



# **DEPARTMENT OF DEFENSE AGENCY FINANCIAL REPORT FISCAL YEAR 2012**

## **FINANCIAL SECTION**

## Report Documentation Page

*Form Approved*  
*OMB No. 0704-0188*

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE <b>2012</b>	2. REPORT TYPE	3. DATES COVERED <b>00-00-2012 to 00-00-2012</b>			
4. TITLE AND SUBTITLE <b>Department of Defense Agency Financial Report for Fiscal Year 2012. Financial Section</b>		5a. CONTRACT NUMBER			
		5b. GRANT NUMBER			
		5c. PROGRAM ELEMENT NUMBER			
6. AUTHOR(S)		5d. PROJECT NUMBER			
		5e. TASK NUMBER			
		5f. WORK UNIT NUMBER			
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Department of Defense Inspector General, 4800 Mark Center Drive, Alexandria, VA, 22350-1500</b>		8. PERFORMING ORGANIZATION REPORT NUMBER			
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSOR/MONITOR'S ACRONYM(S)			
		11. SPONSOR/MONITOR'S REPORT NUMBER(S)			
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>	<b>Same as Report (SAR)</b>	<b>96</b>	

This Page Left Blank Intentionally

## FINANCIAL INFORMATION

### INDEPENDENT AUDITOR'S REPORT



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

November 15, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2012 and FY 2011  
Financial Statements (Report No. DODIG-2013-021)

We are providing the subject report to be published in the Department of Defense FY 2012 Agency Financial Report in conjunction with the Department of Defense FY 2012 and FY 2011 Annual Financial Statements provided to us in draft on November 1, 2012. The report includes our disclaimer of opinion on the financial statements and our required Report on Internal Control and Compliance With Laws and Regulations. We are issuing our disclaimer of opinion to accompany the Department of Defense FY 2012 and FY 2011 Annual Financial Statements, and therefore, this audit report should not be disseminated separately from those statements.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8938 (DSN 664-8938).

A handwritten signature in black ink that reads "Richard B. Vasquez".

Richard B. Vasquez, CPA  
Acting Assistant Inspector General  
Financial Management and Reporting



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

November 15, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2012 and  
FY 2011 Financial Statements (Report No. DODIG-2013-021)

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the accompanying DoD Agency-Wide Consolidated Balance Sheet as of September 30, 2012 and 2011, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of DoD management. DoD management is also responsible for implementing effective internal control and for complying with laws and regulations. In addition, management is responsible for implementing and maintaining financial management systems that comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). Our responsibility is to express an opinion on the financial statements based on our audit.

We are unable to express an opinion on the Department of Defense FY 2012 and FY 2011 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance With Laws and Regulations. The report is an integral part of our opinion report on the financial statements and should be considered in assessing the results of our work.

#### **Disclaimer of Opinion on the Financial Statements**

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, represented to us that the Department of Defense FY 2012 and FY 2011 Annual Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that DoD financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2012. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended,<sup>1</sup> to determine whether material amounts on the financial statements were presented fairly.

---

<sup>1</sup> OMB Memorandum No. 09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Prior audits have identified, and DoD has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These material internal control weaknesses may affect the reliability of certain information contained in the principal financial statements—much of which was taken from the same data sources.<sup>2</sup> Therefore, we are unable to express, and we do not express, an opinion on the principal financial statements. Additionally, the purpose of the audit was not to express an opinion on Management’s Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

As discussed in Note 26 to the Principal Financial Statements, DoD restated its financial statements as of September 30, 2011, to correct errors in assets, gross costs, and net position. We did not withdraw our auditor’s report on the FY 2011 financial statements because we issued a disclaimer of opinion on those statements.

### **Summary of Internal Control**

In planning our work, we considered DoD internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified material weaknesses continue to exist in the following areas.

- Financial Management Systems
- Fund Balance with Treasury
- Accounts Receivable
- Inventory
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Government Property in Possession of Contractors
- Accounts Payable
- Environmental Liabilities
- Statement of Net Cost
- Intragovernmental Eliminations
- Accounting Entries
- Reconciliation of Net Cost of Operations to Budget

---

<sup>2</sup> The annual financial statements include the Principal Financial Statements, Management Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, adversely affecting the entity's ability to initiate, authorize, record, or report financial data reliability in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The following significant deficiency continued to exist.

- Contingent Legal Liabilities

Internal control work that we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. The Attachment offers additional details on previously identified material weaknesses. The DoD reported the above material weaknesses in its FY 2012 Agency Financial Report.

#### **Compliance With Laws and Regulations**

We limited our work to determining compliance with selected provisions of applicable laws and regulations related to financial reporting because management represented that instances of noncompliance identified in prior audits continued to exist. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, represented to us that DoD financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether DoD complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

#### **Other Information in the Annual Financial Statements**

We performed our audit for the purpose of forming an opinion on the principal financial statements taken as a whole. DoD Management Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information are presented for additional analysis and are not a required part of the principal basic financial statements. We did not audit and do not express an opinion on the information. We compared the information with DoD financial statements for consistency. Based on our limited work, we did not find any material inconsistencies between the information and the financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," August 3, 2012.

### **Scope and Methodology**

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We are responsible for planning and performing the audit to obtain reasonable assurance and to provide an opinion on whether the DoD financial statements are presented fairly, in all material respects, in conformity with U.S. GAAP. We are also responsible for (1) testing whether DoD financial management systems substantially comply with the FFMIA requirements, (2) testing compliance with selected provisions of laws and regulations that have direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Annual Financial Statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing over financial reporting and compliance to previously identified significant deficiencies, all of which are material and continue to exist. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected.

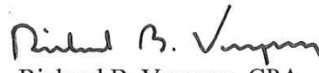
Because of the significance of the limitations on the scope of our work, we were unable to and did not perform our audit of internal control in accordance with U.S. GAAP and OMB audit guidance. We considered the limitation on the scope of our work in forming conclusions and in testing the financial statements.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

**Agency Comments and Our Evaluation**

We provided a draft of this report to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, who provided technical comments that we have incorporated as appropriate.

This report is intended solely for the information and use of DoD's management, DoD Office of Inspector General, Office of Management and Budget, Government Accountability Office, and Congress and is not intended to be used by anyone other than these specified parties.



Richard B. Vasquez, CPA  
Acting Assistant Inspector General  
Financial Management and Reporting

Attachment:  
As stated

## **Report on Internal Control and Compliance With Laws and Regulations**

### **Internal Control**

Management is responsible for implementing and maintaining effective internal control to include providing reasonable assurance that DoD personnel accumulated, recorded, and reported accounting data properly; met that the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, the following 13 material weaknesses and 1 significant deficiency exist that could adversely affect DoD financial operations.

### ***Previously Identified Material Weaknesses***

Management acknowledged that previously identified material weaknesses continued to exist in the following areas.

### **Financial Management Systems**

Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, "Objectives of Federal Financial Reporting," requires financial management system controls that are adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and recorded in accordance with Federal accounting standards. SFFAC No. 1 also requires that financial management system controls ensure that assets are properly safeguarded to deter fraud, waste, and abuse and that performance measurement information is adequately supported.

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, acknowledged that DoD financial management and feeder systems do not substantially comply with Federal financial management system requirements. The DoD financial management and feeder systems were not designed to adequately support various material amounts on the financial statements. These systemic deficiencies in financial management and feeder systems and inadequate DoD business processes prevent DoD from collecting and reporting financial and performance information that is accurate, reliable, and timely.

### **Fund Balance With Treasury**

Statement of Federal Financial Accounting Standards (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities"; the Treasury Manual; and DoD Regulation 7000.14-R, "DoD Financial Management Regulation," require DoD to resolve financial and accounting inconsistencies to accurately report Fund Balance with Treasury. However, inconsistencies continued to exist related to in-transit disbursements, unmatched disbursements, negative unliquidated obligations, and unreconciled differences between U.S. Treasury records and DoD accounting records.

### **Accounts Receivable**

According to SFFAS No. 1, Federal entities should recognize a receivable when they establish a claim to cash or other assets against other entities, based on either legal provisions or goods and

Attachment  
Page 1 of 6

services provided. DoD acknowledged that it was unable to accurately record, report, collect, and reconcile intragovernmental accounts receivable as well as accounts receivable due from the public.

### **Inventory**

SFFAS No. 3, "Accounting for Inventory and Related Property," requires DoD to use historical cost, the latest acquisition cost (adjusted for holding gains and losses), or moving average cost for valuing inventory. However, DoD acknowledged that the existing inventory value for most activities was not reported in accordance with U.S. GAAP, and the Department's legacy systems do not maintain the historical cost data necessary to comply with SFFAS No. 3. Additionally, DoD did not distinguish between Inventory Held for Sale and Inventory Held in Reserve for Future Sale as required by SFFAS No. 3.

### **Operating Materials and Supplies**

SFFAS No. 3 states that Operating Materials and Supplies must be expensed when the items are consumed. DoD acknowledged that significant amounts of Operating Materials and Supplies were expensed when purchased instead of when consumed. In addition, DoD could not accurately report the value of operating materials and supplies, which allows the potential for a misstatement in financial reporting.

### **General Property, Plant, and Equipment**

SFFAS No. 6, "Accounting for Property, Plant, and Equipment," requires DoD to record General Property, Plant, and Equipment (General PP&E) at acquisition cost; capitalize improvement costs; and recognize depreciation expense. However, the cost and depreciation of DoD General PP&E was not reliably reported because of: (1) an accounting requirement that classified Military Equipment as General PP&E (such costs were previously expensed); (2) a lack of supporting documentation for aged General PP&E items; and (3) a failure to integrate most legacy property and logistics systems with acquisition and financial systems. In addition, DoD property and logistics systems were not designed to capture acquisition cost and the cost of modifications and upgrades, or to calculate depreciation.

DoD acknowledged that it did not meet U.S. GAAP for the financial reporting of personal property, and the documentation for personal property was neither accurate nor reliable. In addition, DoD did not have adequate internal controls in place to provide reasonable assurance that real property assets were identified and properly reported in its financial reports. DoD also acknowledged that its inability to accurately report the value of military equipment increases the risk that the financial statements are materially misstated.

### **Government Property in Possession of Contractors**

SFFAS No. 6 requires that property and equipment in the possession of a contractor for use in accomplishing a contract be considered Government property. Such property should be accounted for based on the nature of the item, regardless of who has possession. DoD acknowledged that it was unable to comply with these requirements for Government Property in Possession of Contractors. As a result, the value of DoD property and material in the possession of contractors was not reliably reported.

### **Accounts Payable**

According to SFFAS No. 5, "Accounting for Liabilities of the Federal Government," an entity recognizes a liability when one party receives goods or services in return for a promise to provide money or other resources in the future. DoD acknowledged that it did not meet accounting standards for the financial reporting of public accounts payable. DoD cannot support its accounts payable balances because it lacks standard procedures for recording, reporting, and reconciling the amounts between the financial, accounting, and reporting systems.

### **Environmental Liabilities**

DoD acknowledged that its internal controls for reporting environmental liabilities did not provide reasonable assurance that cleanup costs for all of its ongoing, inactive, closed, and disposal operations were identified, consistently estimated, and appropriately reported. In addition, guidance and audit trails for estimating environmental liabilities were insufficient, and the inventory of ranges and operational activities was incomplete. DoD also acknowledged uncertainty regarding the accounting estimates used to calculate the reported Environmental Liabilities.

### **Statement of Net Cost**

SFFAC No. 2, "Entity and Display," requires the Statement of Net Cost to provide an understanding of the net costs of each organization and each program. In addition, the Statement of Net Cost is to provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and organization. DoD acknowledged the following deficiencies related to the Statement of Net Cost:

- The amounts presented for General Funds may not report actual accrued costs.
- Although the funds were generally recorded on an accrual basis for Working Capital Funds, the systems did not always capture actual costs in a timely manner.
- The Statement of Net Cost is not presented by programs that align with major goals and outputs described in DoD's strategic and performance plans as required by the Government Performance and Results Act.
- Revenues and expenses were reported by appropriation categories because financial processes and systems do not collect costs in line with performance measures.

### **Intragovernmental Eliminations**

DoD disclosed that it could not accurately identify most of its intragovernmental transactions by customer because its systems do not track the buyer and seller data needed to match related transactions. In addition, DoD was unable to fully reconcile intragovernmental transactions with all Federal partners. DoD acknowledged that its inability to reconcile most intragovernmental transactions resulted in adjustments that cannot be fully supported.

### **Accounting Entries**

DoD acknowledged that it continued to enter material amounts of unsupported accounting entries in its financial management systems because of inadequacies in the systems. The unsupported

accounting entries present a material uncertainty regarding the reliability of the financial statements.

### **Reconciliation of Net Cost of Operations to Budget**

SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship between the net cost of operations and the budgetary resources obligated by the entity during the period. DoD acknowledged that it was unable to reconcile budgetary obligations to net costs without making unsupported adjustments. Specifically, budgetary data do not agree with proprietary expenses and capitalized assets.

### **Previously Identified Significant Deficiencies**

As part of our financial-related audits, we noted the following significant deficiency that continued to exist.

### **Contingent Legal Liabilities**

SFFAS No. 5, as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," requires contingent legal liabilities to be disclosed if there is at least a reasonable possibility that a loss may be incurred. We noted that significant deficiencies continued to exist relating to the DoD process for reporting contingent legal liabilities. For example:

- DoD excluded from its legal representation letters at least 101 pending cases, with a total claim amount of \$5.3 billion that individually did not exceed the DoD Agency-wide individual reporting threshold, but in aggregate exceeded this threshold.
- The legal representation letters from the DoD Office of General Counsel showed that DoD General Counsel was unable to express an opinion on the likely outcome of 34 of the 48 pending legal actions, totaling \$12 trillion.<sup>3</sup>

These financial management deficiencies may cause inaccurate management information. As a result, DoD management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DoD may also contain misstatements resulting from these deficiencies.

### **Compliance With Laws and Regulations**

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determining compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not

---

<sup>3</sup>After our review of the legal representation letters, DoD Office of General Counsel sent us an e-mail stating that it was unable to express an opinion on the likely outcome of four additional pending legal actions totaling about \$10.5 billion. The \$10.5 billion was not included in the \$12 trillion. The four legal actions were also not included in the final management schedule of information that was provided to us for our review.

determine whether DoD complied with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

***Federal Financial Management Improvement Act of 1996***

FFMIA requires DoD to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2012, DoD did not fully comply with FFMIA. DoD acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2012.

***Antideficiency Act***

Section 1341, Title 31, United States Code (31 U.S.C. § 1341 [1990]) limits DoD and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C § 1517 (2004), DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken.

During FY 2012, DoD reported 12 cases of ADA violation. Therefore, DoD did not comply with 31 U.S.C. § 1341 (1990) and 31 U.S.C § 1517 (2004).

DoD 7000.14-R, “Financial Management Regulation,” volume 14, chapter 7, “Antideficiency Act Report,” November 2010, limits the time from identification to reporting of ADA violations to 15 months. Nine investigations of potential ADA violations have been open for more than 15 months.

***Audit Disclosures***

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, acknowledged to us on April 6, 2012, that the DoD financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to these selected provisions of laws and regulations: Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, Prompt Payment Act, Antideficiency Act, and Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act of 1996).

Attachment  
Page 5 of 6

**Recommendations**

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because audit projects currently in progress will include appropriate recommendations.

## PRINCIPAL FINANCIAL STATEMENTS AND NOTES

### LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the Department, pursuant to the requirements of [31 U.S.C. 3515\(b\)](#). The statements are prepared from accounting records of the Department in accordance with [Office of Management And Budget \(OMB\) Circular No. A-136](#) and, to the extent possible, U.S. Generally Accepted Accounting Principles (USGAAP). The statements, in addition to the financial reports, are used to monitor and control budgetary resources, which are prepared from the same records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The financial statements of the Department include four principal statements listed in Figure 2-1.

The financial statements reflect the aggregate financial posture of the Department and include both the proprietary (Federal accounting standards) and budgetary resources of the Department. The Department is large and complex with an asset base of \$2.1 trillion, and more than 3 million military and civilian employees on installations in every state and around the world.

**Figure 2-1. Four Principal Financial Statements**

Statement	What Information It Provides
Balance Sheet	Reflects the Department's financial position as of the statement date (September 30, 2012). The assets are the amount of future economic benefits owned or managed by the Department. The liabilities are amounts owed by the Department. The net position is the difference between the assets and liabilities.
Statement of Net Cost	Shows separately the components of the net cost of the Department's operations for the period. Net cost is equal to the gross cost incurred by the Department less any exchange revenue earned from its activities.
Statement of Changes in Net Position	Presents the sum of the cumulative results of operations since inception and unexpended appropriations provided to the Department that remain unused at the end of the fiscal year. The statement focuses on how the net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.
Statement of Budgetary Resources	Provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the Department's budgetary general ledger in accordance with budgetary accounting rules.

Department of Defense Consolidated Balance Sheet Agency Wide		<i>Dollars in Millions</i>	
	2012 Consolidated	Restated 2011 Consolidated	
<b>ASSETS (Note 2)</b>			
<b>Intragovernmental:</b>			
Fund Balance with Treasury (Note 3)	\$ 512,121.6	\$ 523,441.6	
Investments (Note 4)	641,666.5	569,342.2	
Accounts Receivable (Note 5)	1,439.6	1,726.9	
Other Assets (Note 6)	1,583.2	1,760.3	
<b>Total Intragovernmental Assets</b>	<b>\$ 1,156,810.9</b>	<b>\$ 1,096,271.0</b>	
Cash and Other Monetary Assets (Note 7)	1,822.0	1,720.3	
Accounts Receivable, Net (Note 5)	11,522.4	9,961.4	
Loans Receivable (Note 8)	957.5	814.4	
Inventory and Related Property, Net (Note 9)	243,299.7	242,582.0	
General Property, Plant and Equipment, Net (Note 10)	601,458.0	609,298.5	
Investments (Note 4)	3,255.0	3,185.0	
Other Assets (Note 6)	66,601.2	67,714.4	
<b>TOTAL ASSETS</b>	<b>\$ 2,085,726.7</b>	<b>\$ 2,031,547.0</b>	
<b>Stewardship Property, Plant &amp; Equipment (Note 10)</b>			
<b>LIABILITIES (Note 11)</b>			
<b>Intragovernmental:</b>			
Accounts Payable (Note 12)	\$ 1,762.9	\$ 1,893.2	
Debt (Note 13)	952.6	783.4	
Other Liabilities (Note 15)	12,941.6	14,231.7	
<b>Total Intragovernmental Liabilities</b>	<b>\$ 15,657.1</b>	<b>\$ 16,908.3</b>	
Accounts Payable (Note 12)	19,492.0	26,103.9	
Military Retirement and Other Federal Employment Benefits (Note 17)	2,323,924.3	2,212,359.6	
Environmental and Disposal Liabilities (Note 14)	62,602.6	64,823.1	
Loan Guarantee Liability (Note 8)	12.7	13.9	
Other Liabilities (Note 15)	36,308.1	31,308.1	
<b>TOTAL LIABILITIES</b>	<b>\$ 2,457,996.8</b>	<b>\$ 2,351,516.9</b>	
<b>Commitments &amp; Contingencies (Note 16)</b>			
<b>NET POSITION</b>			
Unexpended Appropriations – Earmarked Funds (Note 23)	\$ 295.6	\$ 134.6	
Unexpended Appropriations – Other Funds	528,660.0	540,239.4	
Cumulative Results of Operations – Earmarked Funds	(1,477,793.5)	(1,430,273.8)	
Cumulative Results of Operations – Other Funds	576,567.8	569,929.9	
<b>TOTAL NET POSITION</b>	<b>\$ (372,270.1)</b>	<b>\$ (319,969.9)</b>	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 2,085,726.7</b>	<b>\$ 2,031,547.0</b>	

The accompanying notes are an integral part of these financial statements.

Department of Defense Consolidated Statement of Net Cost Agency Wide	Dollars in Millions	
	2012 Consolidated	Restated 2011 Consolidated
<b>Program Costs</b>		
<b>Gross Costs</b>	<b>\$ 781,731.1</b>	<b>\$ 811,635.0</b>
Military Retirement Benefits	85,570.4	107,519.6
Civil Works	10,967.2	13,530.1
Military Personnel	150,330.5	153,881.4
Operations, Readiness & Support	295,704.1	314,560.0
Procurement	130,578.8	128,572.8
Research, Development, Test & Evaluation	76,772.6	79,230.9
Family Housing & Military Construction	31,807.5	14,340.2
(Less: Earned Revenue)	(83,304.8)	(115,039.9)
<b>Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits</b>	<b>\$ 698,426.3</b>	<b>\$ 696,595.1</b>
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	70,427.3	(12,369.6)
<b>Net Cost of Operations</b>	<b>\$ 768,853.6</b>	<b>\$ 684,225.5</b>

The accompanying notes are an integral part of these financial statements.

Department of Defense Agency Financial Report for FY 2012

Department of Defense Consolidated Statement of Changes in Net Position, Agency Wide								Dollars in Millions	
	2012 Earmarked Funds	2012 All Other Funds	2012 Eliminations	2012 Consolidated	2011 Earmarked Funds	Restated 2011 All Other Funds	2011 Eliminations	Restated 2011 Consolidated	
<b>Cumulative Results Of Operations</b>									
<b>Beginning Balances</b>	\$ (1,325,647.1)	\$ 464,297.5	\$ 0.0	\$ (861,349.6)	\$ (1,338,741.2)	\$ 417,826.0	\$ 0.0	\$ (920,915.2)	
<b>Prior Period Adjustments:</b>									
Changes in accounting principles									
Corrections of errors	0.0	1,005.7	0.0	1,005.7	0.0	(13,322.9)	0.0	(13,322.9)	
<b>Beginning balances, as adjusted</b>	\$ (1,325,647.1)	\$ 465,303.2	\$ 0.0	\$ (860,343.9)	\$ (1,338,741.2)	\$ 404,503.1	\$ 0.0	\$ (934,238.1)	
<b>Budgetary Financing Sources:</b>									
Appropriations used	347.3	730,232.2	0.0	730,579.5	206.9	747,758.5	0.0	747,965.4	
Nonexchange revenue	2,785.7	(96.3)	0.0	2,689.4	2,764.4	(24.3)	0.0	2,740.1	
Donations and forfeitures of cash and cash equivalents	29.5	0.2	0.0	29.7	30.3	0.1	0.0	30.4	
Transfers(in/out without reimbursement)	(948.1)	1,081.7	0.0	133.6	(874.8)	964.0	0.0	89.2	
Other	(132.2)	(14.2)	0.0	(146.4)	(1.8)	0.0	0.0	(1.8)	
<b>Other Financing Sources (Non-Exchange)</b>									
Donations and forfeitures of property	0.0	37.5	0.0	37.5	0.3	7.3	0.0	7.6	
Transfers(in/out without reimbursement)	(97.2)	163.3	0.0	66.1	(71.7)	(75.7)	0.0	(147.4)	
Imputed financing	3.4	19,731.9	14,687.2	5,048.1	2.2	19,698.3	14,076.6	5,623.9	
Other	(45.3)	(10,420.4)	0.0	(10,465.7)	12.7	1,799.6	0.0	1,812.3	
<b>Total Financing Sources</b>	\$ 1,943.1	\$ 740,715.9	\$ 14,687.2	\$ 727,971.8	\$ 2,068.5	\$ 770,127.8	\$ 14,076.6	\$ 758,119.7	
Net Cost of Operations (+/-)	48,368.0	735,172.8	14,687.2	768,853.6	(11,025.6)	709,327.7	14,076.6	684,225.5	
<b>Net Change</b>	\$ (46,424.9)	\$ 5,543.1	\$ 0.0	\$ (40,881.8)	\$ 13,094.1	\$ 60,800.1	\$ 0.0	\$ 73,894.2	
<b>Cumulative Results of Operations</b>	\$ (1,372,072.0)	\$ 470,846.3	\$ 0.0	\$ (901,225.7)	\$ (1,325,647.1)	\$ 465,303.2	\$ 0.0	\$ (860,343.9)	
<b>Unexpended Appropriations</b>									
<b>Beginning Balances</b>	134.6	541,194.5	0.0	541,329.1	325.2	528,479.4	0.0	528,804.6	
<b>Prior Period Adjustments:</b>									
Correction of Error	0.0	(955.1)	0.0	(955.1)	0.0	(955.1)	0.0	(955.1)	
<b>Beginning balances, as adjusted</b>	\$ 134.6	\$ 540,239.4	\$ 0.0	\$ 540,374.0	\$ 325.2	\$ 527,524.3	\$ 0.0	\$ 527,849.5	
<b>Budgetary Financing Sources:</b>									
Appropriations received	1.3	736,780.9	0.0	736,782.2	16.5	775,450.0	0.0	775,466.5	
Appropriations transferred (in/out)	507.0	(898.3)	0.0	(391.3)	0.0	(781.2)	0.0	(781.2)	
Other adjustments	0.0	(17,229.8)	0.0	(17,229.8)	(0.2)	(14,195.2)	0.0	(14,195.4)	
Appropriations used	(347.3)	(730,232.2)	0.0	(730,579.5)	(206.9)	(747,758.5)	0.0	(747,965.4)	
<b>Total Budgetary Financing Sources</b>	\$ 161.0	\$ (11,579.4)	\$ 0.0	\$ (11,418.4)	\$ (190.6)	\$ 12,715.1	\$ 0.0	\$ 12,524.5	
<b>Unexpended Appropriations</b>	\$ 295.6	\$ 528,660.0	\$ 0.0	\$ 528,955.6	\$ 134.6	\$ 540,239.4	\$ 0.0	\$ 540,374.0	
<b>Net Position</b>	\$ (1,371,776.4)	\$ 999,506.3	\$ 0.0	\$ (372,270.1)	\$ (1,325,512.5)	\$ 1,005,542.6	\$ 0.0	\$ (319,969.9)	

The accompanying notes are an integral part of these financial statements.

## Department of Defense Agency Financial Report for FY 2012

Department of Defense Combined Statement of Budgetary Resources Agency Wide Page 1 of 2 <i>Dollars in Millions</i>	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2012 Combined	2011 Combined	2012 Combined	2011 Combined
<b>Budgetary Resources</b>				
Unobligated balance, brought forward, October 1	\$ 162,271.1	\$ 160,032.1	\$ 17.5	\$ 24.9
Unobligated balance brought forward, October 1, as adjusted	162,271.1	160,032.1	17.5	24.9
Recoveries of prior year unpaid obligations	65,533.9	56,015.4	0.0	0.0
Other changes in unobligated balance	(12,952.1)	(11,205.6)	0.0	0.0
Unobligated balance from prior year budget authority, net	214,852.9	204,841.9	17.5	24.9
Appropriation (discretionary and mandatory)	792,178.8	829,461.3	0.0	0.0
Borrowing Authority (discretionary and mandatory)	0.0	0.0	172.6	229.8
Contract authority (discretionary and mandatory)	80,486.2	75,760.9	0.0	0.0
Spending authority from offsetting collections (discretionary and mandatory)	117,242.4	121,426.6	62.6	88.3
<b>Total Budgetary Resources</b>	<b>\$ 1,204,760.3</b>	<b>\$ 1,231,490.7</b>	<b>\$ 252.7</b>	<b>\$ 343.0</b>
<b>Status of Budgetary Resources</b>				
Obligations incurred	\$ 1,059,067.8	\$ 1,069,218.2	\$ 237.2	\$ 326.8
Unobligated balance, end of year:				
Apportioned	115,696.1	137,148.4	1.6	0.1
Exempt from Apportionment	3,976.1	4,180.3	0.0	0.0
Unapportioned	26,020.3	20,943.8	13.9	16.1
<b>Unobligated balance brought forward, end of year</b>	<b>\$ 145,692.5</b>	<b>\$ 162,272.5</b>	<b>\$ 15.5</b>	<b>\$ 16.2</b>
<b>Total Budgetary Resources</b>	<b>\$ 1,204,760.3</b>	<b>\$ 1,231,490.7</b>	<b>\$ 252.7</b>	<b>\$ 343.0</b>
<b>Change in Obligated Balance</b>				
Unpaid obligations, brought forward, October 1 (gross)	\$ 454,926.2	\$ 458,620.6	\$ 569.1	\$ 619.4
Uncollected customer payments from Federal Sources, brought forward, October 1	(75,184.3)	(69,766.8)	(99.9)	(97.3)
Obligated balance start of year (net), before adjustments	379,741.9	388,853.8	469.2	522.1
Obligated balance, start of year (net), as adjusted	379,741.9	388,853.8	469.2	522.1
Obligations incurred	1,059,067.8	1,069,218.2	237.2	326.8
Outlays (Gross)	(979,889.9)	(1,016,898.9)	(264.5)	(375.3)
Change in uncollected customer payments from Federal Sources	(2,769.1)	(5,417.5)	16.4	(2.6)
Recoveries of prior year unpaid obligations	(65,533.9)	(56,015.1)	0.0	0.0
Obligated balances, end of year				
Unpaid Obligations, end of year (gross)	468,570.2	454,924.8	541.8	570.9
Uncollected customer payments from	(77,953.4)	(75,184.3)	(83.5)	(99.9)
<b>Obligated balance, end of year (net)</b>	<b>\$ 390,616.8</b>	<b>\$ 379,740.5</b>	<b>\$ 458.3</b>	<b>\$ 471.0</b>

The accompanying notes are an integral part of these financial statements.

Department of Defense Agency Financial Report for FY 2012

Department of Defense Combined Statement of Budgetary Resources Agency Wide Page 2 of 2 <i>Dollars in Millions</i>	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2012 Combined	2011 Combined	2012 Combined	2011 Combined
<b>Budgetary Authority and Outlays, Net:</b>				
Budget Authority, gross (discretionary and mandatory)	\$ 989,907.4	\$ 1,026,648.8	\$ 235.2	\$ 318.1
Actual offsetting collections (discretionary and mandatory)	(190,586.0)	(190,906.0)	(92.6)	(102.6)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(2,769.1)	(5,417.5)	16.4	(2.6)
<b>Budget Authority, net (discretionary and mandatory)</b>	<b>\$ 796,552.3</b>	<b>\$ 830,325.3</b>	<b>\$ 159.0</b>	<b>\$ 212.9</b>
Outlays, gross (discretionary and mandatory)	\$ 979,889.9	\$ 1,016,898.9	\$ 264.5	\$ 375.3
Actual offsetting collections (discretionary and mandatory)	(190,586.0)	(190,906.0)	(92.6)	(102.6)
Outlays, net (discretionary and mandatory)	789,303.9	825,992.9	171.9	272.7
Distributed offsetting receipts	(79,238.4)	(83,198.6)	0.0	0.0
<b>Agency Outlays, net (discretionary and mandatory)</b>	<b>\$ 710,065.5</b>	<b>\$ 742,794.3</b>	<b>\$ 171.9</b>	<b>\$ 272.7</b>

The accompanying notes are an integral part of these financial statements.

## **NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

### **1.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 Act of 1990\*](#), expanded by the [\*Government Management Reform Act of 1994\*](#), and other appropriate legislation. The financial statements have been prepared from the books and records of the Department in accordance with, to the extent possible, U.S. Generally Accepted Accounting Principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget ([\*OMB Circular No. A-136\*](#)), Financial Reporting Requirements; and the DoD, [\*Financial Management Regulation\*](#). The accompanying financial statements account for all resources for which the Department is responsible unless otherwise noted. Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The Department is unable to fully implement all elements of USGAAP and [\*OMB Circular No. A-136\*](#), due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The Department derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of Federal appropriations rather than preparing financial statements in accordance with USGAAP. The Department continues to implement process and system improvements addressing these limitations.

The Department has 13 auditor-identified material weaknesses: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounts Receivable; (4) Inventory; (5) Operating Materials and Supplies; (6) General Property, Plant, and Equipment; (7) Government Property in Possession of Contractors; (8) Accounts Payable; (9) Environmental Liabilities; (10) Statement of Net Cost; (11) Intragovernmental Eliminations; (12) Accounting Entries; and (13) Reconciliation of Net Cost of Operations to Budget.

### **1.B. Mission of the Reporting Entity**

The Department was established by the [\*National Security Act of 1947\*](#). The Department provides the military forces needed to deter war and protect the security of our country. Since the creation of America's first army in 1775, the Department and predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States by deterring and defeating aggression and coercion in critical regions.

The Department includes the Military Departments and the Defense Agencies. The Military Departments consist of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. The Defense Agencies provide support services commonly used throughout the Department.

### **1.C. Appropriations and Funds**

The Department receives appropriations and funds as general, working capital (revolving), trust, special, and deposit funds. The Department uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General Funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction. These general funds also include supplemental funds enacted by the [\*American Recovery and Reinvestment Act\*](#) (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available on-line at <http://www.defense.gov/recovery/>.

Working capital funds (WCF) received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

Trust funds contain receipts and expenditures 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 fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. The Department is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for earmarked funds.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not Department funds, and as such, are not available for the Department's operations. The Department is acting as an agent or custodian for funds awaiting distribution.

The Department is a party to allocation transfers with other Federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The Department receives allocation transfers from the following agencies: Departments of Agriculture, Interior, Energy, and Transportation; the Appalachian Regional Commission; and the Federal Highway Administration.

Additionally, the Department receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Department's financial statements. The exceptions reported by the Department include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways and Harbor Maintenance. The Department receives allocation transfers for the Security Assistance programs that meet the OMB exceptions for EOP funds. These funds are reported separately from the DoD financial statements based on an agreement with OMB.

As a parent, the Department allocates funds to the Departments of Transportation and Agriculture, and reports all related activity in these financial statements.

### **1.D. Basis of Accounting**

The Department's financial management systems are unable to meet all full accrual accounting requirements. Many of the Department's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of the Department's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Military Services and Defense Agencies and their sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The Department is determining the actions required to bring financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all of the Department's financial and nonfinancial feeder systems and processes are able to collect and report financial information as required by USGAAP, the Department's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

### **1.E. Revenues and Other Financing Sources**

The Department receives congressional appropriations as financing sources for general funds that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Department recognizes revenue as a result of costs incurred for goods and services provided to other Federal agencies and the public. Full-cost pricing is the Department's standard policy for services provided as required by [OMB Circular No. A-25](#), User Charges. The Department recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

The Department does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

### **1.F. Recognition of Expenses**

For financial reporting purposes, the Department's policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be expensed when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The Department continues to implement process and system improvements to address these limitations.

### **1.G. Accounting for Intragovernmental Activities**

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the Department cannot accurately identify intragovernmental transactions by customer because the Department's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the Department provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with the Department's seller-side balances and are then eliminated. The Department is implementing replacement systems and a standard financial information structure, which will incorporate the necessary elements that will enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

The [\*Treasury Financial Manual Part 2 - Chapter 4700\*](#), "Agency Reporting Requirements for the Financial Report of the United States Government", provides guidance for reporting and reconciling intragovernmental balances. While the Department is unable to fully reconcile intragovernmental transactions with all Federal agencies, the Department is able to reconcile balances pertaining to investments in Federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, [\*Federal Employees' Compensation Act\*](#) transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

The Department's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and related

costs to Federal agencies. The Department's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues. Generally, financing for the construction of the Department's facilities is obtained through 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 U.S. Treasury does not allocate such costs to the Department.

## **1.H. Transactions with Foreign Governments and International Organizations**

Each year, the Department sells defense articles and services to foreign governments and international organizations 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 and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

### **1.I. Funds with the U.S. Treasury**

The Department's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the Department's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, the Department's FBWT is adjusted to agree with the U.S. Treasury accounts.

### **1.J. Cash and Other Monetary Assets**

Cash is the total of cash resources under the control of the Department which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

The majority of cash and all foreign currency is classified as "nonentity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Department conducts a significant portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family housing construction. The gains and losses are calculated 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 adjustments to the original obligation amount at the time of payment. The Department does not separately identify foreign currency fluctuation transactions.

### **1.K. Accounts Receivable**

Accounts receivable from other Federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon an analysis of collection experience. The Department does not recognize an allowance for estimated uncollectible amounts from other Federal agencies. Claims against other Federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the [Treasury Financial Manual](#).

### **1.L. Direct Loans and Loan Guarantees**

The Department operates a direct loan and loan guarantee program authorized by the [National Defense Authorization Act for FY 1996](#) (Public Law (PL) 104-106, Section 2801). The Act includes a series of authorities that allow the Department to work with the private sector to renovate military housing. The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to the American taxpayers.

The Act also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. The Department uses these authorities individually or in combination. They include guarantees (both loan and rental), conveyance/leasing of existing property and facilities, differential lease payments, investments (both limited partnerships and stock/bond ownership), and direct loans.

[National Defense Authorization Act for FY 2005](#) (PL 108-375, Section 2805) provided permanent authorities to the Military Housing Privatization Initiative (MHPI).

The Department operates the Armament Retooling and Manufacturing Support Initiative under [Title 10 United States Code 4551-4555](#). This loan guarantee program is designed to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities.

The Department administers the Foreign Military Financing program on behalf of the EOP. This program is authorized by sections 23 and 24 of the [Arms Export Control Act](#) of 1976, as amended, [PL 90-629](#), as amended, and section 503(a). This program provides loans to help countries purchase U.S. produced weapons, defense equipment, services, or military training. The direct loans and loan guarantees related to Foreign Military Sales are not included in these financial statements, per the Department's agreement with OMB; this information is provided separately as other accompanying information.

The [Federal Credit Reform Act](#) of 1990 governs all amended direct loan obligations and loan guarantee commitments made after FY 1991.

### **1.M. Inventories and Related Property**

The Department values approximately 84 percent of resale inventory using the moving average cost method. An additional 12 percent (fuel inventory) is reported using the first-in-first-out method. The Department reports the remaining 4 percent of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 3](#), Accounting for Inventory and Related Property. Additionally, these systems cannot produce financial transactions using the USSGL, as required by the [Federal Financial Management Improvement Act](#) of 1996 (PL 104-208). The Department is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with [SFFAS No. 3](#).

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies. The Department is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale."

Related property includes OM&S and stockpile materiel. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Department uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2012 and FY 2011, the Department expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the Department and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

The Department determined that the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than military equipment.

The Department recognizes excess, obsolete, and unserviceable inventory and OM&S at a net realizable value of \$0 pending development of an effective means of valuing such materiel.

Inventory available and purchased for resale includes consumable spare and repair parts, and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Department often relies on weapon systems and machinery no longer in production. As a result, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include: (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

### **1.N. Investments in U.S. Treasury Securities**

The Department reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method that yields similar results. 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.

The Department invests in nonmarketable market-based U.S. Treasury securities, which are issued to Federal agencies by the U.S. Treasury's Bureau of the Public Debt. They are not traded on any securities exchange but mirror the prices of particular U.S. Treasury securities traded in the government securities market.

The Department's net investments are held by various trust and special funds. These funds include the Military Retirement Fund; Medicare-Eligible Retiree Health Care Fund; Other Defense Organizations General Fund trust and special funds; donations (gift funds); and the U.S. Treasury managed trust funds reported by USACE including the South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Funds.

Other investments represent joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of MHPI, authorized by [PL 104-106, Section 2801](#). These investments do not require market value disclosure. The Department's potential losses on these ventures are limited to the amounts invested.

### **1.O. General Property, Plant and Equipment**

The Department uses the estimated historical cost for valuing military equipment. The Department identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposal information.

The Department's General Property, Plant, and Equipment (PP&E) capitalization threshold is \$100 thousand except for real property, which is \$20 thousand. The Department has not fully implemented the threshold for real property; therefore, the Department is primarily using the capitalization threshold of \$100 thousand for General PP&E, and most real property.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Department's capitalization threshold. The Department also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Department depreciates all General PP&E, other than land, on a straight-line basis.

The WCF capitalize all PP&E used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

The USACE Civil Works General PP&E is capitalized at acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost exceeds \$25 thousand. The exception is buildings and structures related to hydropower projects, which are capitalized regardless of cost.

When it is in the best interest of the government, the Department provides government property to contractors to complete contract work. The Department either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the Department's capitalization threshold, Federal accounting standards require that it be reported on the Department's Balance Sheet.

The Department developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The Department requires that entities maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with Federal accounting standards. The Department has not fully implemented this policy primarily due to system limitations.

### **1.P. Advances and Prepayments**

When advances are permitted by law, legislative action, or presidential authorization, the Department's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The Department's policy is to expense and/or properly classify assets when the related goods and services are received. The Department has not fully implemented this policy primarily due to system limitations.

## 1.Q. Leases

Lease payments for the rental of equipment and operating facilities 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 capitalization threshold, the Department records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Department records the asset and liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risks of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by the Department are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future year projections use the Consumer Price Index.

## 1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on the Department's Balance Sheet.

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 may provide financing payments. Contract financing payments are defined in the [Federal Acquisition Regulation, Part 32](#), as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost reimbursement contracts. It is the Department's policy to record certain contract financing payments as other assets. The Department has not fully implemented this policy primarily due to system limitations.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The [Defense Federal Acquisition Regulation Supplement](#) authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress.

## **1.S. Contingencies and Other Liabilities**

The [SFFAS No. 5](#), "Accounting for Liabilities of the Federal Government", as amended by [SFFAS No. 12](#), "Recognition of Contingent Liabilities Arising from Litigation", defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Department recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount 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 of incurring a loss or additional losses. The Department's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities also arise as a result of anticipated disposal costs for the Department's assets. Consistent with [SFFAS No. 6](#), "Accounting for Property, Plant, and Equipment", recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on the Department's policy, which is consistent with [SFFAS No. 5](#), "Accounting for Liabilities of the Federal Government", nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset. The Department recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

## **1.T. Accrued Leave**

The Department reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed when taken. The liabilities are based on current pay rates.

## **1.U. Net Position**

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

## **1.V. Treaties for Use of Foreign Bases**

The Department has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Department purchases capital assets overseas with appropriated

funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Department continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

### **1.W. Undistributed Disbursements and Collections**

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections may be evidenced by corroborating documentation that would generally support the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the Department's Accounts Payable and Receivable trial balances prior to validating underlying transactions required to establish the Accounts Payable/Receivable were previously made. As a result, misstatements of reported Accounts Payable and Receivable are likely present in the Department's financial statements.

Due to noted material weaknesses in current accounting and financial feeder systems, the Department is generally unable to determine whether undistributed disbursements and collections should be applied to Federal or non-Federal accounts payable/receivable at the time accounting reports are prepared. Accordingly, the Department's policy is to allocate supported undistributed disbursements and collections between Federal and non-Federal categories based on the percentage of distributed Federal and non-Federal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

### **1.X. Fiduciary Activities**

Fiduciary cash and other assets are not assets of the Department and are not recognized on the Balance Sheet. Fiduciary activities are reported on the financial statement note schedules.

### **1.Y. Military Retirement and Other Federal Employment Benefits**

The Department applies [\*SFFAS No. 33\*](#), "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates", in selecting the discount rate and valuation date used in estimating actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost. Refer to Note 17, Military Retirement and Other Federal Employment Benefits and Note 18, General Disclosures Related to the Statement of Net Cost, for additional information.

## 1.Z. Significant Events

None.

## NOTE 2. NONENTITY ASSETS

Nonentity Assets <i>As of September 30</i>	<i>Dollars in Millions</i>	
	2012	Restated 2011
<b>Intragovernmental Assets</b>		
Fund Balance with Treasury	\$ 788.8	\$ 988.6
<b>Total Intragovernmental Assets</b>	<b>\$ 788.8</b>	<b>\$ 988.6</b>
<b>Non-Federal Assets</b>		
Cash and Other Monetary Assets	\$ 1,709.1	\$ 1,643.2
Accounts Receivable	7,172.8	6,490.7
Other Assets	179.1	184.8
<b>Total Non-Federal Assets</b>	<b>\$ 9,061.0</b>	<b>\$ 8,318.7</b>
<b>Total Nonentity Assets</b>	<b>\$ 8,849.8</b>	<b>\$ 9,307.3</b>
<b>Total Entity Assets</b>	<b>\$ 2,075,876.9</b>	<b>\$ 2,022,239.7</b>
<b>Total Assets</b>	<b>\$ 2,085,726.7</b>	<b>\$ 2,031,547.0</b>

Nonentity assets are assets for which the Department maintains stewardship accountability and reporting responsibility but are not available for the Department's normal operations.

### Restatements

The Department corrected a \$1.0 billion understatement of General Property, Plant and Equipment, and a \$0.9 billion overstatement of Other Assets to align the accounting records to the property accountability system. These corrections result in a \$0.1 billion increase in Total Entity Assets. Refer to Note 26, Restatements, for further information.

### Other Disclosures

Intra-governmental Fund Balance with Treasury (FBWT) primarily consists of deposit funds and receipt accounts. Deposit funds are used to record amounts held temporarily until paid to the appropriate party. Receipt accounts are used for amounts collected on behalf of the U.S. Treasury General Fund.

Intra-governmental Accounts Receivable consist of amounts associated with canceled year appropriations. Generally, the Department cannot use the collections related to cancelled appropriation and must return them to the U.S. Treasury.

Non-Federal Cash and Other Monetary Assets primarily consist of cash held by Disbursing Officers to carry out payment, collection, and foreign currency accommodation exchange missions.

Non-Federal Accounts Receivable consist of amounts associated with canceled year appropriations, and interest, fines and penalties due on debt. Generally, the Department cannot use collections and must distribute them to the U.S. Treasury.

Non-Federal Other Assets consist of Advance Payment Pool Agreements (APPAs) for research and development projects. AAPAs are utilized when multiple contracts with a nonprofit educational institution require advance payments.

### NOTE 3. FUND BALANCE WITH TREASURY

<b>Fund Balance with Treasury</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Fund Balance</b>			
Appropriated Funds		\$ 500,572.1	\$ 509,337.0
Revolving Funds		8,037.2	9,887.2
Trust Funds		2,132.9	2,494.4
Special Funds		548.2	697.7
Other Fund Types		831.2	1,025.3
<b>Total Fund Balance</b>		<b>\$ 512,121.6</b>	<b>\$ 523,441.6</b>
<b>Fund Balance Per Treasury Versus Agency</b>			
Fund Balance per Treasury		\$ 521,342.1	\$ 530,849.7
Fund Balance per Agency		512,121.6	523,441.6
<b>Reconciling Amount</b>		<b>\$ 9,220.5</b>	<b>\$ 7,408.1</b>

Other Fund Types primarily consists of deposit funds and receipt accounts.

The Department shows a reconciling net difference of \$9.2 billion with U.S. Treasury. This includes canceling year authority of \$8.5 billion, unavailable receipts of \$586.6 million, allocation transfers of \$103.3 million, and fiduciary activities of \$36.9 million.

<b>Status of Fund Balance with Treasury</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Unobligated Balances</b>			
Available		\$ 119,674.0	\$ 141,171.4
Unavailable		582,311.3	583,913.4
<b>Obligated Balance not yet Disbursed</b>		469,112.0	455,495.4
<b>Non-Budgetary FBWT</b>		723.3	1,966.0
<b>Non-FBWT Budgetary Accounts</b>		(659,699.0)	(659,104.6)
<b>Total Fund Balance</b>		<b>\$ 512,121.6</b>	<b>\$ 523,441.6</b>

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public laws that established the funds.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Non-Budgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and nonentity FBWT.

Non-FBWT Budgetary Accounts reduce the Status of FBWT and consist of investments in U.S. Treasury securities, unfilled customer orders without advance, contract and borrowing authority accounts, and receivables.

#### NOTE 4. INVESTMENTS AND RELATED INTEREST

Investments and Related Interest					<i>Dollars in Millions</i>
<i>As of September 30</i>	2012				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
<b>Intragovernmental Securities</b>					
<b>Nonmarketable, Market-Based</b>					
Military Retirement Fund	\$ 435,206.4	See Below	\$ (11,012.4)	\$ 424,194.0	\$ 536,544.6
Medicare-Eligible Retiree Health Care Fund	207,793.6	See Below	(6,433.4)	201,360.2	262,831.3
US Army Corps of Engineers	7,264.6	See Below	(57.7)	7,206.9	7,416.2
Other Funds	3,278.3	See Below	(79.8)	3,198.5	3,461.3
Total Nonmarketable, Market-Based	653,542.9		(17,583.3)	635,959.6	810,253.4
Accrued Interest	5,706.9			5,706.9	5,706.9
Total Intragovernmental Securities	\$ 659,249.8		\$ (17,583.3)	\$ 641,666.5	\$ 815,960.3
<b>Other Investments</b>					
Total Other Investments	\$ 3,255.0	See Below	\$ 0.0	\$ 3,255.0	N/A

*Amortization Method Used: Effective Interest*

Investments and Related Interest					<i>Dollars in Millions</i>
<i>As of September 30</i>	2011				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
<b>Intragovernmental Securities</b>					
<b>Nonmarketable, Market-Based</b>					
Military Retirement Fund	\$ 376,420.2	See Below	\$ (8,209.2)	\$ 368,211.0	432,741.4
Medicare-Eligible Retiree Health Care Fund	191,058.7	See Below	(5,136.4)	185,922.3	221,620.5
US Army Corps of Engineers	6,495.4	See Below	(37.3)	6,457.8	6,171.8
Other Funds	3,448.3	See Below	(57.9)	3,390.4	3,611.4
Total Nonmarketable, Market-Based	577,422.3		(13,440.8)	563,981.5	664,145.1
Accrued Interest	5,360.7			5,360.7	5,360.7
Total Intragovernmental Securities	\$ 582,783.0		\$ (13,440.8)	\$ 569,342.2	\$ 669,505.8
<b>Other Investments</b>					
Total Other Investments	\$ 3,185.0	See Below	\$ 0.0	\$ 3,185.0	N/A

*Amortization Method Used: Effective Interest*

The Department invests primarily in non-marketable, market-based securities. The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. The securities are purchased with the intent to hold until maturity, thus balances are not adjusted to market value.

The U.S. Treasury securities are issued to the earmarked funds as evidence of its receipts and are an asset to the Department and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash generated from earmarked funds is deposited in the U.S. Treasury and used for general government purposes. Since the Department and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government wide financial statements.

The U.S. Treasury securities provide the Department with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Department requires redemption of these securities to make expenditures, the Government will finance them from accumulated cash balances, by raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all other expenditures.

Other Funds primarily consists of \$2.0 billion in investments of the DoD Education Benefits Trust Fund, \$817.9 million in investments of the Host Nation Support for U.S. Relocation Activities Trust Fund, and \$316.7 million in investments of the Voluntary Separation Incentive Trust Fund.

Other Investments consist of Military Housing Privatization Initiative limited partnerships. The limited partnerships support military housing at Army, Air Force, Navy and Marine Corps installations. This investment relates to limited partnerships that do not require Market Value Disclosure.

## NOTE 5. ACCOUNTS RECEIVABLE

Accounts Receivable		<i>Dollars in Millions</i>		
<i>As of September 30</i>	2012			Accounts Receivable, Net
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net	
Intragovernmental Receivables	\$ 1,439.6	N/A	\$ 1,439.6	
Non-Federal Receivables (From the Public)	12,420.5	(898.1)	11,522.4	
<b>Total Accounts Receivable</b>	<b>\$ 13,860.1</b>	<b>\$ (898.1)</b>	<b>\$ 12,962.0</b>	

Accounts Receivable	2011		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
<i>Dollars in Millions</i>			
<i>As of September 30</i>			
Intragovernmental Receivables	\$ 1,726.9	N/A	\$ 1,726.9
Non-Federal Receivables (From the Public)	10,644.6	(683.2)	9,961.4
<b>Total Accounts Receivable</b>	<b>\$ 12,371.5</b>	<b>\$ (683.2)</b>	<b>\$ 11,688.3</b>

Accounts receivable represent the Department's claim for payment from other entities. The Department only recognizes an allowance for uncollectible amounts from the public. Claims with other Federal agencies are resolved in accordance with the Intragovernmental Business Rules.

## NOTE 6. OTHER ASSETS

Other Assets	2012	
	2012	Restated 2011
<i>Dollars in Millions</i>		
<i>As of September 30</i>		
<b>Intragovernmental Other Assets</b>		
Advances and Prepayments	\$ 1,447.3	\$ 1,634.2
Other Assets	135.9	126.1
<b>Total Intragovernmental Other Assets</b>	<b>\$ 1,583.2</b>	<b>\$ 1,760.3</b>
<b>Non-Federal Other Assets</b>		
Outstanding Contract Financing Payments	\$ 65,342.9	\$ 66,713.5
Advances and Prepayments	1,063.6	801.3
Other Assets (With the Public)	194.7	199.6
<b>Total Non-Federal Other Assets</b>	<b>\$ 66,601.2</b>	<b>\$ 67,714.4</b>
<b>Total Other Assets</b>	<b>\$ 68,184.4</b>	<b>\$ 69,474.7</b>

## Restatements

The Department corrected a \$955.1 million prior-year overstatement of Other Assets (With the Public). Refer to Note 26, Restatements, for further information.

## Other Disclosures

Intragovernmental Other Assets represents the Department's right to approximately 6.4 million barrels of crude oil held by the Department of Energy.

Other Assets (With the Public) consist of Advance Payment Pool Agreements (APPAs) for research and development projects. AAPAs are utilized when multiple contracts with a nonprofit educational institution require advance payments.

Contract terms and conditions for certain types of contract financing payments convey rights to the Government that protect the contract work from state or local taxation, liens or attachment by contractor's creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of contractor's work has transferred to the Federal Government. The Federal Government does not have

the right to take the work, except as provided for in contract clauses related to termination or acceptance. The Department is not obligated to make payment to contractors until delivery and acceptance.

Outstanding Contract Financing Payments includes \$61.9 billion in contract financing payments and an additional \$3.4 billion in estimated future payments to contractors upon delivery and government acceptance of satisfactory product. Refer to Note 15, Other Liabilities, for further information.

## NOTE 7. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets <i>As of September 30</i>	<i>Dollars in Millions</i>	
	2012	2011
Cash	\$ 443.9	\$ 472.9
Foreign Currency	1,378.1	1,247.4
<b>Total Cash, Foreign Currency, and Other Monetary Assets</b>	<b>\$ 1,822.0</b>	<b>\$ 1,720.3</b>

Cash (except for \$112.9 million in undeposited collections and imprest funds) and Foreign Currency represent nonentity assets and are restricted and unavailable to fund the Department's mission.

## NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

### Direct Loan and Loan Guarantee Programs

The Department operates the following direct loan and/or loan guarantee programs:

- Military Housing Privatization Initiative (MHPI)
- Armament Retooling and Manufacturing Support Initiative (ARMS)

The [Federal Credit Reform Act of 1990](#) governs all new and amended direct loan obligations and loan guarantee commitments made after FY 1991.

Direct loans are reported at the net present value of the following projected cash flows:

- Loan disbursements
- Repayments of principal
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and recoveries

Loan guarantee liabilities are reported at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows:

- Payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments; offset by payments to the Department including origination and other fees, penalties, and recoveries.

### Military Housing Privatization Initiative

The MHPI includes both direct loan and loan guarantee programs. The programs are authorized by the [National Defense Authorization Act for FY 1996](#) (PL 104-106,

Section 2801) and includes a series of authorities that allow the Department to work with the private sector to renovate and build military family housing. The MHPI accelerates the construction of new housing built to market standards, and leverages private sector capital. One of the goals of the Department is to obtain private sector capital to leverage government dollars. The Department provides protection to the private sector partner against specific risks, such as base closure or member deployment.

### Armament Retooling and Manufacturing Support Initiative

The ARMS Initiative, [Title 10 United States Code 4551-4555](#), is a loan guarantee program designed to encourage commercial use of the Army's inactive ammunition plants through incentives for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than current military requirements; however, this capacity may be needed by the military in the future. Revenues from property rentals are used to help offset the overhead costs for the operation, maintenance and environmental cleanup at the facilities.

In an effort to preclude any additional loan liability, the Army instituted an ARMS loan guarantee moratorium in FY 2004. The Army continues to operate under the moratorium and does not anticipate new loans.

Summary of Direct Loans and Loan Guarantees		Dollars in Millions	
		2012	2011
<b>Loans Receivable</b>			
<b>Direct Loans:</b>			
Military Housing Privatization Initiative		957.5	814.4
<b>Total Direct Loans</b>	<b>\$</b>	<b>957.5</b>	<b>\$ 814.4</b>
<b>Defaulted Loan Guarantees:</b>			
Military Housing Privatization Initiative		0.0	0.0
Armament Retooling & Manufacturing Support Initiative		0.0	0.0
<b>Total Default Loan Guarantees</b>			
<b>Total Loans Receivable</b>	<b>\$</b>	<b>957.5</b>	<b>\$ 814.4</b>
<b>Loan Guarantee Liability</b>			
Military Housing Privatization Initiative		11.7	13.7
Armament Retooling & Manufacturing Support Initiative		1.0	0.2
<b>Total Loan Guarantee Liability</b>	<b>\$</b>	<b>12.7</b>	<b>\$ 13.9</b>

Direct Loans Obligated		Dollars in Millions	
		2012	2011
<b>Direct Loans Obligated After FY 1991 (Present Value Method):</b>			
<b>Military Housing Privatization Initiative</b>			
Loans Receivable Gross	<b>\$</b>	1,119.6	<b>\$ 953.8</b>
Interest Receivable		0.0	0.0
Foreclosed Property		0.0	0.0
Allowance for Subsidy Cost (Present Value)		(162.1)	(139.4)
<b>Value of Assets Related to Direct Loans</b>		957.5	814.4
<b>Total Direct Loans Receivable</b>	<b>\$</b>	<b>957.5</b>	<b>\$ 814.4</b>

Department of Defense Agency Financial Report for FY 2012

Loans receivable, net, or value of assets related to loans, is not the same as the proceeds the Department would expect to receive from selling the loans.

Interest receivable is calculated using the interest earned method.

Total Amount of Direct Loans Disbursed		Dollars in Millions	
		2012	2011
<b>Direct Loan Programs</b>			
Military Housing Privatization Initiative	\$	261.1	\$ 304.8
<b>Total</b>	<b>\$</b>	<b>261.1</b>	<b>\$ 304.8</b>

Subsidy Expense for Direct Loan by Program						Dollars in Millions
2012	Interest Differential	Defaults	Fees	Other	Total	
<b>New Direct Loans Disbursed</b>						
Military Housing Privatization Initiative	\$ 21.3	\$ 22.2	\$ 0.0	\$ 0.0	\$ 43.5	
<b>Total</b>	<b>\$ 21.3</b>	<b>\$ 22.2</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 43.5</b>	
2011	Interest Differential	Defaults	Fees	Other	Total	
<b>New Direct Loans Disbursed</b>						
Military Housing Privatization Initiative	\$ 30.3	\$ 27.3	\$ 0.0	\$ 0.0	\$ 57.6	
<b>Total</b>	<b>\$ 30.3</b>	<b>\$ 27.3</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 57.6</b>	
2012	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total	
<b>Direct Loan Modifications and Reestimates</b>						
Military Housing Privatization Initiative	\$ 0.0	\$ (9.6)	\$ (4.1)	\$ (13.7)	\$ (13.7)	
<b>Total</b>	<b>\$ 0.0</b>	<b>\$ (9.6)</b>	<b>\$ (4.1)</b>	<b>\$ (13.7)</b>	<b>\$ (13.7)</b>	
2011	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total	
<b>Direct Loan Modifications and Reestimates</b>						
Military Housing Privatization Initiative	\$ 0.0	\$ (5.5)	\$ (30.8)	\$ (36.3)	\$ (36.3)	
<b>Total</b>	<b>\$ 0.0</b>	<b>\$ (5.5)</b>	<b>\$ (30.8)</b>	<b>\$ (36.3)</b>	<b>\$ (36.3)</b>	
		2012	2011			
<b>Total Direct Loan Subsidy Expense:</b>						
Military Housing Privatization Initiative	\$	29.8	\$ 21.3			
<b>Total</b>	<b>\$</b>	<b>29.8</b>	<b>\$ 21.3</b>			

Subsidy Expense for Direct Loan by Program						Dollars in Millions
As of September 30	Interest Differential	Defaults	Fees	Other	Total	
<b>Budget Subsidy Rates for Direct Loans</b>						
Military Housing Privatization Initiative	-7.26%	10.35%	0.00%	0.00%	3.09%	

Subsidy rates pertain to the loan agreements contracted during the current fiscal year. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans disbursed in the current year results from disbursements of loans from current and prior year loan agreements. The subsidy expense reported in the current year also includes reestimates.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY 1991 Direct Loans		Dollars in Millions	
		2012	2011
<b>Beginning Balance, Changes, and Ending Balance:</b>			
<b>Beginning Balance of the Subsidy Cost Allowance</b>	\$	139.4	\$ 129.2
<b>Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>			
Interest Rate Differential Costs		21.3	30.3
Default Costs (Net of Recoveries)		22.2	27.3
Fees and Other Collections		0.0	0.0
Other Subsidy Costs		0.0	0.0
<b>Total of the above Subsidy Expense Components</b>		<b>43.5</b>	<b>\$ 57.6</b>
<b>Adjustments</b>			
Loan Modifications	\$	0.0	\$ 0.0
Fees Received		0.0	0.0
Foreclosed Property Acquired		0.0	0.0
Loans Written Off		0.0	0.0
Subsidy Allowance Amortization		(7.1)	(11.1)
Other		0.0	0.0
<b>Total of the above Adjustment Components</b>	\$	<b>(7.1)</b>	<b>\$ (11.1)</b>
<b>Ending Balance of the Subsidy Cost Allowance before Reestimates</b>	\$	<b>175.8</b>	<b>\$ 175.7</b>
<b>Add or Subtract Subsidy Reestimates by Component</b>			
Interest Rate Reestimates	\$	(9.6)	\$ (5.5)
Technical/Default Reestimate		(4.1)	(30.8)
<b>Total of the above Reestimate Components</b>		<b>(13.7)</b>	<b>(36.3)</b>
<b>Ending Balance of the Subsidy Cost Allowance</b>	\$	<b>162.1</b>	<b>\$ 139.4</b>

Defaulted Guaranteed Loans		Dollars in Millions	
		2012	2011
<i>As of September 30</i>			
<b>Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):</b>			
<b>Military Housing Privatization Initiative</b>			
Defaulted Guaranteed Loans Receivable, Gross	\$	0.0	\$ 0.0
Interest Receivable		0.0	0.0
Foreclosed Property		0.0	0.0
Allowance for Subsidy Cost (Present Value)		0.0	0.0
<b>Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net</b>	\$	<b>0.0</b>	<b>\$ 0.0</b>
<b>Armament Retooling &amp; Manufacturing Support Initiative</b>			
Defaulted Guaranteed Loans Receivable, Gross	\$	0.7	\$ 0.7
Interest Receivable		0.0	0.0
Foreclosed Property		0.0	0.0
Allowance for Subsidy Cost (Present Value)		(0.7)	(0.7)
<b>Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net</b>	\$	<b>0.0</b>	<b>\$ 0.0</b>
<b>Total Value of Assets Related to Defaulted</b>	\$	<b>0.0</b>	<b>\$ 0.0</b>

<b>Guaranteed Loans Outstanding</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>		<b>Outstanding Principal of Guaranteed Loans, Face Value</b>	<b>Amount of Outstanding Principal Guaranteed</b>
<b>2012</b>			
<b>Guaranteed Loans Outstanding</b>			
Military Housing Privatization Initiative	\$	448.4	\$ 448.4
Armament Retooling & Manufacturing Support Initiative		0.0	0.0
<b>Total</b>	<b>\$</b>	<b>448.4</b>	<b>\$ 448.4</b>
<b>2011</b>			
<b>Guaranteed Loans Outstanding</b>			
Military Housing Privatization Initiative	\$	464.7	\$ 464.7
Armament Retooling & Manufacturing Support Initiative		2.4	2.1
<b>Total</b>	<b>\$</b>	<b>467.1</b>	<b>\$ 466.8</b>
<b>2012</b>			
<b>New Guaranteed Loans Disbursed</b>			
Military Housing Privatization Initiative	\$	0.0	\$ 0.0
Armament Retooling & Manufacturing Support Initiative		0.0	0.0
<b>Total</b>	<b>\$</b>	<b>0.0</b>	<b>\$ 0.0</b>
<b>2011</b>			
<b>New Guaranteed Loans Disbursed</b>			
Military Housing Privatization Initiative	\$	0.0	\$ 0.0
Armament Retooling & Manufacturing Support Initiative		0.0	0.0
<b>Total</b>	<b>\$</b>	<b>0.0</b>	<b>\$ 0.0</b>

<b>Liabilities for Loan Guarantees</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Liabilities for Loan Guarantee from Post 1991 (Present Value)</b>			
Military Housing Privatization Initiative	\$	11.7	\$ 13.7
Armament Retooling & Manufacturing Support Initiative		1.0	0.2
<b>Total Loan Guarantee Liability (Post FY 1991)</b>	<b>\$</b>	<b>12.7</b>	<b>\$ 13.9</b>
<b>Total Loan Guarantee Liability</b>	<b>\$</b>	<b>12.7</b>	<b>\$ 13.9</b>

Department of Defense Agency Financial Report for FY 2012

<b>Subsidy Expense for Direct Loan by Program</b>					
<i>As of September 30</i>					
<i>Dollars in Millions</i>					
2012	Interest Differential	Defaults	Fees	Other	Total
<b>New Loan Guarantees Disbursed</b>					
Military Housing Privatization Initiative	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>
2011	Interest Differential	Defaults	Fees	Other	Total
<b>New Loan Guarantees Disbursed</b>					
Military Housing Privatization Initiative	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>
2012	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>Modifications and Reestimates</b>					
Military Housing Privatization Initiative	\$ 0.0	\$ (0.9)	\$ (1.7)	\$ (2.6)	\$ (2.6)
Armament Retooling & Manufacturing Support Initiative	0.0	0.8	(0.0)	0.8	0.8
<b>Total</b>	<b>\$ 0.0</b>	<b>\$ (0.1)</b>	<b>\$ (1.7)</b>	<b>\$ (1.8)</b>	<b>\$ (1.8)</b>
2011	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>Modifications and Reestimates</b>					
Military Housing Privatization Initiative	\$ 0.0	\$ (1.1)	\$ (2.2)	\$ (3.3)	\$ (3.3)
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	(3.6)	(3.6)	(3.6)
<b>Total</b>	<b>\$ 0.0</b>	<b>\$ (1.1)</b>	<b>\$ (5.8)</b>	<b>\$ (6.9)</b>	<b>\$ (6.9)</b>
		2012	2011		
<b>Total Loan Guarantee</b>					
Military Housing Privatization Initiative	\$	(2.6)	(3.3)		
Armament Retooling & Manufacturing Support Initiative		0.8	(3.6)		
<b>Total</b>	<b>\$</b>	<b>(1.8)</b>	<b>(6.9)</b>		

There are no new loan guarantees in FY2012.

<b>Subsidy Expense for Direct Loan by Program</b>					
<i>As of September 30</i>					
	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Budget Subsidy Rates for Loan Guarantees</b>					
Military Housing Privatization Initiative	0.0%	0.0%	0.0%	0.0%	0.0%
Armament Retooling & Manufacturing Support Initiative	0.0%	0.0%	0.0%	0.0%	0.0%

There are no new loan guarantees in FY 2012.

<b>Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>	<b>2012</b>	<b>2011</b>	
<b>Beginning Balance, Changes, and Ending Balance</b>			
<b>Beginning Balance of the Loan Guarantee Liability</b>	<b>\$ 13.9</b>	<b>\$ 19.8</b>	
<b>Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>			
Interest Supplement Costs	\$ 0.0	\$ 0.0	
Default Costs (Net of Recoveries)	0.0	0.0	
Fees and Other Collections	0.0	0.0	
Other Subsidy Costs	0.0	0.0	
<b>Total of the above Subsidy Expense Components</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	
<b>Adjustments</b>			
Loan Guarantee Modifications	\$ 0.0	\$ 0.0	
Fees Received	0.0	0.0	
Interest Supplements Paid	0.0	0.0	
Foreclosed Property and Loans Acquired	0.0	0.0	
Claim Payments to Lenders	0.0	0.0	
Interest Accumulation on the Liability Balance	0.6	1.0	
Other	0.0	0.0	
<b>Total of the above Adjustments</b>	<b>\$ 0.6</b>	<b>\$ 1.0</b>	
<b>Ending Balance of the Loan Guarantee Liability before Reestimates</b>	<b>\$ 14.5</b>	<b>\$ 20.8</b>	
<b>Add or Subtract Subsidy Reestimates by Component</b>			
Interest Rate Reestimate	\$ (0.1)	\$ (1.1)	
Technical/Default Reestimate	(1.7)	(5.8)	
<b>Total of the above Reestimate Components</b>	<b>\$ (1.8)</b>	<b>(6.9)</b>	
<b>Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 12.7</b>	<b>\$ 13.9</b>	

Administrative Expenses are limited to separately identified expenses for administering pre-FY 1992 and post-FY 1991 Direct Loans and Loan Guarantee Programs. The Department does not maintain a separate program to capture the expenses related to direct loans and loan guarantees for MHPI. Administrative expenses for the ARMS Initiative represent a fee paid to the U.S. Department of Agriculture, Rural Business Cooperative Service for servicing the loan guarantee program.

## NOTE 9. INVENTORY AND RELATED PROPERTY

<b>Inventory and Related Property</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>	<b>2012</b>	<b>2011</b>	
Inventory, Net	\$ 90,156.8	\$ 94,280.2	
Operating Materiel & Supplies, Net	152,591.5	147,731.5	
Stockpile Materiel, Net	551.4	570.3	
<b>Total Inventory and Related Property</b>	<b>\$ 243,299.7</b>	<b>\$ 242,582.0</b>	

Inventory, Net <i>As of September 30</i>	2012			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
<i>Dollars in Millions</i>				
<b>Inventory Categories</b>				
Available and Purchased for Resale	\$ 61,608.0	\$ (2,602.5)	\$ 59,005.5	FIFO,LAC, MAC
Held for Repair	33,864.2	(4,143.9)	29,720.3	LAC,MAC
Excess, Obsolete, and Unserviceable	6,833.8	(6,833.8)	0.0	NRV
Raw Materiel	1,352.6	0.0	1,352.6	MAC,SP,LAC
Work in Process	78.4	0.0	78.4	AC
<b>Total Inventory, Net</b>	<b>\$ 103,737.0</b>	<b>\$ (13,580.2)</b>	<b>\$ 90,156.8</b>	
<b>Legend for Valuation Methods:</b>				
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses			NRV = Net Realizable Value	
SP = Standard Price			MAC = Moving Average Cost	
AC = Actual Cost				

Inventory, Net <i>As of September 30</i>	2011			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
<i>Dollars in Millions</i>				
<b>Inventory Categories</b>				
Available and Purchased for Resale	\$ 65,084.4	\$ 590.1	\$ 65,674.5	FIFO,LAC, MAC
Held for Repair	30,748.1	(3,805.1)	26,943.0	LAC,MAC
Excess, Obsolete, and Unserviceable	7,776.0	(7,776.0)	0.0	NRV
Raw Materiel	1,373.7	0.0	1,373.7	MAC,SP,LAC
Work in Process	289.0	0.0	289.0	AC
<b>Total Inventory, Net</b>	<b>\$ 105,271.2</b>	<b>\$ (10,991.0)</b>	<b>\$ 94,280.2</b>	
<b>Legend for Valuation Methods:</b>				
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses			NRV = Net Realizable Value	
SP = Standard Price			MAC = Moving Average Cost	
AC = Actual Cost				

## Restrictions

The following are restrictions on the use, sale, or disposition of inventory:

- War reserve materiel valued at \$1.8 billion;
- Commissary items valued at \$398.8 million held for purchase by authorized patrons; and
- Dispositions pending litigation or negotiation valued at \$64.0 million.

There are no known restrictions on inventory disposition related to environmental or other liabilities.

## General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. Inventory is tangible personal property that is:

- Held for sale, or held for repair and eventual sale;
- In the process of production for sale; or
- To be consumed in the production of goods for sale or in the provision of service for a fee.

The Department assigns inventory items to a category based upon the type and condition of the asset.

As a result of audit readiness efforts, adjustments had to be made to mission critical asset balances that resulted from events that could not be identified to specific accounting periods, and those adjustments were made against current year gain/loss accounts. Significant accounting adjustments have been made to the Department's mission critical assets as a result of the Department's ongoing audit readiness efforts. These accounting adjustments were recognized in current year gain/loss accounts when auditable data was not available to support restatement of prior period financial statements.

Operating Materiel and Supplies, Net				<i>Dollars in Millions</i>
<i>As of September 30</i>	2012			Valuation Method
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	
<b>Inventory Categories</b>				
Held for Use	\$ 134,535.9	\$ (28.0)	\$ 134,507.9	SP, LAC, MAC
Held for Repair	18,882.2	(798.6)	18,083.6	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	1,925.0	(1,925.0)	0.0	NRV
<b>Total OM&amp;S</b>	<b>\$ 155,343.1</b>	<b>\$ (2,751.6)</b>	<b>\$ 152,591.5</b>	
<b>Legend for Valuation Methods:</b>				
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses			NRV = Net Realizable Value	
SP = Standard Price			MAC = Moving Average Cost	

Operating Materiel and Supplies, Net				<i>Dollars in Millions</i>
<i>As of September 30</i>	2011			Valuation Method
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	
<b>Inventory Categories</b>				
Held for Use	\$ 131,405.5	\$ 0.0	\$ 131,405.5	SP, LAC, MAC
Held for Repair	17,561.7	(1,235.7)	16,326.0	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	2,225.1	(2,225.1)	0.0	NRV
<b>Total OM&amp;S</b>	<b>\$ 151,192.3</b>	<b>\$ (3,460.8)</b>	<b>\$ 147,731.5</b>	
<b>Legend for Valuation Methods:</b>				
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses			NRV = Net Realizable Value	
SP = Standard Price			MAC = Moving Average Cost	

## Restrictions

Some munitions included in Operating Materiel and Supplies (OM&S) are restricted due to condition. Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements. However, obsolete and unserviceable OM&S may be used in emergency combat situations in which no other suitable munitions are immediately available.

## General Composition of OM&S

OM&S include spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally-managed aircraft engines held for consumption. The Department assigns OM&S items into a category based upon the type and condition of the asset.

Stockpile Materiel, Net				<i>Dollars in Millions</i>
<i>As of September 30</i>	2012			Valuation Method
	Stockpile, Materiel Amount	Allowance for Gains (Losses)	Stockpile, Materiel, Net	
<b>Stockpile Materiel Categories</b>				
Held for Sale	\$ 522.1	\$ 0.0	\$ 522.1	AC, LCM
Held for Reserve for Future Sale	29.3	0.0	29.3	AC, LCM
<b>Total Stockpile Materiel</b>	<b>\$ 551.4</b>	<b>\$ 0.0</b>	<b>\$ 551.4</b>	
<b>Legend for Valuation Methods:</b>				
AC = Actual Cost			LCM = Lower of Cost or Market	

Stockpile Materiel, Net				<i>Dollars in Millions</i>
<i>As of September 30</i>	2011			Valuation Method
	Stockpile, Materiel Amount	Allowance for Gains (Losses)	Stockpile, Materiel, Net	
<b>Stockpile Materiel Categories</b>				
Held for Sale	\$ 541.0	\$ 0.0	\$ 541.0	AC, LCM
Held for Reserve for Future Sale	29.3	0.0	29.3	AC, LCM
<b>Total Stockpile Materiel</b>	<b>\$ 570.3</b>	<b>\$ 0.0</b>	<b>\$ 570.3</b>	
<b>Legend for Valuation Methods:</b>				
AC = Actual Cost			LCM = Lower of Cost or Market	

## Restrictions

Materiel held by the National Defense Stockpile (NDS) is restricted unless released by congressional action and made available for sale on the open market. Stockpile materiel may not be disposed except for: (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; or (4) authorization by law.

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, NDS removes the materiel from Materiel Held in Reserve and reclassifies these items as Materiel Held for Sale. The estimated market price of the stockpile materiel held for sale as of 3rd Quarter, FY 2012, is \$1.4 billion.

## General Composition of Stockpile Materiel

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies.

**NOTE 10. GENERAL PP&E, NET**

General PP&E, Net		Dollars in Millions			
As of September 30		2012			
		Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)
<b>Major Asset Classes</b>					
Land	N/A	N/A	\$ 10,706.2	N/A	\$ 10,706.2
Buildings, Structures, and Facilities	S/L	20 or 40	248,871.1	(120,845.8)	128,025.3
Leasehold Improvements	S/L	Lease term	880.5	(302.2)	578.3
Software	S/L	2 – 5 or 10	11,324.7	(7,640.2)	3,684.5
General Equipment	S/L	5 or 10	105,745.4	(69,931.6)	35,813.8
Military Equipment	S/L	Various	878,687.7	(500,413.0)	378,274.7
Assets Under Capital Lease <sup>1</sup>	S/L	Lease term	901.4	(520.4)	381.0
Construction-in-Progress	N/A	N/A	42,825.7	N/A	42,825.7
Other			1,171.4	(2.9)	1,168.5
<b>Total General PP&amp;E</b>			<b>\$ 1,301,114.1</b>	<b>\$ (699,656.1)</b>	<b>\$ 601,458.0</b>

<sup>1</sup> Note 15 for additional information on Capital Leases  
 Legend for Valuation Methods: S/L = Straight Line N/A = Not Applicable

General PP&E, Net		Dollars in Millions			
As of September 30		Restated 2011			
		Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)
<b>Major Asset Classes</b>					
Land	N/A	N/A	\$ 10,577.1	N/A	\$ 10,577.1
Buildings, Structures, and Facilities	S/L	20 or 40	230,160.8	(118,526.4)	111,634.4
Leasehold Improvements	S/L	Lease term	1,032.2	(452.7)	579.5
Software	S/L	2 – 5 or 10	10,027.4	(6,932.4)	3,095.0
General Equipment	S/L	5 or 10	92,368.7	(64,943.0)	27,425.7
Military Equipment	S/L	Various	854,180.3	(446,334.0)	407,846.3
Assets Under Capital Lease <sup>1</sup>	S/L	Lease term	1,182.3	(748.6)	433.7
Construction-in-Progress	N/A	N/A	46,507.2	N/A	46,507.2
Other			1,201.4	(1.8)	1,199.6
<b>Total General PP&amp;E</b>			<b>\$ 1,247,237.4</b>	<b>\$ (637,938.9)</b>	<b>\$ 609,298.5</b>

<sup>1</sup> Note 15 for additional information on Capital Leases  
 Legend for Valuation Methods: S/L = Straight Line N/A = Not Applicable

**Restatements**

The Department corrected a \$1.0 billion understatement of General Property, Plant and Equipment to align the accounting records to the property accountability system. Refer to Note 26, Restatements, for further information.

**Other Disclosures**

The Department has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty

covenants restrict the Department's use and disposal of real property (land and buildings) located outside the United States.

The Department does not have the acquisition value for all General PP&E and uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The discovery and validation phases are identifying adjustments to values resulting in current year gains/losses.

Other consists of assets awaiting disposition.

## Heritage Assets and Stewardship Land

The Department's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

The mission of the Department is to provide the military forces necessary to deter war and protect the security of the United States. In that mission, the Department, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets (capitalized and depreciated).

Differences in the heritage assets and stewardship land quantities from the FY 2011 ending to the FY 2012 beginning unit counts resulted from efforts to improve quality of reported data.

Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. The Department defines these as follows:

- Buildings and Structures. Buildings and structures that are listed, or eligible for listing, on the National Register of Historic Places, including Multi-Use Heritage Assets.
- Archeological Sites. Sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places in accordance with Section 110 National Historic Preservation Act.
- Museum Collection Items. Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

The Department is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2012 due to limitations of the Department's financial and nonfinancial management processes and systems that feed the financial statements.

Categories	Measure Quantity	As of 9/30/11	Additions	Deletions	As of 9/30/12
Buildings and Structures	Each	58,603	859	3,287	56,175
Archeological Sites	Each	30,637	633	1,357	29,913
Museum Collection Items (Objects, not including fine art)	Each	1,367,534	28,272	163,580	1,232,226
Museum Collection Items (Objects, fine art)	Each	51,296	2,222	125	53,393

Stewardship land is land and land rights owned by the Department, but not acquired for, or in connection with, items of General Property, Plant, and Equipment. All land provided to the Department from the public domain or at no cost, regardless of its use, is classified as Stewardship Land.

Stewardship land is presented in context of all categories of the Department's lands and reported in acres based on the predominant use of the land. The three categories of Stewardship land held in public trust are: State-Owned Land, Withdrawn Public-Land, and Public Land.

The Department's stewardship land consists mainly of mission essential land.

Facility Code	Predominant Land Use Categories	As of 9/30/11 (Acres in Thousands)	Additions	Deletions	As of 9/30/12
9110	Government Owned Land	6,505	93	47	6,551
9111	State Owned Land	7	0	2	5
9120	Withdrawn Public Land	16,135	0	1,421	14,714
9130	Licensed and Permitted Land	2,362	461	1,906	917
9140	Public Land	202	0	0	202
9210	Land Easement	376	3	1	378
9220	In-leased Land	226	10	112	124
9230	Foreign Land	454	0	157	297
	<b>Grand Total</b>				<b>23,188</b>
	<b>Total – All Other Lands</b>				<b>8,267</b>
	<b>Total – Stewardship Lands</b>				<b>14,921</b>

Assets Under Capital Lease		Dollars in Millions	
As of September 30		2012	2011
<b>Entity as Lessee, Assets Under Capital Lease</b>			
Land and Buildings		\$ 273.0	\$ 538.8
Equipment		628.4	643.5
Accumulated Amortization		(520.4)	(748.6)
<b>Total Capital Leases</b>		<b>\$ 381.0</b>	<b>\$ 433.7</b>

## NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources		<i>Dollars in Millions</i>	
<i>As of September 30</i>	2012	2011	
<b>Intragovernmental Liabilities</b>			
Accounts Payable	\$ 12.9	\$ 9.2	
Debt	4.3	5.1	
Other	2,141.0	2,142.1	
<b>Total Intragovernmental Liabilities</b>	<b>\$ 2,158.2</b>	<b>\$ 2,156.4</b>	
<b>Non-Federal Liabilities</b>			
Accounts Payable	\$ 53.0	\$ 692.2	
Military Retirement and Other Federal Employment Benefits	1,771,202.7	1,656,021.3	
Environmental Liabilities	57,911.8	60,567.0	
Other Liabilities	16,323.7	17,186.6	
<b>Total Non-Federal Liabilities</b>	<b>\$ 1,845,491.2</b>	<b>\$ 1,734,467.1</b>	
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 1,847,649.4</b>	<b>\$ 1,736,623.5</b>	
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 610,347.4</b>	<b>\$ 614,893.4</b>	
<b>Total Liabilities</b>	<b>\$ 2,457,996.8</b>	<b>\$ 2,351,516.9</b>	

Liabilities Not Covered by Budgetary Resources includes liabilities requiring congressional action before budgetary resources can be provided.

### Abnormal Balance

Total Liabilities Covered by Budgetary Resources includes an abnormal balance of \$6.2 million in USSGL account 2140, Accrued Interest Payable. This is primarily due to improper posting of accounting transactions.

### Other Disclosures

Intragovernmental Accounts Payable represents subsidy payments for the Military Housing Privatization Initiative and liabilities in canceled appropriations that, if paid, will be disbursed using current year funds.

Non-Federal Accounts Payable primarily represents liabilities in canceled appropriations that, if paid, will be disbursed using current year funds.

Debt consists primarily of borrowing from the U.S. Treasury for capital improvements to the Washington Aqueduct Project. Arlington County and Falls Church, Virginia, will complete reimbursement to the Department by 2023.

Environmental Liabilities represents the Department's liability for existing and anticipated environmental clean-up and disposal.

Intragovernmental Liabilities, Other primarily consists of unfunded liabilities for Federal Employees Compensation Act, Unemployment Insurance, and Judgment Fund.

Non-Federal Liabilities, Other primarily consists of unfunded annual leave, contingent liabilities, and expected expenditures for disposal of conventional munitions.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$1.1 trillion in pension liabilities and \$656.3 billion in health benefit liabilities. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

## NOTE 12. ACCOUNTS PAYABLE

Accounts Payable	2012		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
<i>As of September 30</i>			
Intragovernmental Payables	\$ 1,762.9	N/A	\$ 1,762.9
Non-Federal Payables (To the Public)	19,498.2	(6.2)	19,492.0
<b>Total Accounts Payable</b>	<b>\$ 21,261.1</b>	<b>\$ (6.2)</b>	<b>\$ 21,254.9</b>

Accounts Payable	2011		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
<i>As of September 30</i>			
Intragovernmental Payables	\$ 1,893.2	N/A	\$ 1,893.2
Non-Federal Payables (To the Public)	26,102.4	1.5	26,103.9
<b>Total Accounts Payable</b>	<b>\$ 27,995.6</b>	<b>\$ 1.5</b>	<b>\$ 27,997.1</b>

Accounts Payable include amounts owed to Federal and non-Federal entities for goods and services received by the Department. The Department's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable. Accounts Payable was adjusted by reclassifying amounts between Federal and non-Federal accounts payable, accruing additional accounts payable and expenses, and applying both supported and unsupported undistributed disbursements at the reporting entity level.

### Abnormal Balance

Non-Federal Payables, interest, penalties, and administrative fees, includes an abnormal balance of \$6.2 million in USSGL account 2140 (Accrued Interest Payable). This is primarily due to an improper posting of accounting transactions.

**NOTE 13. DEBT**

<b>Debt</b>		<i>Dollars in Millions</i>		
<i>As of September 30</i>		<b>2012</b>		
		<b>Beginning Balance</b>	<b>Net Borrowing</b>	<b>Ending Balance</b>
<b>Agency Debt (Intragovernmental)</b>				
Debt to the Treasury	\$	783.4	\$	169.2
<b>Total Agency Debt</b>	<b>\$</b>	<b>783.4</b>	<b>\$</b>	<b>169.2</b>
			<b>\$</b>	<b>952.6</b>

<b>Debt</b>		<i>Dollars in Millions</i>		
<i>As of September 30</i>		<b>2011</b>		
		<b>Beginning Balance</b>	<b>Net Borrowing</b>	<b>Ending Balance</b>
<b>Agency Debt (Intragovernmental)</b>				
Debt to the Treasury	\$	518.3	\$	265.1
<b>Total Agency Debt</b>	<b>\$</b>	<b>518.3</b>	<b>\$</b>	<b>265.1</b>
			<b>\$</b>	<b>783.4</b>

The Department's debt consists of interest and principal payments due to the U.S. Treasury. The Department borrows funds for the Military Housing Privatization Initiative and the Washington Aqueduct Capital Improvements Project.

The Department must pay the debt on direct loans if borrowers (e.g. county or city governments, or housing builders) default. For loan guarantees, the Department must pay the amount of outstanding principal guaranteed.

**NOTE 14. ENVIRONMENTAL LIABILITIES AND DISPOSAL LIABILITIES**

<b>Environmental Liabilities and Disposal Liabilities</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Environmental Liabilities–Non-Federal</b>			
<b>Accrued Environmental Restoration Liabilities</b>			
Active Installations – Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$	10,571.0	\$
Active Installations – Military Munitions Response Program (MMRP)		3,953.9	4,120.0
Formerly Used Defense Sites – IRP & BD/DR		3,063.4	3,295.4
Formerly Used Defense Sites – MMRP		10,842.6	10,990.0
<b>Other Accrued Environmental Liabilities – Non-BRAC</b>			
Environmental Corrective Action	\$	786.4	\$
Environmental Closure Requirements		1,838.8	1,968.6
Environmental Response at Operational – Ranges		93.7	95.2
Asbestos		1,057.4	1,485.0
Non-Military Equipment		554.1	548.2
Other		1,121.7	1,079.9
<b>Base Realignment and Closure Installations (BRAC)</b>			
Installation Restoration Program	\$	3,388.2	\$
Military Munitions Response Program		703.1	707.3
Environmental Corrective Action/Closure Requirements		159.5	309.9
Asbestos		0.3	0.0

<b>Environmental Liabilities and Disposal Liabilities</b> <i>As of September 30</i>	<i>Dollars in Millions</i>	
	<b>2012</b>	<b>2011</b>
<b>Environmental Disposal for Military Equipment/Weapons Programs</b>		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	\$ 14,055.9	\$ 13,637.3
Non-Nuclear Powered Military Equipment	36.4	36.4
Other Weapons Systems	146.0	161.0
<b>Chemical Weapons Disposal Program</b>		
Chemical Demilitarization – Chemical Materials Agency (CMA)	\$ 3,691.1	\$ 4,592.0
CAMD Demilitarization – Assembled Chemical Weapons Alternatives (ACWA)	6,539.1	6,510.4
<b>Total Environmental Liabilities</b>	<b>\$ 62,602.6</b>	<b>\$ 64,823.1</b>

Other Accrued Environmental Liabilities, Non-Base Realignment and Closure (BRAC), Other primarily consists of remediation related to Formerly Utilized Sites Remedial Action Program (FUSRAP). The Department is responsible for FUSRAP, which remediates radiological contamination from the Department of Energy's U.S. Atomic Energy and Weapons Program.

The unrecognized portion of the estimated total clean-up costs associated with General Property, Plant, and Equipment (PP&E) is \$3.2 billion for FY 2012. Not all components of the Department are able to compile the necessary information for this disclosure, thus the amount reported may not accurately reflect the Department's total unrecognized costs associated with General PP&E. The Department is implementing procedures to address these deficiencies.

## OTHER DISCLOSURES

### Types of Environmental Liabilities and Disposal Liabilities Identified

The Department has clean up requirements for the Defense Environmental Restoration Program (DERP) sites at active installations, Base Realignment and Closure installations, Formerly Used Defense Sites, sites at active installations that are not covered by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners.

### Applicable Laws and Regulations for Cleanup Requirements

The Department is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other past activity that created a public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapon systems, and environmental costs related to BRAC actions that have taken

place.

The Department follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Superfund Amendment and Reauthorization Act, Resource Conservation and Recovery Act (RCRA) or other applicable Federal or state laws to clean up contamination. The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties that have a partial responsibility for the environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

The clean-up requirements for nuclear-powered aircraft carriers, submarines, and other nuclear ships are based on laws that affect the Department's conduct of environmental policy and regulations. The Atomic Energy Act of 1954, as amended, assures the proper management of source, special nuclear, and byproduct material.

As in all cases with nuclear power, the Department coordinates actions with the Department of Energy. The Nuclear Waste Policy Act of 1982 requires all owners and generators of high-level nuclear waste and spent nuclear fuel to pay their respective shares of the full cost of the program.

Finally, the Low-Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on [FY 1986 National Defense Authorization Act \(Public Law 99-145, as amended\)](#) that directed the Department to destroy the unitary chemical stockpile in accordance with the requirements of the Chemical Weapons Convention Treaty.

## **Methods for Assigning Total Cleanup Costs to Current Operating Periods**

The Department uses engineering estimates and independently validated models to estimate environmental costs. The models include the Remedial Action Cost Engineering Requirements application and the Normalization of Data System. The Department validates the models in accordance with [DoD Instruction 5000.61](#) and uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Department primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, the Department complies with accounting standards to assign costs to current operating periods. The Department has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, the Department expenses cleanup costs associated with that portion of the asset life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses

associated environmental costs systematically over the life of the asset using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

### **Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations**

The Department had changes in estimates resulting from overlooked or previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope. Environmental liabilities may change in the future due to changes in laws and regulation, changes in agreements with regulatory agencies, and advances in technology.

### **Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities**

The environmental liabilities for the Department are based on accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters.

The Department has a liability to take environmental restoration and corrective action for buried chemical munitions and agents; however, it is unable to estimate at this time because the extent of the buried chemical munitions and agents is unknown. The Department is also unable to provide a complete estimate for FUSRAP. The Department has ongoing studies and will update its estimate as additional liabilities are identified. In addition, not all components of the Department recognize environmental liabilities associated with General PP&E due to process and system limitations.

The Department has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department is unable to provide a reasonable estimate at this time because the extent of required restoration is unknown.

**NOTE 15. OTHER LIABILITIES**

Other Liabilities <i>As of September 30</i>	2012 <i>Dollars in Millions</i>		
	Current Liability	Noncurrent Liability	Total
<b>Intragovernmental</b>			
Advances from Others	\$ 1,185.8	\$ 0.0	\$ 1,185.8
Deposit Funds and Suspense Account Liabilities	153.3	0.0	153.3
Disbursing Officer Cash	1,889.4	0.0	1,889.4
Judgment Fund Liabilities	328.1	0.0	328.1
FECA Reimbursement to the Department of Labor	616.9	756.1	1,373.0
Custodial Liabilities	4,647.9	2,508.0	7,155.9
Employer Contribution and Payroll Taxes Payable	365.6	0.0	365.6
Other Liabilities	490.5	0.0	490.5
<b>Total Intragovernmental Other</b>	<b>\$ 9,677.5</b>	<b>\$ 3,264.1</b>	<b>\$ 12,941.6</b>
<b>Non-Federal</b>			
Accrued Funded Payroll and Benefits	\$ 9,387.2	\$ 0.0	\$ 9,387.2
Advances from Others	4,225.2	0.0	4,225.2
Deferred Credits	0.0	0.0	0.0
Deposit Funds and Suspense Accounts	473.1	0.0	473.1
Nonenvironmental Disposal Liabilities			
Military Equipment (Nonnuclear)	151.3	26.5	177.8
Excess/Obsolete Structures	66.1	525.6	591.7
Conventional Munitions Disposal	0.0	2,136.6	2,136.6
Accrued Unfunded Annual Leave	10,638.2	0.0	10,638.2
Capital Lease Liability	184.0	22.3	206.3
Contract Holdbacks	964.2	0.2	964.4
Employer Contribution and Payroll Taxes Payable	371.4	0.0	371.4
Contingent Liabilities	531.9	6,421.2	6,953.1
Other Liabilities	182.6	0.5	183.1
<b>Total Non-Federal Other Liabilities</b>	<b>\$ 27,175.2</b>	<b>\$ 9,132.9</b>	<b>\$ 36,308.1</b>
<b>Total Other Liabilities</b>	<b>\$ 36,852.7</b>	<b>\$ 12,397.0</b>	<b>\$ 49,249.7</b>

## Department of Defense Agency Financial Report for FY 2012

Other Liabilities <i>As of September 30</i>	Dollars in Millions		
	2011		
	Current Liability	Noncurrent Liability	Total
<b>Intragovernmental</b>			
Advances from Others	\$ 1,548.6	\$ 0.0	\$ 1,548.6
Deposit Funds and Suspense Account Liabilities	1,799.8	0.0	1,799.8
Disbursing Officer Cash	1,828.9	0.0	1,828.9
Judgment Fund Liabilities	260.6	0.0	260.6
FECA Reimbursement to the Department of Labor	607.1	776.4	1,383.5
Custodial Liabilities	3,949.3	2,533.8	6,483.1
Employer Contribution and Payroll Taxes Payable	352.2	0.0	352.2
Other Liabilities	575.0	0.0	575.0
<b>Total Intragovernmental Other</b>	<b>\$ 10,921.5</b>	<b>\$ 3,310.2</b>	<b>\$ 14,231.7</b>
<b>Non-Federal</b>			
Accrued Funded Payroll and Benefits	\$ 5,703.1	\$ 0.0	\$ 5,703.1
Advances from Others	4,279.2	0.0	4,279.2
Deferred Credits	0.0	0.0	0.0
Deposit Funds and Suspense Accounts	164.8	0.0	164.8
Nonenvironmental Disposal Liabilities			
Military Equipment (Nonnuclear)	12.8	207.6	220.4
Excess/Obsolete Structures	3.2	535.4	538.6
Conventional Munitions Disposal	0.0	2,752.4	2,752.4
Accrued Unfunded Annual Leave	10,211.5	0.0	10,211.5
Capital Lease Liability	208.1	29.6	237.7
Contract Holdbacks	806.2	0.3	806.5
Employer Contribution and Payroll Taxes Payable	373.9	0.0	373.9
Contingent Liabilities	1,581.1	4,288.3	5,869.4
Other Liabilities	150.1	0.5	150.6
<b>Total Non-Federal Other Liabilities</b>	<b>\$ 23,494.0</b>	<b>\$ 7,814.1</b>	<b>\$ 31,308.1</b>
<b>Total Other Liabilities</b>	<b>\$ 34,415.5</b>	<b>\$ 11,124.3</b>	<b>\$ 45,539.8</b>

Capital Lease Liability		Dollars in Millions						
		2012 – Asset Category						
As of September 30		Land and Buildings	Equipment	Other	Total			
<b>Future Payments Due</b>								
2013	\$	17.5	\$	0.1	\$	2.8	\$	20.4
2014		19.6		0.0		1.1		20.7
2015		19.1		0.0		0.0		19.1
2016		10.4		0.0		0.0		10.4
2017		11.7		0.0		0.0		11.7
After 5 Years		126.9		0.0		0.0		126.9
<b>Total Future Lease Payments Due</b>	<b>\$</b>	<b>205.2</b>	<b>\$</b>	<b>0.1</b>	<b>\$</b>	<b>3.9</b>	<b>\$</b>	<b>209.2</b>
Less: Imputed Interest Executory Costs		2.9		0.0		0.0		2.9
<b>Net Capital Lease Liability</b>	<b>\$</b>	<b>202.3</b>	<b>\$</b>	<b>0.1</b>	<b>\$</b>	<b>3.9</b>	<b>\$</b>	<b>206.3</b>
<b>Capital Lease Liabilities Covered by Budgetary Resources</b>								<b>206.3</b>
<b>Capital Lease Liabilities Not Covered by Budgetary Resources</b>								<b>0.0</b>

Capital Lease Liability		Dollars in Millions						
		2011 – Asset Category						
As of September 30		Land and Buildings	Equipment	Other	Total			
<b>Future Payments Due</b>								
2012	\$	46.2	\$	0.1	\$	9.7	\$	56.0
2013		22.8		0.1		2.8		25.7
2014		18.9		0.0		2.6		21.5
2015		18.9		0.0		0.0		18.9
2016		19.1		0.0		0.0		19.1
After 5 Years		138.6		0.0		0.0		138.6
<b>Total Future Lease Payments Due</b>	<b>\$</b>	<b>264.5</b>	<b>\$</b>	<b>0.2</b>	<b>\$</b>	<b>15.1</b>	<b>\$</b>	<b>279.8</b>
Less: Imputed Interest Executory Costs		42.1		0.0		0.0		42.1
<b>Net Capital Lease Liability</b>	<b>\$</b>	<b>222.4</b>	<b>\$</b>	<b>0.2</b>	<b>\$</b>	<b>15.1</b>	<b>\$</b>	<b>237.7</b>
<b>Capital Lease Liabilities Covered by Budgetary Resources</b>								<b>237.7</b>
<b>Capital Lease Liabilities Not Covered by Budgetary Resources</b>								<b>0.0</b>

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

Non-Federal Other Liabilities primarily consist of estimated costs for services provided; accrued liabilities for inventory owned and managed on behalf of foreign governments; and undistributed international tariff receipts.

Contingent Liabilities includes \$3.4 billion related to contracts authorizing progress payments based on cost as defined in the [Federal Acquisition Regulation \(FAR\)](#). In accordance with contract terms, specific rights to contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts

and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the Department has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the [FAR](#). Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

## **NOTE 16. COMMITMENTS AND CONTINGENCIES**

### **Legal Contingencies**

The Department is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The Department has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Department records contingent liabilities in Note 15, Other Liabilities.

The Department reports 48 legal actions with individual claims greater than the Department's FY 2012 materiality threshold of \$140.3 million. The total of the 48 actions is approximately \$13.0 trillion. Of this amount, the OGC determined that claims totaling approximately \$8.6 billion are classified "reasonably possible," \$956.7 billion are classified "remote," and \$12.0 trillion are classified "unable to determine the probability of loss." The Department also had a number of potential claims that individually did not meet the Department's materiality threshold but did meet the individual Components' thresholds. These claims are disclosed in the Components' financial statements.

### **Other Commitments and Contingencies**

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, the Department has limited automated system processes by which it captures or assesses these potential contingent liabilities, therefore, the amounts reported may not fairly present the Department's contingent liabilities. Contingencies considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further information.

## NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

Military Retirement and Other Federal Employment Benefits				<i>Dollars in Millions</i>
<i>As of September 30</i>	2012			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	
<b>Pension and Health Benefits</b>				
Military Retirement Pensions	\$ 1,477,918.0	\$ (371,657.5)	\$ 1,106,260.5	
Military Retirement Health Benefits	298,216.9	0.0	298,216.9	
Military Medicare-Eligible Retiree Benefits	532,781.3	(174,703.7)	358,077.6	
<b>Total Pension and Health Actuarial Benefits</b>	<b>\$ 2,308,916.2</b>	<b>\$ (546,361.2)</b>	<b>\$ 1,762,555.0</b>	
<b>Other Benefits</b>				
FECA	\$ 6,540.8	\$ 0.0	\$ 6,540.8	
Voluntary Separation Incentive Programs	678.2	(308.5)	369.7	
DoD Education Benefits Fund	1,385.4	(1,385.4)	0.0	
Other	6,403.7	(4,666.3)	1,737.4	
<b>Total Other Benefits</b>	<b>\$ 15,008.1</b>	<b>\$ (6,360.2)</b>	<b>\$ 8,647.9</b>	
<b>Total Military Retirement and Other Federal Employment Benefits</b>	<b>\$ 2,323,924.3</b>	<b>\$ (552,721.4)</b>	<b>\$ 1,771,202.9</b>	
<i>Actuarial Cost Method Used: Aggregate Entry-Age Method</i>				
<i>Assumptions: Effective Interest</i>				
<i>Market Value of Investments in Market-based and Marketable Securities: \$807.7 billion</i>				

Military Retirement and Other Federal Employment Benefits				<i>Dollars in Millions</i>
<i>As of September 30</i>	2011			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	
<b>Pension and Health Actuarial Benefits</b>				
Military Retirement Pensions	\$ 1,360,922.5	\$ (368,236.0)	\$ 992,686.5	
Military Retirement Health Benefits	305,985.0	0.0	305,985.0	
Military Medicare-Eligible Retiree Benefits	533,667.7	(184,914.3)	348,753.4	
<b>Total Pension and Health Actuarial Benefits</b>	<b>\$ 2,200,575.2</b>	<b>\$ (553,150.3)</b>	<b>\$ 1,647,424.9</b>	
<b>Other Actuarial Benefits</b>				
FECA	\$ 6,366.4	\$ 0.0	\$ 6,366.4	
Voluntary Separation Incentive Programs	770.1	(348.6)	421.5	
DoD Education Benefits Fund	1,773.6	(1,773.6)	0.0	
Other	2,874.3	(1,065.8)	1,808.5	
<b>Total Other Actuarial Benefits</b>	<b>\$ 11,784.4</b>	<b>\$ (3,188.0)</b>	<b>\$ 8,596.4</b>	
<b>Total Military Retirement and</b>	<b>\$ 2,212,359.6</b>	<b>\$ (556,338.3)</b>	<b>\$ 1,656,021.3</b>	

<b>Other Federal Employment Benefits</b>			
<i>Actuarial Cost Method Used: Aggregate Entry-Age Method</i>			
<i>Assumptions: Effective Interest</i>			
<i>Market Value of Investments in Market-based and Marketable Securities: \$662.4 billion</i>			

<b>Military Retirement and Other Federal Employment Benefits</b>						<i>Dollars in Millions</i>
	<b>2012</b>					
	<b>Military Retirement Pensions</b>	<b>Military Pre-Medicare Eligible Retiree Health Benefits</b>	<b>Military Medicare-Eligible Retiree Health Benefits</b>	<b>Voluntary Separation Incentive Programs</b>	<b>DoD Education Benefits Fund</b>	
<i>As of September 30</i>						
<b>Beginning Actuarial Liability</b>	<b>\$ 1,360,922.5</b>	<b>\$ 305,985.0</b>	<b>\$ 533,667.7</b>	<b>\$ 770.1</b>	<b>\$ 1,773.6</b>	
Normal Cost Liability	30,563.7	10,700.7	10,958.3	0.0	299.0	
Interest Cost	64,807.2	15,237.2	26,457.4	27.1	78.2	
Plan Amendments	0.0	1,384.1	(33,269.9)	0.0	0.0	
Experience Losses (Gains)	(3,202.1)	(5,611.4)	(6,682.4)	(14.2)	(93.4)	
Other factors	0.2	(0.0)	0.1	(0.1)	(259.7)	
<b>Subtotal: Expenses before Losses (Gains) from Actuarial Assumption Changes</b>	<b>92,169.0</b>	<b>21,710.6</b>	<b>(2,536.5)</b>	<b>12.8</b>	<b>24.1</b>	
<b>Actuarial (Gain)/Loss due to :</b>						
Changes in trend assumptions	0.0	(23,958.5)	(14,673.9)	0.0	0.0	
Changes in assumptions other than trend	77,190.2	6,063.8	25,794.6	11.0	0.0	
<b>Subtotal: Losses (Gains) from Actuarial Assumption Changes</b>	<b>77,190.2</b>	<b>(17,894.7)</b>	<b>11,120.7</b>	<b>11.0</b>	<b>0.0</b>	
<b>Total Expenses</b>	<b>\$ 169,359.2</b>	<b>\$ 3,815.9</b>	<b>\$ 8,584.2</b>	<b>\$ 23.8</b>	<b>\$ 24.1</b>	
Less Benefit Outlays	52,363.7	11,584.0	9,470.6	115.7	412.3	
<b>Total Changes in Actuarial Liability</b>	<b>\$ 116,995.5</b>	<b>\$ (7,768.1)</b>	<b>\$ (886.4)</b>	<b>\$ (91.9)</b>	<b>\$ (388.2)</b>	
<b>Ending Actuarial Liability</b>	<b>\$ 1,477,918.0</b>	<b>\$ 298,216.9</b>	<b>\$ 532,781.3</b>	<b>\$ 678.2</b>	<b>\$ 1,385.4</b>	

The Department complies with [SFFAS No. 33](#), "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and postemployment benefits. The [SFFAS No. 33](#) also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

## Military Retirement Pensions

The Military Retirement Fund is a defined benefit plan authorized by [Public Law \(PL\) 98-94](#) to provide funds used to pay annuities and pensions to retired military personnel and their survivors. The Department of Defense (DoD) Board of Actuaries approves the long-term economic assumptions for inflation, salary, and interest. The actuaries calculate the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). Due to reporting deadlines, the current year actuarial

present value of projected plan benefits rolls forward from the prior year's valuation results. The actuaries used the following assumptions to calculate the FY 2012 roll-forward amount:

Military Retirement Pensions	Inflation	Salary	Interest
Fiscal Year 2012	3.6% (actual)	1.6% (actual)	4.8%
Fiscal Year 2013	1.6% (estimated)	1.7% (estimated)	4.6%
Long Term	2.6%	3.0%	4.6%
<i>Actuarial Cost Method Used: Aggregate Entry-Age Normal Method</i>			
<i>Market Value of Investments in Market-Based and Marketable Securities: \$540.2 billion</i>			
<i>Assumed Interest Rate: 4.8 percent</i>			

Historically, the initial unfunded liability of the program was amortized over a 50-year period. Effective FY 2008, the initial unfunded liability is amortized over a 42-year period to ensure the annual payments cover the interest on the unfunded actuarial liability, with the last payment expected October 1, 2025. All subsequent gains and losses experienced are amortized over a 30-year period.

### MILITARY RETIREMENT HEALTH BENEFITS (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. The actuaries calculate the actuarial liabilities annually using assumptions and actual experience. For the FY 2012 actuarial liability calculation, the actuaries used the following assumptions:

MHRB Medical Trend	FY 2011 – FY 2012	Ultimate Rate FY 2036
Medicare Inpatient (Direct Care)	1.60%	5.35%
Medicare Outpatient (Direct Care)	2.26%	5.35%
Medicare Prescriptions (Direct Care)	0.00%	5.35%
Non-Medicare Inpatient (Direct Care)	2.00%	5.35%
Non-Medicare Outpatient (Direct Care)	5.00%	5.35%
Non-Medicare Prescriptions (Direct Care)	1.70%	5.35%
Non-Medicare Inpatient (Purchased Care)	4.57%	5.35%
Non-Medicare Outpatient (Purchased Care)	5.34%	5.35%
Non-Medicare Prescriptions (Purchased Care)	5.25%	5.35%
U.S. Family Health Plan (USFHP) (Purchased Care)	4.75%	5.35%
<i>Actuarial Cost Method Used: Aggregate Entry-Age Normal Method</i>		
<i>Assumed Interest Rate: 4.6 percent</i>		

### Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits

In accordance with PL 106-398, MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Board of Actuaries approves the long-term assumptions for medical trends and interest. The actuaries calculate the actuarial liabilities annually using actual experience (e.g., mortality and retirement rates, direct care costs, purchased care). Due to reporting deadlines, the current year actuarial present value of projected plan benefits rolls forward from the prior year's results. The actuaries used the

following assumptions to calculate the FY 2012 roll-forward amount:

MERHCF Benefits – Medical Trend	FY 2011 – FY 2012	Ultimate Rate FY 2036
Medicare Inpatient (Direct Care)	1.60%	5.35%
Medicare Inpatient (Purchased Care)	3.60%	5.35%
Medicare Outpatient (Direct Care)	2.26%	5.35%
Medicare Outpatient (Purchased Care)	3.26%	5.35%
Medicare Prescriptions (Direct Care)	0.00%	5.35%
Medicare Prescriptions (Purchased Care)	4.44%	5.35%
Medicare USFHP (Purchased Care)	3.83%	5.35%
<i>Actuarial Cost Method Used: Aggregate Entry-Age Normal Method</i>		
<i>Market Value of Investments in Market-Based and Marketable Securities: \$264.8 billion</i>		
<i>Assumed Interest Rate: 4.6 percent</i>		

The MERHCF liability includes Medicare liabilities for all Uniformed Services. The \$532.8 billion liability includes \$520.7 billion for the Department, \$10.8 billion for the Coast Guard, \$1.2 billion for the Public Health Service and \$78.5 million for National Oceanic and Atmospheric Administration (NOAA). The FY 2012 contributions from each of the Uniformed Services were \$10.8 billion from the Department, \$261.9 million from the Coast Guard, \$36.0 million from the Public Health Service, and \$1.8 million from NOAA.

### Federal Employees Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers’ compensation benefits, which 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 historical benefit payment patterns related to a specific incurred period to predict the final payment 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. A 2.3 percent interest rate was assumed for year one and 3.1 percent for year two and thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2012 were also used to adjust the methodology’s historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years were as follows:

Federal Employees – Compensation Act (FECA)		
CBY	COLA	CPIM
2013	2.83%	3.65%
2014	2.03%	3.66%
2015	1.93%	3.72%
2016	2.00%	3.73%
2017+	2.03%	3.80%

The model's resulting projections were analyzed by DOL to ensure the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model of economic assumptions, (2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2012 to the average pattern observed during the prior three charge back years, and (4) a comparison of the estimated liability per case in the 2012 projection to the average pattern for the projections for the most recent three years.

### **Voluntary Separation Incentive (VSI) Program**

The VSI Program was established by PL 102-190 to reduce the number of military personnel on active duty. The DoD Board of Actuaries approved the assumed annual interest rate of 3.4 percent used to calculate the actuarial liability. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest cost.

Market Value of Investments in Market-based and Marketable Securities: \$364.4 million

### **DoD Education Benefits Fund (EBF)**

The EBF was established by PL 98-525 to recruit and retain military members and aid in the readjustment of military members to civilian life. The actuaries calculate the actuarial liability annually based on the assumed interest rate of 4.0 percent that was approved by the DoD Board of Actuaries.

Market Value of Investments in Market-based and Marketable Securities: \$2.3 billion

### **Other Federal Employment Benefits**

Other Federal Employment Benefits primarily consists of accrued pensions and annuities, and an estimated liability for incurred-but-not-reported medical claims not processed prior to fiscal year end.

**NOTE 18. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST**

Costs and Exchange Revenue	Dollars in Millions	
	2012	Restated 2011
<i>As of September 30</i>		
<b>Military Retirement Benefits</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 6.1	\$ 0.0
B. Non-Federal Cost	\$ 85,564.3	\$ 107,519.8
C. Total Cost	\$ 85,570.4	\$ 107,519.8
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (19,073.3)	\$ (27,456.7)
B. Non-Federal Revenue	\$ 0.0	\$ 0.0
C. Total Revenue	\$ (19,073.3)	\$ (27,456.7)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 88,311.0	\$ 12,646.1
<b>Total Net Cost</b>	<b>\$ 154,808.1</b>	<b>\$ 92,709.2</b>
<b>Civil Works</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,435.6	\$ 1,466.4
B. Non-Federal Cost	\$ 9,531.6	\$ 12,063.7
C. Total Cost	\$ 10,967.2	\$ 13,530.1
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (1,393.5)	\$ (1,623.6)
B. Non-Federal Revenue	\$ (774.1)	\$ (694.6)
C. Total Revenue	\$ (2,167.6)	\$ (2,318.2)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0.0	\$ 0.0
<b>Total Net Cost</b>	<b>\$ 8,799.6</b>	<b>\$ 11,211.9</b>
<b>Military Personnel</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 38,673.2	\$ 35,115.5
B. Non-Federal Cost	\$ 111,657.3	\$ 118,765.9
C. Total Cost	\$ 150,330.5	\$ 153,881.4
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (1,119.5)	\$ (804.3)
B. Non-Federal Revenue	\$ (339.1)	\$ (77.3)
C. Total Revenue	\$ (1,458.6)	\$ (881.6)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0.0	\$ 0.0
<b>Total Net Cost</b>	<b>\$ 148,871.9</b>	<b>\$ 152,999.8</b>
<b>Operations, Readiness &amp; Support</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ (56,303.5)	\$ (55,748.9)
B. Non-Federal Cost	\$ 352,007.6	\$ 370,308.9
C. Total Cost	\$ 295,704.1	\$ 314,560.0
2. Earned Revenue		
A. Intragovernmental Revenue	\$ 13,726.5	\$ 11,470.3

## Department of Defense Agency Financial Report for FY 2012

Costs and Exchange Revenue <i>As of September 30</i>	<i>Dollars in Millions</i>	
	2012	Restated 2011
B. Non-Federal Revenue	\$ (48,357.2)	\$ (73,595.3)
C. Total Revenue	\$ (34,630.7)	\$ (62,125.0)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ (17,883.7)	\$ (25,015.9)
<b>Total Net Cost</b>	<b>\$ 243,189.7</b>	<b>\$ 227,419.1</b>
<b>Procurement</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 30,773.4	\$ 29,956.9
B. Non-Federal Cost	\$ 99,805.4	\$ 98,615.9
C. Total Cost	\$ 130,578.8	\$ 128,572.8
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (3,192.3)	\$ (3,150.6)
B. Non-Federal Revenue	\$ (305.7)	\$ (3,015.0)
C. Total Revenue	\$ (3,498.0)	\$ (6,165.6)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0.0	\$ 0.0
<b>Total Net Cost</b>	<b>\$ 127,080.8</b>	<b>\$ 122,407.2</b>
<b>Research, Development, Test &amp; Evaluation</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 22,256.0	\$ 22,993.7
B. Non-Federal Cost	\$ 54,516.6	\$ 56,237.2
C. Total Cost	\$ 76,772.6	\$ 79,230.9
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (7,676.9)	\$ (7,916.6)
B. Non-Federal Revenue	\$ (1,590.3)	\$ (251.7)
C. Total Revenue	\$ (9,267.2)	\$ (8,168.3)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0.0	\$ 0.0
<b>Total Net Cost</b>	<b>\$ 67,505.4</b>	<b>\$ 71,062.6</b>
<b>Family Housing &amp; Military Construction</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 2,019.9	\$ 1,734.3
B. Non-Federal Cost	\$ 29,787.6	\$ 12,605.9
C. Total Cost	\$ 31,807.5	\$ 14,340.2
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (8,579.0)	\$ (7,547.4)
B. Non-Federal Revenue	\$ (4,630.4)	\$ (377.1)
C. Total Revenue	\$ (13,209.4)	\$ (7,924.5)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0.0	\$ 0.0
<b>Total Net Cost</b>	<b>\$ 18,598.1</b>	<b>\$ 6,415.7</b>
<b>Consolidated</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 38,860.7	\$ 35,517.9
B. Non-Federal Cost	\$ 742,870.4	\$ 776,117.3
C. Total Cost	\$ 781,731.1	\$ 811,635.2

Costs and Exchange Revenue <i>As of September 30</i>	<i>Dollars in Millions</i>	
	2012	Restated 2011
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (27,308.0)	\$ (37,028.9)
B. Non-Federal Revenue	\$ (55,996.8)	\$ (78,011.0)
C. Total Revenue	\$ (83,304.8)	\$ (115,039.9)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 70,427.3	\$ (12,369.8)
4. Costs Not Assigned to Programs	\$ 0.0	\$ 0.0
5. (Less: Earned Revenues) Not Attributed to Programs	\$ 0.0	\$ 0.0
<b>Total Net Cost</b>	<b>\$ 768,853.6</b>	<b>\$ 684,225.5</b>

## Abnormal Balances

Operations, Readiness & Support Intragovernmental Gross Cost on the SNC has an abnormal balance of \$56.3 billion. The current business practice is to include elimination reporting in this program group.

Operations, Readiness & Support Intragovernmental Earned Revenue on the SNC has an abnormal balance of \$13.7 billion. The current business practice is to include elimination reporting in this program group.

Earned Revenue includes an abnormal balance of \$93.7 million in USSGL account 5909 (Contra Revenue for Other Revenue). During FY 2012, the prior year deferred revenue balance was reversed and the current year recorded. The prior year deferred revenue was greater than the current year causing the abnormal balance.

## Restatements

The Department identified an understatement of General Property, Plant and Equipment. This correction increased the FY 2011 net cost by \$72.2 million. This prior period adjustment is reflected in the schedule above as non-Federal Gross Cost in Procurement; Research, Development, Test and Evaluation. See Note 26, Restatements, for additional information.

## Other Disclosures

The SNC represents the net cost of programs and organizations of the Department that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act. The Department is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards ([SFFAS No. 4](#), "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by [SFFAS No. 30](#), "Inter-Entity Cost Implementation").

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a non-Federal entity.

The Department's systems do not track intragovernmental transactions by customer at the transaction level. Buyer side expenses are adjusted to agree with internal seller side revenues. Expenses are generally adjusted by reclassifying amounts between Federal and non-Federal expenses. Intradepartmental revenues and expenses are then eliminated.

The SNC presents information based on budgetary obligation, disbursement, and collection transactions, as well as data from nonfinancial feeder systems. Amounts are adjusted for accruals, such as payroll expenses, accounts payable, and environmental liabilities. The General Fund data is primarily derived from budgetary transactions (obligations, disbursements, and collections), data from nonfinancial feeder systems, and accruals made for major items. While Working Capital Funds primarily record transactions on an accrual basis, the systems do not always capture actual costs in a timely manner.

The Department's accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations.

The Department implemented [SFFAS No. 33](#), "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates". The standard requires the separate presentation of gains and losses from changes in long term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the SNC. The [SFFAS No. 33](#) also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

During FY 2011, based on SFFAS No. 33, the Department included all costs associated with the change in the actuarial liabilities for military retirement in "Losses/(Gains) from Actuarial Assumption Changes". During FY 2012, the Department of Treasury and the Government Accountability Office provided additional guidance which specified only trend and other assumption changes should be recorded as "Losses/(Gains) from Actuarial Assumption Changes". To ensure comparability, the FY 2011 column on the Statement of Net Cost has been updated to reflect the additional guidance. As a result, there may be inconsistencies between the FY 2011 column and the FY 2011 published statements.

## **NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION**

### **Abnormal Balances**

Net Cost of Operations includes an abnormal balance of \$93.7 million in USSGL account 5909 (Contra Revenue for Other Revenue). During FY 2012, the prior year deferred revenue balance was reversed in the current year and the current year deferred revenue was recorded. The prior year deferred revenue was more than the current year deferred revenue causing this account balance to be abnormal.

Nonexchange Revenue includes an abnormal balance of \$26.4 million in USSGL account 5320 (Penalties and Fines Revenue). During 4th Quarter, FY 2012, penalties

previously recorded for the Cerrillos Dam long term water storage contract at the Jacksonville District were reversed as the cost share agreement did not allow for penalties.

Other Financing Sources, Other – Earmarked Funds on the Statement of Changes in Net Position include an abnormal balance of \$21.8 million in USSGL account 5791 (Adjustment to Financing Sources - Downward Reestimate or Negative Subsidy). This account is offset by a corresponding entry in the non-earmarked direct loan program account.

## **Restatements**

The Department corrected a \$1.0 billion understatement of General Property, Plant and Equipment to align the accounting records with the property accountability system and a \$955.1 million overstatement of Other Assets (With the Public). Refer to Note 26, Restatements, for further information.

## **Other Disclosures**

Other Financing Sources, Other consists primarily of nonexchange gains and losses necessary to reconcile the proprietary and budgetary amounts, as well as gains and losses on disposition of assets. Due to financial system limitations, the Department adjusts for these unreconciled differences.

Earmarked Cumulative Results of Operations ending balance on the Statement of Changes in Net Position (SCNP) does not agree with the Earmarked Cumulative Results reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations. In the SCNP, all offsetting balances (e.g., transfers-in and transfers-out, revenues and expenses) for intraentity activity between Earmarked Funds and All Other Funds are reported on the same lines. The Eliminations column contains all appropriate elimination entries, which net to zero within each respective line, except for intraentity imputed financing costs.

Appropriations Received on the SCNP does not agree with Appropriations on the Statement of Budgetary Resources (SBR) by \$55.4 billion. This difference represents \$125.3 billion in trust and special fund receipts reported as exchange revenue on the Statement of Net Cost and included in appropriations on the SBR, offset by \$60.5 billion in receipts and appropriations temporarily precluded from obligation, \$8.5 billion in permanent reductions, and \$0.9 billion in receipts and appropriations temporarily precluded from obligations and current year authority transfers. In order to preserve visibility with the President's Budget, these appropriations are effectively reported twice on the SBR. They are reported once by the Military Departments and Defense Agencies as appropriated and once by the individual trust funds as receipts. Refer to Note 20, Disclosures Related to the SBR, for further information.

## NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Disclosures Related to the Statement of Budgetary Resources <i>As of September 30</i>	Dollars in Millions	
	2012	Restated 2011
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period.	\$ 486,886.1	\$ 477,099.3

### Restatements

The Department corrected a \$955.1 million overstatement impacting the Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period. Refer to Note 26, Restatements, for further information.

### Reconciliation Differences

Appropriations on the SBR exceed Appropriations Received on the Statement of Changes in Net Position by \$55.4 billion. This difference represents \$125.3 billion in trust and special fund receipts reported as exchange revenue on the Statement of Net Cost and included in appropriations on the SBR, offset by \$60.5 billion in receipts and appropriations temporarily precluded from obligation, \$8.5 billion in permanent reductions, and \$0.9 billion in receipts unavailable for obligation upon collection and current year authority transfers. In accordance with OMB guidance, \$109.9 billion of General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds. The difference is primarily due to duplicate reporting in the SBR of the Military Services' contributions and U.S. Treasury's payments to the Military Retirement Trust Fund and the Department of Defense Medicare-Eligible Retiree Health Care Fund.

The SBR FY 2011 column includes \$108.5 billion more in budget authority than reported in the 2011 actual column of the President's FY 2013 Budget. The difference is primarily due to duplicate reporting in the SBR of the Military Services' contributions and U.S. Treasury's payments to the Military Retirement Trust Fund and the Department of Defense Medicare-Eligible Retiree Health Care Fund.

The SBR FY 2011 column includes \$66.3 million less in obligations than reported in the 2011 actual column of the President's FY 2013 Budget. The difference is primarily due to the timing of the recognition of obligations.

The SBR FY 2011 column includes \$83.2 billion less in net outlays than reported in the 2011 actual column of the President's FY 2013 Budget. The SBR reduces net outlays by the distributed offsetting receipts. The President's Budget does not reduce the Department's outlays by the distributed offsetting receipts.

### Permanent Indefinite Appropriations

The Department of Defense (DoD) received the following permanent indefinite appropriations:

Department of the Army General Gift Fund (10 USC 2601(C)(1))

Department of the Navy General Gift Fund (10 USC 2601(C)(2))

Department of the Air Force General Gift Fund (10 USC 2601 (C)(3))  
Department of Defense General Gift Fund (10 USC 2601)  
Disposal of Department of Defense Real Property (40 USC 485(h)(2)(A)(B))  
Lease of Department of Defense Real Property (40 USC 485(h)(2)(A)(B))  
Foreign National Employees Separation Pay Account, Defense (10 USC 1581)  
United States Naval Academy Gift and Museum Fund (10 USC 6973-4)  
Ship Stores Profits, Navy (10 USC 7220, 31 USC 1321)  
Burdensharing Contributions (10 USC 2350j)  
Forest Program (10 USC 2665)  
Medicare Eligible Retiree Health Care Fund (10 USC 1111)  
Military Retirement Fund (10 USC 1461)  
Education Benefits Fund (10 USC 2006)  
Host Nation Support for U.S. Relocation Activities (10 USC 2350k)  
Hydraulic Mining Debris Reservoir (33 USC 683)  
Maintenance and Operation of Dams and Other Improvements of Navigable Waters  
(16 USC 810(a))  
Payments to States (33 USC 701c-3)  
Wildlife Conservation (16 USC 670-670(f))  
Ainsworth Bequest (31 USC 1321)  
DoD Family Housing Improvement Fund (10 USC 2883 (a))  
DoD Military Unaccompanied Housing Improvement Fund (10 USC 2883 (a))  
Voluntary Separation Incentive Fund (10 USC 1175(h))  
Rivers & Harbors Contributed Funds (33 USC 560, 701h)  
Concurrent Receipt Accrual Payments to the Military Retirement Fund 10 USC 1466(b)(1)  
Rocky Mountain Arsenal, Restoration (100 Statute, 4003 SEC 1367)  
DoD Family Housing Improvement Fund, Direct Loan, Financing Account (2 USC 661d)  
DoD Family Housing Improvement Fund, Guaranteed Loan, Financing Account (2 USC 661d)  
Homeowners Assistance Fund (10 USC 4551-4555; 42 USC 3374(d), Title United States  
Code; Public Law 111-5)  
Payments to Military Retirement Fund, Defense (10 USC, 1466)  
Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund  
(10 USC 1116(a))

ARMS Initiative, Guaranteed Loan Financing Account, Army (10 USC 2501, 10 USC 4551-4555)

Medicare-Eligible Retiree Health Fund Contribution, Navy (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Marine Corps (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Army (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Air Force (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (10 USC 1116)

Department of Defense Vietnam War Commemoration Fund, Defense (P.L. 110-181, 122 Stat. 141 (Sec. 598))

The above permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

### **Apportionment Categories for Obligations incurred**

The Department reported the following amounts of direct obligations: (1) \$503.4 billion in category A; (2) \$222.3 billion in category B; and (3) \$130.7 billion in exempt from apportionment. The Department reported reimbursable obligations of: (1) \$27.1 billion in category A and (2) \$175.5 billion in category B. Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation).

### **Legal Arrangements Affecting the Use of Unobligated Balances**

A portion of the Department's unobligated balances represent trust fund receipts collected in the current fiscal year that exceed the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the funds and are available for obligation as needed in the future. The Department operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances.

## Other Disclosures

The SBR includes intraentity transactions because the statements are presented as combined.

The Department utilizes borrowing authority for the Military Housing Privatization Initiative and the Armament Retooling and Manufacturing Support Initiative. Borrowing authority is used in accordance with [OMB Circular A-129](#), "Managing Federal Credit Programs."

The Department received additional funding of \$115.1 billion to cover obligations incurred above baseline operations in support of contingency operations.

## NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Reconciliation of Net Cost of Operations to Budget	<i>Dollars in Millions</i>	
<i>As of September 30</i>	2012	Restated 2011
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated:</b>		
Obligations incurred	\$ 1,059,305.0	\$ 1,069,545.0
Less: Spending authority from offsetting collections and recoveries (-)	(258,964.9)	(252,444.2)
<b>Obligations net of offsetting collections and recoveries</b>	<b>\$ 800,340.1</b>	<b>\$ 817,100.8</b>
Less: Offsetting receipts (-)	(79,238.4)	(83,198.6)
<b>Net obligations</b>	<b>\$ 721,101.7</b>	<b>\$ 733,902.2</b>
<b>Other Resources:</b>		
Donations and forfeitures of property	\$ 37.5	\$ 7.6
Transfers in/out without reimbursement (+/-)	66.1	(147.4)
Imputed financing from costs absorbed by others	5,048.1	5,623.9
Other (+/-)	(10,465.7)	1,812.3
<b>Net other resources used to finance activities</b>	<b>\$ (5,314.0)</b>	<b>\$ 7,296.4</b>
<b>Total resources used to finance activities</b>	<b>\$ 715,787.7</b>	<b>\$ 741,198.6</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
<b>Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:</b>		
Undelivered Orders (-)	\$ (16,379.3)	\$ (9,125.9)
Unfilled Customer Orders	3,715.0	3,691.4
Resources that fund expenses recognized in prior Periods (-)	(19,822.5)	(74,469.2)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	966.1	2,507.9
Resources that finance the acquisition of assets (-)	\$ (105,865.0)	\$ (128,667.3)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	\$ 0.0	\$ 0.0
Other (+/-)	10,323.4	(1,672.7)
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$ (127,062.3)</b>	<b>\$ (207,735.8)</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 588,725.4</b>	<b>\$ 533,462.8</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>		
<b>Components Requiring or Generating Resources in Future Period:</b>		

<b>Reconciliation of Net Cost of Operations to Budget</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>	<b>2012</b>	<b>Restated 2011</b>	
Increase in annual leave liability	\$ 253.6	\$ 363.7	
Increase in environmental and disposal liability	657.2	3,667.8	
Upward/Downward reestimates of credit subsidy expense (+/-)	(12.0)	8.3	
Increase in exchange revenue receivable from the public (-)	84.6	(552.3)	
Other (+/-)	124,388.8	112,105.1	
<b>Total components of Net Cost of Operations that will Require or Generate Resources in future periods</b>	<b>\$ 125,372.2</b>	<b>\$ 115,592.6</b>	
<b>Components not Requiring or Generating Resources:</b>			
Depreciation and amortization	\$ 47,978.8	\$ 55,937.5	
Revaluation of assets or liabilities (+/-)	2,693.3	(8,286.9)	
Other (+/-)			
Trust Fund Exchange Revenue	(50,977.7)	(55,336.7)	
Cost of Goods Sold	78,140.6	72,938.9	
Operating Materiel and Supplies Used	27,873.0	33,442.2	
Other	(50,952.0)	(63,524.9)	
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources</b>	<b>\$ 54,756.0</b>	<b>\$ 35,170.1</b>	
<b>Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	<b>\$ 180,128.2</b>	<b>\$ 150,762.7</b>	
<b>Net Cost of Operations</b>	<b>\$ 768,853.6</b>	<b>\$ 684,225.5</b>	

## Abnormal Balance

Budgetary Resources Obligated, Other and Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations, Other include an abnormal balance of \$21.8 million in USSGL account 5791 (Adjustment to Financing Sources - Downward Reestimate or Negative Subsidy). This account is offset by a corresponding entry in the non-earmarked direct loan program account.

## Restatements

The Department corrected a \$955.1 million understatement of undelivered orders and Resources that finance the acquisition of assets, and a \$72.2 million understatement of Depreciation and amortization to align the accounting records to the property accountability system. These corrections resulted in a \$72.2 million increase in Net Cost of Operations. Refer to Note 26, Restatements, for further information.

## Other Disclosures

Due to the Department's financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data is a previously identified deficiency. The following adjustments (absolute value) were made to balance the Reconciliation of Net Cost of Operations to the Statement of Net Cost:

	<i>Dollars in Millions</i>
Resources that Finance the Acquisition of Assets	\$ 9,385.7
Other Components not Requiring or Generating Resources	\$ 2.8
<b>Total Amount</b>	<b>\$ 9,388.5</b>

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Other Resources, Other primarily consists of nonexchange gains and losses necessary to reconcile the proprietary and budgetary amounts, as well as gains and losses on disposition of assets.

Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations, Other primarily consists of nonexchange gains and losses necessary to reconcile the proprietary and budgetary amounts, financing sources transferred in and out without reimbursement, and gains and losses from disposition of assets.

Components Requiring or Generating Resources in Future Period, Other consists primarily of future funded expenses.

Components not Requiring or Generating Resources, Other primarily consists of cost capitalization offsets and other expenses not requiring budgetary resources.

## **NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS**

The Department collected \$6.3 million of incidental custodial revenues generated primarily from forfeitures of unclaimed money and property. These funds are not available for use by the Department. At the end of each fiscal year, the accounts are closed and the balances are rendered to the U.S. Treasury.

**NOTE 23. EARMARKED FUNDS**

Earmarked Funds		<i>Dollars in Millions</i>				
		2012				
<i>As of September 30</i>		Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
<b>Balance Sheet</b>						
<b>Assets</b>						
Fund balance with Treasury	\$ 23.0	\$ 162.3	\$ 2,973.7	\$ 0.0	\$ 3,159.0	
Investments	427,867.4	203,341.5	10,329.9	0.0	641,538.8	
Accounts and Interest Receivable	67.0	1,004.3	1,619.0	(8.7)	2,681.6	
Other Assets	0.0	2.3	1,346.3	0.0	1,348.6	
<b>Total Assets</b>	<b>\$ 427,957.4</b>	<b>\$ 204,510.4</b>	<b>\$ 16,268.9</b>	<b>\$ (8.7)</b>	<b>\$ 648,728.0</b>	
<b>Liabilities and Net Position</b>						
Military Retirement Benefits and Other Federal Employment Benefits	\$ 1,481,969.9	\$ 533,392.4	\$ 2,063.7	\$ 0.0	\$ 2,017,426.0	
Other Liabilities	2.0	555.1	2,530.0	(150.6)	2,936.5	
<b>Total Liabilities</b>	<b>\$ 1,481,971.9</b>	<b>\$ 533,947.5</b>	<b>\$ 4,593.7</b>	<b>\$ (150.6)</b>	<b>\$ 2,020,362.5</b>	
Unexpended Appropriations	\$ 0.0	\$ 0.0	\$ 295.6	\$ 0.0	\$ 295.6	
Cumulative Results of Operations	(1,054,014.5)	\$ (329,437.1)	\$ 11,379.6	\$ (105,721.5)	\$ (1,477,793.5)	
<b>Total Liabilities and Net Position</b>	<b>\$ 427,957.4</b>	<b>\$ 204,510.4</b>	<b>\$ 16,268.9</b>	<b>\$ (105,872.1)</b>	<b>\$ 542,864.6</b>	
<b>Statement of Net Cost</b>						
Program Costs	\$ 169,471.1	\$ 7,304.5	\$ 1,572.8	\$ (3,004.9)	\$ 175,343.5	
Less Earned Revenue	(104,506.2)	(24,118.7)	(1,355.5)	109,791.0	(20,189.4)	
Net Program Costs	64,964.9	(16,814.2)	217.3	106,786.1	155,154.1	
<b>Net Cost of Operations</b>	<b>\$ 64,964.9</b>	<b>\$ (16,814.2)</b>	<b>\$ 217.3</b>	<b>\$ 106,786.1</b>	<b>\$ 155,154.1</b>	
<b>Statement of Changes in Net Position</b>						
Net Position Beginning of the Period	\$ (989,049.6)	\$ (346,251.3)	\$ 9,788.5	\$ 0.0	\$ (1,325,512.4)	
Net Cost of Operations	64,964.9	(16,814.2)	217.3	106,786.1	155,154.1	
Budgetary Financing Sources	0.0	0.0	2,243.0	991.9	3,234.9	
Other Financing Sources	0.0	0.0	(139.0)	72.7	(66.3)	
<b>Change in Net Position</b>	<b>\$ (64,964.9)</b>	<b>\$ 16,814.2</b>	<b>\$ 1,886.7</b>	<b>\$ (105,721.5)</b>	<b>\$ (151,985.5)</b>	
<b>Net Position End of Period</b>	<b>\$ (1,054,014.5)</b>	<b>\$ (329,437.1)</b>	<b>\$ 11,675.2</b>	<b>\$ (105,721.5)</b>	<b>\$ (1,477,497.9)</b>	

## Department of Defense Agency Financial Report for FY 2012

Earmarked Funds		2011				Dollars in Millions
		Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
<i>As of September 30</i>						
<b>Balance Sheet</b>						
<b>Assets</b>						
Fund balance with Treasury	\$ 370.3	\$ 227.2	\$ 2,730.6	\$ 0.0	\$ 3,328.1	
Investments	371,616.3	187,826.1	9,899.7	0.0	569,342.1	
Accounts and Interest Receivable	233.5	498.0	1,415.6	(201.5)	1,945.6	
Other Assets	0.0	0.0	1,398.9	0.0	1,398.9	
<b>Total Assets</b>	<b>\$ 372,220.1</b>	<b>\$ 188,551.3</b>	<b>\$ 15,444.8</b>	<b>\$ (201.5)</b>	<b>\$ 576,014.7</b>	
<b>Liabilities and Net Position</b>						
Military Retirement Benefits and Other Federal Employment Benefits	\$ 1,361,267.8	\$ 534,379.7	\$ 2,543.7	\$ 0.0	\$ 1,898,191.2	
Other Liabilities	1.9	422.9	3,112.6	(120.6)	3,416.8	
<b>Total Liabilities</b>	<b>\$ 1,361,269.7</b>	<b>\$ 534,802.6</b>	<b>\$ 5,656.3</b>	<b>\$ (120.6)</b>	<b>\$ 1,901,608.0</b>	
Unexpended Appropriations	\$ 0.0	\$ 0.0	\$ 134.6	\$ 0.0	\$ 134.6	
Cumulative Results of Operations	(989,049.6)	(346,251.3)	9,653.9	(104,626.8)	(1,430,273.8)	
<b>Total Liabilities and Net Position</b>	<b>\$ 372,220.1</b>	<b>\$ 188,551.3</b>	<b>\$ 15,444.8</b>	<b>\$ (104,747.4)</b>	<b>\$ 471,468.8</b>	

Statement of Net Cost					
Program Costs	\$ 153,446.3	\$ (30,507.5)	\$ 2,939.4	\$ (2,863.1)	\$ 123,015.1
Less Earned Revenue	(105,322.4)	(30,253.8)	(1,327.8)	108,427.4	(28,476.6)
Net Program Costs	48,123.9	(60,761.3)	1,611.6	105,564.3	94,538.5
<b>Net Cost of Operations</b>	<b>\$ 48,123.9</b>	<b>\$ (60,761.3)</b>	<b>\$ 1,611.6</b>	<b>\$ 105,564.3</b>	<b>\$ 94,538.5</b>

Statement of Changes in Net Position					
Net Position Beginning of the Period	\$ (940,925.7)	\$ (407,012.6)	\$ 9,522.3	\$ 0.0	\$ (1,338,416.0)
Net Cost of Operations	48,123.9	(60,761.3)	1,611.6	105,564.3	94,538.5
Budgetary Financing Sources	0.0	0.0	1,934.4	922.7	2,857.1
Other Financing Sources	0.0	0.0	(56.6)	14.8	(41.8)
<b>Change in Net Position</b>	<b>\$ (48,123.9)</b>	<b>\$ 60,761.3</b>	<b>\$ 266.2</b>	<b>\$ (104,626.8)</b>	<b>\$ (91,723.2)</b>
<b>Net Position End of Period</b>	<b>\$ (989,049.6)</b>	<b>\$ (346,251.3)</b>	<b>\$ 9,788.5</b>	<b>\$ (104,626.8)</b>	<b>\$ (1,430,139.2)</b>

## Abnormal Balances

Other Financing Sources on the Statement of Changes in Net Position include an abnormal balance of \$21.8 million in USSGL account 5791 (Adjustment to Financing Sources – Downward Reestimate or Negative Subsidy). This account is offset by a corresponding entry in the non-earmarked direct loan program account.

Cumulative Results of Operations/Net Cost of Operations include an abnormal balance of \$93.7 million in USSGL account 5909, Contra Revenue for Other Revenue. During FY 2012, the prior year deferred revenue balance was reversed and the current year deferred revenue recorded. The prior year deferred revenue was greater than the current year causing the abnormal balance.

## Other Disclosures

The [SFFAS No. 27](#), “Identifying and Reporting Earmarked Funds,” requires the disclosure of Earmarked Funds separate from All Other Funds on the SCNP and Balance Sheet. Funds must meet three criteria to be classified as earmarked: (1) a statute committing use of specifically-identified revenues for designated purposes, (2) explicit authority to retain the revenues, and (3) a requirement to account and report on the revenues. The Department’s earmarked funds are either special or trust funds and use both receipt and expenditure accounts to report activity to the U.S. Treasury. There have been no changes in legislation that significantly changed the purposes of the funds.

The [SFFAS No. 27](#) also requires the presentation of gross amounts of Earmarked Funds separate from All Other (nonearmarked) Funds. Cumulative Results of Operations ending balances for Earmarked Funds on the SCNP do not agree with the Cumulative Results of Operations for Earmarked Funds reported on the Balance Sheet because the Cumulative Results of Operations on the Balance Sheet are presented net of eliminations, whereas the SCNP presents gross Cumulative Results of Operations.

The Total column is shown as consolidated and relates only to Earmarked Funds. The Eliminations column includes eliminations associated with Earmarked Funds and excludes the offsetting eliminations from All Other Funds. This exclusion causes assets to not equal liabilities and net position in the note. However, the amounts in the Total column equal the amounts reported for Earmarked Funds on the Balance Sheet.

***Military Retirement Fund (MRF), 10 United States Code (USC) 1461.*** The MRF accumulates funds in order to finance, on an actuarially sound basis, the liabilities of the Department’s military retirement and survivor benefit programs. Financing sources for the MRF are interest earnings on Fund assets, monthly Department contributions, and annual contributions from the U.S. Treasury. The monthly Department contributions are calculated as a percentage of basic pay. The contribution from the U.S. Treasury represents the amortization of the unfunded liability for service performed prior to October 1, 1984, plus the amortization of actuarial gains and losses that have arisen since then. The U.S. Treasury annual contribution also includes the normal cost amount for the concurrent receipt provisions of the [FY 2004 National Defense Authorization Act](#).

***Medicare-Eligible Retiree Health Care Fund (MERHCF), 10 USC 1111.*** The MERHCF accumulates funds to finance, on an actuarially sound basis, liabilities of the Department

and the uniformed services health care programs for qualified Medicare-eligible beneficiaries. Financing sources for MERHCF are provided primarily through an annual actuarial liability payment from the U.S. Treasury, annual contributions from each Uniformed Service (Army, Navy, Air Force, Marine Corps, U.S. Coast Guard, National Oceanic and Atmospheric Administration, and U.S. Public Health Service) and interest earned from the Fund's investments.

### **Other Earmarked Funds**

***Special Recreation Use Fees, 16 USC 4061-6a note.*** The United States Army Corps of Engineers (USACE) is granted the authority to charge and collect fair and equitable Special Recreation Use Fees at campgrounds located at lakes or reservoirs that are under the jurisdiction of USACE. Types of allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The receipts are used for the operation and maintenance of the recreational sites.

***Hydraulic Mining in California, Debris, 33 USC 683.*** Operators of hydraulic mines through which debris flows in part or in whole to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. Taxes imposed under this code are collected and expended under the supervision of USACE and the direction of the Department of the Army. The funds are used for repayment of funds advanced by the Federal government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

***Payments to States, Flood Control Act of 1954, 33 USC 701c-3.*** Seventy-five percent of all funds received and deposited from the leasing of lands acquired by the United States for flood control, navigation, and allied purposes (including the development of hydroelectric power) are returned to the state in which the property is located. USACE collects lease receipts into a receipt account. Funds are appropriated for the amount of receipts the following fiscal year. The funds may be expended by the states for the benefit of public schools and public roads of the counties in which such property is situated, or for defraying any of the expenses of county government.

***Maintenance and Operation of Dams and Other Improvements of Navigable Waters, 16 USC 803(f) and 810.*** When a reservoir or other improvement is constructed by the U.S., the Federal Energy Regulatory Commission (FERC) assesses charges against licensees directly benefited. The statute requires all proceeds from any Indian reservation be placed to the credit of the Indians of the reservation. All other charges arising from licenses, except those charges established by the FERC for administrative reimbursement, are paid to the U.S. Treasury and allocated for specific uses. The Army is allocated 50 percent of charges from all licenses, except licenses for the occupancy and use of public lands and national forests. These funds are deposited in a special fund and used for maintenance, operation, and improvement of dams and other navigation structures that are owned by the United States, or in construction, maintenance, or operation of headwater, or other improvements to navigable waters of the United States.

***Fund for Non-Federal Use of Disposal Facilities (for dredged material), 33 USC 2326.*** Any dredged material disposal facility under the jurisdiction of, or managed by, the Secretary of the Army may be used by a non-Federal interest if the Secretary

determines that such use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs associated with such use. Any monies received through collection of fees under this law shall be available to, and used by, the Secretary of the Army for the operation and maintenance of the disposal facility from which the fees were collected.

***Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection, and Restoration Act, 16 USC 3951-3956.*** USACE (along with the Environmental Protection Agency, and the Fish and Wildlife Service) is granted the authority to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of “no net loss of wetlands” in coastal Louisiana. USACE is also responsible for allocating funds among the named task force members. Federal contributions are established at 75 percent of project costs or 85 percent if the state has an approved Coastal Wetlands Conservation Plan.

***Rivers and Harbors Contributed and Advance Funds, 33 USC 701h, 702f, and 703.*** Whenever any state or political subdivision offers to advance funds for a flood control project duly adopted and authorized by law, the Secretary of the Army may, in his discretion, receive such funds and expend them in the immediate prosecution of such work. The funding may be used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc. in the course of flood control and river and harbor maintenance.

***Inland Waterways Trust Fund, 26 USC 9506.*** This law made the Inland Waterways Trust Fund available for USACE expenditures for navigation, construction, and rehabilitation projects on inland waterways. Collections for excise taxes from the public are made into the Trust Fund. The collections are invested and investment activity is managed by the BPD. The BPD purchases and redeems nonmarketable market-based securities. Investments include one-day certificates, bonds, and notes.

***Harbor Maintenance Trust Fund, 26 USC 9505.*** The USACE Civil Works mission is funded by the Energy and Water Development Appropriations Act. The Water Resources Development Act of 1986 covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of all expenses of administration incurred by the U.S. Treasury, USACE, and the Department of Commerce. Collections are made into the Trust Fund from taxes collected from imports, domestics, passengers, and foreign trade. The collections are invested and investment activity is managed by the Bureau of Public Debt.

***Foreign National Employees Separation Pay Account Trust Fund, 10 USC 1581.*** This fund makes payments from amounts obligated by the Secretary of Defense that remain unexpended for separation pay for foreign national employees of the Department. The foreign national employees’ separation pay funded by Foreign Military Sales administrative funds is maintained as a separate fund.

***Defense Commissary Agency Surcharge Trust Fund, 10 USC 2685.*** This fund was established as the repository for the surcharge on sales of commissary goods paid for by authorized patrons to finance certain operating expenses and capital purchases of the

Commissary System, which are precluded by law from being paid with appropriated funds. Most Surcharge revenue is generated by the 5 percent surcharge applied to each sale. These funds may be used to pay for commissary store-related information technology investments, to purchase commissary equipment, to finance advance design modifications to prior year projects, for both minor and major construction projects, and to maintain and repair commissary facilities and equipment.

**Education Benefit Fund, 10 USC 2006.** This fund was established to finance, on an actuarially sound basis, the liabilities of the Department's education benefit programs for current and former active duty, guard, and reserve members of the armed forces, and members of the Coast Guard. Financing sources for the Education Benefit Fund are interest earnings on Fund assets and monthly Department contributions.

**Voluntary Separation Incentive Fund, 10 USC 1175.** This fund was established to finance, on an actuarially sound basis, the liabilities of the Department's incentive program for early separation from military service. Financing sources for the Voluntary Separation Incentive Fund are interest earnings on Fund assets and annual Department contributions.

**Military Housing Privatization Initiative, Public Law 104-106, Section 2801.** The Military Housing Privatization Initiative (MHPI) includes both direct loan and loan guarantee programs, is authorized by the [National Defense Authorization Act for FY 1996](#), and includes a series of authorities that allow the Department to work with the private sector to renovate and build military family housing. The MHPI accelerates the construction of new housing built to market standard and leverages private sector capital with government dollars. The Department provides protection to the private sector partner against specific risks, such as base closure or member deployment.

**Armament Retooling and Manufacturing Support Initiative, 10 USC 4551-4555.** The Armament Retooling and Manufacturing Support Initiative is a loan guarantee program designed to incentivize commercial use of the Army's inactive ammunition plants for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than current military requirements; however, this capacity may be needed in the future. Revenue from property rentals are used to pay for the operation, maintenance and environmental cleanup at the facilities.

## NOTE 24. FIDUCIARY ACTIVITIES

Schedule of Fiduciary Activity <i>As of September 30</i>	<i>Dollars in Millions</i>	
	2012	2011
Fiduciary net assets, beginning of year	\$ 199.5	\$ 178.9
Contributions	222.5	282.5
Investment earnings	15.2	18.0
Distributions to and on behalf of beneficiaries	(278.5)	(279.9)
Increase/(Decrease) in fiduciary net assets	(40.8)	20.6
<b>Fiduciary net assets, end of period</b>	<b>\$ 158.7</b>	<b>\$ 199.5</b>

<b>Schedule of Fiduciary Net Assets</b>		<i>Dollars in Millions</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Fiduciary Assets</b>			
Cash and cash equivalents		\$ 158.7	\$ 199.5
<b>Total Fiduciary Net Assets</b>		<b>\$ 158.7</b>	<b>\$ 199.5</b>

Fiduciary activities exist when the Department has collected, received, held, or made disposition of assets on behalf of an individual or non-Federal entity. Fiduciary assets are not recognized on the Balance Sheet.

Public Law 89-538 authorized the Department, through the Savings Deposit Program, to collect voluntary contributions from members of the Armed Forces serving in designated areas. These contributions and earned interest are deposited in the U.S. Treasury on behalf of the members.

## NOTE 25. OTHER DISCLOSURES

<b>Other Disclosures</b>		<i>Dollars in Millions</i>			
<i>As of September 30</i>		<b>2012 – Asset Category</b>			
		<b>Land and Buildings</b>	<b>Equipment</b>	<b>Other</b>	<b>Total</b>
<b>Entity as Lessee – Operating Leases</b>					
Future Payments Due					
Fiscal Year 2013		\$ 551.3	\$ 67.0	\$ 16.3	\$ 634.6
Fiscal Year 2014		551.6	67.9	16.3	635.8
Fiscal Year 2015		567.7	68.2	16.3	652.2
Fiscal Year 2016		570.2	68.3	16.5	655.0
Fiscal Year 2017		537.0	67.9	16.6	621.5
After 5 Years		956.1	2.4	16.9	975.4
<b>Total Future Lease Payments Due</b>		<b>\$ 3,733.9</b>	<b>\$ 341.7</b>	<b>\$ 98.9</b>	<b>\$ 4,174.5</b>

Operating leases are leases that do not transfer all the benefits and risks of ownership of capital leases. Payments are charged as expenses over the lease term. Office space is the largest component of land and building leases. Other leases are primarily made up of commercial leases. Commercial leases are leases made by the Department with the general public. These would include leases with dealerships, car rental companies, or any other such entity that provides care leasing services. Future year cost projections use the Consumer Price Index.

## NOTE 26. RESTATEMENTS

The Department restated its financial statements as of September 30, 2011, to correct errors in assets, gross costs, and net position identified during ongoing audit readiness efforts.

The Department corrected a \$1.0 billion understatement of General Property, Plant and Equipment to align the accounting records to the property accountability system and a \$955.1 million overstatement of Other Assets (With the Public). This correction increased General Property, Plant and Equipment, Net and Cumulative Results of Operations on the

Balance Sheet; Gross Costs on the Statement of Net Cost; and Net Cost of Operations and Cumulative Results of Operations on the Statement of Changes in Net Position. The correction also decreased Other Assets (With the Public) and Unexpended Appropriations on the Balance Sheet; and Unexpended Appropriations on the Statement of Changes in Net Position. The following notes were restated: Note 2, Nonentity Assets; Note 6, Other Assets; Note 10, General Property, Plant and Equipment, Net; Note 18, General Disclosures Related to the Statement of Net Cost; Note 19, Disclosures Related to the Statement of Changes in Net Position; Note 20, Disclosures Related to the Statement of Budgetary Resources; and Note 21, Reconciliation of Net Cost of Operations to Budget.

### Effect on FY 2012 Beginning Cumulative Results of Operations and Unexpended Appropriations:

FY 2012 Statement of Changes in Net Position		<i>Dollars in Billions</i>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Correction of Errors (+/-)	\$	1.0
<b>Beginning balance adjustments</b>	<b>\$</b>	<b>1.0</b>
<b>UNEXPENDED APPROPRIATIONS</b>		
Correction of Errors	\$	(0.9)
<b>Beginning balance adjustments</b>	<b>\$</b>	<b>(0.9)</b>

### Effect on Comparative Balances

FY 2011 Balance Sheet		<i>Dollars in Billions</i>
General Property, Plant and Equipment, Net	\$	1.0
Intragovernmental Other Assets	\$	(0.9)
<b>Total Assets</b>	<b>\$</b>	<b>0.1</b>
Unexpended Appropriations – Other	\$	(0.9)
Cumulative Results of Operations – Other	\$	1.0
<b>Net Position</b>	<b>\$</b>	<b>0.1</b>
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<b>0.1</b>
FY 2011 Statement of Net Cost		<i>Dollars in Billions</i>
Gross Costs	\$	0.1
<b>Net Cost of Operations</b>	<b>\$</b>	<b>0.1</b>

<b>FY 2011 Statement of Changes in Net Position</b>		<i>Dollars in Billions</i>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Corrections of Errors (+/-)	\$	1.1
<b>Beginning balance adjustments</b>	<b>\$</b>	<b>1.1</b>
<b>Other Financing Sources:</b>		
Net Cost of Operations	\$	0.1
<b>Net Change</b>	<b>\$</b>	<b>(0.1)</b>
<b>Cumulative Results of Operations</b>	<b>\$</b>	<b>1.0</b>
<b>UNEXPENDED APPROPRIATIONS</b>		
Correction of Errors	\$	(0.9)
<b>Beginning balance adjustments</b>	<b>\$</b>	<b>(0.9)</b>
<b>Unexpended Appropriations</b>	<b>\$</b>	<b>(0.9)</b>
<b>Net Position</b>	<b>\$</b>	<b>0.1</b>

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Federal financial reporting requires DoD to report on its stewardship over certain resources that cannot be measured in traditional financial reports. These resources do not meet the criteria for assets and liabilities required to be reported in the financial statements, but are important to understand the operations and financial condition of DoD at the date of the financial statements and in subsequent periods.

The Department's stewardship investments are comprised of, and are measured in terms of, expenses incurred for: (1) Non-Federal Physical Property (federally-financed, but not federally owned), and (2) federally-financed Research and Development (R&D). Information on additional reporting requirements for non-Federal Physical Property and R&D follows.

### NON-FEDERAL PHYSICAL PROPERTY

The Non-Federal Physical Property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. In addition, Non-Federal Physical Property investments include federally-owned physical property transferred to state and local governments. The Department participates in cost-sharing agreements with non-Federal sponsors which are governed under numerous Water Resources Development Acts. The Department's transferred assets include expenditures supporting the design, build, and construction services/management for the missions of commercial navigation, flood/storm damage reduction, hydropower, regulatory, environmental, recreation and water supply.

Non-Federal Physical Property Department of Defense Consolidated – Non-Federal Physical Property Yearly Investments in State and Local Governments For Fiscal Years 2012 through 2008					
Categories	2012	2011	2010	2009	2008
<b>Transferred Assets:</b>					
National Defense Mission Related	\$ 1,445.4	\$ 2,304.5	\$ 2,126.2	\$ 1,224.7	\$ 1,169.2
<b>Funded Assets:</b>					
National Defense Mission Related	\$ 7.7	\$ 12.0	\$ 0.0	\$ 26.7	\$ 19.6
<b>Total</b>	<b>\$ 1,453.1</b>	<b>\$ 2,316.5</b>	<b>\$ 2,126.2</b>	<b>\$ 1,251.4</b>	<b>\$ 1,188.8</b>

### INVESTMENTS IN RESEARCH AND DEVELOPMENT

Investment values included in this report are based on R&D expenditures. The R&D programs are classified in the following categories: Basic Research, Applied Research, and Development. The amounts reported in the Investments in R&D table show outlays from FY 2008 – FY 2012 for all DoD Components. Through efforts to improve the quality of reported data, the FY 2008 through FY2012 values have been updated to include investments reported by the Defense Health Program and the DoD Inspector General (the entity). These investment values were not reported in FY 2011. The definition for each type of R&D Category and Subcategories are explained below.

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge

or understanding of the subject under study. Major outputs are scientific studies and research papers.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, or limited construction of a weapon system component, to include non-system-specific development efforts. Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development consists of the five stages defined in the Investments in R&D table.

Advanced Technology Development is the systematic use of the knowledge or understanding gained from research and directed toward proof of concept and feasibility rather than directed toward the development of hardware for service use. It employs demonstration activities intended to test a technology or method.

Advanced Component Development and Prototypes evaluates integrated technologies in an operating environment as realistic as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components and complete weapon systems ready for operational and developmental testing and field use.

System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

Research, Development, Test, and Evaluation Management Support bolsters installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses furthering the Research and Development program.

Operational Systems Development finances projects, programs or upgrades in engineering and manufacturing development stages which have received approval for production, including production funds that have been budgeted in subsequent fiscal years.

<b>Investments in Research and Development (R&amp;D)</b>					
<b>Department of Defense Consolidated</b>					
<i>Yearly Investments in State and Local Governments</i>					
<i>For the Current and Four Preceding Fiscal Years</i>					
<i>Dollars in Millions</i>					
<b>Categories</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Basic Research</b>	<b>\$ 1,645.3</b>	<b>\$ 1,816.6</b>	<b>\$ 1,805.5</b>	<b>\$ 821.0</b>	<b>\$ 1,346.4</b>
<b>Applied Research</b>	5,819.3	6,848.3	5,758.4	2,604.6	4,260.9
<b>Development</b>					
Advanced Technology Development	5,868.0	6,024.3	6,353.4	2,263.2	6,032.7
Advanced Component Development and Prototypes	13,005.0	13,964.2	14,304.6	12,148.3	15,410.6
System Development and Demonstration	11,926.3	13,882.0	15,156.7	21,501.9	18,052.9
Research, Development, Test and Evaluation Management Support	5,640.5	5,659.2	5,503.6	5,141.3	5,471.0
Operational Systems Development	23,274.6	23,861.3	23,986.2	42,450.6	20,246.7
<b>Totals:</b>	<b>\$ 67,179.0</b>	<b>\$ 72,055.9</b>	<b>\$ 72,868.4</b>	<b>\$ 86,930.9</b>	<b>\$ 70,821.2</b>

## REQUIRED SUPPLEMENTARY INFORMATION

### REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS

This section includes the deferred maintenance and repairs information and Statement of Disaggregated Budgetary Resources.

<b>Real Property Deferred Maintenance and Repairs</b>			
<i>For Fiscal Year Ended September 30, 2012</i>			
<i>Dollars in Millions</i>			
Property Type	Current Fiscal Year		
	1. Plant Replacement Value	2. Required Work (Deferred Maintenance & Repair)	3. Percentage
<b>1. Category 1</b>	<b>\$ 939,394</b>	<b>\$ 103,708</b>	<b>11%</b>
<b>2. Category 2</b>	<b>\$ 28,864</b>	<b>\$ 5,870</b>	<b>20%</b>
<b>3. Category 3</b>	<b>\$ 21,493</b>	<b>\$ 1,567</b>	<b>7%</b>

The deferred maintenance and repairs amount is based on facility Q-ratings found in the Department's real property inventory. Q-ratings represent work needed to bring a facility to a fully serviceable condition with no repair needs. The reported deferred maintenance is the difference between the facility Q-rating and the target Q-rating that represents the acceptable operating condition established by each Component within the Department. The percentage column reflects the percent of total plant replacement value for each category represented by deferred maintenance.

Facility Categories are as follows:

- Category 1: Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission, including multi-use Heritage Assets.

- Category 2: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.
- Category 3: Buildings, Structures, and Utilities that are Heritage Assets.

### **Military Equipment Deferred Maintenance and repairs**

Depot maintenance requirements for military equipment are developed during the annual budget process. The table below shows the deferred unfunded requirements for the depot maintenance program.

<b>Military Equipment Deferred Maintenance and Repairs</b>	
<i>For Fiscal Year Ended September 30, 2012</i>	
<b>Major Categories</b>	<i>Dollars in Millions</i>
1. Aircraft	\$ 456.8
2. Automotive Equipment	\$ 84.2
3. Combat Vehicles	\$ 37.9
4. Construction Equipment	\$ 32.9
5. Electronics and Communications Systems	\$ 80.3
6. Missiles	\$ 257.7
7. Ships	\$ 131.0
8. Ordnance Weapons and Munitions	\$ 63.1
9. General Purpose Equipment	\$ 11.4
10. All Other Items Not Identified to above Categories	\$ 42.5
<b>Total</b>	<b>\$ 1,197.8</b>

Department of Defense Agency Financial Report for FY 2012

Statement of Disaggregated Budgetary Resources <i>For the Years Ended September 30</i> <i>Dollars in Millions</i>	2012								
	Military Personnel	Procurement	Research, Development, Test and Evaluation	Family Housing/ Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	2012 Combined	2011 Combined
<b>Budgetary Resources</b>									
Unobligated balance, brought forward, October 1	\$ 1,641.5	\$ 75,579.6	\$ 18,012.9	\$ 15,817.3	\$ 0.0	\$ 8,528.5	\$ 42,691.3	\$ 162,271.1	\$ 160,032.1
Unobligated balance brought forward, October 1, as adjusted	1,641.5	75,579.6	18,012.9	15,817.3	0.0	8,528.5	42,691.3	162,271.1	160,032.1
Recoveries of prior year unpaid obligations	14,009.1	14,351.9	3,461.6	3,120.5	0.0	93.5	30,497.3	65,533.9	56,015.4
Other changes in unobligated balance	(907.9)	(581.7)	(907.0)	(83.9)	0.0	(1.7)	(10,469.9)	(12,952.1)	(11,205.6)
Unobligated balance from prior year budget authority, net	14,742.7	89,349.8	20,567.5	18,853.9	0.0	8,620.3	62,718.7	214,852.9	204,841.9
Appropriations (discretionary and mandatory)	152,975.9	114,505.5	68,523.5	10,627.7	61,231.6	7,641.8	376,672.8	792,178.8	829,461.3
Borrowing Authority (discretionary and mandatory)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contract Authority (discretionary and mandatory)	0.0	0.0	0.0	0.0	0.0	0.0	80,486.2	80,486.2	75,760.9
Spending Authority from offsetting collections (discretionary and mandatory)	1,182.6	3,275.5	9,629.4	9,567.4	0.0	10,699.0	82,888.5	117,242.4	121,426.6
<b>Total Budgetary Resources</b>	<b>\$ 168,901.2</b>	<b>\$ 207,130.8</b>	<b>\$ 98,720.4</b>	<b>\$ 39,049.0</b>	<b>\$ 61,231.6</b>	<b>\$ 26,961.1</b>	<b>\$ 602,766.2</b>	<b>\$ 1,204,760.3</b>	<b>\$ 1,231,490.7</b>
<b>Status of Budgetary Resources:</b>									
Obligations Incurred	166,437.4	143,783.1	83,516.5	22,991.1	61,231.6	18,351.0	562,757.1	1,059,067.8	1,069,218.2
Unobligated balance, end of year:									
Apportioned	616.5	59,276.9	13,570.7	15,230.8	0.0	7,412.0	19,589.2	115,696.1	137,148.4
Exempt from Apportionment	0.0	0.0	0.0	0.0	0.0	1,184.2	2,791.9	3,976.1	4,180.3
Unapportioned	1,847.3	4,070.8	1,633.2	827.1	0.0	13.9	17,628.0	26,020.3	20,943.8
<b>Unobligated balance brought forward, end of year</b>	<b>\$ 2,463.8</b>	<b>\$ 63,347.7</b>	<b>\$ 15,203.9</b>	<b>\$ 16,057.9</b>	<b>\$ 0.0</b>	<b>\$ 8,610.1</b>	<b>\$ 40,009.1</b>	<b>\$ 145,692.5</b>	<b>\$ 162,272.5</b>
<b>Total Budgetary Resources</b>	<b>\$ 168,901.2</b>	<b>\$ 207,130.8</b>	<b>\$ 98,720.4</b>	<b>\$ 39,049.0</b>	<b>\$ 61,231.6</b>	<b>\$ 26,961.1</b>	<b>\$ 602,766.2</b>	<b>\$ 1,204,760.3</b>	<b>\$ 1,231,490.7</b>

Department of Defense Agency Financial Report for FY 2012

Statement of Budgetary Resources <i>For the Years Ended September 30</i> <i>Dollars in Millions</i>	2012								
	Military Personnel	Procurement	Research, Development, Test and Evaluation	Family Housing/Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	2012 Combined	2011 Combined
<b>Change in Obligated Balance</b>									
Unpaid obligations, brought forward, October 1 (Gross)	\$ 7,648.2	\$ 147,138.7	\$ 43,453.6	\$ 29,244.6	\$ 868.2	\$ 10,405.5	\$ 216,167.4	\$ 454,926.2	\$ 458,620.6
Uncollected customer payments for Federal Sources, brought forward, October 1	(155.0)	(4,264.6)	(5,126.6)	(11,811.6)	0.0	(3,097.7)	(50,728.8)	(75,184.3)	(69,766.8)
Obligated balance start of year (net), before adjustments	7,493.2	142,874.1	38,327.0	17,433.0	868.2	7,307.8	165,438.6	379,741.9	388,853.8
Obligated balance, start of year (net), as adjusted	7,493.2	142,874.1	38,327.0	17,433.0	868.2	7,307.8	165,438.6	379,741.9	388,853.8
Obligations incurred	166,437.4	143,783.1	83,516.5	22,991.1	61,231.6	18,351.0	562,757.1	1,059,067.8	1,069,218.2
Outlays (gross)	(148,100.8)	(125,100.4)	(75,796.2)	(20,584.4)	(57,456.6)	(20,288.3)	(532,563.2)	(979,889.9)	(1,016,898.9)
Change in uncollected customer payments from Federal Sources)	28.2	25.1	(593.8)	(466.3)	0.0	921.0	(2,683.3)	(2,769.1)	(5,417.5)
Actual Transfers, unpaid obligations (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recoveries of prior year unpaid obligations	(14,009.1)	(14,351.9)	(3,461.5)	(3,120.5)	0.0	(93.5)	(30,497.4)	(65,533.9)	(56,015.1)
Obligated balance, end of year									
Unpaid Obligations, end of year (gross)	11,975.7	151,469.5	47,712.4	28,530.8	4,643.2	8,374.7	215,863.9	468,570.2	454,924.8
Uncollected customer payments from Federal Sources, end of year	(126.8)	(4,239.5)	(5,720.4)	(12,277.9)	0.0	(2,176.7)	(53,412.1)	(77,953.4)	(75,184.3)
<b>Obligated balance, end or year (net)</b>	<b>\$ 11,848.9</b>	<b>\$ 147,230.0</b>	<b>\$ 41,992.0</b>	<b>\$ 16,252.9</b>	<b>\$ 4,643.2</b>	<b>\$ 6,198.0</b>	<b>\$ 162,451.8</b>	<b>\$ 390,616.8</b>	<b>\$ 379,740.5</b>
<b>Budget Authority and Outlays, Net:</b>									
Budget Authority, gross (discretionary and mandatory)	\$ 154,158.5	\$ 117,781.0	\$ 78,152.9	\$ 20,195.1	\$ 61,231.6	\$ 18,340.8	\$ 540,047.5	\$ 989,907.4	\$ 1,026,648.8
Actual offsetting collections (discretionary and mandatory )	(1,210.8)	(3,300.6)	(9,035.5)	(9,101.1)	0.0	(11,953.7)	(155,984.3)	(190,586.0)	(190,906.0)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory)	28.2	25.1	(593.8)	(466.3)	0.0	921.0	(2,683.3)	(2,769.1)	(5,417.5)
Anticipated offsetting collections (discretionary and mandatory)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Budget authority, net (discretionary and mandatory)</b>	<b>\$ 152,975.9</b>	<b>\$ 114,505.5</b>	<b>\$ 68,523.6</b>	<b>\$ 10,627.7</b>	<b>\$ 61,231.6</b>	<b>\$ 7,308.1</b>	<b>\$ 381,379.9</b>	<b>\$ 796,552.3</b>	<b>\$ 830,325.3</b>

Department of Defense Agency Financial Report for FY 2012

Statement of Budgetary Resources For the Years Ended September 30 <i>Dollars in Millions</i>	2012								
	Military Personnel	Procurement	Research, Development, Test and Evaluation	Family Housing/ Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	2012 Combined	2011 Combined
Outlays, gross (discretionary and mandatory)	\$ 148,100.8	\$ 125,100.4	\$ 75,796.2	\$ 20,584.4	\$ 57,456.6	\$ 20,288.3	\$ 532,563.2	\$ 979,889.9	\$ 1,016,898.9
Actual offsetting collections (discretionary and mandatory)	(1,210.8)	(3,300.6)	(9,035.5)	(9,101.1)	0.0	(11,953.7)	(155,984.3)	(190,586.0)	(190,906.0)
Outlays, net (discretionary and mandatory)	146,890.0	121,799.8	66,760.7	11,483.3	57,456.6	8,334.6	376,578.9	789,303.9	825,992.9
Distributed offsetting receipts	0.0	0.0	0.0	0.0	(77,647.4)	(552.6)	(1,038.4)	(79,238.4)	(83,198.6)
<b>Agency outlays, net (discretionary and mandatory)</b>	<b>\$ 146,890.0</b>	<b>\$ 121,799.8</b>	<b>\$ 66,760.7</b>	<b>\$ 11,483.3</b>	<b>\$ (20,190.8)</b>	<b>\$ (7,782.0)</b>	<b>\$ 375,540.5</b>	<b>\$ 710,065.5</b>	<b>\$ 742,794.3</b>

## Department of Defense Agency Financial Report for FY 2012

<b>Combined Statement of Budgetary Resources</b> <i>For the Years ended September 30</i> <i>Dollars in Millions</i>	<b>Non Budgetary</b>		
	<b>Other</b>	<b>2012 Combined</b>	<b>2011 Combined</b>
<b>Budgetary Resources</b>			
Unobligated balance, brought forward, October 1	\$ 17.5	\$ 17.5	\$ 24.9
Unobligated balance brought forward, October 1, as adjusted	\$ 17.5	\$ 17.5	\$ 24.9
Recoveries of prior year unpaid obligations	0.0	0.0	0.0
Other changes in unobligated balance	0.0	0.0	0.0
Unobligated balance from prior year budget authority, net	17.5	17.5	24.9
Appropriations (discretionary and mandatory)	0.0	0.0	0.0
Borrowing Authority (discretionary and mandatory)	172.6	172.6	229.8
Contract Authority (discretionary and mandatory)	0.0	0.0	0.0
Spending Authority from offsetting collections (discretionary and mandatory)	62.6	62.6	88.3
<b>Total Budgetary Resources</b>	<b>\$ 252.7</b>	<b>\$ 252.7</b>	<b>\$ 343.0</b>
<b>Status of Budgetary Resources:</b>			
Obligations Incurred	\$ 237.2	\$ 237.2	\$ 326.8
Unobligated balance, end of year:			
Apportioned	1.6	1.6	0.1
Exempt from Apportionment	0.0	0.0	0.0
Unapportioned	13.9	13.9	16.1
<b>Unobligated balance brought forward, end of year</b>	<b>\$ 15.5</b>	<b>\$ 15.5</b>	<b>\$ 16.2</b>
<b>Total Budgetary Resources</b>	<b>\$ 252.7</b>	<b>\$ 252.7</b>	<b>\$ 343.0</b>

## Department of Defense Agency Financial Report for FY 2012

Statement of Disaggregated Budgetary Resources <i>For the Years ended September 30 Dollars in Millions</i>	Non Budgetary		
	Other	2012 Combined	2011 Combined
<b>Change in Obligated Balance</b>			
Unpaid obligations, brought forward, October 1 (Gross)	\$ 569.1	\$ 569.1	\$ 619.4
Uncollected customer payments for Federal Sources, brought forward, October 1	(99.9)	(99.9)	(97.3)
Obligated balance start of year (net), before adjustments	469.2	469.2	522.1
Obligated balance, start of year (net), as adjusted	469.2	469.2	522.1
Obligations incurred	237.2	237.2	326.8
Outlays (gross)	(264.5)	(264.5)	(375.3)
Change in uncollected customer payments from Federal Sources	16.4	16.4	(2.6)
Actual Transfers, unpaid obligations (net)	0.0	0.0	0.0
Recoveries of prior year unpaid obligations	0.0	0.0	0.0
Obligated balance, end of year			
Unpaid Obligations, end of year (gross)	541.8	541.8	570.9
Uncollected customer payments from Federal Sources, end of year	(83.5)	(83.5)	(99.9)
<b>Obligated balance, end or year (net)</b>	<b>\$ 458.3</b>	<b>\$ 458.3</b>	<b>\$ 471.0</b>
<b>Budget Authority and Outlays, Net:</b>			
Budget Authority, gross (discretionary and mandatory)	235.2	235.2	318.1
Actual offsetting collections (discretionary and Mandatory)	(92.6)	(92.6)	(102.6)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory)	16.4	16.4	(2.6)
Anticipated offsetting collections (discretionary and mandatory)	0.0	0.0	0.0
<b>Budget authority, net (discretionary and mandatory)</b>	<b>\$ 159.0</b>	<b>\$ 159.0</b>	<b>\$ 212.9</b>
Outlays, gross (discretionary and mandatory)	264.5	264.5	375.3
Actual offsetting collections (discretionary and mandatory)	(92.6)	(92.6)	(102.6)
Outlays, net (discretionary and mandatory)	171.9	171.9	272.7
Distributed offsetting receipts	0.0	0.0	0.0
<b>Agency outlays, net (discretionary and mandatory)</b>	<b>\$ 171.9</b>	<b>\$ 171.9</b>	<b>\$ 272.7</b>

This Page Left Blank Intentionally