SUMMARY OF MAJOR CHANGES TO
DoD 7000.14-R, VOLUME 13, CHAPTER 3
“ASSETS”

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

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<tr>
<td>All</td>
<td>Reworded and reformatted chapter for clarity and ease of reading. Added references and electronic links.</td>
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<tr>
<td>0301</td>
<td>Added an Overview section to provide purpose and scope paragraphs.</td>
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<tr>
<td>030201.B.2c</td>
<td>Added authority for the Military Service Proponent for NAF Financial Management to increase transaction limit for purchases made in foreign currency.</td>
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<td>030202</td>
<td>Changed reference from Department of Defense Instruction (DoDI) 7000.12 to DoDI 1015.15.</td>
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<td>030301</td>
<td>Changed capitalization threshold for property, plant and equipment from $1,000 to specific cost limit.</td>
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<td>030301.A.4</td>
<td>Added requirement to use depreciation periods in Table 6-1, Volume 4, Chapter 6 of this Regulation.</td>
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ASSETS

0301 OVERVIEW

0301.01 Purpose. This chapter prescribes the standard policies surrounding Nonappropriated Fund (NAF) assets.

0301.02 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.

0302.01 Cash. Cash consists of amounts on demand 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 U.S. Federally insured or designated by the Department of Treasury. For additional information refer to Department of Defense Instruction (DoDI) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources.”

A. 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.

B. Cash in Imprest Funds

1. Change Funds. Change funds are used to make change and cash checks. 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 0302.01.B.3.

2. Petty Cash Funds. Petty cash funds are fixed amounts established by the NAFI to handle minor disbursements. 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. 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, or 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. Transactions will not be fragmented to circumvent this limitation.

d. If cash is given as bingo prizes, then a separate petty cash fund must be used.

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

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

3. Foreign Currency Cash Funds. These funds are used to buy and sell foreign currency as a service to members and customers.

4. Other Imprest Funds. The NAFI requests establishment of an imprest fund for designated purposes. The NAFI custodian forwards an approved request to establish an imprest fund, the dollar amount authorized, and the purpose of the fund to the AO. The AO retains all documents authorizing the fund. The AO establishes the imprest fund by issuing a check. When needed, the NAFI requests reimbursement of the change fund and forwards supporting documentation pertaining to the disbursements to the AO. These funds are reimbursed as of the last day of each month.

5. Accounting for Imprest 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. Disbursements to the petty cash fund are recorded to the applicable expense accounts in the month that the petty cash is disbursed by the custodian. 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.

C. Blank Check Stock

1. The AO may designate someone to perform the duties of keeping the records and controlling the blank check stock, but it cannot be one of the check writers.
2. Checks are sequentially prenumbered 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.

D. 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.

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

030202. Investments. For further guidance on investment policy refer to DoDI 1015.15.

030203. Accounts Receivable. Detailed records are maintained to ensure transactions accurately identify debt and its respective debtor. Accounts receivable subsidiary records are reconciled on a monthly basis to the general ledger control accounts.

A. Customer Accounts Receivable. Amounts recorded in accounts receivable which resulted from an in-house credit (charge) for sales of merchandise, services, or dues are considered customer-type accounts receivable. The following applies for the customer-type accounts receivable:

1. A subsidiary ledger is maintained for each individual account.

2. Dues are charged monthly where applicable. In many operations, it is possible to pay dues and fees in advance. If advance dues or fees are received, then record the amounts received as unearned income. When the amount is earned, record an entry that debits unearned income and credits the applicable revenue account.

3. Monthly statements are sent to members or participants of the NAFIs that permit charge sales, charge dues, or deferred payments.

B. Aged Accounts Receivable. An aged 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:
1. Over 30 days (second billing statement).

2. Over 60 days (third billing statement).

3. Over 90 days (fourth billing statement).

C. Returned Checks. The NAFI is responsible for all collection actions, to include maintaining individual subsidiary records for returned checks received from the bank and for making bank deposits when collection is made.

D. Other Accounts Receivable. Other types of accounts receivable include: amounts due from other NAFIs, amounts due from higher headquarters for grants and other payments, and amounts due from outside entities.

E. Allowance for Bad Debts. 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 bad debts to cover those accounts expected to become uncollectible during the next reporting period.

030204. Inventory

A. Resale. Goods held for sale in the normal course of business are designated as resale inventory items. A value is assigned to these goods 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.

B. 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.

C. 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.

D. Spoilage, Breakage, Obsolete Material, Customer Complaint or Reject Items. Immaterial losses of inventory resulting from spoilage, breakage, becoming obsolete, rejected, 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.
E. **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.

F. **Inventory in Transit.** Inventory in transit consists of inventory where title has passed to the NAFI, but the inventory has not been received at a NAFI warehouse. Appropriate entries are made to account for these items at the end of the reporting period.

G. **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 that 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 and returnable containers 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.

H. **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 observe 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.

030205. **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. Many NAFI supply-type expenses are paid before the items purchased are actually used. Examples of supply-type items 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.

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 also commonly referred to as property, plant and equipment. They include capital assets such as buildings, equipment, furniture, fixtures, tools, machinery, and livestock. Intangibles are excluded from this category. 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 a specific cost limit. See DoDI 1015.15 for the specific cost limit.

A. 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 paid as part of the acquisition cost of fixed assets will be capitalized. For further guidance, refer to DoDI 1015.15.

1. Assets Purchased in Quantity. Like items purchased in a quantity in excess of one are capitalized in accordance with the appropriate Military Service guidance, regardless of the per unit cost at the level required for capitalization. All other criteria for fixed assets must be met.

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

3. 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.
4. **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 project begins producing revenue, is utilized or the final payment is disbursed. NAFI management establishes the facility depreciation periods according to Table 6-1 in Volume 4, Chapter 6 of this Regulation.

5. **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.

6. **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 Equity account on both the gaining and the losing NAFI.

7. **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.

8. **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 are 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 in subparagraph 030301.A.8.a 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.

B. Subsequent Expenditures

1. Subsequent expenditures for fixed assets fall into three categories: repair and maintenance, improvements, and additions.

   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.

   2. 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.

C. 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.

D. 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.

E. 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.

F. 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.

G. 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.

H. 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).

★ I. 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 6-7 in Volume 4, Chapter 6 of this Regulation for depreciation periods. Also, refer to Volume 4, Chapter 6 of this Regulation for the requirements for salvage value to be subtracted from the acquisition cost of fixed assets before computing depreciation.

030302. Land. The value of any land is recorded separately from buildings or other structures built on the land. Land, unlike other fixed assets, has an indefinite life span and
therefore is never depreciated. As a general rule, NAFIs are located on government owned land and do not record the value of that land.