DEPARTMENT OF DEFENSE

AGENCY-WIDE FINANCIAL STATEMENTS

NOTES TO THE PRINCIPAL STATEMENTS

(This page intentionally left blank)

Note 1. Significant Accounting Policies

A. Basis of Presentation.

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other relevant legislation. The financial statements have been prepared from the books and records of the Department in accordance with the "Department of Defense Financial Management Regulation" ("DoDFMR"), the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements" and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Department is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The DoD's financial statements are in addition to the financial reports also prepared by the Department pursuant to OMB directives that are used to monitor and control the DoD's use of budgetary resources.

The Department is unable to fully implement all elements of GAAP and the OMB Bulletin No. 97-01 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the DoD's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. As a result, the Department cannot currently implement every aspect of GAAP and the OMB Bulletin No. 97-01. The Department continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems.

More detailed explanations of individual financial statement elements are provided in the applicable notes.

B. Mission of the Department of Defense.

The Department was created on September 18, 1947, by the National Security Act of 1947. The overall mission of the Department is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal year (FY) 2000 represents the fifth year that the Department has prepared audited DoD Agency-wide financial statements as required by the CFO Act and the GMRA. The reporting entities within the Department have been changed to facilitate this reporting requirement. Auditors will be issuing opinions on the financial statements of the following stand-alone reporting entities: (1) Army General Funds, (2) Navy General Funds, (3) Air Force General Funds, (4) Army Working Capital Fund, (5) Navy Working Capital Fund, (6) Air Force Working Capital Fund, (7) Military Retirement Fund, and (8) U.S. Army Corps of Engineers (Civil Works).

In addition to the eight stand-alone reporting entities, the remaining DoD Components are reported in "Other Defense Organizations General Funds" and "Other Defense Organizations Working Capital Funds" columns of the supporting DoD Agency-wide combining/consolidating statements. The Office of the Inspector General will not issue separate audit opinions on the statements of the Other Defense Organizations; instead the financial statements and records of those organizations will be included in the audit performed to support the opinion issued on the DoD Agency-wide financial statements. Also, the Department is requiring that the following Defense Agencies prepare internal stand-alone annual financial statements to be audited by certified public accounting firms: (1) Defense Logistics Agency, (2) Defense Finance and Accounting Service, (3) Defense Information Systems Agency, (4) Defense Contract Audit Agency, (5) Ballistic Missile Defense Organization, (6) Defense Advanced Research

Projects Agency, (7) Defense Commissary Agency, (8) Defense Security Service, and (9) Defense Threat Reduction Agency.

C. Appropriations and Funds.

The Department appropriations and funds are divided into the general, working capital (revolving), trust, special and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the Department's missions.

General funds are used for financial transactions arising under congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The Defense Working Capital Fund operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

Trust funds represent the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

Special funds account for receipts of the government that are earmarked for a specific purpose.

Deposit funds generally are used to (1) hold assets for which the Department is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

D. Basis of Accounting.

The Department generally records transactions on a budgetary basis and not an accrual accounting basis as is required by GAAP. For FY 2000, the Department's financial management systems are unable to meet all the requirements for full accrual accounting. Many of the Department's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as is required by GAAP. The Department has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (SGL). Until such time as all of the Department's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, the DoD's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement on Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

In addition, the Department identifies programs based upon the major appropriation groups provided by Congress. The Department is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of

Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

E. Revenues and Other Financing Sources.

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The Department recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

Revenue is recognized according to the percentage of completion method for depot maintenance and ordinance working capital fund (WCF) activities. Revenue for supply management WCF activities is recognized when an inventory item is dropped from inventory for sale.

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the Department's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Department's operations. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is made.

F. Accounting for Intragovernmental Activities.

The Department, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Department as though the agency was a stand-alone entity.

The Department's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

The Department's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Department funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The Department recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the DoD financial statements. The Department recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. However, the Department, as well as the rest of the federal government cannot accurately identify all intragovernmental transactions by customer. For intra-DoD transactions in FYs 1999 and 2000, the Department provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated. On September 29, 2000, the Department of the Treasury, Financial Management Service issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. However, the Department was able to implement the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

G. Funds with the U.S. Treasury and Cash.

The Department's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS) and Military Services and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits.

In addition, the DFAS centers and the USACE Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Department's recorded balance in the FBWT account and Treasury's FBWT often result and are reconciled. Material disclosures are provided at note 3.

H. Foreign Currency.

The Department conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified.

I. Accounts Receivable.

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from another federal agency. Claims against another federal agency are to be resolved between the agencies. If the claim cannot be resolved by the agencies involved, it should be referred to the General Accounting Office. Material disclosures are provided at Note 5.

J. Loans Receivable. Not applicable.

K. Inventories and Related Property.

Inventories are reported at approximate historical cost based on Latest Acquisition Cost (LAC) adjusted for holding gains and losses. The LAC method is used because inventory data is maintained in logistics systems designed for material management purposes. For the most part, these systems value inventory at selling prices or LAC and reported amounts must be adjusted, using a formula to approximate historical costs.

The related property portion of the amount reported on the Inventory and Related Property line includes Operating Materials and Supplies (OM&S) and stockpile materials. The OM&S are valued at standard purchase price. Ammunition and munitions that are not held for sale are treated as OM&S. For the most part, the Department is using the consumption method of accounting for OM&S, as OM&S is defined in the SFFAS No. 3, "Accounting for Inventory and Related Property," which has not yet been issued to the end user. Once issued, the material is expensed. Material disclosures related to inventory and related property are provided at note 9.

L. Investments in U.S. Treasury Securities.

Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The Department's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities. Material disclosures are provided at note 4.

M. General Property, Plant and Equipment.

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. Also, improvement costs over the DoD capitalization threshold of $100,000 for General PP&E should be capitalized. The Department contracted with two certified public accounting (CPA) firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. At the conclusion of the studies, both CPA firms recommended that the Department retain its current capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of 2 or more years was capitalized. These assets remain capitalized and reported on WCF financial statements. General PP&E previously capitalized at amounts below $100,000 were written off General Fund financial statements in FY 1998.

When it is in the best interest of the government, the Department provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the Department or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E should be included in the value of General PP&E reported on the Department's Balance Sheet. The Department recently completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Department currently reports only government property in the possession of contractors that is maintained in the DoD's property systems.

To bring the Department into fuller compliance with federal accounting standards, the Department has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

Material disclosures are provided at note 10.

For entities' WCF activities, all PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. National Defense PP&E, Heritage Assets and Stewardship Land owned/maintained on a WCF installation are reported on the Stewardship Report prepared by the applicable military department.

N. Advance and Prepayments.

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

O. Leases.

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease terms.

P. Other Assets.

The Department conducts business with commercial contractors under two primary types of contracts-fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Department provides financing payments. One type of financing payment that the Department makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulation, the Department makes financing payments under fixed price contracts that are not based on a percentage of completion. The Department reports these financing payments as advances or prepayments in the "Other Assets" line item. The Department treats these payments as advances or prepayments because the Department becomes liable for the goods only after the contractor delivers in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Department is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Department for the full amount of the advance. The Department has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The Department has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

Q. Contingencies and Other Liabilities.

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Department. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Department's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Department's assets. This type of liability has two components—nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon the Department's policies and consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The Department's auditors disagree with this application of the standard for nonenvironmental disposal liabilities based on their interpretation that the disposal liability recognition should commence at the time the asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all federal agencies. Until the issue is resolved on a government-wide basis, the Department has agreed to adhere to the explicit literal provisions of the SFFAS No. 5. The Department has agreed to the recognition of nonenvironmental disposal liability for National Defense PP&E nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with, and not separately identifiable easily from, environmental disposal costs. Material disclosures are provided at notes 14 and 15.

The Department's liabilities also arise as a result of range preservation and management activities. Range preservation and management activities are those precautions considered necessary to protect personnel and to maintain long-term range viability. These activities may include the removal and disposal of solid wastes, clearance of unexploded munition, and efforts considered necessary to address pollutants and contaminants. The reported amounts for range preservation and management represent the current cost basis estimates of required range preservation and management activities, beyond recurring operating and maintenance, for active and inactive ranges at active installations. The estimated costs are recognized systematically based on the estimated use of physical capacity.

R. Accrued Leave.

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

S. Net Position.

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred.

Cumulative results of operations represents the difference, since inception of an activity, between expenses and losses and financing sources including appropriations, revenue, and gains. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

Cumulative results of operations for WCF represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

T. Treaties for Use of Foreign Bases.

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

U. Comparative Data.

The OMB has waived the requirement to present comparative financial statements for FY 2000.

V. Undelivered Orders.

The Department records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

Note 2. Nonentity Assets

As of September 30,		2000
(Amounts in millions)		
Intragovernmental Nonentity Assets:		
Fund Balance with Treasury	$	1,261.8
Accounts Receivable		5.9
Total Intragovernmental Nonentity Assets	$	1,267.7
Nonfederal Nonentity Assets:		
Cash and Other Monetary Assets	$	416.6
Accounts Receivable		2,566.6
Other Assets		117.4
Total Nonfederal Nonentity Assets	$	3,100.6
Total Nonentity Assets	$	4,368.3
Total Entity Assets		612,366.4
Total Assets	$	616,734.7

Other Information:

Assets accounts are either categorized as entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity, but are not available for use in the operations of the entity.

The balance of $1,261.8 million in Nonentity Fund Balance with Treasury represents: (1) $606.4 million with the Other Defense Organizations General Funds, (2) $548.1 million with the Navy General Fund, (3) $60.4 million with the Army General Fund, (4) $24.8 million with the Air Force General Fund, and (5) $22.1 million with the US Army Corps of Engineers (USACE).

The Nonentity Cash and Other Monetary Assets balance of $416.6 million consists of: (1) $215.9 million with the Army General Fund for disbursing officers' cash, undeposited collections, imprest funds, and foreign currency; (2) $134.8 million with the Navy General Fund; (3) $64.9 million with the Air Force General Fund; and (4) $1.0 million with the USACE.

The balance of $2,566.6 million in Nonfederal Nonentity Accounts Receivable represents: (1) $1,183.0 million with the Navy General Fund, (2) $1,043.4 with the USACE, (3) $281.2 million with the Air Force General Fund, (4) $58.3 million with the Army General Fund, and (5) $0.7 million with the ODO General Fund. The Navy General Fund accounts receivable represent advance payments made to contractors for the A-12 aircraft program, which was subsequently canceled and remains in litigation. The Department of the Navy (DON) reported this balance as Nonentity accounts receivable because the original appropriation year has been cancelled, and any funds collected as a result of this litigation would not be available for the DON use in normal operations. The USACE balance primarily consists of long-term receivables due from state and local municipalities for water and storage contracts.

The Other Assets balance of $117.4 million represents: (1) $111.7 million in advances paid under advance-payment pool agreements and (2) $5.7 million represents bid deposit collections received by the Defense Reutilization and Marketing Service (DRMS). Advance-payment pool agreements are used for the financing of cost-type contracts with non-profit educational or research institutions for experimental, or research and development work, when several contracts or a series of contracts require financing by advance payments.

Note 3. Fund Balance with Treasury

As of September 30,		2000
(Amounts in millions)		
Fund Balances:		
Appropriated Funds	$	168,306.9
Revolving Funds		7,243.1
Trust Funds		471.0
Other Fund Types		1,510.3
Total Fund Balances	$	177,531.3
Fund Balances Per Treasury Versus Agency:		
Fund Balance per Treasury	$	175,953.7
Fund Balance per The Department of Defense		177,531.3
Reconciling Amount	$	(1,577.6)

Explanation of Reconciliation Amount:

The reconciling amount for Fund Balance with Treasury is explained by the following differences.

- The Other Defense Organizations (ODO) General Funds (GF) reported a reconciling amount of $1,521.1 million. The Department is working with the General Accounting Office (GAO) and the Department of the Treasury regarding how to resolve $1,521 million of reconciling amounts. The Fund Balance with Treasury difference between Treasury and the Department is a complex and long-standing problem. The Department is reviewing the accounts to determine the supportable balances and post the correct adjusting entries. The review is expected to be completed in FY 2001.

- The ODO Working Capital Fund (WCF) reconciling amount of $372.3 million consists of $44.3 million with the Defense Logistics Agency (DLA) and $328.0 million with United States Transportation Command (USTRANSCOMM). The $44.3 million with DLA is due to the Department of Treasury under reporting Defense Logistics Agency (DLA) Reutilization and Marketing's disbursements in the prior year. For FY 1999 financial statement reporting, DLA Reutilization and Marketing corrected an error by including the $44.3 million in it's disbursements. For FY 2000, Treasury included the disbursements for DLA Reutilitzation and Marketing the $44.3 million that it excluded from the prior year. Therefore, for FY 2000 financial statement reporting, the Treasury's disbursements on DLA Reutilization and Marketing's financial statements were reduced by $44.3 million. The $328.0 million with USTRANSCOMM is due to a cash transfer from Air Force WCF. The cash transfer of USTRANSCOMM to ODO WCF is for financial statement reporting only.

- The $1.9 million reconciling amount in Air Force GF is due to an error made at Treasury during September 2000 reporting. The entity records are correct and Treasury records will be corrected in FY 2001.

- The $10.9 million reconciling amount in Army GF is due to (1) $10.7 million in Department of Defense Inspector General auditor's recommended adjustments for Treasury Trial Balance Reconciliation items over 90 days old and (2) $0.2 million variance with the Army's Gift Funds. Efforts are on-going with the Department of Treasury to correct the variances with the Army's Gift Funds.

- Fund Balance per U.S. Army Corps of Engineers (USACE) excludes $0.6 million in spending authority for the Coastal Wetlands Restoration Trust Fund account, which was reported on the FMS 2108. Coastal Wetlands is financed from transfers from the Aquatic Resources Trust Fund. Treasury has identified Department of Transportation as the lead agency for reporting the Aquatic Resources account. Therefore, USACE has not reported activity for this account.

- The $328.0 million reconciling amount in Air Force WCF is due to a cash transfer to ODO WCF for USTRANSCOM. The cash transfer of USTRANSCOM to ODO WCF is for financial statement reporting only.

Reporting Entity	Fund Balance with Treasury	Fund Balance per Entity Books	Reconciling Amount
(amounts in millions)			
ODO GF	$ 30,884.2	$ 32,405.3	$ (1,521.1)
ODO WCF	2,369.5	2,741.8	(372.3)
AF GF	40,539.4	40,541.3	(1.9)
Army GF	34,496.7	34,507.6	(10.9)
USACE	2,404.9	2,404.3	0.6
AF WCF	542.6	214.6	328.0
Army WCF	674.9	674.9	0.0
MRF	20.6	20.6	0.0
Navy GF	62,547.1	62,547.1	0.0
Navy WCF	1,473.8	1,473.8	0.0
Total	$ 175,953.7	$ 177,531.3	$ (1,577.6)

Other Information Related to Fund Balance with Treasury:

The On-Line Payment and Collection (OPAC) differences represent amounts reported by an organization but not reported by its trading partner. As of September 30, 2000, there was no material OPAC differences greater than 180-days old. A majority of the OPAC differences represent internal DoD transactions and therefore do not affect the FBWT at the DoD consolidated level. However, for individual entity level statements these differences would affect the amount reported for the FBWT. The Department is working with the Defense Finance and Accounting Service (DFAS) Centers, Treasury, and Treasury's contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers established metrics and implemented monthly reporting requirements for FY 2000. These actions will aid the Department in clearing many balances and establishing better internal controls over the OPAC process.

The Department is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices; (2) the

Treasury will not assist in research efforts for transactions over 1-year old; or (3) corrections were processed for transactions that Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations, shall be provided to the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the DoD and the Treasury for processing checks. Further, no empirical evidence has been presented that demonstrates check issue discrepancies adversely affect the FBWT.

Receipts in the amount of $449.3 million that were returned to Treasury during FY 2000 are not reflected in the USACE portion of the financial statements. These were funds that were collected into the receipt accounts for water storage contracts (principal and interest), payments to states, license fees and permits, and contributed funds escrow. At fiscal yearend, collections close into the offsetting custodial liability account, zeroing out the cash balance.

Note 4. Investments

As of September 30,	2000				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
(Amounts in millions)					
Intragovernmental Securities:					
Marketable	$ 2,065.5	Interest	$ 5.4	$ 2,070.9	$ 2,070.9
Non-Marketable, Market-Based	170,381.9	Effective Interest	(10,765.1)	159,616.8	171,909.2
Subtotal	$ 172,447.4		$ (10,759.7)	$ 161,687.7	$ 173,980.1
Accrued Interest	4,834.7			4,834.7	4,834.7
Total Intragovernmental Securities	$ 177,282.1		$ (10,759.7)	$ 166,522.4	$ 178,814.8

Other Information:

Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The Department of Defense's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Military Retirement Fund (MRF) holds the majority of the non-marketable, market-based net investment securities, $157.8 billion. The remaining $1.8 billion in non-marketable, market-based securities are held by other DoD Components that individually reported less than 10 percent of the total. The $2.1 billion of marketable securities is attributable to the U.S. Army Cops of Engineers for the Inland Waterways and Harbor Maintenance Trust Funds.

Note 5. Accounts Receivable

As of September 30,	2000		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in millions)			
Intragovernmental Receivables:	$ 821.4	N/A	$ 821.4
Nonfederal Receivables (From the Public):	$ 5,255.5	$ (541.3)	$ 4,714.2
Total Accounts Receivables:	$ 6,076.9	$ (541.3)	$ 5,535.6

Allowance method:

The Department used a variety of methods for estimated uncollectible account allowances. The Army General Fund estimated the uncollectible accounts by calculating the average of a three-year period, FY 1998 to FY 2000, of actual write off amounts. This method was treated as a change in accounting estimate and is believed to provide a better estimate of the Army General Fund's Accounts Receivable, Net. This change in accounting estimate resulted in a prior period adjustment of $157.0 million to reduce the allowance for estimated uncollectibles. For FY 2000, the Navy applied the FY 1999 allowance rate of 2.93 percent to the public accounts receivable balances. The DFAS is reviewing the methods for calculating the allowance in order to establish a standard allowance policy for the Navy. For the Air Force General Fund the total allowance is comprised of amounts determined at the departmental level. These departmental level amounts were derived as follows: an allowance rate of 50 percent for closed years receivables resulted in an estimated allowance of $231.4 million, an interest allowance of $3.6 million was calculated using an average percent of write-offs to outstanding public accounts receivable over a five-year period, the allowance for entity receivables of $5.5 million was computed based on the average percent of write-offs to outstanding public accounts receivable for the last five years.

Other information:

With the exception of the U.S. Corp of Engineers (USACE), none of the DoD Components', accounting systems capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, none of the reporting entities were able to reconcile intragovernmental accounts receivable balances with their trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

The major components of Intragovernmental Receivables of $821.3 million are: $196.3 million for Other Defense Organizations (ODO) GF, $154.2 million for ODO Working Capital Fund (WCF), $147.9 million for Army General Fund (GF), and $141.1 million for USACE. The remaining $181.8 million is attributable to other DoD Components that individually reported less than 10 percent of total intragovernmental receivables.

The major components of the $4.7 billion Nonfederal Receivables from the Public, Net are: $1.4 billion for Navy GF, $1.1 billion for USACE, $0.7 billion for Navy WCF, and $0.5 billion for Air Force GF. The remaining $1.0 billion is attributable to other DoD Components that individually reported less than 10 percent of total Nonfederal Receivables.

Note 6. Other Assets

As of September 30,		2000
(Amounts in millions)		
Nonfederal Other Assets:		
Outstanding Contract Financing Payments	$	11,247.2
Other Assets (With the Public)		3,889.5
Total Nonfederal Other Assets	$	15,136.7
Total Other Assets:	$	15,136.7

Other Information Related to Other Assets:

The Department of Defense (DoD) has reported outstanding financing payments for fixed price contracts as advances and prepayments, because under the terms of the fixed price contracts, the Department becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Department is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Department for the full amount of the outstanding contract financing payments. The Department has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The Department has concluded that Statement of Federal Financial Accounting Standard No. 1, "Accounting for Selected Assets and Liabilities," does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

Outstanding Contract Financing Payments:
Of the $11.2 billion of outstanding contract financing payments, the Air Force General Fund (GF) reported $4.7 billion, the Navy GF reported $4.1 billion, the Army GF reported $2.3 billion, the Defense Logistics Agency (DLA), Supply Management Materiel reported $0.1 billion.

Other Assets (With the Public):
Of $3.9 billion in Other Assets (With the Public), $1.37 billion was reported by the Navy Working Capital Fund (WCF), $790.5 million was reported by the Air Force WCF, $441.0 million was reported by the Army WCF, $436.4 million was reported by the Army GF, and $338.2 million was reported by the Defense Logistics Agency (DLA). The remaining $506.4 million is attributable to other DoD Components that individually reported less than 10 percent of total Other Assets (With the Public).

Of the $1.37 billion reported by the Navy WCF, $952.8 million is for outstanding debt principal owed to the Federal Financing Bank relating to the Military Sealift Command's use of the ships.

Of the $790.5 million reported by the Air Force WCF, $475.2 million is for other assets accounts receivable – deliveries suspense and $168.1 million is for other assets returns to vendors pending credit.

Note 7. Cash and Other Monetary Assets

As of September 30,	2000
(Amounts in millions)	
Cash	$ 354.3
Foreign Currency	66.6
Total Cash, Foreign Currency, & Other Monetary Assets	$ 420.9

Other Information Pertaining to Cash & Other Monetary Assets:

Cash and foreign currency reported consists primarily of cash held by Disbursing Officers to carryout their paying, collecting and foreign currency accommodation exchange mission. The primary source of the amounts reported is the Standard Forms 1219, Statements of Accountability reported by DoD Disbursing Officers.

The FY 2000 Cash of $354.3 million includes $158.1 million reported by disbursing officers supporting the Army $134.6 million reported by disbursing officers supporting the Navy, $56.6 million reported by disbursing officers supporting the Air Force, and $5.0 million reported by other DoD Components that individually reported less than 10 percent of the total cash.

The Department of Defense translates foreign currency to U. S. dollars utilizing the Department of Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U. S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions.

Note 8.A. Direct Loan and/or Loan Guarantee Programs

Direct Loan and/or Loan Guarantee Programs: The Department of Defense operates the following loan guarantee program:
Military Housing Privatization Initiative

Other Information:

An analysis of loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the loan guarantees is provided in the following sections of this note.

Note 8.B. Guaranteed Loans Outstanding

As of September 30,		
(Amounts in millions) Loan Guarantee Program Title	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
2000		
Military Housing Privatization Initiative	$ 29.6	$ 29.6
Total	$ 29.6	$ 29.6

Note 8.C. Subsidy Expense for Post- FY 1991 Loan Guarantees

As of September 30,	2000				
(Amounts in millions)	Interest Differential	Defaults	Fees	Other	
Current Year's Loan Guarantees:					
Military Housing Privatization Initiative	$ 0.1	$ 2.0	$ 0.0	$ 0.0	$ 2.1
Total	$ 0.1	$ 2.0	$ 0.0	$ 0.0	$ 2.1

	2000
Loan Guarantee Modifications:	
Military Housing Privatization Initiative	$ 0.00
Total	$ 0.00

	2000
Loan Guarantee Reestimates:	
Military Housing Privatization Initiative	$ 0.00
Total	$ 0.00

	2000
Total Loan Guarantee Subsidy Expense:	
Military Housing Privatization Initiative	$ 2.1
Total	$ 2.1

Note 9. Inventory and Other Related Property

As of September 30,		2000
(Amounts in millions)		
Inventory, Net (Note 9.A.)	$	52,851.8
Operating Materials & Supplies, Net (Note 9.B.)		83,766.1
Stockpile Materials, Net (Note 9.C.)		2,449.6
Total	$	139,067.5

Note 9.A. Inventory, Net

As of September 30,		2000				
		Inventory, Gross Value		Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in millions)						
Inventories Categories:						
Purchased for Resale	$	46,658.1	$	(19,449.6)	27,208.5	LAC, AC
Held in Reserve for Future Sale		5,779.1		(1,479.5)	4,299.6	LAC
Held for Repair		22,758.0		(4,411.4)	18,346.6	LAC;O
Excess, Obsolete, and Unserviceable		407.2		0.0	407.2	NRV
Work in Process		2,589.9		0.0	2,589.9	LAC;SP, AC
Total	$	78,192.3	$	(25,340.5)	52,851.8	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost

NRV = Net Realizable Value
O = Other

Restrictions of Inventory Use, Sale, or Disposition:
Except for the following situations, there are no restrictions on the use, sale, or disposition of inventory; (1) distributions without reimbursement are made when authorized by DoD directives; (2) War Reserve Material includes fuels and subsistence items that are considered restricted; and (3) inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of the President.

Definitions of Titles: Inventory, Gross Value represents the standard value used for inventory transactions in the financial system. Revaluation Allowance is the total difference between standard inventory values and either historical cost or net realizable value. Inventory, Net is approximate historical cost or net realizable value.

Other Information:

Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. "Inventory held for Current Sale" is expected to be sold in the normal course of operations. "Inventory Held in Reserve for Future Use" is economic and/or contingency retention stock. "Inventory Held for Repair" is damaged inventory that requires repair to make it suitable for sale. "Excess Inventory" is that which exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale. "Obsolete Inventory" is that which no longer is needed due to changes in technology, laws, customs or operations. "Unserviceable Inventory" is inventory damaged beyond economical repair. It is valued at its estimated net realizable value, which is currently 1.8 percent of latest acquisition cost.

Inventory data reported on the financial statements is derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the Statement of Federal Financial Accounting Standards (SFFASs) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over inventory items, the timing of this information creates issues regarding the categorization of inventory held for use, held in reserve for future use, or excess, obsolete, and unserviceable. Furthermore, past audit results have led to uncertainties about the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

Work in Process at depot maintenance activities, approximately $2.3 billion, is included as inventory work in process in note 9A because the U.S. Government Standard General Ledger (SGL) does not include an account for work in process that is not inventory. This amount represents labor, applied overhead, and supplies used in the delivery of maintenance services. The remaining amount in Work in Process, approximately $0.3 billion, represents munitions in production.

Note 9.B. Operating Materials and Supplies, Net

As of September 30,	2000			Valuation Method
	OM&S Amount	Revaluation Allowance	OM&S, Net	
(Amounts in millions)				
OM&S Categories:				
Held for Use	$ 54,129.2	$ 0.0	$ 54,129.2	LAC;SP; AC; NRV; O
Held in Reserve for Future Use	28,975.6	0.0	28,975.6	LAC; SP; O
Excess, Obsolete, and Unserviceable	661.3	0.0	661.3	AC; NRV; SP; O
Total	$ 83,766.1	$ 0.0	$ 83,766.1	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost Adjusted for holding gains and losses
SP= Standard Price
AC= Actual Cost
NRV = Net Realizable Value
O = Other

Restrictions on Operating Materials and Supplies:
None.

Definitions of Titles: OM&S Amount represents the standard value used for OM&S transactions in the financial system. Revaluation Allowance is the total difference between standard OM&S values and either historical cost or net realizable value. OM&S, Net is approximate historical cost or net realizable value.

Other Information:

The OM&S is tangible personal property to be consumed in normal operations. “OM&S Held for Use” is the quantities of secondary supply items held to meet the approved acquisition objective and munitions in stock to satisfy training needs. “OM&S Held in Reserve for Future Use” consists of stocks maintained because they are not readily available in the market or because there is more than a remote chance they eventually will be needed. Within the Department, these are secondary items in stock that are stratified in logistics reports as Economic Retention Stock and Contingency Retention Stock and munitions held to satisfy operational or military contingency needs. Economic Retention Stock is stock above the Approved Acquisition Objective that is more economical to retain than to dispose of. Contingency Retention Stock is stock above the Approved Acquisition Objective and above the Economic Retention Stock level, if one exists, that is held to support specific contingencies. “OM&S Held for Repair” is damaged material that requires repair to make it suitable for use. “Excess OM&S” is material which exceeds the demand expected in the normal course of operations and which does not meet management’s criteria is to be held in reserve for future sale. “Obsolete OM&S” is material that no longer is needed due to changes in technology, laws, customs or operations. “Unserviceable OM&S” is material damaged beyond economical repair. Excess, obsolete, and unserviceable OM&S is valued at its estimated net realizable value, which is currently 1.8 percent of latest acquisition cost.

The OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, the timing of this information creates issues regarding the categorization of OM&S as Held for Use, Held in Reserve for Future Use, Held for Repair, or Excess, Obsolete, and Unserviceable. Furthermore, past audit results have led to uncertainties about the completeness and existence of the OM&S quantities used to derive the values reported in the financial statements.

For the most part, the Department is using the consumption method of accounting for OM&S, as OM&S is defined in the SFFAS No. 3 which has not yet been issued to the end user. Once issued, the material is expensed. As stated above, current financial and logistics systems can not fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, and (3) identifying feeder systems that are used to manage OM&S items and (4) developing plans to revise those systems to support the consumption method. However, for fiscal year FY 2000, significant portions of OM&S were reported under the purchase method – expensed when purchased - either because the systems could not support the consumption method of accounting or because management believes the item to be in the hands of the end user.

The SGL does not include an account for OM&S Held for Repair and the Office of Management and Budget (OMB) Bulletin 97-01, “Form and Content of Agency Financial Statements” does not provide for specific footnote disclosure of the OM&S held for repair. Accordingly, OM&S Held for Repair is included in OM&S held for use until a separate account is established for OM&S held for repair.

Generally, the value of DoD Government Furnished Material (GFM) and Contractor Acquired Material (CAM) in the hands of contractors is not included in the OM&S values reported above. The Department is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to collect and report annually required information without duplicating information already in other existing logistics systems.

Note 9.C. Stockpile Materials, Net

As of September 30,	2000			
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Valuation Method
(Amounts in millions)				
Stockpile Materials Categories:				
Held for Sale	$ 1,789.8	$ 0.0	$ 1,789.8	MP
Held in Reserve for Future Sale	659.8	0.0	659.8	MP
Total Stockpile Materials, Net	$ 2,449.6	$ 0.0	$ 2,449.6	

Legend for Valuation Methods:
MP = Market Price

Restrictions on Stockpile Materials:
Stockpile materials are strategic and critical materials, held due to statutory requirements, for use in national defense, conservation or national emergencies. Required stockpile levels may only be changed by law through a Presidential proposal in the Annual Material Plan submitted to Congress. There are several restrictions of the use of the stockpile materials. Due to environmental considerations, there is a moratorium on the sale of mercury and thorium nitrate. Currently $24 million of materials will be retained for use in the event of a national emergency. Materials for which Congress has not authorized sale are classified as materials held in reserve for future sale. The balance of the stockpile is available for sale on the open market.

Disposals cannot be made from the stockpile except under the following situations: (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; and (4) as authorized by law."

Note 10. General PP&E, Net

As of September 30,	2000				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in millions)					
Major Asset Classes:					
Land	N/A	N/A	$ 9,224.5	N/A	$ 9,224.5
Buildings, Structures, Facilities	S/L	20 or 40	143,540.9	$ (73,924.7)	69,616.2
Leasehold Improvements	S/L	Lease Term	11.4	(7.8)	3.6
Software	S/L	2-5 or 10	3,061.7	(1,840.4)	1,221.3
Equipment	S/L	5 or 10	26,877.7	(16,862.3)	10,015.4
Assets Under Capital Lease [1]	S/L	Lease Term	503.0	(233.0)	270.0
Construction-in-Progress	N/A	N/A	22,088.5	N/A	22,088.5
Other			80.9	0.0	80.9
Total General PP&E			$ 205,388.6	$ (92,868.2)	$ 112,520.4

[1] Note 15.B for additional information on Capital Leases

Legend for Depreciation/Amortization Methods:

S/L = Straight Line N/A = Not Applicable

Other Information:

General Property, Plant, and Equipment (PP&E): PP&E data is derived from property accountability, management and logistics systems that were not designed to capture and maintain historical costs or to compute depreciation necessary to comply with the Statement of Federal Financial Accounting Standard (SFFAS) No. 6, "Accounting for Property, Plant, and Equipment." The Department is aggressively either modifying these systems or considering new systems that comply with the accounting and reporting requirements of SFFAS No. 6.

Additionally, the Department has contracted with two certified public accounting (CPA) firms to obtain an independent assessment of the cost information, as well as, the reliability of the systems for the existence and completeness of the assets. As of the date of these statements, the contractors' assessments of the Entity systems which record General PP&E have not been finalized.

Property in the Possession of Contractors: The value of DoD's General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the Office of Management and Budget, the General Accounting Office and the Inspector General, DoD, the Department is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with generally accepted accounting principles.

Other Major Classes of General PP&E: The other major classes of General PP&E of $80.9 million include $43.2 million of the Navy Working Capital Fund (WCF) assets not-in-use, $18.6 million of Natural Resources for the Army General Fund (GF), and $12.9 million in property awaiting disposal for the U. S. Army Corp of Engineers. The remaining $6.1 million in "Other General PP&E" is attributable to other DoD Components that individually reported less than 10 percent of the total.

Note 10.A. Assets Under Capital Lease

As of September 30,		2000
(Amounts in millions)		
Entity as Lessee, Assets Under Capital Lease:		
Land and Buildings	$	472.5
Equipment		5.9
Other		24.6
Accumulated Amortization		(233.0)
Total Capital Leases	$	270.0

Description of Lease Arrangements:

The $472.5 million of Land and Buildings pertains to Capital Leases for Section 801 family housing leases (privately owned housing leased by the Department). A 20-year average has been used to compute most of the asset value, liability for lease payments, and depreciation.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30,		2000
(Amounts in millions)		
Intragovernmental Liabilities:		
Debt		112.3
Other		3,136.7
Total Intragovernmental Liabilities	$	3,249.0
Nonfederal Liabilities:		
Accounts Payable	$	310.7
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities		732,807.6
Environmental Liabilities		60,059.2
Other Liabilities		7,465.1
Total Nonfederal Liabilities	$	800,642.6
Total Liabilities Not Covered by Budgetary Resources:	$	803,891.6
Total Liabilities Covered by Budgetary Resources:		198,860.8
Total Liabilities:	$	1,002,752.4

Other Information:

Intragovernmental Liabilities, Not Covered by Budgetary Resources:

The Intragovernmental Other Liabilities of $3.1 billion is largely attributable to the Worker's Compensation reimbursement due to the Department of Labor (DOL) for $1,363.2 million as shown below:

Worker's Compensation		
Component		**Amounts in millions**
Navy General Fund (GF)	$	551.1
Army General Fund		287.8
Army Working Capital Fund (WCF)		13.6
Air Force General Fund		288.7
Other Defense Organizations GF		78.7
Other Defense Organizations WCF		99.7
US Army Corps of Engineers (USACE)		43.6
Total	$	1,363.2

In addition, the USACE reported $1 billion in Deferred Credits which represents future revenue from long term receivables recorded for water storage contracts and hydraulic mining and $29.0 million in Custodial Liabilities. These liabilities offset interest and accounts receivable which, when collected, will be returned to the Treasury.

Another component of Intragovernmental Other Liabilities is the Judgment Fund liability for $700.2 million that includes $360.4 million for Air Force General Fund, $187.0 million for Navy General Fund $140.2 million for Army, and $12.6 million for USACE.

The remaining $44.3 million of Intragovernmental Other Liabilities is attributable to other DoD Components that individually reported less than 10 percent of the total Intragovernmental Other Liabilities.

Nonfederal Liabilities, Not Covered by Budgetary Resources:

The major components of the $800.6 billion in nonfederal liabilities are:

- $732.8 billion reported for Nonfederal Liabilities – Military Retirement Benefits and Other Employment-Related Actuarial Liabilities consists primarily of the $532.6 billion in unfunded military retirement pension, $192.4 billion in military retirement health benefits and $6.8 billion in Federal Employees' Compensation Act (FECA). See note 17 for additional information.

- $60 billion reported for Nonfederal Liabilities - Environmental Liabilities. See note 14 for additional information.

- $7.5 billion of Nonfederal Liabilities - Other Liabilities is primarily made up of: Accrued Annual Leave of $6.3 billion, which consists of $2.3 billion for Army General Fund, $1.8 billion for Air Force General Fund, $1.6 billion for Navy General Fund, $0.4 billion for ODO General Funds, and $0.2 for ODO Working Capital Funds. The remaining $1.2 billion consists of $0.7 billion for contingent liabilities, $0.3 billion for capital leases, and $0.2 billion for canceled accounts payable.

Note 12. Accounts Payable

As of September 30,	2000		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in millions)			
Intragovernmental:	$ 88.1	$ 1.6	$ 89.7
With the Public:	$ 19,575.4	$ 0	$ 19,575.4
Total	$ 19,663.5	$ 1.6	$ 19,665.1

Other Information:

Intragovernmental Accounts Payable was not reconcilable. For the majority of buyer-side transactions, the Department of Defense's (DoD's) accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, none of the reporting entities were able to reconcile intragovernmental accounts payable balances with their trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

The Intragovernmental Interest, Penalties, and Administrative Fees is due to accrued interest payable to the Federal Financing Bank reported by the Military Sealift Command on the T-5 Program which provides ships for time charter to the Military Sealift Command.

Note 13. Debt

As of September 30,	2000		
	Beginning Balance	Net Borrowings	Ending Balance
(Amounts in millions)			
Agency Debt:			
Debt to the Treasury	$ 12.9	$ 5.3	$ 18.2
Debt to the Federal Financing Bank	1,136.0	(73.8)	1,062.2
Debt to Other Federal Agencies	(0.1)	0.1	0.0
Total Agency Debt	$ 1,148.8	$ (68.4)	$ 1,080.4
Total Debt:	$ 1,148.8	$ (68.4)	$ 1,080.4
Classification of Debt:			
Intragovernmental Debt			$ 1,080.4
Nonfederal Debt			N/A
Total Debt			$ 1,080.4

Other Information:

Debt to the Treasury of $18.2 million was reported by the US Army Corps of Engineers. The funds provided were used for capital improvements to the Washington Aqueduct.

Debt to the Federal Financing Bank of $1,062.2 million consists primarily of the $967.5 million reported by the Department of the Navy Working Capital Fund. This debt represents the transportation activity group's outstanding principal balance on the Afloat Pre-Positioning Force-Navy (APF-N) ships. The APF-N program, approved by Congress, provides ships for time charter to the Military Sealift Command (MSC) to meet requirements not available in the marketplace. The ships are built/converted by private Interim Vessel Owners using private, non-government financing obtained from various banking institutions. During the building/conversion phase, the government makes no payments. The interim financing is replaced by permanent financing after each vessel is delivered to MSC for use under the lease agreement. The ships are financed with approximately 30 percent equity investments and 70 percent debt borrowings in the form of loans from the Federal Financing Bank (FFB) to the vessel owners. The lease agreement requires MSC to make semi-annual payments to cover repayment of the principal and interest on the FFB loans and any equity payments due the vessel owners.

The remaining $94.7 million in Debt to Federal Financing Bank is attributable to other DoD Components that individually reported less than 10 percent of the total.

Note 14. Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities

As of September 30,	2000		
	Current Liability	Noncurrent Liability	Total
(Amounts in millions)			
Nonfederal:			
Accrued Environmental Restoration (Cleanup) Costs:			
Active Installations Defense Environmental Restoration Program Funds	$ 892.4	$ 12,953.0	$ 13,845.4
Active Installations—Other Funds	159.0	1,380.0	1,539.0
Base Realignment and Closure Installations	563.1	3,325.1	3,888.2
Formerly Used Defense Sites	178.1	3,977.1	4,155.2
Closed, Transferred and Transferring Ranges	65.0	13,919.1	13,984.1
Other Environmental Disposal Liabilities:			
Nuclear Powered Aircraft Carriers	0.0	4,890.0	4,890.0
Nuclear Powered Submarines	139.3	5,131.4	5,270.7
Other Nuclear Powered Ships	0.0	269.1	269.1
Other National Defense Weapon Systems	0.0	85.3	85.3
Chemical Weapons Disposal	991.6	13,883.2	14,874.8
Other	111.0	300.8	411.8
Total Nonfederal Environmental Liabilities	$ 3,099.5	$ 60,114.1	$ 63,213.6
Total Environmental Liabilities:	$ 3,099.5	$ 60,114.1	$ 63,213.6

Other Information Related to Environmental Liabilities:

The Department of Defense (DoD) is required to cleanup contamination resulting from waste disposal practices, leaks, spills and other past activity which has created a public health or environmental risk. The Department is required to cleanup certain contamination in coordination with regulatory agencies, their responsible parties and current property owners. Failure to comply with legal mandates and agreements to do so can put the Department at risk of fines and penalties.

Limitation of Feeder Systems: For FY 1999 and 2000, the Department has estimated and reported its environmental liabilities. In those instances when the DoD Components' financial systems could not be used to estimate the liability, the DoD Components based the reported amount on estimates prepared for other purposes.

The Department of the Army

For FY 2000, the Army has estimated and reported all of its environmental liabilities. In those instances when the Army's systems could not be used to estimate the liability, the Army based the reported amount on a methodology presented by the GAO in previous audit reports. During FY 2001 the Army will more closely evaluate those proposed methodologies to determine their precision.

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Superfund Amendments and Reauthorization Act (SARA) require the Department of Defense to cleanup contamination resulting from past waste disposal practices, leaks, spills, and other activity which has created a risk to public health or the environment. Under the terms of CERCLA, the Army enters into negotiations with the Environmental Protection Agency and state regulatory agencies to reach agreement on standards and methods for cleanup and to establish performance schedules. Failure to comply with these agreements puts the Army at risk of fines and penalties. For the Department of the Army, active installations restoration (cleanup) costs; BRAC; Formerly Used Defense Sites (FUDS); closed, transferred, and transferring ranges; and chemical weapons disposal liabilities total $39.3 billion

Active Installations--DERP funds. The Department of the Army reported environmental liabilities of $5.0 billion for cleanup of Hazardous, Toxic and Radioactive Waste sites (HTRW).

Active Installations--Other funds. The Department of the Army reported environmental liabilities of $1.4 billion associated with environmental restoration that uses funding other than Defense Environmental Restoration Program funding.

This $1.4 billion includes seven elements (asbestos, Resource Conservation and Recovery Act (RCRA) corrective actions, RCRA closure plans, lead in drinking water, polychlorinated Byphenols, radon and underground storage tanks) and an environmental liability associated with the ultimate disposition of some ongoing DoD operations (reference the GAO request from OSD dated 11 Sep 2000). The data on the seven elements was obtained from the Fall 2000 Army Environmental Program Requirements (EPR) database.

The $1.4 billion includes $892.8 million for the 7 elements mentioned above and $468.6 million associated with the ultimate disposition of some ongoing DoD operations (i.e., operations having environmental hazards at 12 ammunition plants, and closures of 50 Open Burning/Open Demolition (OB/OD) sites).

Base Realignment and Closure Installations. The Department of the Army reported BRAC environmental liabilities of $815.5 million. (Note: An additional $231.5 million liability for BRAC ordnance and explosives (OE) work (transferring ranges, OE disposal sites, and OE manufacturing facilities) is included Closed, Transferred and Transferring Ranges.)

Formerly Used Defense Sites. The Department of the Army reported FUDS environmental restoration liabilities of $4.2 billion for cleanups such as HTRW, building demolition/debris removal (BD/DR), and potentially responsible party. (Note: An additional $8.0 billion liability for FUDS to cover all OE work, e.g., transferred ranges, OE disposal sites, OE manufacturing facilities, is included in Closed, Transferred and Transferring Ranges.)

Closed, Transferred and Transferring Ranges. At this time, the Army is unable to provide a complete environmental liability estimate for active and inactive (A/I) ranges because a comprehensive survey is not yet completed. The survey will include A/I, closed, transferring and transferred (CTT) training ranges. There are three ongoing survey initiatives to delineate the range universe and requirements for the Department of the Army and the other Services: 1) the Army advance range survey is to be completed by 1 Dec 00 and will provide a total inventory of ranges and impacted acreage; 2) the OSD Senate Report that is due 1 Mar 01; and 3) the Army's full inventory of ranges that is to be completed by June 02 and will include a site specific inventory of all Army ranges.

For fiscal year 2000, the Department of the Army reported environmental liabilities for CTT ranges totaling $13.1 billion. This liability is comprised of $4.9 billion associated with the cleanup of closed ranges (i.e., $10 million to begin the range inventory process for active, inactive, transferring and closed Army ranges; $50 million for inventory of closed ranges and $4.8 billion for actual cleanup of closed ranges), $8.0 billion to cover all OE work at FUDS (i.e., transferred ranges, OE disposal sites, OE manufacturing facilities), and $231.6 million to cover all BRAC ordnance and explosives (OE) work (i.e., transferring ranges, OE disposal sites, and OE manufacturing facilities).

For the $4.9 billion associated with the cleanup of closed ranges, it was assumed for the low cost estimate that there would be some improvements in UXO detection technologies ($4 thousand/acre versus $10 thousand/acre). In developing the range of estimates, different assumptions were used in the percentage of sites requiring study and cleanup, and in the level of cleanup effort (4 foot clearance at $25 thousand/acre versus 10 foot clearance at $60 thousand/acre). Cost for the Site Specific Range Response was based on the Army's Regulatory Impact Analysis of the range rule. A worst-case scenario was not developed, as it is assumed to be an unlikely event. It was assumed that small arms ranges would only require lead removal under an accelerated response. The accelerated response for major weapons ranges used the Corps of Engineers cost scenarios delineated in the FUDS management plan.

For the $8.0 billion associated with OE work at FUDS, the FUDS program office performed a property-to-property analysis of its explosive projects, and used a more sophisticated estimating tool (i.e., the Remedial Action Cost Engineering and Requirements (RACER) 2000 model). This estimate is based on slightly more than 8 million acres of range land.

The $13.1 billion is a level of effort programmed until an inventory of all ranges is completed and regulatory requirements are finalized.

Chemical Weapons Disposal. It was estimated that $14.9 billion would be reported as a liability for the Chemical Weapons Disposal program. This program was formally established to oversee the mission of disposing of chemical weapons that, due to aging, presents a storage risk for the communities and for the depot workers who help keep the weapons secure.

The Department of the Navy

For FY 2000, the Department of the Navy has estimated and reported all known environmental liabilities. These liabilities totaled $16.0 billion. Liabilities for the Navy's environmental program are comprised of clean-up costs at Navy installations. The environmental estimate includes environmental restoration (cleanup) efforts and environmental costs at the Base Realignment and Closure Commission (BRAC) sites and other environmental restoration costs. The Navy resources for these requirements are in the BRAC and the Environmental Restoration, Navy (ERN) account. During FY 2001, the Navy will continue to evaluate and refine current methodologies for estimating environmental liabilities.

Active Installations. The Department of the Navy reported environmental liabilities of $4.0 billion at active installations. Of the $4.0 billion liability, $137 million represents the current portion and $3.9 billion represents the non-current portion.

Base Realignment and Closure Installations. The Department of the Navy reported environmental liabilities related to base realignment and closure installations totaling $1.2 billion. Of the $1.2 billion liability, $67 million represents the current portion and $1.1 billion represent the non-current portion.

Closed, Transferred and Transferring Ranges. For FY 1999 reporting, the training range liability was based upon the following documents and assumptions: (1) Acreage figures for the Navy were derived from the DoD Report, "Information Related to the Munitions Rule Economic Assessment Collected in Response to a Request from the United States Environmental Protection Agency" dated April 1995; (2) Acreage figures for the Marine Corps were derived from the report "Impact Analysis for the Environmental Protection Agency Military Munitions Rule and the Department of Defense Range Rule Implementation," dated April 1997; (3) Cost factors were derived from the "DoD Final Range Rule Regulatory Impact Analysis" dated 03 July 1996 and do not include evaluation and documentation costs of approximately $4 million per site; (4) Cost factors applied assumed clean-up/remediation to return properties to "Limited Public Access" criteria and that the site contamination levels are considered to be "low" or "light," which is the least financially burdensome option and results in an estimated minimum liability of $10 thousand/acre. The estimates were applied to both active, inactive, and transferring ranges. After further research and investigation of DoD FMR Volume 4, Chapter 13 during FY 2000, the Department of the Navy determined that only liabilities associated with inactive and transferring ranges should be recorded. This led to a decrease from the FY 1999 amount of $30.7 billion to the amount reported in FY 2000 of $53.6 million (a decrease of $30.7 billion).

Nuclear Powered Aircraft Carriers. For the nine active multi-purpose aircraft carriers, nuclear (CVNs) and one CVN under construction, the estimated cost for inactivation, reactor compartment (RC) disposal and hull recycling is $4.9 billion.

Nuclear Powered Submarines. The estimated cost of inactivation, RC disposal and hull recycling is $5.3 billion. Of the $5.3 billion, $139 million represent the current liability portion and $5.1 billion represents the non-current liability portion.

Other Nuclear Powered Ships. There are no active nuclear powered cruisers. The estimated cost for RC disposal and hull recycling of the remaining five inactivated guided missile cruisers, nuclear (CGNs) is about $269 million.

Other National Defense Weapon Systems. The $82 million is attributable to fixed wing and rotary wing aircraft.

Methodology - Ships. There are presently one hundred thirty four conventionally powered ships in the Navy Inactive Fleet designated for disposal, totaling approximately 1,020,000 tons displacement. The majority of these, ninety-three, are currently designated for scrapping while others are designated for foreign military transfer, donation to non-profit organizations, or sinking exercises. It is estimated that an average cost of $500 per ton will be required to scrap ships. This estimate is based in part on the cost of recently awarded ship scrapping contracts less expected scrap sale proceeds. Although ships held for foreign military sales and donations can be disposed of at a lower cost to the Navy, experience has shown that some ships in these categories will not transfer and will again become a Navy disposal liability. Sinking exercises, which may result in a lower overall disposal cost to the Navy, are driven by fleet requirements for training.

Methodology – Aircraft. Based on a FY 1997 GAO report, the cost to demilitarize and remove hazardous material was used to determine the cost to dispose of aircraft. On average, at time of disposal, 82 percent of aircraft are designated for storage at the Aerospace Maintenance and Regeneration Center (AMARC), Davis-Monthan Air Force Base. Some of the disposal costs associated with these assets include weapon removal, hazardous material disposal, disposal of short shelf life items, and destroying the aircraft carcass. For aircraft that are not designated AMARC, disposal cost estimates include weapon removal, delivery to final resting place, removal of hazardous materials and short shelf life items, and destruction of the remaining fuselage.

Other. The Navy has reported other environmental disposal liabilities, other of $301 million. This liability is primarily comprised of $296 million related to conventionally-powered warship scrapping.

The Department of the Air Force

The Department of the Air Force reported $7.3 billion of environmental liabilities.

For FY 2000, the Air Force estimated and reported environmental restoration liabilities at active installations totaling $5.1 billion as of September 30, 2000. These restoration liabilities are comprised of the following: $376 million in current Defense Environmental Restoration Program (DERP) liabilities, $4.5 billion in DERP non-current liabilities, and $175 million in Other (non-DERP) Funds. For FY 2000, $30 thousand of Unexploded Ordnance (UXO) (Current portion from FY1999 estimated Training Range liability) is now considered retired.

For FY 2000, the Air Force has estimated and reported its BRAC environmental future liabilities. The Air Force Base Conversion Agency (AFBCA) estimates a $1.9 billion cost to complete liability as of September 30, 2000. Of the $1.9 billion liability, $237 million is current and $1.6 billion is non-current. This amount includes all cleanup requirements to meet regulatory requirements and to transfer property. However, this amount does not include potential future cost associated with the long-term landfill management for which the Air Force may never be absolved of responsibility due to State laws. Pending final DoD and Air Force guidance, a better description of these potential future costs will be available for the FY 2001 report.

Other Defense Organizations

The Defense Threat Reduction Agency reported $2.1 million in current liabilities for Active Installations – Other Funds related to the clean-up of Johnson-Atoll. The non-current portion of $8 million was not reported in these financial statements.

The National Defense Stockpile Transaction Fund reported an Other Environmental Disposal Liability of $111 million. The $111 million that is reported represents funds reserved to cover the upgrade/disposal of Thorium Nitrate (a radioactive commodity), the repackaging/transportation/specialized storage of Mercury, and the clean-up of storage sites as they are vacated (which is primarily soil disposal that must be done prior to returning the sites to private entities).

Note 15.A Other Liabilities

As of September 30,	2000					
	Current Liability		Noncurrent Liability		Total	
(Amounts in millions)						
Intragovernmental:						
Advances from Others	$	116.9	$	0.0	$	116.9
Deferred Credits		0.0		1,015.8		1,015.8
Deposit Funds and Suspense Account Liabilities		622.8		0.0		622.8
Resources Payable to Treasury		679.0		0.5		679.5
Disbursing Officer Cash		530.0		0.0		530.0
Judgment Fund Liabilities		233.1		467.1		700.2
Workman's Compensation Reimbursement to the Department of Labor		631.7		731.5		1,363.2
Other Liabilities		465.4		0.0		465.4
Total Intragovernmental Other Liabilities	$	3,278.9	$	2,214.9	$	5,493.8
Nonfederal:						
Accrued Funded Payroll and Benefits	$	5,969.8	$	0.0	$	5,969.8
Advances from Others		945.7		0.0		945.7
Deferred Credits		4.4		0.0		4.4
Deposit Funds and Suspense Accounts		44.3		0.0		44.3
Temporary Early Retirement Authority		56.7		64.9		121.6
Nonenvironmental Disposal Liabilities:						
Excess/Obsolete Structures		76.0		157.5		233.5
Other		(1.0)		0.0		(1.0)
Accounts Payable---Cancelled Appropriations		186.7		53.9		240.6
Accrued Unfunded Annual Leave		6,197.5		0.0		6,197.5
Capital Lease Liability		32.0		316.3		348.3
Other Liabilities		9,031.9		721.7		9,753.6
Total Nonfederal Other Liabilities	$	22,544.0	$	1,314.3	$	23,858.3
Total Other Liabilities	$	25,822.9	$	3,529.2	$	29,352.1

Other Information Pertaining to Other Liabilities:

Intragovernmental, Other Liabilities**:**

Workman's Compensation Reimbursement to the Department of Labor: The DoD Components collectively have liabilities to the Department of Labor for Workman's Compensation of $1.3 billion. See note 11 for break-out by DoD Component.

Deferred Credits: $1 billion: The U.S. Army Corps of Engineers reported $1 billion of deferred credits representing future revenue from long term receivables recorded for water storage contracts and hydraulic mining.

Judgment Fund Liabilities:

The Department of the Treasury has notified DoD Components that Treasury's accounts receivable records identify $920.3 million in Judgment Fund cases due from the DoD. Of the $920.3 million the Department of the Treasury is reporting $645.8 million in accounts receivable from the Department of Defense in its FY 2000 financial statements. The Department of the Treasury has stated that it is reporting $645.8 million because that is the amount of receivables from the DoD on its records that the Treasury has been able to audit. The Treasury is not reporting the Judgment Fund receivables of $274.5 million from the DoD that have not been audited. The audits performed by the Department of the Treasury only addressed the reporting of transactions in the Department of Treasury records. These audits did not involve reconciling the balances with the Department of Defense. Because there has been no reconciliation of the Judgement fund balances with the Department of the Treasury, the Department of Defense is reporting Judgment Fund liabilities, based on the DoD records, in the amount of $700.2 million. This is $54.4 million more than the Judgement Fund receivables from the DoD that Treasury reported in its FY 2000 financial statements. Also, the Judgement Fund liabilities reported by the Department of Defense are $220.1 million less than the Department of Treasury combined receivable balance of $920.3 million when the unaudited records are included with the amount that the Department of the Treasury has audited. Once the Department of Defense and the Department of Treasury reconcile the Judgement Fund balances, the Department of Defense will make any corrections to its records that are required. These adjustments could range from an increase of $220.1 million to a decrease of $54.4 million. Some of the Judgment Fund cases may not be attributable to DoD or may represent cases that have already been paid by the DoD Components. The $700.2 million recognized of Judgment Fund liabilities consists of $360.4 million for Air Force General Fund, $187 million for Navy General Fund, $140.2 million for Army General Fund, and $12.6 million for USACE of recognized Judgment Fund liabilities. The $700.2 million in Judgment Fund Liabilities does not include $45.7 million funded liability due to limitations of the reporting system. The $45.7 million in funded liability is included in Intragovernmental Other Liabilities.

Intragovernmental, the Other Liabilities Line: The $465 million reported is comprised of Army General Funds of $83 million (consisting primarily of Employer Contributions and Payroll Taxes Payable and Other Post Employment Benefits Due and Payable), U.S. Army Corps of Engineers of $69 million (consisting primarily of Custodial Liabilities, Employer Contributions and Payroll Taxes Payable and Other Post Employment Benefits Due and Payable), Other Defense Organizations WCF of $67 million (consisting primarily of $46 million in Judgment Fund Liabilities included in Other due to system limitations, $19 million in Employer Contributions and Payroll Taxes Payable), Air Force General Funds of $67 million (consisting of $39 million in Employer Contributions and Payroll Taxes Payable and $28 million in Other Liabilities), Navy General Funds of $63 million (consisting of $33 million in Other Post Employment Benefits Due and Payable and $29 million in Employer Contributions and Payroll Taxes Payable), Other Defense Organizations General Funds of $47 million (consisting primarily of $43.2 million in Liabilities for Subsidy Related to Undisbursed Loans, $2.5 million in Employer Contributions and Payroll Taxes Payable), the Navy Working Capital Funds of $30 million (consisting of Employer Contributions and

Payroll Taxes Payable), and the remaining $39 million attributable to DoD Components that collectively comprise less than 10 percent of this category.

Nonfederal, Other Liabilities**:**

Nonfederal, the Other Liabilities Line: The over $9.7 billion reported consists of Air Force Working Capital Funds of $3.2 billion, Navy Working Capital Funds of $3.0 billion (comprised primarily of $2 billion for accrued contractual services and $.9 billion in depot level carcass return liability) and Other Defense Organizations General Funds of $1.6 billion (comprised of Other Liabilities of $1.1 billion and $0.3 billion in Employer Contributions and Payroll Taxes Payable), $683 million attributable to the Army GF, and $656 million attributable to the Air Force GF, the remaining $614 million is attributable to DoD Components that collectively comprise less than 10 percent of this category.

Nonfederal, Accrued Unfunded Annual Leave: The $6.2 billion reported consists of $2.3 billion for Army GF, $1.7 billion for Air Force GF, $1.6 billion attributable to the Navy GF, $354 million attributable to the ODO GF, and the remaining $243 million attributable to DoD Components that collectively comprise less than 10% of this category.

Nonfederal, Accrued Funded Payroll and Benefits: The $5.9 billion reported consists of $2.9 billion attributable to the Military Retirement Fund, $1.1 billion attributable to the Army GF, $623 million attributable to the Navy WCF, $322 million attributable to the USACE, $201 million attributable to the ODO GF, $198 million attributable to the Navy GF, $154 million attributable to the Air Force WCF, and the remaining $471 million is attributable to other DoD Components that collectively comprise less than 10 percent of this category.

Nonfederal, Nonenvironmental Disposal Liabilities: Based upon the Department of Defense's (DoD's) interpretation of the Standard Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," a nonenvironmental disposal liability is recognized for all assets when management makes a decision to dispose of the assets. The Department has agreed to recognize the Nonenvironmental Disposal Liability for National Defense (ND) PP&E nuclear powered assets when the asset is initially placed in service. The noneviromental costs for ND PP&E nuclear powered assets are included with the environmental disposal cost and reported in note 14.

Included in the reported amounts is the current cost basis estimates of disposing of or demolishing approximately $156 million worth of excess/obsolete structures at active installations, in accordance with disposal plans directed by Defense Reform Initiative Directive No. 36, dated May 5, 1998. The expected completion date is FY2003.

Intragovernmental Reconciliations for fiduciary transactions with the Department of Labor and the Office of Personnel Management:

With respect to major fiduciary balances with the Department of Labor (DoL), the DoD has the following results:

Reconciliation of Account 2215, Other Post Employment Benefits Due and Payable, with DoL	
Air Force GF	Balance is reconciled and agrees with DoL.
Army GF	Difference of $5.8 million is being reconciled with DoL.
Navy GF	Difference of $24.8 million is being reconciled with DoL.
USACE	Difference of $19.6 million is being reconciled with DoL.
DoD	Difference of $2.8 million is being reconciled with DoL.

Reconciliation of Account 2225, Unfunded FECA Liability, with DoL	
Air Force GF	Balance is reconciled and agrees with DoL.
Army GF	Balance is reconciled and agrees with DoL.
Navy GF	Balance is reconciled and agrees with DoL.
USACE	Balance is reconciled and agrees with DoL.

With respect to the fiduciary balances with Office of Personnel Management (OPM), the Department was able to reconcile in all material respects.

Note 15.B. Capital Lease Liability

As of September 30,	2000		
	Asset Category		
(Amounts in millions)	Land and Buildings	Equipment	Total
Future Payments Due:			
2001	$ 33.8	$ 9.4	$ 43.2
2002	35.1	1.4	36.5
2003	36.4	0.9	37.3
2004	38.0	0.0	38.0
2005	39.5	0.0	39.5
After 5 Years	222.3	0.0	222.3
Total Future Lease Payments Due	$ 405.1	$ 11.7	$ 416.8
Less: Imputed Interest Executory Costs	(69.0)	0.0	(69.0)
Net Capital Lease Liability	$ 336.1	$ 11.7	$ 347.8

Capital Lease Liabilities Covered by Budgetary Resources:	$ 188.9
Capital Lease Liabilities Not Covered by Budgetary Resources:	$ 158.9

Other Information:

The Army General Fund and Air Force General Fund land and building capital leases entered into prior to FY 1992 and lease purchases prior to FY 1991 were funded on a FY basis. Capital leases and lease purchases entered into during FY 1991 and FY 1992, respectively, and thereafter must be fully funded in the first year of the lease. Future payments due in year 2001 for land and buildings are made up of Army General Fund, $20.8 million, and Air Force General Fund, $13.0 million.

Future payments due in year 2001 for equipment are made up of Navy General Fund, $7.5 million, and Other Defense Organizations Working Capital Funds, $1.9 million.

Note 16. Commitments and Contingencies

Proprietary contingencies are commonly referred to as contingent liabilities. If they meet certain requirements, proprietary contingencies are either disclosed in the notes to the financial statements or recorded as liabilities in the principal financial statements.

In addition to the contractor claims under appeal and the open contractor claims for an amount greater than $100 million, the Department of Defense was party to numerous other contractor claims in amounts less than $100 million per claim. These claims are a routine part of the contracting business and are typically resolved through mutual agreement between the contracting officer and the contractor. Because of the routine nature of these claims, no DoD requirement has been established for consolidated tracking mechanisms to record the amount of each claim, the number of open claims, or the probability of the claim being settled in favor of the claimant. Management believes the potential liability arising from these claims in aggregate would not materially affect the operations or financial condition of the Department of Defense.

No contingent liabilities meet the criteria for footnote disclosure this year.

Note 17. Military Retirement Benefits and Other Employment Related Actuarial Liabilities

As of September 30,	2000			
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability
(Amounts in millions)				
Pension and Health Benefits:				
Military Retirement Pensions	$ 687,583.5	6.25	$ 154,952.3	$ 532,631.2
Military Retirement Health Benefits	192,391.9	6.25	0.0	192,391.9
Total Pension and Health Benefits	$ 879,975.4		$ 154,952.3	$ 725,023.1
Other:				
Worker's Compensation (FECA)	$ 6,815.8	6.15	$ 0.0	$ 6,815.8
Voluntary Separation Incentive Programs	1,692.0	6.00	883.6	808.4
DoD Education Benefits Fund	955.9	6.20	795.6	160.3
Total Other	$ 9,463.7		$ 1,679.2	$ 7,784.5
Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$ 889,439.1		$ 156,631.5	$ 732,807.6

Actuarial Cost Method Used: Aggregate Entry-Age Normal

Assumptions in Calculation of Military Retirement Health Benefits Present Value of Projected Plan Benefits:
Interest Rate: 6.25%

Medical Trend: MTF Inpatient: 4.00%; MTF Outpatient: Starts at 9.79%; Downgrades to 4.00%
Purchased Care: Starts 7.50%; Downgrades to 4.00%

Assumptions:

The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of the Fund are not ascertainable. Projected revenues into the Fund, authorized by PL 98-94, come from three sources: interest earnings on Fund assets, monthly Department of Defense contributions, and annual contributions from the Secretary of Treasury. The monthly Department of Defense contributions are determined as a percentage (set by the Board of Actuaries) of basic pay. The contribution from the Secretary of Treasury is paid into the Fund at the beginning of each fiscal year, and represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. The Board of Actuaries determines the Secretary of Treasury's contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The same long-term economic assumptions were used in both the FY 2000 and FY 1999 valuations. Along with the 6.25 percent assumed annual interest rate, the long-term annual increase in the Consumer Price index is assumed to be 3.0 percent. The long-term annual salary increase is assumed to be 3.5 percent. For fiscal years 2000 and 2001, the actual inflation rates of 2.4 percent and 3.5 percent, and the actual salary increases of 4.8 percent and 3.7 percent were used. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience.

Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward using accepted actuarial methods from the prior year's valuation results as reported in the DoD Office of the Actuary's valuation of the military retirement system. For purposes of the Fund's financial reporting, this process is applied annually.

The FY 2001 National Defense Authorization Act (Public Law No. 106-398), enacted on October 30, 2000, provided greatly expanded benefits to Medicare-eligible retirees, dependents and survivors; including prescription drug coverage beginning April 1, 2001, and TriCare as a second payer to Medicare beginning October 1, 2001. These expanded benefits, not reflected in the Military Retirement Health Benefits reported above, will result in a significant increase in the Military Retirement Health Benefits Liability. Preliminary estimates of the resulting increase in the liability are over $100.0 billion.

The Department of Labor provides future workers' compensation figures. The liability for Future Workers' Compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting are as follows:

	2000
Year 1	6.15%
Year 2	6.28%
Year 3 and thereafter	6.30%

To provide for the effects of inflation on the liability for FWC benefits wage inflation factors (cost of living adjustments (COLAs)) and medical inflation factors (consumer price index medical (CPIMs)) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections were as follows:

FY	COLA	CPIM
2000	1.97%	3.69%
2001	2.83%	4.24%
2002	2.90%	4.10%
2003	2.53%	4.16%
2004+	2.60%	4.16%

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis was based on three tests: (1) a comparison of the new model's prior year projected payments for the current year to the actual payments, (2) a comparison of the change in the liability amount by agency to the change in the aggregate liability, and (3) a comparison of the historical payment data imported into the new model to the benefit payments in prior years.

The Military Retirement Health Benefit liability of $192.4 billion relates to the Defense Health Program within the Other Defense Organizations General Fund.

Change in Military Retirement Health Benefits Liability (in millions):

Reported Military Retirement Health Benefits Present Value of Projected Plan Benefits as of 09/30/99	$	196,177.2
Normal Cost for FY 2000		4,758.7
Interest Cost for FY 2000		12,679.2
Actuarial (Gains)/Losses Due to Plan Amendments		-
Actuarial (Gains)/Losses Due to Changes in Medical Trend Assumptions		(15,709.6)
Other Actuarial (Gains)/Losses		1,507.1
Total Military Retirement Health Benefits Liability Expense (Normal Cost + Interest Cost+(Gains)/Losses)	$	3,235.4
Benefit Payments for FY 2000		7,020.7
Net Change in Present Value of Projected Plan Benefits	$	(3,785.3)
Military Retirement Health Benefits Present Value of Projected Plan Benefits as of 09/30/00	$	192,391.9

The $1,692.0 million in Voluntary Separation Incentive Programs is attributable to the Other Defense Organization Voluntary Separation Incentive Trust Fund.

The $955.9 million in the DoD Education Benefits Fund is attributable to the Other Defense Organization Department of Defense Education Benefits Fund.

The Military Retirement Fund Market Value of Investments in Market-based and Marketable Securities is $170.1 billion.

Note 18 Unexpended Appropriations

As of September 30,		2000
(Amounts in millions)		
Unexpended Appropriations:		
Unobligated, Available	$	30,750.4
Unobligated, Unavailable		11,295.5
Unexpended Obligations		113,712.5
Total Unexpended Appropriations	$	155,758.4

Other Information Pertaining to Unexpended Appropriation:

Generally, DoD Unexpended Obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for Direct Appropriated Funds. This amount is distinct from Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received of the Statement of Financing, which includes the change during the fiscal year in unexpended obligations against budget authority from all sources.

Note 19.A. General Disclosures Related to the Statement of Net Cost

The amounts presented in the Statement of Net Cost are based on obligations and disbursements and, therefore, may not in all cases report actual accrued costs. The Department of Defense (DoD) General Funds generally record transactions on a cash basis and not an accrual basis as is required by the Statements of Federal Financial Accounting Standards (SFFASs). Therefore, the DoD's systems do not capture actual costs. As such, information presented in the Statement of Net Cost is based on budgetary obligations, disbursements, and collection transactions, as well as, data from nonfinancial feeder systems that is used to record known accruals for major items such as accrued payroll and leave expenses, accounts payable, and environmental liabilities.

While the DoD's Working Capital Funds generally record transactions on an accrual basis as is required by the SFFASs, the systems do not always capture actual costs. Information presented on the Statement of Net Cost is primarily based on budgetary obligations, disbursements, or collection transactions, as well as, information from nonfinancial feeder systems.

Earned Revenue for Program Costs for Military Retirement Fund				
As of September 30,		2000		1999
(amounts in millions)				
Service Contributions as a Percentage of Base Pay	$	11,402.4	$	10,416.9
Annual Unfunded Liability Payment		15,302.0		15,250.0
Interest on Investments		12,746.6		12,352.2
Total	$	39,451.0	$	38,019.1

Note 19.B. Gross Cost and Earned Revenue by Budget Functional Classification

As of September 30,	2000		
	Gross Cost	(Less: Earned Revenue)	Net Cost
(Amounts in millions)			
Budget Functional Classification			
Department of Defense Military (051)	$ 311,567.5	$ (13,966.6)	$ 297,600.9
Water Resources by U.S. Army Corps of Engineers (301)	4,167.5	(630.7)	3,536.8
Pollution Control and Abatement by US. Army Corps of Engineers (304)	132.2	(20.0)	112.2
Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	58,759.7	(12,746.6)	46,013.1
Veterans Education, Training, and Rehabilitation by the Department of Defense Education Benefits Trust Fund (702)	258.0	(47.5)	210.5
Total	$ 374,884.9	$ (27,411.4)	$ 347,473.5

Note 19.C. Gross Cost to Generate Intragovernmental Revenue and Earned Revenue (Transactions with Other Federal—Non-DoD—Entities) by Budget Functional Classification

The Department's accounting systems do not capture cost data in a manner that enables the Department to determine if the cost was incurred to generate intragovernmental revenue. Therefore, the Department was unable to complete this note. The Department is in the process of upgrading its financial and feeder systems and will be addressing this issue. Additionally, the identification of intragovernmental revenue and expenses is a government-wide problem. The Office of Management and Budget and the Department of the Treasury have efforts underway to develop government-wide guidance to enable accurate reporting of intragovernmental transactions.

Note 19.D. Imputed Expenses

As of September 30,		2000
(Amounts in millions)		
Civilian (CSRS/FERS) Retirement	$	1,339.9
Civilian Health		1,795.4
Civilian Life Insurance		6.8
Judgement Fund/Litigation		172.9
Total Imputed Expenses	$	3,315.0

Note 19.E. Benefit Program Expenses

As of September 30,		2000
(Amounts in millions)		
Service Cost	$	11,407.1
Period Interest on the Benefit Liability		40,709.4
Prior (or past) Service Cost		0.0
Period Actuarial Gains or Losses		(2,207.8)
Gains/Losses Due to Changes in Medical Inflation Rate Assumption		(15.7)
Total Benefit Program Expense	$	49,893.0

The Department of Defense is the administrating entity for the Military Retirement Fund and the Military Post Retirement Health Benefits Program and the numbers above relate to those programs. Employee benefits of military personnel include pensions and other post-employment and retirement benefits. The administrating entity is responsible for recognizing the benefit program expense. This expense is comprised of five elements identified above.

The Office of Personnel Management is the administrating entity for programs related to civilian personnel and is responsible for reporting the associated benefit expense.

Note 19. F. Exchange Revenue

Goods and services provided through reimbursable programs to the public or another U.S. Government entity (intra-Air Force, intra-DoD or other federal government entity) are provided at cost. Such reimbursable sales are reported as earned revenues. Costs are equal to the amount reported as earned. In FY 00, sales to the Foreign Military Trust Fund and related cost of sales have been reclassified as non-federal, transactions with the public, rather than intragovernmental as in prior years.

Note 19.G. Amounts for FMS Program Procurements from Contractors

The cost of items purchased by foreign governments under the Foreign Military Sales Program and provided directly to the foreign governments by contractors are not reported in the Statement of Net Cost.

Note 19.H. Stewardship Assets

Stewardship assets include National Defense PP&E, Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost. Material amounts related to stewardship assets are provided in the Required Supplemental Stewardship Information section of this financial statement.

Note 19.I. Reconciliation of Intragovernmental Revenue

The Department's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, none of the reporting entities were able to reconcile intragovernmental revenue balances with their trading partners. Additionally, the identification of intragovernmental revenue and expenses is a government-wide problem. The Office of Management and Budget and the Department of the Treasury have efforts underway to develop government-wide guidance to enable accurate reporting of intragovernmental transactions. However, the Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

Note 19.J. Suborganization Program Costs

The Department identifies programs based on the nine major appropriation groups provided by Congress. The Department is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by SFFAS No. 4 with the need to keep the financial statements from becoming overly voluminous.

Until cost allocating processes and expanded intra-DoD eliminating capabilities are incorporated into the accounting processes, the usefulness of further suborganization-reported (major command) net costs is limited. It is for this reason that no additional statement of suborganization costs at lower levels are presented with these statements.

The DoD is unable to accumulate costs for major programs based on performance measures identified under requirements of the Government Performance and Results Acts (GPRA). This inability is due to the financial processes and systems not being designed to collect and report this type of cost information. Until the processes and systems are upgraded, the DoD as a whole, will break out programs by major appropriation groupings.

The Statement of Net Cost format requires reporting program costs by costs incurred with intragovernmental and public entities. Although overall program costs are believed to be fairly stated, the cost allocations between intragovernmental and public based on available vendor type-coded data may not be totally accurate.

Note 20. Disclosures Related to the Statement of Changes in Net Position

As of September 30,		2000
(Amounts in millions)		
Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:		
Changes in Accounting Standards	$	2,059.2
Errors and Omission in Prior Year Accounting Reports		40,182.4
Other Prior Period Adjustments	$	(959.6)
Total Prior Period Adjustments	$	41,282.0
Imputed Financing:		
Civilian CSRS/FERS Retirement	$	1,339.9
Civilian Health		1,795.4
Civilian Life Insurance		6.8
Judgment Fund/Litigation		172.9
Total Imputed Financing	$	3,315.0

Other Information:

The components of the $41.3 billion in prior period adjustments include: $38.4 billion attributable to the Department of the Navy General Fund (primarily due to an adjustments of $31.6 billion to reduce the overstatement of environmental cleanup liabilities recorded in FY 99) an adjustment of ($10.5) billion from various DoD Components to correct errors or omissions in prior year accounting reports; an adjustment of $10.2 billion attributable to the Defense Health Program to correct an overstatement of the Military Retired Health Benefit liability; and the remaining adjustments attributable to other DoD activities that individually reported less than 10% of the total.

The Department recognizes $3.3 billion of imputed financing for the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employee Health Benefits Program (FEHB), and the Federal Employee Group Life Insurance (FEGLI) in the amount of Imputed costs are included in the Statement of Changes in Net Position. An equal $3.3 billion amount of imputed cost is includes in the Statement of Net Cost.

Note 21.A. Disclosures Related to the Statement of Budgetary Resources

As of September 30,	2000
(Amounts in millions)	
Net Amount of Budgetary Resources Obligated for Undelivered at the End of the Period	$ 147,709.2
Available Borrowing and Contract Authority at the End of the Period	$ 13,728.2

Other Information:

Undelivered Orders presented in the Statement of Budgetary Resources includes both Undelivered Orders-Unpaid and Undelivered Orders-Paid for both Direct and Reimbursable funds. The Department has not fully implemented the U.S. Government Standard General Ledger (SGL) in all operational accounting systems.

Note 21.B. Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

As of September 30,	1998	1999	2000	Cumulative (Decrease)/ Increase
(Amounts in millions)				
Problem Disbursements, Net	$ 6,713.3	$ 4,369.1	$ 2,191.2	$ (4,522.1)
In-transit Disbursements, Net	$ 7,885.5	$ 4,255.2	2,893.5	(4,992.0)

Other Information Related to Problem Disbursements and In-transit Disbursements:

The Army General Fund (GF) has $1.3 billion, Navy GF has $1.8 billion, Navy Working Capital Fund (WCF) has $0.6 billion and the Other Defense Organizations GF has $1.3 billion Problem Disbursements and In-transit Disbursements that represent disbursements that have been reported by a disbursing station to the Department of Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The Problem Disbursements and In-transit Disbursements arise when the various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. The DoD has efforts underway to improve the systems which will resolve previous Problem Disbursements and process In-transit Disbursements.

Problem Disbursements generally fall into two major categories – Unmatched Disbursements (UMDs) and Negative Unliquidated Obligations (NULOs). A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. A NULO occurs when a payment is made against a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system.

In-transit Disbursements generally represent payments made by a DoD disbursing activity on behalf of an accountable activity that has not posted the disbursement to the accounting system.

As of September 30, 2000, the Air Force's efforts resulted in a $1.8 billion decrease in reported Problem Disbursements and In-transit Disbursements since June 1995. The Navy's efforts resulted in a decrease of $382.0 million of In-transit Disbursements, a decrease of $436.0 million in UMDs, and a decrease of $420.0 million in NULOs over the balances reported as of September 30, 1999.

On September 30 of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to proper appropriation accounts using a logical methodology, such as prorating the amounts on a percentage basis derived by comparing the disbursements in the suspense/clearing account to total disbursements. On October 1 of the following year, the uncleared suspense/clearing account balances are reestablished.

Note 22. Disclosures Related to the Statement of Financing

Adjustments in funds that are temporarily not available pursuant to Public Law 106-113 "Government-wide Recession 2000," and those that are permanently not available (included in "Adjustments" on the Statement of Budgetary Resources), are not included in Spending Authority from Offsetting Collections and Adjustments on the Statement of Budgetary Resources or on the Statement of Financing.

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. This causes a difference in Net Cost between the Statement of Net Cost and the Statement of Financing. The Statement of Financing's "Costs Capitalized on the Balance Sheet" has been adjusted by a net decrease of $28.6 billion, and "Other" has been adjusted by a net decrease of $10.5 billion. Differences between budgetary and proprietary data for the Department of Defense (DoD) is a previously identified deficiency. During FY 01, DoD will develop alternative procedures to better prepare the Statement of Financing for FY 01 Audited Financial Statement Reporting.

The Statement of Financing is presented as combined or combining statements rather than consolidated statements because the intra-entity transactions have not been eliminated.

Note 23. Disclosures Related to the Statement of Custodial Activity

The Defense Security Cooperation Agency (DSCA) reported disbursements and collections to and from foreign customers as recorded in the trial balance of the Foreign Military Sales (FMS) Trust Fund for FY 2000. The collections from foreign governments were $10.9 billion. The disbursements on behalf of foreign governments and international organizations are $10.6 billion. Advances not collected by the FMS billing date are $2.0 billion.

Note 24. Other Disclosures

ENTITY AS LESSEE-Operating Leases
Description of lease arrangements:

Equipment and Facilities - The FY 2001 $41.6 million lease amount shown for equipment includes $33.6 million in the Other Defense Organizations (ODO) Working Capital Fund (WCF), $5.4 million in the ODO General Fund (GF), $1.3 million in the Air Force GF, and $1.3 million in the Navy WCF.

The ODO WCF is reporting $33.6 million in leases. This amount is gathered from General Service Administration (GSA) bills (since GSA does not issue leases to their tenants), and InterService Support Agreements.

Military Family Housing - The Army GF operating leases are attributable to Section 8 Military Family Housing accounting for $13.7 million.

Motor Vehicles – The Air Force GF has $0.05 million of operating leases for Motor Vehicles. The operating leases are essentially one-year leases funded as in appropriation 3400, Operations and Maintenance (O&M).

As of September 30,	2000			
(Amounts in millions) Future Payments Due: Fiscal Year	Equipment and Facilities	Military Family Housing	Motor Vehicles	Total
2001	$ 41.6	$ 13.7	$ 0.1	$ 55.4
2002	38.0	11.2	0.1	49.3
2003	38.9	8.9	0.0	47.8
2004	39.6	7.6	0.0	47.2
2005	46.4	6.6	0.0	53.0
After 5 Years	45.2	37.5	0.0	82.7
Total Future Lease Payments Due	$ 249.7	$ 85.5	$ 0.2	$ 335.4