

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

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

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

**VOLUME 13, CHAPTER 1: “INTRODUCTION TO NONAPPROPRIATED FUND ACCOUNTING”**

**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 **July 2013** is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Reformatted chapter and updated hyperlinks in accordance with current administrative instructions.	Revision
010101	Added an “Overview” paragraph to comply with current administrative instructions.	Addition
010103	Added an “Authoritative Guidance” paragraph to comply with current administrative instructions.	Addition
010302	Added a list of required annual reports per Department of Defense Instruction 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources.”	Addition
0105	Relocated paragraph on Internal Controls and updated the paragraph for clarity.	Revision

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## CHAPTER 1

INTRODUCTION TO NONAPPROPRIATED FUND ACCOUNTING

## 0101 GENERAL

## \*010101. Overview

Nonappropriated Fund (NAF) accounting applies to all NAF Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs), except the Military (Armed) Service Exchanges. NAFs are separate from appropriated funds (APFs) of the U.S. Treasury. NAFs are not commingled with APFs and are managed separately from APFs, even when used to support a common program.

## 010102. Purpose

This chapter provides a list of definitions, reporting requirements, accounting standards, internal controls, and audit requirements for NAFIs.

## \*010103. Authoritative Guidance

The accounting policies, and related requirements prescribed, are in accordance with the applicable provisions of:

A. Department of Defense Instruction (DoDI) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;” and

B. Financial Accounting Standards Board Accounting Standards Codification (ASC). Users can obtain free access to the ASC by registering for the Basic View, which allows browsing by ASC topic.

## 0102 DEFINITIONS

## 010201. APFs

APFs are monies paid out of the U.S. Treasury pursuant to statutory authority granted by Congress to the 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 of and accounting for APFs for NAF activities, refer to DoDI 1015.15.

## 010202. 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).

## 010203. Chart of Accounts

The chart of accounts is a list of ledger account names, [descriptions](#), 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 [FASB and DoDI 1015.15](#) reporting requirements, and [is maintained on the \*DoD NAF Accounting website\*](#).

## 010204. 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.

## 010205. Consistency

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

010206. Cost-Benefit Analysis ([CBA](#))

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.

## 010207. 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, [income](#), and expenses. The general ledger is the core of the NAF accounting system and contains all of the accounting entries for the current period. The general ledger accounts are found in [the NAF Standard General Ledger on the \*DoD NAF Accounting website\*](#).

## 010208. Internal Controls

Internal controls are tools to help program and financial managers achieve desired results and safeguard the integrity of their programs.

## 010209. 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.

## 010210. 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 that 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 **must** 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 **must** be one percent of the assets in the consolidated Balance Sheet.

## 010211. NAFs

NAFs are government monies that are not appropriated by Congress and are not held within the U.S. Treasury. These are separate funds that are **not** recorded in the books of the Department of the Treasury.

## 010212. NAFI

A NAFI is a fiscal entity of the U.S. Government that is supported in whole or in part by NAFs. In accordance with DoDI 1015.15, paragraph 6, NAFIs are categorized into six Program Groups: Military Morale, Welfare, and Recreation (MWR), Military (Armed) Service Exchanges, Civilian MWR, Lodging Program Supplemental Mission Funds, Supplemental Mission Funds, and Special Purpose Central Funds. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments to provide programs for DoD personnel. See the definition of NAFI in DoDI 1015.15, Enclosure 2, for further clarification.

## 010213. Recording

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

## 010214. 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.

## 010215. Reliability

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

## 010216. Statement of Cash Flows

The Statement of Cash Flows 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.

## 010217. Statement of Income and Expense

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

## 010218. Subsidiary Ledgers

Subsidiary ledgers 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.

## 010219. 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, Statement of Income and Expense, and Statement of Cash Flows.

## 010220. 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.

## 010221. Trial Balance

A trial balance is a listing of the accounts in the general ledger along with each account's balance in the appropriate debit or credit column. AOs will prepare an end-of-month trial balance of the general ledger accounts to ensure total debits equal total credits.



## 0103 ANNUAL REPORTING REQUIREMENTS

## 010301. Annual Reporting Period

The annual accounting reporting period for DoD NAFIs begins October 1 of each year and ends September 30 of the following year.

## \*010302. Reports

Financial reports are prepared annually for each NAFI and must include notes to accompany the financial statements. The following NAFI financial reports are explained in Chapter 7:

- A. Balance Sheet;
- B. Reconciliation of Net Worth;
- C. Statement of Income and Expense;
- D. Schedule A – APF and NAF Expense Summary; and
- E. Statement of Cash Flows.

## 010303. Financial Statement Disclosures

Financial reports must include full and adequate disclosure of financial and accounting information in accordance with Chapter 7 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 preparation of reports.

## 0104 ACCOUNTING STANDARDS

## 010401. Generally Accepted Accounting Principles (GAAP)

The term 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. [FASB Codification](#). The American Institute of Certified Public Accountants (AICPA) Council designated the Federal Accounting Standards Advisory Board as the body that promulgates GAAP for federal entities and the 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. The FASB Accounting Standards Codification is the single source of authoritative nongovernmental U.S. GAAP, and is available as an advanced application that allows users to access authoritative content, perform research, and submit feedback. Effective for interim and annual periods ending after September 15, 2009, the Codification supersedes all previous 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. 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. AICPA:
  - 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 APFs;
3. Restrictions on expenditures, including construction;
4. Restrictions on investments; and
5. Laws and regulations for NAF, Civil Service, and military personnel.

010402. Accrual Accounting

NAFIs use the accrual basis of accounting. Under accrual accounting, transactions and other economic events are recorded when they occur. **Income and expense** are recognized and reported when earned or incurred. Accrual accounting emphasizes matching **associated income** and expense in the period in which they occur and contributes to effective financial control over resources and cost of operations. **Accrual accounting** is essential in developing adequate **income** and cost information.

## 010403. AO Responsibilities

AOs provide centralized professional accounting services to NAFIs. 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 NAFIs;
- D. Maintain payroll records if performing payroll functions;
- 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 NAFI management or higher authority. For example, AOs may supply financial analysis with an MWR activity's financial statements or provide variance from budget data or historical information for use in preparation of NAFI budgets;
- G. Prepare and distribute financial reports to all supported NAFIs;
- H. Prepare an annual operating budget for the AO. When more than one NAFI is supported by an AO, then a schedule is prepared that shows the estimated amounts to be assessed each supported NAFI;
- I. Reconcile the bank accounts of supported NAFIs. Review daily account balances shown on monthly bank statements to make sure that insurance and collateral are sufficient. Notify NAFI 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 that 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.

010404. 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 estimate 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.

010405. 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.

\*0105 INTERNAL CONTROLS

NAFIs must establish and operate internal control programs in accordance with a range of guidance. The Office of Management and Budget [Circular A-123](#), “Management’s Responsibility for Enterprise Risk Management and Internal Control,” 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. Circular A-123 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 DoDI [5010.40](#), "Managers' Internal Control Program Procedures," and DoDI 1015.15. See Volume 1, Chapter 3, section 0303 for additional guidance on appropriate internal controls, including verifying the authorization of recorded transactions.

## 0106 AUDIT REQUIREMENTS

### 010601. Audit Policy

Policy regarding the audit of NAFIs and related activities is prescribed in [DoDI 7600.06](#), "Audit of Nonappropriated Fund Instrumentalities (NAFI) and Related Activities." NAFIs will have access to the results of system or functional audits in the form of reports.

### 010602. Audit Frequency

DoD policy is to provide adequate audit coverage of NAFIs to include annual financial statement audits. Each Military Service is required by [DoDI 7600.06](#) to have independent certified public accountants conduct an annual financial audit of NAFIs with annual income or expenses exceeding \$10 million. If directives require or circumstances warrant, additional audits may be scheduled as instructed by DoD Component authority.

### 010603. Audit Objectives

The primary objectives of NAFI audits are to determine whether internal control systems are adequate, the financial statements fairly represent the results of operations, 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.

**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 asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

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The previous version dated [February 2014](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted the chapter for clarity. Revised references and added electronic links.	Revision
020102	Added an authoritative guidance paragraph identifying the accounting policies for the Nonappropriated Fund Standard General Ledger (NAFSGL).	Addition
020201	Added information on the basic common account code elements used for NAFSGL reporting.	Addition
0203	Added a section describing the NAFSGL framework identifying the specified common account code elements used to organize data for financial reporting.	Addition
0204	Clarified information related to the NAFSGL reporting categories and accounts used to organize accounting and financial statement information for Nonappropriated Fund Instrumentalities.	Revision
Figure 2-1 (Previous Version)	Deleted Figure 2-1 containing the NAFSGL Chart of Accounts and provided a hyperlink to the website containing this information.	Deletion

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## CHAPTER 2

**NONAPPROPRIATED FUND STANDARD GENERAL LEDGER**

## 0201 GENERAL

## 020101. Purpose

This chapter prescribes [policy](#) for the Nonappropriated Fund Standard General Ledger (NAFSGL), [maintained on the DoD NAF Accounting website](#). The NAFSGL is a modified version of the United States Standard General Ledger used for accounting and financial statement reporting to ensure financial statement [information](#) is consistent for all Nonappropriated Fund Instrumentalities (NAFIs). [The NAFSGL provides](#) for standardization and traceability from the financial statements through the general ledger balances to the source documentation for audit purposes. At a minimum, the Office of the Under Secretary of Defense ([Personnel & Readiness](#)) [updates and publishes the NAFSGL](#) prior to 1 October of each year. [Policies in this chapter apply to all NAFIs and their supporting accounting offices, except the Military \(Armed\) Service Exchanges, which include Army and Air Force Exchange Service, Navy Exchange Command, and Marine Corps Exchange.](#)

## \*020102. Authoritative Guidance

The accounting policies, and related requirements prescribed, are in accordance with the applicable provisions of:

A. Department of Defense Instruction (DoDI) [1015.15](#), “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;” and

B. [Financial Accounting Standards Board](#) Accounting Standards Codification ([ASC](#)). Users can obtain free access to the ASC by registering for the Basic View, which allows browsing by ASC topic.

## 0202 REPORTING

## \*020201. Basic Structure

The general ledger accounts are self-balancing (the total debits equal the total credits) and provide for accounting of business events. The NAFSGL contains basic [common account code elements](#), including the [Installation, Nonappropriated Fund \(NAF\), Activity, Cost Center, Site, and General Ledger Account Code \(GLAC\)](#). Each [Military Department](#) uses the accounts required for its particular financial operations. The NAFIs and [Military Departments](#) may not have to use all accounts. [See paragraph 020302 for a description of each common account code element.](#)

## 020202. Financial Transactions

All resources acquired and used, and valid claims to and against those resources, are to be recorded as 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 (e.g., accounts payable, wages payable, loan liabilities, and pension 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.

## \*0203 NAFSGL FRAMEWORK

## 020301. Reporting

The NAFSGL framework requires reporting by specified common account code elements used to organize data for financial reporting. The current NAF common account code elements include the Installation, NAF Fund, Activity, Cost Center, Site, and GLAC.

## 020302. NAF Common Account Code Elements

A. Installation. A five-character code used to indicate the Military Service and the location where the NAF program is physically or virtually located.

B. NAF Fund. A three-digit code that indicates the NAF Program Group and the type of NAF operation (e.g. Military Morale, Welfare and Recreation (MWR), Department of Defense Lodging, Military Academy Athletic Fund). More information about NAF Program Groups and the definition of NAFIs is in DoDI 1015.15.

C. Activity. A two-digit code that indicates a specific program or an operational program of a NAFI designed to increase the well-being of authorized MWR users. An activity identifies operational organizations within the service structure. Examples include bowling, camping, lodging, and golf.

D. Cost Center. A three-digit code providing a subset or subaccount used to give a more detailed view of a business activity by identifying the accounting subdivision of a NAFI. NAFIs consist of one or more subdivisions called cost centers. Transactions relating to one operational activity (e.g., military club) are recorded into one or more cost centers (e.g., bar, restaurant, or snack bar).

E. Site. A two-digit code for similar activities operated at separate physical locations that are associated with the same installation. For example, an installation might have two bowling alleys or three clubs. The service would provide a consecutive number for each similar location (e.g., Bowling Alley X = 01, Bowling Alley Y = 02). If the activity and cost center cannot be traced to a specific site, use the code "00" to indicate the activity and cost center do not align with a site. If only one physical location exists, use the code "01" to identify the location.

F. GLAC. A three-digit code that is used to record transactions relating to a Service's NAF program assets, liabilities, equity, revenues (income), and expenses. The GLAC is the central repository for accounting data transferred from all sub-ledgers or modules, such as accounts payable, accounts receivable, cash management, fixed assets, purchasing and projects.

\*0204 NAFSGL ACCOUNTS

020401. Categories

The NAFSGL uses a three-digit account numbering system for the GLACs. The Chart of Accounts is a list of GLACs with a detailed definition for each account. Within the NAFIs, the NAFSGL supports financial statement reporting at the Program Group level and the consolidated Military Department level. All data must summarize to the three-digit NAFSGL accounts and be traceable to the NAFIs using subaccounts. The following paragraphs discuss the definition of each summary category and the accounts that make up that specific summary category. The general ledger accounts are grouped into the following major summary categories:

<u>Account Numbers</u>	<u>Category</u>
100	Assets
200	Liabilities
300	Net Worth/Equity
400	Operating Income
500	Operating Expenses
600	Non-Operating Income
700	Non-Operating Expenses

020402. Assets

Account for assets in the 100 series of accounts. Current asset accounts consist of cash, investments, receivables, inventories, and other assets or resources that are reasonably expected to be converted to cash or be consumed during the normal operating cycle (12 months or less). Noncurrent asset accounts consist of NAFI-titled fixed assets, appropriated fund (APF)-titled fixed assets, and other long-term assets. Chapter 3 contains additional information on assets.

A. Cash/Investments. Cash and investments are liquid assets, which can be quickly used to carry out operations. Cash consists of coins, paper currency and readily negotiable instruments, cash in bank, foreign currencies, revolving cash funds, cash held in petty cash or change funds, imprest funds, savings, and restricted cash. Investments consists of interest-bearing deposits, certificates of deposit (12 months or less), and marketable securities. Employee retirement cash and investments (employee 401K, employee retirement, and employee post-retirement medical) must be excluded from a consolidated presentation. The employee retirement cash and investments will distort available NAF.

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. Receivables consists of

customer receivables, inter- and intra-NAFI receivables, APF receivables, merchant card receivables, claims receivables, employee receivables, accrued interest receivables, allowance for doubtful accounts, and other receivables.

C. Other Current Assets. Other current assets are prepaid expenses that are payments and expenditures made in contemplation of future benefits or performance. Other Current Assets consists of prepayments for supplies, contracts, insurance, franchise fees, deposits, and advance payments.

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. Inventory consists of central warehouse inventory, work in progress inventory, and inventory in-transit.

E. Fixed Assets. Fixed assets are property, plant and equipment purchased, donated, or transferred to NAFIs that have an expected life of two or more years. Fixed Assets consists of buildings, land, land improvements, vehicles, aircrafts, boats, furniture, fixtures and equipment, information technology, livestock, assets in progress, fixed assets in-transit when ownership passes to the NAFI before receiving the asset, and accumulated depreciation.

F. Other Noncurrent Assets. Other noncurrent assets are assets not identified in other asset categories. Other Noncurrent Assets consists of long-term pension benefit assets, receivables, long-term prepaid expenses, certificates of deposit (more than 12 months), marketable securities, long-term contributions, long-term franchise fees, intangible assets, and long-term royalty and trademark fees. Report pension benefit asset information when the pension plan is overfunded and 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 Chapter 11 for reporting guidance.

#### 020403. Liabilities

Account for liabilities in the 200 series of accounts. Current liability accounts are due on demand or will be due on demand within 1 year and consist of accounts payable, wages payable, interest payable, post-retirement benefit obligations (12 months or less), and other liabilities. Long-term liability accounts are due more than 12 months from the date of the Balance Sheet and consist of loan liabilities, capital lease liabilities, post-retirement benefit obligations (more than 12 months), and other long-term liabilities. Chapter 3 contains additional information on liabilities.

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

B. Post-Retirement Benefit Obligation – Current. Report the current obligation when the pension plan is underfunded (plan assets are less than the plan benefit obligation). Report obligation information when the pension plan is underfunded and 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 and Chapter 11 for reporting guidance.

C. Other Current Liabilities. Other Current Liabilities consists of various payables, including loans, leases, interest, wages, taxes, and unearned income.

D. Long-Term Loans Payable. Long-Term Loans Payable consists of the amount of loans and notes that will be paid in more than 12 months.

E. Post-Retirement Benefit Obligation – Long-Term. Report the long-term obligation when the pension plan is underfunded (plan assets are less than the plan benefit obligation). Report obligation information when the pension plan is underfunded and 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 and Chapter 11 for reporting guidance.

F. Other Long-Term Liabilities. Other Long-Term Liabilities consists of the amount of leases and claims that will be paid in more than 12 months.

020404. Net Worth/Equity

Account for Net Worth/Equity in the 300 series of accounts. Net Worth consists of retained earnings, transferred equity, workers' compensation reserves, equity reserves, undistributed profits and net income, unrealized gains and losses, and other equity transactions. The pension cost liability account records any adjustment made to the existing pension balances in the Balance Sheet. Post these adjustments as an offset to the equity account in the Balance Sheet as either an addition or reduction to Net Worth. Account for these temporary adjustments in the Net Worth section of the Balance Sheet in the same manner as the unrealized gains and losses on investments pursuant to FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In addition, do not include these temporary adjustments in the net worth calculation. Refer to FAS No. 158 for reporting guidance.

020405. Operating and Non-Operating Income

Classify income as either operating (400 series) or non-operating (600 series).

A. Operating Income. Account for operating income in the 400 series of accounts. Examples of operating income accounts include gross sales income, participation fees income, concessionaire income, rental income, amusements income, gaming income, reimbursement income, and other operating income. Chapter 5 contains additional information on income.

B. Non-Operating Income. Account for non-operating income in the 600 series of accounts. Examples of non-operating income include interest income, rebates income, subsidy income, exchange dividend income, extraordinary income, and other non-operating income.

## 020406. Operating and Non-Operating Expenses

Classify expenses as either operating (500 series) or non-operating (700 series).

A. Operating Expenses. Account for operating expenses in the 500 series of accounts. Examples of operating expenses include purchases, cost of goods sold, wage expense, tax expense, retirement expense, supplies expense, communication expense, utilities expense, travel expense, claims expense, entertainment expense, bad debt expense, and other operating expense. Chapter 5 contains additional information on expenses.

B. Non-Operating Expenses. Account for non-operating expenses in the 700 series of accounts. Examples of non-operating expenses include interest expenses, prior year(s) expense adjustments, extraordinary expenses, and other non-operating expenses.

**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 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 2010](#) 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
ALL	Deleted general ledger account classification definitions to avoid potential for inconsistencies or duplication of the Nonappropriated Fund (NAF) Standard General Ledger (NAFSGL) contained on the NAF Accounting website.	Deletion
ALL	Rearranged information to flow in a logical sequence and renumbered sections, paragraphs, and subparagraphs accordingly.	Revision
030102	Inserted an “Authoritative Guidance” paragraph to comply with current administrative instructions.	Addition
0302	Inserted a “Chart of Accounts” section to direct users to the NAFSGL on the NAF Accounting website.	Addition

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## CHAPTER 3

ASSETS, LIABILITIES, AND NET WORTH

## 0301 GENERAL

## 030101. Purpose

This chapter prescribes the [accounting policy and related requirements](#) for Nonappropriated Fund (NAF) assets, liabilities, and net worth. [NAF instrumentality \(NAFI\) programs and facilities](#) **must** be operated, maintained, and funded as an integral part of the [Department of Defense \(DoD\)](#) personnel and readiness program. Policies in this chapter apply to all NAIs and their supporting accounting offices (AOs), except the [Military \(Armed\) Service Exchanges](#), which include [Army and Air Force Exchange Service](#), [Navy Exchange Command](#), and [Marine Corps Exchange](#).

## \*030102. Authoritative Guidance

The [accounting policy and related requirements](#) prescribed are in accordance with the applicable provisions of:

A. [Department of Defense Instruction \(DoDI\) 1015.15](#), “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;”

B. [Financial Accounting Standards Board Accounting Standards Codification \(ASC\)](#). Users can obtain free access to the ASC by registering for the Basic View, which allows browsing by ASC topic.

C. [DoDI 4105.67](#), “Nonappropriated Fund (NAF) Procurement Policy and Procedure;” and

D. [Title 5, Code of Federal Regulations \(CFR\), Part 1315](#).

## \*0302 CHART OF ACCOUNTS

The [NAF Standard General Ledger \(NAFSGL\) chart of accounts](#), to include definitions and general ledger account codes (GLACs) for asset, liability, and net worth accounts, is maintained on the [DoD NAF Accounting website](#).

## 0303 ACCOUNTING REQUIREMENTS FOR ASSETS

The [NAFSGL](#) contains eight categories in the assets group: Cash, Investments, Receivables, Inventories, Other Current Assets, NAFI Titled Fixed Assets, Appropriated Fund (APF) Titled Fixed Assets, and Other Long Term Assets. Specific accounting requirements related to these categories are outlined in paragraphs 030301 through 030307.

## 030301. Cash

NAF cash must be maintained in financial institutions that are U.S. federally insured or designated by the Department of Treasury. Cash consists of: coins; paper currency; 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 foreign currencies, which, for accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date.

A. Cash in Bank

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 cannot be the check writer.

2. Blank Check Stock. The AO must designate someone to maintain the records and control the blank check stock. For security reasons, this person cannot be one of the check writers. Checks are sequentially pre-numbered and stored in a locked container, which must be either a built-in vault or a safe that is burglary resistant and is fire resistant for a minimum period of two hours. For additional guidelines on securing blank check stock, refer to Volume 5, Chapter 3, section 0303.

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 and a log to record machine usage. Whenever operating the machine, the authorized operator enters the beginning and ending readings, date, and their 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, section 0705.

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. Refer to Volume 5, Chapter 7, subparagraph 070502.F for additional information on the destruction of signature media.

B. Foreign Currency. For guidance on exchange rate fluctuations, refer to Volume 5, Chapter 13, section 1304.

C. Change Funds

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 in writing from the NAFI custodian (see DoDI 1015.15, Enclosure 2 for definition of NAFI custodian). 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 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 [Volume 5, Chapter 13, section 1302](#).

D. Petty Cash Funds. Disbursements from the petty cash fund are recorded to the applicable expense accounts in the month that the petty cash is disbursed by the [petty cash](#) 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 [in both](#) dollars and foreign currency, then two bingo petty cash funds must be established.

e. NAFIs [must](#) not 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 [petty cash](#) custodian and a petty cash voucher is completed to support each transaction. The [petty cash](#) 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.

#### 030302. [Investments](#)

For guidance on [management of investments](#) policy, refer to DoDI 1015.15, Enclosure 9.

## 030303. 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. [Receivable](#) records are maintained to ensure transactions accurately identify [each](#) debt and its respective debtor. Receivable subsidiary records are reconciled on a monthly basis to the general ledger control accounts. [Refer to the NAFSGL for a complete listing of receivable accounts and their definitions.](#)

A. [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. Account balances are due and payable on the first day after the statement date. 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.

B. [Aged Customer Accounts Receivable Reports.](#) An aged customer accounts receivable report is prepared for all NAFIs with internal credit systems. 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).

C. [Allowance for Doubtful Accounts.](#) [ASC, Topic 310, Subtopic 10, Section 35 \(ASC 310-10-35\) and ASC 450-20-25-2 require the accrual of losses from uncollectible receivables if a loss is probable and the amount of the loss can be reasonably estimated.](#) 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 ([maintain documentation supporting the calculation and associated adjustment for audit purposes](#)). Adjust the allowance for doubtful accounts to cover those accounts expected to become uncollectible during the next reporting period.

## 030304. Inventories

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 report assets on the balance sheet at the end of the accounting period.

A. [Accounting for Inventory](#)

1. [Inventory Subsidiary.](#) All items are recorded at cost, [as required by ASC 330-10-30.](#) 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). [In accordance with ASC 605-15-25-1](#), this inventory is not recorded in the general ledger. [Tickets purchased for resale are to be recorded as inventory in the general ledger](#).

B. Physical Counts of Inventory. Inventories are required to be physically counted ([called “book to floor”](#)). 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 ([i.e. Inventory, Central](#)

Warehouse Inventory, Purchases, and/or Purchases Discounts and Allowances GLACs) is then adjusted to match the physical count that was observed by the observation team. See DoDI 1015.15 paragraph 6.7 for information on reporting fiduciary responsibility and investigations.

C. 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.

030305. Other Current Assets

Prepaid expenses are accounted for in multiple accounts in the Other Current Assets category (refer to the NAFSGL for a complete list of accounts and definitions). Under the prepaid concept, 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. 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 or prepayment. If the advance or prepayment is for supplies, it is expensed based on expected usage provided by the NAFI custodian. The unexpired prepaid expense subsidiary is reconciled to the related control account. The accounting principle of materiality (see Chapter 1) must be considered before employing the prepaid concept.

030306. NAFI Titled Fixed Assets and APF Titled Fixed Assets

Fixed assets are captured under two categories in the NAFSGL: NAFI Titled Fixed Assets and APF Titled Fixed Assets. Each category has similar accounting treatment, and the same accounts are listed under each category (refer to NAFSGL).

A. Accounting for Fixed Assets. Fixed assets purchased with NAFs, 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 must 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 must not 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 listed in subparagraph 030306.A must be met.

b. 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 in the “Other Non-Operating Expense” GLAC 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.

c. Assets-in-Progress. Assets-in-progress include 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 that 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 of 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 accumulated cost of assets-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 [guidance in Volume 4](#).

d. 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.

e. 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 “Realized Gains and Losses for Sale of Fixed Asset Income” GLAC on both the gaining and the losing NAFI.

f. APF Property Obtained for Free. These assets are recorded separately from other fixed assets because title and control of these assets remain 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.

g. Uniform Funding and Management (UFM) Fixed Assets. Fixed assets acquired through UFM process **must** be expensed and offset with UFM funds at the time of purchase and not depreciated. Record these assets 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 **must** revert to the NAFI. [Further information on UFM practices is included in DoDI 1015.15, Enclosure 6.](#)

2. Lease Disclosures. If either capital or operating leases are material, then information concerning the leases is disclosed in the NAFI financial statement 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 **that** benefit only the current period are expensed and expenditures **that** 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 **that** 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. APF Titled Fixed Assets. An aspect of NAF accounting is that some assets, particularly buildings, are purchased using NAFs, 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 APF Titled Fixed Assets (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 **and 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.** 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 Ledger. Property subsidiary ledgers serve as property control records. At a minimum, the property subsidiary **ledger must** list each piece of



property, acquisition date, acquisition value, useful life, depreciation to date, and current book value. This subsidiary ledger can be either automated or manual, but if automation is available, it must be used. The NAFI prepares the documentation necessary to change any data on the subsidiary ledger records, even when no general ledger entries are required, e.g., fixed assets 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 NAFIs book until the items are fully depreciated. The straight-line method of depreciation is used for determining the monthly depreciation expense. Refer to Volume 4, Chapter 6, Table 6-1 for depreciation periods. Also, refer to Volume 4, Chapter 6, paragraph 060205 for the requirements for salvage value to be subtracted from the acquisition cost of fixed assets before computing depreciation.

B. Information Technology Assets. In accordance with ASC 350-40-35-4, internal-use software will be amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's use. 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. Refer to Volume 4, Chapter 27 for detailed guidance.

#### 030307. Other Long Term Assets

Other long term assets include those not identified in other asset lines of accounting and that fall into such categories as company's property, equipment, and other capital assets (e.g., stocks or bonds) that are held for longer than 1 year.

#### 0304 ACCOUNTING REQUIREMENTS FOR LIABILITIES

The NAFSGL contains two categories in the liabilities group: Current Liabilities and Long Term Liabilities. Current liabilities are due on demand or will be due on demand within 1 year; whereas, long term liabilities are amounts due over a period of time longer than 1 year from the date of the balance sheet. Specific accounting requirements related to liabilities are outlined in paragraphs 030401 through 030403.

## 030401. Recognition of Liabilities

Liabilities arise from the acquisition of goods or services. Accounts payable liability **must** be recognized upon receipt of services or when accepting title to goods. Accrued liabilities **originate** at the end of the period of adjustment process, which is a requirement of accrual accounting.

## 030402. 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. **See ASC 450-20-25 for more information on recording contingent liabilities.**

## 030403. Accountability for Liabilities

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

## 0305 PAYMENT OF LIABILITIES

## 030501. Documentation Required for Payment

**DoDI 4105.67** provides policy and responsibility for procurements using NAFs. **NAFIs must also comply with the Prompt Payment Act in accordance with 5 CFR 1315.** The following documentation is **required** prior to payment of liabilities.

A. **General.** 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 similar documents;
2. **DoD (DD) Form 250**, Material Inspection and Receiving Report, or other signed document that provides evidence that goods were accepted or services were received; **and**
3. Vendor invoice or claim for payment. The invoice or claim may be for a specific delivery or **for** 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 to the AO a DD 250 or locally produced receiving report showing receipt and acceptance of goods. 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 for the partial shipment, payment will be processed and the supporting documents **will be** annotated as partial shipment received.

030502. Purchases from Other NAFIs

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

030503. Purchases from the Government

NAFI purchases **of** goods or services from the Government (e.g., bills from APFs) **are** not usually supported by a procurement instrument. The NAFI will submit a DD 250 or other signed document to the AO to support the payment.

030504. POs, Vendor Invoices, and Receiving Reports

A. POs. 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 **must** be date stamped at time of receipt **and meet Prompt Payment Act criteria in accordance with 5 CFR 1315**.

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

030505. 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.

030506. Prompt Payment Act

The Prompt Payment Act, 5 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.

## 0306 ACCOUNTING REQUIREMENTS FOR NET WORTH

Net Worth or 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. [The NAFSGL contains one category in the net worth/equity group: Net Worth/Equity. Specific accounting requirements related to this category are outlined in paragraphs 030601 and 030602.](#)

## 030601. Accounting for Net Worth/Equity

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.

## 030602. Other Equity Transactions

A. [The Other Equity or Earnings](#) general ledger account consists of transfers in and out of equity that will be limited to:

1. [Prior year material corrections;](#)
2. [Components of other comprehensive income \(loss\) prescribed by ASC 220-10-45-10A;](#)
3. [Entries associated with the establishment, disestablishment, or consolidation of NAFIs; and](#)
4. [Distribution and receipt of capital.](#)

B. Refer to Chapter 1 for information on materiality.

**VOLUME 13, CHAPTER 5: “INCOME AND EXPENSES”**

**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 **April 2013** is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
ALL	Replaced instances of “Revenue” with “Income” in the title and throughout the chapter to match Nonappropriated Fund (NAF) Standard General Ledger (NAFSGL) verbiage.	Revision
ALL	Verified and updated references, updated hyperlinks and formatting to comply with current administrative instructions, and made clarifying editorial changes.	Revision
ALL	Deleted general ledger account classification definitions to avoid duplication of the NAFSGL maintained by the Office of the Deputy Assistant Secretary of Defense (Military Community and Family Policy).	Deletion
ALL	Rearranged information to flow in a logical sequence and renumbered sections, paragraphs, and subparagraphs accordingly.	Revision
050102	Inserted an “Authoritative Guidance” paragraph to comply with current administrative instructions.	Addition
0502	Inserted a “Chart of Accounts” section to direct users to the NAFSGL on the NAF Accounting website.	Addition
0505	Expanded section to provide additional statutory authorities available to NAF instrumentalities.	Revision

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## CHAPTER 5

INCOME AND EXPENSES

## 0501 GENERAL

## 050101. Purpose

This chapter prescribes the standard policies surrounding Department of Defense (DoD) Nonappropriated Fund (NAF) income and expenses. NAF instrumentality (NAFI) programs and facilities must be operated, maintained, and funded as an integral part of the DoD personnel and readiness program. Policies in this chapter apply to all NAIs and their supporting accounting offices (AOs), except the Military (Armed) Service Exchanges (Army and Air Force Exchange Service, Navy Exchange Command, and Marine Corps Exchange).

## \*050102. Authoritative Guidance

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

A. Financial Accounting Standards Board Accounting Standards Codification (ASC). Users can obtain free access to the ASC by registering for the Basic View, which allows browsing by ASC topic;

B. DoD Instruction (DoDI) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;” and

C. Title 10, United States Code (U.S.C.), sections 2241, 2491, 2492, 7459, 8478, and 9459.

## \*0502 CHART OF ACCOUNTS

The NAF Standard General Ledger (NAFSGL) Chart of Accounts, to include definitions and general ledger account codes for income and expense accounts, is maintained along with other relevant information on the DoD NAF Accounting website.

## 0503 INCOME STANDARDS

## 050301. Recognition

In accordance with ASC, Topic 605, Subtopic 10, Section 25, NAIs must recognize revenue (classified as “income” in the NAFSGL) when it is realized or realizable. Earned income 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 income 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.

050302. Recording

The AO [must](#) record [income](#) in the appropriate NAFI's financial records on a consistent basis in the appropriate cost center and in the operating cycle that the [income](#) is earned. [Income](#) is recorded in accordance with DoDI 1015.15.

0504 EXPENSE STANDARDS

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.

050401. Recognition

[NAFIs must](#) recognize [costs](#) as an expense in the period that the [income](#) with which they are associated is recognized (the matching principle). Cost elements are included in inventory and expensed when the items are sold and [income](#) from the sale is recognized. If no connection with [income](#) 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 [must](#) record expenses on a consistent basis in the appropriate cost center and in the operating cycle in which the expense was incurred. [See Statement of Financial Accounting Concepts No. 6, "Elements of Financial Statements," for further guidance on accrual accounting.](#)

\*0505 ACCOUNTING FOR APPROPRIATED FUND (APF) SUPPORT TO NAFIs

050501. Legal Authority

Title 10, [U.S.C. § 2241](#) is the basic statutory authority to provide APFs to support Morale, Welfare, and Recreation (MWR) functions. MWR (Utilization Support and Accountability (USA)) and Uniform Funding and Management (UFM) are two mechanisms for provision of APF support to NAFIs. The MWR (USA) [and UFM practices](#) involve 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 Memoranda of Agreement (MOAs). 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, U.S.C. § 2491 provides statutory authority for UFM practices. [Other statutory authorities available to NAFIs are 10 U.S.C. §§ 2492, 7459, 8478 and 9459.](#)

050502. MWR (USA) Recording

A. [Income](#). The AO [must](#) record funds received from appropriated sources for expenses covered by the [MWR \(USA\) income](#).

B. [Expense](#). The AO [must](#) record authorized expenses (which is the amount subject to APF reimbursement), as they occur, in the applicable expense accounts [to allow identification of MWR \(USA\) support in accordance with DoDI 1015.15, Enclosure 6.](#)

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.

050504. Other [APF](#) Support

Direct support is an APF category that occurs when APFs are obligated and expended (e.g., furnishing of utilities, [fire/safety support, refuse removal, and snow removal](#)) 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 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 March 2013 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Reworded and reformatted the chapter for clarity. Revised references and added electronic links.	Revision
070102	Inserted an “Authoritative Guidance” paragraph to comply with current administrative instructions.	Addition
070402	Provided clarification on ratios used to identify trends and required adjustments to financial reporting.	Revision
070703 & Figure 7-1	Clarified Nonappropriated Fund (NAF) Standard General Ledger (SGL) accounts and reporting line items used to prepare the Balance Sheet.	Revision
070802	Clarified the instructions used to prepare the Statement of Income and Expense.	Revision
070803	Clarified NAFSGL accounts included on the Statement of Income and Expense.	Revision
071003	Clarified NAFSGL accounts included on the Schedule A – Appropriated Fund and NAF Expense Summary.	Revision
071103 & Figure 7-5	Revised to reflect the reporting format used to prepare the Statement of Cash Flows.	Revision

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## CHAPTER 7

FINANCIAL REPORTING

## 0701 GENERAL

## 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. Authoritative Guidance

The accounting policies, and related requirements prescribed, are in accordance with the applicable provisions of:

A. Department of Defense Instruction (DoDI) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;” and

B. Financial Accounting Standards Board Accounting Standards Codification (ASC). Users can obtain free access to the ASC by registering for the Basic View, which allows browsing by ASC topic.

## 0702 RESPONSIBILITIES

## 070201. General

The policies in this chapter apply to Department of Defense (DoD) Nonappropriated Fund Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs). These policies do not apply to the Military (Armed) Service Exchanges, except for financial reporting prescribed in paragraph 070202 and Section 0703.

## 070202. DoD Components

The DoD Components are responsible for the fair presentation in the financial reports of financial position, results of operations, and the program and personnel information included. In addition, the DoD Components are responsible for compliance with Nonappropriated Fund (NAF) program laws and regulations.

## 070203. AO

The supporting 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 data produced, are also AO responsibilities. Refer to Chapter 1 for [a list of definitions, reporting requirements, and accounting standards](#).

## 0703 FINANCIAL REPORTING

### 070301. Financial Statements

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 Flows.

A. Balance Sheet. The Balance Sheet (also known as statement of financial position) presents a NAFI's financial position as of a specified date. It is sometimes described as a "snapshot" that allows the user to see what a NAFI owns as well as what it owes to others. The major components of the Balance Sheet are assets, liabilities, and net worth (equity). Refer to Section 0707 and Figure 7-1 for information on the format and instructions for preparing the Balance Sheet. Refer to Chapter 3 and FASB ASC Topic 210 for additional information on assets, liabilities, and net worth (equity).

B. Statement of Income and Expense. A Statement of Income and Expense (also referred to as a profit or loss statement or income statement) provides information about a NAFI's financial performance during a specified period of time, and a summary of a NAFI's profit or loss during the accounting period. Use the Statement of Income and Expense to track revenues and expenses. Refer to Section 0708 and Figure 7-2 for information on the format and instructions for preparing the Statement of Income and Expense. Refer to Chapter 5 and FASB ASC Topic 225 for additional information on income and expenses.

C. Reconciliation of Net Worth. The Reconciliation of Net Worth (also known as statement of retained earnings) provides information about changes to net worth during a specified period of time. It shows the establishment, disestablishment, and consolidation of NAFIs; receipt and distribution of capital; net income and net loss; grants received and disbursed; and prior year material adjustments. Refer to Section 0709 and Figure 7-3 for information on the format and instructions for preparing the Reconciliation of Net Worth. Refer to Chapter 3 and FASB ASC Topic 215 for additional information on net worth (equity).

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

A - APF and NAF Expense Summary. Refer to FASB ASC topics 605-610 for additional information on revenues and ASC topics 705-740 for additional information on expenses.

E. Statement of Cash Flows. A cash flows 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. Refer to Section 0711 and Figure 7-5 for information on the format and instructions for preparing the Statement of Cash Flows. Refer to FASB ASC Topic 230 for additional information on preparing the Statement of Cash Flows.

#### 070302. Footnotes to Financial Statements

Footnotes are an integral part of the financial statements and used to provide additional disclosures to ensure the financial statements are informative and not misleading. 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 requiring footnotes. Refer to DoDI 1015.15 for required footnotes.

#### 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. Analytical Methods and Techniques

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

A. Comparative Balance Sheets, Statements of Income and Expense, Statements of Cash Flows, and Reconciliations of Net Worth (retained earnings) with 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 [Statement of Income and Expense](#) 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 ([\(amount/base amount\) and multiply by 100](#)) from the [Balance Sheet](#), the [Statement of Income and Expense](#), and individual sections of these statements;
- E. Ratios expressing the relationships of items selected from the [Balance Sheet](#), the [Statement of Income and Expense](#), or both statements; and
- F. Statement of variation in net income or gross margin.

\*070402. 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. [Use the ratios included in 070402 A-L to complete the trend analysis explained in 070401.C.](#) The following ratios are a means of monitoring the efficiency of NAFIs:

A. Accounts Receivable Turnover. [The](#) accounts receivable turnover is the relationship between credit sales and accounts receivable [and](#) 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. [Use](#) average accounts receivable monthly balances [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 [is](#) to divide 365 days by the [accounts](#) receivable turnover figure to get the average number of days the receivables were on the books.

B. Acid-Test Ratio. The acid-test ratio, or quick ratio, measures the ability of NAFIs to use quick assets to liquidate [current](#) liabilities. The formula to compute the acid-test ratio is to divide quick assets by current liabilities (acid-test ratio = quick assets/current liabilities). Quick assets [refer to assets that can be easily converted to cash, or that are already in cash form](#), including cash, receivables, and marketable securities. [Quick assets equal current assets minus inventory and prepaid expenses](#). The acid-test ratio should not be less than 1:1. A ratio of 1:1 shows that for every dollar of current debt there is \$1 of quick assets available to meet current liabilities. [Higher ratios indicate NAFIs have sufficient cash and cash equivalents to pay immediate obligations.](#)



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). A current ratio of 1.5:1 is considered standard. A smaller ratio indicates high debt. However, if the current ratio is too high, current assets are not being efficiently utilized and should 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. 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. Excess inventory reduces available funds and may increase the cost of insurance, storage, and other related expenses. 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.

E. Net Income Ratio. The net income ratio 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). Calculate net income as total revenues minus total expenses. Refer to DoDI 1015.15 for additional information on net income.

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. 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). In computing the ratio, exclude any long-term investments from total assets, as they do not contribute to sales. If sales can be stated in a common unit, then units of products sold 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.

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

H. Return on Fund Equity. The return on fund equity measures a NAFI's ability to earn a higher rate of return than is paid for the funds used in operations. 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 beginning equity plus ending equity divided by two.

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

J. Fixed Asset Turnover. The fixed asset turnover is the ratio of net sales to the value of fixed assets, and indicates how well the entity uses its fixed assets to generate sales. The formula to compute the fixed asset turnover is to divide net sales by the total property, plant, and equipment, net of accumulated depreciation (Fixed Asset Turnover = Net Sales/Net Property, Plant, and Equipment).

K. Working Capital to Total Assets. The working capital to total assets ratio is a liquidity ratio that expresses the net current assets or working capital as a percentage of total assets, and measures a company's ability to cover its short-term financial obligations. The formula to compute the working capital to total assets ratio is to divide working capital by total assets (Working Capital to Total Assets = Working Capital/Total Assets).

L. Return on Total Assets. The return on total assets measures earnings before interest and taxes (EBIT) relative to total net assets, indicating how effectively assets are used to generate earnings before contractual obligations must be paid. The formula to compute the return on total assets is to divide EBIT by total net assets (Return on Total Assets = EBIT/Total Net Assets).

#### 070403. Comparative Statements

A. Comparison. Financial statements analyzed on a comparative basis can be much more informative and meaningful. Use comparative statements to complete the trend analysis explained in 070401.C. Sample comparisons include:

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

B. 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 includes data from year to year rather than as of one date or period of time. 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.

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

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

### 070501. General

Retain all records relating to payments to individuals and firms according to the IRS Topic Number 305: "Recordkeeping." Continental United States (CONUS) offices consult their local IRS office for forms, publications, or assistance. Overseas offices contact the IRS to get the address and telephone number of the nearest IRS representative. IRS representatives, in CONUS and overseas, provide instructions concerning IRS procedures for return preparation, filing, and depositing employment tax payments. Use electronic reporting mechanisms when possible.

### 070502. Contract Payments (Non-personal Services)

Report to the IRS cumulative NAFI service contract payments made during the calendar year, along with the total amounts paid, which meet the IRS threshold for reporting income on IRS Form 1099-MISC, "Miscellaneous Income." 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 the IRS threshold, but total payments made during the calendar year to the same individual reach the IRS threshold, report the information to the individual or firm, and the IRS, using 1099-MISC. The individual or firm receives a copy of the 1099-MISC by January 31 of the calendar year following the calendar year in which payment was made. This applies to individuals who, in addition to being NAFI employees, have contracts with NAFI for non-personal services. Prepare a separate 1099-MISC for each individual or firm to whom total payments meeting the IRS threshold are made. Use IRS Form 1096, "Annual Summary and Transmittal of U.S. Information Returns," to transmit the 1099-MISC to the IRS and forward these forms to the IRS by February 28 of the following year.

### 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, meeting the IRS threshold for reportable gambling winnings, is awarded to a person for winning a single bingo game or other gambling activity, prepare an IRS Form W-2G, "Certain Gambling Winnings." Individuals receive their copies of the IRS Form W-2G at either the time payment is

made, or not later than January 31 of the following year. Use IRS Form 1096 to transmit W-2Gs to the IRS. Additionally, prepare IRS Form [1042-S](#), “Foreign Person’s U.S. Source Income Subject to Withholding,” for reporting foreign nationals’ gaming winnings and withholdings, and forward these forms to the IRS by February 28 of the following year.

#### 0706 INTERNATIONAL BALANCE OF PAYMENTS (IBOP) PROGRAM

IBOP is an accounting of a country’s international transactions for a particular period of time. NAFIs are subject to the IBOP reporting [guidance](#) prescribed in DODI [4105.67](#), “[Nonappropriated Fund \(NAF\) Procurement Policy and Procedure](#),” and Volume 6A, Chapter 13.

#### 0707 FORMAT FOR THE BALANCE SHEET

##### 070701. Format for the Balance Sheet

Use the format presented in Figure 7-1 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 comprising the difference (net worth). [Crosswalks of accounts used to prepare the Balance Sheet to other financial statements are prepared](#) utilizing the NAF Standard General Ledger ([NAFSGL](#)) guidance in Chapter 2. Complete the heading on the form to indicate: Military Service, Program Group, and the reporting [date](#).

##### \*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. [Items reported as cash and investments include cash, U.S. checking accounts, change funds, petty cash, foreign currency, savings accounts, marketable securities, and other short-term investments. Employee retirement cash and investments \(employee 401K, employee retirement, and employee post-retirement medical\) must be excluded from a consolidated presentation, as these non-entity items are not available for general use by a NAFL.](#)

2. Receivables, Line 2. This is a summary line for all receivables. [Items reported as receivables include customer accounts receivables, exchange service dividend receivables, gaming machine profit distribution receivables, claims receivables, commercial credit card receivables, concessionaire receivables, deposits receivables, NAFL receivables, returned check receivables, employee receivables, accrued interest receivables, loans receivables, MWR USA/UFM receivables, and other current receivables. Include allowance for doubtful accounts on this line.](#)

3. Other Current Assets, Line 3. This is a summary line for all prepaid assets. Items reported as other current assets include travel advances, prepaid contracts, prepaid insurance, prepaid rent, prepaid supplies, prepaid tax and license, and other prepaid expenses.

4. Inventories, Line 4. This is a summary line for all inventory accounts. Items reported as inventory include inventory located in warehouses or storerooms, inventory sales outlet resales, and 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. Items reported as NAFI-owned fixed assets include land improvements, construction in progress, buildings and improvements, furniture and fixtures, equipment, internal-use software, and fixed assets in transit.

2. Less: Accumulated Depreciation and Amortization on NAFI-Owned Fixed Assets, Line 7. This is a summary line for the accumulated depreciation and amortization for all NAFI-owned fixed assets. Report depreciation or amortization balances for land improvements, buildings and improvements, furniture and fixtures, equipment, and internal-use software.

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

4. APF-Titled Fixed Assets, Line 9. This line is for reporting renovation, improvement, restoration, and reconstruction costs associated with fixed assets for which title has been transferred to the Government. Include footnote disclosures for amounts reported on this line. Refer to DoDI 1015.15 for footnote information. Items reported as APF-titled fixed assets include APF-titled buildings and improvements.

5. Less: Accumulated Depreciation on APF-Titled Fixed Assets, Line 10. This line is for reporting depreciation for renovations, improvements, restorations, and reconstructions to APF-titled fixed assets.

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

7. Pension Benefit Asset, Line 12. This line is for reporting pension benefit asset information. When plan assets are greater than the plan benefit obligation, report the asset on Line 12. If plan assets are less than the plan benefit obligation, report the liability on Line 17 (current liability) or Line 21 (long-term liability).

8. Other, Line 13. This is the summary line for all other noncurrent

assets. Report noncurrent asset information associated with long-term receivables, investments, and sinking funds.

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 Line 14.

C. Current Liabilities

1. Accounts Payable, Line 16. This is the summary line for all accounts payable.

2. Post-Retirement Benefit Obligation, Line 17. This line is for reporting post-retirement benefit obligation information. When plan assets are greater than the plan benefit obligation, report the asset on Line 12. If plan assets are less than the plan benefit obligation, report the liability on Line 17 (current liability) or Line 21 (long-term liability). The difference is classified as a current liability as determined and provided by the pension provider when the amount is due in one year or less. This also includes any other post-retirement benefit plan obligations, such as retiree health care.

3. Other Current Liabilities, Line 18. This is a summary line for all other current liabilities. Items reported as other current liabilities include short-term loans payable, short-term leases payable, dividends payable, vending machine revenue sharing payable, gaming machine profit distribution payable, interest payable, salaries payable, leave payable, payroll taxes payable, benefits payable, other payroll deductions payable, APF payroll payable, employee allowance payable, claims payable, UFM unearned revenue, other unearned revenue, flexible spending accounts payable, deposits payable, and other current liabilities.

4. Total Current Liabilities, Line 19. Report the total of Line 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 in one year or less.

2. Post-Retirement Benefit Obligation, Line 21. This line is for reporting post-retirement benefit obligation information. When plan assets are greater than the plan benefit obligation, report the asset on Line 12. If plan assets are less than the plan benefit obligation, report the liability on Line 17 (current liability) or Line 21 (long-term liability). Classify the amount as a long-term liability as determined and provided by the pension provider when the amount is due beyond one year. This also includes any other post-retirement benefit plan obligations, such as retiree health care.

3. Other, Line 22. This is a summary line for all other long-term liabilities. Items reported as other include long-term leases payable and other long-term liabilities.

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

5. Total Liabilities, Line 24. Report the total of Line 19 and Line 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. Items reported as part of net worth include retained earnings information, contributed capital, minimum pension liability adjustments, and other equity transactions.

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

The Statement of Income and Expense reports a NAFI's financial performance over a specific period of time. Financial performance is assessed by providing a summary of how the entity incurred its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period. Unless noted, crosswalks of accounts used to prepare the Statement of Income and Expense to other financial statements are prepared utilizing the NAFSGL guidance in Chapter 2. Complete the heading on the form to indicate: Military Service, Program Group, Category, and Year Ending.

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

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

B. Cost of Goods Sold, Line 2. This is a summary line for costs associated with purchases and freight charges less returns, allowances, and rebates.

C. Gross Margin, Line 3. Calculate gross margin as 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.

1. Participation Fees and Charges, Line 4a. Items reported as participation fees and charges include other fee income, amusement machine income, and gaming machine income.

2. Dues and Assessments, Line 4b. Report the balance for dues and assessment income.

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

4. Other, Line 4d. This is a summary line for all other accounts affecting operating income. Report other operating income balances for other service/recreation activity income and commission income.

E. Total Other Operating Income, Line 5. Report the total of Line 4a through Line 4d.

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

G. Operating Expenses (Schedule A), Line 7. Report the operating expenses from Schedule A - APF and NAF Expense Summary, Line 1 through Line 13. Schedule A includes costs, such as APF Military and Civilian labor that are not recorded in the NAFI accounting system.

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

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

1. Dividends, Line 9a. Report the balance for exchange dividend income.

2. Grants - net, Line 9b. Report the balance for grant income.

3. Other, Line 9c. Report the balances for other income-generating activities. Items reported as other income include commercial sponsorship income, recyclable material income, U.S. Department of Agriculture income, UFM income, cash overages, contributions and donations, intrafund income, interest income, gains on disposition of fixed assets, gains on foreign currency, and other income.

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



K. Other Expenses (Schedule A), Line 11. Report other expenses from Schedule A – APF and NAF Expense Summary, Line 14. Schedule A includes costs, such as APF Military and Civilian labor that are not recorded in the NAFI accounting system.

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

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. Report the balance for extraordinary income.

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.

O. Net Income, Line 15. Report the net of Line 12 through Line 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. Crosswalks of accounts used to prepare the Reconciliation of Net Worth to other financial statements are prepared utilizing the NAFSGL guidance in Chapter 2. Complete the heading on the form to indicate: Military Service, Program Group and the reporting date.

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

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

B. Net Income, Line 2. Report the amount of Line 15 of the Statement of Income and Expense (if appropriate).

C. Grants Received, Line 3. Report the amount of grant income reported on Line 9b of the Statement of Income and Expense.

D. Other Increases, Line 4. This is a summary line for all other increases to net worth. Examples of other increases include contributed capital, minimum pension liability adjustments, other equity transactions, donated assets, recycling contributions, prior year material

corrections, change in funded status of pension and other post-retirement liabilities, and funds for BRAC property.

- E. Total Additions, Line 5. Report the sum of Line 2 through Line 4.
- F. Net Loss, Line 6. Report the amount of Line 15 of the Statement of Income and Expense (if appropriate).
- G. Grants Disbursed, Line 7. Report the amount of grants disbursed as of the report date.
- H. Other Decreases, Line 8. Report other decreases affecting the reconciliation of net worth. Examples of decreases include the transfer of headquarters-funded projects after books closed, change in funded status of pension and other post-retirement 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. Total Reductions, Line 9. Report the sum of Line 6 through Line 8.
- J. Net Additions/Reductions to Net Worth, Line 10. Report the net of Line 5 and Line 9.
- K. Net Worth, Ending, Line 11. 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 – APF and NAF Expense Summary

NAF expenses for common support functions are allocated to and reported by the benefiting categories (Category A, B, and C). Do not report allocated or prorated management overhead below the category level. Complete the heading on the form to indicate: Military Service, the Program Group, and for the year ending.

\*071003. Line Item Instructions for Preparing Schedule A – APF and NAF Expense Summary

A. Cost Expense Captions

1. Military Personnel, Line 1. This line includes the cost of active duty military personnel services computed according to Volume 7A. Items reported as military personnel include APF payroll expenses.
2. Civilian Personnel (Salaries and Wages), Line 2. This line includes the cost of civilian personnel services computed according to Volume 7A. Items reported as civilian personnel (salaries and wages) include salaries and wages expenses and capitalized labor costs.
3. Civilian Personnel (Services and Benefits), Line 3. This line includes the cost of services of civilian personnel paid from APFs and the cost of personnel compensation and benefits, including employer costs for the Civil Service Retirement System, Federal Employees Retirement System, Thrift Savings Plan, Federal Employees Group Life Insurance, and Federal Employees Group Health Insurance. Items reported as civilian personnel (services and benefits) include annual leave expenses, sick leave expenses, foreign national benefit expenses, and other employee benefit expenses.
4. Utilities, Line 4. This line includes the cost of heat, light, power, water, gas, electricity, steam, and other utility expenses.
5. Rent, Line 5. This line includes rental expenses for equipment (except transportation equipment) and real property.
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, Defense Switched Network, fax, public address systems, and other electronic media).
7. Sustainment, Restoration, and Modernization (Including APF minor construction), Line 7. This line includes sustainment, restoration, and modernization of facilities, buildings, structures, and real property supplied through commercial contracts. Allocate costs according to job costing system data using fixed charges or unit costs for specific maintenance categories.
8. Supplies and Equipment, Line 8. This line includes the cost of supplies, minor property and equipment, and materials ordinarily consumed or expended within 2 years or used to fix property (such as repair parts). Line 8 also includes APF software that is not capitalized.
9. Contractual Services, Line 9. This line includes contractual expenses for services provided indirectly through contracts or memoranda of agreement.
10. Travel of Personnel, Line 10. This line includes expenses for travel and transportation of persons when the primary purpose is to conduct NAFI business.

11. Transportation of Things, Line 11. This line includes freight expenses for the transportation of things, whether incurred through contract or use of Government resources.

12. Reimbursed Common Support, Line 12. This line includes administrative common support service expenses provided by a different Program Group and reimbursed by the benefiting Program Group as identified in DoDI 1015.15.

13. NAF Depreciation, Line 13. This line includes depreciation expenses on NAFI-capitalized tangible fixed assets, including both NAFI-owned fixed assets and fixed assets to which title has been transferred to the Government.

14. All Other Expenses, Line 14. This line includes all other expenses not captured elsewhere.

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

B. Capital Expenditure Captions. This section includes APF, NAF, and privately financed asset cost. This section aligns with the Capital Investment Programs annual report shown in Enclosure 10 of DoDI 7700.18, “Commissary Surcharge, Nonappropriated Fund (NAF), and Privately Financed Construction Reporting Procedures.”

1. Facilities and Improvements (Land and Structures), Line 16. Line 16 is a summary line for Lines 16a, “APF (MILCON),” and 16b, “NAF.” Items reported as facilities and improvements 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.

3. Total Costs (less depreciation), Line 18. Report the sum of Line 16.a through Line 17.

## 0711 FORMAT FOR THE STATEMENT OF CASH FLOWS

071101. Format for the Statement of Cash Flows

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

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

The Statement of Cash Flows discloses the gross cash receipts and cash payments with an explanation of the changes in cash or cash equivalents for the reporting period. [Crosswalks of accounts used to prepare the Statement of Cash Flows to other financial statements](#) are prepared utilizing the [NAFSGL](#) guidance in Chapter 2. Complete the heading on the form to indicate: Military Service, Program Group, and Period Ending.

## \*071103. Line Item Instructions for Preparing the Statement of Cash Flows

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

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, “NAF Depreciation” of 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, “All Other Expenses” of Schedule A - APF and NAF Expense Summary for an amount identified as a loss on disposition of fixed assets.

3. Decrease (Increase) in Accounts Receivable, Line 4. The change in accounts receivable balances between the end of the preceding and current fiscal years comes from Line 2, “Receivables” from the Balance Sheet. A decrease in accounts receivable adds to the cash balance, and 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 years comes from Line 4, “Inventories” of the Balance Sheet. A decrease in inventory adds to the cash balance, and an increase in inventory 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 years comes from Line 3, “Other Current Assets” of the Balance Sheet. A decrease in prepaid expenses adds to the cash balance, and an increase in prepaid expenses 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, “Accounts Payable” of the Balance Sheet. An increase in accounts payable adds to the cash balance, and a decrease in accounts payable 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 Line 18, “Other Current Liabilities” of the Balance Sheet. An increase in unearned revenue adds to the cash balance, and a decrease in unearned revenue 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 Line 18, “Other Current Liabilities” of the Balance Sheet less Line 8, “Increase (Decrease) in Unearned Income” of the Statement of Cash Flows. An increase in other current liabilities adds to the cash balance, and a decrease in other current liabilities reduces the cash balance.

9. Other Liabilities, Line 10. The change in other liabilities balances between the end of the preceding and current fiscal years comes from Line 18, “Other Current Liabilities” of the Balance Sheet. An increase in other liabilities adds to the cash balance, and a decrease in other liabilities reduces the cash balance.

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

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

1. Purchase of Fixed Assets, Line 13. This line includes amounts disbursed for minor construction and purchases of property, plant, and equipment that reduce the cash balance.

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

3. Other, Line 15. This line includes net amounts of other collections or disbursements associated with the purchase and sale of 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 Line 13 through Line 15.

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

1. Net Borrowing, Line 17. This line includes the cash proceeds borrowed from the bank or cash disbursed to banks for loans.
  2. Payment of Dividends, Line 18. This line includes the cash disbursed for dividends.
  3. Capital Grants, Line 19. This line includes the cash proceeds from grants.
  4. Net Proceeds from (Payments on) Other Long-Term Liabilities, Line 20. This line includes the net proceeds from (or payments on) other long-term liabilities.
  5. Other, Line 21. This line includes other financing proceeds or payments not captured on other lines.
- E. Net Cash Provided By (Used In) Financing Activities, Line 22. The net cash provided (used in) financing activities is the sum of Line 17 through Line 21.
- F. Net Decrease/Increase in Cash and Cash Equivalents, Line 23. The sum of net cash provided (used) in operating, investing, and financing activities is the sum of Line 12, Line 16, and Line 22.
- G. Cash and Cash Equivalents at Beginning of Year, Line 24. 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 25. The cash and cash equivalent balances at year-end equal the net of Line 23 and Line 24 and agree with Line 1, “Cash/Investments” from the Balance Sheet.

\*Figure 7-1. Balance Sheet

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



Figure 7-2. Statement of Income and Expense

<b>MILITARY SERVICE:  PROGRAM GROUP:  CATEGORY:  FOR THE YEAR ENDING:  (\$ in thousands)</b>				
	<u>Current Year</u>		<u>Prior Year</u>	
	<u>Amount</u>	<u>Percent of Income</u>	<u>Amount</u>	<u>Percent of Income</u>
1. Sales				
2. Cost of Goods Sold				
3. Gross Margin				
4. Other Operating Income				
4a. Participation Fees and Charges				
4b. Dues and Assessments				
4c. Concessionaire Income				
4d. Other				
5. Total Other Operating Income				
6. Gross Operating Income				
7. Operating Expenses (Schedule A)				
8. Operating Margin				
9. Other Income				
9a. Dividends				
9b. Grants - net				
9c. Other				
10. Total Non-Operating Income				
11. Other Expenses (Schedule A)				
12. Net Income Before Extraordinary Items				
13. Extraordinary Income				
14. Extraordinary Expense (Schedule A)				
15. Net Income				

Figure 7-3. Reconciliation of Net Worth

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

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

<b>MILITARY SERVICE: PROGRAM GROUP: FOR THE YEAR ENDING: (\$ in thousands)</b>								
<b>COST EXPENSE CAPTIONS</b>	Category A		Category B		Category C		Total	
	APF	NAF	APF	NAF	APF	NAF	APF	NAF
1. Military Personnel								
2. Civilian Personnel (Salaries and Wages)								
3. Civilian Personnel (Services and Benefits)								
4. Utilities								
5. Rent								
6. Communications								
7. Sustainment, Restoration and Modernization (including <input type="checkbox"/> APF minor construction)								
8. Supplies and Equipment								
9. Contractual Services								
10. Travel of Personnel								
11. Transportation of Things								
12. Reimbursed Common Support								
13. NAF Depreciation								
14. All Other Expenses								
15. TOTAL EXPENSE								
<b>CAPITAL EXPENDITURES CAPTIONS</b>								
16. Facilities and Improvements (Land and Structures)								
16a. APF (MILCON)								
16b. NAF								
17. Equipment (Investment type)								
18. Total Costs (less depreciation)								

\*Figure 7-5. Statement of Cash Flows

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

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## 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](#).

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<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



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## 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 NAIFI 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.









