

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**VOLUME 13: “NONAPPROPRIATED FUNDS POLICY”**

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

**VOLUME 13, CHAPTER 1: “NONAPPROPRIATED FUND ACCOUNTING”****SUMMARY OF MAJOR CHANGES**

All changes are denoted by blue font.

Substantive revisions are denoted by an \* 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 June 2011 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Reviewed chapter and revised for clarity.	Update
Various	Updated hyperlinks.	Update

## Table of Contents

VOLUME 13, CHAPTER 1: “NONAPPROPRIATED FUND ACCOUNTING” .....	1
0101 OVERVIEW.....	4
010101. Purpose.....	4
010102. Scope .....	4
0102 DEFINITIONS.....	4
010201. Accounting.....	4
010202. Appropriated Funds.....	4
010203. Balance Sheet .....	4
010204. Chart of Accounts .....	5
010205. Comparability.....	5
010206. Consistency .....	5
010207. Cost-Benefit Analysis .....	5
010208. General Ledger.....	5
010209. Income Statement (or Statement of Income and Expense) .....	5
010210. Internal Controls.....	5
010211. Interpretation .....	6
010212. Materiality .....	6
010213. Nonappropriated Funds .....	6
010214. NAF Instrumentality .....	6
010215. Recording .....	7
010216. Relevance .....	7
010217. Reliability.....	7
010218. Statement of Cash Flow .....	7
010219. Subsidiary Records.....	7
010220. Summarizing .....	7
010221. Timeliness .....	8
0103 ACCOUNTING STANDARDS .....	8
010301. Generally Accepted Accounting Principles .....	8
010302. Accrual Accounting .....	10
010303. Accounting Period.....	10
010304. Accounting Office Responsibilities .....	10
010305. Accounting Changes .....	11
010306. Accounting Errors .....	12
0104 INTERNAL CONTROLS.....	12
0105 AUDITS .....	12

**Table of Contents (Continued)**

010501. Policy..... 12

010502. Scheduled Audits ..... 13

0106 ANNUAL REPORTING REQUIREMENTS..... 13

010601. Reporting..... 13

010602. Disclosures ..... 13

## CHAPTER 1

**NONAPPROPRIATED FUND ACCOUNTING**

## 0101 OVERVIEW

## 010101. Purpose

This chapter provides a list of definitions, accounting standards, reporting classifications, and requirements for Nonappropriated Funds (NAFs).

## 010102. Scope

NAF accounting applies to all Nonappropriated Fund Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs) except the Armed Service Exchanges.

## 0102 DEFINITIONS

## 010201. Accounting

Accounting is the process of recording, classifying, summarizing, interpreting, and communicating financial data. Accounting related functions include financial accounting, cost accounting, not-for-profit accounting, and financial planning.

## 010202. Appropriated Funds

Appropriated funds (APFs) are monies paid out of the United States Treasury pursuant to statutory authority granted by Congress to the Department of Defense (DoD) to incur obligations and make payments. The term “appropriation” means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. In most cases, appropriations are of two types, annual and multi-year. Congress approves the appropriation acts that specify the purposes for which the APFs are used. Specific accounting policies for APFs are described in Volume 4. For additional information on the use and accounting for APFs for NAF activities, refer to [\*Department of Defense Instruction \(DoDI\) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources”\*](#).

## 010203. Balance Sheet

The Balance Sheet is a financial statement that shows an entity’s financial position at a certain point in time (usually at the end of an accounting period). It represents the entity’s assets, liabilities, and net worth (or fund equity).

## 010204. Chart of Accounts

The chart of accounts is a list of ledger account names and numbers arranged in the order in which they customarily appear in the financial statements. The chart serves as a useful source for locating a given account within the ledger. The chart of accounts for NAFs is established to comply with DoDI 1015.15 reporting requirements and is found in Volume 13, Chapter 2.

## 010205. Comparability

Comparability is the similarity and consistency of information produced by an entity from period to period and by others operating in similar circumstances. The value and usefulness of information depends greatly on the degree to which it is comparable to information from prior periods and to similar information reported by others.

## 010206. Consistency

Consistency is the uniformity of accounting procedures used by an accounting entity from period to period.

## 010207. Cost-Benefit Analysis

Cost-Benefit Analysis (CBA) is an analytic technique that compares the costs and benefits of investments, programs, or policy actions in order to determine which alternative or alternatives maximize net benefits (economic efficiency). CBA attempts to consider all costs and benefits.

## 010208. General Ledger

The general ledger is a summary of all the transactions that occur for each NAFI. Separate accounts exist for individual assets, liabilities, net worth, revenue, and expenses. The general ledger is the core of the NAF accounting system and contains all of the accounting entries for the current period. AOs will prepare an end-of-month trial balance of the general ledger accounts to ensure that total debits equal total credits. The general ledger accounts are found in Volume 13, Chapter 2.

## 010209. Income Statement (or Statement of Income and Expense)

The Income Statement is a financial statement showing the elements (income and expenses) used in arriving at the net income for the accounting period or over a certain period of time.

## 010210. Internal Controls

Internal controls are tools to help program and financial managers achieve desired results and safeguard the integrity of their programs. The Office of Management and Budget (OMB) Circular A-123 and the statute it implements, the [\*Federal Managers' Financial Integrity Act\*](#)

[\(FMFIA\) of 1982](#), are at the center of the existing Federal requirements to improve internal controls. [OMB Circular A-123](#) “Management’s Responsibility for Internal Control,” provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the FMFIA of 1982. The Circular provides internal control standards and specific requirements for conducting management’s assessment of the effectiveness of internal controls over financial reporting. For additional guidance, refer to [DoD Instruction \(DoDI\) 5010.40, “Managers’ Internal Control Program Procedures”](#) and [DoDI 1015.15”](#).

010211. Interpretation

Interpretation is an opinion regarding a set of facts. A degree of subjectivity is involved on the part of the individual, based on experience and judgment.

010212. Materiality

Materiality refers to the magnitude of an omission or misstatement of accounting data that misleads financial statement readers. Information is material when it is of such magnitude or significance that its omission or misstatement leads to a misinterpretation of the financial information. For example, amounts in a financial statement which are too small to make a difference or affect the reliability of information may be omitted because they are immaterial. In addition to magnitude, the nature of the item is considered when making a materiality judgment. For reporting purposes that require the level of materiality to be quantified, materiality shall be defined as one percent of the total assets in the balance sheet for each NAFI. For those NAF activities required to report on a consolidated basis, the threshold of materiality shall be one percent of the assets in the consolidated balance sheet.

010213. Nonappropriated Funds

Nonappropriated Funds are government monies that are not appropriated by Congress and are not held within the United States (U.S.) Treasury. Military Departments and Defense Agencies generate NAFs primarily through the sale of goods and services to the DoD military, civilian personnel and their family members in conjunction with authorized Morale, Welfare, and Recreation (MWR) programs. These funds are used to support MWR programs and activities; lodging; civilian welfare; post restaurant; certain religious and educational programs; and, used for the collective benefit of military personnel, their family members, and authorized civilians. These funds are separate funds that are **not** recorded in the books of the Department of the Treasury.

010214. NAF Instrumentality

A NAF Instrumentality (NAFI) is a fiscal entity of the U.S. Government that is supported in whole or in part by NAFs. NAFIs are not incorporated under the laws of any state or the District of Columbia, but have the legal status of an instrumentality of the U.S. and have the same immunities and privileges as the U.S. Government in the absence of specific Federal Statute.

A. Federal agencies create NAFIs and regulate their activities, but they are not federal agencies or government corporations. Although a NAFI can be an integral DoD organizational entity that performs essential government functions within DoD, it operates independently to provide or assist DoD organizations supporting military personnel and authorized civilians. As a fiscal entity, a NAFI maintains custody and control over its funds and is responsible for exercising care relative to administering, safeguarding, preserving, and maintaining those resources made available to carry out functions.

B. NAFIs function under the umbrella of DoD, but are not considered “federal reporting entities” for the purpose of financial statement reporting. NAFI financial statements are not in any manner associated with DoD financial statements. NAFIs use proceeds obtained from business operations and activities in providing a support function to DoD.

010215. Recording

Recording is the accurate documentation of business transactions. Recording is an essential requirement of both manual and automated accounting systems.

010216. Relevance

Relevance is the capacity of information to make a difference in decision-making. For instance, relevant information must be available in a timely manner to ensure its value in decision-making.

010217. Reliability

In financial accounting theory, reliability describes information that is reasonably free from error and bias and accurately presents the facts.

010218. Statement of Cash Flow

Statement of Cash Flow is a financial statement for a given period that provides information about an entity’s cash receipts and cash disbursements as they apply to operating, investing, and financing activities.

010219. Subsidiary Records

Subsidiary records are a group of related accounts supporting the balance of a control account in the general ledger. In some cases, a simple file system or the equivalent may be adequate if it substantiates the general ledger account balance. Three typical subsidiary ledgers are accounts receivable, prepaid accounts, and accounts payable.

010220. Summarizing

Summarizing is the process of bringing together financial information to develop financial statements or reports. Examples of the most commonly used financial statements are

the balance sheet, income statement, and statement of cash flows. The balance sheet presents information about the financial condition of a business at a certain point in time. The income statement presents information about the results of operation (i.e., profit or loss) for the accounting period. The statement of cash flows reflects the amount of net cash given to or used by a business during the period from operating activities, investing activities, and financing activities.

010221. Timeliness

Timeliness is prompt reporting of financial information to users for their maximum benefit. Financial data is recorded as soon as practical after the occurrence of a transaction.

0103 ACCOUNTING STANDARDS

010301. Generally Accepted Accounting Principles

The phrase “generally accepted accounting principles” (GAAP) encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. GAAP includes not only broad guidelines of general application, but also detailed practices and procedures. These conventions, rules, and procedures establish a standard by which to measure financial presentations.

A. Judgment. Although there are numerous sources of GAAP, some judgment is necessary to determine whether:

1. The accounting principles selected and applied have general acceptance;
2. The accounting principles are appropriate in the circumstances;
3. Financial statements, including related notes, are informative of matters that may affect their use, understanding, and interpretation;
4. Information presented in the financial statements is classified and summarized in a reasonable manner, i.e., it is neither too detailed nor too condensed; [and](#)
5. Financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, i.e., limits that are reasonable and [attainable](#).

B. Financial Accounting Standards Board Codification. The American Institute for Certified Public Accountants (AICPA) Council designated the Federal Accounting Standards Advisory Board (FASAB) as the body that promulgates GAAP principles for federal entities and the Federal Accounting Standards Board (FASB) as the organization that establishes standards for financial accounting and reporting in the private sector. Since NAFI business operations are similar to the private sector, financial statements are prepared and presented to

comply with accounting standards promulgated by FASB. In July 2009, FASB implemented the FASB Accounting Standard Codification that resulted from a major five year project to develop the codification. FASB Accounting Standards Codification™ is an advanced application that allows users to access authoritative content, perform research, and submit feedback. The Codification application is the single source of authoritative nongovernmental U.S. GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009 and supersedes all previous level GAAP standards. All other accounting literature not included in the Codification is considered non-authoritative. The Codification structure is significantly different from the structure of the previous standards and is composed of the following literature issued by various standard setters:

1. Financial Accounting Standards Board (FASB):
  - a. Statements,
  - b. Interpretations,
  - c. Technical Bulletins,
  - d. Technical Staff Positions, and
  - e. Staff Implementation Guides;
2. Emerging Issues Task Force:
  - a. Abstracts, and
  - b. Topic D;
3. Derivative Implementation Group Issues;
4. Accounting Principles Board Opinions;
5. Accounting Research Bulletins;
6. Accounting Interpretations; and
7. American Institute of Certified Public Accountants:
  - a. Statements of Position,
  - b. Audit and Accounting Guides,
  - c. Practice Bulletins, and
  - d. Technical Inquiry Service.

C. Other Considerations. An important aspect of GAAP, as applied to government entities, is the recognition of the variety of legal and contractual considerations typical of the government environment. These considerations underlie and are reflected in the fund structure, basis of accounting, and other principles that distinguish governmental accounting from private sector accounting. Some of the types of laws and regulations that may have a direct and material effect on the determination of amounts in a NAF activity's financial statements include:

1. Requirements for reporting to DoD and others;
2. Restrictions on the use of appropriated funds;
3. Restrictions on expenditures, including construction;
4. Restrictions on investments; and
5. Laws and regulations for NAF, Civil Service, and military personnel.

010302. Accrual Accounting

NAF organizations use the accrual basis of accounting, except for the fund exclusions noted in [DoDI 1015.15](#), paragraph 2.2. Under accrual accounting, transactions and other economic events are recorded when they occur. Revenues are recognized and reported when earned. Expenses are recognized and reported when incurred. Accrual accounting emphasizes matching revenues and expenses associated with each other in the period in which they occur. Accrual accounting contributes to effective financial control over resources and cost of operations and is essential in developing adequate revenue and cost information.

010303. Accounting Period

The accounting period for DoD NAFIs, except the Armed Services Exchanges, begins October 1 of each year and ends September 30 of the following year, as noted in [DoDI 1015.15](#), paragraph 6.4.2.7.

010304. Accounting Office Responsibilities

Accounting Offices (AOs) provide centralized professional accounting services to supported NAF organizations. AO responsibilities include:

- A. Maintain all books of original entry, the general ledger, and related subsidiary ledgers;
- B. Maintain fixed asset records;

- C. Prepare all disbursement vouchers and checks after assuring availability of funds and pay liabilities of all supported NAF organizations;
- D. Maintain payroll records when needed;
- E. Prepare required periodic financial reports with ratios and percentages as requested. AOs also report variances in relation to established standards or approved budget goals upon request.
- F. Prepare other information when requested by NAF management or higher authority. For example, AOs may supply some financial analysis with an MWR activity's financial statement or provide variance from budget data or historical information for use in preparation of NAF budgets.
- G. Prepare and distribute financial reports to all supported NAF organizations;
- H. Prepare an annual operating budget for the AO. When more than one NAF organization is supported by an AO, then a schedule is prepared that shows the estimated amounts to be assessed each supported NAF organization.
- I. Reconcile the bank accounts of supported NAF organizations. Review daily account balances shown on monthly bank statements to make sure that insurance and collateral are sufficient. Notify NAF managers of missing or delayed deposit or check documentation.
- J. Compute and bill service fees to recover operating costs;
- K. Review documentation for completeness and accuracy;
- L. Provide documentation to internal and external independent auditors, as required;
- M. Prepare aged accounts receivable and accounts payable reports;
- N. Maintain awareness of all changes which affect financial reporting; and
- O. Review requests for making adjustments to fund equity or net worth. Non-receipt of accounting documents or failure to record documents received does not constitute a valid equity adjustment.

010305. Accounting Changes

The term "accounting change" means a change in an accounting principle or an accounting estimate. When an accounting change is made, appropriate footnote disclosure is

required to provide justification for the accounting change and its effect on the financial statements.

A. Change in Accounting Principle. A change in accounting principle results from an adoption of a generally accepted accounting principle different from the one previously used for reporting purposes to include the methods for applying the new principle. A characteristic of a change in accounting principle is that it concerns a choice from among two or more generally accepted accounting principles. In the preparation of financial statements, there is a presumption that an accounting principle, once adopted, is not changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data. Generally, the past financial statements are restated to reflect a change in accounting principle.

B. Change in Accounting Estimate. A change in an estimate used in accounting is a necessary consequence of periodic presentations of financial statements. A change in accounting estimates results from new information or subsequent developments and accordingly from better insight or improved judgment. Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives, and salvage values of fixed assets. Future events and their effects cannot be predicted with certainty. Estimating, therefore, requires the exercise of judgment. Accounting estimates may change as new events occur, as more experience is acquired, or as additional information is obtained. A change in accounting estimate is accounted for prospectively over current and future years which will cause a change to the expense account in future years. Prior years are not restated.

#### 010306. Accounting Errors

Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, oversight, or misuse of facts that existed at the time the financial statements were prepared. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error. The past financial statements are restated to reflect the corrections.

#### 0104 INTERNAL CONTROLS

Services will follow internal control reporting procedures in accordance with [OMB Circular A-123](#), [DoDI 5010.40](#), and [DoDI 1015.15](#).

#### 0105 AUDITS

##### 010501. Policy

DoD policy is to provide adequate audit coverage of NAFIs to include annual financial statement audits. Each Military Service is required to have an annual financial audit of its NAFIs by an independent certified public accountant(s). The primary objectives of such audits

are to determine whether internal control systems are adequate, resources are safeguarded and managed economically and efficiently, applicable laws and regulations are followed, and desired program results are achieved. Particular attention is placed on identifying potential fraud, waste, or abuse in operations. To the extent possible, audits are conducted on a system or functional basis and not an activity basis. The audit should include the verification of accuracy and reliability of the NAFI's automated data processing system. The NAFI community will have access to the results of system or functional audits in the form of reports. DoD personnel, rather than certified public accounting firms, are used for audits involving potential fraud or other serious improprieties. Policies regarding the audit of NAFIs and related activities are prescribed in [DoDI 7600.06, "Audit of Nonappropriated Fund Instrumentalities and Related Activities"](#).

010502. Scheduled Audits

Activities are audited at least annually or as instructed by DoD Component authority. If directives require or circumstances warrant, then additional audits are scheduled.

0106 ANNUAL REPORTING REQUIREMENTS

010601. Reporting

A consolidated financial and management report is prepared annually for each Military Service and joint-Service NAFI as specified in Enclosure 8 of [DoDI 1015.15](#).

010602. Disclosures

Financial reports must include full and adequate disclosure of financial and accounting information in accordance with Volume 13, Chapter 7 and [DoDI 1015.15](#) specific reporting requirements (e.g., disclosure of fund equity adjustments and eliminating entry transactions between NAFIs); this includes Military Service Headquarters, Major Command or Region, and installation NAFIs. Following these requirements ensures that financial and accounting information is properly treated in preparing consolidated reports.

**VOLUME 13, CHAPTER 2: “NONAPPROPRIATED FUND STANDARD GENERAL LEDGER”**

**SUMMARY OF MAJOR CHANGES**

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

Substantive revisions are denoted by an \* 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 2011 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
0202	Extended nonappropriated fund standard general ledger compliance until October 1, 2016 (Reference Deputy Assistant Secretary of Defense (Military Community and Family Policy) memorandum dated August 23, 2013, subject: Department of Defense Financial Management Regulation Implementing a Nonappropriated Fund Standard General Ledger).	Update
References	Added reference list.	Add

Table of Contents

VOLUME 13, CHAPTER 2: “NONAPPROPRIATED FUND STANDARD GENERAL LEDGER” ..... 1

0201 GENERAL ..... 3

\*0202 SCOPE ..... 3

0203 OVERVIEW..... 3

    020301. Basic Structure ..... 3

    020302. Financial Transactions..... 3

0204 NONAPPROPRIATED FUND STANDARD GENERAL LEDGER ACCOUNTS.... 4

    020401. Categories..... 4

    020402. Assets ..... 4

    020403. Liabilities..... 5

    020404. Net Worth..... 6

    020405. Revenue..... 6

    020406. Expenses..... 6

    020407. Cost of Goods Sold ..... 6

    020408. Extraordinary Items..... 6

Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts..... 7

\* REFERENCES ..... 15

## CHAPTER 2

**NONAPPROPRIATED FUND STANDARD GENERAL LEDGER**

## 0201 GENERAL

This chapter prescribes the requirements of the Nonappropriated Fund Standard General Ledger (NAFSGL). The NAFSGL is a modified version of the United States Standard General Ledger and must be used for accounting and financial statement reporting to ensure the information in the financial statements is consistent for all Nonappropriated Fund Instrumentalities (NAFIs). This will provide for standardization and sufficient traceability from the financial statements through the general ledger balances to the source documentation for audit purposes. At a minimum, the NAFSGL is updated annually and is published by the Office of the Under Secretary of Defense (Comptroller) prior to 1 October of each year.

## \*0202 SCOPE

This chapter provides the general ledger account numbers to be used by all NAFIs. The deadline for implementation of the NAFSGL is no later than [October 1, 2016](#). As an interim solution until system changes can be implemented at the transaction level, crosswalks from the NAFIs' chart of accounts to the NAFSGL may be utilized.

## 0203 OVERVIEW

## 020301. Basic Structure

The general ledger accounts are self-balancing (the total debits equal the total credits) and provide for accounting of business events. The Nonappropriated Fund Standard General Ledger Chart of Accounts (Figure 2-1) provides the basic structure for the NAFSGL, identifies, and defines the proprietary accounts to be used in accounting and reporting. The Chart of Accounts contains basic account attributes, including account number, account level, and account title. Each military department will use the accounts required for its particular financial operations. The NAFIs and military departments may not have to use all accounts.

## 020302. Financial Transactions

All resources acquired and used, and valid claims to and against those resources, are to be recorded on the basis of financial transactions. Asset and liability accounts cover the collection and payment of cash, the proper classification of assets (e.g., receivables, prepayments, inventory, and fixed assets), and the recognition and proper classification of liabilities. Revenue and expense accounts measure the realization of revenues from the sale of goods and services, and the recognition of costs through the use and consumption of assets. The financial control over resources provided through accounting records provides managers with a tool that will help effectively discharge their stewardship function for those resources.

## 0204 NONAPPROPRIATED FUND STANDARD GENERAL LEDGER ACCOUNTS

## 020401. Categories

The NAFSGL uses a 4-digit account numbering system. Within the NAFIs, the SGL will be implemented to support financial statement reporting at the Program Group level and the consolidated Military Department level. All data must summarize to the 4-digit SGL accounts and be traceable to the NAFIs using sub-accounts. The definition of each category and the accounts that make up that specific general ledger category are discussed in the following paragraphs. General ledger accounts are grouped into the following major summary categories:

<u>Account Numbers</u>	<u>Category</u>
1000	Assets
2000	Liabilities
3000	Net Worth
4000	Revenue
5000	Expenses
6000	Cost of Goods Sold
7000	Extraordinary Items

## 020402. Assets

Asset accounts are accounted for in the 1000 series. Current asset accounts consist of various cash, investments, receivables, inventory, and prepaid expenses. Noncurrent asset accounts consist of various fixed assets (property, plant, and equipment), pension benefit assets, and other noncurrent assets. Refer to [Volume 13](#), Chapter 3 for more information on assets.

A. Cash/Investments. Cash consists of coins, paper currency, and readily negotiable instruments such as money orders, checks, and bank drafts on hand or in transit for deposit; amounts on demand deposit with banks or other financial institutions; and cash held in petty cash or change funds. Investments consist of: securities purchased for investments, certificates of deposit with a maturity date of less than 1 year, Treasury notes, bonds, and certificates of indebtedness issued by Federal Government agencies, and foreign currency investments.

B. Receivables. Receivables are amounts due from others when the right to receive funds occurs. This may result from amounts owed by employees, customers, and organizations for amounts earned on products sold and services rendered.

C. Other Current Assets. Other current assets are prepaid expenses that are payments and expenditures made in contemplation of future benefits or performance.

D. Inventory. Inventory consists of goods held for sale in the normal course of business, designated as resale inventory items, and warehouse materials not accounted for as prepaid supplies or fixed assets.

E. Fixed Assets. Fixed assets consist of all property, plant, equipment, land improvements, accumulated depreciation, construction in progress, and fixed assets in transit when ownership passes to the NAFI before receiving the asset.

F. Other Noncurrent Assets. Other noncurrent assets consist of long-term pension benefit assets, receivables and investments. Pension Benefit Asset is reported when the Pension Plan is overfunded and is classified as a noncurrent asset. Refer to [\*Statement of Financial Accounting Standards \(FAS\) No. 158\*](#), “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” and [Volume 13](#), Chapter 11 for reporting requirements.

020403. Liabilities

Liabilities are accounted for in the 2000 series. Current liability accounts consist of accounts payable, post-retirement benefit obligations, and other liabilities. Long-term liability accounts consist of loans payable, post-retirement benefit obligations, and other long-term liabilities. Refer to [Volume 13](#), Chapter 3 for more information on liabilities.

A. Accounts Payable. Accounts payable consists of the amounts owed for goods and services.

B. Post-Retirement Benefit Obligation (PBO) - Current. Post-retirement benefit obligation is reported when the Pension Plan is underfunded. This means that the Plan Assets are less than the Plan Benefit Obligation. PBO is classified as a current liability as determined and provided by the Pension Provider. This includes any other post-retirement benefit plan, such as retiree health care. The benefit obligation is the accumulated post-retirement benefit obligation. Refer to FAS No. 158 for reporting requirements.

C. Other Current Liabilities. Other current liabilities consist of various payables, including loans, leases, interest, payroll, taxes, and unearned revenue.

D. Long-Term Loans Payable. Long-term loans payable consists of the amount of loans and notes that will not be paid within 12 months.

E. Post-Retirement Benefit Obligation (PBO) – Long-Term. Post-retirement benefit obligation – long-term is reported when the Pension Plan is underfunded. This means that the Plan Assets are less than the Plan Benefit Obligation and would be classified as a long-term liability as determined and provided by the Pension Provider. This includes any other post-retirement benefit plan, such as retiree health care. The benefit obligation is the accumulated post-retirement benefit obligation. Refer to FAS No. 158 for reporting requirements and [Volume 13](#), Chapter 11.

F. Other Long-Term Liabilities. Other long-term liabilities consist of the amount of leases, loans, claims, and notes that will not be paid within 12 months.

## 020404. Net Worth

Net Worth accounts are accounted for in the 3000 series. Net Worth consists of Retained Earnings, Contributed Capital, Minimum Pension Liability Adjustment, and other equity transactions pursuant to [DoDI 1015.15](#), paragraph 6.4.2.4. The Minimum Pension Liability Adjustment account is any adjustment made to the existing pension balances in the Balance Sheet. These adjustments will be posted as an offset to the equity account in the Balance Sheet and can be either an addition or reduction to Net Worth. These temporary adjustments are treated in the Net Worth section of the Balance Sheet in the same manner as the “unrealized gains/losses on investments” pursuant to [FAS No. 115](#), “Accounting for Certain Investments in Debt and Equity Securities.” In addition, these temporary adjustments are not calculated in the net worth calculation. Refer to [FAS No. 158](#) for reporting requirements.

## 020405. Revenue

Revenue accounts are accounted for in the 4000 series. Revenue consists of income earned from the sale of goods or services, contributions, interest, and dividends. Revenue is classified as operating and non-operating. Operating revenue accounts are 4010 – 4120. Non-operating revenue accounts are 4130 - 4240. Refer to [Volume 13](#), Chapter 5 for more information on revenue.

## 020406. Expenses

Expense accounts are accounted for in the 5000 series. Expenses consist of operating expenses, non-operating expenses, and program costs including depreciation and interest. Refer to [Volume 13](#), Chapter 5 for more information on expenses.

## 020407. Cost of Goods Sold

Cost of Goods Sold accounts are accounted for in the 6000 series. The total cost of inventory sold includes materials, direct labor, and overhead. Refer to [Volume 13](#), Chapter 5 for more information on the Cost of Goods Sold calculation.

## 020408. Extraordinary Items

Extraordinary items are accounted for in the 7000 series. Extraordinary items consist of costs or income so unusual in type or amount as to be accorded special treatment in the accounts or separate disclosure in financial statements. Extraordinary items are also unusual and unexpected events. Although the normal balance for this account is a credit, it is acceptable in certain instances for this account to have a debit balance. Refer to [Volume 13](#), Chapter 5 for more information on extraordinary items.

Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts

**Nonappropriated Fund Standard General Ledger  
Chart of Accounts**

<u>Account Number</u>	<u>Title</u>	<u>Normal Balance</u>
<b>1000</b>	<b>ASSETS</b>	
	<b>CASH/INVESTMENTS</b>	
1110	Cash	Debit
1111	Cash-U.S. Checking	Debit
1112	Change Fund	Debit
1113	Petty Cash	Debit
1114	Cash-Foreign Currency	Debit
1120	Savings Account	Debit
1130	Marketable Securities	Debit
1140	Other Short-Term Investments	Debit
	<b>RECEIVABLES</b>	
1210	Customer Accounts Receivable	Debit
1211	Exchange Service Dividend Receivable	Debit
1212	Gaming Machine Profit Distribution Receivable	Debit
1213	Claims Receivable	Debit
1214	Commercial Credit Card Receivable	Debit
1215	Concessionaire Receivables	Debit
1220	Deposits Receivable	Debit
1230	NAFI Receivables	Debit
1240	Returned Check Receivable	Debit
1250	Employee Receivable	Debit
1260	Accrued Interest Receivable	Debit
1270	Loans Receivable	Debit
1280	Morale, Welfare, and Recreation (MWR) Utilization, Support, and Accountability (USA) Receivable	Debit
1290	Other Current Receivables (Specify)	Debit
1299	Allowance for Doubtful Accounts	Credit

\*Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts (Continued)

**Nonappropriated Fund Standard General Ledger  
Chart of Accounts**

<u>Account Number</u>	<u>Title</u>	<u>Normal Balance</u>
<b>1000</b>	<b>ASSETS (continued)</b>	
	<b>OTHER CURRENT ASSETS</b>	
1310	Travel Advances	Debit
1320	Prepaid Contracts	Debit
1330	Prepaid Insurance	Debit
1340	Prepaid Rent	Debit
1350	Prepaid Supplies	Debit
1360	Prepaid Tax and License	Debit
1370	Other Prepaid Expenses (Specify)	Debit
	<b>INVENTORY</b>	
1410	Inventory Warehouse/Storeroom	Debit
1420	Inventory Sales Outlet Resale	Debit
1430	Inventory In-Transit	Debit
	<b>FIXED ASSETS</b>	
1510	Land Improvements	Debit
1511	Accumulated Depreciation on Land Improvements	Credit
1520	Construction in Progress	Debit
1530	Buildings and Improvements	Debit
1531	Accumulated Depreciation on Buildings and Improvements	Credit
1540	Furniture and Fixtures	Debit
1541	Accumulated Depreciation on Furniture and Fixtures	Credit
1550	Equipment	Debit
1551	Accumulated Depreciation on Equipment	Credit
1560	Internal-Use Software	Debit
1561	Accumulated Amortization on Internal-Use Software	Credit
1570	Fixed Assets in Transit	Debit
1580	Buildings and Improvements-Government Titled	Debit

\*Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts (Continued)

**Nonappropriated Fund Standard General Ledger  
Chart of Accounts**

<u>Account Number</u>	<u>Title</u>	<u>Normal Balance</u>
<b>1000</b>	<b>ASSETS (continued)</b>	
	<b>FIXED ASSETS (continued)</b>	
1581	Accumulated Depreciation on Buildings and Improvements- Government Titled	Credit
	<b>OTHER NONCURRENT ASSETS</b>	
1610	Pension Benefit Asset	Debit
1620	Long-Term Receivables	Debit
1630	Sinking Fund	Debit
1640	Long-Term Investments	Debit
<b>2000</b>	<b>LIABILITIES</b>	
	<b>CURRENT LIABILITIES</b>	
2100	Accounts Payable	Credit
2200	Post-Retirement Benefit Obligation - Current	Credit
2300	Other Current Liabilities	Credit
2310	Short-Term Loan Payable	Credit
2320	Short-Term Lease Payable	Credit
2330	Dividends Payable	Credit
2340	Vending Machine Revenue Sharing Payable	Credit
2350	Gaming Machine Profit Distribution Payable	Credit
2360	Interest Payable	Credit
2370	Salaries Payable	Credit
2371	Leave Payable	Credit
2372	Payroll Taxes Payable	Credit
2373	Benefits Payable	Credit
2374	Other Payroll Deductions Payable (Specify)	Credit
2375	Appropriated Fund (APF) Payroll Payable	Credit
2376	Employee Allowance Payable	Credit

\*Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts (Continued)

**Nonappropriated Fund Standard General Ledger  
Chart of Accounts**

<u>Account Number</u>	<u>Title</u>	<u>Normal Balance</u>
<b>2000</b>	<b>LIABILITIES (continued)</b>	
	<b>CURRENT LIABILITIES (continued)</b>	
2377	Claims Payable	Credit
2380	Uniform Funding and Management ( UFM) Unearned Revenue	Credit
2390	Unearned Revenue (Specify)	Credit
2410	Flexible Spending Accounts Payable	Credit
2420	Deposits Payable	Credit
2430	Other Current Liabilities (Specify)	Credit
	<b>LONG TERM LIABILITIES</b>	
2510	Long Term Loans Payable	Credit
2520	Post-Retirement Benefit Obligation – Long Term	Credit
2530	Long-Term Leases Payable	Credit
2540	Other Long Term Liabilities (Specify)	Credit
<b>3000</b>	<b>NET WORTH</b>	
3010	Retained Earnings	Credit
3020	Contributed Capital	Credit
3030	Minimum Pension Liability Adjustment	Credit
3040	Other Equity Transactions	Credit
<b>4000</b>	<b>REVENUE</b>	
	<b>OPERATING REVENUE</b>	
4010	Sales	Credit
4011	Sales Returns and Allowances	Debit
4012	Sales Discounts	Debit

\*Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts (Continued)

**Nonappropriated Fund Standard General Ledger  
Chart of Accounts**

<u>Account Number</u>	<u>Title</u>	<u>Normal Balance</u>
<b>4000</b>	<b>REVENUE (continued)</b>	
	<b>OPERATING REVENUE (continued)</b>	
4020	Participation Fees and Charges	Credit
4030	Other Service/Recreation Activity Income (Specify)	Credit
4040	Other Fee Income (Specify)	Credit
4050	Dues and Assessment Income	Credit
4060	Amusement Machine Income	Credit
4070	Commission Income	Credit
4080	Concessionaire Income	Credit
4090	Gaming Machine Income	Credit
4110	Commercial Sponsorship Income	Credit
4120	Recyclable Material Income	Credit
	<b>NON-OPERATING REVENUE</b>	
4130	Exchange Dividend Income	Credit
4140	U.S. Department of Agriculture Income	Credit
4150	Morale, Welfare and Recreation (MWR) Utilization, Support and Accountability (USA) Income	Credit
4160	Cash Overage	Credit
4170	Contributions and Donations	Credit
4180	Intrafund Income	Credit
4190	Interest Income	Credit
4210	Other Income (Specify)	Credit
4220	Gain on Disposition of Fixed Assets	Credit
4230	Gain on Foreign Currency	Credit
4240	Grant Income	Credit
<b>5000</b>	<b>EXPENSES</b>	
	<b>OPERATING EXPENSES</b>	
5010	Salaries and Wages Expense	Debit
5020	Capitalized Labor Cost	Debit

Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts (Continued)

**Nonappropriated Fund Standard General Ledger  
Chart of Accounts**

<u>Account Number</u>	<u>Title</u>	<u>Normal Balance</u>
<b>5000</b>	<b>EXPENSES (continued)</b>	
	<b>OPERATING EXPENSES (continued)</b>	
5030	Annual Leave Expense	Debit
5040	Sick Leave Expense	Debit
5070	Foreign National (FN) Benefits Expense	Debit
5080	Other Employee Benefit Expense (Specify)	Debit
5090	Spoilage, Breakage, and Obsolescence	Debit
5110	Promotion Expense	Debit
5120	Advertising Expense	Debit
5130	Child Care Food Expense	Debit
5140	Manager's Expense	Debit
5150	Sports Activities Expense	Debit
5160	Amenities Expense	Debit
5170	Supplies Expense	Debit
5180	Laundry and Dry Cleaning Expense	Debit
5190	Tableware, Kitchenware, Linen and Uniform Expense	Debit
5220	Professional Membership Expense	Debit
5230	Training Expense	Debit
5240	Travel Expense	Debit
5250	Building & Structures Maintenance and Repair Expense	Debit
5260	Vehicle, Boat, Aircraft Maintenance and Gas Expense	Debit
5270	Vehicle Registration Program Expense	Debit
5280	Awards and Prizes	Debit
5290	Official Hosting and Representation Expense	Debit
5310	Entertainment Expense	Debit
5320	Printing Expense	Debit
5330	Program and Brochure Expense	Debit
5340	Volunteer Service Expense	Debit
5350	Bank and Service Charge Expense	Debit
5360	Credit Card Expense	Debit

Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts (Continued)

**Nonappropriated Fund Standard General Ledger  
Chart of Accounts**

<u>Account Number</u>	<u>Title</u>	<u>Normal Balance</u>
<b>5000</b>	<b>EXPENSES (continued)</b>	
	<b>OPERATING EXPENSES (continued)</b>	
5370	Contractual Expense	Debit
5380	Administrative Common Support Service	Debit
5390	401K Administrative Surcharge Expense	Debit
5410	Claims Expense	Debit
5420	Dividend Expense	Debit
5430	Grants Expense	Debit
5440	Vending Machine Income Sharing Expense	Debit
5450	Utilities Expense	Debit
5460	Cable/Satellite Service Expense	Debit
5470	Communications Expense	Debit
5480	Freight Expense	Debit
5490	Rent Expense	Debit
5510	Insurance Expense	Debit
5520	Subscription and Dues	Debit
5530	Tax and License Expense	Debit
5540	Late Payment Interest Expense	Debit
5550	Minor Property and Equipment Expense	Debit
5560	Franchise/Royalties Expense	Debit
5570	Audit Expense	Debit
5580	Appropriated Fund (APF) Payroll Expense	Debit
5610	Other Expense (Specify)	Debit
5640	Unit Allocation	Debit
5660	Internet Expense	Debit
5670	Flexible Spending Account Admin Fee	Debit
	<b>NON-OPERATING EXPENSES</b>	
5210	Intrafund Expense	Debit
5590	Cash Shortage	Debit
5680	Bad Debt Expense	Debit

Figure 2-1 Nonappropriated Fund Standard General Ledger Chart of Accounts (Continued)

**Nonappropriated Fund Standard General Ledger  
Chart of Accounts**

<u>Account Number</u>	<u>Title</u>	<u>Normal Balance</u>
<b>5000</b>	<b>EXPENSES (continued)</b>	
	<b>NON-OPERATING EXPENSES (continued)</b>	
5690	Prior Period Expense	Debit
5710	Loss on Disposition of Fixed Assets	Debit
5720	Loss on Foreign Currency	Debit
<b>6000</b>	<b>COST OF GOODS SOLD</b>	
6010	Purchases – Resale	Debit
6011	Purchases Returns and Allowances – Resale	Credit
6012	Freight – Resale	Debit
6013	Vendor Rebates – Resale	Debit
<b>7000</b>	<b>EXTRAORDINARY ITEMS</b>	
7100	Extraordinary Income (Specify)	Credit
7200	Extraordinary Expense (Specify)	Debit
7300	Base Realignment & Closure (BRAC) and Installation Closure Expense	Debit

**\* REFERENCES**

- A. Financial Accounting Standard 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, [http://www.fasb.org/pdf/aop\\_FAS158.pdf](http://www.fasb.org/pdf/aop_FAS158.pdf)
- B. DoD Instruction (DoDI) 1015.15, Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources; <http://www.dtic.mil/whs/directives/corres/pdf/101515p.pdf>
- C. Financial Accounting Standard 115, Accounting for Certain Investments in Debt and Equity Securities; <http://www.fasb.org/st/summary/stsum115.shtml>

**VOLUME 13, CHAPTER 3: “ASSETS, LIABILITIES, AND NET WORTH”****SUMMARY OF MAJOR CHANGES**

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

Substantive revisions are denoted by an \* 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 September 2008 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
0302	Added definitions for various current asset accounts and reformatted for clarity.	Add
030205.A	Renamed Accounts Receivable to Customer Accounts Receivable.	Update
030205.M	Renamed Uniform Funding and Management (UFM) Receivable to Morale, Welfare, and Recreation (MWR) Utilization Support and Accountability (USA) Receivable.	Update
0303	Added definitions for various noncurrent asset accounts and reformatted for clarity.	Add
0304	Added definitions for various current liability accounts. Moved Section 0402 from Chapter 4 and reformatted for clarity.	Add
0305	Added definitions for various long term liability accounts. Moved Section 0403 from Chapter 4 and reformatted for clarity.	Add
0306	Moved Section 0404 from Chapter 4 for payment of liabilities.	Add
0307	Added definitions for Net Worth.	Add

## Table of Contents

VOLUME 13, CHAPTER 3: “ASSETS, LIABILITIES, AND NET WORTH” .....	1
0301 OVERVIEW.....	3
030101. Purpose.....	3
030102. Scope .....	3
0302 CURRENT ASSETS.....	3
*030201. Cash.....	3
*030202. Savings Accounts .....	5
*030203. Marketable Securities .....	5
*030204. Other Short Term Investments .....	5
*030205. Receivables.....	6
030206. Prepaid Expenses.....	7
*030207. Inventory .....	8
0303 NONCURRENT ASSETS .....	9
*030301. Fixed Assets .....	9
*030302. Other Noncurrent Assets .....	14
0304 CURRENT LIABILITIES .....	15
*030401. Current Liabilities Include .....	15
0305 LONG TERM LIABILITIES.....	17
*030501. Long Term Liabilities Include.....	17
030502. Recognition of Liabilities.....	17
030503. Contingent Liabilities .....	17
030504. Accountability for Liabilities .....	18
0306 PAYMENT OF LIABILITIES.....	18
030601. Documentation Required for Payment.....	18
030602. Purchases from Other NAFIs .....	18
030603. Purchases from the Government .....	19
030604. Purchase Orders, Vendor Invoices, and Receiving Reports.....	19
030605. Discounts.....	19
030606. Prompt Payment Act .....	19
0307 NET WORTH .....	19
*030701. Net Worth Includes .....	20
030702. Accounting for Net Worth.....	20

## CHAPTER 3

ASSETS, LIABILITIES, AND NET WORTH

## 0301 OVERVIEW

## 030101. Purpose

This chapter prescribes the standard policies for Nonappropriated Fund (NAF) assets, liabilities, and net worth. The [Department of Defense Instruction \(DoDI\) 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources"](#) assigns responsibilities and sets policy for the Nonappropriated Fund Instrumentalities (NAFIs). NAFI programs and facilities shall be operated, maintained, and funded as an integral part of the personnel and readiness program.

## 030102. Scope

Policies in this chapter apply to all Nonappropriated Fund Instrumentalities (NAFIs) and their supporting accounting offices (AOs) except the Armed Service Exchanges.

## 0302 CURRENT ASSETS

Current assets are those items of cash and other assets or resources that are reasonably expected to be converted to cash or consumed during the normal operating cycle (12 months). These include cash and cash equivalents, short term investments, accounts receivable, inventories, and prepaid expenses.

## \*030201. Cash

Cash consists of amounts on deposit with banks or other financial institutions, coins, paper currency and readily negotiable instruments, including money orders, checks and bank drafts on hand or in transit for deposit. The majority of accounting transactions affect the cash account at one time or another. NAFs must be maintained in financial institutions that are United States (U.S.) federally insured or designated by the Department of Treasury.

A. [Cash - U.S. Checking](#). This general ledger account is for funds deposited in a bank and items that a bank will accept for immediate deposit including paper money, coins, checks and money orders.

1. [Reconciliation of Bank Accounts](#). Designated accounting personnel must reconcile all bank statements or reports on a monthly basis. Any discrepancies found are reported immediately to NAFI management. [To maintain separation of duties, the person performing the reconciliations can not be the check writer.](#)

2. [Blank Check Stock](#). The AO may designate someone to maintain the records and control the blank check stock, but for security reasons [the person](#) can not be one of

the check writers. Checks are sequentially pre-numbered and stored in a locked container. The container should be either a built-in vault or safe that is burglary resistant and fire resistant for a minimum period of two hours. For additional guidelines on securing blank check stock, refer to DoDFMR Volume 5, Chapter 7.

3. Check Signing Equipment. There are three components to check signing equipment: a signature plate, a key to the machine, and the machine itself. The signatory maintains the signature plate and a designated person, other than the signatory, maintains the key to the machine. The designated person who holds the key maintains a log to record machine usage. Whenever operating the machine, the authorized operator enters the beginning and ending readings, date, and initials in the log. In addition to signature plates, there are other media acceptable for signing checks, e.g., digitized signatures. For comprehensive guidance on check signing machines, refer to Volume 5, Chapter 7.

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

B. Change Funds. This general ledger account is for funds used in daily operations to make change and cash checks.

1. Accounting for change funds. Upon initial issuance of the change fund, the NAFI's cash account is reduced and the appropriate asset account (change funds issued) is increased. Increases to these funds must be requested from the NAFI custodian in writing. The AO issues a check for the approved amount and increases the asset account accordingly.

2. Replenishment of change funds. The NAFI manager or designee may replenish the funds at the end of the day with cash received from operations as long as all the daily receipts are deposited in total. Before replenishing the funds, the NAFI manager or designee must ensure that all checks cashed from these funds are deposited daily. In no case will the NAFI manager or designee exchange dollars for foreign currency, except as provided in 030201.D.

C. Petty Cash Funds. This general ledger account is for fixed amounts established by the NAFI to handle minor disbursements. Disbursements from the petty cash fund are recorded to the applicable expense accounts in the month that the petty cash is disbursed by the custodian.

1. Establishing a petty cash fund. Each NAFI must comply with the following guidelines when establishing a petty cash fund:

a. Each manager within a NAFI appoints, in writing, individuals to act as petty cash custodians.

b. The amount of a petty cash fund will not exceed one month's requirements.

c. Any one transaction will not exceed \$500 and transactions will not be fragmented to circumvent this limitation. A higher limit may be approved by the Military Service Proponent for NAF Financial Management for purchases made in foreign currency, if currency rates so warrant. This increase must be reviewed on an annual basis.

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

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

2. Replenishment of petty cash funds. The AO provides the fixed amount to the individual appointed as the petty cash custodian. Disbursements are made by the custodian and a petty cash voucher is completed to support each transaction. The custodian will submit a request with the petty cash vouchers and receipts (or equivalent) to the AO to replenish the petty cash fund as needed, but not later than the last day of each month. The AO will issue a check payable to the petty cash custodian, by name, to reimburse the fund.

D. Cash - Foreign Currency. This general ledger account is the U.S. dollar equivalent of foreign government currency. This account is used for all foreign currency receipts and disbursement held on deposit by NAFIs outside the continental U.S. For guidance on exchange rate fluctuations, refer to section 1304 of Volume 5, Chapter 13.

\*030202. Savings Accounts

This general ledger account is for short term investments of funds not needed immediately for daily operations, but readily available. Savings accounts must be in an interest bearing account and in federally insured banks, credit unions, or savings institutions.

\*030203. Marketable Securities

This general ledger account is for readily tradable obligations of Government agencies, and obligations issued by U.S. Government-sponsored enterprises and securities. The securities are guaranteed by the full faith and credit of the U.S. Government with quoted prices which can be easily converted into cash within one year. For further guidance on investment policy, refer to Enclosure 9 in DoDI 1015.15.

\*030204. Other Short Term Investments

This general ledger account is for the repurchase and reverse repurchase agreements and Institutional Government Money Market Funds, certificates of deposits or other investments owned by the NAFI and for cash restricted for a specific short term purpose (e.g., severance pay and separation). For further guidance on investment policy, refer to Enclosure 9, DoDI 1015.15.

\*030205.      Receivables

Receivables are amounts owed to the NAFIs for sales of merchandise, services, or dues. Receivables may result from amounts owed by employees, members, customers, and organizations for dues, fees, charges, rentals, credit sales, or travel advances. Records are maintained to ensure transactions accurately identify debt and its respective debtor. Receivable subsidiary records are reconciled on a monthly basis to the general ledger control accounts.

A.      Customer Accounts Receivable. This general ledger account records amounts in customer receivables which result from an in-house credit (charge) for sales of merchandise, services, or dues. This includes customers for rentals, child development and youth centers, merchandise, hotel, lodging, layaway sales, and other services.

1.      Accounting for Customer Accounts Receivable. A subsidiary ledger is maintained for each individual account. Dues are charged monthly where applicable. Monthly statements are sent to members or participants of the NAFIs that permit charge sales, charge dues, or deferred payments.

2.      Aged Customer Accounts Receivable Reports. An aged customer accounts receivable report is prepared for all NAFIs with internal credit systems. Account balances are due and payable on the first day after the statement date of the month in which credit was extended. Current month dues are treated the same as current month charge sales and normally become payable the first day after the statement date. If the DoD Component authorizes delinquent fees, then they are established as a customer receivable and charged to the delinquent account each month. The aging report, at a minimum, will include the following: over 30 days (second billing statement), over 60 days (third billing statement), and over 90 days (fourth billing statement).

B.      Exchange Service Dividend Receivable. This general ledger account is for amounts due from the Armed Service Exchanges as part of their distribution.

C.      Gaming Machine Profit Distribution Receivable. This general ledger account is for the amount due from slot machines.

D.      Claims Receivable. This general ledger account is for amount due for destruction or losses (e.g., fire, theft, or other causes) covered under the self insured program.

E.      Commercial Credit Card Receivable. This general ledger account is for the amount due from banks for customer sales made via commercial credit cards.

F.      Concessionaire Receivables. This general ledger account is for the amount that is due from concessionaire and commission fees.

G.      Deposits Receivable. This general ledger account is for the amount due for deposits made in connection with the purchase of goods or services.

H. NAFI Receivables. This general ledger account is for the amounts due from other NAFIs for services and supplies.

I. Returned Check Receivable. This general ledger account is for the amount due for returned checks dishonored by financial institutions.

J. Employee Receivable. This general ledger account is for the amount due from employees for payments made due to insufficient earnings for such things as insurance premiums and retirement arrearages.

K. Accrued Interest Receivable. This general ledger account is for the amount due from interest earned but not received at the end of an accounting period, such as from savings accounts, investments, and contracts.

L. Loans Receivable. This general ledger account is for the amount due within one year for loans to NAFIs.

M. Morale, Welfare, and Recreation (MWR) Utilization, Support, and Accountability (USA) Receivable. This general ledger account consists of funds due from the U.S. Treasury for costs which are authorized reimbursement from appropriated funding and which are stipulated within Memorandums of Agreement (MOAs) between the MWR Fund and the Government.

N. Other Current Receivables (Specify). This general ledger account is for the amount of other receivables for which an account has not been established such as, travel advances, amounts due from higher headquarters for grants and other payments, and amounts due from outside entities.

O. Allowance for Doubtful Accounts. When using the allowance method for bad debts, NAFIs must determine and record the amount of accounts receivable estimated to be uncollectible at the end of each reporting period. The amount to record as estimated is based on a review of the average write-offs of accounts receivable, which is based on historical data. Adjust the allowance for doubtful accounts to cover those accounts expected to become uncollectible during the next reporting period.

#### 030206. Prepaid Expenses

Payments made for expenses that apply to a specific period of time are amortized over that period. Any unexpired portion of that expense is shown as a prepaid asset. General ledger accounts for prepaid expenses include prepaid travel advances, contracts, insurance, rent, supplies, taxes and licenses. Other prepaid expenses include tableware, kitchenware, glassware, linens, uniforms and prepaid bingo prizes. Advance payments for maintenance, rent and insurance are examples of expenses that span numerous months. The accounting principle of materiality should be considered before employing the prepaid concept. An advance or prepayment is never amortized for more than its expected usage. Monthly expenses are computed and prorated over each month of the period covered by the advance payment. Supplies are expensed based on

expected usage provided by the NAFI custodian. The unexpired prepaid expense subsidiary is reconciled to the related control account.

\*030207. Inventory

Inventory is merchandise or supplies on hand or in transit at a particular point in time. Inventory held for sale or resale consists of goods to be sold in the normal course of business. A value is assigned which represents the cost of acquisition. When the goods are sold, the value assigned is used to determine profit for the accounting period as shown on the income statement and to properly report assets on the balance sheet at the end of the accounting period.

A. Inventory Warehouse/Storeroom. This general ledger account consists of the value of the bulk, volume, or secured storage of resale and/or supplies inventory.

B. Inventory Sales Outlet Resale. This general ledger account consists of the value of resale merchandise on hand at the end of the accounting period in the outlet stores.

C. Inventory In-Transit. This general ledger account consists of inventory where title has passed to the NAFI, but the inventory has not been received at a NAFI warehouse.

D. Accounting for Inventory

1. Inventory Subsidiary. All items are recorded at cost. Cost is the purchase price less trade and cash discounts. If cash discounts are not material to warrant changing individual prices, then the amount of the discount is credited to the purchases account and not to individual items. Discounts lost and excise taxes paid are not included in the cost of merchandise but are recorded in the applicable operating expense account. The cost of merchandise will include freight, insurance, and handling charges if they can be associated to specific items. If they cannot be identified to specific items, then record directly against the appropriate expense account.

2. Stock Record. The stock record is used to record resale merchandise and supplies in a warehouse or storeroom. It requires a complete description of the merchandise and all pertinent information regarding receipt and issue.

3. Spoilage, Breakage, Obsolete Material, Customer Complaint or Reject Items. Immaterial losses of inventory resulting from spoilage, breakage, obsolescence, rejection, or constant customer complaint items are absorbed in cost of goods. Material losses are recorded in a Spoilage and Breakage expense account for the applicable operation.

4. Consigned Merchandise and Tickets. Merchandise held on consignment is maintained and accounted for by the consignor. NAFIs only maintain inventory of consigned merchandise for accountability purposes. These items are physically inventoried monthly or at the end of an event for tickets (whichever comes first). This inventory is not recorded in the general ledger.

**E. Physical Counts of Inventory.** Inventories are required to be physically counted. The following are policies related to physical inventories of merchandise.

1. The inventory list is printed in the same sequence in which the merchandise is stored or arranged for display or in stock record number sequence.
2. A cutoff date is established for sales, issues, returns, adjustments, and transfers so inventory quantities and related accounting entries can be recorded.
3. Merchandise received during the inventory count is not counted unless the payable or payment will be recorded in the general ledger as of the inventory cutoff date.
4. Merchandise sold during the physical count is included in the inventory count. The merchandise is not included in the count if the related sale and receivable or cash received will be recorded in the general ledger after the inventory cutoff date.
5. Physical inventory is conducted separately for each department.
6. Inventories of merchandise held on consignment are separate from NAFI owned merchandise. Inventory lists are prepared for each owner of the goods.
7. At the conclusion of the inventory count, any discrepancies are provided to the NAFI custodian for resolution. The general ledger is then adjusted to match the physical count that was observed by the observation team.

**F. Physical Inventory Observation.** At least annually, the physical inventory counts are observed by at least one person who is independent of the NAFI conducting the physical count. The objective of the count is to **verify** the inventory to determine the accuracy of the accounting records. Since it is frequently impractical to observe all physical inventories at one time, the observations may be staggered throughout the year.

### 0303 NONCURRENT ASSETS

Long term, tangible assets that will not be converted to cash or consumed during the next 12 months are classified as noncurrent. These assets are expected to benefit NAFIs for more than one accounting period. Noncurrent assets include fixed assets, land, leases, long term investments, long term loans, long term receivables, and long term prepaid expenses.

#### \*030301. Fixed Assets

Fixed assets are defined as property, plant and equipment purchased, donated, or transferred to NAFIs that have an expected life of two or more years and have an acquisition cost of \$2,500 or more. They include capital assets such as **land improvements, construction in progress, buildings and improvements, equipment, furniture, fixtures, internal use software, tools, machinery, and livestock.** Intangibles are excluded from this category.

A. Land Improvements. This general ledger account is for the amount paid for improvements to land for use in walkways, driveways, fences, retaining walls, landscaping and parking lots. (NAFIs are located on government owned land and do not record the value of the land.)

B. Accumulated Depreciation on Land Improvements. This general ledger account is used to accumulate depreciation for land improvements.

C. Construction In Progress. This general ledger account is for the accumulated costs of a construction project, which is not yet completed. This includes all costs associated with placing the asset in service such as construction of a new building or renovation of an existing building. Upon completion, the item is reclassified as a capital asset and depreciated accordingly.

D. Buildings and Improvements. This general ledger account is for the capitalized cost of buildings and improvements paid with Nonappropriated Funds.

E. Accumulated Depreciation on Buildings and Improvements. This general ledger account is used to accumulate depreciation for buildings, improvements, and renovations paid for with Nonappropriated Funds.

F. Furniture and Fixtures. This general ledger account is for the capitalized cost of furniture and fixtures purchased, donated, or transferred.

G. Accumulated Depreciation on Furniture and Fixtures. This general ledger account is used to accumulate depreciation for the capitalized cost of furniture and fixtures.

H. Equipment. This general ledger account is for the capitalized cost of equipment purchased, donated, or transferred.

I. Accumulated Depreciation on Equipment. This general ledger account is used to accumulate depreciation for equipment.

J. Internal-Use Software. This general ledger account is for the capitalized cost of internal-use software including (1) purchased off-the-shelf software, (2) contractor-developed software subject to amortization, and (3) internally developed software subject to amortization.

K. Accumulated Amortization on Internal-Use Software. This general ledger account accumulates amortization for internal-use software. Internal-use software will be amortized in a systematic and rational manner over the estimated useful life of the software. Software acquired for research and development with no alternative future use will be amortized over the period of the project as opposed to the normal life-cycle amortization.

L. Fixed Assets in Transit. This general ledger account consists of assets where title has passed to the NAFI, but the assets have not yet been received. For additional information, refer to paragraph 030301.O.5, of this chapter.

M. Buildings and Improvements-Government Titled. This general ledger account is for the cost of Federal Government-owned buildings acquired for and used in providing NAFI services or goods which includes the cost of renovation, improvement, restoration, or reconstruction of buildings.

N. Accumulated Depreciation on Buildings and Improvements-Government Titled. This general ledger account is used to accumulate depreciation for buildings, improvements, and renovations.

O. Accounting for Fixed Assets. Fixed assets purchased with nonappropriated funds, donated, or transferred to a NAFI with a useful life expectancy of two or more years and an acquisition cost of \$2,500 or more shall be capitalized.

1. Acquisition Cost. Unless otherwise stated in the following subparagraphs, fixed assets are recorded at cost plus any expenditures necessary to place those assets into use as intended (e.g., installation, freight, testing, and legal fees to establish title). The NAFI can apply purchase discounts to reduce these costs; however, late payment interest penalties are not to be capitalized. Interest expenses incurred as part of the acquisition cost of fixed assets will be capitalized.

a. Assets Purchased in Quantity. Like items purchased in a quantity in excess of one, must individually meet the capitalization threshold in accordance with the appropriate Military Service guidance. All other criteria for fixed assets must be met.

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

c. Trade-In Assets. When an asset is traded in at the time of purchase, the new asset is recorded at the amount of the monetary consideration paid, plus the trade-in allowance for the old asset. The acquisition cost and accumulated depreciation of the traded-in asset are removed from the accounting records. If the trade-in allowance is less than the book value of the old asset, then a loss will result. These losses are recorded as "other expenses" in the records of the NAFI. If the trade-in allowance is more than the book value of the old asset, then the difference is subtracted from the acquisition cost of the new asset. No gain is recognized.

d. Construction-in-Progress. Construction-in-progress includes all costs attributable to a construction project (i.e., building and improvements). This includes, but is not limited to, construction of new buildings, renovation of existing buildings, and fixed assets which are purchased as part of the project. The AO records amounts based on the documentation supporting the contract completion. When progress payments to contractors are based on a

percentage completion clause, record the amount of payments due or paid. In addition to costs related to a construction project, fixed assets received but not billed may be recorded. The AO will transfer the cost of construction-in-progress to the appropriate fixed asset account and commence depreciation when the final payment is disbursed. NAFI management establishes the facility depreciation periods according to Table 6-1 in Volume 4, Chapter 6.

e. Donated or Transferred Assets. Assets donated or transferred without the expenditure of funds are recorded at the fair market value on the date the asset was donated or transferred. If the fair market value cannot be determined, then the amount recorded is the book value of the donated asset in the donor's accounting records.

f. Nonmonetary Exchanges. When assets are exchanged between NAFIs without monetary consideration, it is called a nonmonetary exchange. The assets received in such exchanges are recorded on the books of the gaining NAFI at the net book value of the losing NAFI. The offsetting entry is to the [gain or loss of disposition of fixed asset accounts](#) on both the gaining and the losing NAFI.

g. Appropriated Fund (APF) Property Obtained for Free. These assets are recorded separately from other fixed assets because title and control of these assets remains with APFs. For APF fixed assets expected to benefit more than one accounting period, any acquisition costs such as repairs, transportation, installation, and any subsequent outlays that extend the useful life of the asset are recorded and depreciated over the useful life of the asset. For APF fixed assets held one year or less, all costs are an expense for the period the asset is held.

h. Uniform Funding and Management (UFM) Fixed Assets. [Fixed assets acquired through UFM process shall be expensed and offset with UFM funds at the time of purchase and not depreciated. These assets will be recorded in the NAFI fixed assets records for inventory and control purposes with a zero acquisition value. UFM fixed assets are considered NAFI assets and the proceeds from disposal shall revert to the NAFI.](#)

2. Leases. Leases may be used for equipment or for real property and are categorized as either a capital lease or an operating lease.

a. Capital Leases. A capital lease is based on the concept that a lease transfers substantially all of the benefits and risk as to the ownership of equipment to the lessee. The lease is recorded as an asset by the lessee and is amortized in a manner similar to depreciating assets if one of the following conditions [is](#) met:

(1) The lease transfers ownership of the asset to the lessee at the end of the lease term.

(2) The lease contains a purchase option.

(3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property. If the beginning of the lease term falls within the

last 25 percent of the total estimated economic life of the leased property, including earlier years of use, then this criterion is not used for the purposes of classifying the lease.

(4) The present value at the beginning of the lease term of the minimum lease payments, excluding the portion of payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including profit therein, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor.

b. Operating Leases. If none of the conditions of capital leases are met, then the lease is an operating lease. Payments on an operating lease are charged to expense over the lease term as it becomes payable. If payments are not made on a straight line basis, then the expense remains recognized as a straight line transaction. An exception to this is another systematic and rational basis which is more representative of the time pattern in which the leased property benefits are derived.

c. Disclosures. If either capital or operating leases are material, then information concerning the leases is disclosed in the NAFI financial statements or the footnotes.

3. Subsequent Expenditures. Subsequent expenditures for fixed assets fall into three categories: repair and maintenance, improvements, and additions. **The objective is to match the expenditures with the period benefited. Therefore, expenditures which benefit only the current period are expensed and expenditures which benefit future periods are capitalized.**

a. Repair and Maintenance. Expenditures in this category are designed to prevent an asset from deteriorating (e.g., painting the interior of the enlisted club) or to return the asset to its original level of performance (e.g., a tune-up on a motor vehicle). These expenditures do not improve the performance of the asset or extend the life of the asset. Maintenance and repair expenditures are expensed in the period incurred.

b. Improvements. Improvements are expenditures which extend the useful life of an asset (e.g., an engine overhaul on a motor vehicle) or improve original asset performance. Improvements are capitalized and depreciated.

c. Additions. Expenditures which increase the size of an asset (e.g., adding a new section to the club) are called additions. Additions are capitalized and depreciated.

4. Government Title Fixed Assets. An aspect of NAF accounting is that some assets, particularly buildings, are purchased using NAF and the NAFI has exclusive use, but the title rests with the Government. NAF procured property or facilities may be transferred to APF for maintenance when allowed by the Military Service regulations. Upon receipt of approved documentation from NAFI management, record these items in the NAF property records and general ledger as Fixed Assets APF titled (signifies government title) and commence depreciation.

5. Fixed Assets in Transit. The NAFI may receive title to fixed assets and may make payment for fixed assets before the NAFI has physical possession of the property. Typically, this happens when property destined for a NAFI overseas is delivered to a stateside port for over-water transportation by government means. Payment is made based on the receipt at the port and is recorded to the appropriate Fixed Asset account. Depreciation begins when the asset is placed in service.

6. Disposition of Property. Disposal means that the NAFI activity manager has physical control of the item and disposes of it. Documents are prepared and approved by the NAFI activity manager for the disposition of fixed assets. When property is transferred to APFs, it is evidenced on the form required by APFs.

7. Physical Fixed Asset Inventory. A physical inventory of all fixed assets will be conducted at least annually. When it is impractical to perform this inventory all at one time, the NAFI may schedule and conduct the physical inventory by area.

8. Property Subsidiary. Property subsidiaries serve as property control records. As a minimum, the property subsidiary should list each piece of property, acquisition date, acquisition value, useful life, depreciation to date, and current book value. This subsidiary can be either automated or manual. If automation is available, then it should be used. The NAFI prepares the documentation necessary to change any data on the subsidiary records, even when no general ledger entries are required, e.g., fixed assets are transferred from one location to another within the same NAFI.

9. Claims. When an insured asset is destroyed or damaged and the claim is settled, the affected accounts are adjusted. Usually claim settlements do not exceed the acquisition value less accumulated depreciation of the property destroyed (book value).

10. Depreciation. Depreciation accounting distributes the cost or other basic value of tangible capital assets over the estimated useful life of such assets in a systematic and rational manner. Accounting for depreciation as an expense is an integral part of the accrual basis of accounting. Accordingly, all NAF activities recognize depreciation of their fixed assets. For NAF capital assets whose titles are transferred to APFs, but are still used by the NAFI, continue to depreciate these fixed assets on the NAFI's book until the items are fully depreciated. The straight line method of depreciation is used for determining the monthly depreciation expense. Refer to Table 6-1 in Volume 4, Chapter 4 for depreciation periods. Also, refer to Volume 4, Chapter 6 for the requirements for salvage value to be subtracted from the acquisition cost of fixed assets before computing depreciation.

\*030302. Other Noncurrent Assets

Other noncurrent assets include pension benefit assets, long-term receivables, sinking fund and long term investments.

A. Pension Benefit Asset. This general ledger account is used when the Pension Plan Assets are greater than the Plan Benefit Obligations (liability).

B. Long Term Receivables. This general ledger account is for the amount of cash loaned to another NAFI within the same Military Service when payment is not expected within 12 months.

C. Sinking Fund. This general ledger account is for the amount of cash restricted for a specific purpose (e.g., severance pay and retirement), which is classified as an investment aimed at reducing or amortizing a financial obligation which exceeds 12 months.

D. Long Term Investments. This general ledger account is for readily tradable obligations of Government agencies, and obligations issued by U.S. Government-sponsored enterprises and securities. The investments are guaranteed by the full faith and credit of the U.S. Government with quoted prices which cannot be easily converted into cash within one year. For further guidance on investment policy refer to Enclosure 9, DoDI 1015.15.

#### 0304 CURRENT LIABILITIES

Current liabilities are classified as current if their liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets or to create other current obligations. Current liabilities are due on demand or will be due on demand within one year.

##### \*030401. Current Liabilities Include

A. Accounts Payable. This general ledger account is for the amount owed for goods and services that have been acquired but not yet paid.

B. Post-Retirement Benefit Obligation-Current. This general ledger account is used when the Plan Benefit Obligation (liability) is greater than the Pension Plan Assets that are due within the year.

C. Other Current Liabilities. This general ledger account consists of amounts owed, but not otherwise classified.

D. Short Term Loan Payable. This general ledger account consists of loans payable within one year.

E. Short Term Lease Payable. This general ledger account consists of leases payable within one year.

F. Dividends Payable. This general ledger account consists of dividends owed to subordinate funds and to Civilian Welfare Funds.

G. Vending Machine Revenue Sharing Payable. This general ledger account consists of profits owed to state licensing agencies and other third parties.

H. Gaming Machine Profit Distribution Payable. This general ledger account consists of amounts owed for monthly slot assessments for activities with slot machines.

I. Interest Payable. This general ledger account consists of interest accrued and owed to others.

J. Salaries Payable. This general ledger account consists of amounts earned by employees, but unpaid.

K. Leave Payable. This general ledger account consists of leave earned by employees but not taken.

L. Payroll Taxes Payable. This general ledger account consists of amounts for federal, state, local and Federal Insurance Contributions Act (FICA) taxes withheld from employees pay and accrued by the employer, as applicable, but not paid.

M. Benefits Payable. This general ledger account consists of amounts for health and life insurance premiums, Civil Service Retirement, Federal Employees Retirement, Thrift Savings Plans and 401 (K) withheld from employees' pay and accrued by employers, as applicable, but not yet paid.

N. Other Payroll Deductions Payable. This general ledger account consists of amounts for deductions of savings bonds, charity, savings, and union dues that are withheld, but not yet paid.

O. Appropriated Fund (APF) Payroll Payable. This general ledger account consists of amounts owed to the Government for the General Schedule or APF Local National employees working within MWR activities. These employees are paid directly by the Government, but the funding is being executed through the UFM process.

P. Employee Allowance Payable. This general ledger account consists of amounts accrued for various allowances to pay each group of U.S. and foreign nationals upon transfer or separation.

Q. Claims Payable. This general ledger account consists of amounts due for claims of employees.

R. UFM Unearned Revenue. This general ledger account consists of funds received from the U.S. Treasury for costs which are authorized appropriated funding and which are stipulated within the MOA between the MWR Fund and the Government.

S. Unearned Revenue (Specify). This general ledger account consists of funds received, but not earned until a later period. In many operations, it is possible to pay dues and fees in advance. If advance dues or fees are received, then record the amount received as unearned revenue. When the amount is earned, record an entry that debits unearned revenue and credits the applicable revenue account.

T. Flexible Spending Accounts Payable. This general ledger account consists of the amount of withholdings deducted from employees' pay and administrative fees charged to the employers and payable to the Flexible Spending Account administrator.

U. Deposits Payable. This general ledger account consists of funds received as part of an agreement permitting use of a facility or equipment that will be refunded within the year upon return of items or completion of contract services, e.g., rentals or use of equipment or facility.

V. Other Current Liabilities (Specify). This general ledger account consists of amounts owed that cannot be classified in any other account, e.g., employee allowances payable or claims payable.

### 0305 LONG TERM LIABILITIES

Long term liabilities are obligations that are not due or payable within one year.

#### \*030501. Long Term Liabilities Include

A. Long Term Loans Payable. This general ledger account consists of loans due beyond one year.

B. Post-Retirement Benefit Obligation – Long Term. This general ledger account is used when the Plan Benefit Obligation (liability) is greater than the Pension Plan Assets.

C. Long Term Leases Payable. This general ledger account consists of leases that are due beyond one year.

D. Other Long Term Liabilities (Specify). This general ledger account consists of amounts owed that cannot be classified in any other account and need to be identified.

#### 030502. Recognition of Liabilities

Liabilities, i.e., accounts payable, arise from the acquisition of goods or services. Accounts payable liability shall be recognized upon receipt of services or when accepting title to goods. Accrued Liabilities have their origin at the end of the period of adjustment process which is a requirement of accrual accounting. Commonly, these include wages and salaries payable, benefits payable, interest payable, and taxes payable.

#### 030503. Contingent Liabilities

Contingencies are existing conditions, situations, or circumstances involving uncertainty as to possible gain or loss that will ultimately be resolved when one or more future events occur or fail to occur. Loss contingencies are accrued when the outcome is probable and the amount is reasonably estimable. Do not record gain contingencies. When a contingency is identified, the AO will footnote the year-end Military Service level consolidated financial statements explaining the contingency and the potential for gain or loss.

## 030504. Accountability for Liabilities

The NAFI authorized representative is responsible for approving the disbursement of NAFs. The AO is not authorized to make disbursements without the approval of the NAFI authorized designee or as authorized in this Regulation.

## 0306 PAYMENT OF LIABILITIES

## 030601. Documentation Required for Payment

[DoD Directive 4105.67, "Nonappropriated Fund \(NAF\) Procurement Policy,"](#) and [DoDI 4105.71, "Nonappropriated Fund \(NAF\) Procurement Procedure,"](#) provide information on established policy and assigned responsibility for procurements using NAFs. The following documentation is needed prior to payment of liabilities:

A. NAFIs will submit the following documents, properly prepared and authenticated, to the AO to support payment for procurements:

1. Procurement document, e.g., purchase order (PO), contract, blanket purchase agreement, or other similar documents.
2. [Department of Defense \(DD\) Form 250](#), "Material Inspection and Receiving Report," or another signed document that provides evidence that goods were accepted or services were received.
3. Vendor invoice or claim for payment. The invoice or claim may be for a specific delivery or show deliveries made over a specified period.

B. [Overseas Shipments](#). The AO must receive a vendor invoice and proof of shipment before payment can be made on overseas shipments. These payments may be made prior to receipt or acceptance of goods.

C. [Partial Shipments](#). The NAFI will submit a DD Form 250 or locally produced receiving report, which shows acceptance of goods to the AO. The form must have "Partial Shipment" written on the top. The AO will establish an accounts payable open item. When the AO receives the invoice, payment will be processed and the supporting documents are annotated as partial shipment received.

## 030602. Purchases from Other NAFIs

When a NAFI purchases goods or services from another NAFI, a [DD Form 1149](#), "Requisition and Invoice/Shipping Document," or similar form will be submitted to the AO to support the transaction.

**030603. Purchases from the Government**

When a NAFI purchases goods or services from the Government (e.g., bills from appropriated funds) it is not usually supported by a procurement instrument. The NAFI will submit a DD Form 250 or other signed document to the AO to support the payment.

**030604. Purchase Orders, Vendor Invoices, and Receiving Reports**

A. Purchase Orders. A PO is a document issued by the NAFI to a seller, indicating the type, quantity, and agreed price for goods or services to be provided. Sending a PO to a supplier constitutes a legal offer to buy goods or services. Acceptance of a PO by a seller forms a contract between the NAFI and the seller.

B. Vendor Invoices. A vendor invoice represents a claim against NAF. All invoices should be date stamped at time of receipt.

C. Receiving Reports. A receiving report is a document prepared by the receiving activity to document the receipt of services or acceptance of goods.

**030605. Discounts**

For NAFIs, a discount is the amount deducted from the total amount of the invoice when goods are supplied Free on Board (FOB) destination. If the goods are supplied FOB other and a separate freight charge is shown, then the discount is taken on the cost of goods only. The FOB delivery terms are shown on the PO. The amount of discounts not taken shall be charged to operations in the appropriate general ledger account.

**030606. Prompt Payment Act**

The Prompt Payment Act, [5 Code of Federal Regulations \(CFR\) 1315](#), requires Federal agencies (including NAF activities) to make payments in a timely manner. If a payment to a contractor is late, then an interest payment is due to the contractor. This interest payment is made without contractor request. A notice stating the amount of the interest penalty, the number of days late, and the rate used for calculation accompanies the interest payment. 5 CFR 1315 and Volume 10, Chapter 7 provide information on the Prompt Payment Act.

**0307 NET WORTH**

Net Worth or Fund Equity consists of capital invested in NAFIs plus (minus) the net income (loss), resulting from operations since inception. Transactions into and out of equity are limited to net income, net losses, and entries associated with the establishment of the fund, as well as certain adjustments. Adjustments are rare and might include certain accounting principle changes, certain prior period adjustments and distribution of capital. Refer to Chapter 1 for information on materiality of adjustments.

\*030701. Net Worth Includes

A. Retained Earnings. This general ledger account consists of the amount of earnings retained from inception to date.

B. Contributed Capital. This general ledger account consists of funds or tangible assets from sources outside the NAFIs.

C. Minimum Pension Liability Adjustment. This general ledger account is used for adjustments that may need to be made to the existing pension balances in the balance sheet. These adjustments will be posted as an offset to the equity account in the balance sheet and can be either an addition or reduction to the equity section. These temporary adjustments are treated in the equity section of the balance sheet in the same manner as the “unrealized gains/losses on investments.” In addition, these temporary adjustments are not calculated in the net worth determination. The final result of these entries will result in the funded status equaling either a non-current asset or a liability based on the difference of the Plan Assets and Projected Benefit Obligation.

D. Other Equity Transactions. This general ledger account consists of transfers in and out of equity that will be limited to net income; net losses; prior year material corrections; components of other comprehensive income (loss) prescribed by Financial Accounting Standard No. 130; entries associated with the establishment, disestablishment, or consolidation of NAFIs; and distribution and receipt of capital.

030702. Accounting for Net Worth

A. When a new NAF organization with preexisting capital is authorized, the capital is recorded as equity. As an example, preexisting capital is a factor when a private association converts to a membership association. Equity is disestablished when a NAF organization is dissolved.

B. Equity may be distributed by declaring dividends to other NAF organizations. An example is dividends paid by installation restaurants. Special grants for new construction and facility improvements are another method of distributing equity. Equity is transferred in the form of cash or other assets.

**VOLUME 13, CHAPTER 5: “REVENUE AND EXPENSES”****SUMMARY OF MAJOR CHANGES**

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

Substantive revisions are denoted by an \* 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 January 2011 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Reworded chapter for organization and clarity.	Update
All	Reformatted chapter in accordance with the revised standard.	Update
050601	Updated definitions for annual leave expense and unit allocation to align with current processes.	Update

Table of Contents

VOLUME 13, CHAPTER 5: “REVENUE AND EXPENSES” ..... 1

0501 OVERVIEW..... 3

    050101. Purpose..... 3

    050102. Scope ..... 3

0502 REVENUE STANDARDS ..... 3

    050201. Recognition ..... 3

    050202. Recording ..... 3

0503 REVENUE DEFINITIONS ..... 3

    050301. Operating Revenue..... 3

    050302. Non-operating Revenue..... 4

0504 EXPENSE STANDARDS ..... 5

    050401. Recognition ..... 5

    050402. Recording ..... 6

0505 NONAPPROPRIATED FUND (NAF) EXPENSES ..... 6

0506 EXPENSE DEFINITIONS ..... 6

    \*050601. Operating Expenses..... 6

    050602. Non-operating Expenses ..... 10

    050603. Cost of Goods Sold (COGS) ..... 11

    050604. Extraordinary Items..... 11

0507 ACCOUNTING FOR INDIRECT APPROPRIATED FUND SUPPORT TO NAFIs 12

    050701. Legal Authority ..... 12

    050702. Morale, Welfare, and Recreation (MWR) Utilization Support and  
    Accountability (USA) Recording..... 12

    050703. Uniform Funding and Management (UFM) Recording..... 12

    050704. Other Appropriated Fund Support ..... 12

## CHAPTER 5

REVENUE AND EXPENSES

## 0501 OVERVIEW

## 050101. Purpose

This chapter prescribes the standard policies surrounding Department of Defense (DoD) Nonappropriated Fund (NAF) revenue and expenses.

## 050102. Scope

Policies in this chapter apply to all NAF Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs), except the Armed Service Exchanges.

## 0502 REVENUE STANDARDS

## 050201. Recognition

NAFIs recognize revenue when it is realizable with reasonable and practical certainty. Earned revenue is recognized at the time of delivery of the goods or performance of the service. If cash or credit payments are received prior to time of delivery or performance, then revenue is unearned. If cash or credit payment has not been received at time of delivery or performance, then [an Accounts Receivable is posted for the amount due.](#)

## 050202. Recording

The AO records revenue in the appropriate NAF's financial records on a consistent basis in the appropriate cost center and in the operating cycle that the revenue is earned. Revenue is recorded in accordance with [Department of Defense Instruction \(DoDI\) 1015.15](#) "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources."

## 0503 REVENUE DEFINITIONS

Revenue consists of income earned from the sale of goods or services, contributions, interest, and dividends. Revenue is classified as operating and non-operating.

## 050301. Operating Revenue

[Operating revenue is](#) income generated from NAFI sales and services.

A. [Sales.](#) This general ledger account is [for recording](#) revenue from the sale of goods and services.

B. Sales Returns and Allowances. This general ledger account is a contra account to Sales and [records](#) returns and allowances on goods previously sold.

C. Sales Discounts. This general ledger account is a contra account to Sales and [represents](#) discounts and coupons given to customers.

D. Participation Fees and Charges. This general ledger account is [for recording](#) revenue from fees charged to customers for participating in programs [where fees to participate are charged](#), such as athletic events, special events, [golf green fees, bowling leagues, lodging room nights, etc.](#)

E. Other Service/Recreation Activity Income. This general ledger account is [for recording](#) revenue from recreation fees and services, such as Family Team Building and Children, Youth, and Teen Programs.

F. Other Fees Income. This general ledger account is [for recording](#) revenue from fees that [are not](#) otherwise classified. [It indicates the source of the fees.](#)

G. Dues and Assessment Income. This general ledger account is [for recording](#) revenue from membership dues at activities, such as the Officer's Club and Golf Course.

H. Amusement Machine Income. This general ledger account is [for recording](#) revenue from the operation of amusement machines.

I. Commission Income. This general ledger account is [for recording](#) revenue from commissions received from unofficial travel tickets.

J. Concessionaire Income. This general ledger account is [for recording](#) revenue from fees received from contracted operations.

K. Gaming Machine Income. This general ledger account is [for recording](#) revenue from gaming machines.

L. Commercial Sponsorship Income. This general ledger account is [for recording](#) revenue from commercial sponsors of Morale, Welfare, and Recreation (MWR) events, functions, or promotions.

M. Recyclable Material Income. This general ledger account is [for recording](#) revenue from recycling operations.

050302. Non-operating Revenue

Non-operating revenue is income that [does](#) not [come](#) from NAFI operations.

- A. Exchange Dividend Income. This general ledger account is for recording dividend revenue received from the military exchange service.
- B. U.S. Department of Agriculture Income. This general ledger account is for recording revenue received from the Department of Agriculture for food items provided to children for the Children's Food Program.
- C. Morale, Welfare, and Recreation (MWR) Utilization, Support, and Accountability (USA) Income. This general ledger account is for recording funds received from appropriated sources for expenses covered by the USA income.
- D. Cash Overage. This general ledger account is for recording revenue from cash overages resulting from daily cash handling errors.
- E. Contributions and Donations. This general ledger account is for recording the value of contributions and donations received.
- F. Intrafund Income. This general ledger account is for recording revenue from the sale of goods or services to another activity or NAFI.
- G. Interest Income. This general ledger account is for recording interest earned on bank deposits, securities, or other interest-bearing instruments.
- H. Other Income. This general ledger account is for recording non-operating revenue that cannot be classified elsewhere.
- I. Gain on Disposition of Fixed Assets. This general ledger account is for recording the gain on the sale of fixed assets.
- J. Gain on Foreign Currency. This general ledger account is for recording the gain on foreign currency. Foreign currency fluctuation gains resulting from the settlement of foreign currency receivables or payables must be recorded when the settlement occurs. This account is to be used by all DoD Components when foreign currencies are involved.

#### 0504 EXPENSE STANDARDS

##### 050401. Recognition

Costs are recognized as an expense in the period that the revenue with which they are associated is recognized (the matching principle). Cost elements are included in inventory and expensed when the items are sold and revenue from the sale is recognized. If no connection with revenue can be established, then the asset's cost is allocated to the accounting period benefited in a systematic and rational manner. This form of expense recognition involves the expected length of benefit and the relationship and cost of each period (e.g., depreciation of fixed assets, amortization of intangibles, and allocation of rent and insurance). All other costs are recognized in the accounting period in which they are incurred.

## 050402. Recording

Using the accrual method of accounting, AOs record expenses on a consistent basis in the appropriate cost center and in the operating cycle in which the expense was incurred.

## 0505 NONAPPROPRIATED FUND (NAF) EXPENSES

Expenses are decreases in economic benefits during an accounting period, in the form of outflows (or other asset depletion) or the incurrence of liabilities that result in a decrease in equity. In NAF accounting, expenses are the costs related to the sale of goods and services consequent to the operation of the NAFI. NAF expense general ledger accounts are described in paragraph 0506.

## 0506 EXPENSE DEFINITIONS

Expenses consist of operating and non-operating expenses and program costs including the cost of goods sold, depreciation, and interest.

## \*050601. Operating Expenses

These expenses are the primary recurring costs that are associated with NAFI operations, other than cost of goods sold, and are incurred in order to generate sales or services.

A. Salaries and Wages Expense. This general ledger account is for recording gross salaries and wages paid to employees.

B. Capitalized Labor Cost. This general ledger account is a contra account for recording employee expenses included in the capitalized cost of facilities or property.

C. Annual Leave Expense. This general ledger account is for recording expenses of annual leave when earned.

D. Sick Leave Expense. This general ledger account is for recording expenses of sick leave when used.

E. Foreign National Benefits Expense. This general ledger account is for recording expenses of foreign nationals' benefits, such as bonuses, annual leave, and sick leave.

F. Other Employee Benefit Expense. This general ledger account is for recording employee benefit expenses not identified by other expense accounts.

G. Spoilage, Breakage, and Obsolescence. This general ledger account is for recording the expense of the cost of food and other resale merchandise that is broken, spoiled, or out of date.

H. Promotion Expense. This general ledger account is for recording the cost of resale items given to the customers during promotions within NAFI.

I. Advertising Expense. This general ledger account is for recording expenses for advertisements.

J. Childcare Food Expense. This general ledger account is for recording expenses for food at childcare.

K. Manager's Expense. This general ledger account is for recording expenses that will be reimbursed to the manager in the administration of the NAFI, such as for customer relations and comparative shopping.

L. Sports Activities Expense. This general ledger account is for recording expenses incurred for operating sports programs.

M. Amenities Expense. This general ledger account is for recording expenses of items for guests such as beverages, clock radios, soap, toiletries, and other comfort enhancing articles.

N. Supplies Expense. This general ledger account is for recording expenses for office supplies, guest checks, expendable equipment, and other items used by a fund in its normal operations.

O. Laundry and Dry Cleaning Expense. This general ledger account is for recording expenses for cleaning linens and uniforms.

P. Tableware, Kitchenware, Linen and Uniform Expense. This general ledger account is for recording purchases of china, glassware, silverware, utilities, and uniforms for immediate use.

Q. Professional Membership Expense. This general ledger account is for recording payments for NAF employees in authorized professional organizations to obtain professional credentials that include expenses for professional accreditations, state imposed and professional licenses, professional certifications, and examinations. Refer to paragraph 6.2.5 of [DoDI 1015.15](#) for further information.

R. Training Expense. This general ledger account is for recording the amount spent for the training of employees, not including travel and per diem costs.

S. Travel Expense. This general ledger account is for recording the amount spent for travel and per diem costs for NAF civilian employees attending training, conferences, seminars, and permanent change of station costs.

T. Building and Structures Maintenance and Repair Expense. This general ledger account is for recording the amount of maintenance and repair of facilities.

U. Vehicle, Boat, Aircraft Maintenance, and Gas Expense. This general ledger account is for recording the amount for normal operations, such as, fuel, petroleum, and lubricants.

V. Vehicle Registration Program Expense. This general ledger account is for recording the amount paid for license plates and decals for the registration program.

W. Awards and Prizes. This general ledger account is for recording the amount of cash and non-cash items awarded to patrons, but not employee awards.

X. Official Hosting and Representation Expense. This general ledger account is for recording the amount paid for authorized hosting, representation activities, and membership night for members.

Y. Entertainment Expense. This general ledger account is for recording the amount paid for entertainment, such as for orchestras, musicians, other entertainers; other costs as specified on the contract; and special entertainment where admission fees are charged.

Z. Printing Expense. This general ledger account is for recording the amount for printing and reproduction costs, such as paper and printing supplies.

AA. Program and Brochure Expense. This general ledger account is for recording the amount paid for purchasing programs and brochures for resale at athletic and special events.

AB. Volunteer Service Expense. This general ledger account is for recording the amount paid for authorized volunteer services in approved programs, for example, the cost to care for the children of authorized volunteers who give their services to command approved MWR programs.

AC. Bank and Service Charge Expense. This general ledger account is for recording the amount of administrative fees charged by financial institutions for maintaining bank accounts.

AD. Credit Card Expense. This general ledger account is for recording the amount paid to credit card companies or financial institutions for credit card handling fees.

AE. Contractual Expense. This general ledger account is for recording the amount paid for services performed on contracts and agreements, such as computer services, commercial billing service, studies, and analysis.

AF. Administrative Common Support Service. This general ledger account is for recording the amount paid for support services, such as, accounting, payroll, civilian personnel, procurement, data processing, and administrative.

AG. 401K Administrative Surcharge Expense. This general ledger account is for recording the amount paid for the fees associated with the administration of the 401K retirement plan.

AH. Claims Expense. This general ledger account is for recording the amount paid and/or reserved for claims.

AI. Dividend Expense. This general ledger account is for recording the amount of dividends distributed from funds received from the Armed Service Exchanges.

AJ. Grants Expense. This general ledger account is for recording the funds provided to NAFIs for special events or programs by the Military Service Headquarters.

AK. Vending Machine Income Sharing Expense. This general ledger account is for recording the amount paid to vendors for their share of vending machine profits.

AL. Utilities Expense. This general ledger account is for recording the amount paid for electric, gas, water, and other utilities in normal operations.

AM. Cable/Satellite Service Expense. This general ledger account is for recording the amount paid for cable and television service.

AN. Communications Expense. This general ledger account is for recording the amount paid for telephone service, postage, tolls, and telegraph.

AO. Freight Expense. This general ledger account is for recording the amount paid for transportation of items that are not for resale.

AP. Rent Expense. This general ledger account is for recording the amount paid for rental items, such as equipment, buildings, vehicles, docks, land, and other items.

AQ. Insurance Expense. This general ledger account is for recording the cost of premiums paid to cover losses, such as money, securities, vehicles, aircraft, building, and contents of buildings.

AR. Subscriptions and Dues. This general ledger account is for recording the amount paid for subscriptions and dues in authorized national associations and leagues.

AS. Tax and License Expense. This general ledger account is for recording the amount of taxes and licenses paid as required by Federal and State governments.

AT. Late Payment Interest Expense. This general ledger account is for recording the amount of interest or penalty charges resulting from late payments.

AU. Minor Property and Equipment Expense. This general ledger account is for recording items purchased, such as, furniture, fixtures, and equipment that do not meet capitalization criteria.

AV. Franchise/Royalties Expense. This general ledger account is for recording the amount paid for the use of a company name and right to sell their products.

AW. Audit Expense. This general ledger account is for recording the amount paid to authorized commercial firms for auditing services.

AX. Other Expense. This general ledger account is for recording amount paid for other operating expenses for which an account was not established.

AY. Unit Allocation. This general ledger account is for recording the amount of dividends/funds provided to be used for leisure activities that promote unit cohesion and are based on the needs of permanent personnel.

AZ. Internet Expense. This general ledger account is for recording the cost of internet service.

BA. Flexible Spending Account Admin Fee. This general ledger account is for recording the fee for administering the Flexible Spending Accounts for employees.

050602. Non-operating Expenses

Non-operating expenses are not related to NAFI's primary operations and consist of depreciation, interest, prior period expenses, and losses.

A. Depreciation Expense. This general ledger account is for recording the amount recognized by the process of allocating costs of an asset over the period of time benefited or the asset's useful life, whichever is shortest.

B. Interest Expense. This general ledger account is for recording the amount of interest paid in the current accounting period.

C. Prior Period Expense. This general ledger account is for recording the amount of prior period expense. This expense is from an adjustment of material errors in a prior period financial statement made directly to the retained earnings account, and shown in the current financial statement.

D. Loss on Disposition of Fixed Assets. This general ledger account is for recording the loss on the sale, exchange, disposal, or retirement of assets.

E. Loss on Foreign Currency. This general ledger account is for recording the amount resulting from the difference between the foreign currency and U.S. dollars. Foreign currency fluctuation losses resulting from the settlement of foreign currency receivables or

payables must be recorded when the settlement occurs. This account is to be used by all DoD Components when foreign currencies are involved.

F. Bad Debt Expense. This general ledger account is for recording the amount of accounts receivable uncollectible for the current accounting period.

G. Intrafund Expense. This general ledger account is for recording an expense for goods and services bought from another activity or NAFL.

H. Cash Shortage. This general ledger account is for recording the amount of cash shortage revealed when the physical cash count, at the end of the day, does not equal the cash register tapes or receipts.

050603. Cost of Goods Sold (COGS)

This account holds the cost of inventory items sold in the reporting period. The COGS is equal to the sum of the beginning inventory for the period and net purchases (purchases less discounts, returns and allowances, transfers in from other funds or locations, transfers out to other funds or locations, and other inventory increases or decreases as applicable) less the ending inventory.

A. Purchases – Resale. This general ledger account is for recording the amount of merchandise purchased for sale less discounts taken.

B. Purchases Returns and Allowances – Resale. This general ledger account is for recording the amount of merchandise returned or allowance taken.

C. Freight – Resale. This general ledger account is for recording the cost of shipping and handling charges.

D. Vendor Rebates – Resale. This general ledger account is for recording the amount of rebates received from vendors on resale merchandise.

050604. Extraordinary Items

Extraordinary income and expenses are both unusual and infrequent. Extraordinary income and expenses are segregated from the results of ordinary operations and are shown in a separate section in the financial reports, with details of the income or expenses explained in the footnotes. Extraordinary item accounts are: Extraordinary Income (Specify); Extraordinary Expense (Specify); and, Base Realignment and Closure (BRAC) and Installation Closure Expense.

## 0507 ACCOUNTING FOR INDIRECT APPROPRIATED FUND SUPPORT TO NAFIs

050701. [Legal Authority](#)

Morale, Welfare, and Recreation (MWR) Utilization Support and Accountability (USA) and Uniform Funding and Management (UFM) are two mechanisms for provision of indirect appropriated fund (APF) support to NAFIs. [Title 10, United States Code, section 2241](#), which is the basic statutory authority to provide APFs to support MWR functions, is the legal basis for MWR (USA) practices. The MWR (USA) practice involves use of NAFs for MWR expenses that, per funding policies in [DoDI 1015.15](#), should be borne by APFs. MWR USA enables NAFIs to use NAFs to execute such expenses, subject to subsequent APF reimbursement under Memorandums of Agreement (MOA). Unlike MWR (USA) practices, which involve reimbursement from APFs, under UFM practices APFs may be transferred into NAF accounts prior to expenditure. Funds appropriated to DoD and available for MWR programs are treated as NAFs for all purposes under UFM MOAs and remain available until expended. Title 10, United States Code, [section 2491](#), provides statutory authority for UFM practices. Requirements applicable to both UFM and MWR (USA) practices are prescribed in paragraph 4.4 and Enclosure 6 of the [DoDI 1015.15](#).

050702. [Morale, Welfare, and Recreation \(MWR\) Utilization Support and Accountability \(USA\) Recording](#)

A. [Revenue](#). The AO will record funds received from appropriated sources for expenses covered by the USA income.

B. [Expense](#). The AO will record authorized expenses as they occur in the applicable expense accounts, which is the amount subject to APF reimbursement.

050703. [Uniform Funding and Management \(UFM\) Recording](#)

A. [Revenue](#). The AO will record UFM funds received in advance in the cash account with a contra entry to an Unearned Revenue (liability) account identified as UFM. As UFM expenses are recorded, the Unearned Revenue account will be reduced by the same amount in the same reporting cycle.

B. [Expense](#). The AO will record expenses authorized for UFM, as they occur, in the applicable expense accounts to allow identification of UFM support in accordance with DoDI 1015.15, paragraph E.6.3.4 and to reduce the Unearned Revenue account [as applicable](#) in the same reporting cycle.

050704. [Other Appropriated Fund Support](#)

Direct support is another APF category that occurs when APFs are obligated and expended (e.g., furnishing of utilities) and the NAFI does not incur the expense subject to reimbursement. In this case, the NAFI does not administer APFs as if they were NAFs.

**VOLUME 13 CHAPTER 7 “FINANCIAL REPORTING”**

**SUMMARY OF MAJOR CHANGES**

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

Substantive revisions are denoted by an \* 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 Feb 2011 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted chapter for clarity (administrative).	Update

## Table of Contents

VOLUME 13 CHAPTER 7 “FINANCIAL REPORTING” .....	1
0701 OVERVIEW.....	4
070101. Purpose.....	4
070102. Scope .....	4
0702 RESPONSIBILITIES.....	4
070201. DoD Components.....	4
070202. Accounting Office .....	4
0703 FINANCIAL REPORTING.....	4
070301. Financial Statements .....	4
070302. Footnotes to Financial Statements.....	6
0704 COMPARATIVE ANALYSIS OF FINANCIAL STATEMENTS .....	6
070401. Accountant Responsibilities.....	6
070402. Analytical Methods and Techniques .....	6
070403. Ratios.....	7
070404. Comparative Statements.....	9
0705 REPORTING TO THE INTERNAL REVENUE SERVICE (IRS) .....	10
070501. General .....	10
070502. Contract Payments (Nonpersonal Services).....	10
070503. Gambling and Bingo Winnings.....	11
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 .....	12
0708 FORMAT FOR THE STATEMENT OF INCOME AND EXPENSE.....	17
070801. Format for the Statement of Income and Expense .....	17
070802. Instructions for the Preparation of the Statement of Income and Expense .....	17
070803. Line Item Instructions for Preparing the Statement of Income and Expense.....	17

**Table of Contents (continued)**

0709	FORMAT FOR THE RECONCILIATION OF NET WORTH .....	21
070901.	Format for the Reconciliation of Net Worth .....	21
070902.	Instructions for the Preparation of the Reconciliation of Net Worth .....	21
070903.	Line Items Instructions for Preparing the Reconciliation of Net Worth .....	21
0710	FORMAT FOR THE SCHEDULE A - APF AND NAF EXPENSE SUMMARY ....	22
071001.	Format for Schedule A - APF and NAF Expense Summary.....	22
071002.	Instructions for the Preparation of Schedule A .....	22
071003.	Line Item Instructions for Preparing Schedule A.....	22
0711	FORMAT FOR THE STATEMENT OF CASH FLOW .....	28
071101.	Format for the Statement of Cash Flow .....	28
071102.	Instructions for the Preparation of the Statement of Cash Flow .....	28
071103.	Line Item Instructions for Preparing the Statement of Cash Flow.....	28
Figure 7-1	Balance Sheet.....	31
Figure 7-2	Statement of Income and Expense.....	32
Figure 7-3	Reconciliation of Net Worth.....	33
Figure 7-4	Schedule A - APF and NAF Expense Summary .....	34
Figure 7-5	Statement of Cash Flow.....	35

## CHAPTER 7

**FINANCIAL REPORTING**

## 0701 OVERVIEW

## 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. Scope

The policies in this chapter apply to Department of Defense (DoD) Nonappropriated Fund Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs). Except for financial reporting prescribed in paragraphs 070201 and 0703, these policies do not apply to the Armed Service Exchanges.

## 0702 RESPONSIBILITIES

## 070201. DoD Components

The DoD Components are responsible for the fair presentation in the financial reports of financial position, results of operation, and the program and personnel information included. In addition, the DoD Components are responsible for compliance with Nonappropriated Fund (NAF) program laws and regulations. For further information on reporting responsibilities, refer to [\*Department of Defense Instruction \(DoDI\) 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources."\*](#)

## 070202. Accounting Office

The supporting Accounting Office (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 the data produced are also AO responsibilities. Refer to Chapter 1 for further information.

## 0703 FINANCIAL REPORTING

## 070301. Financial Statements

Financial statements provide understandable information that is useful in making business decisions relative to NAFI operations. They describe NAFI financial performance during a specific period and how cash is obtained and spent. In addition to providing explanations and interpretations to assist users in making reasoned choices, financial statements also contain

program and personnel information. 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 Flow.

A. Balance Sheet. The balance sheet (also known as statement of financial position) presents NAFI's financial position at the end of a specified date. It is sometimes described as a "snapshot" that allows the user to see what NAFI owns as well as what it owes to others. The major components of the balance sheet are assets, liabilities, and equity (net worth). For information on the format and instructions for preparing the Balance Sheet, refer to Section 0707 and Figure 7-1. Additionally, for further information on assets, liabilities, and equity (net worth) refer to Chapter 3.

B. Income Statement. An income statement (also referred to as profit or loss statement or income and expense statement) provides information about NAFI's financial performance during a specified period of time and a summary of NAFI's profit or loss during the accounting period. The income statement is used to track revenues and expenses. For information on the format and instructions for preparing the Statement of Income and Expense, refer to Section 0708 and Figure 7-2. Additionally, refer to Chapter 5 for further information on revenue and expenses.

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

D. Schedule A - APF and NAF Expense Summary. Schedule A provides a detailed breakdown of APF and NAF operating costs and capital expenditures. 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 **will** be reported as APF contractual services support and **will** not be reported as NAF expenditures. NAF costs **will** equal the operating expenses, other expenses, and extraordinary expense lines on the Statement of Income and Expense, which are also reported net of APF support to avoid double counting. NAF cost of goods sold is excluded. NAF capital expenditures **will** be reported in the year funds are expended and assets are recorded (including construction in progress and capital leases). For information on the format and instructions for preparing Schedule A- APF and NAF Expense Summary, refer to Section 0710 and Figure 7-4.

E. Statement of Cash Flow. A cash flow 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. For information on the format and instructions for preparing the Statement of Cash Flow, refer to Section 0711 and Figure 7-5.

## 070302. Footnotes to Financial Statements

Footnotes are an integral part of the financial statements and are used when more information is needed. 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 which require footnotes. Refer to [DoDI 1015.15](#) for specific footnotes required.

## 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. Accountant Responsibilities

Accountants will compute, organize, and analyze data on a monthly basis. Analytical data is then assimilated to aid in management decision making. It is not enough to know at the end of a year, or even a quarter, that costs are increasing more rapidly than revenues. The accountant must use interim cost standards, ratios, or other devices in presenting income statement data to help determine the reasoning behind financial data changes.

## 070402. Analytical Methods and Techniques

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

A. Comparative balance sheets, income statements, and statements of retained earnings or net worth. These statements detail 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 income statement 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 from balance sheets, income statements, and individual sections of these statements;

E. Ratios expressing the relationships of items selected from the balance sheet, the income statement, or both statements; and

F. Statement of variation in net income or gross margin.

070403. 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. The following ratios are a means of monitoring the efficiency of NAFIs:

A. Accounts Receivable Turnover. Accounts receivable turnover is the relationship between credit sales and accounts receivable. It 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. The average of the accounts receivable monthly balances are used 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 of expressing the result is to divide 365 days by the receivable turnover figure to get the average number of days that the receivables were on the books.

B. Acid-Test Ratio. The acid-test ratio, or quick ratio, measures the ability of NAFI to use its quick assets to immediately liquidate its current liabilities. Quick assets include cash, receivables, and marketable securities. The formula to compute the acid-test ratio is to divide quick assets (current assets minus inventory) by current liabilities (acid-test ratio = quick assets/current liabilities). The acid-test ratio should not be less than 1:1; any less and NAFI could suffer financial difficulties. A ratio of 1:1 shows that for every dollar of current debt there is \$1 of quick assets available to meet current liabilities. The higher the ratio, the greater the immediate debt-paying ability.

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). Current ratio of 1.5:1 is considered standard. A ratio that is smaller indicates high debt. If the current ratio is too high, then current assets are not being efficiently utilized. Current assets should then 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. Excess inventory reduces available funds and may increase the cost of insurance, storage, and other related expenses. 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. 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 that should be as low as possible, consistent with these conditions.

E. Net Income Ratio. Net income ratio measures the net income as a percentage of total revenue. It 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). Net income is calculated as total revenue minus total expenses. Refer to DoDI 1015.15 for further information on net income requirements.

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. In computing the ratio, any long-term investments are excluded from total assets, as they make no contribution to sales. If sales can be stated in a common unit, then units of products sold also 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. 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)).

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

H. Return on Fund Equity. The return on fund equity measures NAFI's ability to use leverage by earning a higher rate of return than is paid for the funds used to operate. 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 the opening equity plus the closing equity divided by two.

I. Turnover of Working Capital. Working capital is a valuation metric that is calculated as current assets minus current liabilities. Current assets include accounts receivable and inventory. 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 NAFI is operating on a small or large amount of working capital in relation to sales. The formula to compute the working capital turnover is to divide the net sales by the 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.

J. Other Ratios. The ratios referenced in the previous paragraphs are not the only ones that can be computed. Following are additional ratios that can be used:

1. Fixed Asset Turnover;
2. Working Capital to Total Assets; and
3. Return on Tangible Assets.

#### 070404. Comparative Statements

A. General. Any fact by itself has limited significance. Other related facts are necessary to give the first fact increased meaning. The validity of this observation is demonstrated as follows: Learning that last year's net income of a certain activity was \$68,514 offers little insight. Does that amount of net income indicate a successful or unsuccessful year? Does the amount present an improvement or decline from the year before? Is the amount large or small in relation to sales, assets, or equity? How does it compare with similar activities? If the information about last year's income is to have any real meaning, then other facts must be known.

B. Comparison. If the financial statements are analyzed on a comparative basis, then they can be much more informative and meaningful. Four comparison types are possible:

1. Comparison of the latest financial statements and relationships between various elements with the statements and relationships of one or more previous periods;
2. Comparison of the statements and financial relationships of the fund with data for other similar activities;

3. Comparison of 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).

C. 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, which suggests probabilities, weaknesses, or strengths, includes data from year to year rather than as of one date or period of time as a whole. If the amount of any change and its relative size are shown, then a comparison is facilitated. 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.

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

## 0705 REPORTING TO THE INTERNAL REVENUE SERVICE (IRS)

### 070501. General

All records relating to payments to individuals and firms are retained for at least four years and available for IRS review. Continental United States (CONUS) offices consult their local IRS office when forms, publications, or assistance are needed. Overseas offices contact the IRS, Assistant Commissioner (International), by going to [www.irs.gov](http://www.irs.gov), to get the address and telephone number of the nearest IRS representative. IRS representatives, in CONUS and overseas, are available to provide instructions concerning IRS procedures for return preparation, filing, and depositing employment tax payments.

### 070502. Contract Payments (Nonpersonal Services)

Cumulative payments made by NAFIs under service contracts of \$600 or more to anyone, during a calendar year, are reported to the IRS along with the total amounts paid to 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 \$600 but total payments made during the calendar year to the same individual reach \$600, then a report must be filed. The report is provided to the individual or firm and to the IRS using IRS Form 1099-MISC, "Miscellaneous Income." The individual or firm receives a copy of the IRS Form 1099-MISC by January 31 of the calendar year following the calendar year in which payment was made. This requirement also applies to individuals who, in addition to being NAFI

employees, have contracts with NAFI for nonpersonal services. A separate IRS Form 1099-MISC is prepared for each individual or firm to whom total payments of \$600 or more are made. IRS [Form 1096, "Annual Summary and Transmittal of U.S. Information Returns,"](#) is used to transmit the IRS copy of [1099s](#) to the IRS. These forms are forwarded to the IRS by February 28 of the following year. Refer to [www.irs.gov](http://www.irs.gov) for preparation instructions and filing requirements.

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 with a total value of \$1,200 or more is awarded to a person for winning a single bingo game or other gambling activity, an IRS [Form W-2G, "Certain Gambling Winnings,"](#) is prepared. Individuals receive their copies of the IRS Form W-2G either at the time payment is made or not later than January 31 of the following year. IRS Form 1096 is used to transmit the IRS copy of the IRS Form W-2Gs to the IRS. Additionally, IRS [Form 1042S, "Foreign Person's U.S. Source Income Subject to Withholding,"](#) is prepared for reporting foreign nationals gaming winnings and withholdings. These forms must be forwarded to the IRS by February 28 of the following year. Refer to [www.irs.gov](http://www.irs.gov) for preparation instructions and filing requirements.

0706 INTERNATIONAL BALANCE OF PAYMENTS (IBOP) PROGRAM

IBOP is an accounting of a country's international transactions for a particular time period. NAFIs are subject to the IBOP reporting requirements prescribed in [DODI 7060.03, "International Balance of Payments Program – Nonappropriated Fund Activities,"](#) and Volume 6A, Chapter 13.

0707 FORMAT FOR THE BALANCE SHEET

070701. Format for the Balance Sheet

The format presented in Figure 7-1 will be used 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 which comprise the difference (net worth). Individual statement crosswalks are prepared from information utilizing the Nonappropriated Fund Standard General Ledger guidance and crosswalks found in Chapter 2. Complete the heading on the form to indicate: (a) Military Service, (b) Program Group, and (c) the reporting period (month and calendar year).

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. General ledger account 1110 (Cash) is a summary account that includes general ledger accounts 1111, 1112, 1113, and 1114. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
1110	Cash
1120	Savings Account
1130	Marketable Securities
1140	Other Short-Term Investments

2. Receivables, Line 2. This is a summary line for all receivables. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
1210	Accounts Receivable - This is a summary account that includes general ledger accounts 1211, 1212, 1213, 1214, and 1215.
1220	Deposits Receivable
1230	NAFI Receivables
1240	Returned Check Receivable
1250	Employee Receivable
1260	Accrued Interest Receivable
1270	Loans Receivable
1280	MWR USA Receivable
1290	Other Current Receivables (Specify)
1299	Allowance for Doubtful Accounts

3. Other Current Assets, Line 3. This is a summary line for all prepaid assets. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
1310	Travel Advances
1320	Prepaid Contracts
1330	Prepaid Insurance
1340	Prepaid Rent
1350	Prepaid Supplies
1360	Prepaid Tax and License
1370	Other Prepaid Expenses.

4. Inventory, Line 4. This is a summary line for all inventory accounts. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
1410	Inventory Warehouse/Storeroom
1420	Inventory Sales Outlet Resale Current Assets
1430	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. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
1510	Land Improvements
1520	Construction in Progress
1530	Buildings and Improvements

1540	Furniture and Fixtures
1550	Equipment
1560	Internal-Use Software
1570	Fixed Assets in Transit

2. Less: Accumulated Depreciation on NAFI-Owned Fixed Assets, Line 7. This is a summary line for the accumulated depreciation for all NAFI owned fixed assets. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
1511	Accumulated Depreciation on Land Improvements
1531	Accumulated Depreciation on Buildings and Improvements
1541	Accumulated Depreciation on Furniture and Fixtures
1551	Accumulated Depreciation on Equipment
1561	Accumulated Amortization on Internal-Use Software

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

4. Government Titled Fixed Assets, Line 9. This line is for reporting fixed assets for which title has been transferred to the Government. Footnotes are required. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
1580	Buildings and Improvements-Government Titled

5. Less: Accumulated Depreciation on Government Titled Fixed Assets, Line 10. This line is for depreciation of government titled fixed assets. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
1581	Accumulated Depreciation on Buildings and Improvements Government Titled

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

7. Pension Benefit Asset, Line 12. This new general ledger account is used for reporting the difference when the Plan Assets are greater than the Plan Benefit Obligation. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
1610	Pension Benefit Asset

8. Other, Line 13. This is the summary line for all other noncurrent assets that include receivables and investments. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
1620	Long-Term Receivables
1630	Sinking Fund
1640	Long-Term Investments

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 14.

C. Current Liabilities

1. Accounts Payable, Line 16. This is the summary for all accounts payable. Report the balance for the following account:

<u>GL Acct #</u>	<u>Title</u>
2100	Accounts Payable

2. Post-Retirement Benefit Obligation, Line 17. This new general ledger account is used for reporting the difference when the Plan Assets are less than the Plan Benefit Obligation. The difference is classified as a current liability as determined and provided by the pension provider when the amount is due within the year. This also includes any other post-retirement benefit plan, such as retiree health care. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
2200	Post-Retirement Benefit Obligation - Current

3. Other Current Liabilities, Line 18. This is a summary line for all other current liabilities. General ledger account 2300 (Other Current Liabilities) is a summary account that includes general ledger accounts 2310, 2320, 2330, 2340, 2350, 2360, 2370, 2380, 2390, 2410, 2420, and 2430. Additionally, general ledger account 2370 (Salaries Payable) is a summary account and includes general ledger accounts 2371, 2372, 2373, 2374, 2375, 2376, and 2377.

4. Total Current Liabilities, Line 19. Report the total of lines 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 within 12 months. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
2510	Long Term Loans Payable

2. Post-Retirement Benefit Obligation, Line 21. This new general ledger account is used when the difference of the Plan Assets are less than the Plan Benefit Obligation. The difference is classified as a long-term liability as determined and provided by the pension provider and exceeds 12 months. This also includes any other post-retirement benefit plan, such as retiree health care. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
2520	Post-Retirement Benefit Obligation – Long Term

3. Other, Line 22. This is a summary line for all other long-term liabilities. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
2530	Long Term Leases Payable
2540	Other Long Term Liabilities (Specify)

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

5. Total Liabilities, Line 24. Report the total of line 19 and 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, paragraph 6.4.2.](#) Report the balances of the following accounts.

<u>GL Acct #</u>	<u>Title</u>
3010	Retained Earnings
3020	Contributed Capital
3030	Minimum Pension Liability Adjustment
3040	Other Equity Transactions

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

NAF income and expense for common support functions is allocated to and reported by the benefiting categories (Category A, B, and C). Allocation procedures are the same as those used to prepare Schedule A - APF and NAF Expense Summary. Allocated or prorated management overhead is not reported below the category level. Individual statement crosswalks are prepared from information utilizing the Nonappropriated Fund Standard General Ledger guidance and crosswalks found in Chapter 2. Complete the heading on the form to indicate (a) Military Service, (b) Program Group, (c) Category, and (d) the reporting period (month and calendar year).

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

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

<u>GL Acct #</u>	<u>Title</u>
4010	Sales
4011	Sales Returns and Allowances
4012	Sales Discounts

B. Cost of Goods Sold, Line 2. This is a summary line for the Cost of Goods Sold calculation. Report the balances for the following accounts:

<u>GL Acct #</u>	<u>Title</u>
6010	Purchases – Resale
6011	Purchases Returns and Allowances – Resale
6012	Freight – Resale
6013	Vendor Rebates – Resale

C. Gross Margin, Line 3. Gross Margin is a calculation. The calculation is 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, as follows.

1. Participation Fees and Charges, Line 4a. Report the balances for the following accounts:

<u>GL Acct #</u>	<u>Title</u>
4020	Participation Fees and Charges
4040	Other Fee Income (Specify)
4060	Amusement Machine Income
4090	Gaming Machine Income

2. Dues and Assessments, Line 4b. Report the balance for the following account:

following account:

<u>GL Acct #</u>	<u>Title</u>
4050	Dues and Assessment Income

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

<u>GL Acct #</u>	<u>Title</u>
4080	Concessionaire Income

4. Other, Line 4d. Report the balances for the following accounts:

<u>GL Acct #</u>	<u>Title</u>
4030	Other Service/Recreation Activity Income (Specify)
4070	Commission Income

E. Total Other Operating Income, Line 5. Report the total of lines 4a, 4b, 4c and 4d.

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

G. Operating Expenses, Line 7. Report the operating expenses from Schedule A, Lines 1-13. Refer to Figure 7-4. This section does not crosswalk to general ledger accounts.

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

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

1. Dividends, Line 9a. Report the balance for the following account:

<u>GL Acct #</u>	<u>Title</u>
4130	Exchange Dividend Income

2. Grants, Line 9b. Report the balance for the following account:

<u>GL Acct #</u>	<u>Title</u>
4240	Grant Income

3. Other, Line 9c. Report the balances for the following accounts:

<u>GL Acct #</u>	<u>Title</u>
4110	Commercial Sponsorship Income
4120	Recyclable Material Income
4140	U.S. Department of Agriculture Income
4150	UFM Income
4160	Cash Overage
4170	Contributions and Donations
4180	Intrafund Income
4190	Interest Income
4210	Other Income (Specify)
4220	Gain on Disposition of Fixed Assets
4230	Gain on Foreign Currency

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

K. Other Expenses, Line 11. Report other expenses from Schedule A, Line 14. This section does not crosswalk to general ledger accounts.

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

M. Extraordinary Income, Line 13. Extraordinary income is income that is unusual and infrequent and is to be accorded special treatment in the accounts or separate disclosure in financial statements. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
7100	Extraordinary Income (Specify)

N. Extraordinary Expense, Line 14. Extraordinary expenses are expenses that are unusual and infrequent and are to be accorded special treatment in the accounts or separate disclosure in financial statements. Report the balances of the following accounts:

	<u>GL Acct #</u>	<u>Title</u>
	7200	Extraordinary Expense (Specify)
Closure Expense.	7300	Base Realignment & Closure (BRAC) and Installation

- O. Net Income, Line 15. Report the net of lines 12 through 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. Individual statement crosswalks are prepared from information utilizing the Nonappropriated Fund Standard General Ledger guidance and crosswalks found in Chapter 2. Complete the heading on the form to indicate: (a) Military Service, (b) Program group and (c) the reporting period (month and calendar year).

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

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

B. Line 2, Net Income. Report the amount of Line 15 from the Statement of Income and Expense.

C. Line 3, Grants Received. Report the balance of general ledger account 4240, Grant Income (new account) on Line 9b from the Statement of Income and Expense.

D. Line 4, Other Increases (Specify). Report the balances of general ledger accounts (as appropriate) for 3020 - Contributed Capital, 3030 - Minimum Pension Liability Adjustment, and 3040 - Other Equity Transactions. Examples of increases include donated assets, recycling contributions, prior year material corrections, change in funded status of pension and other postretirement liabilities, and funds for BRAC property.

E. Line 5, Total Additions. Report the sum of Lines 2, 3, and 4.

F. Line 6, Net Loss. Report the amount on Line 15 of the Statement of Income and Expense (if appropriate).

G. Line 7, Grants Disbursed. Report the balance of general ledger account 5430, Grants Expense from Schedule A - APF and NAF Expense Summary.

H. Line 8, Other Decreases (specify). Report the balances of general ledger accounts (as appropriate) for 3020 - Contributed Capital, 3030 - Minimum Pension Liability Adjustment, and 3040 -Other Equity Transactions. Examples of decreases include transfer of headquarters funded projects after books closed, change in funded status of pension and other postretirement 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. Line 9, Total Reductions. Report the sum of Lines 6, 7, and 8.

J. Line 10, Net Additions/Reduction to Net Worth. Report the net of Line 5 and Line 9.

K. Line 11, Net Worth, Ending. 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

NAF expenses for common support functions are allocated to and reported by the benefiting categories (Category A, B, and C). Allocated or prorated management overhead is not reported below the category level. Individual statement crosswalks are prepared from information utilizing the Nonappropriated Fund Standard General Ledger guidance and crosswalks found in Chapter 2. Complete the heading on the form to indicate (a) Military Service, (b) the Program Group, and (c) Year Ending.

071003. Line Item Instructions for Preparing Schedule A

A. Cost Expense Captions

1. Military Personnel, Line 1. This line includes the cost of the services of active duty military personnel computed according to policy in DoDFMR Volume 7A. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5580	Appropriated Fund (APF) Payroll Expense

2. Civilian Personnel (Salaries and Wages), Line 2. This line includes the cost of the services of civilian personnel computed according to policy in DoD FMR Volume 7A. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5010	Salaries and Wages Expense
5020	Capitalized Labor Costs

3. Civilian Personnel (Services and Benefits), Line 3. This line includes the cost of services of civilian personnel paid from appropriated funds and the cost of personnel compensation and benefits, including employer costs for Civil Service Retirement System, Federal Employees Retirement System, Thrift Savings Plan, Federal Employees Group Life Insurance, and Federal Employees Group Health Insurance. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
5030	Annual Leave Expense
5040	Sick Leave Expense
5070	Foreign National (FN) Benefits Expense
5080	Other Employee Benefit Expense (Specify)

4. Utilities, Line 4. This line includes the cost of heat, light, power, water, gas, electricity, steam, and other utility services. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5450	Utilities Expense

5. Rent, Line 5. This line includes rental of equipment (except transportation equipment) and real property. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5490	Rent Expense

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, DSN, fax, public address systems, and other electronic media). Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
5460	Cable/Satellite Service Expense
5470	Communications Expense
5660	Internet Expense

7. Sustainment, Restoration, and Modernization (Including APF minor construction), Line 7. This line includes sustainment, restoration, and modernization of facilities and real property supplied through commercial contracts. The costs are allocated on the basis of job costing systems, using fixed charges or unit costs for specific categories of maintenance. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5250	Building and Structures Maintenance and Repair Expense

8. Supplies and Equipment, Line 8. This line includes the cost of supplies, equipment, and materials that are ordinarily consumed or expended within 2 years or used to fix property (such as repair parts). Also, includes appropriated fund software that is not capitalized. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5170	Supplies Expense
5550	Minor Property and Equipment Expense

9. Contractual Services, Line 9. This line includes the cost of services that are provided indirectly through contracts or Memoranda of Agreements (MOAs). Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5370	Contractual Expense

10. Travel of Personnel, Line 10. This line includes travel and transportation of persons when the primary purpose is to conduct NAFI business. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5240	Travel Expense

11. Transportation of Things, Line 11. This line includes expenses for the transportation of things, whether incurred through contract or use of Government resources. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5480	Freight Expense

12. Reimbursed Common Support, Line 12. This line includes expenses provided by a different Program Group and reimbursed by the benefiting Program Group as identified in [DoDI 1015.15](#), paragraph 6.1.1.1. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5380	Administrative Common Support Service

13. NAF Depreciation, Line 13. This line includes depreciation expense on NAFI capitalized tangible fixed assets, both NAFI-owned fixed assets and fixed assets to which title has been transferred to the Government. Report the balance of the following account:

<u>GL Acct #</u>	<u>Title</u>
5620	Depreciation Expense

14. All Other Expenses, Line 14. Report the balances of the following accounts:

<u>GL Acct #</u>	<u>Title</u>
5090	Spoilage, Breakage, and Obsolescence
5110	Promotion Expense
5120	Advertising Expense
5130	Child Care Food Expense
5140	Manager's Expense
5150	Sports Activities Expense
5160	Amenities Expense
5180	Laundry and Dry Cleaning Expense

5190	Tableware, Kitchenware, Linen and Uniform Expense
5210	Intra Fund Expense
5220	Professional Membership Expense
5230	Training Expense
5260	Vehicle, Boat, Aircraft Maintenance and Gas Expense
5270	Vehicle Registration Program Expense
5280	Awards and Prizes
5290	Official Hosting and Representation Expense
5310	Entertainment Expense
5320	Printing Expense
5330	Program and Brochure Expense
5340	Volunteer Service Expense
5350	Bank and Service Charge Expense
5360	Credit Card Expense
5390	401 K Administrative Surcharge Expense
5410	Claims Expense
5420	Dividend Expense
5430	Grants Expense
5440	Vending Machine Income Sharing Expense
5510	Insurance Expense
5520	Subscription and Dues
5530	Tax and License Expense

5540	Late Payment Interest Expense
5560	Franchise/Royalties Expense
5570	Audit Expense
5590	Cash Shortage
5610	Other Expense (Specify)
5630	Interest Expense
5640	Unit Allocation
5650	Lease Expense
5670	Flexible Spending Account Admin Fee
5680	Bad Debt Expense
5690	Prior Period Expense
5710	Loss on Disposition of Fixed Assets
5720	Loss on Foreign Currency

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

B. Capital Expenditure Captions. This section does not crosswalk to general ledger accounts. Per Office of the Under Secretary of Defense (Personnel and Readiness), Resale Activities Division, this section must tie to the Capital Investment Summary Report as required by Enclosure 10 of [DoDI 7700.18](#).

1. Facilities and Improvements (Land and Structures), Line 16. Lines 16a and 16b 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 not included in [DoDI 1015.15](#), paragraph E7.2.3.

3. Total Costs (less depreciation), Line 18. Report the total for lines 16.a, 16.b, and 17 for Capital Expenditures.

## 0711 FORMAT FOR THE STATEMENT OF CASH FLOW

## 071101. Format for the Statement of Cash Flow

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

## 071102. Instructions for the Preparation of the Statement of Cash Flow

The Statement of Cash Flow discloses the gross cash receipts and cash payments with an explanation of the changes in cash or cash equivalents for the reporting period. Individual statement crosswalks are prepared from information utilizing the Nonappropriated Fund Standard General Ledger guidance and crosswalks found in Chapter 2. Complete the heading on the form to indicate: (a) Military Service, (b) Program Group, and (c) Period Ending.

## 071103. Line Item Instructions for Preparing the Statement of Cash Flow

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

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, 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, Schedule A - APF and NAF Expense Summary and specifically identified as a Loss on Disposition of Fixed Assets (general ledger account number 5710).

3. Decrease (Increase) in Accounts Receivable, Line 4. The change in accounts receivable balances between the end of the preceding and current fiscal year comes from Line 2 on the Balance Sheet. A decrease in Accounts Receivable balances adds to the cash balance. 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 year comes from Line 4 on the Balance Sheet. A decrease in Inventory balances adds to the cash balance. An increase in Inventory balances 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 year comes from Line 3 (Other Current Assets) on the Balance Sheet. A decrease in prepaid expense balances adds to the cash balance. An increase in prepaid expense balances 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 on the Balance Sheet. An increase in accounts payable balances adds to the cash balance. A decrease in accounts payable balances 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 Balance Sheet Line 18, Other Current Liabilities, specifically, general ledger accounts UFM Unearned Revenue (2380) and Unearned Revenue (2390). An increase in unearned revenue balances adds to the cash balance. A decrease in unearned revenue balances 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 Balance Sheet Line 18 less general ledger account Other Liabilities (2430) less Line 8 on the Statement of Cash Flow. An increase in other current liabilities balances adds to the cash balance. A decrease in other current liabilities balances reduces the cash balance.

9. Other Liabilities (specify), Line 10. The change in other liabilities (specify) balances between the end of the preceding and current fiscal years comes from Balance Sheet Line 18, specifically general ledger account 2430, Other Liabilities (Specify). An increase in other liabilities balances adds to the cash balance. A decrease in other liabilities balances reduces the cash balance.

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

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

1. Purchase of Fixed Assets, Line 13. Amounts disbursed for the purchase of property, plant, and equipment that reduce the cash balance and amounts disbursed for minor construction.

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

3. Other (Specify), Line 15. The net amounts of other collections or disbursements associated with the purchase and sale of other 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 Lines 13 through 15.

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

1. Net Borrowing (specify), Line 17. The cash proceeds borrowed from the bank or cash disbursed to the banks for loans.

2. Payment of Dividends, Line 18. The cash disbursed for dividends.

3. Capital Grants, Line 19. The cash proceeds from grants.

4. Net Proceeds from (Payments on) Other Long-Term Liabilities-Other (specify), Line 20. The cash disbursed on other long term liabilities.

E. Net Cash Provided By (Used In) Financing Activities, Line 21. The net cash provided (used in) financing activities is the sum of Lines 17 through 20.

F. Net Decrease/Increase in Cash and Cash Equivalents, Line 22. The sum of net cash provided (used) in operating, investing, and financing activities is the sum of Lines 12, 16, and 21.

G. Cash and Cash Equivalents at Beginning of Year, Line 23. 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 24. The cash and cash equivalent balances at year end should equal the net of lines 22 and 23 and should agree with Line 1 on the Balance Sheet.

Figure 7-1 Balance Sheet

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

Figure 7-2 Statement of Income and Expense

	<u>Current Year</u>	<u>Prior Year</u>
	Percent	Percent
	<u>Amount of Revenue</u>	<u>Amount of Revenue</u>
MILITARY SERVICE: _____		
PROGRAM GROUP: _____		
CATEGORY: _____		
FOR THE YEAR ENDING: _____		
Sales (Line 1)		
Cost of Goods Sold (Line 2)		
Gross Margin (Line 3)		
Other Operating Income (Line 4)		
Participation Fees and Charges		
Dues and Assessments		
Concessionaire Income		
Other		
Total Other Operating Income (Line 5)		
GROSS OPERATING INCOME (Line 6)		
Operating Expenses (Schedule A) (Line 7)		
OPERATING MARGIN (Line 8)		
Other Income (Line 9)		
Dividends		
Grants – net		
Other		
Total Non-Operating Income (Line 10)		
Other Expense (Schedule A) (Line 11)		
NET INCOME BEFORE		
EXTRAORDINARY ITEMS (Line 12)		
Extraordinary Income (Line 13)		
Extraordinary Expense (Schedule A) (Line 14)		
NET INCOME (Line 15)		

Figure 7-3 Reconciliation of Net Worth

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

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

MILITARY SERVICE: _____									
PROGRAM GROUP: _____									
FOR YEAR ENDING: _____									
(\$ in thousands)									
	<u>Category A</u>		<u>Category B</u>		<u>Category C</u>		<u>TOTAL</u>		
<u>Cost Expense Captions</u>	<u>APF</u>	<u>NAF</u>	<u>APF</u>	<u>NAF</u>	<u>APF</u>	<u>NAF</u>	<u>APF</u>	<u>NAF</u>	
Military Personnel (Line 1)									
Civilian Personnel (Line 2)									
(Salaries and Wages)									
Civilian Personnel (Line 3)									
(Services and Benefits)									
Utilities (Line 4)									
Rent (Line 5)									
Communications (Line 6)									
Sustainment, Restoration and Modernization (Line 7)									
(including APF minor construction)									
Supplies and Equipment (Line 8)									
Contractual Services (Line 9)									
Travel of Personnel (Line 10)									
Transportation of Things (Line 11)									
Reimbursed Common Support (Line 12)									
NAF Depreciation (Line 13)									
All Other Expenses (Line 14)									
TOTAL EXPENSE (Line 15)									
<u>Capital Expenditures Captions</u>									
Facilities and Improvements (Land and Structures) (Line 16)									
APF (MILCON)									
NAF									
Equipment (Investment type) (Line 17)									
TOTAL COSTS (less depreciation) (Line 18)									

Figure 7-5 Statement of Cash Flow

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

**VOLUME 13, CHAPTER 8: “NONAPPROPRIATED FUND PAYROLL”****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 [November 2013](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Verified and updated references, updated hyperlinks and formatting to comply with current administrative instructions, and made clarifying editorial changes.	Revision
080102	Inserted an “Authoritative Guidance” paragraph to comply with current administrative instructions.	Revision
080602	Changed Public Law 110-181 reference to Title 5, United States Code, section 5514 to reflect law codification.	Revision

Table of Contents

0801 GENERAL ..... 3

    080101. Purpose ..... 3

    \*080102. Authoritative Guidance ..... 3

0802 PAYROLL OVERSIGHT ..... 4

    080201. Payroll Objectives ..... 4

    080202. AO Responsibilities..... 4

    080203. NAFI Responsibilities ..... 4

    080204. Payroll Office Responsibilities..... 5

0803 BASIC AND PREMIUM PAY ..... 5

0804 TIPS AND SERVICE CHARGES..... 5

0805 ALLOWANCES AND OTHER SPECIAL ENTITLEMENTS ..... 6

0806 PAYROLL DEDUCTIONS ..... 6

    080601. Taxes ..... 6

    \*080602. Other Deductions..... 7

    080603. Garnishment of Wages ..... 7

    080604. Administrative Offset for Erroneous Overpayments ..... 7

    080605. Order of Precedence for Deductions ..... 7

0807 EMPLOYEE BENEFIT PORTABILITY PROGRAM ..... 7

    080701. General ..... 7

    080702. Leave Transfer..... 8

    080703. Portability Retirement Records ..... 8

0808 LEAVE ACCRUAL..... 9

    080801. Annual Leave ..... 9

    080802. Sick Leave ..... 9

    080803. NAFI to NAFI Leave Transfer..... 10

0809 SEVERANCE AND SEPARATION BENEFITS ..... 10

0810 PAYROLL DISBURSEMENTS ..... 10

0811 RECORDS RETENTION AND STORAGE..... 10

0812 INTERNAL CONTROL STANDARDS ..... 10

## CHAPTER 8

NONAPPROPRIATED FUND PAYROLL

## 0801 GENERAL

## 080101. Purpose

This chapter provides the standard Nonappropriated Fund (NAF) policy for Department of Defense (DoD) NAF payroll and applies to DoD NAF employees. NAF instrumentality (NAFI) programs and facilities must be operated, maintained, and funded as an integral part of the DoD personnel and readiness program. NAF employees are not paid from funds appropriated by Congress but from funds generated by NAIs. NAF employees are Federal employees, but they are not covered by most laws administered by the Office of Personnel Management (OPM), unless specifically provided by statute. Policy in this chapter applies to all NAIs, NAF Human Resources (HR), NAF payroll offices, and their supporting accounting offices (AOs).

## \*080102. Authoritative Guidance

The policy and related requirements prescribed are in accordance with the applicable provisions of:

- A. DoD Instruction (DoDI) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;”
- B. DoDI 1400.25, “DoD Civilian Personnel Management System;”
- C. DoDI 5010.40, “Managers’ Internal Control Program Procedures;”
- D. DoDI 7600.06, “Audit of Nonappropriated Fund Instrumentalities (NAFI) and Related Activities;”
- E. Internal Revenue Service (IRS) Publication 15 (Circular E), “Employer’s Tax Guide;” Publication 15-A, “Employer’s Supplemental Tax Guide;” and Publication 1244, “Employee’s Daily Record of Tips and Report to Employer;”
- F. Office of Management and Budget (OMB) Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control;”
- G. OMB, Circular A-130, Appendix II, “Implementation of the Government Paperwork Elimination Act;” and
- H. Title 5, United States Code (U.S.C.), section 5514, “Installment deduction for indebtedness to the United States.”

## 0802 PAYROLL OVERSIGHT

Defense Civilian Personnel Advisory Service ([DCPAS](#)) NAF Personnel Policy Division is responsible for developing, coordinating, and publishing DoD-wide civilian HR policy concerning NAF employees. DCPAS policy covers staffing, workforce relations, pay, classification, leave, and employee benefits. DCPAS is also responsible for implementing the DoD Employee Benefit Portability Act and the congressional mandate for a single, uniform health benefits program for NAF employees. DoD NAF HR policy is found in DoDI 1400.25, with volumes (chapters) in the 1400 series.

## 080201. Payroll Objectives

All NAF payroll systems that are being designed and implemented, or are in use, must operate in accordance with [authoritative guidance in paragraph 080102 and Volume 1](#). All payroll systems must provide, at a minimum, the following objectives:

- A. Complete, accurate, and prompt processing and accounting for pay, leave, and deductions;
- B. Complete, accurate, and prompt generation and maintenance of payroll records and transactions;
- C. Timely access to complete and accurate information to those customers internal and external to the NAFI who require the information;
- D. Timely and proper interaction of payroll systems with the core financial systems; and
- E. Adequate internal controls to ensure that payroll systems are operating as intended.

080202. [AO](#) Responsibilities

AOs must ensure all payroll information (including accrued payroll and benefits) is passed to the accounting system (whether systemically or manually), update the appropriate [NAF Standard General Ledger \(NAFSGL\)](#) accounts, and meet reporting requirements specified in DoDI 1015.15 and Volume 13, Chapter 7. AOs are also responsible for the compilation of financial statements.

080203. [NAFI](#) Responsibilities

It is the responsibility of each NAFI to be knowledgeable of the legal requirements governing its payroll operations. NAFIs will establish the administrative workweek, basic workweek, workday, meal periods, legal holidays, administrative leave, flexible and compressed work schedules, compensatory time off for religious observances, and volunteer activities in accordance with [DoDI 1400.25, Volume 1406](#), “Nonappropriated Fund ([NAF](#)) Attendance and

Leave.” Compensatory time off may be granted to NAF employees, at their request, instead of overtime pay for overtime work. See [DoDI 1400.25, Volume 1405](#), “Nonappropriated Fund (NAF) Pay, Awards, and Allowances.” NAFIs must ensure that each position is assigned to its proper occupational category, title, code, grade, or pay band level, consistent with the duties and responsibilities of the position, and proper job-grading standards in [DoDI 1400.25, Volume 1407](#), “Nonappropriated Fund (NAF) Classification.” The NAFI must work closely with the AO and payroll office to ensure the payroll objectives are met.

#### 080204. Payroll Office Responsibilities

The NAF payroll office has primary responsibility for all payroll processing and must work closely with the supporting NAF personnel office, NAFIs, and NAF employees to:

- A. Maintain accurate records to satisfy employee needs and NAFI accounting requirements, and to comply with federal, state, and local statutory requirements;
- B. Ensure safekeeping of pay information with adequate controls;
- C. Promptly process all documents received affecting pay in accordance with established schedules;
- D. Obtain information necessary to correct errors detected, including erroneous deductions, deductions not withheld, and over deductions by contacting the submitting office or employee;
- E. Make timely disbursement of employees’ pay and supplemental payments when required;
- F. Provide documentation to the NAF personnel office to support retirement actions; and
- G. Submit tax reports to federal, state, and local authorities.

#### 0803 BASIC AND PREMIUM PAY

Authorized pay systems for NAF employees are described in [DoDI 1400.25, Volume 1405](#). Laws and policy governing the application of rates of basic pay and premium pay for NAF employees are contained or referenced in that DoD issuance.

#### 0804 TIPS AND SERVICE CHARGES

NAF employees may receive cash or charge (e.g., customer adds to a credit card sales ticket) tips from customers which are not negotiated by the NAFI. Charge tips may be immediately paid to the employee or recorded as a liability in the accounting records to be paid to the employee during payroll processing. NAF employees must report tips received, whether cash or charge, if those tips total \$20 or more in a month on [IRS Form 4070, Employee’s Report of Tips to](#)

**Employer**, or a similar **form**, to the NAFI by the 10th day after the month that the tips are received. NAFIs may, at their discretion, distribute service charges (amount added to a customer's ticket) to employees. Service charges distributed to employees are treated as wages and are not required to be included as tips on IRS Form 4070. For further information on tip reporting, refer to IRS Publication 15.

## 0805 ALLOWANCES AND OTHER SPECIAL ENTITLEMENTS

DoDI 1400.25, Volume 1405 covers allowances and other special entitlements for NAF employees. The payment of allowances and differentials to NAF employees in overseas and foreign areas **must** comply with [DoDI 1400.25, Volume 1412](#), "Nonappropriated Fund (NAF) Overseas Allowances and Differentials, and Employment in Foreign Areas."

## 0806 PAYROLL DEDUCTIONS

Payroll deductions or withholdings made from an employee's pay must be properly authorized by the employee (or in accordance with applicable laws), adequately documented, and paid when due to the appropriate recipient in the amount authorized.

### 080601. Taxes

**Tax collections** represent liabilities that are settled when funds are remitted to the designated authorities. Refer to IRS Publications 15 and 15-A for information on employer identification number, tax withholding, depositing, and reporting.

A. Common Law Rules. An employer must generally withhold Federal income taxes, and withhold and pay Social Security and Medicare taxes, for its employees. An employer does not generally have to withhold or pay taxes on payments to independent contractors. To determine whether an individual is an employee or an independent contractor under common law, the relationship of the worker and the business must be examined. IRS Publication 15-A provides the guidelines for determining whether an individual is an employee under the common law rules. These rules assist in identifying whether sufficient control is present to establish an employer-employee relationship.

B. Withholding State and Local Income Taxes. The payroll office will withhold taxes from the wages of civilian employees and remit them to tax jurisdictions wherever the Federal Government has entered into agreements for withholding taxes. State and local taxes **must** be withheld from the pay of enlisted personnel compensated from NAF for work performed during off-duty hours.

C. Foreign Taxes. NAFIs located in foreign countries will **neither** pay to, nor collect for, any foreign country or political subdivision, any tax unless the United States has consented to levy collection by treaty, convention, or Executive agreement.

D. Federal Insurance Contributions Act (FICA). The payroll office will withhold a set percentage of an employee's salary each pay period **to pay the employee's share of**

**FICA contribution.** FICA also requires that the NAFI match the employee's amount and contribute the money to a Government account known as the Social Security Trust Fund.

\*080602. Other Deductions

If an eligible NAF employee elects to participate in other NAF benefits programs (to include retirement, group life, medical, dental, long-term care insurance, flexible spending accounts, and 401(k) savings plan benefits), deductions will be made as applicable. Employee-elected deductions may also be made for U.S. Savings Bonds, contributions to the Combined Federal Campaign, union dues (as applicable), and allotments to financial institutions, such as credit unions, banks, or other savings institutions. In accordance with [5 U.S.C. § 5514](#), NAF employees are subject to installment deductions from pay to collect debts for Federal agencies.

080603. Garnishment of Wages

NAF employees are subject to court-ordered garnishment of wages for alimony, child support, bankruptcy, commercial debts, and federal tax levies. Refer to DoDI 1400.25, Volume 1405 for further information and specific rules applicable to court-ordered garnishments.

080604. Administrative Offset for Erroneous Overpayments

In accordance with [5 U.S.C. § 5514](#), NAFI employees are subject to salary offset for collection of debts in the same manner as military members and DoD civilian employees, **including** debts owed to NAFIs or appropriated fund (APF) activities. NAF payroll offices **must** ensure procedures are developed to comply with the requirements of 5 U.S.C. § 5514. NAF payroll offices **must** refer to Volume 8, Chapter 8 and [Volume 16, Chapters 2 and 4](#) in developing indebtedness and debt collection procedures for NAFIs.

080605. Order of Precedence for Deductions

If the gross salary of an employee is not sufficient to permit all deductions to be made, then deductions will be made in the order of precedence established by the OPM [Personnel Policy Memorandum 2008-01](#), "Order Of Precedence [When Gross Pay Is Not Sufficient To Permit All Deductions](#)," dated July 30, 2008. NAFIs must consult policy, legal staff, and collective bargaining agreements to ensure the proper order of precedence is followed.

0807 EMPLOYEE BENEFIT PORTABILITY PROGRAM

080701. General

The Portability of Benefits for [Nonappropriated Fund](#) Employees Act of 1990 ([Portability Act](#)), [Public Law \(Pub. L.\) 101-508](#), [section 7202](#) provides portability of pay and benefits for employees moving between NAF and APF positions. Under the Portability Act, employees who move with a break in service of no more than three days between NAF and APF positions may be eligible for pay, leave, reduction-in-force, and retirement benefit protection. The protection provided by the Portability Act, particularly protection in the area of retirement coverage elections,

was subsequently expanded by Pub. L. [104-106](#), section 1043, enacted in 1996. In 2002, Pub. L. [107-107](#), section 1131 further expanded the retirement election opportunity to make it easier for employees to continue retirement coverage after moving between NAF and APF positions. Under current retirement portability law, eligible employees who move with a break in service of no more than one year between NAF positions and retirement-covered civil service positions in any Federal agency may elect to continue retirement coverage in the losing employment system's retirement plan without the vesting requirement. Additionally, Pub. L. 107-107, section 1132 permits employees in both Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) to use prior NAF service to qualify for an immediate retirement. An employee who elects to remain covered in the losing employment system is excluded from coverage under the gaining DoD Agency for all subsequent periods of employment including periods of service as a reemployed annuitant. Refer to [DoDI 1400.25, Volume 1408](#), "Insurance and Annuities for Nonappropriated Fund (NAF) Employees," and the DoD Portability of Benefits [Reference Guide](#) for additional information.

080702. Leave Transfer

In accordance with the Portability Act, accrued annual and sick leave hours will transfer within DoD to the gaining activity without exchange of funds, if there is a break in service of no more than three days. Employees are not entitled to receive lump-sum payment for accumulated/accrued annual leave. Refer to DoDI 1400.25, Volume 1406 for additional guidance.

A. [NAF to APF Transfer](#). When a NAF employee transfers to an APF position, the AO or NAF payroll office will make applicable entries to the appropriate NAFSGL accounts to eliminate the annual leave liability ([consult local procedures for additional information](#)). The value of the income resulting from the elimination of the liability will be recorded as specific non-operating income in the appropriate NAFSGL account.

B. [APF to NAF Transfer](#). When an APF employee transfers to a NAF position, the AO or NAF payroll office will record the total dollar amount of accumulated/accrued annual leave to the appropriate NAFSGL accounts to recognize the annual leave liability ([consult local procedures for additional information](#)). The value of the expense resulting from the recognition of the liability will be recorded as specific non-operating expense in the appropriate NAFSGL account.

C. [Annual Leave Lump-Sum Repayment](#). Employees who are covered under the provisions of the Portability Act and were paid lump-sum leave payments between January 1, 1987 and April 15, 1991, because of a transfer between APF and NAF positions, may repay those lump-sum payments and receive credit of the leave. Employees who separated from Federal service between January 1, 1987 and April 15, 1991, and who were subsequently rehired, may also have the opportunity to repay the lump-sum leave and receive credit.

080703. Portability Retirement Records

NAF HR/payroll offices are responsible for providing and processing forms for employees who are retiring under either CSRS or FERS. [OMB Circular A-130, Appendix II](#) prescribes the

use of electronic processes and digital signatures whenever it is possible and in the best interest of the Government. The NAF HR/payroll offices must fulfill the following general responsibilities relating to CSRS or FERS (for further information on portability retirement, refer to Volume 8, Chapter 4, section 0404).

A. NAF HR/payroll offices must prepare and maintain a Standard Form (SF) 2806 (CSRS) or an SF 3100 (FERS), Individual Retirement Record, for each employee subject to either CSRS or FERS. Each SF 2806/SF 3100 must be correct, complete, clear in every detail, and properly certified to ensure timely and accurate closeout procedures when an employee is separated or transferred to the paying jurisdiction of another agency.

B. NAF HR/payroll offices must maintain adequate control over retirement records and associated monetary balances.

C. NAF HR/payroll offices must promptly send claims and records. The OPM address is:

CSRS/FERS Retirement Records  
Office of Personnel Management  
Retirement Operations Center  
P.O. Box 45  
Boyers, PA 16017-0045

D. NAF HR/payroll offices must withhold retirement deductions from employees' salaries, make agency contributions, and send the deductions/contributions to OPM for deposit. Deductions begin on the day the employee acquires coverage under the retirement system and must be prorated for partial pay periods. FICA contributions must be withheld and reported in accordance with current guidance from the Department of Treasury. Employee retirement deductions, employer contributions, employee contributions to applicable 401(K) plans, and loan repayments will be made biweekly and submitted to the appropriate NAF employee benefit system. Thrift Savings Plan (TSP) deductions and the employer's matching contributions must be forwarded to the TSP.

## 0808 LEAVE ACCRUAL

### 080801. Annual Leave

The accrual of annual leave is material and must be recognized as a liability and expensed monthly in the individual NAFI's accounting records. The individual leave records or annual leave report, showing the accumulated leave balance for all employees, will be used as the subsidiary ledger to the appropriate NAFSGL account for each NAFI.

### 080802. Sick Leave

The monthly accrual of sick leave is not a liability to the NAFI. Sick leave used monthly will be recognized as an expense in the individual NAFI's accounting records.

## 080803. NAFI to NAFI Leave Transfer

When a NAF employee transfers from one NAFI to another, the accrued annual leave hours and dollar amount may be transferred to the gaining NAFI, if both employers and employee agree. If the employee elects not to have the annual leave transferred to the gaining NAFI, then the losing NAFI will make a lump-sum leave payment to the employee. [If the DoD Component head has implemented policy that permits NAF employees transferring between the NAF activities to receive partial payment of any unused annual leave to their credit at the time of separation, the employee may also elect to transfer part of the annual leave balance and take a lump-sum payment for the remaining portion.](#) Accrued sick leave hours will transfer to the gaining NAFI with no exchange of funds. See DoDI 1400.25, Volume 1406 for additional guidance.

## 0809 SEVERANCE AND SEPARATION BENEFITS

DoDI 1015.15 specifies that NAFIs **must** set aside and invest funds on a regular basis to ensure sufficient cash availability to defray payment of severance benefits for U.S. and Foreign National employees upon their separation from NAFI employment. NAFIs will ensure that the estimated liability for a business-based action is accrued when probable and a separation allowance is accrued on a monthly basis where applicable. DoDI 1400.25, Volume 1405 describes the eligibility criteria, exclusions, and conditions under which NAF employees may receive severance pay and the computation and payment requirements.

## 0810 PAYROLL DISBURSEMENTS

All payroll disbursements **must** be paid to NAF employees by electronic fund transfer (EFT) unless the head of the agency or designee has granted a waiver. The head of the agency or designee may waive the EFT requirement upon receipt of written certification from the employee which states that he or she does not have an account with a financial institution or providing some other extenuating circumstance.

## 0811 RECORDS RETENTION AND STORAGE

NAF payroll offices are required to keep records sufficient to support all transactions relevant to matters concerning NAF payroll. In accordance with IRS Publication 15, records of employment taxes **must** be maintained for a period of 4 years following the due date of such tax or from the date for which such tax has been paid, whichever date is later. [Aggregate records documenting payroll disbursed in each pay period \(base pay, additions to and deductions from pay, and leave balances\) must be stored and transferred to the National Personnel Records Center for 56 years' retention, in accordance with the National Archives and Records Administration General Records Schedule 2.4.](#)

## 0812 INTERNAL CONTROL STANDARDS

A key to effective payroll operations is the maintenance of internal controls over those operations. Internal control standards are outlined in the OMB Circular A-123; DoDI 1015.15, paragraph 6.7.3; DoDI 5010.40; and DoDI 7600.06. All DoD NAF organizations must ensure that

these standards are followed for the organization of payroll operations as well as to the methods and procedures adopted for processing and auditing payrolls.

**VOLUME 13, CHAPTER 11: “ACCOUNTING FOR DEFINED BENEFIT PENSION  
AND OTHER POSTRETIREMENT PLANS”**

**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 [November 2013](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Updated hyperlinks and formatting to comply with current administrative instructions.	Revision
110303A.1	Clarified requirement to disaggregate the service cost (SC) component from the other components of net benefit cost on the income statement per Accounting Standards Codification (ASC) Topic 715.	Revision
110502	Added paragraph to clarify presentation of SC on the income statement per ASC Topic 715.	Addition

## Table of Contents

1101	GENERAL .....	3
110101.	Purpose .....	3
110102.	Authoritative Guidance .....	3
1102	DEFINITIONS .....	3
110201.	Funded Status .....	3
110202.	Measurement Date.....	4
110203.	Net Periodic Pension Cost (NPPC) .....	4
110204.	Pension Provider .....	4
110205.	PA.....	4
110206.	PBO .....	4
110207.	Statement of Financial Position.....	4
1103	BASIC PENSION ACCOUNTING PRINCIPLES .....	4
110301.	Disclosure.....	4
110302.	Measurement Date.....	4
*110303.	Basis for Calculations.....	5
1104	BALANCE SHEET CLASSIFICATIONS .....	6
110401.	PA greater than PBO .....	6
110402.	PA less than PBO .....	6
110403.	Adjustments.....	6
1105	INCOME STATEMENT CLASSIFICATIONS.....	7
110501.	Presenting NPPC .....	7
*110502.	Presenting SC .....	7
1106	DISCLOSURES .....	7
1107	BASIC PENSION FUNDING (LIABILITY) PRINCIPLES .....	7
110701.	Calculation of Liabilities .....	7
110702.	Cost Methods.....	8
110703.	Methods Used for PVFB .....	8

## CHAPTER 11

**ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER  
POSTRETIREMENT PLANS**

## 1101 GENERAL

## 110101. Purpose

This chapter provides requirements to account for defined benefit pension and other postretirement plans for single-employer plans. The policies in this chapter apply to Department of Defense Nonappropriated Fund Instrumentalities (NAFIs), their supporting Accounting Offices, and [Military Services Exchanges](#). This chapter does not pertain to Military Department plans that are considered multi-employer. This chapter provides basic pension accounting, funding principles, and a review of standards. Each NAFI and its Certified Public Accounting (CPA) firm providing financial services support should fully review the exceptions and variables associated with pension accounting prior to implementation.

110102. [Authoritative Guidance](#)

The annual reporting of Pension Plan assets and liabilities **must** be in conformance with Financial Accounting Standards Board Statement of [Financial Accounting Standards \(FAS\) Number \(No.\) 158](#), “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” FAS No. 158 addresses the concern that employers’ accounting standards for defined benefit pension and postretirement plans fail to communicate the funded status of those plans in a complete and understandable way. FAS No. 158 cross references to Accounting Standards Codification (ASC) Topic [715](#), subtopics 20, 30, and 60 and Topic [958](#).

## 1102 DEFINITIONS

The standards contained within FAS No. 158 improve reporting for defined benefit pension and postretirement plans by requiring an employer to recognize certain financial activity occurring in the plans in their financial statements. This activity includes the overfunded or underfunded status of defined benefit pension and postretirement plans in the balance sheet. The actuarial gains and losses, prior service costs (SC), transition obligations, and credits that arise during the period are recognized through the income statement. [FAS No. 158 provides additional information regarding](#) the types of plans for the financial statement reader. Terms NAFIs and Military Departments should be aware of [include those listed in paragraphs 110201 through 110207](#).

## 110201. Funded Status

The funded status is the difference between the [projected benefit obligation \(PBO\)](#) (also known as the pension liability) and the [plan assets \(PA\)](#) at fair value.

## 110202. Measurement Date

The measurement date is the employer's fiscal year-end statement of financial position. The PA and PBO are measured as of this date.

## 110203. Net Periodic Pension Cost (NPPC)

The NPPC is the annual expense incurred by the employer because of the pension plan. The NPPC is composed of the SC, interest cost, actual return on assets, amortization of prior SC, transition obligations, and unrecognized gains or losses.

## 110204. Pension Provider

The pension provider is the organization that administers a Military Department's pension plan.

## 110205. PA

The PA are the amounts a pension plan could reasonably expect to receive for a current sale of assets held for pension benefits.

## 110206. PBO

The PBO is the actuarial present value, as of a specified date, of all employees' vested and non-vested pension benefits.

## 110207. Statement of Financial Position

The statement of financial position is another term for the balance sheet. The term "balance sheet" is used in this volume.

## 1103 BASIC PENSION ACCOUNTING PRINCIPLES

## 110301. Disclosure

Pension accounting principles require the disclosure of the components of net pension costs and of the PBO. [FAS No. 87](#), "Employers' Accounting for Pensions" prescribes the [disclosure requirements](#) that a NAFI must [follow](#) to reflect the cost of pension plans on income statements and balance sheets.

## 110302. Measurement Date

[FAS No. 87](#) requires that PA and benefit obligations be measured as of the date of the fiscal year-end balance sheet. As of that date, each NAFI sets assumptions, gathers the participant data used to measure the obligations, and determines the fair value of assets in the pension trust. Each

NAFI uses these amounts to calculate the cost of the plan in the future year and determines if additional amounts must be recorded on the balance sheet.

\*110303. Basis for Calculations

A. Calculation of NPPC. The basis for calculations is the benefit obligations, i.e., PBO and the accumulated benefit obligation (ABO), SC, and the market related value of PA. These values are used in the calculation of the NPPC, which is the annual accounting expense or income each NAFI must recognize in its income statement. The NPPC is comprised of the following components.

1. SC. The SC is the annual accrual of benefits. ASC Topic 715 requires a NAFI to disaggregate the SC component from the other components of net benefit cost on the income statement. Only the SC component of net benefit cost is eligible for capitalization.

2. Market Related Value of PA. The market related value of PA is either fair value or a calculated asset value that recognizes changes in fair value in a systematic and rational manner over not more than five years.

3. Interest Cost. The interest cost is an increase in PBO associated with the passage of time during the year. This is generally the discount rate multiplied by the beginning of year PBO adjusted for expected benefit payments.

4. Expected Return on Assets. The expected return on assets is an increase in PA associated with the passage of time during the year. This is offset against the other cost items and is generally the expected long-term rate of return on assets multiplied by the beginning of year market related value of PA adjusted for expected benefit payments, contributions, and possibly for expected administrative expenses paid from the trust.

5. Amortization Amounts. Amortization amounts are the systematic recognition of certain changes in value.

a. Transition Obligation or Asset. Amortization of a transition obligation or asset allows phased recognition on the income statement of the difference between the plan's funded status (PBO less PA) and accrued or prepaid cost on the balance sheet when the NAFIs first transitioned to this statement.

b. Prior SC. Amortization of prior SC allows phased recognition on the income statement of changes in the PBO associated with a plan amendment. This amount is generally amortized over the average remaining service period of the plan participants.

c. Unrecognized Net Gain or Loss. Amortization of an unrecognized gain or loss allows phased recognition of actuarial gains or losses. Actuarial gains and losses that have not yet been reflected on the income statement are accumulated each year and amortized over the average remaining service period of plan participants only to the extent their

total exceeds a threshold. The threshold may be up to 10 percent of the greater of the plan's PBO or [market related value of PA](#).

B. Accrued or Prepaid Pension Cost. The accrued or prepaid pension cost is the amount on the balance sheet that is equal to the accumulated difference between past NPPC and past plan contributions. A prepaid pension cost arises when the plan contributions exceed the NPPCs or the NPPCs are less than zero. An accrued pension cost arises when the NPPCs exceed plan contributions or the NPPCs are greater than zero. For certain plans whose fair value of assets is less than the ABO, there will be an increase in liabilities that must be reflected on the balance sheet. Note that these amounts are reflected on the balance sheet only and do not affect the income statement.

#### 1104 BALANCE SHEET CLASSIFICATIONS

The Military Departments will calculate the funded status of a benefit plan. The funded status should be determined as of the year-end statement date (measurement date) and is defined as the difference between the PBO and PA. Depending on the differences between the PBO and PA, several areas of the balance sheet could be affected. The following examples are provided.

##### 110401. PA greater than PBO

An overfunded plan exists when the PA is greater than the PBO. The difference would be classified as a non-current asset in the balance sheet.

##### 110402. PA less than PBO

An underfunded plan exists when the PA is less than the PBO. The difference would be classified as a liability (current or long-term) in the balance sheet. The classification of the liability as a current or long-term liability will be determined and provided by the [pension provider](#).

##### 110403. Adjustments

Once the funded status of a benefit plan is determined, adjustments may need to be made to existing pension balances in the balance sheet. These adjustments will be posted as an offset to the equity account in the balance sheet and can be either an addition or reduction to the equity section. These temporary adjustments are treated in the equity section of the balance sheet in the same manner as the "unrealized gains/losses on investments," pursuant to [FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."](#) In addition, these temporary adjustments are not calculated in the net worth determination. The final result of these entries will result in the funded status equaling either a non-current asset or a liability based on the difference of the PA and PBO. The provisions of FAS No. 158 eliminate the accounting for [any](#) potential additional minimum liability.

## 1105 INCOME STATEMENT CLASSIFICATIONS

## 110501. Presenting NPPC

The NPPC is the annual expense incurred by the employer because of the pension plan. Under FAS No. 158, the pension expense will continue to be recognized as a component of the income statement similar to the previous reporting process. Accounting rules can produce a negative expense, which appears as income on the financial statements. While the expense (debit) is recognized through the income statement, the second part of the entry (credit) results in adjustments to the balance sheet accounts, which have been expanded to include the adjustment to the equity account. The net of the SC, interest cost, and expected return on PA will continue to be an adjustment as a component of either the non-current asset or the liability, whichever component the NAFI is reflecting in the financial statements due to the new funded status. The amounts of the net gain or loss, net prior SC or credits, and net transition asset or obligation will be offset against the equity account.

## \*110502. Presenting SC

A NAFI must report the SC component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost defined in ASC Topic 715 are required to be presented in the income statement separately from the SC component. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described.

## 1106 DISCLOSURES

The CPA firm or external auditors receive annual valuation reports from outside actuaries to prepare the financial statement disclosures. At a minimum, the CPA firm will provide additional information about certain effects on net periodic benefit cost, and the amount and timing of any PA expected to be returned to the Military Departments and NAFIs. In addition, amounts recorded as adjustments to the equity section of the balance sheet will result in an adjustment to the income statement. The actuaries should provide this information to the CPA firm for inclusion in the audited financial statements. See FAS No. 158 and FAS No. 87 for more information on disclosure requirements.

## 1107 BASIC PENSION FUNDING (LIABILITY) PRINCIPLES

## 110701. Calculation of Liabilities

A pension plan's liabilities can be calculated in different ways, but the same principles always apply. However, accounting and funding calculation principles are different. The actuary calculates the expected future pension payments for each participant in the plan using the entity's participant data and plan provisions. These future benefit payments consider the individual's compensation and service history, and when that individual might be expected to die, quit, become disabled, or retire. Each future payment is discounted from the date of payment to present day using the actuarial assumptions. Actuaries call this discounted amount the present value of future

benefits (PVFB) and it represents the present value of all benefits expected to be paid from the plan to current plan participants. If assumptions are correct (and if it were allowed), then the NAFI could theoretically set aside that amount of money in a plan today and it would cover payments from the plan, including those for service not yet rendered. Note, this amount considers future service the participant is expected to earn and future pay increases.

#### 110702. Cost Methods

Actuaries developed the following cost methods to be used to determine the amount of the liabilities (current and long-term) to be reported on the balance sheet. These cost methods divide the PVFB into [actuarial liability \(AL\)](#), [normal cost \(NC\)](#), and [present value of future normal costs \(PVFNC\)](#).

A. [AL](#). AL is the portion of the PVFB that is attributed to past service. This is the current value of the compensation that was deferred in prior years. For pension accounting purposes, the AL is referred to as the PBO. Different cost methods calculate the AL differently, but it always reflects past service only. Sometimes the AL reflects expected future pay increases because many pension plans are designed so that the retirement benefit is based on the pay at retirement. To allow the plan sponsor to recognize the cost of the plan gradually over the participant's lifetime, the actuary considers the portion of the future benefit due to past service to already include expected future pay increases. The portion of the PVFB that only recognizes benefits accrued to date (i.e., without future pay increases) is called the present value of accumulated benefits (PVAB). This reflects current service and current salary. For pension funding, the PVAB may also be called the current liability; however, the current liability is calculated using Internal Revenue Service mandated interest and mortality assumptions. For pension accounting purposes, the PVAB is referred to as the ABO.

B. [NC](#). NC is the portion of the PVFB that is attributed to the current year of service. This is the current value of the compensation that is being deferred this year. Different cost methods calculate the NC differently, but generally it reflects the current year of service and may reflect expected future pay increases. For pension accounting purposes, the NC is referred to as the SC.

C. [PVFNC](#). PVFNC is the portion of the PVFB that will be attributed to future years of service. It covers compensation that has not yet been earned. This number is not disclosed and is rarely used in any cost calculations. However, it is disclosed in valuation reports for plans that use the [entry average normal \(EAN\)](#) funding method.

#### 110703. Methods Used for [PVFB](#)

PVFB can be divided into the AL, NC, and PVFNC under many different actuarial cost methods. The three most common cost methods are the [projected unit credit \(PUC\) cost method](#), [unit credit \(UC\) cost method](#), and the [EAN cost method](#).

A. [PUC Cost Method](#). The PUC cost method considers expected future pay increases in the calculation of the liability and [NC](#).

B. UC Cost Method. The UC cost method does not reflect expected future pay increases in the liability, and only reflects one year's expected growth in pay in the NC.

C. EAN Cost Method. The EAN cost method tends to generate a NC from year-to-year that is a level percentage of payroll for each individual on the system with a single date of retirement, not multiple dates of retirement.







