DEFENSE SECURITY COOPERATION AGENCY
2800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2800

20 AUG 2026

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF THE AIR FORCE FOR INTERNATIONAL AFFAIRS
DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR DEFENSE EXPORTS AND COOPERATION
DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR INTERNATIONAL PROGRAMS
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY
DIRECTOR, MISSILE DEFENSE AGENCY
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY
DIRECTOR, SECURITY COOPERATION ACCOUNTING DIRECTORATE, DEFENSE FINANCE AND ACCOUNTING SERVICE, INDIANAPOLIS OPERATIONS
DIRECTOR OF CYBERSECURITY DIRECTORATE AND DEPUTY NATIONAL MANAGER FOR NATIONAL SECURITY SYSTEMS, NATIONAL SECURITY AGENCY

SUBJECT: Defense Security Cooperation Agency Policy Memorandum 26-20, Recognition of Inventory and Related Property in the Security Assistance Accounts Financial Statements [SAMM E-Change 775]

References: (a) Defense Security Cooperation Agency Fiscal Year 2022 Financial Statement Audit Notice of Finding and Recommendations SAA-2022-N0008

(b) Defense Security Cooperation Agency Fiscal Year 2022 Financial Statement Audit Notice of Finding and Recommendations SAA-2022-N0017

This memorandum updates policy in the Security Assistance Management Manual (SAMM). It establishes procedures for recognizing Inventory and Related Property (I&RP) in the Security Assistance Accounts (SAA) Financial Statements, per references (a) and (b). This memorandum is effective immediately. The policy in the attachment requires the Implementing Agencies (IAs) to follow relevant accounting guidance as referenced above. The policy in the attachment is incorporated into the DSCA SAMM at https://samm.dsca.mil.

If you have policy questions on this memorandum, please contact DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)) at dsca.ncr.obo.list.fpre-fp@mail.mil. Please reference the DSCA Policy

Number and Memo Subject. For execution questions, please contact DSCA (Office of Business Operations, Comptroller Directorate, Financial Audits Division (OBO/CMP/FA)) at dsca.pentagon.obo-cmp.mbx.dsca-audit-emediation@mail.mil. For general questions about the SAMM, please contact DSCA (Office of Strategy, Plans, and Policy, Execution Policy and Analysis Directorate (SPP/EPA)) at dsca.ncr.spp.mbx.epa@mail.mil.

WATFORD.BRIAN.T. Digitally signed by WATFORD.BRIAN.T. Date: 2026.08.20 12:14:30 -04'00'

Brian T. Watford
Acting Chief Operating Officer and
Chief Financial Officer

Attachment: SAMM E-Change 775, Recognition of Inventory and Related Property in the Security Assistance Accounts Financial Statements

**Attachment: Security Assistance Management Manual E-Change 775**

**Recognition of Inventory and Related Property in the Security Assistance Accounts Financial Statements**

1. Add Section C6.3.12. per below:

   **C6.3.12. Contracts with Foreign Military Sales Case Funding.** Contracts with FMS funding must comply with the requirement to include Federal Acquisition Regulation (FAR) subpart 52.245-1 "Government Property" as prescribed in FAR subpart 45.107 "Contract clauses" and the requirement to include Defense Federal Acquisition Regulation Supplement (DFARS) subpart 252.245-7005 "Management and Reporting of Government Property" as prescribed in DFARS subpart 245.107 "Contract clauses."

2. Add Section C14.8.6. and subsections per below:

   **C14.8.6. Accounting for Security Assistance Account Inventory and Related Property.** Security Assistance Accounts (SAA) inventory includes tangible personal property held for sale, currently being produced for sale, held to be consumed in the production of goods for sale, or held in the provisions of services for a fee that is acquired using FMS funds, or the Special Defense Acquisition Fund (SDAF). This includes all defense articles, spare parts, and support equipment held by the DoW for sale to the foreign partner including those stored at contractor facilities until title transfer to the foreign partner.

   **C14.8.6.1.** Valuation of FMS inventory shall be valued at historical cost, defined as the original purchase price including all costs necessary to bring the inventory to its current location and condition. The specific methodology for determining historical cost depends on the inventory's tracking characteristics.

   **C14.8.6.2.** For more detailed accounting guidance for Inventory and Related Property, please see Statement of Federal Financial Accounting Standards 3 (SFFAS 3) and FMR Volume 4, Chapter 4.

   **C14.8.6.3.** Software held for sale is accounted for as inventory. For more detailed accounting guidance for software held for sale, see Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 985-20.