

VOLUME 13, CHAPTER 1: “NONAPPROPRIATED FUND ACCOUNTING”**SUMMARY OF MAJOR CHANGES**

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 2011 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reviewed chapter and revised for clarity.	Update
Various	Updated hyperlinks.	Update

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CHAPTER 1

NONAPPROPRIATED FUND ACCOUNTING

0101 OVERVIEW

010101. Purpose

This chapter provides a list of definitions, accounting standards, reporting classifications, and requirements for Nonappropriated Funds (NAFs).

010102. Scope

NAF accounting applies to all Nonappropriated Fund Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs) except the Armed Service Exchanges.

0102 DEFINITIONS

010201. Accounting

Accounting is the process of recording, classifying, summarizing, interpreting, and communicating financial data. Accounting related functions include financial accounting, cost accounting, not-for-profit accounting, and financial planning.

010202. Appropriated Funds

Appropriated funds (APFs) are monies paid out of the United States Treasury pursuant to statutory authority granted by Congress to the Department of Defense (DoD) to incur obligations and make payments. The term “appropriation” means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. In most cases, appropriations are of two types, annual and multi-year. Congress approves the appropriation acts that specify the purposes for which the APFs are used. Specific accounting policies for APFs are described in Volume 4. For additional information on the use and accounting for APFs for NAF activities, refer to [*Department of Defense Instruction \(DoDI\) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources”*](#).

010203. Balance Sheet

The Balance Sheet is a financial statement that shows an entity’s financial position at a certain point in time (usually at the end of an accounting period). It represents the entity’s assets, liabilities, and net worth (or fund equity).

010204. Chart of Accounts

The chart of accounts is a list of ledger account names and numbers arranged in the order in which they customarily appear in the financial statements. The chart serves as a useful source for locating a given account within the ledger. The chart of accounts for NAFs is established to comply with DoDI 1015.15 reporting requirements and is found in Volume 13, Chapter 2.

010205. Comparability

Comparability is the similarity and consistency of information produced by an entity from period to period and by others operating in similar circumstances. The value and usefulness of information depends greatly on the degree to which it is comparable to information from prior periods and to similar information reported by others.

010206. Consistency

Consistency is the uniformity of accounting procedures used by an accounting entity from period to period.

010207. Cost-Benefit Analysis

Cost-Benefit Analysis (CBA) is an analytic technique that compares the costs and benefits of investments, programs, or policy actions in order to determine which alternative or alternatives maximize net benefits (economic efficiency). CBA attempts to consider all costs and benefits.

010208. General Ledger

The general ledger is a summary of all the transactions that occur for each NAFI. Separate accounts exist for individual assets, liabilities, net worth, revenue, and expenses. The general ledger is the core of the NAF accounting system and contains all of the accounting entries for the current period. AOs will prepare an end-of-month trial balance of the general ledger accounts to ensure that total debits equal total credits. The general ledger accounts are found in Volume 13, Chapter 2.

010209. Income Statement (or Statement of Income and Expense)

The Income Statement is a financial statement showing the elements (income and expenses) used in arriving at the net income for the accounting period or over a certain period of time.

010210. Internal Controls

Internal controls are tools to help program and financial managers achieve desired results and safeguard the integrity of their programs. The Office of Management and Budget (OMB) Circular A-123 and the statute it implements, the [*Federal Managers' Financial Integrity Act*](#)

[\(FMFIA\) of 1982](#), are at the center of the existing Federal requirements to improve internal controls. [OMB Circular A-123](#) “Management’s Responsibility for Internal Control,” provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the FMFIA of 1982. The Circular provides internal control standards and specific requirements for conducting management’s assessment of the effectiveness of internal controls over financial reporting. For additional guidance, refer to [DoD Instruction \(DoDI\) 5010.40, “Managers’ Internal Control Program Procedures”](#) and [DoDI 1015.15”](#).

010211. Interpretation

Interpretation is an opinion regarding a set of facts. A degree of subjectivity is involved on the part of the individual, based on experience and judgment.

010212. Materiality

Materiality refers to the magnitude of an omission or misstatement of accounting data that misleads financial statement readers. Information is material when it is of such magnitude or significance that its omission or misstatement leads to a misinterpretation of the financial information. For example, amounts in a financial statement which are too small to make a difference or affect the reliability of information may be omitted because they are immaterial. In addition to magnitude, the nature of the item is considered when making a materiality judgment. For reporting purposes that require the level of materiality to be quantified, materiality shall be defined as one percent of the total assets in the balance sheet for each NAFI. For those NAF activities required to report on a consolidated basis, the threshold of materiality shall be one percent of the assets in the consolidated balance sheet.

010213. Nonappropriated Funds

Nonappropriated Funds are government monies that are not appropriated by Congress and are not held within the United States (U.S.) Treasury. Military Departments and Defense Agencies generate NAFs primarily through the sale of goods and services to the DoD military, civilian personnel and their family members in conjunction with authorized Morale, Welfare, and Recreation (MWR) programs. These funds are used to support MWR programs and activities; lodging; civilian welfare; post restaurant; certain religious and educational programs; and, used for the collective benefit of military personnel, their family members, and authorized civilians. These funds are separate funds that are **not** recorded in the books of the Department of the Treasury.

010214. NAF Instrumentality

A NAF Instrumentality (NAFI) is a fiscal entity of the U.S. Government that is supported in whole or in part by NAFs. NAFIs are not incorporated under the laws of any state or the District of Columbia, but have the legal status of an instrumentality of the U.S. and have the same immunities and privileges as the U.S. Government in the absence of specific Federal Statute.

A. Federal agencies create NAFIs and regulate their activities, but they are not federal agencies or government corporations. Although a NAFI can be an integral DoD organizational entity that performs essential government functions within DoD, it operates independently to provide or assist DoD organizations supporting military personnel and authorized civilians. As a fiscal entity, a NAFI maintains custody and control over its funds and is responsible for exercising care relative to administering, safeguarding, preserving, and maintaining those resources made available to carry out functions.

B. NAFIs function under the umbrella of DoD, but are not considered “federal reporting entities” for the purpose of financial statement reporting. NAFI financial statements are not in any manner associated with DoD financial statements. NAFIs use proceeds obtained from business operations and activities in providing a support function to DoD.

010215. Recording

Recording is the accurate documentation of business transactions. Recording is an essential requirement of both manual and automated accounting systems.

010216. Relevance

Relevance is the capacity of information to make a difference in decision-making. For instance, relevant information must be available in a timely manner to ensure its value in decision-making.

010217. Reliability

In financial accounting theory, reliability describes information that is reasonably free from error and bias and accurately presents the facts.

010218. Statement of Cash Flow

Statement of Cash Flow is a financial statement for a given period that provides information about an entity’s cash receipts and cash disbursements as they apply to operating, investing, and financing activities.

010219. Subsidiary Records

Subsidiary records are a group of related accounts supporting the balance of a control account in the general ledger. In some cases, a simple file system or the equivalent may be adequate if it substantiates the general ledger account balance. Three typical subsidiary ledgers are accounts receivable, prepaid accounts, and accounts payable.

010220. Summarizing

Summarizing is the process of bringing together financial information to develop financial statements or reports. Examples of the most commonly used financial statements are

the balance sheet, income statement, and statement of cash flows. The balance sheet presents information about the financial condition of a business at a certain point in time. The income statement presents information about the results of operation (i.e., profit or loss) for the accounting period. The statement of cash flows reflects the amount of net cash given to or used by a business during the period from operating activities, investing activities, and financing activities.

010221. Timeliness

Timeliness is prompt reporting of financial information to users for their maximum benefit. Financial data is recorded as soon as practical after the occurrence of a transaction.

0103 ACCOUNTING STANDARDS

010301. Generally Accepted Accounting Principles

The phrase “generally accepted accounting principles” (GAAP) encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. GAAP includes not only broad guidelines of general application, but also detailed practices and procedures. These conventions, rules, and procedures establish a standard by which to measure financial presentations.

A. Judgment. Although there are numerous sources of GAAP, some judgment is necessary to determine whether:

1. The accounting principles selected and applied have general acceptance;
2. The accounting principles are appropriate in the circumstances;
3. Financial statements, including related notes, are informative of matters that may affect their use, understanding, and interpretation;
4. Information presented in the financial statements is classified and summarized in a reasonable manner, i.e., it is neither too detailed nor too condensed; and
5. Financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, i.e., limits that are reasonable and attainable.

B. Financial Accounting Standards Board Codification. The American Institute for Certified Public Accountants (AICPA) Council designated the Federal Accounting Standards Advisory Board (FASAB) as the body that promulgates GAAP principles for federal entities and the Federal Accounting Standards Board (FASB) as the organization that establishes standards for financial accounting and reporting in the private sector. Since NAFI business operations are similar to the private sector, financial statements are prepared and presented to

comply with accounting standards promulgated by FASB. In July 2009, FASB implemented the FASB Accounting Standard Codification that resulted from a major five year project to develop the codification. FASB Accounting Standards Codification™ is an advanced application that allows users to access authoritative content, perform research, and submit feedback. The Codification application is the single source of authoritative nongovernmental U.S. GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009 and supersedes all previous level GAAP standards. All other accounting literature not included in the Codification is considered non-authoritative. The Codification structure is significantly different from the structure of the previous standards and is composed of the following literature issued by various standard setters:

1. Financial Accounting Standards Board (FASB):
 - a. Statements,
 - b. Interpretations,
 - c. Technical Bulletins,
 - d. Technical Staff Positions, and
 - e. Staff Implementation Guides;
2. Emerging Issues Task Force:
 - a. Abstracts, and
 - b. Topic D;
3. Derivative Implementation Group Issues;
4. Accounting Principles Board Opinions;
5. Accounting Research Bulletins;
6. Accounting Interpretations; and
7. American Institute of Certified Public Accountants:
 - a. Statements of Position,
 - b. Audit and Accounting Guides,
 - c. Practice Bulletins, and
 - d. Technical Inquiry Service.

C. Other Considerations. An important aspect of GAAP, as applied to government entities, is the recognition of the variety of legal and contractual considerations typical of the government environment. These considerations underlie and are reflected in the fund structure, basis of accounting, and other principles that distinguish governmental accounting from private sector accounting. Some of the types of laws and regulations that may have a direct and material effect on the determination of amounts in a NAF activity's financial statements include:

1. Requirements for reporting to DoD and others;
2. Restrictions on the use of appropriated funds;
3. Restrictions on expenditures, including construction;
4. Restrictions on investments; and
5. Laws and regulations for NAF, Civil Service, and military personnel.

010302. Accrual Accounting

NAF organizations use the accrual basis of accounting, except for the fund exclusions noted in [DoDI 1015.15](#), paragraph 2.2. Under accrual accounting, transactions and other economic events are recorded when they occur. Revenues are recognized and reported when earned. Expenses are recognized and reported when incurred. Accrual accounting emphasizes matching revenues and expenses associated with each other in the period in which they occur. Accrual accounting contributes to effective financial control over resources and cost of operations and is essential in developing adequate revenue and cost information.

010303. Accounting Period

The accounting period for DoD NAFIs, except the Armed Services Exchanges, begins October 1 of each year and ends September 30 of the following year, as noted in [DoDI 1015.15](#), paragraph 6.4.2.7.

010304. Accounting Office Responsibilities

Accounting Offices (AOs) provide centralized professional accounting services to supported NAF organizations. AO responsibilities include:

- A. Maintain all books of original entry, the general ledger, and related subsidiary ledgers;
- B. Maintain fixed asset records;

- C. Prepare all disbursement vouchers and checks after assuring availability of funds and pay liabilities of all supported NAF organizations;
- D. Maintain payroll records when needed;
- E. Prepare required periodic financial reports with ratios and percentages as requested. AOs also report variances in relation to established standards or approved budget goals upon request.
- F. Prepare other information when requested by NAF management or higher authority. For example, AOs may supply some financial analysis with an MWR activity's financial statement or provide variance from budget data or historical information for use in preparation of NAF budgets.
- G. Prepare and distribute financial reports to all supported NAF organizations;
- H. Prepare an annual operating budget for the AO. When more than one NAF organization is supported by an AO, then a schedule is prepared that shows the estimated amounts to be assessed each supported NAF organization.
- I. Reconcile the bank accounts of supported NAF organizations. Review daily account balances shown on monthly bank statements to make sure that insurance and collateral are sufficient. Notify NAF managers of missing or delayed deposit or check documentation.
- J. Compute and bill service fees to recover operating costs;
- K. Review documentation for completeness and accuracy;
- L. Provide documentation to internal and external independent auditors, as required;
- M. Prepare aged accounts receivable and accounts payable reports;
- N. Maintain awareness of all changes which affect financial reporting; and
- O. Review requests for making adjustments to fund equity or net worth. Non-receipt of accounting documents or failure to record documents received does not constitute a valid equity adjustment.

010305. Accounting Changes

The term "accounting change" means a change in an accounting principle or an accounting estimate. When an accounting change is made, appropriate footnote disclosure is

required to provide justification for the accounting change and its effect on the financial statements.

A. Change in Accounting Principle. A change in accounting principle results from an adoption of a generally accepted accounting principle different from the one previously used for reporting purposes to include the methods for applying the new principle. A characteristic of a change in accounting principle is that it concerns a choice from among two or more generally accepted accounting principles. In the preparation of financial statements, there is a presumption that an accounting principle, once adopted, is not changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data. Generally, the past financial statements are restated to reflect a change in accounting principle.

B. Change in Accounting Estimate. A change in an estimate used in accounting is a necessary consequence of periodic presentations of financial statements. A change in accounting estimates results from new information or subsequent developments and accordingly from better insight or improved judgment. Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives, and salvage values of fixed assets. Future events and their effects cannot be predicted with certainty. Estimating, therefore, requires the exercise of judgment. Accounting estimates may change as new events occur, as more experience is acquired, or as additional information is obtained. A change in accounting estimate is accounted for prospectively over current and future years which will cause a change to the expense account in future years. Prior years are not restated.

010306. Accounting Errors

Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, oversight, or misuse of facts that existed at the time the financial statements were prepared. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error. The past financial statements are restated to reflect the corrections.

0104 INTERNAL CONTROLS

Services will follow internal control reporting procedures in accordance with [OMB Circular A-123](#), [DoDI 5010.40](#), and [DoDI 1015.15](#).

0105 AUDITS

010501. Policy

DoD policy is to provide adequate audit coverage of NAFIs to include annual financial statement audits. Each Military Service is required to have an annual financial audit of its NAFIs by an independent certified public accountant(s). The primary objectives of such audits

are to determine whether internal control systems are adequate, resources are safeguarded and managed economically and efficiently, applicable laws and regulations are followed, and desired program results are achieved. Particular attention is placed on identifying potential fraud, waste, or abuse in operations. To the extent possible, audits are conducted on a system or functional basis and not an activity basis. The audit should include the verification of accuracy and reliability of the NAFI's automated data processing system. The NAFI community will have access to the results of system or functional audits in the form of reports. DoD personnel, rather than certified public accounting firms, are used for audits involving potential fraud or other serious improprieties. Policies regarding the audit of NAFIs and related activities are prescribed in [DoDI 7600.06, "Audit of Nonappropriated Fund Instrumentalities and Related Activities"](#).

010502. Scheduled Audits

Activities are audited at least annually or as instructed by DoD Component authority. If directives require or circumstances warrant, then additional audits are scheduled.

0106 ANNUAL REPORTING REQUIREMENTS

010601. Reporting

A consolidated financial and management report is prepared annually for each Military Service and joint-Service NAFI as specified in Enclosure 8 of [DoDI 1015.15](#).

010602. Disclosures

Financial reports must include full and adequate disclosure of financial and accounting information in accordance with Volume 13, Chapter 7 and [DoDI 1015.15](#) specific reporting requirements (e.g., disclosure of fund equity adjustments and eliminating entry transactions between NAFIs); this includes Military Service Headquarters, Major Command or Region, and installation NAFIs. Following these requirements ensures that financial and accounting information is properly treated in preparing consolidated reports.