

VOLUME 6B, CHAPTER 1: “INTRODUCTION AND SUMMARY”

SUMMARY OF MAJOR CHANGES

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

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

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

Hyperlinks are denoted by **bold, italic, blue and underlined font**.

The previous version dated September 2008 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Corrected and added hyperlinks.	Update
010505	Updated the reporting requirements for the non-OMB reporting entities.	Update
010506	Added additional requirement for conducting audits of Federal financial statements provided in OMB’s Bulletin No. 07-04 of September 4, 2007, Audit Requirements for Federal Financial Statements, including technical amendments.	Update

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CHAPTER 1

INTRODUCTION AND SUMMARY

0101 OVERVIEW

The provisions within this chapter constitute guidance on the form and content of quarterly and annual financial statements prepared within the Department of Defense (DoD). This guidance is intended to provide a framework within which each DoD Component has the flexibility to develop and include information useful both to its financial managers and to program managers in making decisions. This guidance applies to all DoD reporting entities identified in section 0105 of this chapter and identifies the level at which functions and/or funds should be reported on a consolidated basis, notes the basis of accounting to be utilized, prescribes the specific authoritative guidance on financial statement format and disclosures, and provides other instructions necessary for the preparation of annual audited financial statements and quarterly unaudited financial statements. When recording accounting transactions, follow the hierarchy of accounting standards found in [Volume 1, Chapter 2 of this Regulation](#).

0102 GENERAL

Under the provisions of [Title 31, United States Code, Section 3515](#), the Department is required to have annual audited financial statements covering all accounts and associated activities of the Department. As implemented by the Office of Management and Budget (OMB), the Department is required to prepare both Agency-wide annual audited financial statements and separate audited financial statements for several individual reporting entities, i.e., Army, Navy, and the Air Force general funds (GF) and working capital funds (WCF), [Military Retirement Fund](#), and [United States Army Corps of Engineers Civil Works](#). The financial statements are expected to provide information to DoD program managers, Congress, and the public, thereby facilitating both effective allocation of resources and assessment of management performance and stewardship. The objective is to produce financial statements that can and will be used to improve the management of the Department. Additionally, consistent with the objectives of the [Statements of Federal Financial Accounting Concepts \(SFFACs\)](#) and [Statements of Federal Financial Accounting Standards \(SFFASs\)](#), the Department continues to work toward the integration of budget and financial information in order to provide for more effective program management at all levels.

0103 BACKGROUND

Federal agencies traditionally prepared financial reports to monitor and control the obligation and expenditure of budgetary resources. With the enactment of [Public Law 101-576](#), “Chief Financial Officers Act of 1990” (CFO Act), [Public Law 103-356](#), “Government Management Reform Act of 1994” (GMRA), and subsequent accountability laws, the Congress called for the production of audited financial statements that fully disclose a Federal entity’s financial position and results of operations, and provide information not only for the effective allocation of resources but also with which Congress, agency managers, the public, and others can assess management performance and stewardship. Accordingly, OMB in consultation with

the [CFO Council](#), the Council of the Inspectors General on Integrity and Efficiency, and other interested parties, developed the formats and instructions for financial statements described in this volume. The annual audited financial statements shall be organized as shown in Table 1-1 of this chapter.

0104 REQUIRED REPORTING DATES

The provisions of this volume require the preparation of annual audited financial statements for the period ending on September 30 of each fiscal year; and the quarterly unaudited financial statements for periods ending December 31, March 31, and June 30 of each fiscal year.

0105 DEPARTMENT OF DEFENSE REPORTING ENTITIES

010501. Audited Financial Statements and Quarterly Unaudited Financial Statements Required by OMB

Executive Branch agencies must generally prepare and submit audited financial statements to OMB. The [CFO Act](#), as amended by [GMRA](#), requires major agencies of the Federal Government to prepare and submit audited financial statements. Additionally, OMB requires the Department and other major agencies to prepare agency-wide quarterly unaudited financial statements according to [OMB Circular A-136](#) Financial Reporting Requirements. The DoD Agency-wide financial statements provide the financial status of the entire Department. There are Component reporting entities within the Department that, while included in the DoD Agency-wide statements, also are required by OMB to prepare stand-alone audited financial statements and quarterly unaudited financial statements. The Component reporting entities are:

- A. Army GF
- B. Army WCF
- C. Navy GF
- D. Navy WCF
- E. Air Force GF
- F. Air Force WCF
- G. Military Retirement Fund
- H. United States Army Corps of Engineers Civil Works

010502. Audited Financial Statements and Quarterly Unaudited Financial Statements Required by the Senate Select Committee on Intelligence

In addition to the reporting entities identified in paragraph 010501, the following entities will prepare audited annual and unaudited quarterly financial statements to the Senate Select Committee on Intelligence:

- A. Defense Intelligence Agency
- B. National Reconnaissance Office
- C. National Geospatial-Intelligence Agency
- D. National Security Agency.

010503. Other Defense Organizations (ODO)

In addition to the reporting entities identified in paragraph 010501, the remaining accounts of the Department are reported in three columns of the consolidating balance sheet for the DoD Agency-wide audited financial statements and quarterly unaudited financial statements. The ODO-WCF column will include the financial activity of the WCF organizations that are not identified in paragraph 010501. The ODO-GF column will include the financial activity of the non-WCF organizations that are not identified in paragraph 010501. The Medicare-Eligible Retiree Health Care Fund (MERHCF) column is material to the DoD Agency-wide financial statements and is shown separately.

010504. Consolidation of ODO Audited Financial Statements and Quarterly Unaudited Financial Statements

The consolidation of reporting entity financial statements for Treasury Index “97” funds reported as “ODO-General Funds,” shall follow the flow of funds from the apportionment of an appropriation, to allocation, suballocation, and allotment. The primary advantage of this consolidation method is that program managers and auditors can follow the flow of funds upward and downward and validate the receipt and execution of funds at all levels. For financial statement reporting, accounting activities shall consolidate allotment and suballotment information consistent with the flow (distribution) of funds. The consolidating and combining statements shall include a column for each of its general funds and WCF subentities.

*010505. Non-OMB Reporting Entities

The non-OMB reporting entities represent all others not identified in paragraphs 010505 and 010506. These entities are no longer subject to the formal financial statement reporting requirements previously established by DoD and are not a required “reporter” per OMB A-136. These entities have demonstrated the ability to prepare financial statements and conduct the appropriate analyses, therefore quarterly financial statements, accompanying notes, and the related variance analysis are not required to be submitted to the Office of the Under Secretary of Defense (Comptroller) (OUSDC) for review. However, to support the preparation of the Agency-wide financial statements, these entities must continue to submit trial balances and corresponding adjustments within Defense Departmental Reporting System – Audited Financial

Statements (DDRS-AFS), DDRS-Budgetary, and DDRS - Data Collection Module. Additionally, these entities are still required to provide information as outlined by the quarterly Agency-wide reporting schedules and guidance. To ensure continued improvement to financial reporting in accordance with Department objectives, these entities will continue value-added financial improvement efforts including evaluation and improvements to internal controls over financial reporting. Reasonableness reviews of financial statements for non-OMB reporting entities during non-reporting periods may result in questions being forwarded for explanation and/or future corrective action. The OUSD(C) delegated financial statement review of the entity's financial information and OUSD(C) oversight of the non-OMB reporting entities to the respective Component's Comptroller or senior financial manager. However, designated DFAS AFS Oversight & Analysis (O&A) staff will remain available to assist in responding to issues or inquiries. Based on the Financial Improvement and Audit Readiness (FIAR) strategy, cost mitigation requirements, and expected progression towards full assertion of auditability, each non-OMB reporting entity will determine their internal reporting and audit requirements, as deemed necessary for continued improvement of financial data and achievement of audit objectives. Entities currently receiving an unqualified audit opinion should consider the cost versus value of the audit in determining requirements and objectives. The non-OMB reporting entities are, as follows:

- A. Defense Logistics Agency GF and WCF
- B. Defense Finance and Accounting Service GF and WCF
- C. Defense Information Systems Agency GF and WCF
- D. Defense Contract Audit Agency
- E. Missile Defense Agency
- F. Defense Advanced Research Projects Agency
- G. Defense Commissary Agency GF and WCF
- H. Defense Security Service GF
- I. Defense Threat Reduction Agency
- J. United States Special Operations Command
- K. Tricare Management Activity
- L. Service Medical Activity
- M. United States Marine Corps GF and WCF
- N. Chemical and Biological Defense

O. Medicare-Eligible Retiree Health Care Fund

*010506. Audit Readiness

DoD Components shall prepare financial statements and have them audited consistent with the requirements of the FY 2002 [National Defense Authorization Act \(Public Law 107-107\)](#). Each DoD Component is required to comply with the [Financial Improvement and Audit Readiness](#) business rules and other guidance issued by the [OUSD\(C\)](#). Each component, after completing their assertion of auditability, and with the advice of the Office of the Inspector General (OIG), DoD shall establish an audit committee to oversee its financial audit. The purpose of the audit committee is to establish audit requirements, identify contract deliverables, monitor the execution of the contract, and to identify and assist with resolution of obstacles to a clean opinion. Once the entity is deemed auditable, the audit committee's focus should be on ensuring a forum exists to address ongoing accounting and auditing issues. Audit committees for [OMB reporting entities identified in paragraph 010501](#) shall include a representative of DoDIG, Office of the Deputy Chief Financial Officer, and DFAS. [Audits of Federal financial statements are conducted in accordance with the requirements found in OMB Bulletin No. 07-04 of September 4, 2007, "Audit Requirements for Federal Financial Statements," as amended.](#) The provisions of this Bulletin apply to audits of financial statements of executive departments, agencies, and government corporations and certain components of these agencies. [Technical Amendments to OMB Bulletin No. 07-04](#) aligns the Federal audit process with the private sector and updates the Bulletin to reflect changes that apply as a result of other recently revised OMB guidance, including OMB Circular Nos. A-136 and A-127.

0106 CONTENT OF ANNUAL AUDITED FINANCIAL STATEMENTS AND QUARTERLY UNAUDITED FINANCIAL STATEMENTS

010601. Major Sections of the Audited Financial Statements

The annual audited financial statements of the OMB Reporting entities identified in [paragraph 010501](#) shall be comprised of nine major sections. [Non-OMB reporting entities not identified elsewhere in this chapter are to follow the requirements outlined in paragraph 010505.](#) The quarterly unaudited financial statements [required for third and fourth quarters](#) shall be comprised of the principal statements and notes to the principal statements and, if applicable, supporting consolidating and/or combining statements. A more detailed outline appears in Table 1-1. Specific instructions for the preparation of the contents of each section are provided in individual chapters of this volume. The nine major sections and the sequence of their presentation are as follows:

- A. Agency Head Message
- B. Management's Discussion and Analysis (MD&A)
- C. Principal Statements
- D. Notes to the Principal Statements

- E. Supporting Consolidating/Combining Statements (if applicable)
 - F. Required Supplementary Stewardship Information
 - G. Required Supplementary Information
 - H. Other Accompanying Information
 - I. Audit Opinion.
010602. Agency Head Message

This message precedes the MD&A section of the financial statements and is a dated transmittal letter signed by the agency head. Guidance for required information in the Agency Head Message is provided in [Chapter 3](#) of this volume.

010603. Management’s Discussion and Analysis (MD&A)

MD&A of the reporting entity is an integral part of the annual financial statements and should be regarded as Required Supplementary Information (RSI). MD&A requirements are stated in [SFFAC No. 3](#) “Management’s Discussion and Analysis – Concepts,” and [SFFAS No. 15](#) , “Management’s Discussion and Analysis - Standards,” and [OMB Circular A-136](#). MD&A is an important vehicle for communicating managers’ insights about the reporting entity, increasing the understandability and usefulness of the financial statements, and providing understandable and accessible information about the entity and its operations, service levels, successes, and challenges. MD&A also should address significant events, conditions, risks, uncertainties, trends, and contingencies that may affect future operations. Guidance for the preparation of MD&A is provided in [Chapter 3](#) of this volume.

010604. Principal Statements and Notes to the Principal Statements

Principal statements and notes to the principal statements summarize financial information for individual funds and accounts within reporting entities and subentities. The amounts reported on the principal statements are based on specific general ledger account balances. Instructions for the preparation of the principal statements are contained in Chapters 4, 5, 6, and 7 of this volume. Reconciliations and edits used within DoD can be viewed with proper authorization in the [DDRS-AFS](#) by selecting reports from the menu and then accessing reconciliations.

- A. Principal Statements. The principal statements shall include:
 - 1. Balance Sheet (Consolidated)
 - 2. Statement of Net Cost (Consolidated)
 - 3. Statement of Changes in Net Position (Consolidated)

4. Statement of Budgetary Resources (Combined)

B. Notes to the Principal Statements. The notes to the principal statements are an integral part of the financial statements. They include a summary of the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the entity's significant assets, liabilities, equity, revenues, expenses, and budgetary information. The notes also provide further detail of the amounts reported on the statements. When warranted, the notes identify departures from Federal accounting standards or reporting requirements. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies shall be explained and the reason for noncompliance annotated in the notes. Where data used is known to be incomplete, deemed to be unreliable, or is an estimated (partial or full) amount, the note pertaining to the line(s) where such data is reported in the statement shall contain a reference to such data. The reference shall include the amount and explanation of the circumstances regarding the availability and use of such data. The notes also contain disclosures required by the SFFASs. Instructions for the preparation of the required footnotes are contained in Chapter 10 of this volume.

C. Supporting Consolidating/Combining Statements. The consolidating and combining statements use a multi-column format to present information on the reporting entity's major component. The total column for consolidating and combining statements must equal the amount reported in the consolidated or combined statements. Although publishing the consolidating/combining statements is no longer required by the DoD, it is very important that these statements are reviewed for completeness and consistency with the consolidated statements.

010605. Required Supplementary Stewardship Information (RSSI)

The Federal Accounting Standards Advisory Board eliminated the use of RSSI to report information about weapons systems when it issued [SFFAS No. 23](#), "Eliminating the Category National Defense Property, Plant and Equipment." Additionally, [SFFAS No. 25](#), "Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment," eliminated the use of RSSI for reporting stewardship responsibilities. Classification of other items of information currently designated RSSI may be dealt with in one or more future standards. Specific guidance for reporting RSSI is contained in Chapter 11 of this volume.

010606. Required Supplementary Information (RSI)

Stewardship resources are investments by the Federal Government for the benefit of the nation. The RSI section provides information on resources entrusted to Federal agencies, highlights their long-term benefit nature, and demonstrates accountability over these resources. Selected transactions are reported as RSI in the financial statements. Specific guidance for reporting RSI is contained in Chapter 12 of this volume.

010607. Other Accompanying Information (OAI)

Specific guidance for reporting OAI is contained in [Chapter 3](#) of this volume.

010608. Audit Opinion

A. DoD Reporting Entity Audits. DoDIG shall render an audit opinion on the DoD Agency-wide financial statements and OMB required entities in paragraph 010501. In addition, OIG shall provide an endorsement to the audit opinion for each of the reporting entity financial statements opined on by a contract auditor.

B. Other Defense Organizations (ODO) Audits. DoDIG will not issue separate audit opinions on the financial statements of ODO included in the DoD Agency-wide financial report. The ODO financial statements and records shall be included in the audits performed to support the opinion issued by OIG on the DoD Agency-wide audited financial statements.

Table 1-1. Detailed Outline of DoD Financial Statements

DETAILED OUTLINE OF ANNUAL AUDITED DOD FINANCIAL STATEMENTS			
Section Sequence	Major Components of Financial Statements (Hard copy and files for Internet)	DoD Entity Reports	DoD Agency-Wide
1	Cover	Required	Required
2	Table of Contents	Required	Required
3	Message(s) from the Secretary of the Military Department; Chief, U.S. Army Corps of Engineers; or the Director of a Defense Agency, as applicable, for the reporting entity.	Required	Required
4	Management's Discussion and Analysis	Required	Required
5	Performance Information	Not Required	Not Required
6	Financial Section		
6.1	Signed CFO letter	Required	Required
6.2	Principal Statements		
6.21	Balance Sheet, Consolidated	Required	Required
6.22	Statement of Net Cost, Consolidated	Required	Required
6.23	Statement of Changes in Net Position, Consolidated	Required	Required
6.24	Statement of Budgetary Resources, Combined	Required	Required
6.3	Notes to the Financial Statements	Required	Required
6.4	Required Supplementary Stewardship Information		
6.41	Stewardship Investments		
6.41A	Nonfederal Physical Property	As Applicable	Required
6.41B	Human Capital	As Applicable	Required
6.41C	Research and Development	As Applicable	Required
6.5	Required Supplementary Information		
6.51	Deferred Maintenance and Repairs	As Applicable	Required
6.52	Statement of Disaggregated Budgetary Resources	As Applicable	Required
6.6	Other Accompanying Information (OAI)		
6.61	Management Challenges	Not Required	Required
6.62	Summary of Financial Statement Audit and Management Assurances	Not Required	Required
6.63	Improper Payments Elimination and Recovery Reporting Details	As Applicable	Required
7	Audit Opinion(s)		
7.1	Inspector General, DoD Audit Opinion or Endorsement	Not Applicable	Required
7.2	Audit Opinion of Contract Auditor (e.g., for the Military Retirement Fund)	As Applicable	Not Applicable