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## DoD NAF Accounting Working Group Meeting Minutes

Thursday, September 20th, 2018  
0900-1100 EDT

### Attendees

- MC&FP
  - Paulette Freese
- DFAS – Indianapolis
  - Maranda Summers, Robert Haines, Susan Haines
- Army IMCOM G9
  - Sonia Daugherty, Eric Alberts
- Air Force A-1
  - Lisa Hughes
- AFSVA
  - Connie Lipko, Marcus Whitehead, Marivic Penman, Tom Marsh, Stephen Olencamp
- MCCS
  - John Johnston, Pat Craddock, Courtney Pulis
- Army – DFAS – Texarkana
  - Lena Anderson, Randy Rodgers
- Navy CNIC
  - Nancy Stephens, Jennifer Wilkinson
- Navy OPNAV N462B
  - Annie Fowler
- Air Force Secretariat SAF-MRR
  - Lt. Col. Carina Harrison
- Grant Thornton (GT)
  - Jeremy Blain, Ariane Whittemore, Mary Saldivar, Sumner Higginbotham, Vishal Ayyagari

### Welcome and Introductions – Ms. Paulette Freese, MWR & Resale Policy

- Ms. Freese welcomed everyone, acknowledged that all the Services were present and thanked everyone for participating.

### OSD Update – Ms. Paulette Freese, MWR & Resale Policy

- Ms. Freese started out the discussion by noting the Defense Resale financial workshop planned for 11-13 September was postponed due to Hurricane Florence.
  - The workshop was rescheduled for 25-27 September.
- Ms. Freese informed the Working Group that the next meeting will not take place on October 18<sup>th</sup>, 2018. Instead, for the October Meeting, the Working Group will be held on October 25<sup>th</sup>, 2018.
- Ms. Whittemore mentioned an update she had on behalf of Mr. Curtis.
  - The Department of Defense is implementing a new Joint service Leisure Travel Program in October 2018 with the Navy (CNIC) as Executive Agent. Ms. Whittemore advised the Services that Mr. Curtis, with the assistance of Grant Thornton, was evaluating the best accounting treatment for the Joint Leisure

Hosted By MWR and Resale Policy (Military Community & Family Policy)

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Travel program. Mr. Curtis would send out more information regarding the topic in the following weeks.

### **Working Group Discussion on NAFSGL 3.0 Areas of Concern – Mr. Jeremy Blain, Grant Thornton**

- Mr. Blain started out the discussion of the NAFSGL by explaining that OSD and Grant Thornton would like input from each of the Services on several areas of the proposed NAFSGL 3.0. Mr. Blain noted that the goal of this review was to find a general consensus on the issues from the Services. The topic was discussed in the last working group meeting in which the Services were asked to review and bring appropriate feedback to this meeting.
- Mr. Blain began with the topic of Donations of In-kind Assets by asking each of the Services for their feedback. At the August NAF Accounting Working Group meeting, the Services stated they would review the existing Air Force policy and would be prepared to provide their Services perspective on this policy.
  - Ms. Daugherty stated that the Air Force policy is acceptable but recommends a few minor changes.
    - Ms. Daugherty explained that gifts or donations will need to state whether it was agreed upon with the donor and the estimated value. Legal will then approve this valuation.
    - Ms. Daugherty also stated that the Army is unsure of the effects of the policy on the Income Statement. The Army would review the issue with the Air Force including depreciation of donated assets.
    - The Army concurs with the Air Force policy on Donation of In Kind Assets.
  - Ms. Stephens added to the discussion by stating depreciation associated with donations is usually immaterial. Ms. Stephens does not recall any significant cash or asset donations other than the Fisher House.
    - Ms. Stephens would like to check this policy but believes that donations and contributions would be characterized as non-operating revenue.
    - Ms. Fowler indicated that Fisher House receives various donations including food, furnishings, and houses. Ms. Fowler noted that there is a Department of the Navy (DoN) Directive on donations that covers all donations. Ms. Whittemore asked the Navy to send the DoN directive regarding donations to OSD for review.
  - Mr. Johnston joined the discussion by adding that the Marine Corps has a similar process to the Navy and they follow DoN guidance.
    - Mr. Johnston asked his colleague, Ms. Craddock, for an overview of the Marine Corps policy regarding In-Kind Donations.
    - Ms. Craddock confirmed Mr. Johnston's statement explaining the Marine Corps policy is very similar to that of the Navy's in regards to defining materiality, as they are also subject to the DoN directive



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- Mr. Higginbotham asked a clarifying question regarding the Services definition of materiality to assess whether it is 1% of total assets on the consolidated balance sheet at the NAFI level.
- Mr. Olencamp answered Mr. Higginbotham's question by clarifying the Air Force's policy:
  - The Air Force uses their professional judgment rather than a set financial threshold. Mr. Olencamp explained that the 1% materiality is their starting benchmark and then they apply their professional judgment rather than just a set threshold.
- Mr. Higginbotham explained that the 1% is just a baseline for the Services and if the Air Force would like to have stricter policies going forward, that is acceptable with OSD.
- Mr. Blain thanked all the Services for participating in this topic and requested the Navy send their policy to finalize any updates regarding Donation of In-Kind Assets.

### **Position Paper (PP) Discussion – Mr. Jeremy Blain, Grant Thornton**

- Mr. Blain started out the discussion of Position Papers by explaining that MC&FP and Grant Thornton have worked together to propose six position papers that need to be discussed with the goal of re-concurrence, since the original papers were drafted in 2014 or 2015.
  - Mr. Blain noted that the goal of this review was to provide the Working Group members an opportunity to comment on these papers.
  - There were six papers for discussion with the Services:
    - Credit Card Receivables – PP #8
    - Asset Useful Life – PP #5
    - Uniform Funding and Management (UFM) – PP #14
    - Commercial Sponsorship – PP #7
    - Prior Period Adjustments – PP #11
    - Ticket Sales – PP #13
- Mr. Blain began with the Credit Card Receivables paper.
  - The paper recommends that all sales of merchandise or services using credit cards be recorded as cash at the time of sale.
  - Ms. Daugherty stated that the Army concurs with the position paper as long as there was the ability to differentiate between credit card receivables and cash receivables.
  - Ms. Lipko agreed with the Army.
  - Mr. Johnston also shared the same views as the Army with added feedback: Mr. Johnson raised the need to be able to accommodate credit card denials and disputes. Ms. Craddock added to this is especially important at the end of the fiscal year.



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- Mr. Higginbotham noted that at the March NAFSGL Offsite, the Navy determined that the credit card receivables would be outstanding for a period of two or three days maximum at year end. Via the calculation of total credit sales over the year, this amount was determined to be less than 0.1%. With this in mind, a separate NAFSGL GLAC forcing the Services to report Credit Card sales as Merchant Card receivables seemed unnecessary. The paper allows for Credit Card sales to be treated as cash.
- The Marine Corps and Air Force commented that for their own audit purposes, they would like to have a cost center in the customer receivables account for credit card receivables. Mr. Blain noted that the Position Paper would be updated to allow that, and also allow credit card revenues to go directly to cash given the immaterial amounts involved.
- All Services concurred with the Credit Card receivables Position Paper #8 as long as cash and credit card transactions could be differentiated.
- Mr. Blain then discussed the next paper: Asset Useful Life.
  - This paper recommends the creation of an asset useful life table for NAF depreciation that meets the Services' needs and provides uniformity and consistency. It was recommended that a range of useful lives be allowed for most asset classes instead of a single fixed number of years for each asset class.
  - Ms. Lipko noted that the asset "land and improvement" was written on the paper twice. Mr. Higginbotham reviewed and concluded that this error will be corrected.
  - No Service raised any objections to the Air Force's request to add two new asset classifications regarding airplane assets.
  - All Services concurred with the Asset Useful Life Position Paper #5.
- Mr. Blain then discussed the Uniform Funding and Management (UFM) paper.
  - This paper includes two approaches to accounting for UFM.
    - Recommendation A: Standardize journal transactions and recording of UFM as unearned income.
    - Recommendation B: Record UFM funds as a single offsetting contra-expense account in the income statement.
  - Mr. Olencamp noted that there needs to be a clear distinction on whether the Services would capitalize assets purchased with UFM and follow GAAP or expense the assets which is in line with FMR and the DoDI 1015.15. Mr. Higginbotham informed the Services that this was a separate issue that will be addressed with a new position paper being drafted. Ms. Stephens stated that the Navy follows the FMR direction of expensing these assets and expressed concern with changing the treatment of assets purchased with UFM to being depreciated as this may cause the Services to violate the Anti-Deficiency Act.



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With concurrence from all Services, Mr. Blain noted that depreciation of MOA and UFM assets are a pending issue and will be addressed separately.

- The services agreed with Recommendation A to standardize journal transactions and recording of authorized APF income and expenditures. Under this method, the NAFI and APF entity enter into an annual Memorandum of Agreement (MOA) stating how much appropriated funding the NAFI will receive for the fiscal year. The NAFI then receives the appropriated funds expected to be utilized for that quarter at the beginning of each quarter. This recommendation requires adjustment to the FMR and DoDI 1015.15.
- Mr. Blain then discussed the Commercial Sponsorship paper.
  - This paper recommends that commercial sponsorship income be recorded as operating income.
  - Ms. Lipko non-concurred. Ms. Lipko explains that if commercial sponsorship is recognized as income rather than equity, then it should be considered as non-operating income.
  - All other serviced concurred with recording Commercial Sponsorship as operating income.
  - Mr. Blain acknowledged that the Air Force was in non-concurrence. OSD will review the topic.
- Mr. Blain then began discussion of the Prior Period Adjustments paper.
  - This paper recommends that the DoDI 1015.15 be updated to align with the FMR. If there is a change to a prior period greater than one percent (1%) of the assets in the consolidated balance sheet, a prior period adjustment should be performed. Additionally, if a prior period adjustment does not meet this one percent (1%) criteria but is deemed material, the Service may make a prior period adjustment.
  - Ms. Lipko explained that the Air Force concurs with this policy as long as there is room for judgment by the Services.
  - All Services concurred with the recommendation of the 1% threshold for prior period adjustments.
- Mr. Blain then discussed the Ticket Sales paper.
  - This paper reviews the policies pertaining to the treatment of consignment ticket sales and tickets purchased for resale. The paper recommends recognizing revenues and expenses related to consignment ticket sales at the time the ticket is sold. Consignment tickets are not to be included in inventory. Additionally, tickets purchased for resale should be included in inventory.
  - All Services concurred with the recommendation presented by the paper.
- Mr. Blain noted the Position Papers will be updated, and appropriate policy changes made to the FMR and DoDI 1015.15.



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- Ms. Freese thanked Mr. Blain and noted that concerns such as the non-concurrence for commercial sponsorship and revisions to the DoDI 1015.15 will be discussed and further clarity will be provided.

### **Wrap-up & Action Items – Ms. Paulette Freese, MWR & Resale Policy**

- The working group did not raise any additional questions and Ms. Freese concluded the meeting.

### **Action items**

- Navy will provide DoN policy document regarding Donations In-kind to OSD and the Grant Thornton team for review.
- Grant Thornton will create a separate paper for depreciation of assets purchased through UFM or MOA.
- Appropriate adjustments recommended to be made to DoDI 1015.15, FMR, and NAFSGL.