VOLUME 13, CHAPTER 3: "ASSETS, LIABILITIES, AND NET WORTH"

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 September 2008 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
0302	Added definitions for various current asset accounts and reformatted for clarity.	Add
030205.A	Renamed Accounts Receivable to Customer Accounts Receivable.	Update
030205.M	Renamed Uniform Funding and Management (UFM) Receivable to Morale, Welfare, and Recreation (MWR) Utilization Support and Accountability (USA) Receivable.	Update
0303	Added definitions for various noncurrent asset accounts and reformatted for clarity.	Add
0304	Added definitions for various current liability accounts. Moved Section 0402 from Chapter 4 and reformatted for clarity.	Add
0305	Added definitions for various long term liability accounts. Moved Section 0403 from Chapter 4 and reformatted for clarity.	Add
0306	Moved Section 0404 from Chapter 4 for payment of liabilities.	Add
0307	Added definitions for Net Worth.	Add

Table of Contents

CHAPTER 3

ASSETS, LIABILITIES, AND NET WORTH

0301 OVERVIEW

030101. Purpose

This chapter prescribes the standard policies for Nonappropriated Fund (NAF) assets, liabilities, and net worth. The ***Department of Defense Instruction (DoDI) 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources"*** assigns responsibilities and sets policy for the Nonappropriated Fund Instrumentalities (NAFIs). NAFI programs and facilities shall be operated, maintained, and funded as an integral part of the personnel and readiness program.

030102. Scope

Policies in this chapter apply to all Nonappropriated Fund Instrumentalities (NAFIs) and their supporting accounting offices (AOs) except the Armed Service Exchanges.

0302 CURRENT ASSETS

Current assets are those items of cash and other assets or resources that are reasonably expected to be converted to cash or consumed during the normal operating cycle (12 months). These include cash and cash equivalents, short term investments, accounts receivable, inventories, and prepaid expenses.

*030201. Cash

Cash consists of amounts on deposit with banks or other financial institutions, coins, paper currency and readily negotiable instruments, including money orders, checks and bank drafts on hand or in transit for deposit. The majority of accounting transactions affect the cash account at one time or another. NAFs must be maintained in financial institutions that are United States (U.S.) federally insured or designated by the Department of Treasury.

A. Cash - U.S. Checking. This general ledger account is for funds deposited in a bank and items that a bank will accept for immediate deposit including paper money, coins, checks and money orders.

1. Reconciliation of Bank Accounts. Designated accounting personnel must reconcile all bank statements or reports on a monthly basis. Any discrepancies found are reported immediately to NAFI management. To maintain separation of duties, the person performing the reconciliations can not be the check writer.

2. Blank Check Stock. The AO may designate someone to maintain the records and control the blank check stock, but for security reasons the person can not be one of

the check writers. Checks are sequentially pre-numbered and stored in a locked container. The container should be either a built-in vault or safe that is burglary resistant and fire resistant for a minimum period of two hours. For additional guidelines on securing blank check stock, refer to DoDFMR Volume 5, Chapter 7.

3. Check Signing Equipment. There are three components to check signing equipment: a signature plate, a key to the machine, and the machine itself. The signatory maintains the signature plate and a designated person, other than the signatory, maintains the key to the machine. The designated person who holds the key maintains a log to record machine usage. Whenever operating the machine, the authorized operator enters the beginning and ending readings, date, and initials in the log. In addition to signature plates, there are other media acceptable for signing checks, e.g., digitized signatures. For comprehensive guidance on check signing machines, refer to Volume 5, Chapter 7.

4. Change of Signatory. When a change of signatory occurs, destroy the signature plates and notify the bank. A certificate of destruction is prepared, signed by two witnesses and the successor signatory, and maintained in the AO.

B. Change Funds. This general ledger account is for funds used in daily operations to make change and cash checks.

1. Accounting for change funds. Upon initial issuance of the change fund, the NAFI's cash account is reduced and the appropriate asset account (change funds issued) is increased. Increases to these funds must be requested from the NAFI custodian in writing. The AO issues a check for the approved amount and increases the asset account accordingly.

2. Replenishment of change funds. The NAFI manager or designee may replenish the funds at the end of the day with cash received from operations as long as all the daily receipts are deposited in total. Before replenishing the funds, the NAFI manager or designee must ensure that all checks cashed from these funds are deposited daily. In no case will the NAFI manager or designee exchange dollars for foreign currency, except as provided in 030201.D.

C. Petty Cash Funds. This general ledger account is for fixed amounts established by the NAFI to handle minor disbursements. Disbursements from the petty cash fund are recorded to the applicable expense accounts in the month that the petty cash is disbursed by the custodian.

1. Establishing a petty cash fund. Each NAFI must comply with the following guidelines when establishing a petty cash fund:

a. Each manager within a NAFI appoints, in writing, individuals to act as petty cash custodians.

b. The amount of a petty cash fund will not exceed one month's requirements.

c. Any one transaction will not exceed $500 and transactions will not be fragmented to circumvent this limitation. A higher limit may be approved by the Military Service Proponent for NAF Financial Management for purchases made in foreign currency, if currency rates so warrant. This increase must be reviewed on an annual basis.

d. In foreign locations, NAFIs may have one petty cash fund in the local foreign currency as well as one in U.S. dollars. If NAFIs give cash bingo prizes both in dollars and foreign currency, then two bingo petty cash funds must be established.

e. NAFIs are not to use petty cash funds for cashing checks or paying salaries and wages.

2. <u>Replenishment of petty cash funds</u>. The AO provides the fixed amount to the individual appointed as the petty cash custodian. Disbursements are made by the custodian and a petty cash voucher is completed to support each transaction. The custodian will submit a request with the petty cash vouchers and receipts (or equivalent) to the AO to replenish the petty cash fund as needed, but not later than the last day of each month. The AO will issue a check payable to the petty cash custodian, by name, to reimburse the fund.

D. <u>Cash - Foreign Currency</u>. This general ledger account is the U.S. dollar equivalent of foreign government currency. This account is used for all foreign currency receipts and disbursement held on deposit by NAFIs outside the continental U.S. For guidance on exchange rate fluctuations, refer to section 1304 of Volume 5, Chapter 13.

*030202. Savings Accounts

This general ledger account is for short term investments of funds not needed immediately for daily operations, but readily available. Savings accounts must be in an interest bearing account and in federally insured banks, credit unions, or savings institutions.

*030203. Marketable Securities

This general ledger account is for readily tradable obligations of Government agencies, and obligations issued by U.S. Government-sponsored enterprises and securities. The securities are guaranteed by the full faith and credit of the U.S. Government with quoted prices which can be easily converted into cash within one year. For further guidance on investment policy, refer to Enclosure 9 in ***DoDI 1015.15***.

*030204. Other Short Term Investments

This general ledger account is for the repurchase and reverse repurchase agreements and Institutional Government Money Market Funds, certificates of deposits or other investments owned by the NAFI and for cash restricted for a specific short term purpose (e.g., severance pay and separation). For further guidance on investment policy, refer to Enclosure 9, ***DoDI 1015.15***.

*030205. Receivables

Receivables are amounts owed to the NAFIs for sales of merchandise, services, or dues. Receivables may result from amounts owed by employees, members, customers, and organizations for dues, fees, charges, rentals, credit sales, or travel advances. Records are maintained to ensure transactions accurately identify debt and its respective debtor. Receivable subsidiary records are reconciled on a monthly basis to the general ledger control accounts.

A. Customer Accounts Receivable. This general ledger account records amounts in customer receivables which result from an in-house credit (charge) for sales of merchandise, services, or dues. This includes customers for rentals, child development and youth centers, merchandise, hotel, lodging, layaway sales, and other services.

1. Accounting for Customer Accounts Receivable. A subsidiary ledger is maintained for each individual account. Dues are charged monthly where applicable. Monthly statements are sent to members or participants of the NAFIs that permit charge sales, charge dues, or deferred payments.

2. Aged Customer Accounts Receivable Reports. An aged customer accounts receivable report is prepared for all NAFIs with internal credit systems. Account balances are due and payable on the first day after the statement date of the month in which credit was extended. Current month dues are treated the same as current month charge sales and normally become payable the first day after the statement date. If the DoD Component authorizes delinquent fees, then they are established as a customer receivable and charged to the delinquent account each month. The aging report, at a minimum, will include the following: over 30 days (second billing statement), over 60 days (third billing statement), and over 90 days (fourth billing statement).

B. Exchange Service Dividend Receivable. This general ledger account is for amounts due from the Armed Service Exchanges as part of their distribution.

C. Gaming Machine Profit Distribution Receivable. This general ledger account is for the amount due from slot machines.

D. Claims Receivable. This general ledger account is for amount due for destruction or losses (e.g., fire, theft, or other causes) covered under the self insured program.

E. Commercial Credit Card Receivable. This general ledger account is for the amount due from banks for customer sales made via commercial credit cards.

F. Concessionaire Receivables. This general ledger account is for the amount that is due from concessionaire and commission fees.

G. Deposits Receivable. This general ledger account is for the amount due for deposits made in connection with the purchase of goods or services.

H. NAFI Receivables. This general ledger account is for the amounts due from other NAFIs for services and supplies.

I. Returned Check Receivable. This general ledger account is for the amount due for returned checks dishonored by financial institutions.

J. Employee Receivable. This general ledger account is for the amount due from employees for payments made due to insufficient earnings for such things as insurance premiums and retirement arrearages.

K. Accrued Interest Receivable. This general ledger account is for the amount due from interest earned but not received at the end of an accounting period, such as from savings accounts, investments, and contracts.

L. Loans Receivable. This general ledger account is for the amount due within one year for loans to NAFIs.

M. Morale, Welfare, and Recreation (MWR) Utilization, Support, and Accountability (USA) Receivable. This general ledger account consists of funds due from the U.S. Treasury for costs which are authorized reimbursement from appropriated funding and which are stipulated within Memorandums of Agreement (MOAs) between the MWR Fund and the Government.

N. Other Current Receivables (Specify). This general ledger account is for the amount of other receivables for which an account has not been established such as, travel advances, amounts due from higher headquarters for grants and other payments, and amounts due from outside entities.

O. Allowance for Doubtful Accounts. When using the allowance method for bad debts, NAFIs must determine and record the amount of accounts receivable estimated to be uncollectible at the end of each reporting period. The amount to record as estimated is based on a review of the average write-offs of accounts receivable, which is based on historical data. Adjust the allowance for doubtful accounts to cover those accounts expected to become uncollectible during the next reporting period.

030206. Prepaid Expenses

Payments made for expenses that apply to a specific period of time are amortized over that period. Any unexpired portion of that expense is shown as a prepaid asset. General ledger accounts for prepaid expenses include prepaid travel advances, contracts, insurance, rent, supplies, taxes and licenses. Other prepaid expenses include tableware, kitchenware, glassware, linens, uniforms and prepaid bingo prizes. Advance payments for maintenance, rent and insurance are examples of expenses that span numerous months. The accounting principle of materiality should be considered before employing the prepaid concept. An advance or prepayment is never amortized for more than its expected usage. Monthly expenses are computed and prorated over each month of the period covered by the advance payment. Supplies are expensed based on expected usage provided by the NAFI custodian. The unexpired prepaid expense subsidiary is reconciled to the related control account.

*030207. Inventory

Inventory is merchandise or supplies on hand or in transit at a particular point in time. Inventory held for sale or resale consists of goods to be sold in the normal course of business. A value is assigned which represents the cost of acquisition. When the goods are sold, the value assigned is used to determine profit for the accounting period as shown on the income statement and to properly report assets on the balance sheet at the end of the accounting period.

A. Inventory Warehouse/Storeroom. This general ledger account consists of the value of the bulk, volume, or secured storage of resale and/or supplies inventory.

B. Inventory Sales Outlet Resale. This general ledger account consists of the value of resale merchandise on hand at the end of the accounting period in the outlet stores.

C. Inventory In-Transit. This general ledger account consists of inventory where title has passed to the NAFI, but the inventory has not been received at a NAFI warehouse.

D. Accounting for Inventory

1. Inventory Subsidiary. All items are recorded at cost. Cost is the purchase price less trade and cash discounts. If cash discounts are not material to warrant changing individual prices, then the amount of the discount is credited to the purchases account and not to individual items. Discounts lost and excise taxes paid are not included in the cost of merchandise but are recorded in the applicable operating expense account. The cost of merchandise will include freight, insurance, and handling charges if they can be associated to specific items. If they cannot be identified to specific items, then record directly against the appropriate expense account.

2. Stock Record. The stock record is used to record resale merchandise and supplies in a warehouse or storeroom. It requires a complete description of the merchandise and all pertinent information regarding receipt and issue.

3. Spoilage, Breakage, Obsolete Material, Customer Complaint or Reject Items. Immaterial losses of inventory resulting from spoilage, breakage, obsolescence, rejection, or constant customer complaint items are absorbed in cost of goods. Material losses are recorded in a Spoilage and Breakage expense account for the applicable operation.

4. Consigned Merchandise and Tickets. Merchandise held on consignment is maintained and accounted for by the consignor. NAFIs only maintain inventory of consigned merchandise for accountability purposes. These items are physically inventoried monthly or at the end of an event for tickets (whichever comes first). This inventory is not recorded in the general ledger.

E. Physical Counts of Inventory. Inventories are required to be physically counted. The following are policies related to physical inventories of merchandise.

1. The inventory list is printed in the same sequence in which the merchandise is stored or arranged for display or in stock record number sequence.

2. A cutoff date is established for sales, issues, returns, adjustments, and transfers so inventory quantities and related accounting entries can be recorded.

3. Merchandise received during the inventory count is not counted unless the payable or payment will be recorded in the general ledger as of the inventory cutoff date.

4. Merchandise sold during the physical count is included in the inventory count. The merchandise is not included in the count if the related sale and receivable or cash received will be recorded in the general ledger after the inventory cutoff date.

5. Physical inventory is conducted separately for each department.

6. Inventories of merchandise held on consignment are separate from NAFI owned merchandise. Inventory lists are prepared for each owner of the goods.

7. At the conclusion of the inventory count, any discrepancies are provided to the NAFI custodian for resolution. The general ledger is then adjusted to match the physical count that was observed by the observation team.

F. Physical Inventory Observation. At least annually, the physical inventory counts are observed by at least one person who is independent of the NAFI conducting the physical count. The objective of the count is to verify the inventory to determine the accuracy of the accounting records. Since it is frequently impractical to observe all physical inventories at one time, the observations may be staggered throughout the year.

0303 NONCURRENT ASSETS

Long term, tangible assets that will not be converted to cash or consumed during the next 12 months are classified as noncurrent. These assets are expected to benefit NAFIs for more than one accounting period. Noncurrent assets include fixed assets, land, leases, long term investments, long term loans, long term receivables, and long term prepaid expenses.

*030301. Fixed Assets

Fixed assets are defined as property, plant and equipment purchased, donated, or transferred to NAFIs that have an expected life of two or more years and have an acquisition cost of $2,500 or more. They include capital assets such as land improvements, construction in progress, buildings and improvements, equipment, furniture, fixtures, internal use software, tools, machinery, and livestock. Intangibles are excluded from this category.

A. Land Improvements. This general ledger account is for the amount paid for improvements to land for use in walkways, driveways, fences, retaining walls, landscaping and parking lots. (NAFIs are located on government owned land and do not record the value of the land.)

B. Accumulated Depreciation on Land Improvements. This general ledger account is used to accumulate depreciation for land improvements.

C. Construction In Progress. This general ledger account is for the accumulated costs of a construction project, which is not yet completed. This includes all costs associated with placing the asset in service such as construction of a new building or renovation of an existing building. Upon completion, the item is reclassified as a capital asset and depreciated accordingly.

D. Buildings and Improvements. This general ledger account is for the capitalized cost of buildings and improvements paid with Nonappropriated Funds.

E. Accumulated Depreciation on Buildings and Improvements. This general ledger account isused to accumulate depreciation for buildings, improvements, and renovations paid for with Nonappropriated Funds.

F. Furniture and Fixtures. This general ledger account is for the capitalized cost of furniture and fixtures purchased, donated, or transferred.

G. Accumulated Depreciation on Furniture and Fixtures. This general ledger account is used to accumulate depreciation for the capitalized cost of furniture and fixtures.

H. Equipment. This general ledger account is for the capitalized cost of equipment purchased, donated, or transferred.

I. Accumulated Depreciation on Equipment. This general ledger account is used to accumulate depreciation for equipment.

J. Internal-Use Software. This general ledger account is for the capitalized cost of internal-use software including (1) purchased off-the-shelf software, (2) contractor-developed software subject to amortization, and (3) internally developed software subject to amortization.

K. Accumulated Amortization on Internal-Use Software. This general ledger account accumulates amortization for internal-use software. Internal-use software will be amortized in a systematic and rational manner over the estimated useful life of the software. Software acquired for research and development with no alternative future use will be amortized over the period of the project as opposed to the normal life-cycle amortization.

L. Fixed Assets in Transit. This general ledger account consists of assets where title has passed to the NAFI, but the assets have not yet been received. For additional information, refer to paragraph 030301.O.5, of this chapter.

M. Buildings and Improvements-Government Titled. This general ledger account is for the cost of Federal Government-owned buildings acquired for and used in providing NAFI services or goods which includes the cost of renovation, improvement, restoration, or reconstruction of buildings.

N. Accumulated Depreciation on Buildings and Improvements-Government Titled. This general ledger account is used to accumulate depreciation for buildings, improvements, and renovations.

O. Accounting for Fixed Assets. Fixed assets purchased with nonappropriated funds, donated, or transferred to a NAFI with a useful life expectancy of two or more years and an acquisition cost of $2,500 or more shall be capitalized.

1. Acquisition Cost. Unless otherwise stated in the following subparagraphs, fixed assets are recorded at cost plus any expenditures necessary to place those assets into use as intended (e.g., installation, freight, testing, and legal fees to establish title). The NAFI can apply purchase discounts to reduce these costs; however, late payment interest penalties are not to be capitalized. Interest expenses incurred as part of the acquisition cost of fixed assets will be capitalized.

a. Assets Purchased in Quantity. Like items purchased in a quantity in excess of one, must individually meet the capitalization threshold in accordance with the appropriate Military Service guidance. All other criteria for fixed assets must be met.

b. Self-Constructed Assets. If fixed assets (property, plant, or equipment) are built or manufactured by NAFI, then all costs incurred (materials, permits, taxes, insurance, and overhead) are capitalized in a construction-in-progress account. Upon completion, all of the accumulated costs will be transferred to the appropriate fixed asset account.

c. Trade-In Assets. When an asset is traded in at the time of purchase, the new asset is recorded at the amount of the monetary consideration paid, plus the trade-in allowance for the old asset. The acquisition cost and accumulated depreciation of the traded-in asset are removed from the accounting records. If the trade-in allowance is less than the book value of the old asset, then a loss will result. These losses are recorded as "other expenses" in the records of the NAFI. If the trade-in allowance is more than the book value of the old asset, then the difference is subtracted from the acquisition cost of the new asset. No gain is recognized.

d. Construction-in-Progress. Construction-in-progress includes all costs attributable to a construction project (i.e., building and improvements). This includes, but is not limited to, construction of new buildings, renovation of existing buildings, and fixed assets which are purchased as part of the project. The AO records amounts based on the documentation supporting the contract completion. When progress payments to contractors are based on a percentage completion clause, record the amount of payments due or paid. In addition to costs related to a construction project, fixed assets received but not billed may be recorded. The AO will transfer the cost of construction-in-progress to the appropriate fixed asset account and commence depreciation when the final payment is disbursed. NAFI management establishes the facility depreciation periods according to Table 6-1 in Volume 4, Chapter 6.

e. Donated or Transferred Assets. Assets donated or transferred without the expenditure of funds are recorded at the fair market value on the date the asset was donated or transferred. If the fair market value cannot be determined, then the amount recorded is the book value of the donated asset in the donor's accounting records.

f. Nonmonetary Exchanges. When assets are exchanged between NAFIs without monetary consideration, it is called a nonmonetary exchange. The assets received in such exchanges are recorded on the books of the gaining NAFI at the net book value of the losing NAFI. The offsetting entry is to the gain or loss of disposition of fixed asset accounts on both the gaining and the losing NAFI.

g. Appropriated Fund (APF) Property Obtained for Free. These assets are recorded separately from other fixed assets because title and control of these assets remains with APFs. For APF fixed assets expected to benefit more than one accounting period, any acquisition costs such as repairs, transportation, installation, and any subsequent outlays that extend the useful life of the asset are recorded and depreciated over the useful life of the asset. For APF fixed assets held one year or less, all costs are an expense for the period the asset is held.

h. Uniform Funding and Management (UFM) Fixed Assets. Fixed assets acquired through UFM process shall be expensed and offset with UFM funds at the time of purchase and not depreciated. These assets will be recorded in the NAFI fixed assets records for inventory and control purposes with a zero acquisition value. UFM fixed assets are considered NAFI assets and the proceeds from disposal shall revert to the NAFI.

2. Leases. Leases may be used for equipment or for real property and are categorized as either a capital lease or an operating lease.

a. Capital Leases. A capital lease is based on the concept that a lease transfers substantially all of the benefits and risk as to the ownership of equipment to the lessee. The lease is recorded as an asset by the lessee and is amortized in a manner similar to depreciating assets if one of the following conditions is met:

(1) The lease transfers ownership of the asset to the lessee at the end of the lease term.

(2) The lease contains a purchase option.

(3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property. If the beginning of the lease term falls within the

last 25 percent of the total estimated economic life of the leased property, including earlier years of use, then this criterion is not used for the purposes of classifying the lease.

(4) The present value at the beginning of the lease term of the minimum lease payments, excluding the portion of payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including profit therein, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor.

b. Operating Leases. If none of the conditions of capital leases are met, then the lease is an operating lease. Payments on an operating lease are charged to expense over the lease term as it becomes payable. If payments are not made on a straight line basis, then the expense remains recognized as a straight line transaction. An exception to this is another systematic and rational basis which is more representative of the time pattern in which the leased property benefits are derived.

c. Disclosures. If either capital or operating leases are material, then information concerning the leases is disclosed in the NAFI financial statements or the footnotes.

3. Subsequent Expenditures. Subsequent expenditures for fixed assets fall into three categories: repair and maintenance, improvements, and additions. The objective is to match the expenditures with the period benefited. Therefore, expenditures which benefit only the current period are expensed and expenditures which benefit future periods are capitalized.

a. Repair and Maintenance. Expenditures in this category are designed to prevent an asset from deteriorating (e.g., painting the interior of the enlisted club) or to return the asset to its original level of performance (e.g., a tune-up on a motor vehicle). These expenditures do not improve the performance of the asset or extend the life of the asset. Maintenance and repair expenditures are expensed in the period incurred.

b. Improvements. Improvements are expenditures which extend the useful life of an asset (e.g., an engine overhaul on a motor vehicle) or improve original asset performance. Improvements are capitalized and depreciated.

c. Additions. Expenditures which increase the size of an asset (e.g., adding a new section to the club) are called additions. Additions are capitalized and depreciated.

4. Government Title Fixed Assets. An aspect of NAF accounting is that some assets, particularly buildings, are purchased using NAF and the NAFI has exclusive use, but the title rests with the Government. NAF procured property or facilities may be transferred to APF for maintenance when allowed by the Military Service regulations. Upon receipt of approved documentation from NAFI management, record these items in the NAF property records and general ledger as Fixed Assets APF titled (signifies government title) and commence depreciation.

5. Fixed Assets in Transit. The NAFI may receive title to fixed assets and may make payment for fixed assets before the NAFI has physical possession of the property. Typically, this happens when property destined for a NAFI overseas is delivered to a stateside port for over-water transportation by government means. Payment is made based on the receipt at the port and is recorded to the appropriate Fixed Asset account. Depreciation begins when the asset is placed in service.

6. Disposition of Property. Disposal means that the NAFI activity manager has physical control of the item and disposes of it. Documents are prepared and approved by the NAFI activity manager for the disposition of fixed assets. When property is transferred to APFs, it is evidenced on the form required by APFs.

7. Physical Fixed Asset Inventory. A physical inventory of all fixed assets will be conducted at least annually. When it is impractical to perform this inventory all at one time, the NAFI may schedule and conduct the physical inventory by area.

8. Property Subsidiary. Property subsidiaries serve as property control records. As a minimum, the property subsidiary should list each piece of property, acquisition date, acquisition value, useful life, depreciation to date, and current book value. This subsidiary can be either automated or manual. If automation is available, then it should be used. The NAFI prepares the documentation necessary to change any data on the subsidiary records, even when no general ledger entries are required, e.g., fixed assets are transferred from one location to another within the same NAFI.

9. Claims. When an insured asset is destroyed or damaged and the claim is settled, the affected accounts are adjusted. Usually claim settlements do not exceed the acquisition value less accumulated depreciation of the property destroyed (book value).

10. Depreciation. Depreciation accounting distributes the cost or other basic value of tangible capital assets over the estimated useful life of such assets in a systematic and rational manner. Accounting for depreciation as an expense is an integral part of the accrual basis of accounting. Accordingly, all NAF activities recognize depreciation of their fixed assets. For NAF capital assets whose titles are transferred to APFs, but are still used by the NAFI, continue to depreciate these fixed assets on the NAFIs book until the items are fully depreciated. The straight line method of depreciation is used for determining the monthly depreciation expense. Refer to Table 6-1 in Volume 4, Chapter 4 for depreciation periods. Also, refer to Volume 4, Chapter 6 for the requirements for salvage value to be subtracted from the acquisition cost of fixed assets before computing depreciation.

*030302. Other Noncurrent Assets

Other noncurrent assets include pension benefit assets, long- term receivables, sinking fund and long term investments.

A. Pension Benefit Asset. This general ledger account is used when the Pension Plan Assets are greater than the Plan Benefit Obligations (liability).

B. Long Term Receivables. This general ledger account is for the amount of cash loaned to another NAFI within the same Military Service when payment is not expected within 12 months.

C. Sinking Fund. This general ledger account is for the amount of cash restricted for a specific purpose (e.g., severance pay and retirement), which is classified as an investment aimed at reducing or amortizing a financial obligation which exceeds 12 months.

D. Long Term Investments. This general ledger account is for readily tradable obligations of Government agencies, and obligations issued by U.S. Government-sponsored enterprises and securities. The investments are guaranteed by the full faith and credit of the U.S. Government with quoted prices which cannot be easily converted into cash within one year. For further guidance on investment policy refer to Enclosure 9, ***DoDI 1015.15.***

0304 CURRENT LIABILITIES

Current liabilities are classified as current if their liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets or to create other current obligations. Current liabilities are due on demand or will be due on demand within one year.

*030401. Current Liabilities Include

A. Accounts Payable. This general ledger account is for the amount owed for goods and services that have been acquired but not yet paid.

B. Post-Retirement Benefit Obligation-Current. This general ledger account is used when the Plan Benefit Obligation (liability) is greater than the Pension Plan Assets that are due within the year.

C. Other Current Liabilities. This general ledger account consists of amounts owed, but not otherwise classified.

D. Short Term Loan Payable. This general ledger account consists of loans payable within one year.

E. Short Term Lease Payable. This general ledger account consists of leases payable within one year.

F. Dividends Payable. This general ledger account consists of dividends owed to subordinate funds and to Civilian Welfare Funds.

G. Vending Machine Revenue Sharing Payable. This general ledger account consists of profits owed to state licensing agencies and other third parties.

H. Gaming Machine Profit Distribution Payable. This general ledger account consists of amounts owed for monthly slot assessments for activities with slot machines.

I. Interest Payable. This general ledger account consists of interest accrued and owed to others.

J. Salaries Payable. This general ledger account consists of amounts earned by employees, but unpaid.

K. Leave Payable. This general ledger account consists of leave earned by employees but not taken.

L. Payroll Taxes Payable. This general ledger account consists of amounts for federal, state, local and Federal Insurance Contributions Act (FICA) taxes withheld from employees pay and accrued by the employer, as applicable, but not paid.

M. Benefits Payable. This general ledger account consists of amounts for health and life insurance premiums, Civil Service Retirement, Federal Employees Retirement, Thrift Savings Plans and 401 (K) withheld from employees' pay and accrued by employers, as applicable, but not yet paid.

N. Other Payroll Deductions Payable. This general ledger account consists of amounts for deductions of savings bonds, charity, savings, and union dues that are withheld, but not yet paid.

O. Appropriated Fund (APF) Payroll Payable. This general ledger account consists of amounts owed to the Government for the General Schedule or APF Local National employees working within MWR activities. These employees are paid directly by the Government, but the funding is being executed through the UFM process.

P. Employee Allowance Payable. This general ledger account consists of amounts accrued for various allowances to pay each group of U.S. and foreign nationals upon transfer or separation.

Q. Claims Payable. This general ledger account consists of amounts due for claims of employees.

R. UFM Unearned Revenue. This general ledger account consists of funds received from the U.S. Treasury for costs which are authorized appropriated funding and which are stipulated within the MOA between the MWR Fund and the Government.

S. Unearned Revenue (Specify). This general ledger account consists of funds received, but not earned until a later period. In many operations, it is possible to pay dues and fees in advance. If advance dues or fees are received, then record the amount received as unearned revenue. When the amount is earned, record an entry that debits unearned revenue and credits the applicable revenue account.

T. Flexible Spending Accounts Payable. This general ledger account consists of the amount of withholdings deducted from employees' pay and administrative fees charged to the employers and payable to the Flexible Spending Account administrator.

U. Deposits Payable. This general ledger account consists of funds received as part of an agreement permitting use of a facility or equipment that will be refunded within the year upon return of items or completion of contract services, e.g., rentals or use of equipment or facility.

V. Other Current Liabilities (Specify). This general ledger account consists of amounts owed that cannot be classified in any other account, e.g., employee allowances payable or claims payable.

0305 LONG TERM LIABILITIES

Long term liabilities are obligations that are not due or payable within one year.

*030501. Long Term Liabilities Include

A. Long Term Loans Payable. This general ledger account consists of loans due beyond one year.

B. Post-Retirement Benefit Obligation – Long Term. This general ledger account is used when the Plan Benefit Obligation (liability) is greater than the Pension Plan Assets.

C. Long Term Leases Payable. This general ledger account consists of leases that are due beyond one year.

D. Other Long Term Liabilities (Specify). This general ledger account consists of amounts owed that cannot be classified in any other account and need to be identified.

030502. Recognition of Liabilities

Liabilities, i.e., accounts payable, arise from the acquisition of goods or services. Accounts payable liability shall be recognized upon receipt of services or when accepting title to goods. Accrued Liabilities have their origin at the end of the period of adjustment process which is a requirement of accrual accounting. Commonly, these include wages and salaries payable, benefits payable, interest payable, and taxes payable.

030503. Contingent Liabilities

Contingencies are existing conditions, situations, or circumstances involving uncertainty as to possible gain or loss that will ultimately be resolved when one or more future events occur or fail to occur. Loss contingencies are accrued when the outcome is probable and the amount is reasonably estimable. Do not record gain contingencies. When a contingency is identified, the AO will footnote the year-end Military Service level consolidated financial statements explaining the contingency and the potential for gain or loss.

030504. Accountability for Liabilities

The NAFI authorized representative is responsible for approving the disbursement of NAFs. The AO is not authorized to make disbursements without the approval of the NAFI authorized designee or as authorized in this Regulation.

0306 PAYMENT OF LIABILITIES

030601. Documentation Required for Payment

DoD Directive 4105.67, "Nonappropriated Fund (NAF) Procurement Policy," and ***DoDI 4105.71, "Nonappropriated Fund (NAF) Procurement Procedure,"*** provide information on established policy and assigned responsibility for procurements using NAFs. The following documentation is needed prior to payment of liabilities:

A. NAFIs will submit the following documents, properly prepared and authenticated, to the AO to support payment for procurements:

1. Procurement document, e.g., purchase order (PO), contract, blanket purchase agreement, or other similar documents.

2. ***Department of Defense (DD) Form 250,*** "Material Inspection and Receiving Report," or another signed document that provides evidence that goods were accepted or services were received.

3. Vendor invoice or claim for payment. The invoice or claim may be for a specific delivery or show deliveries made over a specified period.

B. Overseas Shipments. The AO must receive a vendor invoice and proof of shipment before payment can be made on overseas shipments. These payments may be made prior to receipt or acceptance of goods.

C. Partial Shipments. The NAFI will submit a DD Form 250 or locally produced receiving report, which shows acceptance of goods to the AO. The form must have "Partial Shipment" written on the top. The AO will establish an accounts payable open item. When the AO receives the invoice, payment will be processed and the supporting documents are annotated as partial shipment received.

030602. Purchases from Other NAFIs

When a NAFI purchases goods or services from another NAFI, a ***DD Form 1149,*** "Requisition and Invoice/Shipping Document," or similar form will be submitted to the AO to support the transaction.

030603. Purchases from the Government

When a NAFI purchases goods or services from the Government (e.g., bills from appropriated funds) it is not usually supported by a procurement instrument. The NAFI will submit a DD Form 250 or other signed document to the AO to support the payment.

030604. Purchase Orders, Vendor Invoices, and Receiving Reports

A. Purchase Orders. A PO is a document issued by the NAFI to a seller, indicating the type, quantity, and agreed price for goods or services to be provided. Sending a PO to a supplier constitutes a legal offer to buy goods or services. Acceptance of a PO by a seller forms a contract between the NAFI and the seller.

B. Vendor Invoices. A vendor invoice represents a claim against NAF. All invoices should be date stamped at time of receipt.

C. Receiving Reports. A receiving report is a document prepared by the receiving activity to document the receipt of services or acceptance of goods.

030605. Discounts

For NAFIs, a discount is the amount deducted from the total amount of the invoice when goods are supplied Free on Board (FOB) destination. If the goods are supplied FOB other and a separate freight charge is shown, then the discount is taken on the cost of goods only. The FOB delivery terms are shown on the PO. The amount of discounts not taken shall be charged to operations in the appropriate general ledger account.

030606. Prompt Payment Act

The Prompt Payment Act, ***5 Code of Federal Regulations (CFR) 1315***, requires Federal agencies (including NAF activities) to make payments in a timely manner. If a payment to a contractor is late, then an interest payment is due to the contractor. This interest payment is made without contractor request. A notice stating the amount of the interest penalty, the number of days late, and the rate used for calculation accompanies the interest payment. *5 CFR 1315* and Volume 10, Chapter 7 provide information on the Prompt Payment Act.

0307 NET WORTH

Net Worth or Fund Equity consists of capital invested in NAFIs plus (minus) the net income (loss), resulting from operations since inception. Transactions into and out of equity are limited to net income, net losses, and entries associated with the establishment of the fund, as well as certain adjustments. Adjustments are rare and might include certain accounting principle changes, certain prior period adjustments and distribution of capital. Refer to Chapter 1 for information on materiality of adjustments.

*030701. Net Worth Includes

A. Retained Earnings. This general ledger account consists of the amount of earnings retained from inception to date.

B. Contributed Capital. This general ledger account consists of funds or tangible assets from sources outside the NAFIs.

C. Minimum Pension Liability Adjustment. This general ledger account is used for adjustments that may need to be made to the existing pension balances in the balance sheet. These adjustments will be posted as an offset to the equity account in the balance sheet and can be either an addition or reduction to the equity section. These temporary adjustments are treated in the equity section of the balance sheet in the same manner as the "unrealized gains/losses on investments." In addition, these temporary adjustments are not calculated in the net worth determination. The final result of these entries will result in the funded status equaling either a non-current asset or a liability based on the difference of the Plan Assets and Projected Benefit Obligation.

D. Other Equity Transactions. This general ledger account consists of transfers in and out of equity that will be limited to net income; net losses; prior year material corrections; components of other comprehensive income (loss) prescribed by Financial Accounting Standard No. 130; entries associated with the establishment, disestablishment, or consolidation of NAFIs; and distribution and receipt of capital.

030702. Accounting for Net Worth

A. When a new NAF organization with preexisting capital is authorized, the 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 installation 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.