# Issue

Inconsistencies among the Services in the identification, treatment, and recording of authorized APF income and expenditures as they relate to the Uniform Funding and Management (UFM) practice.

# Research

The table below outlines the current treatment of how each service complies with the existing regulations, accounting guidance, and industry standards.

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| --- | --- | --- | --- | --- |
| Classification and Handling of UFM Guidance | Air Force | Army | Navy | Marines |
| Classification and handling of UFM | Does not use UFM; Does implement MOAs and will not expense without receipt of funds | Use UFM and initiate with MOA; Will expense without receipt of funds | Use UFM and initiate with GT&C form; Will expense without receipt of funds | Use UFM and initiate with MOA; Will expense without receipt of funds |
| DoDI 1015.15: E6.3.4. APF resources received through the DoD MWR USA and UFM practices shall be recorded on a transaction basis and in sufficient detail in the NAF accounting records to identify support for each activity broken down by the cost expense captions in Enclosure 6. The statement of income and expense shall explain any differences due to foreign currency fluctuation in accordance with Volume 2A of Reference (k). | Follows Current Guidance | Follows Current Guidance | Follows Current Guidance | Follows Current Guidance |
| FMR Volume 13, Chapter 5, 050503. UFM Recording:  A. Income. The AO must record UFM funds received in advance in the cash account with a contra entry to an Unearned Income (liability) account identified as UFM. As UFM expenses are recorded, the Unearned Income account must be reduced by the same amount in the same reporting cycle.  B. Expense. The AO must record authorized expenses, 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 reduce the Unearned Income account as applicable in the same reporting cycle. | Follows Current Guidance | Follows Current Guidance | Follows Current Guidance | Follows Current Guidance |
| GAAP: Silent on treatment | N/A | N/A | N/A | N/A |
| FASAB Handbook version 12: Silent on treatment | N/A | N/A | N/A | N/A |
| Industry Practice: Not applicable (Similar to government grant and cost reimbursable contract treatment) | N/A | N/A | N/A | N/A |

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# Discussion

The UFM practice is currently used by the Army, Navy, and Marine Corps to use appropriated funds to support approved MWR operations. Based on several working group discussions it seems that although each service is in general compliance with the current regulations regarding UFM, the specific identification, treatment, and recording of authorized APF income and expenditures varies among the Services. These inconsistencies could cause inaccurate reports to be generated when information is collected and reported at the OSD level, particularly if monthly or quarterly data is requested, since some of the funding transfers do not happen until end of year.

In certain instances, a Service has determined that it will follow the UFM process and provide services when a MOA is in place, even if the funding has not yet been received. For example, this was noted in the Army with the observation that for 6 of the past 7 years (2012 being the exception) the NAF received all agreed upon APF funding by the end of the fiscal year. Following this process does allow NAF leadership to readily show shortfalls caused by lag-time in APF funding distribution, but does open up the NAFI to potential risk if significant levels of agreed upon APF are not provided by the end of a reporting period.

While there is no industry standard equivalent for receipt of UFM funds, a similar circumstances is the treatment of grants in governmental accounting. When a governmental fund receives a restricted grant, the fund cannot treat the grant as revenue until it earns the grant money. The fund only earns the grant money by spending the grant as the money was directed to be spent by the grantor. The unearned grant money is treated as a liability (unearned revenue) until it is spent and earned. Similarly, in the case of a NAFI receiving UFM funds, the NAFI does not earn the UFM funds until it spends the funds as directed. Therefore, a Service receiving UFM funds should not record the funds as revenue until the funds are spent on NAF activities as directed.

An alternative way to view UFM funds is as a reduction in NAFI expenses. The Navy records UFM funds as an “offset” or contra-expense to NAFI expenses. Navy accrues UFM to Unearned Income when a funding document has been issued then records the offset in a contra-expense account when expenses have been incurred. Booking UFM funds as a contra-expense allows for a service to report its financials “net” of any APF support.

# Recommendation

Based on the Working Group discussion held on September 20, 2018, the Working Group decided to change the status quo of having a dual approach to the treatment of UFM funds received. Initially, one option included recording UFM funds as income once the funds were spent on NAF activities while the other option included recording UFM funds as a contra-expense to NAFI expenses. In the course of the discussion, the Working Group noted that a single approach would be more conducive to a standardized general ledger for NAFIs, and would also ensure that the full cost of a program is not hidden by the receipt of funding support. While GAAP does not have specific guidance related to offsetting revenue with government funds received, the general concept of reducing an expense with a revenue is not supported by GAAP and at minimum, is not aligned with the matching principle. Furthermore, the contra-expense approach is not consistent with grant accounting, as the grant revenue is recognized at the time of the grant being expensed, rather than offsetting the expense. Per Navy representatives, the Navy feels that the use of contra-expense accounts provides cleaner, more accurate reporting without inflated revenues/expenses. Additionally, the Navy representatives noted that the Navy follows the contra-expense treatment to be in compliance with the requirements of the DoDI 1015.15.

With these considerations in mind, the Working Group agreed upon the following recommendation:

1. Standardize journal transactions and recording of authorized APF income and expenditures. Under this method, the NAFI and APF entity enter into an annual Memorandum of Agreement (MOA) or GT&C form stating how much appropriated funding the NAFI will receive for the fiscal year (the fiscal year for UFM is October 1 to September 30). The NAFI then receives the approximate amount of appropriated funds expected to be utilized for that quarter at the beginning of each quarter. This method is consistent with the matching principle and general GAAP guidance which does not support reducing an expense with a revenue. The following journal entries are posted during this process:
   1. When cash is received:

Dr. Cash

Cr. Unearned Income UFM – Non-operating

* 1. When expense is incurred:

Dr. Expense

Cr. Cash

* 1. On a monthly basis to recognize UFM revenue for all eligible reimbursements incurred during that month:

Dr. Unearned Income UFM – Non-operating

Cr. Income UFM – Non-operating

This recommendation requires adjustment to the FMR and DoDI 1015.15.

# Service Concurrence

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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | Concurrence in October 2014. **Re-concurred 11/15/2018.** |  |
| Army | Concurrence in October 2014. **Re-concurred 11/15/2018.** |  |
| Marines | Concurrence in October 2014.  **Re-concurred 11/15/2018.** |  |
| Navy | Concurrence in October 2014. **Re-concurred 11/15/2018.** | Concurrence upon appropriate changes to the DoDI 1015.15. |

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

Revise DoDI 1015.15, Enclosure 6.

**DFAS Disposition**

Revise DoD FMR Volume 13, Chapter 5, paragraph 050503.

# Forward to DoDIG?

No DoDIG equities.