

VOLUME 6B, CHAPTER 1: “INTRODUCTION TO THE FORM AND CONTENT OF THE FINANCIAL STATEMENTS”

SUMMARY OF MAJOR CHANGES

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue, and underlined font**.

The previous version dated **June 2012** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Updated hyperlinks.	Revision
Multiple	Added clarifying language to improve readability.	Revision
010103	Added authoritative guidance paragraph in accordance with current administrative instructions.	Addition
0103	Updated information on reporting dates of financial statements per Office of Management and Budget (OMB) Circular A-136.	Revision
010405	Added clarifying paragraph to delineate non-OMB reporting entities.	Addition
010501	Updated language to identify the Agency Head Message as optional for reporting entities per OMB Circular A-136.	Revision
Table 1-1	Updated table to reflect new reporting requirements of OMB Circular A-136.	Revision
Table 1-2	Added table of non-OMB Reporting Entities.	Addition

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CHAPTER 1

INTRODUCTION TO THE FORM AND CONTENT OF THE FINANCIAL STATEMENTS

0101 GENERAL

010101. Overview

Under the provisions of [Title 31, United States Code \(U.S.C.\), section 3515](#), the Department of Defense (DoD) is required to have annual audited financial statements covering all accounts and associated activities of the Department. As implemented by the Office of Management and Budget (OMB), the Department is required to prepare both Agency-wide annual audited financial statements and separate audited financial statements for several individual reporting entities, i.e., Army, Navy, and the Air Force general funds (GF) and working capital funds (WCF), Military Retirement Trust Fund, and United States Army Corps of Engineers Civil Works. The financial statements are expected to provide information to DoD program managers, Congress, and the public, thereby facilitating both effective allocation of resources and assessment of management performance and stewardship. The objective is to produce financial statements that can and will be used to improve the management of the Department. Additionally, consistent with the objectives of the Statements of Federal Financial Accounting Concepts ([SFFACs](#)) and Statements of Federal Financial Accounting Standards ([SFFASs](#)), the Department continues to work toward the integration of budget and financial information in order to provide for more effective program management at all levels.

010102. Purpose

The provisions within this chapter constitute guidance on the form and content of quarterly and annual financial statements prepared within the DoD. This guidance is intended to provide a framework within which each DoD Component has the flexibility to develop and include information useful both to its financial managers and to program managers in making decisions. This guidance applies to all DoD reporting entities identified in section 0104 and 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 specific authoritative guidance on financial statement format and disclosures, and provides other instructions necessary for the preparation of annual audited financial statements and quarterly unaudited financial statements. When recording accounting transactions, follow the accounting standards hierarchy found in Volume 1, Chapter 2.

*010103. Authoritative Guidance

The primary authoritative guidance for this chapter is [OMB Circular A-136](#), “Financial Reporting Requirements,” and 31 U.S.C. § 3515. Additional authoritative sources are listed throughout the chapter.

0102 BACKGROUND

Federal agencies traditionally prepared financial reports to monitor and control the obligation and expenditure of budgetary resources. With the enactment of [Public Law 101-576](#), “Chief Financial Officers Act of 1990” (CFO Act), and [Public Law 103-356](#), “Government Management Reform Act of 1994” (GMRA), the Congress called for the production of audited financial statements. [The statements must](#) fully disclose a federal entity’s financial position and results of operations, and provide information not only for the effective allocation of resources but also with which Congress, Agency managers, the public, and others can assess management performance and stewardship. Accordingly, OMB in consultation with the CFO Council, the Council of the Inspectors General on Integrity and Efficiency, and other interested parties developed the formats and instructions for financial statements described in this volume. The annual audited financial statements [must](#) be organized as shown in Table 1-1.

*0103 REQUIRED REPORTING DATES

The provisions of this volume require the preparation of annual audited financial statements for the period ending on September 30 of each fiscal year and the quarterly unaudited financial statements for periods ending December 31, March 31, and June 30 of each fiscal year. [Agencies will submit unaudited interim financial statements to OMB 21 business days after the end of the third quarter of the fiscal year and footnotes and other information 45 days after the end of the third quarter of the fiscal year. Annual audited financial statements are due to OMB, the Government Accountability Office, and the Congress by November 15.](#)

0104 DEPARTMENT OF DEFENSE REPORTING ENTITIES

010401. Audited Financial Statements and Quarterly Unaudited Financial Statements Required by OMB

Executive Branch agencies must generally prepare and submit audited financial statements to OMB. The CFO Act, as amended by the GMRA, requires major agencies of the Federal Government to prepare and submit audited financial statements. Additionally, OMB requires the Department and other major agencies to prepare agency-wide quarterly unaudited financial statements according to OMB Circular A-136. The DoD Agency-wide financial statements provide the financial status of the entire Department. There are Component reporting entities within the Department that, while included in the DoD Agency-wide statements, also are required by OMB to prepare stand-alone audited financial statements and quarterly unaudited financial statements. The Component reporting entities are:

- A. Army GF;
- B. Army WCF;
- C. Navy GF;
- D. Navy WCF;

- E. Air Force GF;
- F. Air Force WCF;
- G. Military Retirement Trust Fund; and
- H. United States Army Corps of Engineers Civil Works.

010402. Audited Financial Statements and Quarterly Unaudited Financial Statements Required by the Senate Select Committee on Intelligence

In addition to the reporting entities identified in paragraph 010401, the following entities will prepare audited annual and unaudited quarterly financial statements to the Senate Select Committee on Intelligence:

- A. Defense Intelligence Agency;
- B. National Reconnaissance Office;
- C. National Geospatial-Intelligence Agency; and
- D. National Security Agency.

010403. Other Defense Organizations (ODO)

In addition to the reporting entities identified in paragraph 010401, the remaining accounts of the Department are reported in three columns of the consolidating balance sheet for the DoD Agency-wide audited financial statements and quarterly unaudited financial statements. The ODO-WCF column will include the financial activity of the WCF organizations that are not identified in paragraph 010401. The ODO-GF column will include the financial activity of the non-WCF organizations that are not identified in paragraph 010401. The Medicare-Eligible Retiree Health Care Fund (MERHCF) column is material to the DoD Agency-wide financial statements and is shown separately.

010404. Consolidation of ODO Audited Financial Statements and Quarterly Unaudited Financial Statements

The consolidation of reporting entity financial statements for Treasury Index “097” funds, reported as “ODO-General Funds,” must follow the flow of funds from the apportionment of an appropriation to allotment, allocation, and suballocation. 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 must consolidate allotment and suballotment information consistent with the flow (distribution) of funds. The consolidating and combining statements must include a column for each of its general funds and WCF subentities.

*010405. Non-OMB Reporting Entities

The non-OMB reporting entities represent all others not identified in paragraphs 010401 and 010402. These entities are not required “reporters” per OMB A-136. A listing of the main non-OMB reporting entities is in Table 1-2. A detailed listing of all reporting entities is available in the DFAS Financial Reporting [Guidance](#). This listing can be viewed by accessing the quarterly guidance and viewing the “Entity Code Listing.”

A. [DoD Designated Audit Entities](#). DoD has designated certain reporting entities to adhere to the same audit readiness efforts as congressionally mandated OMB reporting entities. These reporting entities must perform all audit readiness efforts in accordance with the Financial Improvement and Audit Readiness (FIAR) Methodology, and must undergo annual stand-alone financial statement audits. A listing of these entities is provided in Section 5 of the [FIAR](#) Guidance.

B. [Other Material Defense Agencies and Remaining Entities](#). Other Material Defense Agencies are reporting entities that must undergo annual examinations or other independent validations of their financial statement balances. Remaining Entities include other defense agencies, organizations, and funds not material to the DoD consolidated financial statements. Remaining Entities must perform audit readiness efforts to improve their internal controls and will be included in the DoD consolidated financial statement audit. A listing of these entities is also available in Section 5 of the FIAR Guidance.

1. To support the preparation of the Agency-wide financial statements, these entities must continue to submit trial balances and corresponding adjustments within Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS), DDRS-Budgetary, and DDRS - Data Collection Module. Additionally, these entities are still required to provide information as outlined by the quarterly Agency-wide reporting schedules and guidance. To ensure continued improvement to financial reporting in accordance with Department objectives, [Other Material Defense Agencies and Remaining Entities](#) must continue value-added financial improvement efforts including evaluation and improvements to internal controls over financial reporting. Reasonableness reviews of financial statements for [Other Material Defense Agencies and Remaining Entities](#) during non-reporting periods may result in questions being forwarded for explanation and/or future corrective action. The [Office of the Under Secretary of Defense \(Comptroller\) \(OUSD\(C\)\)](#) delegated financial statement review of the entity’s financial information and OUSD(C) oversight of these reporting entities to the respective Component’s Comptroller or senior financial manager. However, designated Defense Finance & Accounting Service (DFAS) [Financial Reporting](#) staff will remain available to assist in responding to issues or inquiries.

2. Based on the FIAR strategy, cost mitigation requirements, and expected progression towards full assertion of auditability, each [Other Material Defense Agency and Remaining Entity](#) will determine their internal reporting and audit requirements, as deemed necessary for continued improvement of financial data and achievement of audit objectives. Entities currently receiving an [unmodified](#) audit opinion should consider the cost versus value of the audit in determining requirements and objectives.

010406. Audit Compliance

DoD Component reporting entities will prepare financial statements as denoted in paragraph 010401. All DoD Components (both reporting entities and non-reporting entities) are required to comply with the [FIAR requirements](#) and other guidance issued by the OUSD(C). Each Component, after completing their assertion of auditability, and with the advice of the DoD Office of the Inspector General (OIG), must establish an audit committee to oversee its financial audit. The purpose of the audit committee is to establish audit requirements, identify contract deliverables, monitor the execution of the contract, and identify and assist with resolution of obstacles to an unmodified opinion. Once DOD Component reporting entities are deemed auditable, the audit committee's focus should be on ensuring a forum exists to address ongoing accounting and auditing issues. Audit committees for OMB reporting entities identified in paragraph 010401 must include a representative of DoD OIG. Audits of Federal financial statements are conducted in accordance with the requirements found in [OMB Bulletin 17-03](#) of September 29, 2017, "Audit Requirements for Federal Financial Statements." The provisions of this Bulletin apply to audits of financial statements of executive departments, agencies, and government corporations and certain components of these agencies. The Bulletin reflects changes that apply as a result of other revised OMB guidance, including OMB Circular A-136.

0105 CONTENT OF ANNUAL AUDITED FINANCIAL STATEMENTS AND QUARTERLY UNAUDITED FINANCIAL STATEMENTS

*010501. Major Sections of the Audited Financial Statements

The annual audited financial statements of the OMB Reporting entities identified in paragraph 010401 must be comprised of eight major sections. A reporting entity has the option to include a dated transmittal letter signed by the Agency Head to be located at the beginning of the report, as explained in Chapter 3, section 0302. Non-OMB reporting entities not identified elsewhere in this chapter are to follow the requirements outlined in paragraph 010405. The quarterly unaudited financial statements required for third and fourth quarters must be comprised of the principal statements and notes to the principal statements and, if applicable, supporting consolidating and/or combining statements. Although the second quarter principal statements must be prepared, the preparation of accompanying notes for the second quarter is not required. A more detailed outline appears in Table 1-1. Specific instructions for the preparation of the contents of each section are provided in individual chapters of this volume. The eight required major sections and the sequence of their presentation are as follows:

- A. Management's Discussion and Analysis (MD&A);
- B. Principal Statements;
- C. Notes to the Principal Statements;
- D. Supporting Consolidating/Combining Statements (if applicable);
- E. Required Supplementary Stewardship Information;

- F. Required Supplementary Information;
- G. Other Information; and
- H. Audit Opinion.

010502. MD&A

MD&A of the reporting entity is integral to the annual financial statements and should be regarded as Required Supplementary Information (RSI). MD&A requirements are stated in [SFFAC 3](#), “Management’s Discussion and Analysis;” [SFFAS 15](#), “Management’s Discussion and Analysis;” and OMB Circular A-136. MD&A is an important vehicle for communicating managers’ insights about the reporting entity, increasing the understandability and usefulness of the financial statements, and providing understandable and accessible information about the entity and its operations, service levels, successes, and challenges. MD&A also should address significant events, conditions, risks, uncertainties, trends, and contingencies that may affect future operations. Guidance for preparation of MD&A is provided in Chapter 3.

010503. Principal Statements and Notes to the Principal Statements

Principal statements and notes to the principal statements summarize financial information for individual funds and accounts within reporting entities and subentities. The amounts reported on the principal statements are based on specific general ledger account balances. Instructions for the preparation of the principal statements are contained in Chapters 4, 5, 6, and 7. Reconciliations and edits used within DoD can be viewed with proper authorization in the DDRS-AFS by selecting “Reports” from the menu and then accessing “Reconciliations.” [Additional reconciliation information is available in the Financial Reporting Audited Financial Statement Reconciliation Manual.](#)

- A. Principal Statements. The principal statements **must** include:
 - 1. Balance Sheet (Consolidated);
 - 2. Statement of Net Cost (Consolidated);
 - 3. Statement of Changes in Net Position (Consolidated); and
 - 4. Statement of Budgetary Resources (Combined).

B. Notes to the Principal Statements. The notes to the principal statements are an integral part of the financial statements. They include a summary of 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, revenues, expenses, and budgetary information. The notes also provide further detail of the amounts reported on the statements. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies **must** be explained and the reason for

noncompliance annotated in the notes. Where data used is known to be incomplete, deemed to be unreliable, or is an estimated (partial or full) amount, the note pertaining to the line(s) where such data is reported in the statement **must** contain a reference to such data. The reference **must** include the amount and explanation of the circumstances regarding the availability and use of such data. The notes also contain disclosures required by the SFFASs. Instructions for the preparation of the required footnotes are contained in Chapter 10.

010504. Supporting Consolidating/Combining Statements

The consolidating and combining statements use a multi-column format to present information on the reporting entity's major component. The total column for consolidating and combining statements must equal the amount reported in the consolidated or combined statements. Although publishing the consolidating/combining statements is not required by the DoD, it is very important these statements are reviewed for completeness and consistency with the consolidated statements.

010505. Required Supplementary Stewardship Information (RSSI)

Specific guidance for reporting RSSI is contained in Chapter 11.

010506. RSI

All Federal agencies are required to report RSI. Certain information is designated as RSI and defined in OMB Circular A-136. Specific guidance for reporting RSI is contained in Chapter 12.

010507. Other Information (OI)

Specific guidance for reporting OI is contained in Chapter 3.

010508. Audit Opinion

A. DoD Reporting Entity Audits. DoD OIG **must** render an audit opinion on the DoD Agency-wide financial statements and OMB required entities in paragraph 010401. In addition, OIG **must** provide an endorsement to the audit opinion for each of the reporting entity financial statements opined on by a contract auditor.

B. ODO Audits. DoD OIG will not issue separate audit opinions on the financial statements of ODO included in the DoD Agency-wide financial report. The ODO financial statements and records **must** be included in the audits performed to support the opinion issued by OIG on the DoD Agency-wide audited financial statements.

*Table 1-1. Detailed Outline of DoD Financial Statements

DETAILED OUTLINE OF ANNUAL AUDITED DOD FINANCIAL STATEMENTS			
Section Sequence	Major Components of Financial Statements (Hard copy and files for Internet)	DoD Entity Reports	DoD Agency-Wide
1	Cover	Required	Required
2	Table of Contents	Required	Required
3	Message(s) from the Secretary of the Military Department; Chief, U.S. Army Corps of Engineers; or the Director of a Defense Agency, as applicable, for the reporting entity.	Not Required	Not Required
4	Management's Discussion and Analysis	Required	Required
5	Performance Information	Not Required	Not Required
6	Financial Section		
6.1	Signed CFO letter	Required	Required
6.2	Principal Statements		
6.21	Balance Sheet, Consolidated	Required	Required
6.22	Statement of Net Cost, Consolidated	Required	Required
6.23	Statement of Changes in Net Position, Consolidated	Required	Required
6.24	Statement of Budgetary Resources, Combined	Required	Required
6.3	Notes to the Financial Statements	Required	Required
6.4	Required Supplementary Stewardship Information		
6.41	Stewardship Investments		
6.41A	Nonfederal Physical Property	As Applicable	Required
6.41B	Human Capital	As Applicable	Required
6.41C	Research and Development	As Applicable	Required
6.5	Required Supplementary Information		
6.51	Deferred Maintenance and Repairs	As Applicable	Required
6.52	Statement of Disaggregated Budgetary Resources	As Applicable	Required
6.6	Other Information (OI)		
6.61	Management Challenges	Not Required	Required
6.62	Summary of Financial Statement Audit and Management Assurances	Required	Required
6.63	Payment Integrity	As Applicable	Required
6.64	Fraud Reduction Report	As Applicable	Required
6.65	Other Agency-specific Statutorily Required Reports	As Applicable	Required
6.66	Reduce the Footprint	Not Required	Required
6.67	Civil Monetary Penalty Adjustment for Inflation	As Applicable	Required
6.68	Grants Oversight & New Efficiency Act Requirements	As Applicable	Required
7	Audit Opinion(s)		
7.1	Inspector General, DoD Audit Opinion or Endorsement	Not Applicable	Required
7.2	Audit Opinion of Contract Auditor (e.g., for the Military Retirement Fund)	As Applicable	Not Applicable

*Table 1-2. Non-OMB Reporting Entities

Non-OMB Reporting Entities	Fund Type
Chemical and Biological Defense Program	GF
Defense Advanced Research Projects Agency	GF
Defense Commissary Agency	GF and WCF
Defense Contract Audit Agency	GF
Defense Contract Management Agency	GF
Defense Finance and Accounting Service	GF and WCF
Defense Health Agency (DHA)	GF
DHA - Contract Resource Management	GF
DHA - Financial Operations Division	GF
DHA - Service Medical Activity Air Force	GF
DHA - Service Medical Activity Army	GF
DHA - Service Medical Activity National Capitol Region	GF
DHA - Service Medical Activity Navy	GF
DHA - Uniformed Services University of Health Sciences	GF
Defense Information Systems Agency	GF and WCF
Defense Logistics Agency	GF and WCF
Defense Logistics Agency – Strategic Materials	GF
Defense Security Cooperation Agency	GF
Defense Technical Information Center	GF
Defense Threat Reduction Agency	GF
DoD Component Level Accounts	GF
DoD Education Activity	GF
Joint Chiefs of Staff	GF
Medicare Eligible Retiree Health Care Fund	GF
Military Retirement Trust Fund Payment	GF
Missile Defense Agency	GF
Office of the Inspector General (OIG), DoD	GF
Other “97” Funds Provided to the Air Force by OSD	GF
Other “97” Funds Provided to the Army by OSD	GF
Other “97” Funds Provided to the Navy by OSD	GF
Other Defense Agencies - Burden Sharing Account by Foreign Allies (BSAFA)	GF
Other Defense Agencies - Defense Acquisition University (DAU)	GF
Other Defense Agencies - Defense Business Transformation Agency (DBTA)	GF
Other Defense Agencies - Defense Cooperation Account	GF
Other Defense Agencies - DoD Education Benefits Fund (DoDEBF)	GF
Other Defense Agencies - Defense Emergency Response Fund (ERF)	GF

Table 1-2. Non-OMB Reporting Entities (Continued)

Non-OMB Reporting Entities	Fund Type
Other Defense Agencies - Defense Gift Fund (DGF)	GF
Other Defense Agencies - Defense Human Resources Activity (DHRA)	GF
Other Defense Agencies - Defense Media Activity (DMA)	GF
Other Defense Agencies - Defense Operational Test and Evaluation (DOT_E)	GF
Other Defense Agencies - Defense Prisoner of War/Missing In Action Accounting Agency (DPAA)	GF
Other Defense Agencies - Defense Prisoner of War/Missing Personnel Office (Accounting limit valid thru FY 2018)	GF
Other Defense Agencies - Defense Security Service (DSS)	GF
Other Defense Agencies - Defense Technology Security Administration (DTSA)	GF
Other Defense Agencies - Homeowners Assistance Fund (HAF)	GF
Other Defense Agencies - Host Nation Support for US Relocation Activities (HNSRA)	GF
Other Defense Agencies - Military Housing Privatization Initiative (MHPI)	GF
Other Defense Agencies - Mutually Beneficial Activities (MBA)	GF
Other Defense Agencies - National Security Education Trust Fund (NSETF)	GF
Other Defense Agencies - National Defense University (NDU)	GF
Other Defense Agencies - Office of Economic Adjustment (OEA)	GF
Other Defense Agencies - Support for US Relocation to Guam Activities (SRGA)	GF
Other Defense Agencies - Voluntary Separation Incentive Trust Fund (VSITF)	GF
U.S. Marine Corps	GF and WCF
U.S. Special Operations Command	GF
U.S. Transportation Command	GF
Washington Headquarters Service (WHS)	GF
WHS - Building Maintenance Fund, Defense	GF
WHS - Civilian Military Program	GF
WHS - Court of Appeals of the Armed Forces	GF
WHS - Defense Legal Services Agency	GF
WHS - Defense Test Resource Management Center (DTRMC)	GF
WHS - Office of the Secretary of Defense (OSD)	GF
WHS - Pentagon Reservation Maintenance Revolving Fund	GF