



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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MAR 18 2021

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Accounting and Reporting of Equity Investments in Military Privatized Housing
Projects (FPM21-05)

- References:
- (a) Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) memorandum, "Accounting and Reporting of Equity Investments in Military Privatized Housing Projects and Additional Disclosure Requirements for Direct Loans and Loan Guarantees for Military Privatized Housing Projects (FPM 19-04)," September 16, 2019
 - (b) OUSD(C) memorandum, "Rescission of Financial Policy Memorandum 19-04, 'Accounting and Reporting of Equity Investments in Military Privatized Housing Projects and Additional Disclosure Requirements for Direct Loans and Loan Guarantees for Military Privatized Housing Projects,' " July 28, 2020

This memorandum prescribes the accounting methodology and financial treatment to be used to account for and report investments and participation of the Military Departments in public-private partnerships (P3s), including Limited Liability Companies (LLCs) and Limited Partners that manage and maintain privatized military housing. This memo supersedes Reference (a), which was rescinded by Reference (b).

The Department of Defense Military Housing Privatization Initiative (MHPI) investments in LLCs are considered public-private partnerships. The Standard Federal Financial Accounting Standard (SFFAS) 49, "Public-Private Partnerships: Disclosure Requirements," defines P3s as "risk-sharing arrangements or transactions lasting more than five years between public and private sectors entities," which are not subject to certain exclusions defined in SFFAS 49.

The attachments to this memorandum detail the new key policy elements and instructions which are effective immediately. Attachment 1 defines the federal financial accounting standards to guide the appropriate financial reporting for recognizing the complex diverse nature and characteristics of the MHPI agreements and public-private partnerships. Attachment 2 provides the primary accounting entries to record P3s.

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Douglas A. Glenn
Performing the Duties of the Under Secretary of
Defense (Comptroller)/Chief Financial Officer

Attachments:

As stated

cc:

Under Secretary of Defense for Acquisition and Sustainment
General Counsel of the Department of Defense
Inspector General of the Department of Defense

Financial Reporting Standards and Guidance

Documentation Needed to Properly Record and Support Investment Financial Activities

All business events related to the financing of privatized military housing (MHPI) must be reported in the DoD financial statements, including relevant disclosures to help the user understand the financial condition of the projects. It is the Military Department's responsibility to monitor and properly report the financial condition and disclose significant risks of each of its equity investments in MHPI entities. Documentation should be furnished to the Defense Finance and Accounting Service (DFAS) based on DFAS' annual financial schedule and quarterly financial guidance for additional information including cutoff periods. Note that financial statement reporting should be based on the latest financial information for each Limited Liability Corporation (LLC), or Limited Partner, which may not be consistent with the reporting periods for DoD's financial statement reporting.

Financial Statement Consolidation and Disclosure for Privatized Housing Projects

The Federal Government and its relationships with organizations are often times very complex in nature. The Statement of Federal Financial Accounting Standards (SFFAS) 47, "Reporting Entity," provides guidance for determining the considerations to properly report these complex organizational relationships as consolidation entities, or disclosure entities, and what information should be presented. When the Federal Government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure entity in the government-wide financial statements. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets of an organization. If an entity is expected to assume more than 50 percent of another entity's expected losses or gains, it should consolidate that entity. An entity could effectively control another entity by making all of the investment decisions and obtaining a considerable portion of the economic benefits, but would not have been required to consolidate that investee if it was exposed to less than 50 percent of the investee's expected losses or gains. These such entities would generally be considered for disclosure rather than consolidation.

In recognition of the complex and diverse nature and characteristics of the MHPI agreements and public-private partnerships (P3s), to determine the appropriate accounting treatment for MHPIs, a comprehensive evaluation of each operating agreement and a full assessment of the relationship with each organization should be reviewed and analyzed in collaboration with the Military Department's independent public accountant.

Consolidation considerations and requirements

Per SFFAS 47, an organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the entity is: (1) financed by taxes or other non-exchange revenue, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards to the Federal Government and (4) providing goods and services on a non-market basis. Goods and services are provided on a non-market basis when they are provided free of charge or at charges that bear little relationship to the cost of providing such goods or services.

Note, however, that not all characteristics are required to be met or to be met to the same degree; classification is based on the assessment as a whole. Each entity should be assessed individually and objectively, to properly examine all of the potential differences among the entities.

Consolidation entities are considered federal reporting entities, and as such, should apply Generally Accepted Accounting Principles (GAAP) as defined in SFFAS 34, “The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board.”

Disclosure considerations and requirements

Once SFFAS 47 guidelines have been considered, disclosures for MHPI projects should be evaluated under the established principles of SFFAS 49, “Public-Private Partnerships: Disclosure Requirements,” and should be provided for the initial period and all annual periods thereafter where an entity is party to a P3 arrangement/transaction. Disclosure requirements are comprised of quantitative and qualitative information to assist users in understanding the nature of P3s and direct loans and loan guarantees, to include related risks, even those deemed remote. The Office of Management and Budget (OMB) Circular A-11, Section 185, “Federal Credit,” and OMB Circular A-136, “Financial Reporting Requirements,” Section II.3.8.8 (Note 8, Loans & Loan Guarantees, Non-Federal Borrowers), specify disclosure requirements for government direct loans and loan guarantees. OMB Circular A-136, Section II.3.8.41 (Note 41, Public-Private Partnerships) specifies disclosure requirements for P3s. DoD’s investments in LLCs for MHPIs meet Circular A-136 P3 disclosure requirements.

The disclosures should reveal the nature of the relationship to the reporting entity, relevant activity during the reporting period, and the reporting entity’s future exposures to risks and rewards resulting from the relationship. Disclosure entities may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis. Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

While the hierarchy of GAAP established for federal reporting entities may not necessarily apply to disclosure entities; information about such organizations is still needed for accountability purposes and to meet federal financial reporting objectives. The following information should be disclosed as specified in SFFAS 49, paragraph 24:

- a. The purpose, objective, and rationale for the P3 arrangement or transaction and the relative benefits/revenues being received in exchange for the government’s consideration, monetary and non-monetary; and the entity’s statutory authority for entering into the P3.
- b. A description of federal and non-federal funding of the P3 over its expected life, including the mix and, where available, the amounts of such funding. For any amounts that are not available, the disclosures should indicate such.

- c. The operational and financial structure of the P3 including the reporting entity's rights and responsibilities, including:
 - i. A description of the contractual terms governing payments to and from the government over the expected life of the P3 arrangement or transaction to include:
 - 1. explanation of how the expected life was determined
 - 2. the time periods payments are expected to occur
 - 3. whether payments are made directly to each partner or indirectly through a third-party, such as, military housing allowances
 - 4. in-kind contributions/services and donations
 - ii. The amounts received and paid by the government during the reporting period(s) and the amounts estimated to be received and paid in aggregate over the expected life of the P3.
- d. Identification of the contractual risks of loss the P3 partners are undertaking
- e. As applicable:
 - i. Associated amounts recognized in the financial statements such as gains or losses, and capitalized items.
 - ii. Significant instances of non-compliances with legal and contractual provisions governing the P3 arrangement or transaction.
 - iii. Whether the private partner(s), including any Special Purpose Vehicle (SPV), have borrowed or invested capital contingent upon the reporting entity's promise to pay whether implied or explicit.
 - iv. Description of events of termination or default.

All DoD components must continue to disclose their respective relationships with the P3 private entities, disclose the risks inherent in the P3 arrangements, and the DoD will recognize any gains or losses associated with TI-97 contributions to the private entity.

Attachment 2 provides the primary accounting entries to recognize P3 contributions and any collections received upon dissolution of an arrangement that are not available for use without further Congressional action. See DoD Financial Management Regulation Volume 12, Chapter 4, "Government Direct Loans and Loan Guarantees," for additional guidance on the recognition and measurement of direct loans, the liability associated with loan guarantees, and the cost of direct loans and loan guarantees.

Accounting Entries to Record Public-Private Partnerships

SCENARIO 1 - YEAR 1 Initial Formation of Limited Liability Company (LLC) Public-Private Partnership (P3) Investment (Cash Only)

DoD's initial investment in formation of LLC of cash only

Budgetary

Dr. 461000 - Allotments - Realized Resources
Cr. 480100 - Undelivered Orders - Obligations, Unpaid

Dr. 480100 - Undelivered Orders - Obligations, Unpaid
Cr. 490200 - Delivered Orders - Obligations, Paid

Proprietary

Dr. 169000 - Public-Private Partnership Investments
Cr. 101000 - Fund Balance with Treasury (FBWT)

Dr. 310700 - Unexpended Appropriations - Used
Cr. 570000 - Expended Appropriations

(DoD invests cash in LLC)

SCENARIO 2 - YEAR 1 Initial Formation of LLC P3 Investment (Cash and Property)

DoD's initial investment in formation of the LLC of cash and conveyance of property to LLC - ***In accordance with** Generally Accepted Accounting Principles, **a fair market value (FMV) of the non-cash assets, and the rights and obligations received by the Government, should be assigned at the inception of the LLC agreement, and for the purposes of P3 investment reporting, the FMV should be compared to the cash and book value of the property being conveyed to record a gain or loss on disposition of the asset. If information on the fair market value of the property at point of contribution by the government to the LLC is not available, then value will need to be estimated.**

Budgetary

Dr. 461000 - Allotments - Realized Resources
Cr. 480100 - Undelivered Orders - Obligations, Unpaid

Dr. 480100 - Undelivered Orders - Obligations, Unpaid
Cr. 490200 - Delivered Orders - Obligations, Paid

Proprietary

Dr. 169000 - Public-Private Partnership Investments
Cr. 101000 - FBWT

Dr. 310700 - Unexpended Appropriations - Used
Cr. 570000 - Expended Appropriations

AND

Budgetary
No Budgetary Impact

Proprietary
Dr. 171900 - Accumulated Depreciation on Improvements to Land
Dr. 173900 - Accumulated Depreciation on Buildings, Improvements and Renovations
Dr. 169000 - Public Private Partnership Investments
Dr. *721000 Losses on Disposition of Assets - Other
Cr. 171100 - Land and Land Rights
Cr. 171200 - Improvements to Land
Cr. 173000 - Buildings, Improvements and Renovations
Cr. *711000 – Gains on Disposition of Assets - Other

(DoD also conveys Buildings and leases Land to LLC)

SCENARIO 3 - YEAR XX - Net Loss on Dissolution of P3 Investment

DoD dissolves all of its interest in the LLC - *Note – Any property interest acquired or reacquired in the dissolution of the LLC must be recorded at their FMV, not the LLC book value.

Cash plus property transaction

Budgetary
Dr. 426600 - Other Actual Business-Type Collections From Non-Federal Sources
Cr. 445000 - Unapportioned Authority
Proprietary
Dr. 101000 - FBWT
Dr. 171100 - Land and Land Rights
Dr. 171200 - Improvements to Land
Dr. 173000 - Buildings, Improvements and Renovations
Dr. *721100- Losses on Disposition of Investments
Cr. 169000 - Public-Private Partnership Investments

(To recognize a net loss upon dissolution of DoD's interest in LLC)

SCENARIO 4 - YEAR XX - Net Gain on Dissolution of P3 Investment

DoD dissolves all of its interest in the LLC - ***Note – Any property interest acquired or reacquired in the dissolution of the LLC must be recorded at their FMV, not the LLC book value.**

Cash plus property Transaction

Budgetary
Dr. 426600 - Other Actual Business-Type Collections From Non-Federal Sources
Cr. 445000 - Unapportioned Authority

Proprietary
Dr. 101000 - FBWT
Dr. 171100 - Land and Land Rights
Dr. 171200 - Improvements to Land
Dr. 173000 - Buildings, Improvements and Renovations
Cr. *711100 - Gains on Disposition of Investments
Cr. 169000 - Public-Private Partnership Investments

(To recognize a gain upon dissolution of DoD's interest in LLC)