# Issue

# Treatment and disclosure of discontinued operations varies among the Services. Additionally, the DoDI 1015.15 and the FMR guidance on extraordinary items is not in line with GAAP, as GAAP has discontinued usage of extraordinary items while the DoDI 1015.15 and FMR guidance still recognizes extraordinary items.

# Research

Below outlines the current process for how each service treats and discloses discontinued operations and what the regulations, accounting guidance and industry standards are for this area.

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| Discontinued Operations Treatment and Guidelines | Air Force | Army | Navy | Marines |
| Classification of discontinued operations (i.e. BRAC and installation closure expense) | Uses multiple GLACs for discontinued operations (use at closing bases only.)  Any transaction resulting from extraordinary occurrences must be recorded as an extraordinary item. | **Classified as an extraordinary item.** Record all expenses that are directly and legitimately attributable to the BRAC/  Re-stationing action **except for US** | Uses many different BRAC GLACs to record base closure costs, which are rolled up into “Other Expenses.” | No definition |
| DoDI 1015.15, 6.4.2.2. Extraordinary Items. Extraordinary income or expense shall be shown in the financial statements separately from ordinary operations and shall be footnoted. NAF expenses from Base Realignment and Closure (BRAC) and installation closure actions are authorized extraordinary expense items.  BRAC actions are year-specific, and the 1015.15’s guidance on BRAC action is related to 2005, and is not considered relevant to this paper. | Follows current guidance. | Follows current guidance. | Does not follow guidance. | Need more information. |
| FMR Volume 13, Chapter 7, 070803. M. Extraordinary Income, Line 13: Extraordinary income is income that is unusual and infrequent and requires special treatment in the accounts or separate disclosure in financial statements.  FMR Volume 13, Chapter 7, 070803. N. Extraordinary Expenses (Schedule A), Line 14: Extraordinary expenses are expenses that are unusual and infrequent and require special treatment in the accounts or separate disclosure in the financial statements. Report the balances for extraordinary expenses and base realignment and closure (BRAC) and installation closure expenses. | Follows current guidance. | Follows current guidance. | Does not follow guidance. | Need more information. |
| GAAP: Discontinued Operations. A discontinued operation is separately disclosed on the face of the financial statements and is a component of an entity or a group of components of an entity that is disposed of or is classified as held for sale; or a business or nonprofit that, on acquisition, is classified as held for sale. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.  45-1b  c. [The component of an entity or group of components of an entity is disposed of other than by sale in accordance with paragraph 360-10-45-15: (for example, by abandonment or in a distribution to owners in a spinoff).  45-3 The statement in which net income of a business entity is reported or the statement of activities of a not-for-profit entity (NFP) for current and prior periods shall report the results of operations of the discontinued operation, including any gain or loss recognized in accordance with paragraph 205-20-45-3C:, in the period in which a discontinued operation either has been disposed of or is classified as held for sale.  45-3A The results of all discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income. For example, the results of all discontinued operations may be reported in the statement where net income of a business entity is reported as follows.  http://intelliconnect.cch.com/docmedia/attach/WKUS-TAL-DOCS-PHC/68/9A9581841FB46293862575AA004348DFi0638.gif  205-20-45-10. In the period(s) that a discontinued operation is classified as held for sale and for all prior periods presented, the assets and liabilities of the discontinued operation shall be presented separately in the asset and liability sections, respectively, of the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount.  205-20-50 Disclosure –General. Disclosures Required for All Types of Discontinued Operations, 50-1. The following shall be disclosed in the notes to the financial statements that cover the period in which a discontinued operation either has been disposed of or is classified as held for sale under the requirements of paragraph 205-20-45-1E.  a. A description of both of the following:  1. The facts and circumstances leading to the disposal or expected disposal  2. The expected manner and timing of that disposal.  b. If not separately presented on the face of the statement where net income is reported (or statement of activities for a not-for-profit) as part of discontinued operations (see paragraph 205-20-45-3B), the gain or loss recognized in accordance with paragraph 205-20-45-3C.  205-20-45-1 The results of operations of a component of an entity that either has been disposed of or is classified as held for sale under the requirements of paragraph 360-10-45-9, shall be reported in discontinued operations in accordance with paragraph 205-20-45-3 if both of the following conditions are met:  a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.  b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. | Does not follow guidance. | Does not follow guidance. | Does not follow guidance. | Need more information. |
| Industry Practice: Industry practice is to report discontinued operations in accordance with GAAP. As a result, in the period in which a component meets the held-for-sale and discontinued operations criteria, an entity must present the assets and liabilities of the discontinued operation separately in the asset and liability sections of the balance sheet. Assets and liabilities cannot be offset and presented as a single amount.  Additionally, the results of all discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income. | Does not follow guidance. | Does not follow guidance. | Does not follow guidance. | Need more information. |

# Discussion

The DoDI 1015.15 and FMR are currently including NAF expenses from Base Realignment and Closure (BRAC) and installation closure actions within extraordinary items. This procedure conflicts with GAAP guidance to present discontinued operations as a separately disclosed line item on the face of the financial statements. Additionally, GAAP has eliminated the term extraordinary items and replaced it with infrequent and unusual items that can be disclosed in the footnotes or presented as a line item within ordinary income, as long as that presentation does not provide an additional net income figure or an alternative figure for any other key metric such as earnings per share (ASU 2015 01). The removal of extraordinary items is discussed in Paper #10.

# Recommendation

The 1015.15 as it currently stands does not contain a discontinued operations section. We recommend that the Services account for BRAC closures as discontinued operations and follow the presentation guidelines provided by GAAP which are present in the above table. We further recommend that the Services follow the principle that cash flows (costs or revenues) with a causal relationship to the closure of the base should be included in the calculation of discontinued operations. The proceeds received from the DOD Base Closure Account should be included in the cash flows associated with the discontinued operation, as discontinued operation cash flows include “disposal of other than by sale”, according to GAAP. We recommend that proceeds of any assets sold, residual income from programs, and closing expenses be included in cash flow from discontinued operations. Each service should present discontinued operations in the same manner. We recommend that future BRAC actions follow this guidance, and record closures of bases as part of discontinued operations. Likewise, programs that have been cancelled should also be considered part of discontinued operations.

We contend that closure of programs or installations is part of normal operations for an MWR fund, and do not consider these actions to meet the previous definition of extraordinary. While a case could be made for reporting these closures as “Infrequent” losses or gains (per Paper #10), we recommend using the discontinued operations section as more reflective of the reality that these gains or losses arose from base closures, and may appear in a subsequent accounting period before ceasing to generate losses or gains. Infrequent items, in our view, are to be one-off events that are not predictable- whereas a base closure may affect multiple consecutive accounting periods.

Additionally, the DoDI 1015.15 and the FMR are currently in conflict with GAAP. We recommend the Services work in conjunction with OSD and DFAS in editing the DoDI 1015.15 and FMR to remove the concept of extraordinary items, and introduce guidance on the reporting and presentation of discontinued operations consistent with GAAP.

# Service Concurrence

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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | **Concurred on 10/25/2018.** |  |
| Army | **Concurred on 10/25/2018.** |  |
| Marines | **Concurred on 10/25/2018.** |  |
| Navy | **Concurred on 10/25/2018.** |  |

# USD(P&R)/MC&FP Disposition

Revise 1015.15 to remove concept of Extraordinary Items and align reporting and presentation of Discontinued Operations with GAAP.

# DFAS Disposition

Revise FMR to remove concept of Extraordinary Items and align reporting and presentation of Discontinued Operations with GAAP.

# Forward to DoDIG?

No DoDIG equities.