

NAFSG Working Group Meeting Minutes

Thursday, June 18, 2015
9:00 AM – 11:30 AM EST

Attendees

- MC&FP
 - Mike Kelly, Justin Hall, Mike Curtis
- DFAS-Texarkana
 - Mitch Covington
- Air Force Services Activity
 - Cheryl Basil, Jane Belinfante
- Army IMCOM G-9
 - Bryan Hartsell, Sonia Daugherty, Tina Hudson
- USMC MCCA
 - Pat Craddock, Courtney Pulis
- Navy CNIC
 - Robin Bedsole, Nancy Stephens
- Grant Thornton
 - Jeremy Blain, Tina Cooper, Sara Carver, Adam Planchock

Action Items from Previous Meeting

- **Grant Thornton** to exclude prepaid expenses from the calculation of the acid-test ratio: COMPLETED
- **Grant Thornton** to change useful life recommendation for computer hardware to 2-7 years; change land improvements to 10-25 years: COMPLETED
- **Services** to send requests and rationale to MC&FP if desire individual acid-test ratio standards for the different business lines: COMPLETED
- **Services** to look into recommendation for computer hardware and software useful lives as well as land improvements: COMPLETED
- **Services** to review useful lives recommendations in the decision document and report feedback: COMPLETED
- **MC&FP** will begin to draft an Accounting Standards Board charter that will incorporate the governance items discussed in previous meetings: COMPLETED

Action Items Still Open

- None

Action Items Summary

Grant Thornton

- Grant Thornton to replace the language regarding COGS from shall to may.
- Grant Thornton to research pension plans to determine how it should be presented in the financial statement
- Grant Thornton to add an operating expense for Insurance Premiums which will exclude workers compensation
- Grant Thornton to research commercial practices on handling depreciation as an operating or non-operating expense and provide a recommendation

Services

- Services to review the GLAC Mapping for Financial Statements and provide input

Welcome and Introductions – Mr. Mike Kelly, Director, MWR & Resale Policy

- Thanked all working group members for their effort in this project

OSD Update – Mr. Justin Hall, Assistant Director, MWR & Resale Policy

- All the comments in the NAFSGL package have been adjudicated and it is headed to ASD for signature
- OSD is working the draft changes to the DoDI 1015.15 and incorporating the decision document items. The target is the end of July
- Working on getting the NAFSGL website platform set up for the documents to be posted

Initiative Status Update – Mr. Jeremy Blain, Grant Thornton

- Thanked all the working group members for their inputs and communication.
- Grant Thornton has excluded prepaid expense from the calculation of the acid-test ratio. GT received lots of inputs on the Acid Test Ratio as well that we have incorporated.
- Grant Thornton has changed useful life recommendation for computer hardware to 2-7 years and land improvements to 10-25 years. GT is aware most services provide a 2-5 year range however the proposal is for 2-7 for the OSD standard and all services would still be compliant within the 2-5 years. No objections from any service on the 2-7 useful life for SW/HW.

Potential New General Ledger Accounting Code Additions – Mr. Jeremy Blain / Mr. Stephen Pomager,

GT

- *Cost of Goods Sold* – Add this GLAC to allow for perpetual inventory system. Will keep Purchases GLAC for periodic inventory system.
 - No concerns from the services.
 - Discussion surrounding COGS as GLAC vs. strictly calculated value. The system can accommodate both methods.
 - Air Force has been using both for many years and use the same GLAC. They don't ever use the 502 COGS GLAC.
 - Marines do not use a COGS GLAC
 - Navy uses periodic inventory system so they will use the GLAC.
 - **Action Item:** Grant Thornton to change how 502 is written so it says "may" instead of "will"
- *Grants Income* – Currently only have a Grants Expense GLAC.
 - Navy gives grants to installations from HQ and it is counted as operating income. No grants are received from outside entities (they would be considered "other income" in most cases; donations).
 - Army uses similar treatment as Navy but has grants as non-operating income.
 - Air Force counts it as non-operating income because no one did anything to earn the money.
 - USMC agrees it would be considered non-operating income because it is not generated from activity.
 - Everyone agrees this should be in the non-operating income.
- *Pension Plan Assets* – FMR Income Statement has a line for the difference when the Pension Plan Assets are greater than the Plan Benefit Obligation. There is no GLAC for Pension Plan Assets.
 - It would balance out the GLACs by adding the pension assets. FMR: stays on balance sheet but doesn't impact the balance sheet as much

- DFAS (Army) does not do any pension accounting (IMCOM G9 does the accounting for pensions)
- Navy can have either a positive or negative balance depending on how they need to make things balance. They are not opposed to having a GLAC on the assets side as well. They just do a yearly true up after they get the actuarial report. Air Force and Army do the same.
- USMC has a multi-employer plan. They get an actuarial report at year end but they don't have to do the true up.
- **Action Item:** what is the best practice industry from a financial statement presentation perspective? Is it 2 GLACs?
- *Business Insurance* – Currently only a GLAC for Employee Insurance Expense
 - USMC records this as an operating expense within insurance accounts broken up into three categories: property, general liability, and workers compensation.
 - Army has a workers compensation expense (labor GLAC) and a standard insurance premium expense that is recorded. The operating entity is paying them for the actual insurance. On the insurance side, they have a separate fund for insurance that includes four types.
 - Air Force has one GLAC called “Insurance” that bases use because they charge them a premium each month. It flows through payroll because of retiree and employee life and health insurances. They are on the central fund side. For the self-insurance side (bases, buildings, etc.), they just have one GLAC for insurance.
 - Navy uses an account called property liability insurance. Workers comp is carried with payroll.
 - **Action Item:** Add a GLAC called “Insurance Premium Expense” and let the services use the Service-specific digits in the GLAC string to specify the different types excluding workers compensation.

Accounting Policy Standardization Update – Mr. Jeremy Blain / Mr. Stephen Pomager, GT

- *Severance Benefit as a Contingent Liability* – How to accrue and when to recognize non-BRAC base closures
 - The Air Force has a number of locations in Europe that are closing. Because these closures don't fall under Congressional Law/BRAC, they are not authorized APF funds and they have directed them to go to DOD for a waiver in order to get APF funding for the severance. According to Air Force, this may significantly impact the NAF/MWR side as they need APF support to pay severance. OSD needs to know that AF plans to put APF dollars behind that request for the waiver.
 - The Army has an authorized group where all of that labor funding comes from the appropriated fund (APF) budgeting process through the UFM process. As they accrue that cost, it is all part of standard labor cost through time and paid for with APF funds which comes out of funding for basic programs. They would prefer to reach back to BRAC funding and isolate those costs into a BRAC account so they don't eat it out of the UFM funding. They have closed a number of bases under “transformation” rather than BRAC. Any severance for any activity is accrued under the same activity, just like any other expense.
 - The group questioned if accruing it implies that this expense is a NAF expense rather than something that should be funded with APF funds? They spend with anticipating that their respective APF resource managers at HQs at year end will fill in with offsets to the NAF funds that have been used to pay the expense initially (e.g. UFM).

- *Depreciation and Amortization as an Operating Expense* – Addressed the question - should we have it as both an Operating and Non-Operating Expense depending on what is being depreciated/amortized?
 - The Marines are currently categorizing this as an operating expense because they cannot run the business without the equipment/assets.
 - The Navy has always been categorizing this as a non-operating expense and questioned the driving factor. Preliminary research by Stephen Pomager said it was an operating expense depending on what is being depreciated.
 - The Air Force treats it as a non-operating expense.
 - The Army makes the point that it is below the line and therefore uncategorized.
 - **Action Item:** Grant Thornton to conduct additional research on how depreciation and amortization is recorded and look for similar examples.
- *Schedule A – APF and NAF Expense Summary* – Do other reports capture similar data?
 - This may be a thing to come. In the 1015.15 there was a section that was canceled which Carol Potter ended up covering for via the MWR Program report.
 - USMC has to internally do a lot of reclassifications at their year-end in order to get Schedule A to report the way it does so that Carol Potter can utilize and validate their metric report numbers. Would UFM be considered “income”?
 - The Army is unaware as the staff that completed the reports in the past have moved on.
 - The Navy and Air Force use this as a management report.
- *Cash Ratios – Acid-Test and Current Ratios*
 - MCCS wants to have a future discussion on cash ratios for different business lines, such as the Exchanges or the Lodging funds.
 - Mike Curtis said there will be discussions at future meetings of accounting policies in the DoD Financial Management Regulation (FMR), to include cash ratios and the inclusion of accounting policy for Exchanges (currently missing in the FMR).

GLAC Mapping and Financial Statement Presentation – Mr. Jeremy Blain / Mr. Stephen Pomager, GT

- Welcomed the review on the mapping of GLACs to the financial statement. The intent is to use this as a tool for new NAF accountants. It is replacing what is in the FMR with a new standard general ledger. The draft documents presented are for the WG review and Grant Thornton is open to moving things around, based on discussion. There will most likely be a number of iterations.
 - Balance Sheet
 - Income Statement: This will be updated to reflect the new GLAC – COGS.
 - Statement of Cash Flows
 - Reconciliation of Net Worth
- **Action Item:** The Services to review all GLAC Mapping documents for financial statements and provide feedback at next WG meeting.

Wrap up – Mr. Justin Hall, Assistant Director, MWR & Resale Policy

- Next working group session is scheduled for July 23rd