consistent with the objectives of the CFO Act, the Department continues to work toward the integration of program and financial information in order to provide for more effective program management at all levels.

060102 Financial statements should be the culmination of a systematic accounting process. The statements should result from an accounting system that is an integral part of a total financial management system (including both program and administrative data) containing sufficient discipline, effective internal controls and reliable data.

0602 POLICY

The provisions herein constitute guidance on the form and content of financial statements to be prepared under the authority of the CFO Act and Office of Management and Budget (OMB) guidance on "Form and Content of Agency Financial Statements." These guidelines set out reporting format and disclosure requirements for financial statements. Where, through additional disclosure, the value of a financial statement to its users is enhanced, that information also should be presented. This guidance is intended to provide a framework for financial statement preparation within which each DoD Component has the flexibility to develop and include information useful both to its financial managers and program managers in making decisions.

0603 COVERAGE

A financial statement is to be prepared for each reporting entity identified in Figure 6-1 of this chapter. This guidance specifies the entities that should be reported upon; identifies the level at which functions and/or funds should be reported on a consolidated basis; notes the basis of accounting to be utilized; prescribes the accounting principles to be utilized; prescribes the specific authoritative guidance on financial statement format and disclosures that should be applied by fiscal personnel; and provides other instructions necessary for preparation of the annual financial statement(s).

**DOD REPORTING ENTITIES
AND REQUIRED CFO REPORTING FORMATS**

DoD Reporting Entity	Overview of the Reporting Entity	Principal Statements and Related Notes			Consolidating Statement	Supplemental Financial and Management Information
		Statement of Financial Position	Statement of Operations and Changes in Net Position	Statement of Cash Flows		
Department of Defense	X	X	X		X	X
Department of the Army	X	X	X			X
Department of the Navy	X	X	X			X
Department of the Air Force	X	X	X			X
Army Working Capital Fund	X	X	X	X		X
Navy Working Capital Fund	X	X	X	X		X
Air Force Working Capital Fund	X	X	X	X		X
Defense Logistics Agency Working Capital Fund	X	X	X	X		X
Defense Finance and Accounting Service Working Capital Fund	X	X	X	X		X
Defense Commissary Agency Working Capital Fund	X	X	X	X		X
Joint Logistics Systems Center Working Capital Fund	X	X	X	X		X
U.S. Transportation Command Working Capital Fund	X	X	X	X		X
Defense Information Systems Agency Working Capital Fund	X	X	X	X		X
DoD Military Retirement Trust Fund	X	X	X			X
National Defense Stockpile Transactions Fund	X	X	X	X		X
Defense Security Assistance Agency	X	X	X			X
Other Defense Organizations		X ²	X ²	X ²	X ^{1,3}	
U.S. Army Corps of Engineers	X	X	X	X		X

Figure 6-1

Notes for Figure 6-1:

- 1 Includes the residual amounts from closed accounts and undistributed amounts reported only at the consolidating statement level.
- 2 Principal statements are prepared and forwarded to the Directors of Defense Agencies, program managers for funds and accounts, and the Principal Staff Assistants, but only the consolidated DoD totals are included in the DoD Agency-wide Financial Statements.
- 3 Only consolidated totals are to be included in the "Other Defense Organizations" column of the Department of Defense Agency-wide Financial Statements.

Figure 6-1 (continued)

0604 FORMAT FOR FINANCIAL STATEMENTS

060401 Each annual financial statement shall be comprised of, and presented in, the following sequence:

- (1) Overview of the Reporting Entity.
- (2) Principal Statements and Related Notes.
- (3) Consolidating Statements (as appropriate).
- (4) Supplemental Financial and Management Information.

060402 Preparation of all four parts of the annual financial statement is the joint responsibility both of the DoD accounting activity maintaining the official departmental accounting records and the DoD Component for which those official accounting records are maintained. Detailed descriptions of each of the four parts of an annual financial statement, including detailed descriptions of the principal statements, are provided in this chapter.

060403 A consolidating statement is required for the total DoD-wide consolidated financial statement and must support the principal statements. Program managers wishing to present consolidating statements are encouraged to do so, however, the sequence prescribed in 060401 must be followed.

060404 The principal statements shall include:

- A. Statement of Financial Position
- B. Statement of Operations and Changes in Net Position
- C. Statement of Cash Flows (only for the Defense Working Capital Funds (WCF) and other revolving funds)

0605 SPECIAL PROCEDURES FOR “OTHER DEFENSE ORGANIZATIONS”

060501 The Office of the Inspector General (OIG) will render opinions on the Department’s financial statements. Those opinions will address the financial Statements of the Department of the Army general funds, the Department of Navy general funds, the Department of the Air Force general funds,, the Army WCF, the Navy WCF, the Air Force WCF, the Defense Logistics Agency WCF, the Defense Finance and Accounting Service WCF, the Defense Commissary Agency WCF, the Joint Logistics Systems Center WCF, the Defense Information Systems Agency WCF, the DoD Military Retirement Trust Fund, the National Defense Stockpile Transaction Fund, and the U.S. Army Corps of Engineers (Civil Works). Additionally, consolidated financial statements will be prepared for the “Total Department of Defense,” and the OIG will render an opinion on those financial statements. The alignment is illustrated on Appendix A.

060502 Included within the “Total Department of Defense” financial statements will be a reporting entity entitled “Other Defense Organizations.” This entity will include principal statements for the various Defense Agencies, as well as financial statements for that portion of Defense-wide (so-called “97” funds) entrusted to the Military Departments. While the IG, DoD will not issue separate opinions on these financial statements, the statements will be subject to audit by the OIG. The proposed sub-entities within the “Other Defense Organizations” will be aligned by cognizant Office of the Secretary of Defense (OSD) principal staff assistant (PSA), as well as by the Military Departments for “97” funds managed by the Military Departments. “DoD Reporting Sub-Entities for Other Defense Organizations,” Appendix A, shows the DoD Components encompassed within the category “Other Defense Organizations.” Required principal statements shall be prepared by accounting activities and submitted to the OSD PSA designated in Figure 6-2. Designated PSAs shall be responsible for reviewing principal and combining statements and providing feedback to the Defense Finance and Accounting Service (DFAS) for consolidation with other PSA combining statements.

0606 RESPONSIBILITY FOR PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS

060601 The due date for the submission of unaudited financial statements to the Chief Financial Officer (CFO), DoD, is December 18 following the fiscal year reported.

060602 Figure 6-3 depicts the responsibilities and the organizations responsible for preparing and submitting financial statements in accordance with this guidance. The DFAS, the DoD Components, and the Office of the Chief Financial Officer (CFO), DoD, are identified as lead organizations for specific parts of the statements. In addition, those actions requiring a coordinated effort between the DoD Components and the DFAS are identified.

Office of the Secretary of Defense Principal Staff Assistants
and Defense Agencies, Funds and Accounts

RESPONSIBLE OSD PRINCIPAL STAFF ASSISTANT (PSA)	DOD AGENCY, FUND OR ACCOUNT
Under Secretary of Defense (Acquisition and Technology)	Defense Advanced Research Projects Agency (DARPA)
	Ballistic Missile Defense Organization (BMDO)
	Defense Logistics Agency (DLA)
	Defense Special Weapons Agency (DSWA)
	Federal Energy Management Program (FEMP)
	Office of Economic Adjustment (OEA)
	On-Site Inspection Agency (OSIA)
	William Langer Jewel Bearing Plant Revolving Fund
Under Secretary of Defense (Personnel and Readiness)	Defense Commissary Agency Surcharge Account
	Defense Health Program
	Defense Medical Program Activity (DMPA)
	DoD Education Activity
	DoD Education Benefits Fund
	Foreign National Employees Separation Pay Account
	Tricare Support Office
	Defense Acquisition University (DAU)
	Voluntary Separation Incentive Trust Fund
	Under Secretary of Defense (Comptroller)
Unallocated	
Undistributed	
Under Secretary of Defense (Policy)	National Security Education Trust Fund
	Defense Technology Security Administration (DTSA)
	U.S. Special Operations Command (USSOCOM)
	Defense Prisoner of War/Missing Persons Office
Assistant Secretary of Defense (C3I)	Business Process Reengineering Fund
	Defense Information Systems Agency (DISA)
	Defense Intelligence Agency (DIA)
	Defense Investigative Service (DIS)
	National Imagery and Mapping Agency (NIMA)
Director, National Security Agency	National Security Agency (NSA)
Inspector General, DoD	Office of the Inspector General (OIG)
Director, Joint Staff	Joint Chiefs of Staff (JCS)

Figure 6-2

RESPONSIBLE OSD PRINCIPAL STAFF ASSISTANT (PSA)	DOD AGENCY, FUND OR ACCOUNT
Director, Washington Headquarters Services	Court Appeals Armed Forces (CAAF)
	Defense Legal Services Agency (DLSA)
	American Forces Information Service (AFIS)
	Office of the Secretary of Defense (OSD)
	Pentagon Reservation Maintenance Revolving Fund
	Washington Headquarters Services (WHS)
	Building Maintenance Fund, Defense
	Other "97" Funds Provided to WHS by OSD
	All Other (Prior Year Residual) "97" Funds
Assistant Secretary of the Army (Financial Management and Comptroller)	Emergency Response Fund, Defense
	Homeowners Assistance Fund, Defense
	Other "97" Funds Provided to the Army by OSD
Assistant Secretary of the Navy (Financial Management and Comptroller)	Other "97" Funds Provided to the Navy by OSD
Assistant Secretary of the Air Force (Financial Management and Comptroller)	Other "97" Funds Provided to the Air Force by OSD

Figure 6-2 (continued)

0607 INTERRELATIONSHIPS OF THE DOD COMPONENTS AND THE DEFENSE FINANCE AND ACCOUNTING SERVICE IN ACCOUNTING AND FINANCE MATTERS

060701 The DoD Components are responsible for the accuracy of information entered into financial systems, or provided to the DFAS for entry into financial systems, and reported on financial statements and for adhering to approved policies and procedures.

060702 The DFAS is responsible for entering data provided by the DoD Components, operating and maintaining financial systems, including ensuring the continued integrity of information once it is entered into financial systems. In addition, the DFAS is responsible for developing and promulgating procedures needed to implement approved policies consistently on a DoD-wide basis.

0608 FOOTNOTE REQUIREMENTS TO FINANCIAL STATEMENTS

060801 In many cases, the underlying financial systems and operations that produce these statements were not designed to generate auditable financial statements in compliance with this form and content guidance. Consequently, diversions from generally accepted accounting principles and DoD policy exist in many of the Department's organizations. This is due largely, but not entirely, to long-standing systems problems. The continuing system problems remain a serious challenge to the Department--and realistically will require a number of years to correct. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies will be explained and the reason for noncompliance annotated. At the discretion of the program manager, such explanation can be

included in the “Overview of the Reporting Entity” or in the financial statements, at Note 1 “Significant Accounting Policies,” or any combination thereof.

FINANCIAL STATEMENT PREPARATION RESPONSIBILITIES

Responsibility for Preparation and Submission of Stand Alone Financial Statements	CFO DOD	DFAS/ Accounting Activity	Program Manager
Overview of the Reporting Entity			✱
Preparation of Financial Statements		✱	
Note 1 to the Principal Statements		✱	
Remaining Notes to the Principal Statements			✱
Consolidating Statements		✱	
Supplemental Financial and Management Information			✱
Supplemental Schedules			✱
Submission of Unaudited Financial Statements to CFO, DoD			✱
Submission of Unaudited Financial Statements to IG, DoD for Audit	✱		
Submission of Audited Financial Statements to OMB	✱		

✱ - Organization to take leadership role in the preparation of specified part of the financial statement.

Reporting Entities	Program Manager
Department of Defense	Chief Financial Officer, DoD
Department of the Army	ASA (Financial Management and Comptroller) (FM&C)
Department of the Navy	ASN(FM&C)
Department of the Air Force	ASAF(FM&C)
Army Working Capital Fund	ASA(FM&C)
Navy Working Capital Fund	ASN(FM&C)
Air Force Working Capital Fund	ASAF(FM&C)
DLA Working Capital Fund	Director, DLA
DFAS Working Capital Fund	Director, DFAS
DeCA Working Capital Fund	Director, DeCA
JLSC Working Capital Fund	Director, JLSC
U.S. Transportation Command Working Capital Fund	CINC, U.S. TRANSCOM
DISA Working Capital Fund	Director, DISA
DoD Military Retirement Trust Fund	Under Secretary of Defense (P&R)
National Defense Stockpile Transaction Fund	Comptroller, DLA
Defense Security Assistance Agency	Director, DSAA
Other Defense Organizations	Chief Financial Officer, DoD
Army Corps of Engineers	ASA(Financial Management and Comptroller)

Figure 6-3

0609 REPORT ON AUDITED FINANCIAL STATEMENTS

060901 The DoD CFO shall prepare and submit an annual report to the OMB and to the Congress that includes (1) scope and results of audit, (2) findings, internal controls, and compliance issues contained in audit reports, (3) impediments to auditable financial statements, identified deficiencies, and management responses and corrective actions, (4) annual financial statements prepared in response to the CFO Act, and (5) audit reports prepared and transmitted to the Secretary of Defense under the CFO Act.

060902 The dependency of quality financial statements on the adequacy of the internal controls underlying those statements places a greater emphasis on a full and complete DoD implementation of the Federal Managers' Financial Integrity Act (FMFIA). Procedures assuring compliance with the Management Control Program should be monitored and enforced consistent with the reporting requirements under the CFO Act.

0610 DOD REPORTING ENTITIES AND CONSOLIDATING STATEMENTS061001 Reporting Entities.

A. The Office of Management and Budget (OMB) requires the Department of Defense and 23 other agencies to prepare an agency-wide financial statement in accordance with the Federal Financial Management Act of 1994 (P.L. 103-356) covering all accounts and associated activities of each office, bureau, and activity of the agency. In accordance with this guidance, there are 16 reporting entities within the Department of Defense. Those reporting entities are (1) the Department of the Army General Funds, (2) the Department of the Navy General Funds, (3) the Department of the Air Force General Funds, (4) the Department of the Army Working Capital Fund, (5) the Department of the Navy Working Capital Fund, (6) the Department of the Air Force Working Capital Fund, (7) the Defense Logistics Agency Working Capital Fund, (8) the Defense Finance and Accounting Service Working Capital Fund, (9) the Defense Commissary Agency Working Capital Fund, (10) the Joint Logistics Systems Center Working Capital Fund, (11) the U.S. Transportation Command Working Capital Fund, (12) the Defense Information Systems Agency Working Capital Fund, (13) the DoD Military Retirement Trust Fund, (14) the National Defense Stockpile Transaction Fund, (15) a reporting entity entitled "Other Defense Organizations," and (16) the U.S. Army Corps of Engineers (Civil Works). For FY 1997 reporting, each Working Capital Fund reporting entity listed above is to submit Consolidated Working Capital Fund Statements including the consolidating statement. Individual sets of principal statements and notes are not to be submitted for individual business areas within a reporting entity. Additionally, a consolidated financial statement will be prepared for the "Total Department of Defense." Those reporting entities are shown at Appendix A to this chapter, together with the respective funds and accounts constituting those entities.

B. The consolidation of reporting entity financial statements for Treasury Index "97" funds, "Other Defense Organizations," will follow the flow of funds from the apportionment of an appropriation, to allocation, suballocation and allotment. The primary

advantage of this consolidation method is that program managers and auditors can follow the flow of funds upward and downward and validate the receipt and execution of funds at all levels. For financial statement reporting, accounting activities will consolidate allotment and suballotment information consistent with the flow (distribution) of funds. All intermediate commands and/or offices, and principal staff assistant (PSA) offices for the Office of the Secretary of Defense (OSD) (Treasury Symbol "97") funds, will receive a copy (hardcopy or computer file) of their principal financial statement as well as a combining statement for those activities which make up their principal financial statement.

C. Stand-alone financial statements will be prepared for the security assistance program by the Defense Security Assistance Agency (DSAA) in accordance with the requirements of this chapter. Such statements will not be included in the DoD Consolidated Financial Statements and will instead be separately furnished to the Director of the Office of Management and Budget. The financial statements present information involving accounts and a trust fund of the Executive Office of the President and are prepared by the DoD on behalf of the Executive Office of the President and the Department of State.

061002 Defense Agency Reports.

A. Within the DoD-wide consolidated financial statement is a reporting entity entitled "Other Defense Organizations" that includes statements for the various Defense Agencies, as well as statements for Defense "97" funds entrusted to the Military Departments. Figure 6-2 shows the Defense Agencies, funds and accounts which make up the reporting entity and their OSD principal staff assistant (PSA). Each PSA will receive a principal and combining statement for the agencies, funds or accounts shown on Figure 6-1.

B. Principal staff assistants and financial managers for those agencies for Treasury Index "97" funds will be asked to review their statements and footnotes and suggest any changes or corrections to the DFAS Indianapolis Center (DFAS-IN) for consolidation purposes. The DFAS-IN will make the necessary changes to the principal and combining statements and forward the corrected statements to the DoD Components and PSAs.

C. Defense Agencies, funds or accounts managers will receive principal statements and the respective footnotes. Those statements are to be held for audit purposes.

D. Financial information for all PSAs and Defense Agencies, funds and accounts will be included as "Other Defense Organizations" on the DoD-wide financial statements.

061003 Financial Statement Composition

A. Overview of the Reporting Entity. The Overview of the Reporting Entity is the first part of the annual financial statement. The Overview must provide readers with a clear and concise understanding of the reporting entity's activities, accomplishments, financial

condition and results, problems and needs. It should tell the reader whether and how well the mission of the reporting entity is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance.

B. Principal Statements and Related Notes. Principal Statements and Related Notes summarize financial information for individual funds and accounts within reporting entities and subentities. Principal Statements report general ledger account year-end closing balances. The general ledger accounts normally used to derive and report line item information is included in Section 061205 of this chapter. Related Notes summarize the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the entity's significant assets, liabilities, equity, and results of operations. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies will be explained and the reason for noncompliance annotated in the footnotes or the "Overview of the Reporting Activity."

C. Consolidating Statements. The Federal Accounting Standards Advisory Board (FASAB) defines a consolidating statement as a financial statement in which the transactions and balances of component entities are presented in separate columns with inter-entity transactions and balances eliminated for the total column. A consolidated financial statement is required for the DoD Agency-wide financial statement. Program managers are encouraged to use consolidating statements where numerous subentities are presented within the financial statements.

D. Combining Statements. The FASAB defines a combining statement as a financial statement in which the transactions and balances of component entities are presented in separate columns and the individual columns are added to a total column without elimination of interentity transactions and balances. The total column is usually labeled "Memorandum Only" to signify that it is not net of eliminations.

E. Supplemental Financial and Management Information. Supplemental Financial and Management Information supports information presented in the Overview or which otherwise would enhance an understanding of the financial condition and operations of the reporting entity. Within the Department, such supplemental financial and management information shall consist of program and agency attributes quantified in terms of measures and indicators analyzed to produce an evaluation and interpretation of the program and agency financial attributes.

061004 Reporting Requirements

A. Reporting Entity. Financial statements, which include the Overview of the Reporting Activity, Principal Statements and Related Notes, Consolidating Financial Statements (where required), and Supplemental Financial and Management Information, will be prepared for each reporting entity shown at Figure 6-1. Independent auditors will express an opinion (except for the reporting entity entitled "Other Defense Organizations") as to whether the reporting entity's principal statements are fairly presented in all material aspects in accordance

with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles.

B. Reporting Sub-entities (Other Defense Organizations Only). The principal statements for subentities will be included on a consolidating report with the totals shown on the principal statement. Auditors are not required to render an opinion on subentity financial statements.

061005 Supporting Financial Information. To provide information required for financial statements prepared at higher levels, each fund and account should have necessary supporting information available to assist in the preparation of a Principal Statement and Related Notes, the Overview of the Reporting Entity, and Supplemental Financial and Management Information. Such information may consist of budgetary data, a general ledger trial balance report, performance data, and/or subsidiary records. Information must be available to enable the program manager to consolidate and prepare a financial statement and gather supporting information. Supporting financial information will not be individually included in the unaudited financial statements submitted to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Office of the Deputy Chief Financial Officer (ODCFO) or in the audited financial statements submitted to the OMB as part of the Report on Audited Financial Statements; however, the sum of all information will be included in the respective reports.

061006 Management and Legal Representation Letters. For the purposes of expressing an opinion on whether the principal financial statements of a Military Department, a Defense Agency or an account, are presented fairly and in accordance with generally accepted accounting principles and OMB form and content guidance, auditors request that management prepare and submit management and legal representation letters prior to the conclusion of an audit.

A. Management Representation Letters. Management representation letters are intended to (a) confirm in writing the representations made to the auditors regarding the financial statements, legal matters, and other significant issues; and (b) ensure that there are no misunderstandings regarding the responsibilities for the financial statements and representations made regarding them. Signature levels for management representation letters are indicated below:

1. A management representation letter in support of a financial statement for a Military Department's general funds or working capital fund must be signed by the Secretary or Under Secretary of the Military Department concerned.

2. A management representation letter in support of a financial statement for a Defense Agency (including U.S. Transportation Command and Joint Logistics Systems Center) working capital fund must be signed by the Director or Deputy Director of the Defense Agency concerned.

3. A management representation letter in support of a CFO financial statement for a trust or revolving fund managed by the Office of the Secretary of Defense (OSD) or Defense Agency must be signed by the fund manager of the trust or revolving fund concerned.

4. A management representation letter for the "Total Department of Defense" financial statement must be signed by the Under Secretary of Defense (Comptroller) (USD(C)).

5. The Director or Principal Deputy Director of the DFAS, or the Director of the applicable DFAS Center, will provide a certification to the respective Military Department Secretary, Defense Agency Director or trust fund manager as supporting documentation for their management representation letter. However, the Director, DFAS will not sign, or cosign, management representation letters (except for the management representation letter for the DFAS financial statement).

B. Requests for management representation letters below the above levels should be referred to the Office of the Deputy Chief Financial Officer (ODCFO) for resolution.

C. Legal Representation Letters. Legal representation letters are the auditors' primary means of corroboration of the information furnished by management concerning litigation, claims and assessments. Legal representation letters are intended to inform the auditors clearly of all lawsuits, as well as asserted and unasserted claims which may be significant in relation to the financial statements, along with an assessment of the probable outcomes--including any potential losses. Requests for legal representation letters will be forwarded to the General Counsel (GC) of the applicable Military Service. Requests for legal representation letters for Defense accounts will be forwarded to the GC, DoD. Requests for legal representation letters below the Service or fund level should be referred to the ODFCO, for resolution.

0611 PRINCIPAL STATEMENTS AND "NOTES" TO THE PRINCIPAL STATEMENTS

061101 General. Financial statements shall be produced by an accounting and budgeting system that is an integral part of the DoD Component financial management system, and one that contains sufficient discipline, effective internal controls, and reliable data. The financial statements, and underlying financial system, shall report on the total operations of the reporting DoD entity and shall comply with the principles, standards, and related requirements. This chapter presents the form and content of the Principal Statements and accompanying footnote disclosures that are to be prepared as part of the Annual Financial Statement on FY 1997 financial activity. Other parts of the Annual Financial Statement are the Overview, Consolidating Financial Statements, if applicable, and Supplemental Financial and Management Information. For consistency, financial statements shall be prepared in thousands of dollars.

061102 Purpose. The principal statements and related footnote disclosures contained herein are based on the provisions contained in OMB Bulletin No. 94-01 and the applicable portions of OMB Bulletin No. 97-01. That document defines the form and content of financial statements that are required to be submitted to the Director of OMB pursuant to the requirements of the CFO Act.

061103 Coverage. A separate financial statement is to be prepared for each reporting entity depicted in Figure 6-1 of this guidance.

061104 Application and Allowable Variations

A. The Principal Statements and footnote formats have been designed to provide for the basic disclosure needs of all DoD reporting entities. The use of nonstandard formats must be approved in advance by the CFO, DoD.

B. Formats of the principal statements and accounting guidance contained herein follows form and content issued by the OMB. Significant changes to format will be made upon direction from the OMB or when specifically approved by that office.

C. Principal Statements will be prepared using the formats and footnotes provided in this chapter. Notes to the Principal Statements will be shown in the sequence presented herein. To assist in the consolidation of principal statements within a reporting entity, specific notes not applicable to a fund or account being reported will continue to be referenced on the principal statement but will be annotated “Not applicable” in the related note.

061105 Financial Reporting Policies. The Principal Statements and accompanying footnotes reflect various financial reporting policies that are intended to improve the usefulness of the financial statements to the users. These policies have been adopted pursuant to recommendations of the FASAB and adoption of those standards by the Secretary of the Treasury, Director of OMB, and the Comptroller General of the United States.

061106 Future Funding Requirements. The government’s responsibility to provide funds in the future to liquidate unfunded liabilities shall be reported in the Statement of Financial Position as an offset to Net Position, rather than as an asset. Further information on future funding requirements is contained in General Instructions for the Preparation of the Principal Statements and Footnotes.

061107 Reporting Operating Expenses by Program. The Department currently is unable to report expenses consistently by Object Class. Wherever footnote 23 expense data cannot be reported by Object Class, obligation data will be used and the footnote annotated to disclose the substitution.

061108 Relationship With Treasury’s “Federal Agencies’ Centralized Trial Balance System (FACTS).” The Treasury Financial Manual, Part 2, Chapter 4000, requires that agencies electronically transmit to the Treasury Department a pre-closing trial balance via FACTS at the

Treasury appropriation level, using the U.S. Government Standard General Ledger. The Treasury Department intends to consolidate all reported appropriations into a government-wide financial statement to be audited by the General Accounting Office (GAO). In order to provide consistency during these initial years of government-wide audited financial statements, representatives of the Treasury Department (Financial Management Service) and the Department of Defense (Office of the Deputy Chief Financial Officer) have agreed that the Department of Defense will submit FACTS transmissions at the same reporting entity level as the Agency-wide CFO financial statements (Departments of the Army, Navy, etc.)--vice reporting at the appropriation level. This consolidated reporting method will continue with Fiscal Year 1997 and will be reviewed subsequent to the submission of FY 1997 FACTS transmissions and CFO financial statements. It is imperative that procedures be established to ensure that FACTS reporting and CFO financial statements are derived from a single database. In addition, where data elements are used to derive general ledger account balances, crosswalks must be documented to provide a consistent audit trail.

061109 Principal Statements. Principal statements prepared in accordance with these instructions should present summary or detailed information necessary to make the statements most useful to its readers. Care should be taken to avoid placing so much detail in the body of the statements that they cannot be easily comprehended. Where substantial detail is necessary to properly convey the information, the body of the statements should contain summary information and the detail should be reported in notes to the statements. The instructions for each of the principal statements describe the ways in which information may be presented.

061110 Principal Statements Formats and Instructions.

A. The Principal Statements and Related Notes consist of:

1. Statement of Financial Position – Figure 6-4 - Discloses the reporting entity's assets, liabilities, and net position;
2. Statement of Operations and Changes in Net Position – Figure 6-5 - Discloses the results of the reporting entity's operations for the reporting period including the changes in the entity's net position from the end of the prior reporting period; and
3. Statement of Cash Flows (revolving funds only) – Figure 6-6 - Discloses the reporting entity's gross cash receipts and cash payments with an explanation of the changes in cash or cash equivalents for the reporting period. The Statement of Cash Flows is to be prepared for revolving funds only.

B. Instructions for the Principal Statements:

1. Instructions for the Statement of Financial Position are contained in section 061202.

2. Instructions for the Statement of Operations and Changes in Net Position are contained in section 061203.

3. Instructions for the Statement of Cash Flows are contained in section 061204.

4. Crosswalks from the DoD Uniform Chart of Accounts (UCA) to the Principal Statements are contained in figures 6-8 through 6-10.

5. Model, Summary of Significant Accounting Policies is contained in Appendix G.

Department/Agency		
Reporting Entity		
STATEMENT OF FINANCIAL POSITION		
AS OF SEPTEMBER 30, 1997		
(Thousands)		
ASSETS		
	<u>1997</u>	<u>1996</u>
1. Entity Assets:		
a. Intragovernmental Assets:		
(1) Fund Balance With Treasury (Note 2)	\$ xxx	\$ xxx
(2) Investments, Net (Note 4)	xxx	xxx
(3) Accounts Receivable, Net (Note 5)	xxx	xxx
(4) Interest Receivable	xxx	xxx
(5) Advances and Prepayments	xxx	xxx
(6) Other Federal (Intragovernmental) (Note 6)	xxx	xxx
b. Governmental Assets:		
(1) Investments, Net (Note 4)	xxx	xxx
(2) Accounts Receivable, Net (Note 5)	xxx	xxx
(3) Credit Program Receivables/Related Foreclosed Property, Net (Note 7)	xxx	xxx
(4) Interest Receivable, Net	xxx	xxx
(5) Advances and Prepayments	xxx	xxx
(6) Other Non-Federal (Governmental) (Note 6)	xxx	xxx
c. Cash and Other Monetary Assets (Note 3)	xxx	xxx
d. Inventory, Net (Note 8)	xxx	xxx
e. Work in Process (Note 9)	xxx	xxx
f. Operating Materials/Supplies, Net (Note 10)	xxx	xxx
g. Stockpile Materials, Net (Note 11)	xxx	xxx
h. Seized Property (Note 12)	xxx	xxx
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The accompanying notes are an integral part of these statements.		

Figure 6-4

STATEMENT OF FINANCIAL POSITION (continued)		
	<u>1997</u>	<u>1996</u>
i. Forfeited Property, Net (Note 13)	xxx	xxx
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	xxx	xxx
k. Property, Plant and Equipment, Net (Note 15)	xxx	xxx
l. War Reserves	xxx	xxx
m. Other Entity Assets	<u>xxx</u>	<u>xxx</u>
n. Total Entity Assets	<u>\$x,xxx</u>	<u>\$x,xxx</u>
2. Non-Entity Assets:		
a. Intragovernmental Assets:		
(1) Fund Balance With Treasury (Note 2)	\$ xxx	\$ xxx
(2) Accounts Receivable, Net (Note 5)	xxx	xxx
(3) Interest Receivable, Net	xxx	xxx
(4) Other (Note 6)	xxx	xxx
b. Governmental Assets:		
(1) Accounts Receivable, Net (Note 5)	xxx	xxx
(2) Interest Receivable, Net	xxx	xxx
(3) Other (Note 6)	xxx	xxx
c. Cash and Other Monetary Assets (Note 3)	xxx	xxx
d. Other Non-Entity Assets	<u>xxx</u>	<u>xxx</u>
e. Total Non-Entity Assets	<u>x,xxx</u>	<u>x,xxx</u>
3. Total Assets	<u>\$x,xxx</u>	<u>\$x,xxx</u>
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Intragovernmental Liabilities:		
(1) Accounts Payable	\$ xxx	\$ xxx
(2) Interest Payable	xxx	xxx
(3) Debt (Note 16)	xxx	xxx
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	xxx	xxx
b. Governmental Liabilities:		
(1) Accounts Payable	xxx	xxx
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	xxx	xxx
(b) Annual Accrued Leave	xxx	xxx
(c) Severance Pay and Separation Allowance	xxx	xxx
(3) Interest Payable	xxx	xxx
(4) Liabilities for Loan Guarantees (Note 7)	xxx	xxx
(5) Lease Liabilities (Note 18)	xxx	xxx
(6) Pensions and Other Actuarial Liabilities (Note 19)	xxx	xxx
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	<u>xxx</u>	<u>xxx</u>
c. Total Liabilities Covered by Budgetary Resources:	<u>\$x,xxx</u>	<u>\$x,xxx</u>

Figure 6-4 (continued)

STATEMENT OF FINANCIAL POSITION (continued)		
	<u>1997</u>	<u>1996</u>
5. Liabilities not Covered by Budgetary Resources:		
a. Intragovernmental Liabilities:		
(1) Accounts Payable	xxx	xxx
(2) Debt (Note 16)	xxx	xxx
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	xxx	xxx
b. Governmental Liabilities:		
(1) Accounts Payable	xxx	xxx
(2) Debt (Note 16)	xxx	xxx
(3) Lease Liabilities (Note 18)	xxx	xxx
(4) Pensions and Other Actuarial Liabilities (Note 19)	xxx	xxx
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	<u>xxx</u>	<u>xxx</u>
c. Total Liabilities not Covered by Budgetary Resources	<u>x,xxx</u>	<u>x,xxx</u>
6. Total Liabilities	<u>\$x,xxx</u>	<u>\$x,xxx</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$ xxx	\$ xxx
b. Invested Capital	xxx	xxx
c. Cumulative Results of Operations	xxx	xxx
d. Other	xxx	xxx
e. Future Funding Requirements	<u>(x,xxx)</u>	<u>(x,xxx)</u>
f. Total Net Position	<u>xxx</u>	<u>xxx</u>
8. Total Liabilities and Net Position	<u>\$x,xxx</u>	<u>\$x,xxx</u>
The accompanying notes are an integral part of these statements.		

Figure 6-4 (continued)

Department/Agency Reporting Entity		
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION		
FOR THE PERIOD ENDING SEPTEMBER 30, 1997		
(Thousands)		
	<u>1997</u>	<u>1996</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$xxx	\$xxx
2. Revenues from Sales of Goods and Services		
a. To the Public	xxx	xxx
b. Intragovernmental	xxx	xxx
3. Interest and Penalties, Non-Federal	xxx	xxx
4. Interest, Federal	xxx	xxx
5. Taxes (Note 21)	xxx	xxx
6. Other Revenues and Financing Sources (Note 22)	xxx	xxx
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	<u>(xxx)</u>	<u>(xxx)</u>
8. Total Revenues and Financing Sources	<u>x,xxx</u>	<u>x,xxx</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	xxx	xxx
10. Cost of Goods Sold (Note 24)		
a. To the Public	xxx	xxx
b. Intragovernmental	xxx	xxx
11. Depreciation and Amortization	xxx	xxx
12. Bad Debts and Write-offs	xxx	xxx
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	xxx	xxx
b. Federal Securities	xxx	xxx
c. Other	xxx	xxx
14. Other Expenses (Note 25)	<u>xxx</u>	<u>xxx</u>
15. Total Expenses	<u>x,xxx</u>	<u>x,xxx</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	xxx	xxx
17. Plus (Minus) Extraordinary Items (Note 26)	<u>xxx</u>	<u>xxx</u>
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$ xxx</u>	<u>\$ xxx</u>
19. Net Position, Beginning Balance, as Previously Stated	xxx	xxx
20. Adjustments (Note 27)	<u>xxx</u>	<u>xxx</u>
21. Net Position, Beginning Balance, as Restated	xxx	xxx
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	xxx	xxx
23. Plus (Minus) Non Operating Changes (Note 28)	<u>xxx</u>	<u>xxx</u>
24. Net Position, Ending Balance	<u>\$ xxx</u>	<u>\$ xxx</u>
The accompanying notes are an integral part of these statements.		

Figure 6-5

(INDIRECT METHOD)		
Department/Agency		
Reporting Entity		
STATEMENT OF CASH FLOWS		
FOR THE PERIOD ENDING SEPTEMBER 30, 1997		
(Thousands)		
	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$ xxx</u>	<u>\$ xxx</u>
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	(xxx)	(xxx)
3. Decrease (Increase) in Accounts Receivable	xxx	xxx
4. Decrease (Increase) in Other Assets	xxx	xxx
5. Increase (Decrease) in Accounts Payable	xxx	xxx
6. Increase (Decrease) in Other Liabilities	xxx	xxx
7. Depreciation and Amortization	xxx	xxx
8. Other Unfunded Expenses	xxx	xxx
9. Other Adjustments	<u>xxx</u>	<u>xxx</u>
10. Total Adjustments	<u>xxx</u>	<u>xxx</u>
11. Net Cash Provided (Used) by Operating Activities	<u>xxx</u>	<u>xxx</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
12. Sale of Property, Plant and Equipment	\$ xxx	\$ xxx
13. Purchase of Property, Plant and Equipment	(xxx)	(xxx)
14. Sale of Securities	xxx	xxx
15. Purchase of Securities	(xxx)	(xxx)
16. Collection of Loans Receivable	xxx	xxx
17. Creation of Loans Receivable	(xxx)	(xxx)
18. Other Investing Cash Provided (Used)	<u>xxx</u>	<u>xxx</u>
19. Net Cash Provided (Used) by Investing Activities	<u>\$ xxx</u>	<u>\$ xxx</u>
20. Appropriations (Current Warrants)	\$ xxx	\$ xxx
21. Add:		
a. Restorations	xxx	xxx
b. Transfers of Cash From Others	xxx	xxx
22. Deduct:		
a. Withdrawals	(xxx)	(xxx)
b. Transfers of Cash To Others	<u>(xxx)</u>	<u>(xxx)</u>
23. Net Appropriations	<u>xxx</u>	<u>xxx</u>
The accompanying notes are an integral part of these statements.		

Figure 6-6

STATEMENT OF CASH FLOWS (Cont.)		
	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
24. Borrowing from the Public	xxx	xxx
25. Repayments on Loans to the Public	(xxx)	(xxx)
26. Borrowing from the Treasury and the Federal Financing Bank	xxx	xxx
27. Repayments on Loans from the Treasury and the Federal Financing Bank	(xxx)	(xxx)
28. Other Borrowings and Repayments	<u>xxx</u>	<u>xxx</u>
29. Net Cash Provided (Used) by Financing Activities	<u>xxx</u>	<u>xxx</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	xxx	xxx
31. Fund Balances with Treasury, Cash, and Foreign Currency, Beginning	<u>xxx</u>	<u>xxx</u>
32. Fund Balances with Treasury, Cash, and Foreign Currency, Ending	<u>\$ xxx</u>	<u>\$ xxx</u>
Supplemental Disclosure of Cash Flow Information:		
33. Total Interest Paid	\$x,xxx	\$x,xxx
Supplemental Schedule of Financing and Investing Activity:		
34. Property and Equipment Acquired Under Capital Lease Obligations	\$x,xxx	\$x,xxx
35. Property Acquired Under Long-term Financing Arrangements	\$x,xxx	\$x,xxx
36. Other Exchanges of Non-cash Assets or Liabilities	\$x,xxx	\$x,xxx
The accompanying notes are an integral part of these statements.		

Figure 6-6 (continued)

0612 INSTRUCTIONS FOR THE PREPARATION OF THE PRINCIPAL STATEMENTS061201 General Instructions for the Preparation of the Principal Statements.

A. The Principal Statements and instructions summarize the reporting and disclosure requirements contained in Office of Management Budget (OMB) Bulletin "Form and Content of Agency Financial Statements."

B. Where the instructions below do not provide explicit financial reporting guidance, agencies should follow the hierarchy of accounting principles described in paragraph 061301 of this guidance.

C. Round amounts to the nearest thousand. If a change in rounding occurs between the current and prior year, prior year balances must be restated to maintain consistency in comparative statements. In addition, changes in rounding must be footnoted in Note 1 to these financial statements. Maintain rounding to the nearest thousand throughout the Principal Statements and footnotes. Ensure that individual line items add up to the totals by adjusting the line items for differences created by the rounding process rather than adjusting column totals.

D. Reporting entities must include all statement line items and footnotes as shown on the Principal Statements. Reporting entities must sequentially number the footnotes as shown in this document. The consolidation of DoD reporting entities into a DoD-wide financial statement requires consistency among all reporting entities.

E. For comparative statement purposes, program managers must maintain consistency in reporting for all funds and accounts within a reporting entity between fiscal years.

F. All abnormal balances must be explained in a note associated with the specific line or in Note 31, Other Disclosures.

061202 Instructions for the Preparation of the Statement of Financial Position.A. Assets

1. Entity Assets. These are assets which the reporting entity has authority to use in its operations. The authority to use funds in an entity's operations means that entity management has the authority to decide how funds are used, or management is legally obligated to use funds to meet entity obligations e.g., repay loans from the U.S. Treasury.

a. Intragovernmental Assets. These assets arise from transactions among Federal entities. Federal (intragovernmental) entity assets are claims of a Federal entity against other Federal entities which, when collected, can be used in the reporting entity's operations.

(1) Fund Balance with Treasury – Line 1.a.(1). This item represents the aggregate amount of the entity's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities. This account includes clearing account balances and the dollar equivalent of foreign currency account balances. Foreign currency account balances should be translated into U.S. dollars at exchange rates determined by the Treasury Department and effective at the financial reporting date. A Federal entity's fund balance with the U.S. Treasury also includes balances for direct loan and loan guarantee activities held in the credit reform program, financing and liquidating accounts. To the extent that the reporting entity maintains balances in deposit, suspense, and clearing accounts that are not available to finance the entity's activities, those balances should be reported on line 2a(1) as nonentity assets. Disclosure should be made in footnote 2 to distinguish two categories of funds within the entity's fund balance with the U.S. Treasury: the obligated balance not yet disbursed and the unobligated balance. Certain unobligated balances may be restricted to future use and are not apportioned for current use. Disclosure should be provided on such restrictions. Federal entities should explain any material discrepancies between fund balance with the U.S. Treasury in their general ledger accounts and the balance in the Treasury's accounts and explain any discrepancies in Note 2. The fund balances of canceled and closed accounts that have been reopened for the processing of adjustments will not be included in the amount reported on this line but must be disclosed in Note 2.

(2) Investments, Net – Line 1.a.(2). This item represents the total of investments in Federal securities net of unamortized premiums, discounts, and allowances for losses. These consist of securities issued by Federal agencies and include nonmarketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. The components of intragovernmental Investments including the market value of market-based and marketable Treasury securities shall be disclosed in Note 4.

(3) Accounts Receivable, Net – Line 1.a.(3). Accounts receivable are amounts that a Federal entity claims for payment from other entities. An allowance for estimated uncollectible amounts should be provided to reduce the gross amount of receivables to its net realizable value. Receivables a Federal entity is authorized by law to include in its obligational authority or to offset its expenditures and liabilities are "Entity receivables" and should be reported separately from "Non-entity receivables." Receivables from Federal entities are intragovernmental receivables and should be reported separately from receivables from nonfederal entities. Additional information regarding accounts receivable shall be disclosed in Note 5.

(4) Interest Receivable – Line 1.a.(4). Interest receivable should be recognized for the amount of interest income earned but not received for an accounting period. The amount of interest receivable which the reporting entity has authority to use in its operations is an entity asset and should be reported separately from interest receivable which the reporting entity cannot use in its operations. Interest receivable from Federal entities should be accounted for and reported separately from interest receivable from nonfederal entities. Interest receivable related to pre- and post-1991 direct loans and acquired defaulted guaranteed

loans should be reported as a component of credit program receivables and related foreclosed property. See Note 7, sections B, C, D and E.

(5) Advances and Prepayments – Line 1.a(5). Advances are cash outlays made by a Federal entity to cover certain periodic expenses before those expenses are incurred. Advances and prepayments made to Federal entities are intragovernmental items and should be accounted for and reported separately from those made to nonfederal entities. Advances and prepayments made by Defense Working Capital Fund activities for materials, labor and overhead for work ordered by customers will be classified and reported as “Work in Process” in the 1580 series of accounts.

(6) Other Intragovernmental – Line 1.a(6). Include on this line those Entity intragovernmental assets not included on above lines. The components shall be disclosed in Note 6.

b. Governmental Assets. These assets arise from transactions of the Federal Government or an entity of the Federal Government with nonfederal entities. Governmental entity assets are claims of the Federal Government or an entity within the Federal Government against nonfederal entities. The term “nonfederal entities” encompasses domestic and foreign persons and organizations outside the U.S. Government. These assets, when collected, can be used in the reporting entity’s operations.

(1) Investments – Line 1.b(1). This item represents securities issued by state and local governments, private corporations, and government sponsored enterprises, net of premiums, discounts and allowances for losses. Securities are normally reported at acquisition cost or amortized acquisition cost. However, market value should be used when there is: (a) an intent to sell the securities prior to maturity, and (b) a reduction in the value of the securities that is more than temporary. Do not include securities issued by the Federal Government; these are to be included under intragovernmental items above. The components of governmental investments shall be disclosed in Note 4.

(2) Accounts Receivable, Net – Line 1.b(2). This item represents amounts due from nonfederal entities, net of an allowance for estimated uncollectible amounts. Include on this line amounts due from former service members who must refund amounts issued as reenlistment bonuses. Additional information regarding accounts receivable shall be disclosed in Note 5.

(3) Credit Program Receivables and Related Foreclosed Property, Net – Line 1.b(3). This item represents the net value of assets related to pre- and post-1991 direct loans receivable and acquired defaulted guaranteed loans receivable. Note 7, sections B, C, D and E provide information relating to the components of this item. The credit program receivable is considered an entity asset if the entity has the authority to determine the use of the funds collected or if the entity is legally obligated to use the funds to meet entity obligations e.g., loans payable to the U.S. Treasury.

(4) Interest Receivable, Net – Line 1.b.(4). This item represents Interest receivable from nonfederal entities that the reporting entity has authority to use in its operations. No interest should be recognized as revenue on accounts receivable or investments that are determined to be uncollectible unless the interest is actually collected. However, until the interest payment requirement is officially waived by the government entity or the related debt is written off, interest accrued on uncollectible accounts receivable and an offsetting allowance for uncollectible interest receivable should be disclosed. Interest receivable related to pre- and post-1991 direct loans and acquired defaulted guaranteed loans should be reported as a component of credit program receivables and related foreclosed property. See Note 7, sections B, C, D and E.

(5) Advances and Prepayments – Line 1.b.(5). This item represents the values of all advances and prepayments made to nonfederal entities. Include on this line the value of outstanding civilian and military pay and travel advances. Also, include on this line the value of outstanding progress payments made to contractors under fixed price contracts. The only exception is for progress payments based on the percentage of completion (normally limited to military construction and ship building contracts). The value of outstanding progress payments based on the percentage of completion is to be reported on line 1.k. as Property, Plant and Equipment, and disclosed in Note 15.

(6) Other Governmental – Line 1.b.(6). Include on this line those Entity governmental assets not included on above lines. The components of Entity governmental assets shall be disclosed in Note 6.

c. Cash and Other Monetary Assets – Line 1.c. The total of all cash resources and all other monetary assets available to the entity. Cash consists of: (1) disbursing officer's cash, imprest funds and change funds even though such funds may belong to the U.S. Treasury; (2) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (3) amounts on demand deposit with banks or other financial institutions; (4) activity cash held in change and imprest funds; and (5) foreign currencies, which, for accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date. Change funds are primarily held by the Defense Commissary Agency. "Other Monetary Assets" include gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. The amount of Cash and Other Monetary Assets that the reporting entity holds and is authorized to spend is entity cash. The assets under this category that a federal entity collects and holds on behalf of the U.S. Government or other entities is Non-entity cash and other monetary assets. The components of cash and other monetary assets shall be disclosed in Note 3.

d. Inventory, Net – Line 1.d. Inventory is tangible personal property that is (1) held for sale, including raw materials, (2) in the process of production for sale, (3) to be consumed in the production of goods for sale or in the provision of services for a fee, or (4) to be transferred to entities within the federal government or outside the federal government. Include in this category, inventory traditionally held for sale at Supply Management activities. Additional information regarding inventory shall be disclosed in Note 8.

e. Work in Process – Line 1.e. Represents the net value of accumulated costs incurred by a DoD activity in connection with a reimbursable order received from a customer. Work in progress includes the cost of materials, labor and overhead, performed by DoD personnel, reported by contractors, other federal agencies, property furnished by the DoD to contractors for inclusion in, or fabrication of an end item, costs of all capital assets developed or manufactured for other working capital fund activities, and the estimated amount of loss due to breakage, spoilage, obsolescence, etc. Information shall be disclosed in Note 9. Except as provided for in paragraphs A. and B., of section 061602, advances and prepayments, including progress payments, made by general (appropriated) funds will be classified as advances and prepayments and not as “Work in Process.”

f. Operating Materials and Supplies, Net – Line 1.f. Operating materials and supplies consist of tangible personal property to be consumed in normal operations. Include in this category, inventory traditionally held by Depot Maintenance activities which will be consumed in or becomes part of the repair or production of end items. Additional information regarding operating materials and supplies shall be disclosed in Note 10.

g. Stockpile Materials, Net – Line 1.g. Stockpile materials are strategic and critical materials held pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98) of 1979. Within the Department of Defense, management of the Stockpile was assigned to the Defense Logistics Agency (DLA) Defense National Stockpile Center. The DLA reporting entity is the National Defense Stockpile Transaction Fund. Only DLA is authorized to use this line item. Included are critical materials held as reserves and/or stockpiles. They are not held with the intent of selling in the ordinary course of business. Additional information regarding stockpile materials shall be disclosed in Note 11.

h. Seized Property – Line 1.h. Seized property includes monetary instruments, real property and tangible personal property of others seized by authorized law enforcement agencies as a consequence of various laws and in the actual or constructive possession of a custodial agency. Additional information shall be disclosed in Note 12. Only seized monetary instruments shall be recognized as seized assets when seized. (A liability also shall be reported in an amount equal to the seized asset value.) Seized property other than monetary instruments and additional information regarding seized property shall be disclosed in Note 12. If the seized monetary assets will not be available to the entity to support its operations, the amounts should be classified as a nonentity asset.

i. Forfeited Property, Net – Line 1.i. Forfeited property consists of (1) monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; (2) property acquired by the government to satisfy a tax liability; and (3) unclaimed and abandoned merchandise. Additional information regarding forfeited property shall be disclosed in Note 13. If the forfeited assets will not be available to the entity to support its operations the amounts should be classified as a nonentity asset.

j. Goods Held Under Price Support and Stabilization Programs, Net – Line 1.j. These goods are referred to as commodities. Commodities are items of commerce or trade having an exchange value. They are acquired, held, sold, or otherwise disposed of to satisfy or help satisfy economic goals. Additional information regarding commodities shall be disclosed in Note 14.

k. Property, Plant and Equipment, Net – Line 1.k. The amount of real and personal property, i.e., land, structures and facilities, construction in progress, purchased and self-developed software, equipment and related improvements that has been capitalized, net of accumulated depreciation, if any. Also includes assets acquired by capital leases and leasehold improvements; and property owned by the reporting entity in the hands of the reporting entity or contractors. For example, include in this line the value of real and personal property used by the DWCF in its operations but under the jurisdiction of the Military Departments. Include on this line the value of lumber and timber assets that have been designated for sale under the lumber-timber program. The elements of property, plant and equipment, as well as information regarding depreciation practices, if any, shall be disclosed in Note 15. (Assets of material value that are recorded at a zero or nominal book value, e.g., public domain land or military weaponry, shall be disclosed to the extent practicable, in the footnotes.) Do not include the value of property held but not in use; these assets are to be included in line 1.l., “Other Entity Assets.”

l. War Reserves - Line 1.l. Report on this line the value of items held for future use, in case of conflict or other emergent need, that have been purchased with appropriated funds and are not held for sale. The reporting of items held for future use in case of conflict or other emergent need is not clearly addressed in the Statement of Federal Financial Standards (SFFAS) issued by OMB. For example, munitions could be reported as operating materials and supplies, as general property, plant and equipment (PP&E), or as National Defense PP&E. Since these items are not held for sale, they will not be reported as inventory. Until the SFFAS is clarified, items held for future use, in case of conflict or other emergent need, will be reported as War Reserves. Additional information regarding War Reserves shall be disclosed in Note 31.

m. Other Entity Assets – Line 1.m. Include on this line those Other Entity Assets that are not classified as intragovernmental or governmental and are not included on the lines above. Also included in this line are assets held, but not in use. If the components of other entity assets are material disclose them following footnote 30.

n. Total Entity Assets – Line 1.n. The sum of lines 1.a. through 1.l.

2. Non-Entity Assets. These are assets that are held by an entity but are not available to the entity.

a. Intragovernmental Assets. Intragovernmental nonentity assets are claims of a Federal entity against other Federal entities. These are amounts which, when collected cannot be spent by the reporting entity.

(1) Fund Balance with Treasury – Line 2.a.(1). To the extent that the reporting entity maintains balances in deposit, suspense, and clearing accounts, that are not available to finance the entity's activities, those balances should be reported on line 2.a.(1) as nonentity assets. This line will be used by the Defense Security Assistance Agency to report the cash on deposit to pay for materials and services being purchased for foreign customers.

(2) Accounts Receivable, Net – Line 2.a.(2). This item represents amounts due from other Federal entities, net of an allowance for estimated uncollectible amounts. Include on this line any amounts of accounts receivable that were established under accounts that are now cancelled. Additional information regarding accounts receivable shall be disclosed in Note 5.

(3) Interest Receivable – Line 2.a.(3). This item represents interest receivable from other Federal entities which, when collected, cannot be used in the reporting entity's operations.

(4) Other – Line 2.a.(4). Include on this line those nonentity intragovernmental assets not included on above lines. The components shall be disclosed in Note 6.

b. Governmental Assets. Governmental nonentity assets are claims of the Federal Government or an entity within the Federal Government against nonfederal entities. The term “nonfederal entities” encompasses domestic and foreign persons and organizations outside the U.S. Government. These are amounts which, when collected, cannot be spent by the reporting entity.

(1) Accounts Receivable, Net – line 2.b.(1). This item represents amounts due from nonfederal entities, net of an allowance for estimated uncollectible amounts. Additional information regarding accounts receivable shall be disclosed in Note 5. Include on this line any amounts of accounts receivable that were established under accounts that are now cancelled.

(2) Interest Receivable – Line 2.b.(2). This item represents Interest receivable from nonfederal entities which, when collected, cannot be used by the reporting entity in its operations. No interest should be recognized as revenue on accounts receivable or investments that are determined to be uncollectible unless the interest is actually collected. However, until the interest payment requirement is officially waived by the government entity or the related debt is written off, interest accrued on uncollectible accounts receivable and an offsetting allowance for uncollectible interest receivable should be disclosed. Interest receivable related to pre- and post-1991 direct loans and acquired defaulted guaranteed loans

should be reported as a component of credit program receivables and related foreclosed property. See Note 7, sections B, C, D and E.

(3) Other – Line 2.b.(3). Include on this line those nonentity governmental assets not included on above lines. The components of nonentity governmental assets shall be disclosed in Note 6.

c. Cash and Other Monetary Assets – Line 2.c. The total of all cash resources and all other monetary assets. Cash consists of: (1) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (2) amounts on demand deposit with banks or other financial institutions; and (3) foreign currencies, which, for accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date. “Other Monetary Assets” include gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. The amount of Cash and Other Monetary Assets that the reporting entity holds and is authorized to spend is entity cash. The assets under this category that a Federal entity collects and holds on behalf of the U.S. Government or other entities is nonentity cash and other monetary assets. The components of Cash and Other Monetary Assets shall be disclosed in Note 3.

d. Other Non-Entity Assets – Line 2.d. Include on this line those Other Non-Entity Assets that are not classified as intragovernmental or governmental and are not included on the lines above. If the components of Other Non-Entity Assets are material disclose them following footnote 30.

e. Total Non-Entity Assets – Line 2.e. Sum of lines 2.a. through 2.d.

3. Total Assets – Line 3. Sum of lines 1.m. and 2.e.

B. Liabilities. Liabilities are to be recognized when they are incurred regardless of whether they are covered by available budgetary resources. This includes liabilities related to appropriations canceled under “M” account legislation. Budgetary resources include: (1) new budget authority; (2) offsetting collections credited to an appropriation or fund account; (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations; and (4) unobligated balances of such resources at the beginning of the year or transferred in during the year.

1. Liabilities Covered by Budgetary Resources Line 4. Liabilities incurred which will be covered by available budgetary resources. Available budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year.

a. Intragovernmental Liabilities. These liabilities arise from transactions among Federal entities. Intragovernmental liabilities are claims against the entity by other federal entities.

(1) Accounts Payable – Line 4.a.(1). The amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other Federal entities. Include on this line any amounts of accounts payable that were established under accounts that are now cancelled and are expected to be paid during the fiscal year immediately following the reporting period.

(2) Interest Payable – Line 4.a.(2). This item represents the amount of interest expense incurred but unpaid on debts to other Federal entities.

(3) Debt – Line 4.a.(3). This item represents the amounts of borrowings from the U.S. Treasury, the Federal Financing Bank, or other Federal agencies. The elements of debt shall be disclosed in Note 16, Part A.

(4) Other Intragovernmental Liabilities – Line 4.a.(4). This item represents other liabilities that are not recognized in specific categories. Include on this line the total amount due the Federal entities for other liabilities covered by budgetary authority that are not included on other lines above. This includes: advances and prepayments received from other Federal entities for goods to be delivered or services to be performed and deposit fund amounts held in escrow. Note 17 should be used to separately report the current portion of other intragovernmental liabilities. Current liabilities represent amounts owed by a Federal entity which need to be paid within the fiscal year following the reporting date. Further disclosure may be appropriate for separate categories within other intragovernmental liabilities and other current intragovernmental liabilities if the amounts are material.

b. Governmental Liabilities. These liabilities arise from transactions of an entity of the Federal Government with nonfederal entities. Governmental liabilities are claims against the entity by nonfederal entities.

(1) Accounts Payable – Line 4.b.(1). The amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to nonfederal entities. Include on this line any amounts of accounts payable that were established under accounts that are now cancelled and are expected to be paid during the fiscal year immediately following the reporting period.

(2) Accrued Payroll and Benefits. This item represents the funded payroll and benefits, accrued funded annual leave for civilian and military personnel and funded severance pay and separation allowances.

(a) Salaries and Wages – Line 4.b.(2)(a). Represents the estimated liability for salaries and wages of civilian personnel that have been earned, but are unpaid, and the estimated military personnel funded compensation earned, but unpaid, as of the end of the current accounting month.

(b) Annual Accrued Leave – Line 4.b.(2)(b).

Represents the funded accrued leave for civilians and military personnel that has been earned and are expected to be paid in the future.

(c) Severance Pay and Separation Allowance – Line 4.b.(2)(c). Represents the funded severance pay and separation allowances for civilians and military personnel that has been earned and are expected to be paid in the future.

(3) Interest Payable – Line 4.b.(3). This item represents the amount of interest expense incurred but unpaid on debt owed to nonfederal entities.

(4) Liabilities For Loan Guarantees – Line 4.b.(4). This item represents the present value of the estimated cash flows to be paid as a result of post-1991 loan guarantees. For pre-1992 loan guarantees, report the amount of known and estimated losses. Refer to the instructions to Note 7, section F.

(5) Lease Liabilities – Line 4.b.(5). This item represents the portion of the liability for capital leases which is covered by budgetary authority. (Capital leases entered into prior to FY 1992 and lease purchases prior to FY 1991 were funded on a fiscal year basis; capital leases and lease purchases entered into during FY 1992 and thereafter must be fully funded in the first year of the lease, see Appendix B of OMB Circular A-11.) The components of and other information about the capital lease liability shall be disclosed in Note 18.

(6) Pensions and Other Actuarial Liabilities – Line 4.b.(6). For agency-administered pension, health insurance and similar plans requiring actuarial determinations, the portion of the liabilities covered by budgetary resources, i.e., the amount for which assets are available to pay plan benefits. Note 19 shall disclose the components and other information about pensions and other actuarial liabilities. Within the DoD, this line is applicable only to the Military Retirement Trust Fund.

(7) Other Governmental Liabilities – Line 4.b.(7). This item represents other liabilities that are not recognized in specific categories. Include in this line the total amount due the public for other liabilities covered by budgetary authority that are not included on other lines above. This includes: accrued entitlement benefits, advances and prepayments received from other nonfederal entities for goods to be delivered or services to be performed, deposit fund amounts held in escrow, estimated losses for commitments and contingencies if (a) information available before the statements are issued indicates an asset probably has been impaired or a liability incurred as of the date of the statements and (b) the amount can be reasonably estimated as a specific amount or range of amounts. Examples of commitments and contingencies for which the estimated losses, if funded, would be reported on this line are:

(a) Insurance. Insurance payments due for losses resulting from bank failures, crop failures, floods, expropriations, loss of life, and similar unplanned events.

(b) Indemnity Agreements. Reimbursements due to licensees or contractors for losses incurred in support of government activities.

(c) Adjudicated Claims. Claims against the government that are in the process of judicial proceedings.

(d) Commitments to International Institutions. Payments due to international financial institutions.

Note 17 should be used to separately report the current portion of other governmental liabilities. Further disclosure may be appropriate for separate categories within other governmental liabilities and other current governmental liabilities if the amounts are material.

c. Total Liabilities Covered by Budgetary Resources – Line 4.c. Sum of line items 4.a. and 4.b.

2. Liabilities not Covered by Budgetary Resources - Line 5. Liabilities incurred which are not covered by available budgetary resources. These include liabilities resulting from the receipt of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods, for which revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of the reporting entity. Notwithstanding an expectation that the appropriations will be made, whether they in fact will be made is completely at the discretion of the Congress.

a. Intragovernmental Liabilities. These liabilities arise from transactions among Federal entities. Intragovernmental liabilities are claims against the entity by other Federal entities.

(1) Accounts Payable – Line 5.a.(1). The amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other Federal entities. These amounts are not covered by available appropriations. Include on this line any amounts of accounts payable that were established under accounts that are now cancelled and are not expected to be paid during the fiscal year immediately following the reporting period.

(2) Debt – Line 5.a.(2). This line is used to report debt issued to other Federal agencies under general or special financing authority. The components of debt shall be disclosed in Note 16.

(3) Other Intragovernmental Liabilities – Line 5.a.(3). This item represents other liabilities that are not recognized in specific categories. Include in this line the total amount due Federal agencies for other liabilities not covered by budgetary authority

that are not included on other lines above. This also includes: canceled appropriations required under Public Law 101-510, "National Defense Authorization Act for Fiscal Year 1991." Note 17 should be used to separately report the current portion of other intragovernmental liabilities. Current liabilities represent amounts owed by a Federal entity which need to be paid within the fiscal year following the reporting date. Further disclosure may be appropriate for separate categories within other intragovernmental liabilities and other current intragovernmental liabilities if the amounts are material.

b. Governmental Liabilities. These liabilities arise from transactions of an entity of the Federal Government with nonfederal entities. Governmental liabilities are claims against the entity by nonfederal entities.

(1) Accounts Payable – Line 5.b.(1). The amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to nonfederal entities. These amounts due are not covered by available budgetary resources. Include on this line any amounts of accounts payable that were established under accounts that are now cancelled and are not expected to be paid during the fiscal year immediately following the reporting period.

(2) Debt – Line 5.b.(2). This line is used to report debt issued to the public under general or special financing authority (e.g., Treasury bills, notes, bonds and FHA debentures). The elements of debt shall be disclosed in Note 16.

(3) Lease Liabilities – Line 5.b.(3). The portion of the liability for capital leases for which budgetary resources may be provided over the future years of the lease. This principally applies to capital leases entered into before FY 1992, and lease purchases prior to FY 1991. (Capital leases entered into prior to FY 1992 and lease purchases prior to FY 1991 were funded on a fiscal year basis; capital leases and lease purchases entered into during FY 1992 and thereafter must be fully funded in the first year of the lease, see Appendix B of OMB Circular A-11.) The elements of, and other information about, the capital lease liability shall be disclosed in Note 18.

(4) Pensions and Other Actuarial Liabilities – Line 5.b.(4). This line is used to report the estimated present value projected for agency administered pension, health insurance and similar plan costs requiring actuarial determinations of the projected plan benefits (less net assets, if any) based on (a) service to date, (b) occurrences to date, and/or (c) amounts earned or accrued to date. Other Retirement Benefits (ORB) liabilities for post employment health and life insurance benefits must also be recognized. The health care ORB projection for military retirees will be reported on Other Defense Agency statement of financial position. The major assumptions used to derive the present value calculations for the actuarial liabilities not covered by budgetary resources (including the related net assets, if any) shall be disclosed in Note 19.

(5) Other Governmental Liabilities – Line 5.b.(5). This item represents other liabilities that are not recognized in specific categories. Include in this line the total amount due the public for other liabilities not covered by budgetary authority that are not

included on other lines above. However, if the balances for specific liabilities not included on other lines above are material, they should be separately reported and designated by name. Examples of liabilities that could be reported on this line include: canceled appropriations required under Public Law 101-510, "National Defense Authorization Act for Fiscal Year 1991;" the amount of employee accrued annual leave, i.e., earned but not used, that would be funded and paid from future years' appropriations; environmental cleanup costs; estimated losses for commitments and contingencies if (a) information available before the statements are issued indicates an asset probably has been impaired or a liability incurred as of the date of the statements and (b) the amount reasonably can be estimated as a specific amount or range of amounts. Examples of commitments and contingencies for which the estimated losses would be reported on this line are:

(a) Insurance. Insurance payments due for losses resulting from bank failures, crop failures, floods, expropriations, loss of life, and similar unplanned events.

(b) Indemnity Agreements. Reimbursements due to licensees or contractors for losses incurred in support of Government activities.

(c) Adjudicated Claims. Claims against the Government that are in the process of judicial proceedings.

(d) Commitments to International Institutions. Payments due to international financial institutions.

Note 17 should be used to separately report the current portion of other governmental liabilities. Further disclosure may be appropriate for separate categories within other intragovernmental liabilities and other current intragovernmental liabilities if the amounts are material.

c. Total Liabilities not Covered by Budgetary Resources – Line 5.c. Sum of line items 5.a. and 5.b. This amount should agree with the amount reported for Future Funding Requirements, line 7.e.

3. Total Liabilities – Line 6. Sum of lines 4.c. and 5.c., above.

C. Net Position.

1. Balances. The elements of net position are classified as follows:

a. Unexpended Appropriations – Line 7.a. This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances. Unobligated balances may include both available and unavailable amounts.

b. Invested Capital – Line 7.b. The net investment of the government in the reporting entity. Includes the acquisition cost of capitalized fixed assets

financed by appropriations; pre-credit reform loans financed by appropriations; the additional investment in a revolving fund to commence operations or begin a new activity; less the reduction in investment due to depreciation, amortization, bad debts related to the precredit reform loans, sales or exchanges, donations, other disposals; the return of initial investment to an investor; or the transfer to another entity or revolving fund.

c. Cumulative Results of Operations – Line 7.c. The net difference between (1) expenses and losses and (2) financing sources, including appropriated capital used, revenues and gains, since the inception of the activity.

d. Other – Line 7.d. This line represents other components of net position not specifically identified above. This category should include the fair market value of donated assets accepted from state, local or foreign governments, individuals, or others not related to the Federal Government that meet an agency's capitalization criteria, plus any costs incurred to place the donated items in use, including assets acquired by discovery, adverse possession, and means other than purchase or transfer; less the reduction resulting from assets sold, transferred out, donated, used or consumed in operation, or other disposition. Also include in this category the net of assets (and liabilities) transferred to or from other Federal entities without reimbursement.

e. Future Funding Requirements – Line 7.e. This line reflects liabilities reported in the Statement of Financial Position which are not covered by available budgetary resources. The total of this line should agree with the total Liabilities not Covered by Budgetary Resources, line 5.c.

f. Total Net Position – Line 7.f. Sum of lines 7.a. through 7.e.

An analysis of the elements of net position by fund account balance (i.e., revolving funds, trust funds, and appropriated funds) shall be disclosed in Note 20.

2. Total Liabilities and Net Position – Line 8. Sum of lines 6 and 7.f., above.

061203 Instructions for the Preparation of the Statement of Operations and Changes in Net Position.

A. Revenues And Financing Sources.

1. Appropriated Capital Used – Line 1. The amount of appropriations used to finance expenses. This includes appropriations for (a) unfunded expenses from prior periods that are funded with current period appropriations, (b) depreciation of capitalized (fixed) assets and consumption of inventory related to prior year purchases of fixed assets or inventory, if recorded, (c) accrued and actual losses on inventory write-downs, and (d) bad debt expense related to long-term loans receivable and related interest on pre-1992 loans.

2. Revenues from Sales of Goods and Services. Revenues earned from the sale of goods or other tangible property to the public or Federal entities or the performance of services for or on behalf of a nonfederal or Federal entity.

a. Revenues from Sales of Goods and Services to the Public – Line 2.a. Revenues earned from the sale of goods or other tangible property to the public or the performance of services for or on behalf of a nonfederal entity.

b. Revenues from Sales of Goods and Services, Intragovernmental – Line 2.b. Revenues earned from the sale of goods or other tangible property to Federal entities, or the performance of services for or on behalf of other Federal entities.

3. Interest and Penalties, Non-Federal – Line 3. Interest earned from all nonfederal sources, including revenues from contractors' late payment penalties imposed on debtors in accordance with the Debt Collection Act.

4. Interest, Federal – Line 4. Interest earned from Federal sources such as interest earned from Federal securities held by the reporting entity and interest on uninvested funds in guaranteed loan and direct loan financing accounts.

5. Taxes – Line 5. Taxes and other collections from the public that result from the exercise of the Federal Government's sovereign powers to tax. Include individual and corporate taxes (Internal Revenue Service collections), social security/Medicare contributions (reported by Social Security Administration), excise, estate and gift taxes, customs duties, and any other miscellaneous taxes. The components of taxes shall be disclosed in Note 21.

6. Other Revenues and Financing Sources – Line 6. Revenues and financing sources not reported on lines 1 through 5. Include court fines, licenses, fee income, i.e., direct and loan guarantee fees received from borrowers and others, rental income from seized, forfeited or foreclosed properties, cash donations, gains on the sale of forfeited collateral property, and an amount equal to any depreciation recorded against donated assets. This also includes imputed financing posted to offset actuarial expenses paid by another entity. The nature of significant other revenues or financing sources shall be disclosed in Note 22.

7. Taxes and Receipts Transferred to the U.S. Treasury or Other Agencies – Line 7. Amounts transferred to the Treasury Department or other agencies that have been reported as financing sources on lines 1 through 6. Include taxes and other receipts which, pursuant to public law, may not be retained for the use of the reporting entity.

8. Total Revenues and Financing Sources – Line 8. Sum of lines 1 through 6, less line 7.

B. Expenses.

1. Program or Operating Expenses – Line 9. Expenses incurred in conducting the normal activities of the department/agency classified either by program or major object class. Do not include cost of goods sold (reported on lines 10.a. or 10.b. below), expenditures for assets that were capitalized (and reported on the Statement of Financial Position), or interest or other expenses reported on other lines. The classification of program or operating expenses in a manner other than that reported in the Statement of Operations and Changes in Net Position shall be disclosed in Note 23.

2. Cost of Goods Sold. Costs applicable to goods sold to the public or other Federal entities, including the carrying value of commodities sold from stock. Amounts shall be disclosed in Note 24.

a. Cost of Goods Sold, to the Public – Line 10.a. Costs applicable to goods and services sold to the public, including the carrying value of commodities (i.e., inventory) sold from stock. Work-in-process or construction-in-progress accounts are generally used to accumulate the cost of goods or services under a job-order or process cost accounting system. Methods other than job-order or process costing are sometimes used to determine the cost of goods and services. For example, the cost of inventory sold is generally determined through use of an average cost perpetual inventory method. Amounts shall be disclosed in Note 24.

b. Cost of Goods Sold, Intragovernmental – Line 10.b. Costs applicable to goods and services sold to other Federal entities, including the carrying value of commodities (i.e., inventory) sold from stock. Work-in-process or construction-in-progress accounts are generally used to accumulate the cost of goods or services under a job-order or process cost accounting system. Methods other than job-order or process costing are sometimes used to determine the cost of goods and services. For example, the cost of inventory sold is generally determined through use of an average cost perpetual inventory method. Amounts shall be disclosed in Note 24.

3. Depreciation and Amortization – Line 11. Depreciation, amortization, depletion and other systematic allocations of the acquisition cost of physical assets, if recorded.

4. Bad Debts and Write-offs – Line 12. Estimated or actual amount of receivables determined to be uncollectible during the period; write-downs for inventory shortages or obsolescence, and write-offs of fixed assets. These amounts should be reported on separate lines, if material. The financial statement for a loan program should include write-offs of receivables under line 9, program or operating expenses.

5. Interest. Interest expense for agency borrowings, public debt, agency debt issued under special financing authorities and other interest expense.

a. Interest - Federal Financing Bank/Treasury Borrowing – Line 13.a. Interest expense for agency borrowings from the U.S. Treasury.

b. Interest - Federal Securities – Line 13.b. Interest expense on the public debt and on agency debt issued under special financing authorities.

c. Interest – Other – Line 13.c. Other interest expense not included in lines 13.a. or 13.b.

6. Other Expenses – Line 14. The amount of expenses incurred not reported on lines 9 through 13. Includes losses on disposition of assets including collateral property, and, to the extent that they are recorded by the reporting entity, discounts lost. Imputed expenses for civilian and military personnel pensions and Other Retirement Benefits (ORB) over the amount of the employer contribution will be recognized for the amount of imputed financing recognized in line 6., starting with the FY 1997 financial statements. The nature of any significant other expenses shall be disclosed in Note 25.

7. Total Expenses – Line 15. Sum of lines 9 through 14.

8. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items – Line 16. Line 8 less line 15.

9. Plus (Minus) Extraordinary Items – Line 17. Revenues or expenses that are unusual, unrelated to the entity's ordinary activities, and occur infrequently. Do not include amounts reported on other revenue or expense lines. The nature of each extraordinary item shall be disclosed in Note 26.

10. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses – Line 18. Line 16 plus (or less) line 17.

11. Net Position, Beginning Balance, as previously stated – Line 19. The net position balance as of the beginning of the current fiscal year being reported before prior period adjustments. This amount should agree with the ending net position balance reported on the entity's Statement of Financial Position for the prior fiscal year.

12. Adjustments – Line 20. Adjustments that represent an accounting change or a correction of an error in previously issued statements. The nature of each adjustment shall be disclosed in Note 27.

13. Net Position, Beginning Balance, as Restated – Line 21. The net position balance as of the beginning of the current fiscal year being reported after prior period adjustments.

14. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses – Line 22. Enter balance from line 18.

15. Plus (Minus) Non-Operating Changes – Line 23. The net amount of non operating changes during the fiscal year. Non-operating changes consist of increases and/or decreases in the elements of net position that are not reported as part of line 18 on this operating statement, such as unexpended appropriations which have not been included in Line 1., Appropriated Capital Used. The nature of non-operating changes shall be disclosed in Note 28.

16. Net Position, Ending Balance – Line 24. Line 21 plus (or less) lines 22 and 23. This line should agree to the ending net position balance reported on the Statement of Financial Position (line 7.(f)).

061204 Instructions for the Preparation of the Statement of Cash Flows. The Statement of Cash Flows shall be prepared using the indirect method. The indirect method discloses the net cash flow by adjusting the excess (shortage) of revenues and financing sources over total expenses for the effects of (a) all deferrals of past cash receipts and payments and all accruals of expected future operating cash receipts and payments and (b) all items that are included in the excess of revenues and financing sources over total expenses that do not affect operating cash receipts and payments.

A. Cash Flows from Operating Activities:

1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses – Line 1. The amount reported on line 18 of the Statement of Operations and Changes in Net Position.

B. Adjustments affecting Cash Flow:

1. Appropriated Capital Used – Line 2. The amount reported on line 1 of the Statement of Operations and Changes in Net Position should be reported as a negative adjustment to the net cash flow from operations.

2. Decrease (Increase) in Accounts Receivable – Line 3. The change in accounts receivable between the ends of the preceding and current fiscal year. A decrease adds to, an increase reduces the cash balance.

3. Decrease (Increase) in Other Assets – Line 4. The change in other assets categories which affect cash flow, between the ends of the preceding and current fiscal years. A decrease adds to the cash balance and an increase reduces the cash balance.

4. Increase (Decrease) in Accounts Payable – Line 5. The change in accounts payable between the ends of the preceding and current fiscal years. An increase adds to the cash balance and a decrease reduces the cash balance.

5. Increase (Decrease) in Other Liabilities – Line 6. The change in other funded liabilities between the ends of the preceding and current fiscal years. An increase adds to the cash balance and a decrease reduces the cash balance.

6. Depreciation and Amortization – Line 7. The depreciation and amortization for the period which are not paid in cash and, therefore, require a positive adjustment to the net cash flow from operations.

7. Other Unfunded Expenses – Line 8. Unfunded annual leave, and other unfunded expenses which, although not requiring cash, add to the net cash provided by operating activities.

8. Other Adjustments – Line 9. The net of the period's cash transfer transactions (excludes DWCF), prior period adjustments, and extraordinary items. The cash balance is increased by transfers-in (exclude appropriations received); reduced by U.S. Treasury withdrawals, and transfers out.

9. Total Adjustments – Line 10. The sum of lines 2 through 9.

10. Net Cash Provided (Used) by Operating Activities – Line 11. The total of lines 1 and 10.

C. Cash Flows from Investing Activities: Investing activities include acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, i.e., those used in the production of goods or services.

1. Sale of Property, Plant and Equipment – Line 12. The proceeds from the sales of surplus property, plant and equipment.

2. Purchase of Property, Plant and Equipment – Line 13. The amounts disbursed for the purchases of property, plant and equipment.

3. Sale of Securities – Line 14. The proceeds from the sales of debt and equity securities (except debt issuances).

4. Purchase of Securities – Line 15. The amounts disbursed for the purchases of debt and equity securities.

5. Collection of Loans Receivable – Line 16. The cash received from collection of agency loans receivable.

6. Creation of Loans Receivable – Line 17. The proceeds from the creation by the agency of loans receivable.

7. Other Investing Cash Provided (Used) – Line 18. The net amounts of other collections or disbursements associated with investing activities of the entity.

8. Net Cash Provided (Used) by Investing Activities – Line 19. Net of lines (12) through (18).

D. Cash Provided (Used) by Financing Activities. Financing activities include obtaining resources in the form of appropriations from the Congress, or by transferring from other reporting entities; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.

1. Appropriations (Current Warrants) – Line 20. The amount of appropriations received, net of rescissions.

2. Add:

a. Restorations – Line 21.a. Cash balances withdrawn by the Treasury Department in prior years which were restored.

b. Transfers of Cash from Others – Line 21.b. The amounts of cash transferred from all Federal sources, except from the U.S. Treasury.

3. Deduct:

a. Withdrawals – Line 22.a. The amounts of unobligated appropriations withdrawn by the Treasury Department.

b. Transfers of Cash to Others – Line 22.b. The amounts of cash transferred to Federal agencies, except from the U.S. Treasury.

4. Net Appropriations – Line 23. Net of lines (20), (21) and (22).

5. Borrowing from the Public – Line 24. The amounts received from all U.S. Treasury (or entity) debt issuances to the public.

6. Repayments on Loans from the Public – Line 25. The amounts disbursed to liquidate U.S. Treasury (or entity) debt held by the public.

7. Borrowing from the U.S. Treasury and the Federal Financing Bank – Line 26. The amount of related borrowings.

8. Repayments on Loans from the U.S. Treasury and the Federal Financing Bank – Line 27. The amounts disbursed to liquidate loans obtained from the U.S. Treasury or Federal Financing Bank.

9. Other Borrowings and Repayments – Line 28. The net amounts of all other cash collections or disbursements associated with the financing activities of the agency.

10. Net Cash Provided (Used) by Financing Activities – Line 29. Net of lines (23) through (28).

11. Net Cash Provided (Used) by Operating, Investing and Financing Activities – Line 30. The amounts reported on lines (11), (19) and (29).

12. Fund Balances with Treasury, Cash, and Foreign Currency, Beginning – Line 31. The sum of account balances at the beginning of the fiscal year. The amounts should agree with the amounts reported for those accounts on the prior year's Statement of Financial Position.

13. Fund Balances with Treasury, Cash, and Foreign Currency, Ending – Line 32. The net of lines (30) and (31). The amounts should agree with the amounts reported for these accounts on the current year's Statement of Financial Position.

E. Supplemental Disclosure of Cash Flow Information: When the indirect method is used to prepare the Statement of Cash Flows, the amount of interest paid (net of amounts capitalized) during the period shall be provided in this section of the statement.

1. Total Interest Paid – Line 33. The amount of interest paid during the period net of amounts capitalized.

F. Supplemental Schedule of Financing and Investing Activity: Information about all investing and financing activities of a reporting entity during a period that affect recognized liabilities but that do not result in cash receipts or payments in the period shall be reported in this section.

1. Property and Equipment Acquired under Capital Lease Obligations – Line 34. Property and equipment acquired under such leases that did not result in cash payments.

2. Property Acquired Under Long-term Financing Arrangements – Line 35. Property acquired under these arrangements that did not result in cash payments.

3. Other Exchanges of Noncash Assets or Liabilities – Line 36. Any other exchange of noncash assets or liabilities not specifically identified above.

061205 Crosswalk From The DoD Uniform Chart Of Accounts to the Principal Statements.

A. This section provides a crosswalk from the DoD Uniform Chart of Accounts (UCA) to the principal statements presented previously in this chapter. The following should be considered when using the crosswalk.

B. The crosswalk lists summary accounts when all of the posting are applicable, otherwise the individual applicable posting accounts are listed. Posting accounts are those which receive the original entry(s) of a transaction, as opposed to summary accounts which subtotal (or total) the balances of specified posting accounts.

C. The account balance used should be the end of the period account balance, unless the account number is marked with a (B), which means the beginning of the period balance should be used; or an (E-B), which means the end of the period balance less the beginning of the period balance should be used.

D. Lines on the statements that require calculations do not cite the UCA account for each line referenced in the calculation. This information is available for each referenced line.

E. Certain UCA accounts might contain amounts that would be reported in more than one reporting classification. The following symbols indicate which portions of the accounts should be reported for the reporting classification.

<u>Symbol</u>	<u>Data Element Requirement</u>
E	Entity assets
O	Non-entity assets
I	Intragovernmental
G	Governmental
F	Covered by Budgetary Resources
U	Not Covered by Budgetary Resources

Figure 6-7

F. The Treasury Department fund symbol should be used to determine the proper reporting lines for the UCA equity accounts (3000 series) on the Statement of Financial Position.

G. The development of these financial statements has resulted in the need for new general ledger accounts. The proposed accounts are marked with a single asterisk (*). Also certain financial statement lines will require additional analysis. These are marked with a double asterisk (**).

Crosswalk for the Statement of Financial Position

<u>Line</u>	<u>DoD UCA Account</u>
l.a.(1)(a)	1011, 1012, 1013 (E, I)
l.a.(2)	1610, 1611, 1690 (E, I)
l.a.(3)	1311, 1312, 1315, 1319 (E, I)
l.a.(4)	1300** (E, I)
l.a.(5)	1415, 1451, 1452 (E, I)
l.a.(6)	1920, 1990 (E, I)
l.b.(1)	1610, 1611, 1690 (E, G)
l.b.(2)	1313, 1314, 1316, 1319, 1320 (E, G)
l.b.(3)	1353, 1354, 1359, (E, G)
l.b.(4)	1300** (E, G)
l.b.(5)	1411, 1412, 1413, 1414, 1451, 1452 (E, G)
l.b.(6)	1591, 1599, 1920, 1990 (E, G)
l.c.	1110, 1120, 1191, 1195, 1200 (E)
l.d.	1520, 1550, 1560, 1580 (E)
l.e.	1540
l.f.	1510, 1530** (E)
l.g.	1570 (E)
l.h.	1500** (E)
l.i.	1500** (E)
l.j.	1500** (E)
l.k.	1710, 1720, 1730, 1739, 1740, 1749, 1750, 1759, 1760 minus 1766 (and accumulated depreciation), 1769, 1770, 1810, 1819, 1820, 1829, 1830, 1839, 1840, 1849, 1850, 1890 (E)
1.1.	1766 (and accumulated depreciation) (E)
l.m.	Calculated; sum lines l.a. thru 1.1.
2.a.(1)	1010 (O, I)
2.a.(2)	1311, 1312, 1315, 1319 (O, I)
2.a.(3)	1300** (O, I)
2.a.(4)	1415, 1451, 1452, 1990 (O, I)
2.b.(1)	1313, 1314, 1316, 1319, 1320 (O, G)
2.b.(2)	1300** (O, G)
2.b.(3)	1411, 1412, 1413, 1414, 1451, 1452, 1990 (O, G)
2.c.	1110, 1195, 1200 (O)
2.d.	1910, 1919 (O)
2.e.	calculated; sum lines 2.a., 2.b., 2.c. and 2.d.
3.	calculated; sum lines l.m. and 2.e.
4.a.(1)	2111, 2112, 2120, 2130, 2190 (F, I)
4.a.(2)	2140 (F, I)
4.a.(3)	2510, 2520, 2530, 2540, 2590 (F, I)
4.a.(4)	2400, 2311, 2320, 2920, 2930, 2990 (F, I)
4.b.(1)	2113, 2114, 2115, 2120, 2130, 2190 (F, G)
4.b.(2)(a)	2211, 2212, 2213, 2214 (F, G)
4.b.(2)(b)	2215 (F, G)
4.b.(2)(c)	2993 (F, G)

Figure 6-8

4.b.(3)	2140 (F, G)
4.b.(4)	2180 (F, G)
4.b.(5)	2940 (F, G)
4.b.(6)	2610, 2620, 2690 (F, G)
4.b.(7)	2312, 2320, 2400, 2920, 2990 (F, G)
4.c.	calculated; sum 4.a. and 4.b.
5.a.(1)	2110, 2120, 2130, 2190, (U, I)
5.a.(2)	2510, 2520, 2530, 2540, 2590 (U, I)
5.a.(3)	2311, 2320, 2400, 2690, 2920, 2930, 2960, 2990 (U, I)
5.b.(1)	2111, 2112, 2120, 2130, 2190 (U, G)
5.b.(2)	2510, 2520, 2530, 2540, 2590 (U, G)
5.b.(3)	2940 (U, G)
5.b.(4)	2610, 2620, 2690 (U, G)
5.b.(5)	2220, 2310, 2320, 2400, 2910, 2920, 2960, 2990, 2995 (U, G)
5.c.	calculated; sum lines 5.a. and 5.b.
6.	calculated; sum lines 4.c. and 5.c.
7.a.	3100, 3211**
7.b.	3200 **
7.c.	3310 **
7.d.	3400, 3500
7.e.	3501
7.f.	calculated; sum lines 7.a., 7.b., 7.c., 7.d. and 7.e.
8.	calculated; sum lines 6 and 7.f.

Figure 6-8 (continued)

Crosswalk for the Statement of Operations and Changes in Net Position

<u>Line</u>	<u>DoD UCA Account</u>
1.	5700, 5799
2.a.	5100, 5200 (both G)
2.b.	5100, 5200 (both I)
3.	5300 (G)
4.	5300 (I)
5.	5800
6.	5400, 5500, 5600, 5780, 5790, 5900, 7110, 7190
7.	3620
8.	calculated; sum lines 1 thru 7.
9.	6100**, 6199, 6400
10.a.	6500, 6600 (G)
10.b.	6500, 6600 (I)
11.	6100**
12.	6100**
13.a.	6310
13.b.	6320
13.c.	6330
14.	6900, 7210, 7290, 7600
15.	calculated; sum lines 9.a. thru 14.
16.	calculated; line 8 less line 15.
17.	7300
18.	calculated; line 16 Plus (Minus) line 17.
19.	3100, 3220, 3230, 3310, 3400, 3500, 3501, (B)
20.	7400
21.	calculated; line 19 Plus (Minus) line 20
22.	Amount from line 18.
23.	3100, 3105, 3210, 3220, 3230, 3310, 3400, 3500, 3501, 7500 (all E-B)
24.	calculated: line 21 sum Plus (Minus) lines 22 and 23; also equals 3100, 3105, 3210, 3220, 3230, 3310, 3320 3400, 3500, 3501

Figure 6-9

Crosswalk for the Statement of Cash Flows (Indirect Method)				
	Net Operating +/- Results	Accrual Adjustments	Financing +/- Investing = Inflows - Outflows	Net Change in Cash
<u>Line</u>	<u>Cash Flow Category*/DoD UCA Account</u>			
1.	calculated; equal to line 18 on the Statement of Operations			
2.	5700, 5799			
3.	1310, 1319 (both EB - BB)			
4.	1410, 1450, 1910, 1919, 1990 (all EB - BB)			
5.	2110, 2120, 2130, 2140, 2190 (all EB - BB)			
6.	2180, 2210, 2220, 2310, 2320, 2400, 2610, 2620, 2690, 2910, 2920, 2940, 2990 (all EB - BB) (for 2940; the portion related to interest amortization)			
7.	6100 ** use data elements for depreciation/amortization			
8.	6100 ** includes any non-cash item that is not recorded as a liability			
	in the lines above.			
9.	6100 ** use data elements			
10.	calculated; net lines 2 thru 9			
11.	calculated; net lines 1 and 10			
12.	1011** or 1710, 1720, 1730, 1739, 1740, 1749, 1750, 1759, 1760, 1769, 1810, 1819, 1820, 1829, 1830, 1839, 1840, 1849, 1890 (all EB-BB)			
13.	1012** or 1710, 1720, 1730, 1739, 1740, 1749, 1750, 1759, 1760, 1769, 1810, 1819, 1820, 1829, 1830, 1839, 1840, 1849, 1890 (all EB-BB)			
14.	**			
15.	1610, 1611, 1690 (all EB-BB)			
16.	**			
17.	**			
18.	**			
19.	calculated; net lines 13 thru 19			
20-22(b)	These lines require an analysis of either SGL account 1010 or 3100			
23.	calculated; net lines 20 thru 22(b)			
24-28	These lines require an analysis of either SGL account 1010 or 3100			
29.	calculated; net lines 24 thru 28			
30.	calculated; net lines 11, 19, 29			
31.	BB 1010, BB 1110, BB 1120, BB 1190, BB 1195, BB 1200			
32.	EB 1010, EB 1110, EB 1120, EB 1190, EB 1195, EB 1200			
33.	BB 2140, plus 6300, minus EB 2140			
34.	calculated amount			
35.	calculated amount			
36.	calculated amount			

Figure 6-10

0613 ACCOUNTING PRINCIPLES AND STANDARDS

061301 General. The reporting guidance included herein implement the Department's form and content of financial statements as adapted from the Office of Management and Budget (OMB) guidance on "Form and Content of Agency Financial Statements," issued under the authority of the CFO Act. The principal statements and instructions embody the financial accounting concepts and the recognition and measurement requirements contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and Standards (SFFASs) recommended by Federal Accounting Standards Advisory Board (FASAB) and approved by the Secretary of the Treasury, the Director of the OMB, and the Comptroller General. Agencies shall view the following hierarchy as providing sources of generally accepted accounting principles for the federal government:

A. Individual standards agreed to by the Director of the OMB, the Comptroller General, and the Secretary of the Treasury and published by the OMB and the General Accounting Office.

B. Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards."

C. Requirements contained in OMB's Form and Content Bulletin in effect for the period covered by the financial statements.

D. Accounting principles published by other authoritative standard setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

061302. The eight SFFASs identified below, and incorporated in the "DoD Financial Management Regulation" (DoD 7000.14-R), shall be followed by federal agencies in reporting under the CFO Act, and amendments thereto. These SFFASs cover most transactions. However, agencies may engage in transactions that are not addressed in those standards. In that Event, agencies shall view the above hierarchy as providing sources of generally accepted accounting principles for the federal government:

- A. SFFAC No.1, Objectives of Federal Financial Reporting
- B. SFFAC No. 2, Entity and Display
- C. SFFAS No. 1, Accounting for Selected Assets and Liabilities
- D. SFFAS No. 2, Accounting for Direct Loans and Loan guarantees
- E. SFFAS No. 3, Accounting for Inventory and Related Property

- F. SFFAS No. 4, Managerial Cost Accounting Concepts and Standards
- G. SFFAS No. 5, Accounting for Liabilities of the Federal Government.
- H. SFFAS No. 6, Accounting for Property, Plant, and Equipment
- I. SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting
- J. SFFAS No. 8, Supplementary Stewardship Reporting

061303 Basis of Accounting. The “DoD Financial Management Regulation” (DoD 7000.14-R) prescribes the accrual basis as the basis of accounting to be used by DoD Components. Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned; expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Departmental accruals are also recognized for those invoices, scheduled for payment within 30 days, which are on hand at month end. Expenses are recognized for appropriations expended for property and equipment when the asset is consumed in operations (either upon disposal or through depreciation). Certain expenses, such as civilian and military annual leave earned but not taken, are not funded when accrued in appropriated funds. They are funded in the period in which payment is required. The unfunded liability is reported in the Statement of Financial Position, and the offset is a reduction to the equity balances. Budgetary accounting through unique general ledger accounts facilitates compliance with legal constraints and controls over the use of federal funds. The proprietary accounts do not contain controls over a transaction until it becomes an accounts payable or receivable. An undelivered order or unfilled order is a contingency recognized by budgetary accounts.

061304 Alternative Accounting Standards. To the extent that guidance is not provided in section 061301, which establishes a hierarchy for accounting policy and procedures, DoD Components should request guidance from the USD(C) concerning the application and display of accounting information.

061305 Errors in Prior Year Financial Statements. Once departmental level records have been closed and audited financial statements published, no changes can be made to prior year line item balances or statement totals without the written approval of the Chief Financial Officer, DoD, or Deputy Chief Financial Officer, DoD. The nature of an error in previously issued financial statements and the effect of its correction shall be disclosed in the footnotes to the principal statements in the period in which the error was discovered and corrected.

061306 Departmental-Level Correction of Errors.

A. Material errors in financial statements discovered after installation-level records are closed but before departmental-level records are closed shall be corrected upon approval by the program manager. Material errors result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the installation-level financial statements were prepared. Corrections to departmental-level financial statements will be made only after their application to specific installations, appropriations and/or accounts, and general ledger accounts has been documented. Each DoD Component, in coordination with the DFAS, will establish and document procedures to ensure that corrections made at the departmental level (after installation-level accounting records have been closed for the reporting year) are transmitted to subordinate installations for input into current year accounting records. Procedures also will be established to monitor and ensure that each installation's respective corrections and prior year adjustments are input into installation accounting systems and that such information is transmitted to the departmental level for control and reporting purposes.

B. Departmental-level adjustments must be reversed in their entirety during the current fiscal year (i.e., as early as feasible in the fiscal year following the fiscal year for which the financial statements were prepared). Program managers must ensure that each adjustment is tracked from its entry into the system through its reversal as of the following year and that supporting documentation, including the agreement with the auditors for its inclusion, is available.

C. Sample Entries.

1. During January 1997, audit of the FY 1996 financial statements reveals that a revenue item for \$100,000 was not posted to installation records. The installation records supporting the FY 1996 records have been closed but the departmental records supporting the FY 1996 financial statements are still open. Review of the transaction also reveals that an accounts receivable was not posted. The installation accounting officer should determine the reasons for not posting the transaction and for not collecting the receivable. Documentation supporting the need for the adjustment is available. The posting of revenue, when closed, would have had an effect on equity; therefore, the following actions should be taken.

a. Departmental-level action. Increase both accounts receivable and revenue balances in the FY 1996 financial statements by \$100,000.

Dr 1313	Accounts Receivable-Government-Current	100,000	
Cr 5900	Other Revenue		100,000

b. Installation-level action. The installation should be requested to make the following journal entry to its FY 1997 accounting records.

Dr 1313	Accounts Receivable-Government-Current	100,000	
Cr 7400	Prior Period Adjustments		100,000

2. During the same audit of the FY 1996 financial statements, a revenue item for \$200,000 was discovered to not have been posted to the FY 1995, a prior year, installation accounting records. The Departmental records supporting the FY 1996 financial statements have not been closed; however, the records for FY 1995 have been closed for over a year. Review of the transaction also revealed that an accounts receivable was not posted. The installation accounting officer should determine the reasons for not posting the transaction and for not collecting the receivable. Documentation supporting the need for the adjustment is available. The posting of revenue, when closed, would have had an effect on equity; therefore, the following actions should be taken:

a. Departmental-level action. Increase departmental accounts receivable and Prior Period Adjustments by \$200,000. Disclose in the footnotes to the financial statements the adjustment for \$200,000 and its correction during FY 1996.

Dr 1312	Accounts Receivable-Government-Noncurrent	200,000	
Cr 7400	Prior Period Adjustments		200,000

b. Installation-level action. The installation should be requested to make the following journal entry to its FY 1996 accounting records.

Dr 1312	Accounts Receivable-Government-Noncurrent	200,000	
Cr 7400	Prior Period Adjustments		200,000

3. During January 1997, audit of the FY 1996 financial statements revealed that an expense for \$50,000 was not posted to installation records. The departmental records supporting the FY 1996 financial statements have not been closed. Review of the transaction also revealed that an accounts payable was not posted and that payment was never made. The installation accounting officer should determine the reason for not posting the transaction and for not making a payment to liquidate the payable. Documentation supporting the need for the adjustment is available. The posting of expense, when closed, would have had an effect on equity; therefore, the following actions should be taken:

a. Departmental-level action. Increase both accounts payable and expense balances in the financial statements by \$50,000.

Dr 6100	Expense	50,000	
Cr 2111	Accounts Payable-Government-Current		50,000

b. Installation-level action. The installation should be requested to make the following journal entry to its FY 1996 accounting records.

Dr 7400	Prior Period Adjustments	50,000	
Cr 2111	Accounts Payable-Government-Current		50,000

4. During the same audit of FY 1996 installation accounts, an expense for \$210,000 was mistakenly posted as \$120,000 to installation FY 1996 records. The \$90,000 error was not detected. The departmental records supporting the FY 1996 financial statements had not been closed. Review of the transaction also revealed that the \$90,000 difference has caused the payment to remain unmatched and the accounts payable unliquidated. The installation accounting officer should determine the reasons for not correcting the initial posting and for not liquidating the payable. Documentation supporting the need for the adjustment was available. The posting of expense, when closed, would have had an effect on equity; therefore, the following actions should be taken:

a. Departmental-level action. Increase both accounts payable and expense balances in the FY 1996 financial statements by \$90,000.

Dr 6100	Expense	90,000	
Cr 2111	Accounts Payable-Government-Current		90,000

b. Installation-level action. The installation should be requested to make the following journal entry to its FY 1997 accounting records.

Dr 7400	Prior Period Adjustments	90,000	
Cr 2111	Accounts Payable-Government-Current		90,000

5. During January 1997, audit of the FY 1996 financial statements revealed that military equipment for \$160,000 was not posted to installation records. The departmental records supporting the FY 1996 financial statements have not been closed. Further review of the transaction revealed that the item of equipment was free issue from a procurement appropriation. Documentation supporting the need for the adjustment is available. The installation accounting officer should be reviewing accounting procedures to determine why the property was not posted to official accounting reports. The posting would not have had an effect on operating results; therefore, asset and equity accounts should be adjusted, but not as prior period adjustments, as follows:

a. Departmental-level action. Increase the asset account for military equipment and equity account for \$160,000 in the FY 1996 financial statements.

Dr 1762	Equipment in Use	160,000	
Cr 3100	Appropriated Capital		160,000

b. Installation-level action. The installation should be requested to make the following journal entry to its FY 1997 accounting records.

Dr 1762	Equipment in Use	160,000	
	Cr 3100	Appropriated Capital	160,000

6. During January 1997, audit of the FY 1996 financial statements revealed that numerous equipment items totaling \$120,000 were capitalized on installation accounting records. Departmental records supporting the FY 1996 financial statements have not been closed. Further review of the transactions revealed that the items were purchased from operation and maintenance funds and were not expensed. Each item acquisition cost was less than the \$50,000 capitalization criteria. Documentation supporting the need for the adjustment is available. The installation accounting officer should be reviewing accounting procedures to determine why the property was not expensed in the official accounting records (Note that property records must be maintained in some specific cases). In this case, the proper posting would have effected expense; therefore, the installation needs to record a prior period adjustment as follows:

a. Departmental-level action. Decrease equipment and equity accounts for \$120,000 in the FY 1996 financial statements.

Dr 3100	Appropriated Capital	120,000	
	Cr 1750	Equipment	120,000

b. Installation-level action. The installation should be requested to make the following journal entry to its FY 1997 accounting records.

Dr 7400	Prior Period Adjustments	120,000	
	Cr 1750	Equipment	120,000

7. During January 1997, audit of the FY 1996 financial statements revealed that a \$150,000 error was made in consolidating the FY 1996 line item for "Property, Plant and Equipment, Net" of the Statement of Financial Position at an installation.

a. Departmental-level action. Make the correction to the "Property, Plant and Equipment, Net" line at the departmental level and ensure that an offsetting entry is made to equity at the Departmental level. Reprint the Statement of Financial Position after correction.

b. Installation-level action. No corrections are made to the FY 1995 financial statements; however, installation-level property records must be corrected so the same mistake is not made next year.

0614 OVERVIEW OF THE REPORTING ENTITY AND SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION061401. Overview of the Reporting Entity.

The Overview of the Reporting Entity is the first part and, for many readers (e.g., non-accountants and high-level decision makers), perhaps the only part of the annual financial statement that may be read. The Overview must provide readers with a clear and concise understanding of the reporting entity's activities, accomplishments, financial condition and results, problems and needs. It should tell the reader whether and how well the mission of the reporting entity is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance.

To accomplish this purpose, the Overview must be more than simply a summary of the information contained in the Principal Statements. The preparer of the Overview must consider and select performance measures and data relevant to the reporting entity's mission and activities; analyze the data and discern what they disclose about the entity's accomplishments or lack thereof; determine whether and why the results might vary from prior years, established standards or similar entities' results; display this information in creative ways; and write succinct, candid narratives. Moreover, in preparing the Overview, the preparer must consider not only program performance, but also financial performance and the relationship of program performance, to the reporting entities financial condition and results.

The Overview also may identify critical areas in need of financial and management improvement. The Overview should include a narrative discussion and analysis of the financial condition of the reporting entity. This discussion should present information based on the results of an analytical review of relevant financial and performance data of the programs, activities and funds that make up the reporting entity. Important aspects of the reporting entity's financial operations should be discussed and relevant trends identified.

The following is a recommended way to organize and present the Overview.

A. Message from the Component Head. The following "Message from the Secretary of the Army" from the Army FY 1995 financial statement is provided as an example:

The United States Army is the world's preeminent land combat force, trained and ready to meet today's challenges. It has served this nation proudly for over 200 years, both at home and abroad. In the last year American soldiers have upheld democracy in Haiti, ensured regional stability in Southwest Asia, delivered relief supplies to refugees in Rwanda, deterred aggression in Korea, and prepared to keep peace in Bosnia. The Army also serves at home by assisting domestic authorities during emergencies and natural disasters.

In order to conduct our operations at home and abroad, in war and in peace, the Army must have well trained, highly disciplined soldiers. We must provide them

with modern equipment and offer them and their families the best quality of life possible. A high quality Army--one that is prepared to execute a variety of missions--costs money. Our resources, more than any other factor, affect the Army's capabilities. Resources determine our recruiting efforts, our training programs, our modernization plans, and our force structure.

The American people expect a high quality Army, and they expect its leaders to be good stewards of public resources. Since the Department of the Army was selected as a pilot agency under the Chief Financial Officers Act, we have been required to report on our financial position annually. This Annual Financial Report, the fifth and final report required under the pilot project, shows that we have been responsible stewards.

As we converted to corporate-style financial reporting, we recognized the need for modern, integrated systems and effective business practices. The Army has made many notable improvements and is now recognized as a leader in financial management reform in the Department of Defense. The bottom line is that Americans can have confidence in both the U.S. Army and its financial management.

B. Description of the Reporting Entity. This section should:

1. Name the reporting entity in a clear manner that leaves no doubt as to whether the reporting entity is an entire organization or an activity or group of activities within an organization. Identify the commercial functions and the revolving, trust, and other fund accounts covered by the financial statement. Also, this section should identify any fund accounts that have been excluded that one might expect to be covered by the statement (e.g., if salaries and expenses have not been included for an entity, one would expect this omission to be noted).
2. State the mission and major goals of the reporting entity, including reference to the entity's legislative mandate, if appropriate.
3. Identify the type and provide information on the numbers of individuals and/or groups served by or benefiting from the entity's major program(s).
4. Provide indicators of the size of the major program(s), e.g., dollars expended, population served, and the numbers of people employed in carrying out these program(s).
5. Describe the manner in which the reporting entity is organized to provide the major program(s), including information related to the geographic locations of the organization (e.g., numbers of local, district, state, and regional offices).
6. Identify the major sources of funds for the program(s), the major uses of these funds, i.e., types or purposes of the expenditures, and, if appropriate, the entity's

significant assets and/or liabilities. Consideration should be given to presenting this information in table or chart form, as discussed in section E. of this document.

C. Performance Measures. - presented below.

D. Financial Performance Measures. - presented below.

E. Financial Management Issues. This section will present a look ahead at the challenges, risks and opportunities, and the anticipated challenges in the makeup of the reporting entity in an unpredictable world and the evolving international environment.

F. Limitations of the Financial Statements. The Overview must contain the following remarks:

1. The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the CFO Act of 1990.

2. While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the OMB, the statements are different from the financial statements used to monitor and control budgetary resources that are prepared from the same books and records.

3. The statements should be read with the realization that they are for a Federal entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

061402. Performance Measures.

Performance measures are objective indicators of program effectiveness and efficiency that are directly or indirectly tied to program results or outcomes. These measures should be linked to the organization's strategic plans, goals, and objectives.

Outputs are the goods produced or services provided by an organization. Output measures record the level of activity, e.g., the number of engines repaired, the number of reports completed, etc. This information is used in day to day operations and program management. An outcome, however, is the result of an action or the impact from a variety of outputs and is more difficult to measure. Outcome measures assess the impact of a program, the results of a program activity, or how the output is ultimately used. The critical task is to link an entity's outputs with expected outcomes. While there typically is not a direct cause and effect relationship between outputs and outcomes in many of our support activities, managers need to recognize how their outputs contribute to the outcomes of the Department and the significance of their outputs in meeting the strategic plan goals and objectives.

DoD activities use a wide range of performance measures to evaluate the efficiency and effectiveness of their operations. These range from control charts used to monitor process variation at an activity level to measures of outcomes, such as military readiness, at the departmental level.

There are two categories of performance measures that are associated with CFO reporting: program performance measures and financial performance measures. Linking financial performance with program performance is a primary objective of the CFO Act. The emerging requirements of Public Law 103-62, "The Government Performance and Results Act of 1993," will complement and expand the framework for linking financial and program performance established by the CFO Act.

Performance measures must focus on outputs and outcomes. Outputs are characterized by efficiency (total cost or cost per output) and effectiveness (how well they meet stated requirements of quality, timeliness, and customer satisfaction). Output measures, however, cannot account for all factors affecting program outcomes. Outcomes reflect the composite effects of both internal and external factors. Managers must be able to demonstrate the linkage of their outputs to outcomes and how their outputs contribute mission objectives and to reaching the goals in their strategic plans.

A. Output Performance Measures. Program performance measures are output oriented measures of effectiveness from the customers point of view. Good performance measures are: useful to managers, results-oriented, selective (only the most important indicators), and measurable in a consistent manner. There are four categories of effectiveness indicators.

1. Categories of Output Measures:
 - a. Quantity - The number of outputs produced or the level of or access to services.
 - b. Quality - The outputs conformance to objective use requirements.
 - c. Timeliness - Meeting scheduled completion dates or providing the products or services within objective time standards.
 - d. Customer satisfaction - Measures of conformance to customer expectations. The criteria for developing output effectiveness measures are summarized as follows:
2. Characteristics of Output Measures:
 - a. Measures should identify critical characteristics of the output that meet customer requirements.

- b. Measures of sub processes should be used only when they have major predictable impact on final product.
- c. Effectiveness measures should be discrete indicators and be independently measurable.
- d. Measures should describe output characteristics that managers of the activity control.
- e. Measures should describe those characteristics that are important to outcome objectives.
- f. Measures should be distinguishable from measures of work process.
- g. Measures should be supported by accountability and monitoring systems that are automated to the greatest extent possible.

B. Financial Performance. This section should summarize the significant indicators of financial results and financial condition of the reporting entity. To the extent possible, the entity should identify and discuss material changes and significant trends in financial results or condition and the causes of these changes or trends. Entities also should attempt to develop information that relates financial results to program performance.

The information to prepare the Overview of the Reporting Entity (and the Supplemental Financial and Management information) ultimately should be available in the agency's operating, financial, and other records. In developing the information for the Overview (and the Supplemental Financial and Management Information), DoD Components should prepare adequate supporting documentation and retain such documentation in a manner suitable for review. If such information is not available, management should describe (1) why the information is not available and (2) its plan for meeting the reporting requirements in future annual financial statements.

061403. Core Performance Measures.

Performance measures are intended to supplement financial statements with information that describes the attributes of a program entity, accomplishments or results, and the status of the efficiency and effectiveness of its operations.

Performance measurement includes both program and financial measures. Program performance measures typically describe the output (number of units produced or services provided), inputs, the quality and timeliness of the goods or services, customer satisfaction, and outcomes. Financial performance measures typically include net operating costs, operating results, unit cost, and capital investment levels.

Appendix B lists the reporting entities (from Appendix A) that will be included in the FY 1997 financial statements. Core financial and program performance measures are shown in

column D of Appendix B for each reporting entity, as appropriate. These required measures should be supplemented as needed to adequately describe program performance. The definitions of the core financial performance measures are also contained in Appendix C.

Core performance measures are to be included in the “Overview of the reporting entity” or as Supplemental Information, together with a narrative discussion and analytical review of relevant performance data of the programs, activities, and funds that make up the reporting entity. If data are not available, the reason for not presenting the information should be stated and an alternative measure used.

Performance measures also are being developed under the Government Performance and Results Act (GPRA) of 1993. Under the GPRA, organizations are required to develop annual performance plans based on their strategic plans. The annual plans are to include performance measures and goals. Accomplishments against the plans are reported annually as program performance reports. Department-wide reporting of annual performance plans begins in FY 1999.

061404. Selection and Use of Core Program and Financial Performance Measures.

Each DoD Component that prepares financial statements is required to include performance measures as a part of those statements. For revolving fund activities, separate performance measures should be provided for each business activity. For appropriated funds, separate performance measures should be provided for each budget activity/major force program. Performance measures should be expressed in both program (workload) and financial (dollar) terms. This paragraph discusses the selection of performance data, as well as Core program and financial performance measures expected to appear in the “Overview of the Reporting Activity” for DoD reporting entities (although not all performance measures and indicators will appear in each statement). Departmental reporting entities are expected to develop a narrative overview to provide the reader with a fuller understanding of the reporting activity and its functions, accomplishments, and problems. Appendix B depicts the reporting entities within the Department and shows the Core Performance Measures in column D. The presentation of those performance measures will be in accordance with the following procedures:

A. Program managers first should review the Core program performance measures in Appendix B. For example, the program manager for the “Department of the Army” reporting entity, may determine that the “Operation and Maintenance, Army” account is the most significant account within that reporting entity and, therefore, would review the Core program performance measures under “General Funds, Military Function.” Or, the program manager for the Navy WCF may determine that Navy supply management, distribution depots, Navy Shipyards and Navy Aviation Depots are the most significant activities within that reporting entity and would review the Core program performance measures within those secondary business areas.

B. Program managers should review the Core financial performance measures in Appendix C.

C. Core program performance measures that most appropriately inform the reader of the extent to which the program(s) achieved its (their) mission, goals and objectives will be presented in the “Overview of the Reporting Entity” section of the financial statement. All others will be presented in the “Supplemental Financial and Management Information” section of the financial statement.

D. Other program and financial performance measures not included as Core performance measures will be determined in accordance with paragraph 064005, below, and may be presented in the “Overview” section. These may include measures significant to the management of the entity, fund and account or secondary activity group, that inform the reader of the extent to which the program(s) achieved its (their) mission, goals and objectives.

061405. Including Performance Measures in the Overview.

The Overview for the annual financial statement should include objective, measurable data that disclose the manner in which the entity’s program(s) performed. This information may increase the reader’s ability to determine how well a program is performing, including achieving its intended results. It also will be useful in determining whether (1) objectives and/or operational practices for the program(s) should be changed and (2) additional steps are needed in order to achieve the program’s objectives. Performance measures should not be limited only to those that relate to a reporting entity as a whole. Rather, performance measures specific to major programs within a reporting entity are critical. Appendix D provides guidance for presenting performance measures.

061406 Supplemental Financial and Management Information.

Each financial statement should contain, when appropriate, “Supplemental Financial and Management Information” that supports information presented in the Overview or which otherwise would enhance an understanding of the financial condition and operations of the reporting entity. Within the Department, such supplemental financial and management information shall consist of program and agency attributes quantified in terms of measures and indicators analyzed to produce an evaluation and interpretation of the program and agency financial attributes. Financial performance measures containing those attributes are depicted in Appendix E.

061407 Analyzing Financial Information.

After the financial attributes of an agency or program are properly quantified in terms of measures and indicators, the financial statements should be analyzed further to produce a

comprehensive evaluation and interpretation of the program and agency financial attributes. The most commonly used methods of analysis are summarized by the following four categories:

1. Trend Analysis
2. Cross-Sectional Analysis
3. Structural Analysis
4. Causal Factor Analysis

A. Trend Analysis. The trend analysis method, also referred to as the time series analysis method, is used to examine the historical behavior of a financial variable, either in a dollar amount, over a span of time, such as a number of years. The analyst computes absolute changes and relative percentage changes of the variable from one period to the next. The analyst also can compute the average absolute or percentage change over all the periods under review. A trend analysis for the Army Supply Management, Report on Operations, is shown in Appendix F.

In analyzing the financial data of an agency or program, the analyst needs to know the extent that a variable, such as a certain operating expense, has changed over a number of years due to factors other than inflation. To help eliminate the effect of inflation, the analyst should convert the dollar amounts of a financial variable from current dollars, as reported on the financial statements, to constant dollars of a relevant year. This is done by using an appropriate index, such as the consumer price index.

Trend analysis is useful in two ways: (1) it provides a clue for further investigation into factors that might have caused the increases or decreases in a financial measure and (2) it provides a trend to help make predictions about the future.

B. Cross-Sectional Analysis. The cross-sectional analysis compares a financial attribute of an entity with the same attribute of entities having similar characteristics. The comparison also may be made with certain reference points, such as a standard ratio, or a recognized norm. A Cross-Sectional Analysis of the Army Corps of Engineers Revolving Fund and the Conventional Ammunition Working Capital Fund, Report on Operations, is shown in Appendix F.

C. Structural Analysis. The structural-analysis method is used to analyze the components of a financial attribute, their relative shares, and changes in the structure of the financial attribute. A similar method is referred to as decomposition analysis. For example, total current assets of an agency are expressed as 100 percent, and each element of current assets, such as cash or accounts receivable, is expressed as a percentage share of the current assets. Each category of the financial statements can be analyzed in the same manner. The total operating cost of a program, as another example, can be broken down into cost elements either by object (e.g., salaries, supplies, and utilities) or by activities. Each cost element then can be expressed in a percentage share to the total operating cost. A Structural Analysis of the Total Current Assets of the Army WCF, Report on Financial Position, is shown in Appendix F.

Structural analysis helps provide insight into the internal structure of an agency's assets, liabilities, expenses and revenues, or a subgroup within each of those categories. The percentage share information, when examined over a number of years, would reveal changes in the relative shares of the elements that comprise an agency's resources, inputs and outputs. The analyst should evaluate such structural changes in an agency's resource allocations, to help assess their impact on the agency's future performance.

One broad application of structural analysis is to convert all of the dollar amounts of an agency's financial statements into ratios, using certain aggregate numbers as reference points. These may include total assets, total liabilities and equity, and total expenses. Such an overall structural analysis is referred to as common-size analysis. The common-size analysis is well suited to interagency comparisons because financial data of various agencies are recast into the uniform relative terms-percentage shares. For example, in comparing two loan guarantee programs, the analyst could compare the percentage of loss provisions of the two programs to their respective total guaranteed amounts. Although the dollar amount of the loss provision may be relatively small, a large percentage would indicate that there may be significant problems in the loan guarantee program that would warrant future investigation to determine the nature of the problems and their causes.

D. Causal Factor Analysis. With respect to significant changes over time in financial measures and indicators, the analyst should search for any factors that have directly or indirectly affected or influenced the changes. An analysis of causal factors helps explain what caused the changes in a financial attribute in the past and would help predict future changes. A general purpose analysis of agency financial statements cannot provide all of the correct causal factors to explain the changes that may have occurred in an agency's financial attributes. It sometimes requires an in-depth operational analysis or management review to find factors both internal and external to the agency management. The primary role of a financial statement analysis is to highlight and interpret the changes that took place in the financial condition and operating results of a program or an agency.

E. In developing the information for the financial statement analysis, DoD Components should prepare adequate supporting documentation and retain such documentation in a manner suitable for review. If such information is not available, management should describe (1) why the information is not available and (2) its plan for meeting the reporting requirements in future annual financial statements.

0615 SUPPLEMENTAL SCHEDULES

061501 General.

Each financial statement should have supplemental schedules that present the information found in the overview of the reporting entity, or that would otherwise enhance an understanding of the financial condition and operations of the reporting entity. Each DoD Component should determine the most appropriate level for this disaggregation for each financial statement on the basis of usefulness to program managers, financial managers, and other users of the financial

statement for that reporting entity. For example, these schedules might be broken down by commercial functions, revolving funds or trust funds. In addition to supplemental schedules, each financial statement should contain any additional supplemental information deemed useful by management for portraying the financial condition of the programs involved.

061502 Department of Defense Military Retirement Trust Fund.

A. An OMB memorandum of May 5, 1989, "Annual Reports of Federal Pension Plans Required by Public Law 95-595," published instructions to be used in preparing the annual reports on government pension plans, as required by 31 U.S.C. 9503 (Public Law 95-595). Because the comparative financial and actuarial statements contained within these annual reports contain information that is useful in assessing the plan's present ability to pay benefits when due and portrays investments at fair market value, their inclusion as supplemental schedules is necessary to ensure full disclosure.

Due to the accelerated due date for the audit of financial statements, the actuarial liability may not be consistently available for inclusion in the financial statements of the DoD Military Retirement Trust Fund for the year reported. This is unavoidable due to the extensive review and verification of retirement and service records required by the DoD Actuary prior to applying actuarial rates to various classes of recipients. In such case, the financial statements will include the actuarial liability as of October 1, of the year being reported and the use of an actuarial projection date other than the end of the fiscal year being reported will be disclosed in the footnotes to the financial statements. Other trust funds experiencing this problem may follow the same procedures provided the procedures are applied consistently from year to year.

B. The following actuarial statements should be submitted as supplemental schedules to the Report on Financial Position required by the CFO Act:

1. Statement of Net Assets Available for Benefits.
2. Statement of Changes in Net Assets Available for Benefits.
3. Statement of Accumulated Plan Benefits.
4. Statement of Changes in Present Value of Accumulated Plan Benefits.

C. To ensure full disclosure, the following footnotes, adapted from Statement of Financial Standards No. 35, should be used as a guide, as applicable:

1. A brief, general description of the plan agreement, including, but not limited to, vesting and benefit provisions.
2. A description of significant plan amendments adopted during the year ending on the latest benefit information date. If significant amendments were adopted

between the latest benefits information date and the plan's year-end, it shall be indicated that the actuarial present value of accumulated plan benefits does not reflect those amendments.

3. A brief, general description of (1) the priority order of participants' claims to the assets of the plan upon plan termination and (2) benefits guaranteed by the Pension Benefit Guaranty Corporation (PBGC), including a discussion of the application of the PBGC guaranty to any recent plan amendment.

4. The funding policy and any changes in such policy during the plan year. Plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) shall disclose whether the minimum funding requirements of ERISA have been met. If a minimum funding waiver has been granted by the Internal Revenue Service (IRS), or if a request for a waiver is pending before the IRS, that fact shall be disclosed. Although a funding policy disclosure incorporating the technical name of the actuarial cost method and the amortization period for the unfunded supplemental actuarial value may not be meaningful to most users, such disclosure is not proscribed. A brief description, in general terms and in layman's language, of how contributions are determined pursuant to the actuarial cost method, may be more understandable and therefore more useful. Plans are encouraged to disclose information regarding the estimated future impact of the funding policy on current shortfalls between net assets and benefits.

5. The policy regarding the purchase of contracts with insurance enterprises that are excluded from plan assets. The plan's dividend income for the year that is related to excluded contracts shall be disclosed and may be netted against item (f).

6. Identification of investments that represent five percent or more of the net assets available for benefits. Identification of other investments or the historical cost of investments presented at fair value is not proscribed.

7. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (1) the sponsor, (2) the employer(s) or (3) the employee organization(s).

8. Unusual or infrequent events or transactions occurring after the latest benefit information date but before issuance of the financial statements that might significantly affect the usefulness of the financial statements in an assessment of the plan's present and future ability to pay benefits. For example, a plan amendment adopted after the latest benefit information date that significantly increases future benefits that are attributable to employees' service rendered before that date shall be disclosed. If reasonably determinable, the effects of such events or transactions shall be disclosed. If such effects are not quantified, the reasons why they are not reasonably determinable shall be disclosed. This section does not contemplate disclosure of normal changes after the benefit information date, such as benefits attributable to services rendered after that date.

0616 SPECIAL PROCEDURES

061601 General. This chapter establishes procedures for valuing real and personal property, valuing inventory at Latest Acquisition Cost, and the revaluing of unserviceable property and inventory items.

061602 Valuation of Major Equipment Items, Weapons Systems, and Support Systems.

A. Major Equipment Items and Weapons Systems. Major equipment items and Weapons systems will be valued at the contract price of the weapons system, government furnished equipment or material furnished to the contractor, engineering change orders, value engineering, modifications which extend the life of the asset or extend the capability of the system, and any other costs of materials or services not included in the contract cost. Deviations from this valuation procedure will be included in a footnote to the financial statement when amounts are material and would significantly distort amounts reported in the financial statements.

Financial reporting under the CFO Act should reflect an accurate representation of cost. This means that like items, such as aircraft that may have been procured in different years, should be valued at the actual cost associated with the respective year of acquisition, vice a common price reflective of current contract costs.

Weapons systems under construction will be valued by the procuring appropriation at the amount of approved progress payments, paid and payable, to acquire the asset and are reported as "Progress Payments Made to Others."

In addition to the absence of historical cost records, the exclusion of costs associated with Government Furnished Material has resulted in an under valuation of weapons systems. These government furnished items represent an important investment the government already has in the system. In some instances, such assets are of significant monetary value. Further, modifications to weapons systems should be, but often are not, capitalized and included in the valuation process. In current practice, modifications normally are not included in weapons systems costs unless the modification leads to a new weapons system. Nevertheless, departmental financial statements presented for audit are expected to include modification costs to major weapons systems.

B. Support Systems. The procuring appropriation (i.e., Procurement or Research, Development, Test and Evaluation) shall classify amounts paid to contractors and others for the subsequent delivery of military equipment and related support systems, or for equipment or other items required in the performance of military support functions) as progress payments.

061603 Accounting and Reporting for Real and Personal Property not Previously Recorded.

A. Assets purchased with appropriated funds within the Department generally are not depreciated--although they are included in DoD Component logistics systems for accountability purposes. Those Component logistics systems traditionally have not required the recording or perpetuation of acquisition costs. For internal control and financial reporting purposes, buildings and equipment are required to be carried at acquisition cost in general ledger accounts.

B. Buildings.

1. Acquisition Value of Buildings.

a. If the DoD Property Record (DD Form 1342) contains acquisition cost, use that cost for reporting purposes.

b. If the DoD Property Record does not contain acquisition cost, then record the estimated value of the building today and its remaining useful life.

2. Residual/Salvage Value of Buildings.

If a residual/salvage value has not been established, then estimate the residual/salvage value of buildings today.

C. Equipment.

1. Acquisition Value of Equipment.

a. If the DoD Property Record contains acquisition cost, use that cost for reporting purposes.

b. If the DoD Property Record does not contain acquisition cost, then record the estimated value of the equipment item today and its remaining useful life.

2. Residual/Salvage Value of Equipment.

If a residual/salvage value has not been established, then estimate the residual/salvage value of equipment today.

D. Recording Accumulated Depreciation on Already Acquired Assets Where Acquisition Cost is Unknown And Depreciation is Required by DoD Accounting Standards.

1. Assets already in use, for which the activity has determined that the remaining useful life is negligible, will be considered fully depreciated and recorded at the estimated salvage and/or residual value.

2. Assets already in use, for which the activity has determined that a significant useful life remains, will be recorded at the estimated value of the asset and this value, less the current salvage/residual value, depreciated over the remaining useful life of the asset.

E. Recording Accumulated Depreciation on Already Acquired Assets Where Acquisition Cost is Known And Depreciation is Required by DoD Accounting Standards.

1. Assets already in use, for which the activity has determined that the remaining useful life is negligible, will be considered fully depreciated and recorded at the current salvage and/or residual value.

2. Assets already in use, for which the activity has determined that a significant useful life remains, will be recorded at the acquisition cost of the asset. Accumulated depreciation will be recorded in the amount of the acquisition cost of the asset, less the current salvage/residual value, and less the value of the remaining useful life of the asset.

F. Accounting and Reporting for Unserviceable Property.

An allowance for the cost of repair will be provided for in determining the value of unserviceable property items. In preparing financial statements, the value of unserviceable items will be decreased by the amount of repair costs. If an item of property is either not repairable or no longer required, then the item will be valued at its anticipated net realizable cash value as either scrap or surplus material offered for sale to the public. The Department plans to fully disclose its methodology in an appropriate footnote to the financial statements.

H. Reporting of Standing Timber Reserves.

Standing timber reserves should be reported only for installations with commercial timber programs. The amount reported should be based on each installation's planned timber harvest as shown in its harvest management plan.

061604 Accounting and Reporting for Inventory.

A. Revaluation of Inventory for Financial Reporting.

The Department currently maintains inventory items purchased with both general fund procurement funds and the DWCF. Both categories of inventory items currently are priced at either the standard sales price (includes both the acquisition cost and the charges associated with acquiring and holding items in the inventory) or at historical cost. For financial statement presentation purposes, the Department will value inventory items at historical cost; or if the inventory is carried at standard sales price, then the Department will value the inventory at latest acquisition cost, not standard sales price.

B. Inventory Valuation Basis.

The latest acquisition cost method represents the best approximation of the utility value of the inventory to the Department's mission. The latest acquisition cost will include all amounts, except interest, paid to a vendor to acquire the item.

C. Methodology for Computing the Latest Acquisition Cost.

Depending on the character and composition of the inventory, the latest acquisition cost may be applied either directly to each item, or to classes of items that share similar characteristics, or to the total of the inventory. The application should be made with due regard to the form, content, and composition of the inventory, as well as with due regard to the use.

D. Conversion to Latest Acquisition Cost from Standard Sales Price.

Each DoD Supply Management/Distribution Depot business area shall prepare its conversion factor based upon the various surcharges actually used to establish the standard sales price. These conversion factors then shall be forwarded to the Office of the Deputy Comptroller (Program/Budget), Directorate for Revolving Funds. In turn, that Directorate will validate each business area's factor and then distribute these conversion factors to all DoD Supply Management and Distribution Depot Managers for the purpose of having supply management business area inventory adjusted to latest DoD acquisition cost. Supply Management business area managers shall apply the applicable conversion factor to the amount of inventory on hand.

E. Conversion Factor.

DoD Supply Management, Distribution Depot and revolving fund standard stabilized sales prices include surcharges that recover both the stock fund operating expenses in addition to the (latest acquisition) cost of the inventory items. Accordingly, when the inventory is to be restated at latest acquisition cost for financial statement purposes, these surcharges must be removed. A conversion that consists of the composite surcharge percentages is used. The conversion factor includes surcharges such as operation expenses, wholesale losses, price stabilization and other surcharges. The conversion factor is applied to the end of year inventory stabilized sales price the result is inventory restated at latest acquisition cost. See Figure 6-11 on page 6-68.

F. Accounting and Reporting for Unserviceable Inventory.

An allowance for the cost of repair will be provided for in determining the valuation of unserviceable inventory items. In preparing FY 1997 financial statements, the value of unserviceable items will be decreased by the amount of repair costs. If an item of inventory either is not repairable or no longer applicable to the Department's needs, then the item will be valued at its anticipated net realizable cash value as either scrap or surplus material offered for sale to the public. The Department plans to fully disclose its methodology in an appropriate footnote to the financial statements.

G. Accounting and reporting for Potential Reutilization or Disposal Inventory.

Inventory in the process of disposal or stock not expected to survive repair will be valued at a percentage rate of the original acquisition cost for the purpose of preparing these financial statements. The rate will be published by the Deputy Under Secretary of Defense (Logistics).

061605 Financial Statement Disclosure.

The basis of valuing reported property and inventory shall be applied consistently and disclosed on the financial statements. Whenever a significant change is made from this guidance, the nature of the change and its affect on operations shall be disclosed.

Conversion Factor to Latest Acquisition Cost		
Inventory at Standard Price		\$2.7 Billion
Surcharges Include:		
		<u>Surcharge Factors (%)</u>
Operating Expenses		30.6
Wholesale Losses		5.6
Price Stabilization Factors		
Inflation	3.8%	
Stabilization	<u>-1.2%</u>	2.6
Transportation:		
First Destination	0.4%	
Second Destination	<u>2.3%</u>	2.7
Other		<u>2.7</u>
Total		<u>44.2</u>
Conversion Factor is $1 + .442 = 1.442$		
Standard Sales Price (\$2.7 Billion) divided by the conversion factor (1.442) equals inventory at Latest Acquisition Cost \$1.9 Billion		
Note: Each Commodity group may have a different level of surcharges based on the expenses associated with maintaining the inventory. Therefore, the conversion factor may be different for each type of commodity.		

Figure 6-11