SUMMARY OF MAJOR CHANGES TO
DoD 7000.14-R, VOLUME 13, CHAPTER 1
"NONAPPROPRIATED FUND ACCOUNTING"

All changes are denoted by blue font

Substantive revisions are denoted by a ★ preceding the section, paragraph, table or figure that includes the revision

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

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted chapter for clarity and ease of reading. Added references and electronic hyperlinks.	Update
0101	Added an Overview section to provide purpose and scope paragraphs.	Add
0102	Added a Definitions section.	Add
010212	Added requirement that materiality be set by the NAFI at one percent of the greater of total assets or expenses for the current fiscal year. Requirements based on the DoDIG audit recommendation.	Add
010302	Paragraph deleted. Cash basis of accounting does not adhere to the revenue recognition and matching principles.	Delete
010401	Added requirement that prior year adjustments must be material and not previously known or estimated.	Add
010402	Added responsibility for the Accounting Office to review all fund equity adjustment requests and added requirement for Military Service Proponent for NAF Financial Management approval/disapproval.	Add
0105	Added responsibility for the Accounting Office to review all extraordinary item requests and added requirement for Military Service Proponent for NAF Financial Management approval/disapproval.	Add

TABLE OF CONTENTS

CHAPTER 1

NONAPPROPRIATED FUND ACCOUNTING

★0101 OVERVIEW

010101. Purpose. This chapter prescribes the standard policies 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. The process of recording, classifying, and summarizing financial transactions and interpreting the results.

010202. Accounting Information. Information provided to users that is timely, relevant, reliable, cost beneficial, material, comparable, and consistent.

010203. Accounts Payable. Amounts owed by the NAFI for goods and services received. Under a voucher system, a tickler or suspense file of unpaid vouchers can serve as the accounts payable subsidiary file. At the end of each month, reconcile the total of all unpaid vouchers in this file to the general ledger control account.

010204. Accounts Receivable. Amounts due from customers for goods or services provided in the normal course of business of the NAFI. Subsidiary records for receivables are of vital importance in the accounting system. Detailed records must be maintained to identify the debtor and the amount of the debt. The same subsidiary record, for example, may be used to maintain accounts receivable for a member and unamortized advance dues.

010205. Appropriated Funds (APF). APFs are monies that the Congress grants the DoD statutory authority to incur obligations and make payments out of the U.S. Treasury for specified purposes. In most cases, appropriations are of two types: annual and multi-year. The Congress approves the appropriation acts that specify the purpose for which the APFs are used. Accounting for APFs is significantly different than accounting for NAFs. Specific accounting policies for APFs are described in ***Volume 4*** of this Regulation. For additional information on the use and accounting of APFs for NAF activities, see ***Department of Defense Instruction (DoDI) 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources."***

010206. Classifying. The process of sorting or grouping like transactions or events together. Ledgers are used to classify the journal entries according to like events.

010207. Comparable. 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.

010208. Consistent. The information produced by one accounting entity using essentially the same methods over a period of time.

010209. Cost Beneficial. Measures the expense of obtaining certain information against the benefits of having the information. Information is not given if the cost exceeds the benefits derived, unless it is required to meet legal or other specific purposes.

010210. General Ledger. The general ledger is a summary of all the transactions that occur for each NAFI. It is divided into five main categories: assets, liabilities, revenue, expenses, and equity. The general ledger is the core of the NAF accounting system and lists all of the accounting entries for the current period. The chart of accounts is established to comply with DoDI 1015.15 reporting requirements. AOs will prepare an end-of-month trial balance, listing general ledger balances for each supported NAFI. At the end of the fiscal year, the income and expense accounts are closed to the Fund Equity account.

010211. Interpreting. The steps taken to direct attention to the significance of various matters and relationships. Percentage analyses and ratios are often used to help explain the meaning of related information.

★ 010212. Materiality. The degree to which information is significant enough to make a difference to a reasonable person who relies on that information. For example, a decision not to disclose information in the financial statements may be made if the amounts involved are too small to make a difference or affect the reliability of the information. In addition to magnitude, the nature of the item is considered when making a materiality judgment. For reporting purposes requiring the level of materiality to be quantified, materiality is set at one percent of the greater of total assets or expenses reported in the current fiscal year financial statement for each NAFI.

010213. Nonappropriated Funds. NAFs are monies that are not appropriated by the Congress to incur obligations and make payments out of the United States (U.S.) Treasury. NAFs come primarily from the sale of goods and services to DoD military and civilian personnel and their family members. These funds are used to support Morale, Welfare, and Recreation (MWR); lodging; civilian welfare; post restaurant; and certain religious and educational programs. NAFs are entitled to the same protection as funds appropriated by the Congress of the U.S. and are used for the collective benefit of military personnel, their family members, and authorized civilians. These funds are separate from funds that are recorded in the books of the Department of the Treasury.

010214. NAF Instrumentality. A NAFI is a fiscal entity of the U.S. Government that is fully or partially supported by NAFs. NAFIs assist Secretaries of the Military Departments in providing programs for DoD personnel. 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. NAFIs act in their own name, federal agencies create them and regulate their activities but they are not federal agencies or government corporations. Although NAFIs are an integral DoD organizational entity that performs essential government functions within DoD, they operate independently to provide or assist DoD organizations in the execution of programs supporting military personnel and authorized civilans. As a fiscal entity, NAFIs maintain custody of and control over its NAFs and is responsible for exercising reasonable care relative to administering, safeguarding, preserving, and maintaining prudent care over those resources made available to carry out functions.

B. Although NAFIs function under the umbrella of a federal entity (e.g., DoD), the nature of its business operations in providing a support function to DoD use proceeds obtained from business operations and activities rather than with appropriated funds. The significance of NAFIs relationship with DoD does not in any manner cause the government's financial statements as a whole to be misleading or incomplete. NAFIs 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 that feed into the Government-wide financial statements.

010215. Prepaid Accounts. Payments for supplies or services acquired or purchased during an accounting period, but not consumed or used. A subsidiary record is maintained to aid in the prorating of expenses for prepaid supplies, maintenance, or insurance. Reconcile any unexpired or unused amounts to the applicable general ledger control account.

010216. Recording. The accurate documentation of business transactions. Recording is an essential requirement of both manual and automated accounting systems.

010217. Relevance. The capacity of information to make a difference in a decision by helping users form predictions about the outcome of past, present, and future events or to confirm or correct prior expectations.

010218. Reliability. The quality of information which assures it is reasonably free from error and bias.

010219. Subsidiary Records. Group of related accounts supporting the balance of a controlling account kept in a subsidiary ledger. The NAF accounting systems have subsidiary records. If the number of transactions for a particular general ledger account is small, or if balances are reversed at the beginning of each month, or if the required data is maintained on a computer, then a formal subsidiary ledger is not required. 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 payable, prepaid accounts, and accounts receivable.

010220. Summarizing. The process of bringing together financial information to develop financial statements or reports. Examples of the most commonly used financial statements are 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. 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

010301. Generally Accepted Accounting Principles (GAAP). The phrase "generally accepted accounting principles" is a technical accounting term that 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. The financial statements, including the related notes, are informative of matters that may affect their use, understanding and interpretation.

4. The information presented in the financial statements is classified and summarized in a reasonable manner, i.e., it is neither too detailed nor too condensed.

5. The 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 practicable to attain in financial statements.

B. GAAP Hierarchy. 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. The Financial Accounting Standards Board (FASB) has been designated as the organization in the private sector for establishing standards of financial accounting and reporting. Since NAFIs are unique in that their business operations model the private sector as well as operations of a non-government organization and considering NAFIs are not considered "federal reporting entities" for the purpose of financial statement reporting within DoD, NAFI financial statements and other financial data must be prepared and presented to comply with GAAP in accordance with accounting standards promulgated by FASB. A GAAP hierarchy has been established that identifies five categories or sources of GAAP (in descending order of importance).

1. Officially established accounting principles that consist of Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board Opinions, and American Institute of Certified Public Accountants (AICPA) Accounting Research Bulletins.

2. The FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.

3. The AICPA Accounting Standards Executive Committee bulletins that have been cleared by the FASB and consensus positions of the FASB Emerging Issues Task Force.

4. The AICPA accounting interpretations and implementation guides ("Qs and As") published by the FASB staff and practices that are recognized widely and are prevalent either generally or in the industry.

5. Other accounting literature, including FASB Concepts Statements; AICPA Issues Papers; International Financial Reporting Standards of the International Accounting Standards Board; Statements, Interpretations, and Technical Bulletins; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles.

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, and are a major factor distinguishing governmental accounting from commercial 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 expenditures for construction.

4. restrictions on investments.

5. laws and regulations for NAF, Civil Service, and military personnel.

010302. Accrual Basis of Accounting. NAF organizations use the double entry accrual basis of accounting. The general theory of the double entry accounting system is that, whenever any financial transaction or value change takes place, there are two accounting actions involved. These two actions are expressed as debits and credits. Established double entry accounting principles require the recording of a debit and an offsetting credit, and that total debits equal total credits. Under accrual accounting, transactions and other economic events are recorded when they occur. Revenues are recognized and reported when they are earned. Expenses are recognized and reported when they occur and are deducted from revenue to determine income. 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 NAF organizations per DoDI 1015.15 begins October 1 of each year and ends September 30 of the next year. DoD NAFIs use the calendar months as the interim accounting periods.

010304. Accounting Office. AO provides 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. As required, provide documentation to independent auditors.

M. Prepare aged accounts receivable and accounts payable reports.

N. Maintain awareness of all changes which affect financial reporting.

010305. Accounting Changes. The term "accounting change" means a change in an accounting principle or a change in an accounting estimate. The correction of an error in previously issued financial statements is not an accounting change.

010306. Change in Accounting Principle. A change in accounting principle results from adoption of a generally accepted accounting principle different from the one previously used for reporting purposes. The term "accounting principle" includes not only accounting principles and practices but also the methods for applying them. A characteristic of a change in accounting principle is that it concerns a choice from among two or more generally accepted accounting principles. These include, for example, a change in the method of inventory pricing and a change in the depreciation method for previously recorded assets. 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.

010307. Change in Accounting Estimate. Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, and 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.

010308. 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. In contrast, a change in accounting estimates results from new information or subsequent developments and accordingly from better insight or improved judgment. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error.

0104 FUND EQUITY

★ 010401. Fund equity consists of capital invested in NAFI plus the profit, or minus the loss, resulting from operations since its inception. Transactions into and out of equity are limited to net income, net losses, and entries associated with the establishment, disestablishment, certain accounting principle changes, approved material prior year adjustments that could not have been known or estimated during the prior year and distribution of capital. Adjustments to fund equity are very infrequent.

A. When a new NAF organization, with preexisting capital, is authorized, that capital is recorded as equity. As an example, preexisting capital is a factor when a private association converts to a membership association. Equity is disestablished when a NAF organization is dissolved.

B. Equity may be distributed by declaring dividends to other NAF organizations. An example is dividends paid by base restaurants. Special grants for new construction and facility improvements are another method of distributing equity. Equity is transferred in the form of cash or other assets.

★ 010402. Accounting Office Responsibilities. The supporting AO is responsible for reviewing all requests and to determine if the only appropriate treatment is to adjust fund equity. Nonreceipt of accounting documents or failure to record documents received does not constitute a valid fund equity adjustment. When an item has been thoroughly reviewed and it is determined that the only appropriate treatment is to adjust fund equity, AO will forward a letter requesting approval to make the adjustment, together with all the facts surrounding the circumstances, to the Military Service Proponent for NAF Financial Management. The Military Service Proponent will approve/disapprove fund equity requests.

★0105 EXTRAORDINARY ITEMS. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. When an item has been thoroughly reviewed and it is determined that the event or transaction is extraordinary, AO will forward a request to the Military Service Proponent for NAF Financial Management to approve/disapprove. The following criteria are met to classify an event or transaction as an extraordinary item.

010501. Unusual Nature. The underlying event or transaction possesses a high degree of abnormality. It is of a type clearly unrelated, or only incidentally related, to the ordinary and typical operations of NAFI, taking into account the environment in which the activity operates.

010502. Infrequency of Occurrence. The underlying event or transaction is of a type that reasonably is not expected to recur in the foreseeable future, taking into account the environment in which the activity operates.

010503. Disclosure. Show extraordinary items separately as an item affecting net income after operating income and expense. Provide adequate disclosure information regarding extraordinary items in the footnotes to the financial statements.

0106 MORALE, WELFARE, AND RECREATION CATEGORIES. DoDI 1015.15 states that DoD MWR programs have been classified into three basic categories for (1) funding, (2) financial reporting, and (3) program management. Each category has specific restrictions and requirements concerning funding. The APF and the NAF resources may be used only where permitted by this Instruction.