

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 **January 2018** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated hyperlinks.	Revision
All	Added clarifying language to improve readability.	Revision
010101	Added reference to Statement of Federal Financial Accounting Standards 47, “Reporting Entity,” to better define applicability of chapter for the reader.	Addition
010103	Updated authoritative guidance paragraph to include the Department of Defense (DoD) Financial Statement Audit Guide and the Defense Finance and Accounting Service Financial Reporting Guidance. Clarified that annual updates to Office of Management and Budget (OMB) Circular A-136, dated June 28, 2019, are on the OMB website.	Revision
0103	Added clarification that agencies will submit footnotes and other information 45 business days (not calendar days) after the end of the third quarter of the fiscal year.	Revision
0103	Deleted specific date annual audited financial statements are due and included a hyperlink to the DoD Financial Statement and Agency Financial Report Schedule since the due dates vary from year to year.	Revision
010401	Deleted the listing of OMB required reporters. Referred readers to OMB’s annual bulletin, “Audit Requirements for Federal Financial Statements,” to provide reader access to most current information.	Revision
010401	Added clarifying language to identify OMB required reporters as Tier 1 entities per Deputy Chief Financial Officer (DCFO) memorandum, “Annual List of Department of Defense Reporting Entities (FPM 19-08),” dated August 29, 2019.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
010403, 010509.B	Changed Other Defense Organizations (ODOs) to Other Defense Activities (ODAs) to reflect current nomenclature.	Revision
010403	Deleted references to “column structure” for ODAs and added clarifying language explaining “tier structure” for ODAs per DCFO memorandum FPM 19-08.	Revision
010404 (Previous Version)	Deleted entire paragraph as financial statements no longer reflect ODO-General Funds and ODO-Working Capital Funds.	Deletion
010404	Updated language to reflect new access location for the list of non-OMB reporting entities per DCFO memorandum FPM 19-08.	Revision
010405	Added a paragraph explaining pass-through accounts for clarification of account type.	Addition
010406	Added a paragraph explaining disclosure entities for clarification of account type.	Addition
010407	Clarified the update schedule for OMB Bulletin, “Audit Requirements for Federal Financial Statements.”	Revision
010501	Updated language to identify the Agency Head Transmittal Letter as required for reporting entities per OMB Circular A-136, dated June 28, 2019.	Revision
010501	Rearranged list of sections and subsections of annual financial statements to clarify there are four major sections with accompanied subsections. Added language to clarify requirement to prepare first quarter principal statements and accompanying notes.	Revision
010502	Added paragraph explaining the purpose of the Agency Head Transmittal Letter per OMB Circular A-136, dated June 28, 2019.	Addition
Table 1-1	Updated table to reflect the Agency Head Transmittal Letter is now required per OMB Circular A-136, dated June 28, 2019. Deleted Grants Oversight and New Efficiency Act section reference due to expiration of statutory reporting requirement.	Revision
Table 1-2 (Previous Version)	Deleted table per DCFO memorandum FPM 19-08.	Deletion

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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 [financial statements for reporting entities as defined in Statement of Federal Financial Accounting Standards \(SFFAS\) 47](#), "Reporting Entity." 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 [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;" 31 U.S.C. § 3515; the DoD Financial Statement [Audit Guide](#); and the Defense Finance and Accounting Service (DFAS) Financial Reporting [Guidance](#). Additional authoritative sources are listed throughout the chapter. Annual updates to OMB Circular A-136 are on the [OMB](#) website.

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 for not only 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 (OI) 45 business 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 in accordance with the [DoD Financial Statement and Agency Financial Report Schedule](#).

0104 DoD 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 in the Department that, while included in the DoD Agency-wide statements, are required by OMB to prepare stand-alone audited financial statements and quarterly unaudited financial statements. These components are referred to as Tier 1 entities and are listed in Appendix B of OMB’s annual bulletin, “[Audit Requirements for Federal Financial Statements](#).” A list of Tier 1 entities may also be found on the website identified in paragraph 010404.

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 [Activities](#) (ODAs)

In addition to the reporting entities identified as [Tier 1](#) in paragraph 010401, the remaining [components](#) of the Department are reported in a [tier structure](#) of the consolidating/[combining statements](#), which [comprise](#) the DoD Agency-wide audited financial statements and quarterly unaudited financial statements. [Tier 2 includes Components undergoing a stand-alone audit per DoD](#). [Tiers 3 and 4 include Components not under a stand-alone audit, but included as part of the DoD-wide audit.](#)

*010404. 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 [Circular A-136](#). The management-approved “[DoD Reporting Entities](#)” list is located on the Office of the Under Secretary of Defense (Comptroller) (OUSDC), Office of the Deputy Chief Financial Officer, Financial Improvement and Audit Remediation ([FIAR](#)) Directorate website (DoD Common Access Card required) under the “[Policies, Publications, & Guidance](#)” heading. The FIAR Directorate is responsible for updating this list annually.

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 [FIAR guidance](#) and must undergo annual stand-alone financial statement audits.

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 ODAs, 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.

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 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 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.

***010405. Pass-Through Accounts**

Pass-through accounts are included in the consolidated financial statements. While financial transactions flow through such accounts to or from other entities, these accounts do not ultimately own that activity. Most pass-through account balances are eliminated within the DoD-wide consolidating statements, or with Treasury. The exception are account balances affecting the Statement of Budgetary Resources, which is presented on a combined basis. A listing of pass-through accounts is identified on the DoD Reporting Entities list (reference paragraph 010404).

***010406. Disclosure Entities**

Disclosure entities are those non-DoD entities that are required to be disclosed in the footnotes to the consolidated financial statements but are not included in the primary financial statements of the Department. A listing of disclosure entities is identified on the DoD Reporting Entities list (reference paragraph 010404).

***010407. 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 the [annually updated](#) OMB Bulletin, "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

A. The annual audited financial statements of the OMB reporting entities identified in paragraph 010401 must be comprised of [four](#) major sections. A reporting entity [is required](#) 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 010404. 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 [first and](#) second quarter principal statements must be prepared, the preparation of accompanying notes for the [first and](#) 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 [four](#) required major sections and the sequence of their presentation are as follows:

1. [Agency Head Transmittal Letter](#);
2. Management's Discussion and Analysis (MD&A);
3. Financial Section; [and](#)
4. [OI](#).

B. The accompanying subsections are as follows:

1. Principal Statements;
2. Notes to the Principal Statements;
3. Supporting Consolidating/Combining Statements (if applicable);

4. Required Supplementary Stewardship Information (RSSI);
5. Required Supplementary Information (RSI); and
6. Audit Opinion.

*010502. Agency Head Transmittal Letter

This message precedes the MD&A section of the financial statements and is a dated transmittal letter signed by the agency head. The letter must contain the Agency Head's assessment of the reliability and completeness of financial and performance data in the report and a description of any material weaknesses in internal control and actions the agency is taking to resolve the weaknesses. Guidance for required information in the Agency Head Transmittal Letter is provided in Chapter 3.

010503. MD&A

MD&A of the reporting entity is integral to the annual financial statements and should be regarded as RSI. MD&A requirements are stated in [SFFAC 3](#), "Management's Discussion and Analysis;" [SFFAS 15](#), "Management's Discussions 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.

010504. 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 [DFAS 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.

010505. 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.

010506. RSSI

Specific guidance for reporting RSSI is contained in Chapter 11.

010507. 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.

010508. OI

Specific guidance for reporting OI is contained in Chapter 3.

010509. 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. ODA Audits. DoD OIG will not issue separate audit opinions on the financial statements of ODAs included in the DoD Agency-wide financial report. The ODA

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.	Required	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
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