VOLUME 6B, CHAPTER 12: “REQUIRED SUPPLEMENTARY INFORMATION”

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 December 2016 is archived.

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<td>All</td>
<td>Reformatted chapter and updated hyperlinks to comply with current administrative instructions.</td>
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<td>120301</td>
<td>Added language to clarify materiality in accordance with Statement of Federal Financial Accounting Standards 42.</td>
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CHAPTER 12

REQUIRED SUPPLEMENTARY INFORMATION

1201 GENERAL

120101. Purpose

This chapter provides the Department of Defense (DoD) policy and guidance for reporting Required Supplementary Information (RSI) to accompany the basic financial statements.

120102. Authoritative Guidance


C. DoD Deputy Chief Financial Officer (DCFO) policy memorandum dated September 30, 2015, “Accounting Policy Update for Financial Statement Reporting for Real Property Assets,” hereafter referred to as “DCFO Memo” in this chapter, provides the guidance for determining which DoD reporting entity is responsible for reporting real property on its financial statements. The memo will be incorporated into relevant chapters in Volume 4.

1202 DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES (SBR)

DoD reporting entities must prepare and report the disaggregated SBR as RSI. The format of the disaggregated SBR must follow the format contained in Chapter 7. As stated in OMB Circular A-136, for purposes of this presentation, small budget accounts may be aggregated. DoD has elected to aggregate smaller budget accounts within an account grouping titled "Other Accounts." The major account groupings and the aggregate of smaller budget accounts must, in total, agree with the amounts reported on the face of the reporting entity's SBR. The DoD Agency-wide SBR must be disaggregated into the following appropriation/fund account groupings: (1) Military Retirement Benefits; (2) Civil Works; (3) Military Personnel; (4) Operations, Readiness, and Support; (5) Procurement; (6) Research, Development, Test, and Evaluation; and (7) Family Housing and Military Construction. Refer to Chapter 7 for additional guidance and detail on the disaggregated SBRs for the various military departments, funds, and other Defense entities.
1203  DM&R

*120301. Policy

DoD reporting entities are required to report material amounts of DM&R on property, plant, and equipment (PP&E) (if applicable) as supplementary information to accompany their annual financial statements. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement. PP&E related accounting policy and definitions are contained in Volume 4.

120302. Definition

As defined in SFFAS 42, DM&R are maintenance and repairs (M&R) that were not performed when they should have been or were scheduled to be, and which are put off or delayed for a future period. M&R are activities directed toward keeping fixed assets in an acceptable condition. M&R activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. M&R, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use. The amounts reported must include both funded and unfunded DM&R, but need not be separately reported as such in the RSI.

120303. Required Reporting in RSI

A. In accordance with SFFAS 42, DoD reporting entities, if applicable, are required to:

1. Describe their M&R policies and how they are applied (i.e., method of measuring DM&R);

2. Discuss how they rank and prioritize M&R activities among their other activities;

3. Identify the factors considered in determining acceptable condition standards;

4. State whether DM&R relates solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E;

5. Identify the PP&E for which management does not measure and/or report DM&R, and provide the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E;
6. Provide estimated beginning and ending DM&R balances for each major category of PP&E (i.e., general PP&E; heritage assets; and stewardship land), for which M&R has been deferred. Refer to the Defense Finance and Accounting Service Financial Reporting Guidance for specific reporting formats and timing;

7. Explain significant changes in estimated DM&R balances by category (i.e., general PP&E, heritage assets, and stewardship land) from the prior year; and

8. Explain significant changes in the policies and factors subject to the reporting requirements from the prior year.

B. SFFAS 42 permits the following methods to measure DM&R:

1. Condition assessment surveys, which are periodic visual (i.e., physical) inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies;

2. Life cycle cost forecasts, which are acquisition techniques that consider operating, maintenance, and other costs in addition to the acquisition cost of assets; or

3. Other methods similar to the condition assessment survey or life cycle cost forecast methods.

C. To comply with the guidance in subparagraph 120303.A.7 and A.8, the determination of whether a change is significant is a matter for professional judgement at the reporting entity level. Significance is separate and distinct from materiality and could consider:

1. The absolute dollar amount or the percentage change in DM&R estimates,

2. The perceived importance of the reason for the change to the financial statement users, or

3. The potential consequences arising from the change (e.g., the effect on mission).

D. SFFAS 42 also requires that condition standards, related assessment methods, and reporting formats be consistently applied unless management determines that changes are necessary. Although condition information is essential in developing DM&R amounts, SFFAS 42 eliminated the previous requirement to report condition information.

E. The DoD Component that reports the real property in its financial statements in accordance with the DCFO Memo identified in paragraph 120102.C is primarily responsible for preparing, compiling, and reporting the RSI for DM&R on that real property. Chapter 2 provides additional Component responsibilities involving preparation of the
draft/working versions and final version of the Financial Section of the Agency Financial Report that includes the RSI.

F. Information presented in the RSI should be presented on a comparative basis when the information would be meaningful to the user of the financial report.