

VOLUME 13, CHAPTER 7: “FINANCIAL REPORTING”

SUMMARY OF MAJOR CHANGES

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) 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 March 2013 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted the chapter for clarity. Revised references and added electronic links.	Revision
070102	Inserted an “Authoritative Guidance” paragraph to comply with current administrative instructions.	Addition
070402	Provided clarification on ratios used to identify trends and required adjustments to financial reporting.	Revision
070703 & Figure 7-1	Clarified Nonappropriated Fund (NAF) Standard General Ledger (SGL) accounts and reporting line items used to prepare the Balance Sheet.	Revision
070802	Clarified the instructions used to prepare the Statement of Income and Expense.	Revision
070803	Clarified NAFSGL accounts included on the Statement of Income and Expense.	Revision
071003	Clarified NAFSGL accounts included on the Schedule A – Appropriated Fund and NAF Expense Summary.	Revision
071103 & Figure 7-5	Revised to reflect the reporting format used to prepare the Statement of Cash Flows.	Revision

Table of Contents

0701 GENERAL 4

 070101. Purpose 4

 *070102. Authoritative Guidance 4

0702 RESPONSIBILITIES..... 4

 070201. General 4

 070202. DoD Components..... 4

 070203. AO 4

0703 FINANCIAL REPORTING..... 5

 070301. Financial Statements 5

 070302. Footnotes to Financial Statements..... 6

0704 COMPARATIVE ANALYSIS OF FINANCIAL STATEMENTS 6

 070401. Analytical Methods and Techniques 6

 *070402. Ratios..... 7

 070403. Comparative Statements..... 9

0705 REPORTING TO THE INTERNAL REVENUE SERVICE (IRS) 10

 070501. General 10

 070502. Contract Payments (Non-personal Services)..... 10

 070503. Gambling and Bingo Winnings..... 10

0706 INTERNATIONAL BALANCE OF PAYMENTS (IBOP) PROGRAM 11

0707 FORMAT FOR THE BALANCE SHEET 11

 070701. Format for the Balance Sheet 11

 070702. Instructions for the Preparation of the Balance Sheet 11

 *070703. Line Item Instructions for Preparing the Balance Sheet 11

0708 FORMAT FOR THE STATEMENT OF INCOME AND EXPENSE..... 14

 070801. Format for the Statement of Income and Expense 14

 *070802. Instructions for the Preparation of the Statement of Income and Expense 14

 *070803. Line Item Instructions for Preparing the Statement of Income and Expense..... 14

0709 FORMAT FOR THE RECONCILIATION OF NET WORTH 16

 070901. Format for the Reconciliation of Net Worth 16

 070902. Instructions for the Preparation of the Reconciliation of Net Worth 16

Table of Contents (Continued)

070903.	Line Items Instructions for Preparing the Reconciliation of Net Worth	16
0710	FORMAT FOR THE SCHEDULE A - APF AND NAF EXPENSE SUMMARY	17
071001.	Format for Schedule A - APF and NAF Expense Summary.....	17
071002.	Instructions for the Preparation of Schedule A – APF and NAF Expense Summary	17
*071003.	Line Item Instructions for Preparing Schedule A – APF and NAF Expense Summary	17
0711	FORMAT FOR THE STATEMENT OF CASH FLOWS.....	19
071101.	Format for the Statement of Cash Flows.....	19
071102.	Instructions for the Preparation of the Statement of Cash Flows.....	20
*071103.	Line Item Instructions for Preparing the Statement of Cash Flows	20
*Figure 7-1.	Balance Sheet.....	23
Figure 7-2.	Statement of Income and Expense.....	24
Figure 7-3.	Reconciliation of Net Worth.....	25
Figure 7-4.	Schedule A - APF and NAF Expense Summary	26
*Figure 7-5.	Statement of Cash Flows	27

CHAPTER 7

FINANCIAL REPORTING

0701 GENERAL

070101. Purpose

This chapter prescribes the standard policies for financial reporting, which are the principal means of communicating accounting information to those activities relying on information for management of their operations.

*070102. Authoritative Guidance

The accounting policies, and related requirements prescribed, are in accordance with the applicable provisions of:

A. Department of Defense Instruction (DoDI) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;” and

B. Financial Accounting Standards Board Accounting Standards Codification (ASC). Users can obtain free access to the ASC by registering for the Basic View, which allows browsing by ASC topic.

0702 RESPONSIBILITIES

070201. General

The policies in this chapter apply to Department of Defense (DoD) Nonappropriated Fund Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs). These policies do not apply to the Military (Armed) Service Exchanges, except for financial reporting prescribed in paragraph 070202 and Section 0703.

070202. DoD Components

The DoD Components are responsible for the fair presentation in the financial reports of financial position, results of operations, and the program and personnel information included. In addition, the DoD Components are responsible for compliance with Nonappropriated Fund (NAF) program laws and regulations.

070203. AO

The supporting AO is responsible for compiling all the necessary information from accounting and payroll systems, as well as preparation of financial statements and reports. The

integrity of those systems, and the accuracy of data produced, are also AO responsibilities. Refer to Chapter 1 for [a list of definitions, reporting requirements, and accounting standards](#).

0703 FINANCIAL REPORTING

070301. Financial Statements

The principal financial statements used to convey information to users are the Balance Sheet, Statement of Income and Expense, Reconciliation of Net Worth, Schedule A - Appropriated Fund (APF) and NAF Expense Summary, and Statement of Cash Flows.

A. Balance Sheet. The Balance Sheet (also known as statement of financial position) presents a NAFI's financial position as of a specified date. It is sometimes described as a "snapshot" that allows the user to see what a NAFI owns as well as what it owes to others. The major components of the Balance Sheet are assets, liabilities, and net worth (equity). Refer to Section 0707 and Figure 7-1 for information on the format and instructions for preparing the Balance Sheet. Refer to Chapter 3 [and FASB ASC Topic 210](#) for [additional](#) information on assets, liabilities, and net worth (equity).

B. Statement of Income and Expense. A Statement of Income and Expense (also referred to as a profit or loss statement or income statement) provides information about a NAFI's financial performance during a specified period of time, and a summary of a NAFI's profit or loss during the accounting period. Use the Statement of Income and Expense to track revenues and expenses. Refer to Section 0708 and Figure 7-2 for information on the format and instructions for preparing the Statement of Income and Expense. Refer to Chapter 5 [and FASB ASC Topic 225](#) for [additional](#) information on income and expenses.

C. Reconciliation of Net Worth. The Reconciliation of Net Worth (also known as statement of retained earnings) provides information [about](#) changes to net worth during a specified period of time. It shows the establishment, disestablishment, [and](#) consolidation of NAFIs; receipt [and](#) distribution of capital; net income [and](#) net loss; [grants received and disbursed](#); and prior year material adjustments. Refer to Section 0709 and Figure 7-3 for information on the format and instructions for preparing the Reconciliation of Net Worth. Refer to Chapter 3 [and FASB ASC Topic 215](#) for [additional](#) information on net worth (equity).

D. Schedule A - APF and NAF Expense Summary. Schedule A provides a detailed breakdown of APF and NAF operating costs and capital expenditures [other than cost of goods sold](#). Report APF received and expended through the DoD Morale Welfare and Recreation (MWR) Utilization Support and Accountability (USA) practice, Uniform Funding Management (UFM) practice, or other APF agreements as APF contractual services support and [not as](#) NAF expenditures. [Summarized NAF costs on this report](#) equal the operating expenses, other expenses, and extraordinary expenses lines on the Statement of Income and Expense, which are also reported net of APF support to avoid double counting. Report NAF capital expenditures in the year funds are expended and assets are recorded (including construction in progress and capital leases). Refer to Section 0710 and Figure 7-4 for information on the format and instructions for preparing Schedule

A - APF and NAF Expense Summary. Refer to FASB ASC topics 605-610 for additional information on revenues and ASC topics 705-740 for additional information on expenses.

E. Statement of Cash Flows. A cash flows statement provides information about cash receipts and cash payments of a NAFI during the accounting period. The statement shows how changes in balance sheet and income accounts affect cash and cash equivalents and breaks the analysis down according to operating, investing, and financing activities. Refer to Section 0711 and Figure 7-5 for information on the format and instructions for preparing the Statement of Cash Flows. Refer to FASB ASC Topic 230 for additional information on preparing the Statement of Cash Flows.

070302. Footnotes to Financial Statements

Footnotes are an integral part of the financial statements and used to provide additional disclosures to ensure the financial statements are informative and not misleading. When the actual dollar amounts on the financial statements do not provide sufficient information for decision makers, accountants supplement the financial statements with more detailed data in the form of footnotes. Footnotes help management compare the operating results of the current business period with the operating results of previous periods. Fund equity adjustments and significant business closures are examples of occurrences requiring footnotes. Refer to DoDI 1015.15 for required footnotes.

0704 COMPARATIVE ANALYSIS OF FINANCIAL STATEMENTS

Comparative analysis is the study of relationships and trends to determine whether the financial position, results of operations, and the financial progress of the business are satisfactory or unsatisfactory. The objective of any method used to analyze a financial statement is to simplify or reduce the data under review to more understandable terms.

070401. Analytical Methods and Techniques

Analytical methods and techniques used in analyzing financial statements include the following:

A. Comparative Balance Sheets, Statements of Income and Expense, Statements of Cash Flows, and Reconciliations of Net Worth (retained earnings) with the following information:

1. Absolute data (dollar amounts);
2. Comparisons expressed in ratios;
3. Increases and decreases in absolute data in terms of dollar amounts;
4. Increases and decreases in absolute data in terms of percentages; and
5. Percentages of total;

- B. Statement of sources and uses of working capital;
- C. Trend ratios of selected and/or related financial and operating data. A trend analysis is performed for each NAFI financial statement. The analysis of the [Balance Sheet](#) compares actual to actual, and the percentage of increase or decrease is calculated. The analysis of the [Statement of Income and Expense](#) for each activity compares actual to actual as well as actual to the budgeted amounts. The financial statement analysis is made by each activity for items such as sales, cost of goods sold, labor expenses, net income, and all other revenue and expense items with a material financial effect on the activity;
- D. Common size percentages ([\(amount/base amount\) and multiply by 100](#)) from the [Balance Sheet](#), the [Statement of Income and Expense](#), and individual sections of these statements;
- E. Ratios expressing the relationships of items selected from the [Balance Sheet](#), the [Statement of Income and Expense](#), or both statements; and
- F. Statement of variation in net income or gross margin.

*070402. Ratios

The behavior of ratios over a series of accounting periods is indicative of trends and may signal the need for adjustments in the future. [Use the ratios included in 070402 A-L to complete the trend analysis explained in 070401.C.](#) The following ratios are a means of monitoring the efficiency of NAFIs:

A. Accounts Receivable Turnover. [The](#) accounts receivable turnover is the relationship between credit sales and accounts receivable [and](#) indicates the liquidity of an activity's receivables. Calculate accounts receivable turnover by dividing net credit sales by the average accounts receivable (Accounts Receivable Turnover = Net Credit Sales/Average Accounts Receivable). The average accounts receivable is the beginning accounts receivable plus the ending accounts receivable, divided by two. [Use](#) average accounts receivable monthly balances [in](#) the computation, as it gives recognition to seasonal fluctuations. When such data is not available, it is necessary to use the average of the balances at the beginning and end of the year. Prompt collection of receivables reduces the amount of loss from bad debts. Another method [is](#) to divide 365 days by the [accounts](#) receivable turnover figure to get the average number of days the receivables were on the books.

B. Acid-Test Ratio. The acid-test ratio, or quick ratio, measures the ability of NAFIs to use quick assets to liquidate [current](#) liabilities. The formula to compute the acid-test ratio is to divide quick assets by current liabilities (acid-test ratio = quick assets/current liabilities). Quick assets [refer to assets that can be easily converted to cash, or that are already in cash form](#), including cash, receivables, and marketable securities. [Quick assets equal current assets minus inventory and prepaid expenses](#). The acid-test ratio should not be less than 1:1. A ratio of 1:1 shows that for every dollar of current debt there is \$1 of quick assets available to meet current liabilities. [Higher ratios indicate NAFIs have sufficient cash and cash equivalents to pay immediate obligations.](#)

C. Current Ratio. The current ratio, or working capital ratio, measures the relationship between current assets and current liabilities. It measures the ability of current assets to pay short-term debts. The formula to compute the current ratio is to divide the total current assets by the total current liabilities (Current Ratio = Total Current Assets/Total Current Liabilities). A current ratio of 1.5:1 is considered standard. A smaller ratio indicates high debt. However, if the current ratio is too high, current assets are not being efficiently utilized and should be converted to other useful purposes. A ratio higher than one means that if all current assets can be converted to cash, they are more than sufficient to pay off current liabilities.

D. Inventory Turnover Ratio. The inventory turnover ratio expresses the relationship between cost of goods sold and the average inventory balance. The formula to compute the inventory turnover is cost of goods sold divided by the average inventory (Inventory Turnover = Cost of Goods Sold/Average Inventory). Average inventory equals beginning inventory plus ending inventory, divided by two. Excess inventory reduces available funds and may increase the cost of insurance, storage, and other related expenses. The inventory ratio for food and beverage operations generally should not exceed 2.5:1 on a monthly basis or 30:1 on an annual basis. A ratio of 1:3 for other sales operations on a monthly basis, or a ratio of 4:1 on an annual basis, is generally considered acceptable and shows about a 3-month inventory supply. A low turnover rate may indicate overstocking, obsolescence, or deterioration. A high turnover rate may indicate inadequate inventory levels, which may lead to a loss in business. Appropriate inventory levels depend on quantity pricing of purchases, shelf life, and restocking lead-time.

E. Net Income Ratio. The net income ratio measures the rate of return on revenue. The formula to compute the net income ratio is net income divided by total revenue (Net Income Ratio = Net Income/Total Revenue). Calculate net income as total revenues minus total expenses. Refer to DoDI 1015.15 for additional information on net income.

F. Ratio of Net Sales to Assets. The ratio of net sales to assets measures the efficiency with which NAFIs are using their assets to generate sales. The formula to compute the ratio of net sales to assets is to divide net sales by total assets minus long-term investments (Ratio of Net Sales to Assets = Net Sales/(Total Assets - Long-Term Investments). In computing the ratio, exclude any long-term investments from total assets, as they do not contribute to sales. If sales can be stated in a common unit, then units of products sold can be used in place of the dollar amount of sales. Assets used in determining the ratio may be the total at the end of the year, the average at the beginning and end of the year, or the average of monthly totals.

G. Return on Assets Ratio. The return on assets ratio measures a NAFI's ability to generate income with its existing assets. The formula to compute the return on assets ratio is to divide net income by the average total assets (Return on Assets Ratio = Net Income/Average Total Assets). Average total assets are beginning total assets plus ending total assets divided by two.

H. Return on Fund Equity. The return on fund equity measures a NAFI's ability to earn a higher rate of return than is paid for the funds used in operations. The formula to compute the return on fund equity is to divide net income by the average fund equity (Return on Fund Equity = Net Income/Average Fund Equity). Average fund equity is beginning equity plus ending equity divided by two.

I. Turnover of Working Capital. Working capital is a valuation metric calculated as current assets minus current liabilities. The formula to compute the working capital turnover is to divide net sales by average working capital (Turnover of Working Capital = Net Sales/Average Working Capital). Average working capital is ending current assets minus ending current liabilities plus beginning current assets minus beginning current liabilities, divided by two. Current assets include accounts receivable and inventory while current liabilities include accounts payable. These various components are analyzed individually to account for changes from period to period. The turnover of working capital reflects the extent to which NAFIs operate on a small or large amount of working capital in relation to sales.

J. Fixed Asset Turnover. The fixed asset turnover is the ratio of net sales to the value of fixed assets, and indicates how well the entity uses its fixed assets to generate sales. The formula to compute the fixed asset turnover is to divide net sales by the total property, plant, and equipment, net of accumulated depreciation (Fixed Asset Turnover = Net Sales/Net Property, Plant, and Equipment).

K. Working Capital to Total Assets. The working capital to total assets ratio is a liquidity ratio that expresses the net current assets or working capital as a percentage of total assets, and measures a company's ability to cover its short-term financial obligations. The formula to compute the working capital to total assets ratio is to divide working capital by total assets (Working Capital to Total Assets = Working Capital/Total Assets).

L. Return on Total Assets. The return on total assets measures earnings before interest and taxes (EBIT) relative to total net assets, indicating how effectively assets are used to generate earnings before contractual obligations must be paid. The formula to compute the return on total assets is to divide EBIT by total net assets (Return on Total Assets = EBIT/Total Net Assets).

070403. Comparative Statements

A. Comparison. Financial statements analyzed on a comparative basis can be much more informative and meaningful. Use comparative statements to complete the trend analysis explained in 070401.C. Sample comparisons include:

1. Comparison of the latest financial statements and relationships between various elements with one or more previous periods;
2. Comparison of the statements and financial relationships with data for other similar activities;
3. Comparison of the statements and financial relationships of two or more divisions or branches of the same activity; and
4. Comparison of information in the statements with preset plans or goals (normally in the form of budgets).

B. Horizontal Analysis. A comparison of the amounts for the same item in the financial statements of two or more periods is called horizontal analysis. The term is applied because the analysis includes data from year to year rather than as of one date or period of time. In computing the percent of change, the amount for the earlier year serves as the base. In general, the percentage of change is of greater interest than the actual amounts.

C. Vertical Analysis. The amount of each item in a statement can be expressed as a percentage of the total. Compare percentages resulting from vertical analysis across two or more periods to discover trends over time.

0705 REPORTING TO THE INTERNAL REVENUE SERVICE (IRS)

070501. General

Retain all records relating to payments to individuals and firms according to the IRS Topic Number 305: "Recordkeeping." Continental United States (CONUS) offices consult their local IRS office for forms, publications, or assistance. Overseas offices contact the IRS to get the address and telephone number of the nearest IRS representative. IRS representatives, in CONUS and overseas, provide instructions concerning IRS procedures for return preparation, filing, and depositing employment tax payments. Use electronic reporting mechanisms when possible.

070502. Contract Payments (Non-personal Services)

Report to the IRS cumulative NAFI service contract payments made during the calendar year, along with the total amounts paid, which meet the IRS threshold for reporting income on IRS Form 1099-MISC, "Miscellaneous Income." Include the name, address, and Social Security number of the individual. For businesses, report the amount paid, the business name, business address, and business tax identification number. NAFI contracts with entertainers are considered service contracts. If a single payment to an individual is less than the IRS threshold, but total payments made during the calendar year to the same individual reach the IRS threshold, report the information to the individual or firm, and the IRS, using 1099-MISC. The individual or firm receives a copy of the 1099-MISC by January 31 of the calendar year following the calendar year in which payment was made. This applies to individuals who, in addition to being NAFI employees, have contracts with NAFI for non-personal services. Prepare a separate 1099-MISC for each individual or firm to whom total payments meeting the IRS threshold are made. Use IRS Form 1096, "Annual Summary and Transmittal of U.S. Information Returns," to transmit the 1099-MISC to the IRS and forward these forms to the IRS by February 28 of the following year.

070503. Gambling and Bingo Winnings

IRS reporting requirements for gambling and bingo winnings are tied to individual games. Unlike contract payments, winnings are not accumulated from game to game; each game stands alone for IRS reporting requirements. Whenever cash, merchandise, or a combination thereof, meeting the IRS threshold for reportable gambling winnings, is awarded to a person for winning a single bingo game or other gambling activity, prepare an IRS Form W-2G, "Certain Gambling Winnings." Individuals receive their copies of the IRS Form W-2G at either the time payment is

made, or not later than January 31 of the following year. Use IRS Form 1096 to transmit W-2Gs to the IRS. Additionally, prepare IRS Form [1042-S](#), “Foreign Person’s U.S. Source Income Subject to Withholding,” for reporting foreign nationals’ gaming winnings and withholdings, and forward these forms to the IRS by February 28 of the following year.

0706 INTERNATIONAL BALANCE OF PAYMENTS (IBOP) PROGRAM

IBOP is an accounting of a country’s international transactions for a particular period of time. NAFIs are subject to the IBOP reporting [guidance](#) prescribed in DODI [4105.67](#), “[Nonappropriated Fund \(NAF\) Procurement Policy and Procedure](#),” and Volume 6A, Chapter 13.

0707 FORMAT FOR THE BALANCE SHEET

070701. Format for the Balance Sheet

Use the format presented in Figure 7-1 for the consolidated Balance Sheet. The working versions of all statements and notes will include line numbers as shown.

070702. Instructions for the Preparation of the Balance Sheet

The Balance Sheet presents, as of a specific time, amounts of economic benefits owned or managed by the reporting entity (assets), amounts owed by the entity (liabilities), and amounts comprising the difference (net worth). [Crosswalks of accounts used to prepare the Balance Sheet to other financial statements are prepared](#) utilizing the NAF Standard General Ledger ([NAFSGL](#)) guidance in Chapter 2. Complete the heading on the form to indicate: Military Service, Program Group, and the reporting [date](#).

*070703. Line Item Instructions for Preparing the Balance Sheet

A. Current Assets

1. Cash/Investments, Line 1. This is a summary line for cash and investments. [Items reported as cash and investments include cash, U.S. checking accounts, change funds, petty cash, foreign currency, savings accounts, marketable securities, and other short-term investments. Employee retirement cash and investments \(employee 401K, employee retirement, and employee post-retirement medical\) must be excluded from a consolidated presentation, as these non-entity items are not available for general use by a NAFL.](#)

2. Receivables, Line 2. This is a summary line for all receivables. [Items reported as receivables include customer accounts receivables, exchange service dividend receivables, gaming machine profit distribution receivables, claims receivables, commercial credit card receivables, concessionaire receivables, deposits receivables, NAFL receivables, returned check receivables, employee receivables, accrued interest receivables, loans receivables, MWR USA/UFM receivables, and other current receivables. Include allowance for doubtful accounts on this line.](#)

3. Other Current Assets, Line 3. This is a summary line for all prepaid assets. Items reported as other current assets include travel advances, prepaid contracts, prepaid insurance, prepaid rent, prepaid supplies, prepaid tax and license, and other prepaid expenses.

4. Inventories, Line 4. This is a summary line for all inventory accounts. Items reported as inventory include inventory located in warehouses or storerooms, inventory sales outlet resales, and inventory in transit.

5. Total Current Assets, Line 5. Report the net total of Line 1 through Line 4.

B. Noncurrent Assets

1. NAFI-Owned Fixed Assets, Line 6. This is a summary line for all NAFI-owned fixed assets. Items reported as NAFI-owned fixed assets include land improvements, construction in progress, buildings and improvements, furniture and fixtures, equipment, internal-use software, and fixed assets in transit.

2. Less: Accumulated Depreciation and Amortization on NAFI-Owned Fixed Assets, Line 7. This is a summary line for the accumulated depreciation and amortization for all NAFI-owned fixed assets. Report depreciation or amortization balances for land improvements, buildings and improvements, furniture and fixtures, equipment, and internal-use software.

3. Net NAFI-Owned Fixed Assets, Line 8. Report the net total of Line 6 and Line 7.

4. APF-Titled Fixed Assets, Line 9. This line is for reporting renovation, improvement, restoration, and reconstruction costs associated with fixed assets for which title has been transferred to the Government. Include footnote disclosures for amounts reported on this line. Refer to DoDI 1015.15 for footnote information. Items reported as APF-titled fixed assets include APF-titled buildings and improvements.

5. Less: Accumulated Depreciation on APF-Titled Fixed Assets, Line 10. This line is for reporting depreciation for renovations, improvements, restorations, and reconstructions to APF-titled fixed assets.

6. Net APF-Titled Fixed Assets, Line 11. Report the net total of Line 9 and Line 10.

7. Pension Benefit Asset, Line 12. This line is for reporting pension benefit asset information. When plan assets are greater than the plan benefit obligation, report the asset on Line 12. If plan assets are less than the plan benefit obligation, report the liability on Line 17 (current liability) or Line 21 (long-term liability).

8. Other, Line 13. This is the summary line for all other noncurrent

assets. Report noncurrent asset information associated with long-term receivables, investments, and sinking funds.

9. Total Noncurrent Assets, Line 14. Report the net total of Line 6 through Line 13.

10. Total Assets, Line 15. Report the net total of Line 5 and Line 14.

C. Current Liabilities

1. Accounts Payable, Line 16. This is the summary line for all accounts payable.

2. Post-Retirement Benefit Obligation, Line 17. This line is for reporting post-retirement benefit obligation information. When plan assets are greater than the plan benefit obligation, report the asset on Line 12. If plan assets are less than the plan benefit obligation, report the liability on Line 17 (current liability) or Line 21 (long-term liability). The difference is classified as a current liability as determined and provided by the pension provider when the amount is due in one year or less. This also includes any other post-retirement benefit plan obligations, such as retiree health care.

3. Other Current Liabilities, Line 18. This is a summary line for all other current liabilities. Items reported as other current liabilities include short-term loans payable, short-term leases payable, dividends payable, vending machine revenue sharing payable, gaming machine profit distribution payable, interest payable, salaries payable, leave payable, payroll taxes payable, benefits payable, other payroll deductions payable, APF payroll payable, employee allowance payable, claims payable, UFM unearned revenue, other unearned revenue, flexible spending accounts payable, deposits payable, and other current liabilities.

4. Total Current Liabilities, Line 19. Report the total of Line 16 through Line 18.

D. Long-Term Liabilities

1. Loans Payable, Line 20. Report the amount of loans and notes that will not be paid in one year or less.

2. Post-Retirement Benefit Obligation, Line 21. This line is for reporting post-retirement benefit obligation information. When plan assets are greater than the plan benefit obligation, report the asset on Line 12. If plan assets are less than the plan benefit obligation, report the liability on Line 17 (current liability) or Line 21 (long-term liability). Classify the amount as a long-term liability as determined and provided by the pension provider when the amount is due beyond one year. This also includes any other post-retirement benefit plan obligations, such as retiree health care.

3. Other, Line 22. This is a summary line for all other long-term liabilities. Items reported as other include long-term leases payable and other long-term liabilities.

4. Total Long-Term Liabilities, Line 23. Report the total of Line 20 through Line 22.

5. Total Liabilities, Line 24. Report the total of Line 19 and Line 23.

E. Net Worth

1. Net Worth, Line 25. Report the amount of retained earnings, net income (loss), pension adjustment, and other equity transactions, pursuant to DoDI 1015.15. Items reported as part of net worth include retained earnings information, contributed capital, minimum pension liability adjustments, and other equity transactions.

2. Total Liabilities and Net Worth, Line 26. Report the total of Line 24 and Line 25.

0708 FORMAT FOR THE STATEMENT OF INCOME AND EXPENSE

070801. Format for the Statement of Income and Expense

The format presented in Figure 7-2 will be used for the Statement of Income and Expense.

*070802. Instructions for the Preparation of the Statement of Income and Expense

The Statement of Income and Expense reports a NAFI's financial performance over a specific period of time. Financial performance is assessed by providing a summary of how the entity incurred its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period. Unless noted, crosswalks of accounts used to prepare the Statement of Income and Expense to other financial statements are prepared utilizing the NAFSGL guidance in Chapter 2. Complete the heading on the form to indicate: Military Service, Program Group, Category, and Year Ending.

*070803. Line Item Instructions for Preparing the Statement of Income and Expense

A. Sales, Line 1. This is a summary line for income from the sale of goods or services less sales returns and allowances and sales discounts.

B. Cost of Goods Sold, Line 2. This is a summary line for costs associated with purchases and freight charges less returns, allowances, and rebates.

C. Gross Margin, Line 3. Calculate gross margin as the total sales revenue minus the cost of goods sold, divided by the total sales revenue, expressed as a percentage.

D. Other Operating Income, Line 4. This is the heading for reporting other operating income.

1. Participation Fees and Charges, Line 4a. Items reported as participation fees and charges include other fee income, amusement machine income, and gaming machine income.

2. Dues and Assessments, Line 4b. Report the balance for dues and assessment income.

3. Concessionaire Income, Line 4c. Report the balance for concessionaire income.

4. Other, Line 4d. This is a summary line for all other accounts affecting operating income. Report other operating income balances for other service/recreation activity income and commission income.

E. Total Other Operating Income, Line 5. Report the total of Line 4a through Line 4d.

F. Gross Operating Income, Line 6. Report the total of Line 1 less Line 2 plus Line 5.

G. Operating Expenses (Schedule A), Line 7. Report the operating expenses from Schedule A - APF and NAF Expense Summary, Line 1 through Line 13. Schedule A includes costs, such as APF Military and Civilian labor that are not recorded in the NAFI accounting system.

H. Operating Margin, Line 8. Operating Margin is a calculation only. Report the difference in Gross Operating Income (Line 6) and Operating Expenses (Schedule A) (Line 7).

I. Other Income, Line 9. Non-operating income (loss) consists of income/expenses not related to the NAFI's primary operation.

1. Dividends, Line 9a. Report the balance for exchange dividend income.

2. Grants - net, Line 9b. Report the balance for grant income.

3. Other, Line 9c. Report the balances for other income-generating activities. Items reported as other income include commercial sponsorship income, recyclable material income, U.S. Department of Agriculture income, UFM income, cash overages, contributions and donations, intrafund income, interest income, gains on disposition of fixed assets, gains on foreign currency, and other income.

J. Total Non-Operating Income, Line 10. Report the total of Line 9a through Line 9c.

K. Other Expenses (Schedule A), Line 11. Report other expenses from Schedule A – APF and NAF Expense Summary, Line 14. Schedule A includes costs, such as APF Military and Civilian labor that are not recorded in the NAFI accounting system.

L. Net Income Before Extraordinary Items, Line 12. Report the net of Line 8, Line 10, and Line 11.

M. Extraordinary Income, Line 13. Extraordinary income is income that is unusual and infrequent and requires special treatment in the accounts or separate disclosure in financial statements. Report the balance for extraordinary income.

N. Extraordinary Expenses (Schedule A), Line 14. Extraordinary expenses are expenses that are unusual and infrequent and require special treatment in the accounts or separate disclosure in the financial statements. Report the balances for extraordinary expenses and base realignment and closure (BRAC) and installation closure expenses.

O. Net Income, Line 15. Report the net of Line 12 through Line 14.

0709 FORMAT FOR THE RECONCILIATION OF NET WORTH

070901. Format for the Reconciliation of Net Worth

The format presented in Figure 7-3 will be used for the Reconciliation of Net Worth.

070902. Instructions for the Preparation of the Reconciliation of Net Worth

The Reconciliation of Net Worth presents, as of a specific time, the reconciliation of the additions and reductions of net worth. Crosswalks of accounts used to prepare the Reconciliation of Net Worth to other financial statements are prepared utilizing the NAFSGL guidance in Chapter 2. Complete the heading on the form to indicate: Military Service, Program Group and the reporting date.

070903. Line Items Instructions for Preparing the Reconciliation of Net Worth

A. Net Worth, Beginning, Line 1. Report the amount of Line 25 on the Balance Sheet from the preceding year.

B. Net Income, Line 2. Report the amount of Line 15 of the Statement of Income and Expense (if appropriate).

C. Grants Received, Line 3. Report the amount of grant income reported on Line 9b of the Statement of Income and Expense.

D. Other Increases, Line 4. This is a summary line for all other increases to net worth. Examples of other increases include contributed capital, minimum pension liability adjustments, other equity transactions, donated assets, recycling contributions, prior year material

corrections, change in funded status of pension and other post-retirement liabilities, and funds for BRAC property.

- E. Total Additions, Line 5. Report the sum of Line 2 through Line 4.
- F. Net Loss, Line 6. Report the amount of Line 15 of the Statement of Income and Expense (if appropriate).
- G. Grants Disbursed, Line 7. Report the amount of grants disbursed as of the report date.
- H. Other Decreases, Line 8. Report other decreases affecting the reconciliation of net worth. Examples of decreases include the transfer of headquarters-funded projects after books closed, change in funded status of pension and other post-retirement benefit liabilities, net decreases in fair value of derivative instruments, annual leave transfers, asset write-offs, data conversion write-offs, prior period adjustments, interest distribution, dividends paid, audit adjustments, and closing facilities.
- I. Total Reductions, Line 9. Report the sum of Line 6 through Line 8.
- J. Net Additions/Reductions to Net Worth, Line 10. Report the net of Line 5 and Line 9.
- K. Net Worth, Ending, Line 11. Report the sum of Line 1 and Line 10.

0710 FORMAT FOR THE SCHEDULE A - APF AND NAF EXPENSE SUMMARY

071001. Format for Schedule A - APF and NAF Expense Summary

The format presented in Figure 7-4 will be used for Schedule A.

071002. Instructions for the Preparation of Schedule A – APF and NAF Expense Summary

NAF expenses for common support functions are allocated to and reported by the benefiting categories (Category A, B, and C). Do not report allocated or prorated management overhead below the category level. Complete the heading on the form to indicate: Military Service, the Program Group, and for the year ending.

*071003. Line Item Instructions for Preparing Schedule A – APF and NAF Expense Summary

A. Cost Expense Captions

1. Military Personnel, Line 1. This line includes the cost of active duty military personnel services computed according to Volume 7A. Items reported as military personnel include APF payroll expenses.
2. Civilian Personnel (Salaries and Wages), Line 2. This line includes the cost of civilian personnel services computed according to Volume 7A. Items reported as civilian personnel (salaries and wages) include salaries and wages expenses and capitalized labor costs.
3. Civilian Personnel (Services and Benefits), Line 3. This line includes the cost of services of civilian personnel paid from APFs and the cost of personnel compensation and benefits, including employer costs for the Civil Service Retirement System, Federal Employees Retirement System, Thrift Savings Plan, Federal Employees Group Life Insurance, and Federal Employees Group Health Insurance. Items reported as civilian personnel (services and benefits) include annual leave expenses, sick leave expenses, foreign national benefit expenses, and other employee benefit expenses.
4. Utilities, Line 4. This line includes the cost of heat, light, power, water, gas, electricity, steam, and other utility expenses.
5. Rent, Line 5. This line includes rental expenses for equipment (except transportation equipment) and real property.
6. Communications, Line 6. This line includes charges for the transmission of messages from place to place, postal charges, and electronic communications (telephone and telephone installation charges, internet, television, Defense Switched Network, fax, public address systems, and other electronic media).
7. Sustainment, Restoration, and Modernization (Including APF minor construction), Line 7. This line includes sustainment, restoration, and modernization of facilities, buildings, structures, and real property supplied through commercial contracts. Allocate costs according to job costing system data using fixed charges or unit costs for specific maintenance categories.
8. Supplies and Equipment, Line 8. This line includes the cost of supplies, minor property and equipment, and materials ordinarily consumed or expended within 2 years or used to fix property (such as repair parts). Line 8 also includes APF software that is not capitalized.
9. Contractual Services, Line 9. This line includes contractual expenses for services provided indirectly through contracts or memoranda of agreement.
10. Travel of Personnel, Line 10. This line includes expenses for travel and transportation of persons when the primary purpose is to conduct NAFI business.

11. Transportation of Things, Line 11. This line includes freight expenses for the transportation of things, whether incurred through contract or use of Government resources.

12. Reimbursed Common Support, Line 12. This line includes administrative common support service expenses provided by a different Program Group and reimbursed by the benefiting Program Group as identified in DoDI 1015.15.

13. NAF Depreciation, Line 13. This line includes depreciation expenses on NAFI-capitalized tangible fixed assets, including both NAFI-owned fixed assets and fixed assets to which title has been transferred to the Government.

14. All Other Expenses, Line 14. This line includes all other expenses not captured elsewhere.

15. Total Expense, Line 15. Report the total of Line 1 through Line 14 for Categories A, B, and C for APF and NAF.

B. Capital Expenditure Captions. This section includes APF, NAF, and privately financed asset cost. This section aligns with the Capital Investment Programs annual report shown in Enclosure 10 of DoDI 7700.18, “Commissary Surcharge, Nonappropriated Fund (NAF), and Privately Financed Construction Reporting Procedures.”

1. Facilities and Improvements (Land and Structures), Line 16. Line 16 is a summary line for Lines 16a, “APF (MILCON),” and 16b, “NAF.” Items reported as facilities and improvements include capitalized costs for tangible fixed assets, land, buildings, and other structures; additions to buildings; nonstructural improvements; and fixed equipment.

2. Equipment (Investment type), Line 17. This line includes all other capitalized tangible fixed assets.

3. Total Costs (less depreciation), Line 18. Report the sum of Line 16.a through Line 17.

0711 FORMAT FOR THE STATEMENT OF CASH FLOWS

071101. Format for the Statement of Cash Flows

The format presented in Figure 7-5 will be used to prepare the Statement of Cash Flows.

071102. Instructions for the Preparation of the Statement of Cash Flows

The Statement of Cash Flows discloses the gross cash receipts and cash payments with an explanation of the changes in cash or cash equivalents for the reporting period. [Crosswalks of accounts used to prepare the Statement of Cash Flows to other financial statements](#) are prepared utilizing the [NAFSGL](#) guidance in Chapter 2. Complete the heading on the form to indicate: Military Service, Program Group, and Period Ending.

*071103. Line Item Instructions for Preparing the Statement of Cash Flows

A. Operating Activities: Net Income, Line 1. This amount comes from Line 8, “Operating Margin” of the Statement of Income and Expense.

B. Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities

1. Depreciation and Amortization, Line 2. The depreciation and amortization expenses are not paid in cash and require a positive adjustment to the net cash flow from operations. This amount comes from Line 13, “NAF Depreciation” of Schedule A - APF and NAF Expense Summary.

2. Loss on Disposal of Fixed Assets, Line 3. A loss on disposal of fixed assets requires a positive adjustment to the net cash flow from operations. This amount comes from Line 14, “All Other Expenses” of Schedule A - APF and NAF Expense Summary for an amount identified as a loss on disposition of fixed assets.

3. Decrease (Increase) in Accounts Receivable, Line 4. The change in accounts receivable balances between the end of the preceding and current fiscal years comes from Line 2, “Receivables” from the Balance Sheet. A decrease in accounts receivable adds to the cash balance, and an increase in accounts receivable reduces the cash balance.

4. Decrease (Increase) in Inventories, Line 5. The change in inventory balances between the end of the preceding and current fiscal years comes from Line 4, “Inventories” of the Balance Sheet. A decrease in inventory adds to the cash balance, and an increase in inventory reduces the cash balance.

5. Decrease (Increase) in Prepaid Expenses, Line 6. The change in prepaid expense balances between the end of the preceding and current fiscal years comes from Line 3, “Other Current Assets” of the Balance Sheet. A decrease in prepaid expenses adds to the cash balance, and an increase in prepaid expenses reduces the cash balance.

6. Increase (Decrease) in Accounts Payable, Line 7. The change in accounts payable balances between the end of the preceding and current fiscal years comes from Line 16, “Accounts Payable” of the Balance Sheet. An increase in accounts payable adds to the cash balance, and a decrease in accounts payable reduces the cash balance.

7. Increase (Decrease) in Unearned Income, Line 8. The change in unearned revenue balances between the end of the preceding and current fiscal years comes from Line 18, “Other Current Liabilities” of the Balance Sheet. An increase in unearned revenue adds to the cash balance, and a decrease in unearned revenue reduces the cash balance.

8. Increase (Decrease) in Other Current Liabilities, Line 9. The change in other current liabilities balances between the end of the preceding and current fiscal years comes from Line 18, “Other Current Liabilities” of the Balance Sheet less Line 8, “Increase (Decrease) in Unearned Income” of the Statement of Cash Flows. An increase in other current liabilities adds to the cash balance, and a decrease in other current liabilities reduces the cash balance.

9. Other Liabilities, Line 10. The change in other liabilities balances between the end of the preceding and current fiscal years comes from Line 18, “Other Current Liabilities” of the Balance Sheet. An increase in other liabilities adds to the cash balance, and a decrease in other liabilities reduces the cash balance.

10. Total Adjustments, Line 11. Total adjustments are the sum of Line 2 through Line 10.

11. Net Cash Provided by (Used in) Operating Activities, Line 12. The net cash provided by (used in) operating activities is the total of Line 1 and Line 11.

C. Investing Activities. Investing activities include acquiring and disposing of debt or property, plant, and equipment and other productive assets used in the production of goods or services.

1. Purchase of Fixed Assets, Line 13. This line includes amounts disbursed for minor construction and purchases of property, plant, and equipment that reduce the cash balance.

2. Proceeds from the Sale of Fixed Assets, Line 14. This line includes collections or proceeds from the sale of surplus property, plant, and equipment that increase the cash balance.

3. Other, Line 15. This line includes net amounts of other collections or disbursements associated with the purchase and sale of investments. Identify the nature of each investment purchased and sold.

4. Net Cash Used in Investing Activities, Line 16. The net cash used in investing is the sum of Line 13 through Line 15.

D. Financing Activities. Financing activities include proceeds from banks and grants or disbursements to banks, individuals, and businesses for amounts owed or payment of dividends.

1. Net Borrowing, Line 17. This line includes the cash proceeds borrowed from the bank or cash disbursed to banks for loans.
 2. Payment of Dividends, Line 18. This line includes the cash disbursed for dividends.
 3. Capital Grants, Line 19. This line includes the cash proceeds from grants.
 4. Net Proceeds from (Payments on) Other Long-Term Liabilities, Line 20. This line includes the net proceeds from (or payments on) other long-term liabilities.
 5. Other, Line 21. This line includes other financing proceeds or payments not captured on other lines.
- E. Net Cash Provided By (Used In) Financing Activities, Line 22. The net cash provided (used in) financing activities is the sum of Line 17 through Line 21.
- F. Net Decrease/Increase in Cash and Cash Equivalents, Line 23. The sum of net cash provided (used) in operating, investing, and financing activities is the sum of Line 12, Line 16, and Line 22.
- G. Cash and Cash Equivalents at Beginning of Year, Line 24. The balances for cash and cash equivalents are the sum of account balances at the beginning of the fiscal year.
- H. Cash and Cash Equivalents at End of Year, Line 25. The cash and cash equivalent balances at year-end equal the net of Line 23 and Line 24 and agree with Line 1, “Cash/Investments” from the Balance Sheet.

*Figure 7-1. Balance Sheet

MILITARY SERVICE: PROGRAM GROUP: AS OF: (\$ in thousands)	
<u>ASSETS</u>	
Current Assets	
1.	Cash/Investments
2.	Receivables
3.	Other Current Assets
4.	Inventories
5.	Total Current Assets
Noncurrent Assets	
6.	NAFI-Owned Fixed Assets
7.	Less: Accumulated Depreciation and Amortization on NAFI-Owned Fixed Assets
8.	Net NAFI-Owned Fixed Assets
9.	APF-Titled Fixed Assets
10.	Less: Accumulated Depreciation on APF-Titled Fixed Assets
11.	Net APF-Titled Fixed Assets
12.	Pension Benefit Asset
13.	Other
14.	Total Noncurrent Assets
15.	Total Assets
<u>LIABILITIES and NET WORTH</u>	
Current liabilities	
16.	Accounts Payable
17.	Post-Retirement Benefit Obligation
18.	Other Current Liabilities
19.	Total Current Liabilities
Long-Term Liabilities	
20.	Loans Payable
21.	Post-Retirement Benefit Obligation
22.	Other
23.	Total Long-Term Liabilities
24.	Total Liabilities
25.	Net Worth
26.	Total Liabilities and Net Worth

Figure 7-2. Statement of Income and Expense

MILITARY SERVICE: PROGRAM GROUP: CATEGORY: FOR THE YEAR ENDING: (\$ in thousands)				
	<u>Current Year</u>		<u>Prior Year</u>	
	<u>Amount</u>	<u>Percent of Income</u>	<u>Amount</u>	<u>Percent of Income</u>
1. Sales				
2. Cost of Goods Sold				
3. Gross Margin				
4. Other Operating Income				
4a. Participation Fees and Charges				
4b. Dues and Assessments				
4c. Concessionaire Income				
4d. Other				
5. Total Other Operating Income				
6. Gross Operating Income				
7. Operating Expenses (Schedule A)				
8. Operating Margin				
9. Other Income				
9a. Dividends				
9b. Grants - net				
9c. Other				
10. Total Non-Operating Income				
11. Other Expenses (Schedule A)				
12. Net Income Before Extraordinary Items				
13. Extraordinary Income				
14. Extraordinary Expense (Schedule A)				
15. Net Income				

Figure 7-3. Reconciliation of Net Worth

MILITARY SERVICE: PROGRAM GROUP: AS OF: (\$ in thousands)	
1. Net Worth, Beginning:	
<u>Additions to Net Worth:</u>	
2. Net Income	
3. Grants Received	
4. Other Increases	
5. Total Additions	
<u>Reductions to Net Worth:</u>	
6. Net Loss	
7. Grants Disbursed	
8. Other Decreases	
9. Total Reductions	
10. Net Additions/Reductions to Net Worth	
11. Net Worth, Ending	

Figure 7-4. Schedule A - APF and NAF Expense Summary

MILITARY SERVICE: PROGRAM GROUP: FOR THE YEAR ENDING: (\$ in thousands)								
COST EXPENSE CAPTIONS	Category A		Category B		Category C		Total	
	APF	NAF	APF	NAF	APF	NAF	APF	NAF
1. Military Personnel								
2. Civilian Personnel (Salaries and Wages)								
3. Civilian Personnel (Services and Benefits)								
4. Utilities								
5. Rent								
6. Communications								
7. Sustainment, Restoration and Modernization (including <input type="checkbox"/> APF minor construction)								
8. Supplies and Equipment								
9. Contractual Services								
10. Travel of Personnel								
11. Transportation of Things								
12. Reimbursed Common Support								
13. NAF Depreciation								
14. All Other Expenses								
15. TOTAL EXPENSE								
CAPITAL EXPENDITURES CAPTIONS								
16. Facilities and Improvements (Land and Structures)								
16a. APF (MILCON)								
16b. NAF								
17. Equipment (Investment type)								
18. Total Costs (less depreciation)								

*Figure 7-5. Statement of Cash Flows

MILITARY SERVICE: PROGRAM GROUP: FOR THE PERIOD ENDING: (\$ in thousands)		
OPERATING ACTIVITIES:	Current Year	Prior Year
1. Net Income		
<u>Adjustments to Reconcile Net Income to Net Cash</u>		
<u>Provided by Operating Activities:</u>		
2. Depreciation and Amortization		
3. Loss on Disposal of Fixed Assets		
<u>Changes in Assets and Liabilities</u>		
4. Decrease (Increase) in Accounts Receivable		
5. Decrease (Increase) in Inventories		
6. Decrease (Increase) in Prepaid Expenses		
7. Increase (Decrease) in Accounts Payable		
8. Increase (Decrease) in Unearned Income		
9. Increase (Decrease) in Other Current Liabilities		
10. Other Liabilities		
11. Total Adjustments		
12. Net Cash Provided by (Used in) Operating Activities		
INVESTING ACTIVITIES:		
13. Purchase of Fixed Assets		
14. Proceeds from the Sale of Fixed Assets		
15. Other		
16. Net Cash Used in Investing Activities		
FINANCING ACTIVITIES:		
17. Net Borrowing		
18. Payment of Dividends		
19. Capital Grants		
20. Net Proceeds from (Payments on) Other Long-Term Liabilities		
21. Other		
22. Net Cash Provided by (Used in) Financing Activities		
23. Net Decrease/Increase in Cash and Cash Equivalents		
24. Cash and Cash Equivalents at Beginning of Year		
25. Cash and Cash Equivalents at End of Year		