Department of Defense

Performance and Accountability Report

Fiscal Year 2002

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Message from the Deputy Secretary of Defense

January 31, 2003

I am pleased to present the Department of Defense fiscal year 2002 Performance and Accountability Report.

This report documents the Department's progress in transforming America's defense posture to enable us to address future security challenges more decisively. Most significantly, we have developed and are implementing a new defense strategy and have begun to enhance military capabilities to focus more on 21st century threats – all while fighting a war on terrorism. We also are transforming our support structure and management practices. This overhaul of Department operations is the primary focus of this report.

This report reflects many important initiatives. In fiscal year 2002 we deployed the world's largest personnel management data system. We are modernizing financial systems, working to upgrade facilities, advancing private-public partnerships in military housing, eliminating unnecessary advisory boards, practicing realistic budgeting, increasing our focus on core support functions, and reforming our annual review of programs and funding. We also are working closely with the Office of Management and Budget and the General Accounting Office to develop measurable annual performance goals and objectives that fully support our new defense priorities.

The Department is committed to effective internal controls, full compliance with established guidelines and standards, and proper stewardship of the resources entrusted to it. Except for the weaknesses noted in Part I of this report, the Department has reasonable assurance that its management controls are effective. I am confident that the Department is prepared to fulfill its mission responsibilities.

Looking ahead, the Department must further intensify the transformation of its support structure and management practices. We must continue to upgrade performance and accountability, streamline and strengthen management, and ensure that every defense dollar is expended as wisely as possible.

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Part I

Management's Discussion and Analysis

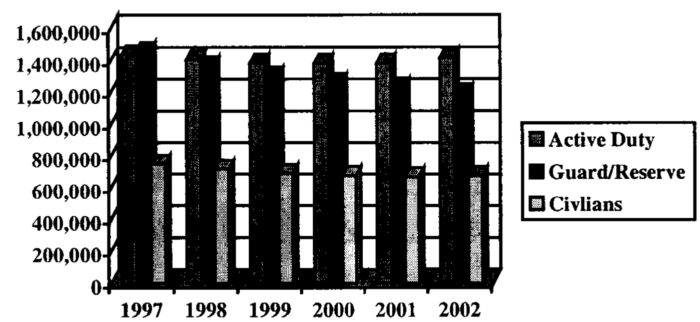
DoD Mission and Organization Structure

Mission

The mission of the U.S. Armed Forces is to protect and advance U.S. security and national interests, to deter aggressors and, if deterrence fails, to defeat any adversary.

Our Resources

The Department of Defense (DoD) is the nation's largest employer, with 1.4 million men and women currently on active duty, another 1.2 million serving in the Reserve and Guard Components, and 675,000 civilians, as of July 31, 2002. We have a worldwide presence with over 473,800 military and civilian personnel deployed and stationed in more than 146 countries.



Number of personnel in millions

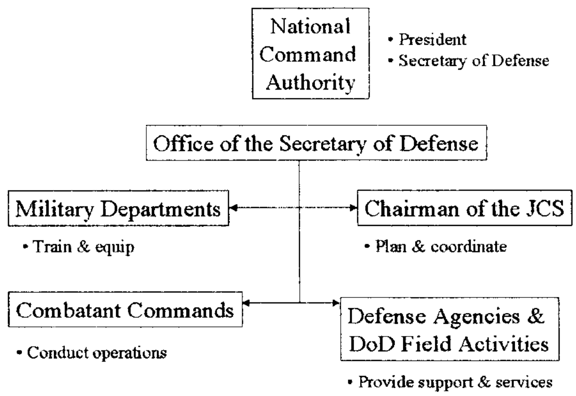
The Department maintains a robust infrastructure, operating more than 600,000 individual buildings and structures located at more than 6,000 different locations and using more than 30 million acres.

The Department's size, structure, and resources easily make it one of the largest industries in the world. It expended approximately $371 billion to operate and maintain about 250,000 vehicles, over 15,000 aircraft, more than 1,000 oceangoing vessels, and some 550 public utility systems.

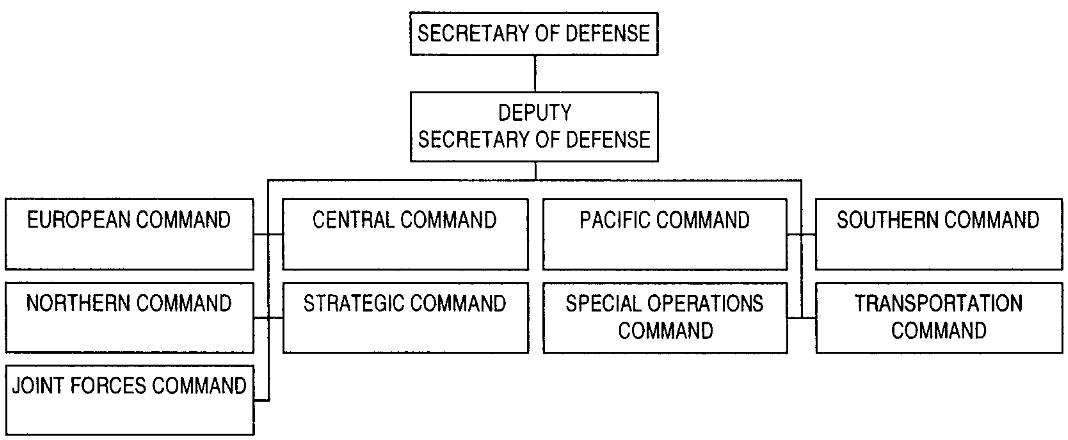
Our Organization

The Department of Defense is a Cabinet-level organization that receives orders from the President of the United States. The Secretary of Defense is appointed by the President and is responsible for the formulation and execution of defense policy.

The Office of the Secretary of Defense (OSD) carries out the Secretary's policies by tasking the Military Departments, the Chairman of the Joint Chiefs, the Combatant Commands, and the Defense Agencies and DoD Field Activities. The Military Departments train and equip their forces, while the Joint Chiefs of Staff plan and coordinate deployments and operations that are conducted by the Combatant Commands. The Defense Agencies and DoD Field Activities perform selected support and service functions on a Department-wide basis.



Combatant Commands



The Secretary of Defense uses the military command structure to deploy troops and authorize the use of military power by providing direction, through the Chairman of the JCS, to his nine combatant commanders. Six of the commanders have regional responsibilities, while the remaining three have worldwide responsibility. The events of September 11, 2001, and the ensuing war on terrorism, as well as the new defense strategy articulated in the 2001 Quadrennial Defense Review, highlighted the need to change the structure and responsibilities of the Combatant Commands. As a result, the Department created a new Combatant Command, the U.S. Northern Command, assigned to defend the United States and support the full range of military assistance to domestic civil authorities. U.S. Joint Forces Command transferred its geographic areas of responsibility to U.S. Northern Command and U.S. European Command, thus enabling U.S. Joint Forces Commanc to focus on joint experimentation and transforming U.S. military forces. In addition, U.S. Space Command and U.S. Strategic Command were merged to form a new U.S. Strategic Command. These changes will better prepare the nation to defend against new and emerging threats.

The Military Departments

Army, Navy and Air Force. The three Military Departments--the Army, the Navy and the Air Force-- recruit, train, and equip combat forces. The Marine Corps, our main amphibious force, is a component of the Navy. These trained and ready forces are then assigned to a combatant commander for the conduct of military operations.

Reserve Components. The Reserve Components' forces comprise approximately half of America's total uniformed force. Within the last decade, National Guard and Reserve Component personnel have taken on new and more important roles in wartime military support, as well as humanitarian, peacekeeping, law enforcement, and disaster assistance missions. Their importance was especially highlighted after the events of September 11, 2001, as they provided extra air patrols, and security forces personnel on the ground.

Defense Agencies and DoD Field Activities. Defense Agencies and DoD Field Activities provide a supply or service activity to more than one military department. Examples are accounting service, payroll service, information computing service, and logistics support. The consolidation of supply and service functions has improved efficiency and saved money. There are currently 15 Defense Agencies and 7 DoD Field Activities.

Performance Highlights

President Bush is committed to restoring the strength and vitality of the Armed Forces. After a period of declining readiness, the new administration, with the support of Congress, is rebuilding U.S. military capability and transforming America's defense for the 21st century.

The Department is acting on the President's challenge to develop new capabilities to overcome new threats facing our nation. We reassessed the dangers and opportunities inherent in a changing international security environment, and are implementing a strategy to address those changes.

In the past year, the Department of Defense:

- Adopted a new defense strategy;
- Replaced a 10-year old concept for determining the size of the Armed Forces that was based on *whom* we will fight with a new concept based on *how* we will fight;
- Reorganized and revitalized the missile defense research and testing program, free of the constraints of the Anti-Ballistic Missile Treaty;
- Reorganized to provide better focus on intelligence and space capabilities;
- Fashioned a new Unified Command Plan to enhance homeland defense and accelerate transformation;
- Adopted a new approach to strategic deterrence through the Nuclear Posture Review; and
- Adopted a new approach to balancing risks.

These achievements represent significant progress in the Department's efforts to transform itself, especially since they were accomplished while fighting an unexpected war on terrorism.

Looking to the Future

The 2001 *Quadrennial Defense Review* (QDR) analyzed the risks and opportunities in the global security environment and articulated a new defense strategy designed to:

- Defend the United States;
- Deter aggression and coercion forward in critical regions;
- Swiftly defeat aggression in overlapping major conflicts while preserving for the President the option to call for a decisive victory in one of those conflicts – including the possiblity of regime change or occupation; and
- Conduct a limited number of smaller-scale contingency operations.

The Department largely completed the QDR and its accompanying report before the September 11, 2001, terror attacks on the United States. In important ways, the attacks confirmed the strategic direction and planning principles that resulted from the QDR, particularly its emphasis on homeland defense, preparing for asymmetric threats, the need to develop new concepts of deterrence, the need for a capabilities-based strategy, and the need to balance the different dimensions of risk. Moreover, the terrorist attacks on the United States have compelled the Department to move forward more rapidly in these directions, even as the United States is engaged in the war on terrorism.

The Secretary of Defense's 2002 *Annual Report to the President and Congress* details the likely effect of existing and future conditions on U.S. security. It also highlights actions that will be taken to enhance DoD's performance in meeting its security responsibilities, as well as its responsibilities for managing the property, finances, people, and other assets entrusted to its care by the American public.

The common thread in these reports is the importance of transforming America's defense posture to enable us to counter 21st century threats most effectively. Transformation includes new military capabilities and new ways of fighting, as well as overhauling the Department's management and support activities.

The Department is organizing its actions to enhance performance around the concept of reducing the following four risk areas in a balanced way.

Reducing Force Management Risk

The Department must recruit, retain, train, and equip sufficient numbers of quality people to sustain a ready force while accomplishing its day-to-day mission. Accordingly, it must: ensure adequate funding for military and civilian compensation, effectively manage personnel deployments and military unit operations, establish a flexible and joint system of civilian human resources management, provide realistic funding for weapons systems and day-to-day operations, and ensure prudent funding and control of contingency operations.

Reducing Operational Risk

The Department must build a broader range of military capabilities for a wide spectrum of functional and geographical requirements. It must relieve the demands on personnel and equipment that are used frequently but that are in short supply (low-density/high-demand assets), such as unmanned aircraft and chemical and biological defense units.

Reducing Future Challenges Risk

The Department must accelerate the transformation of its military forces – developing and fielding promising technologies, experimenting with new concepts of operations and emphasizing scientific research to prepare for the most significant challenges that U.S. forces may face in the future.

Reducing Institutional Risk

The Department must streamline and increase the effectiveness of its management and support activities. Critical actions include: modernizing business practices; improving the management of acquisition, technology, and logistics; right-sizing and upgrading DoD installations and facilities; overhauling financial management; revising the program review process; and improving performance measures.

Financial Statements Highlights

Limitations

The DoD financial statements for fiscal year (FY) 2002 have been prepared to report the financial position and results of operations, pursuant to the requirements of the "Chief Financial Officers Act of 1990" and the "Government Management Reform Act of 1994." The DoD statements should be read with the understanding that they are for a component of the U.S. Government. The financial statements are not intended to replace the financial reports used to monitor and control budgetary resources.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to the limitations of its financial management systems. The Department is engaged in a Financial Management Modernization Program in order to implement system improvements to address these limitations. Under the auspices of this Program, the Department is in the process of creating a Department-wide technical design (enterprise architecture) that will prescribe how DoD's business processes will interact to ensure that all financial information is reported. This architecture will guide the development of enterprise-level business processes and systems throughout the Department that are compliant with the Federal Financial Management Improvement Act, Generally Accepted Accounting Principles, federal accounting standards, and the U.S. Government Standard General Ledger..

Financial Statement Analysis

The Department's goal is to produce timely, accurate and reliable financial information that can be used to manage operations, and as a by-product, achieve unqualified audit opinions on financial statements. While the Department's auditors issued a disclaimer of opinion on its Agency-wide Financial Statements, a number of the Department's subordinate agencies including the Military Retirement Trust Fund, the Defense Commissary Agency, the Defense Contract Audit Agency, and the Defense Finance and Accounting Service received unqualified audit opinions on their financial statements.

The DoD Consolidated Balance Sheet is comprised of assets, liabilities, and net position. At the end of FY 2002, assets totaled \$682 billion - a decrease of \$25 billion from the \$707 billion reported in FY 2001. Fund Balance with Treasury totaled \$206 billion, and increased \$16 billion primarily as a result of additional funding for fighting terrorism throughout the world. Accounts Receivable from the public (\$6 billion) increased about \$1.7 billion due primarily to the Navy's establishment of a receivable for accrued interest related to the A-12 program, which remains in litigation.

The value of inventory and related property decreased by $59 billion from $205 billion in FY 2001 to $146 billion in FY 2002. This decrease is due to a finding by the GAO and the Department's Inspector General that early implementation in 2001 of the new military equipment accounting standard to bring missiles and uninstalled engines onto the balance sheet was the incorrect accounting treatment for those assets. Further discussion of the pending military equipment accounting standard is included below.

The Department's liabilities stayed fairly stable - rising by $32 billion from $1.42 trillion at the end of FY 2001 to $1.45 trillion at the end of FY 2002. Military Retirement Benefits liabilities of $1.3 trillion comprise the largest portion of DoD's total liabilities, with environmental liabilities of $59 billion comprising the second largest portion of DoD's liabilities. The Department's net position, which is the difference between total assets and liabilities, is a negative $770 billion due primarily to the federal accounting standard requiring the expensing of military equipment in the year it is acquired. Military equipment comprises the largest portion of DoD assets in terms of value. Net Costs of Operations in FY 2002 declined from $735 billion to $380 billion. This was due to the artificially high costs of operations reflected in the FY 2001 financial statements resulting from the implementation of legislation affecting the Military Retirement Health Benefits liability.

The Federal Accounting Standards Advisory Board made significant progress this year in developing new accounting standards for the reporting of military equipment. The accounting standard in effect since FY 1998 referred to military equipment as National Defense Property, Plant and Equipment, and required that the Department not report the value of that equipment on the balance sheet. In FY 1998, the Department wrote approximately $700 billion worth of military equipment off the Balance Sheet. The new standard for military equipment, which is awaiting final Congressional approval, requires that the acquisition costs for all military equipment be reflected on the Department's Balance Sheet, and be depreciated.

Financial Management Issues

The Office of the Inspector General, DoD, identified thirteen material weaknesses in the FY 2001 DoD financial statement audits. While efforts are ongoing to reduce the number of material weaknesses, the Department expects that the 13 material weaknesses will continue to be reported in the FY 2002 financial statement audits. The 13 material weaknesses are:

1. DoD Financial Management Systems. The DoD-wide systemic deficiencies in financial management systems and business processes result in the inability to collect and report financial and performance information that is accurate, reliable, and timely.

2. Intragovernmental Eliminations. The inability to reconcile most intragovernmental transactions results in adjustments that cannot be verified.

3. Accounting Entries. The Department continues to record material amounts of unsupported accounting entries.

4. Fund Balance with Treasury. A significant dollar value of disbursements is not accurately reported. Uncleared differences exist between cash transactions reported by the Department of Defense and the Treasury Department's records.

5. Problem Disbursements. Disbursements are not properly matched to specific obligations in accounting system.

6. Military Retirement Health Care Liabilities. Data quality deficiencies in the military health care system affect the accuracy of the unfunded liability.

7. Environmental Liabilities. Guidance, audit trails, and validated estimating models are insufficient. The inventory of ranges and operational activities (landfills, open burning pits, etc.) is incomplete.

8. General Property, Plant and Equipment (PP&E). The value of DoD General PP&E is not reliably reported due to lack of supporting documentation.

9. Government Furnished Material and Contractor Acquired Material. The value of DoD property and material in the possession of contractors is not reliably reported.

10. Inventory. The existing inventory valuation method does not produce an auditable approximation of historical cost because the associated gains and losses cannot be accurately tracked to specific items or purchases.

11. Operating Materials and Supplies. The Department's systems were designed to expense materials when purchased rather than when consumed.

12. Statement of Net Cost. The Statement of Net Cost is not presented by responsibility segments that align with major goals and outputs described in the Department's strategic and performance plans required by the Government Performance and Results Act. Revenues and expenses are reported by appropriation categories because financial processes and systems do not collect costs in line with performance measures.

13. Statement of Financing. The DoD cannot reconcile budgetary obligations to net cost without making adjustments.

DoD Financial Management Improvements

During FY 2002 the Department prepared an inventory of financial and accounting systems and the associated feeder systems that provide information to financial systems. This inventory identified over 1,800 systems that support the preparation of the Department's financial statements.

During FY 2003, the Department will develop a Department-wide enterprise architecture and a transition plan. The enterprise architecture and transition plan will contain specific actions, priorities, milestones, and improvements that the Department must implement to improve the preparation of the financial statements to provide more reliable information.

Other Progress

While an unqualified audit opinion is several years away for the Department, significant progress has been made to address some long-standing deficiencies. The Department has developed improved procedures for reconciling Fund Balance with Treasury, and has deployed a formalized training program to teach the new procedures. The Department changed its inventory valuation method to provide a true transaction-based inventory accounting. A Certified Public Accounting firm has validated the Department's methodologies for estimating environmental liabilities.

Systems, Controls and Compliance with Laws and Regulations

Systems

The Department is in the process of modernizing its financial management systems and improving its financial reporting processes. Today, however, many of the Department's financial management systems do not comply with federal financial management systems requirements, Generally Accepted Accounting Principles (GAAP), or the U.S. Government Standard General Ledger (USSGL).

The Department is in the process of creating a Department-wide technical design (enterprise architecture) that will prescribe how the Department's business processes will interact to ensure that all financial information is reported. This architecture will guide the development of enterprise-level business processes and systems throughout the Department that are compliant with the Federal Financial Management Improvement Act, Generally Accepted Accounting Principles, federal accounting standards, and the U.S. Government Standard General Ledger. The Department is collaborating with the Office of Management and Budget, the GAO, and the DoD Inspector General to gain their support for planned improvements to the Department's financial systems and processes.

Concurrent and consistent with the design and development of a long-term enterprise architecture, we are pursuing near-term improvements. We are refocusing existing resources on fixing problems and instituting initiatives to achieve progress in improving the Department's financial management operations.

Controls

The Department continues to emphasize adequate checks, balances, and approval requirements for all financial transactions. Our goal is to incorporate appropriate levels of verification throughout the DoD Components without requiring excessive resources to do so, or hampering the Department's ability to complete its mission.

During FY 2002, the Comptroller focused attention on many processes and has improved financial reporting and instituted stricter internal controls. For example, DoD implemented an accounts receivable reconciliation process. As a result, the Department is collecting more accounts receivable and transferring old accounts to the Department of Treasury for collection.

Another effort focused on travel and purchase card improvements. The Department cancelled approximately 300,000 travel cards and implemented a process to collect past due amounts from cardholders. In addition, the Department implemented controls to reduce fraud and to improve validation and approval of purchase card bills.

The Defense Finance and Accounting Service (DFAS) has implemented prepayment duplicate payment detection processes for the vendor pay environment. In addition, the DFAS Internal Review office is using sophisticated duplicate detection logic and state-of-the-art automated data analysis tools to detect fraudulent and erroneous vendor payments and to provide targeted information to Internal Review teams allowing them to better focus on potential internal control weaknesses.

The Department has already seen improvements in the contractor payment process as a result of incorporating the detection logic into the contractor payment system. We now stop many potential duplicate payments before they are paid. This has resulted in a 64 percent reduction in the number of duplicate contractor payments and a 90 percent reduction in the dollar value of duplicate contractor payments over those detected during FY 2001.

In conjunction with expanded and accelerated financial statement reporting requirements, the DFAS Internal Review office identified and will implement additional techniques to improve the processes for preparing and consolidating the Department's financial statements, the associated Departmental-level journal vouchers, and the accuracy of the Department's quarterly and annual financial statements.

Through the combined efforts of the initiatives described above, the Department expects continued, marked success in strengthening internal controls.

Compliance with Laws and Regulations

The Department of Defense is required to comply with a wide range of laws and regulations in the conduct of its daily business. The primary laws governing the preparation of the annual financial statements are the Chief Financial Officers Act (CFO Act), the Government Management Reform Act (GMRA), the Federal Managers' Financial Integrity Act (FMFIA), and the Federal Financial Management Improvement Act (FFMIA). The Office of Management and Budget has issued implementing regulations for each of these laws, which the Department has followed in preparing the financial statements. Many of the Department's systems are not compliant with federal requirements. The Department is taking aggressive action, however, to develop a financial management modernization system that incorporates standard business rules and is capable of complying with federally mandated financial reporting requirements, including federal accounting standards.

Federal Managers' Financial Integrity Act, Section 2. Material Weaknesses

Consistent with the objectives of the "Government Management Reform Act of 1994," as well as the "Reports Consolidation Act of 2000", the Department of Defense consolidated several reports required by statute into this Performance and Accountability Report. This is the first year the Department of Defense has not issued a separate report to comply with the Federal Managers' Financial Integrity Act (FMFIA). Instead, the results of the Department's evaluations under FMFIA for the period ending September 30, 2002, are included in this report.

Based on internal management evaluations, and in conjunction with the findings of the Office of the Inspector General, Department of Defense, and the Military Department Audit Agencies, the Department, except as noted in the following section, can provide reasonable assurance that it has sufficient internal controls in place to perform its assigned mission.

The management control weaknesses discussed in this section are categorized in two ways. "Systemic weaknesses" are those management control deficiencies that may affect a significant number of DoD Components and also possess the potential to have an adverse impact on the Department's overall operations. The Department's eight systemic weaknesses, including corrective action plans, are discussed in depth in the following pages.

Taken together, "material weaknesses" are those management control problems that primarily pertain to a single DoD Component and do not have as serious an impact on the performance of the entire Department. Material weaknesses are reported at the end of this section. As a whole, a total of 70 material weaknesses remain uncorrected as of September 30, 2002. Those material weaknesses are concentrated in the financial and acquisition management areas, and are being addressed by senior management.

The Department increased its efforts to resolve all material weaknesses in a timely fashion through a renewed emphasis on a rigorous management control program. Review of each DoD Component's implementation of its management control program began in 2002 and will be completed in 2003. The Department is placing special emphasis on correcting internal control problems identified through audits or internal reviews that remain uncorrected after three years, and is placing highest priority on strengthening controls that will prevent potential fraud, waste and abuse of government resources.

FY 2002 DoD Systemic Weaknesses

Financial Management Systems and Processes

Department of Defense financial management systems and business processes do not provide information that is accurate, reliable and timely, thus hindering effective management decision-making. The current financial environment is comprised of many discrete systems characterized by poor integration and minimal data standardization. This absence of an overarching approach to financial management has resulted in a consistent failure by the Department to pass financial audits.

Impact

An inferior financial management information infrastructure hinders the efficiency and effectiveness of the Department's operations and prevents managers from making more timely and cost-effective decisions. The Department's substandard financial management processes and information infrastructure, and the absence of a Department-wide, integrated approach to financial management, also contribute to the following difficulties:

- Overly complex data requirements that are driven by appropriation funding rules, elaborate policies and procedures, and outdated guidelines for excessively detailed tracking of expenditures.
- Convoluted business processes that fail to streamline excessive process steps that are further complicated by aged and disparate systems (accounting, financial and nonfinancial ("feeder")).
- Inability to meet evolving federal financial management standards.
- Difficulty in obtaining financially based, outcome-oriented, metrics for decisionmakers. Many of the metrics currently in use reflect weak links between annual performance goals and outputs.
- Inability to produce annual financial statements that result in an unqualified audit opinion.
- Personnel who lack the technical skills necessary to support and maintain integrated financial management systems and operations.

Management Response

The Department is improving its financial management processes, systems, and information by engaging in a number of wide-ranging initiatives:.

- The Secretary of Defense established the Financial Management Modernization Program to direct and oversee financial management reform within the Department. A new directorate within the Office of the Under Secretary of Defense (Comptroller) was created to lead the reform effort. Its main task is to develop a financial management enterprise architecture. That architecture will serve as a blueprint for a coordinated DoD-wide management approach to improving business processes and implementing integrated financial management systems.
- In April 2002 the Department awarded a major contract for development of the Department-wide financial management enterprise architecture.
- The Under Secretary of Defense (Comptroller) has created a review process utilizing strict criteria to manage and control all investments in DoD financial management systems.

Planned Actions

- Complete development of the financial management enterprise architecture and transition plan by April 2003.
- Reengineer the Department's financially related business processes to ensure routine availability of reliable, accurate and timely financial management information.
- Develop a capital investment strategy and investment plan that includes costs, people, policies, processes and systems for the Department's transition to a fully integrated financial management system that is compliant with applicable federal and DoD standards.
- Fashion an information architecture that supports shared financial management data across the Department, with the following characteristics:
  - Collects data by specific project, business line or weapon system life cycle cost, that will allow DoD managers to compare financial management and cost management information with the Department's performance goals.
  - Incorporates an architectural and transition plan that guides the development and deployment of new financial management capabilities, with a concurrent reduction in the costs of such development.
  - Incorporates the goals of the Government Paperwork Elimination Act.
  - Includes all current and planned financial management systems and the financial portions of DoD business systems, including any business systems in which the transactional effects of financial events are recorded.

Environmental Liability

At the request of the House Committee on the Budget, the GAO conducted an audit of the Department's progress in estimating the potential long-term budgetary implications associated with environmental clean-up costs related to the "ongoing operations" of the Department. Ongoing operations are those day-to-day operations that may require cleanup activities if or when those operations are shut down. Examples include landfills, underground storage tanks, and hazardous waste storage facilities. The GAO determined that the Department has not yet developed the policies, procedures, and methods needed to ensure that cleanup costs (environmental liabilities) for all of its ongoing and inactive or closed operations are identified, consistently estimated, and appropriately reported. Prior audit reports examined the data supporting the environmental liabilities entry on the DoD Agency-wide Financial Statements and addressed problems in five main areas:

- Clarification, expansion, and implementation of guidance;
- Standardization and verification, validation, and accreditation of the methods used to estimate "cost-to-complete;"
- Completion of DoD range inventories;
- Adequacy of audit trails for cost-to-complete systems; and
- Adequacy and accuracy of data calls.

Impact

The Department's financial statements and environmental reports under-report environmental liabilities and understate the Department's related long-term budgetary requirements for cleanup activities.

Management Response

Efforts during the past year have focused on providing guidance that will help the DoD Components to compile complete, accurate, and fully substantiated environmental liability data. The Department is placing emphasis on recognizing what constitutes a reportable environmental liability, how such a liability should be measured, and when and where it should be recorded. Commercial sector accounting guidance is being used to the maximum degree feasible. Among its efforts to provide clearer guidance, the Department has:

- Published revisions to the Department of Defense Financial Management Regulation ("DoDFMR") on September 2002 that provide guidance on when to record a liability.
- Published updated Defense Environmental Restoration Program (DERP) management guidance on September 28, 2001. That guidance addressed: (1) the identification, investigation, research and development, and cleanup of contamination from

hazardous substances, and pollutants and contaminants; (2) correction of other environmental damage (such as the detection and disposal of unexploded ordnance) which creates an imminent and substantial endangerment to the public health or welfare, or to the environment; and (3) demolition and removal of unsafe buildings and structures, including buildings and structures of the Department of Defense at sites formerly used by, or under the jurisdiction of, the Secretary of Defense.

- Validated the Remedial Action Cost Engineering and Requirements (RACER) cost estimating model (July 11, 2001) and Navy cost-to-complete cost estimating model (October 18, 2001) used in the calculation and documentation of environmental liability costs.

In addition:

- DoD Components are developing and maintaining adequate supporting documentation and audit trails for their DERP cost-to-complete estimates. Estimated completion date is September 30, 2004.
- DoD Components are developing the required inventory of nonoperational range sites. Estimated completion date is September 30, 2004.
- The DoD Inspector General is in the process of validating the Army's cost estimating methodology for the chemical weapons disposal liability. Estimated completion date is March 30, 2004.
- The Navy asserted in its Management Representation Letter that it has a sound methodology for estimating liabilities associated with nuclear powered ships and submarines. The Navy's liability estimating methodology will be assessed by the DoD Inspector General to determine its accuracy and completeness.

Planned Actions

- The Department also plans to publish additional guidance to enable DoD installation personnel to determine when the potential exists for an environmental liability for on-going operations. If there is an environmental liability, the guidance will standardize how estimates are developed and categorized. The target completion date is May 2003.
- DoD Components will develop an inventory of non-DERP activities (on-going operations) by August 2004.
- Beginning in FY 2003, the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (OUSD(AT&L)) will assess progress made by the Department in reporting complete, accurate, and supported environmental liability data in the FY 2002 DoD financial statements.

Munitions and Explosives

In 1999, the Department of Defense identified a material weakness in the management of munitions and explosives at operational test and training range complexes, and on munitions response areas (formerly used areas that are no longer on operational ranges). Ensuring sustainable use of operational ranges for training is essential to the Department's ability to fulfill its mission--now and in the future. Increasing urban encroachment, along with regulatory and public interest pressures, threaten continued use of operational ranges. To protect human health and safety, more intense management of unexploded ordnance and munitions on operational ranges is required. For munitions response areas, the Department is required to respond to unexploded ordnance (and buried and abandoned munitions), in a manner that protects human health and the environment. Furthermore, the General Accounting Office has determined that the Department's training range cleanup cost estimates are understated, and identified the need for accurate inventories and cost methodologies to substantiate the related financial liabilities accurately.

Impact

The Department's financial statements and environmental reports do not adequately identify financial liabilities caused by munitions use. As a result, the Department's related long-term budgetary requirements to manage unexploded ordnance adequately and to respond to munitions related problems are potentially understated.

Management Response

The Department is developing management procedures to address munitions and explosives issues on both operational ranges and munitions response areas. To date, the Department has:

- Validated the RACER cost estimating model used to calculate and document environmental liability costs (July 11, 2001).
- Updated the DERP management guidance to include policy for munitions response activities funded by the DERP accounts (September 28, 2001).
- Established a Sustainable Defense Readiness and Ranges Integrated Process Team to address operational test and training range management (December 2001).
- Approved the Munitions Action Plan (MAP) developed by the Operational and Environmental Executive Steering Committee for Munitions. The MAP serves as a "roadmap" for action across the entire life cycle of munitions (March 2002).
- Provided guidance to the DoD Components to determine financial liabilities and identify budget requirements for environmental management tasks on operational ranges and appropriate remedial actions for munitions response areas (September 2002).

Planned Actions

- The OUSD(AT&L) will publish additional guidance to enable DoD personnel to manage munitions response, operational range management, disposal of range residue, and to determine when the potential exists for a munitions-related environmental liability. The guidance will standardize how environmental liability cost estimates are developed and categorized. The target completion date is May 2003.
- DoD Components will develop an inventory of operational ranges and munitions response sites by April 2004.
- Beginning in FY 2003, the OUSD(AT&L) will assess progress achieved by the Department in reporting complete, accurate, and supported munitions-related environmental liability data during the review of the fiscal year 2002 and future year financial statements.

Contracting for Services

Numerous DoD Inspector General reports identified various pre- and post-contract award issues that are not being adequately addressed for the procurement of services within the Department.

Impact

Lack of adequate acquisition oversight to ensure that appropriate planning and procedures are being followed may result in less than optimal utilization of resources when contracting for DoD services. Unlike the acquisition of major systems, service contracts do not always receive the same degree of rigorous review prior to contract award and during contract execution. The growing size and complexity of DoD service contracts makes it imperative that greater discipline be applied to the review of those procurements. The most direct potential impact of lax oversight is failure to obtain the best value on individual procurements, specifically when all of the available competitive pricing opportunities are not properly considered.

Management Response

In FY 2002, the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)) has issued new DoD-wide policy governing the management and oversight of the acquisition of services. An acquisition strategy must now be developed and approved for each acquisition of services, and funding actions as well as business arrangements must be executed in accordance with that approved strategy. Metrics for cost, schedule and performance also must be established for each service acquisition.

Those metrics will then be forwarded to the appropriate Decision Authority to assess execution progress.

Planned Actions

The Department plans a number of future corrective actions. Among them, the OUSD(AT&L) will:

- Review DoD Component implementation of the new policy governing oversight of service contracts by March 2003.
- Revise the Defense Federal Acquisition Regulation Supplement (DFARS) to implement Section 803 of the FY 2002 Defense Authorization Act (Public Law 107-107), which requires competition in the purchase of services greater than $100,000 under multiple award contracts. The final rule will be published in 2003.
- Increase awareness of service contracting issues and oversight procedures through a variety of acquisition training forums, including the 2003 Department of Defense Procurement Conference.

Government Card Program Management

Purchase Cards

Audit reports have provided evidence of failures of the internal control systems designed to mitigate the risk of abuse or misuse of government charge cards within the Department. The audits revealed instances of misuse, abuse, and fraud that were caused by inadequate DoD activity level emphasis on proper use of the purchase card, poorly enforced controls and lax oversight.

Impact

Lack of DoD activity level emphasis and failure to implement management controls fully produces an environment that increases the risks of charge card abuse, misuse and fraud. Lax enforcement of management controls removes the oversight necessary to ensure the cost-effective and appropriate use of charge cards. As a result, cardholders may at times procure items that are not required for mission support, or that are intended for personal use. Failure of management controls also undermines the ability of the Government to seek adjustments for billing errors or fraudulent purchases that were not made by the cardholder. In addition, the failure of management controls could result in the government not obtaining the best possible price.

Management Response

The Deputy Secretary of Defense issued a memorandum to all DoD Components on June 21, 2002, emphasizing the requirement to maintain appropriate stewardship of taxpayer dollars when using the government purchase card. The OUSD(AT&L) is developing an overarching directive governing purchase card roles and responsibilities within the Department. Specific improvements in management controls during FY 2002 include the following actions by the OUSD(AT&L):

- Established a method to ensure that purchase cards are collected from all departing civilians and military members prior to separation.
- Prepared and disseminated throughout the Department, guidelines for the implementation, maintenance and oversight of the purchase card program. This effort included a thorough review of those policies and regulations intended to establish effective management controls for the program.
- Completed a field test of an enhanced, centralized data mining tool to assist in the detection of fraudulent, wasteful and abusive purchase card transactions.

Planned Actions

Future corrective actions planned by the OUSD(AT&L) include:

- Develop and field enhanced training materials for cardholders and their responsible oversight officials. This is an ongoing activity.
- Accelerate the use of on-line billing statement review, approval and certification by the second quarter of FY 2003.
- Increase awareness of proper purchase card use through a variety of existing training forums, including a session of the 2003 DoD Procurement Conference.

Travel Cards

The principal problem with the DoD Individually Billed Account (IBA) travel charge card program is the misuse and late payment or non-payment by military members and civilian personnel of travel charge card debt owed to the bank. Under the General Services Administration contract with the travel charge card contractor, cardholders are required to pay the total balance on their account within 30 days of the end of the billing cycle to keep the account current. In addition, cardholders do not have to pay interest on outstanding balances.

The General Services Administration standard delinquency rate is calculated on balances unpaid after 60 days. Using this measure, the Department's performance during the first three years of the program has been poor, with monthly delinquency rates as high as 25 percent. Performance has been progressively improving, but the rates during FY 2001 and the first two quarters of FY 2002 were 50 to 90 percent higher than the average of other federal agencies.

The travel charge card contractor is required by banking laws to write-off the overdue balance when an account is delinquent more than 210 days. Delinquent travel card payments have been largely corrected by the introduction of salary offset in October 2001. Previously, the bank's only recourse was to attempt recovery through private debt collection. With salary offset, the contractor can request that the government recover the debt from the individual's pay. Bank write-off levels have fallen from a high of $2.5 million in February 2001 to less than $500,000 (generally between $100,000 and $200,000) per month during FY 2002.

There are also documented instances of inappropriate use of travel charge cards. Travel charge cards are to be used only for expenses incurred in connection with official government travel. Unofficial use subjects the travel charge card contract to greater risk of delinquent payments and write-offs because the inappropriate charges will not be reimbursed to the cardholder by the government.

Impact

High delinquency rates and excessive write-offs have two important consequences. First, they threaten the Department's contractual relationship with the travel charge card contractor. Since the contractor cannot charge interest on outstanding balances, and since the late payment fee is charged at a later point than on a consumer credit card, the contractor's cost of funds will be higher than anticipated. While this is of primary concern to the card-issuing bank, it also could be problematic to the Department in future competitive solicitations for card services resulting in possible increased fees to cardholders and costs to the Department to reimburse the fees.

Management Response

In April 2001, a contract modification was approved to encourage DoD members to pay their travel charge card bills in a more timely manner and reduce the financial risk of the travel charge card contractor. The Under Secretary of Defense (Comptroller) (USD(C)) issued a memorandum that month which implemented policy changes resulting from the contract modification. These changes included:

- Increased fees charged by the contractor for automated teller machine withdrawals, late payments and returned checks.
- Salary offset for delinquent amounts beginning in October 2001.
- A 50 percent reduction in travel charge card credit limits.
- A reduction in the number of active cards issued to infrequent travelers. From November – December 2001 the DoD Components reviewed cards held by infrequent

travelers (those making two or fewer trips in a year). This resulted in the cancellation of 115,000 cards and the deactivation of 112,000 cards.

In March 2002, the USD(C) established a Charge Card Task Force to investigate program improvements to both the purchase card and travel card programs. The Task Force was comprised of representatives from the Military Departments and requested input from the General Services Administration (GSA), Office of Personnel Management (OPM) and Department of Justice. The USD(C) released the DoD Charge Card Task Force Report on June 27, 2002. Recommendations of the Task Force that have been implemented include:

- Cancellation of over 300,000 inactive travel charge card accounts.
- The tasking of the Service Secretaries and Component Heads to review their travel and purchase card programs and report on actions being taken to reduce delinquencies and address misuse.
- The development of metrics related to charge cards which are being reported to senior management on a regular basis, including measures of delinquent dollars, delinquent accounts (both number of accounts and the aging of the delinquencies), accounts sent for salary offset, and accounts written off by the bank.

During this same time frame, the USD(C) issued guidance redefining mission critical status to require specific supervisory approval on the travel authorization in circumstances where an individual cannot submit travel vouchers and make timely payments because of the travel. Mission critical status delays suspension of cards for non-payment and allows reimbursement for late fees. The revised definition prevents misuse of mission critical status to postpone payment of charge card bills.

The Department also proposed legislation, which was enacted by section 1008 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003. That legislation authorizes the Department to send payments to the issuer of the travel card for official travel or transportation expenses charged on the Defense travel card by a Department of Defense employee or member (commonly referred to as "split disbursement.") Split disbursement was previously authorized only at the option of the employee or member. In addition to providing for salary offsets of current military personnel and civilian employees, section 1008 also authorizes salary offset of military and civilian retiree pay. The new legislation should result in reduction to the Department's travel charge card delinquency rates and the amount of uncollectible debt. This legislation will be implemented through changes to the "Department of Defense Financial Management Regulation."

Planned Actions

Further action continues on the following Charge Card Task Force recommendations:

- The Military Departments and Defense Agencies will ensure that supervisors and security managers are informed of allegations of travel card misuse and abuse so that an appropriate determination can be made regarding suspension of security clearances.

The OUSD(AT&L) will:

- Develop an overarching directive on travel card roles and responsibilities within the Department by March 31, 2003.
- Produce a compact disk for distribution to Agency Program Coordinators that contains basic information about the travel card program, including individual liability and responsibility as well as those of the commander/supervisor. The compact disk is not intended as a complete cardholder training program, but will provide links to additional training sites. The target completion date is February 28, 2003.
- Develop methods to ensure government purchase and travel cards are collected and canceled from all departing civilians and military members. The Defense Manpower Data Center is currently working on a match of separations, deceased and retired employees to active card accounts so that card managers can be notified to cancel those accounts. (This action is complete as of January 2003).

The OUSD(AT&L), in conjunction with the Military Departments and Defense Agencies, will:

- Develop a centralized data-mining tool to detect travel charge card abuse and misuse by June 2003.
- Develop enhanced card program metrics for senior management oversight. (This action was completed in December 2002.)
- Investigate travel voucher processes to identify improvements to reduce the time required to obtain reimbursement by December 2003.
- Implement an exemption from mandatory use of card for travel incident to certain deployments/missions that are likely to result in untimely settlement of travel vouchers by March 2003.
- Revise compliance sections of regulations to clarify procedures to be utilized for travel charge card misuse and abuse; and increase awareness of training material available from the travel charge card contractor and the GSA by March 2003.

Information Assurance

The Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) (OASD(C3I)) has determined that the Department's information systems are potentially vulnerable to an information warfare attack. The Department has uncovered numerous attempts to breach "sensitive but unclassified" systems and networks supporting finance, logistics, medical, procurement, personnel and research and development activities. The widespread use of sophisticated viruses and more sophisticated "distributed denial of service" attacks will continue to challenge the Department. Assessments by OASD(C3I) and audits by the DoD Inspector General continue to show that security certification and accreditation of individual information and computing systems and applications within the Department is not adequate. Failure to comply with accreditation requirements, or maintain this accreditation, leaves many systems vulnerable to attack or exploitation.

Impact

A successful attack on DoD systems would have a serious and immediate impact on the ability of the DoD to carry out its mission.

Management Response

The OASD(C3I):

- Issued a DoD directive in January 2001 and a DoD instruction in March 2001 establishing policy, responsibilities and organization for computer network defense.
- Assigned a military lead (currently United States Space Command) for Computer Network Defense within the Department in September 1999.
- Removed information from the Department's websites that may have revealed operational capabilities or vulnerabilities in March 1999.
- Implemented the Information Assurance Vulnerability Alert (IAVA) process to alert units to security vulnerabilities and to manage their correction in March 2001.
- Subjected all DoD business processes to robust functional process improvements to include the information assurance that will provide needed system protections. Mandated purchase of only commercial information assurance products approved by the National Information Assurance Partnership or the National Security Agency for national security systems effective in July 2002.
- Is deploying electronic tokens to secure access among all DoD system users and organizations and issued secure electronic authentication certificates (to validate user identity) to all DoD users so that electronic mail is protected by digital signature. (This action is ongoing.)

- Published information assurance readiness metrics and reporting policy to continually assess the readiness posture of DoD Components in March 2000.
- Established the Information Assurance Scholarship Program in June 2001 to provide increased professional education and training opportunities for DoD personnel as well as improving the Department's ability to recruit trained information assurance professionals directly from college.
- Established a connection approval process for classified and unclassified networks to validate the security of sub-networks as a condition of connection in August 1999.

Planned Actions

The OASD(C3I) will:

- Complete revision of overarching information assurance policy by the first quarter 2003.
- Revise DoD security certification and accreditation policy and process to improve compliance and provide enterprise management capability by September 2003.
- Complete deployment of DoD Public Key Infrastructure and issue of electronic tokens (via the Common Access Card) to entire DoD population by October 2003.
- Complete enterprise-wide certification standards for information assurance/ technology professionals to raise and continuously improve existing skills by May 2003.
- Develop an information assurance/technology workforce management capability to identify and track personnel performing that function. This capability also may be used to ensure that those professionals are suitably trained and certified. The target completion date for the Civilian Personnel Data System improvements is June 2003, and for military databases, June 2004.
- Develop an enterprise-wide strategy to infuse, and continually enhance, information assurance awareness and training into programs for all end users by June 2004.
- Deploy commercial software security product(s) designed to eliminate vulnerabilities introduced through standard default installations by September 2003.

Personnel Security Investigations Program

Personnel security investigations within the Department have not been conducted in a timely manner over the past several years. While timeliness is improving for new cases received after March 2002, the overall average investigative periods still do not meet required national standards. These investigations determine whether an individual should be granted access to classified information; accessed or retained in military service; or employed in a sensitive position.

Impact

The thoroughness and timeliness of personnel security investigations directly affects Department operations and is a matter of national security.

Management Response

Since 1999, the Defense Security Service (DSS) has implemented changes and enhancements to both hardware and software that significantly improved the Case Control Management System (CCMS) throughput, capabilities, and response time for both internal and non-DoD customers. These changes enabled DSS to close over 583,000 personnel security investigations in FY 2001, a 43 percent gain in productivity over FY 2000. Other actions taken by DSS in 2002 include the following:

- Created the Office of Standards and Evaluation and Quality Management to evaluate the performance of Investigators, Case Analysts, and the written products they prepare.
- Published and disseminated a new Personnel Security Investigations Manual that provided much greater clarity concerning the required standards and procedures to use when conducting investigations.
- Reduced to approximately one percent the number of closed investigations returned to DSS due to inadequacies in investigative coverage, and reduced the total error rate to four percent (returned investigations and those corrected by the DoD central adjudicative facilities).

Planned Actions

DSS continues to establish new, improved methods to project workload and to ensure surges in requirements caused by unforeseen events such as the September 11, 2001, terrorist attack can be handled through implementation of a more agile workforce and increased support system automation. In 2003, the Department will reengineer the business processes to define more efficient, effective processes and methods to improve the speed and quality of the personnel security clearance process.

Management of Real Property (Facilities)

The Department lacks a long-range plan to address obsolescence and deterioration of its facilities and has related management deficiencies with the Family Housing program, which supports military members and their families. Proper disposal, maintenance, upgrade, and replacement of DoD facilities is essential to the performance of the Department's mission, and is a key component of military and civilian morale.

Impact

Failure to use a rigorous, analytically supported, criteria-based approach to support DoD infrastructure resource requirements results in less than optimal decisions about facility acquisition, sustainment, recapitalization, and retention. Obsolete and excess facility infrastructure drains scarce resources from other facility requirements and creates potentially non-supportable future year unfunded liabilities. Acquisition of new facilities in the absence of adequate sustainment and recapitalization funding for existing facilities compounds the problem because it increases the cost to maintain the total inventory of DoD facilities.

Management Response

The Office of the Deputy Under Secretary of Defense (Installations and Environment)::

- Published the Defense Facilities Strategic Plan in August 2001.
- Created two new performance measures (Facilities Sustainment Model (June 2000) and Facilities Recapitalization Metric (August 2002)) and established performance targets for both in the May 2002 Defense Planning Guidance.
- Increased funding by $2 billion in FY 2002 to begin reducing the estimated $62 billion restoration of facilities requirement. The increased funding permitted the Military Departments to accelerate facilities restoration efforts and make progress toward the goal of achieving a C-2 level of facilities readiness by FY 2010. A C-2 level of facilities readiness is one in which the facility is free of deficiencies that affect the performance of its intended function, or that may negatively affect mission accomplishment.
- Improved the FY 2002 facilities recapitalization rate to 101 years (vice 192 years), set a recapitalization rate goal of 67 years by FY 2007, and reassessed methodologies for computing recapitalization rates.
- Increased the FY 2003 facilities sustainment budget to 93 percent of commercial benchmarks (vice 89 percent in FY 2002) and established a goal of full sustainment levels by FY 2004.
- Initiated development of a common, Department-wide, Real Property Enterprise System that will accurately account for and track financial information (such as depreciation) necessary to improve decisions related to future real property investments.
- Neared completion of a draft policy for housing requirements process. The proposed policy will standardize and streamline the process used by the Military Departments to calculate housing requirements, which focuses on private sector solutions first. Final policy will be submitted to the Deputy Secretary of Defense for approval in FY 2003.

Planned Actions

The Office of the Deputy Under Secretary of Defense (Installations and Environment) will:

- Continue ongoing demolition programs to eliminate excess facilities and initiate a round of Base Realignment and Closure.
- Complete a revised DoD directive ("DoD Housing Management"), revise the DoD Housing Manual, and promulgate specific guidance for the housing requirements policy addressed above in FY 2003.
- Conduct a comprehensive review of facilities sustainment, restoration, and modernization programs planned for the FY 2004-2009 period. (The review was completed in October 2002, and related decisions were included in the December 2002 Program Decision Memorandum.)
- Develop advanced tools for managing investments designed to return facilities to C-2 status by approximately FY 2010.

FY 2002 DoD Material Weaknesses

FMFIA Section 2 Material Weaknesses

(As of September 30, 2002)

Year Reported	Number Reported	Number Corrected	Pending Correction
FY 1998 and Prior	915	897	18
FY 1999	20	12	8
FY 2000	18	10	8
FY 2001	41	27	14
FY 2002	36	14	22
Total	1,030	960	70

The table above displays the status of all DoD material weaknesses by fiscal year, as well as the progress achieved in correcting those weaknesses.

In previous reports, the Department listed all of the material weaknesses reported by the individual DoD Components regardless of whether those weaknesses were fundamentally similar in nature, were deemed material to the Department as a whole, or were already addressed under the corrective actions planned for the eight DoD-wide systemic weaknesses. The numbers in the above table reflect improved analysis and greater accuracy as to the actual status of management controls and corrective efforts within the Department.

Of the 1,030 weaknesses, 960 (93 percent) have been corrected. In FY 2002, the Department reported 25 new weaknesses, corrected a total of 44 weaknesses, and consolidated the reporting of 26 additional material weaknesses. Details on the material weaknesses consolidated appear in the table below. Of the remaining 70 weaknesses, 69 percent were identified in the prior years, and 31 percent were newly identified. The FY 2001 Department of Defense Statement of Assurance report identified 115 uncorrected material weaknesses. During FY 2002 the Department experienced a net decrease of 45 uncorrected weaknesses, for a 39 percent reduction in the total number of uncorrected weaknesses.

Material Weaknesses Consolidated in FY 2002

Year Reported	Number Consolidated
FY 1998 and Prior	(3)
FY 1999	(5)
FY 2000	(3)
FY 2001	(7)
FY 2002	(8)
Total	(26)

Federal Managers' Financial Integrity Act, Section 4. Financial Management Systems

Most of the Department of Defense's critical financial management systems do not comply with the requirements of the Federal Financial Management Improvement Act as described in Office of Management and Budget Bulletin No. 01-02. The deficiencies associated with these systems will be addressed during the development of the financial management enterprise architecture described in Part II of this report. The architecture's transition plan will prescribe specific remedies to correct systems' deficiencies. Consequently, specific remedial actions will not be discussed in this report.

Part II

Performance

Program Performance

The attacks of September 11, 2001, showed that the United States has entered a new and dangerous period. Enemies will seek to strike the United States and U.S. forces in novel and surprising ways. As a result, the United States must fight and win the present war against terrorism while preparing for future wars that will be notably different from those of the past century and even from the current conflict. Some believe that, with the U.S. in the midst of a difficult and dangerous war on terrorism, now is not the time to transform our Armed Forces. The opposite is true. Now is precisely the time to make changes. The attacks of September 11, 2001, lent urgency to this endeavor.

Transforming the U.S. Armed Forces is necessary because the challenges presented by this new century are vastly different from those of the last century or even the last 10 years. During the Cold War, America faced a relatively stable and predictable threat. The challenges of the 21st century are much less predictable. Future attacks could grow vastly more deadly than those on September 11, 2001. Surprise and uncertainty thus define the challenge the Department of Defense faces in this new century--to defend the nation against the unknown, the unseen, and the unexpected.

Transforming the Department means that we must change the annual performance goals that provide a baseline to achieving the long-range defense goals and objectives. The Department is working to develop measurable performance goals and objectives that measure performance at all levels of the Department and that reflect the new defense strategies and priorities. The resulting metrics will focus on results, and will ensure both that organizations are aligned with plans and execution, and that resources are aligned to missions and capabilities. Ensuring appropriate alignment of organizations and resources will help to streamline decision processes.

The Department cannot achieve the goals of the new defense strategy without a new approach to managing risk. The previous emphasis on near-term operational risk crowded out critically needed investments in people, in modernizing equipment, and in maintaining the defense infrastructure. The new defense strategy attempts to balance various risks by establishing a risk framework. This framework allows the Department to consider tradeoffs among fundamental objectives and fundamental resources constraints, and it reflects the Department's experience over the last decade in attempting to balance strategy, force structure, and resources. The risk framework includes the following four areas:

- **Force management risk** addresses the ability of the Department to maintain a quality workforce at a reasonable cost, to ensure sustainable military tempo and workforce satisfaction, and to shape the force of the future.
- **Operational risk** addresses the availability of ready forces to carry out its strategy and plans, and tracks critical needs, systems, people, sustainment, and infrastructure.

- **Future challenges risk** addresses progress toward innovative joint operations, the development of more effective organizations, and the definition of both future human capital skills and transformational capabilities.
- **Institutional risk** addresses the Department's goals of streamlining decision processes and achieving excellence in both acquisition and financial management, managing overhead and indirect costs, improving the readiness and quality of key facilities, and realigning support to the Warfighter via defense agencies and other means.

These risk areas will form the basis for the Department's new annual performance goals under the Government Performance and Results Act (GPRA). The Annual Defense Report that is scheduled to be submitted with the Department's FY 2004 budget will present the Department's risk management metrics and GPRA-required performance plan and program performance report. In the meantime, the Department has developed and begun implementation of programs to address each of the four risk areas.

Force Management Risk

During the past decade, the Department under-invested in its people, both in terms of compensation and quality of life factors such as housing. At the same time, the increase in deployments led to excessive operational tempo for units and excessive personnel tempo for service members. Together, these trends took a toll on military families and contributed to the reduced ability both to retain military personnel with key skills and leadership abilities and to reduced morale. This negative cycle illustrates the force management risk that the Department must monitor and control.

FY 2002 Accomplishments

A wide array of analytical studies and program initiatives are planned or underway to invest in the military and civilian workforce and to modernize and transform the training of the Armed Forces.

Military Human Resource Strategy

The Department's military personnel policies and programs must address the changing demographics and the expectations of a 21st century military force. To this end, the Department has embarked on a new approach to managing its military (Active and Reserve Component) force. The goal is to ensure that the Department operates with modern military practices to meet the needs of a modern force. Key elements of this plan are improvements in pay, recruiting and retention.

During FY 2002, in addition to a base increase of 4.6 percent, $1 billion was targeted to raise pay for mid-grade officers and noncommissioned officers (NCOs). All officers received a minimum raise of 5 percent, and all enlisted members a minimum of 6 percent. Raises of up to 10 percent were targeted to mid-grade officers and NCOs. Targeting pay raises supported retention efforts in grades that comprise the core of the Department's experienced talent. The Department has added $18.2 billion in FY 2002 - FY 2009 above the normal pay raise targeted at specific categories.

These actions, combined with the implementation of the Thrift Savings Program, continued reductions in out-of-pocket housing expenses (an additional $8.2 billion), initiation of Hardship Duty Pay to recognize service in arduous conditions, and improvements in Career Sea Pay, are the foundation of a compensation strategy for a 21st century military force.

The Department is currently conducting the first FY 2003 Retention Survey. The survey will give some insight and feedback on the effects of Special Pay and Incentive Programs on retention of the officer and enlisted force. Analysis of survey results will be conducted in the second quarter of FY 2003.

The Department has developed a comprehensive Military Human Resources Strategic Plan that recommends the best mix of policies and programs to ensure that the right number of personnel have the needed skills and abilities to carry out assigned missions effectively and efficiently. One element of the military human resources strategy is to establish opportunities for individuals to move between the Active and Reserve components. The Department is considering a number of initiatives that would facilitate this opportunity.

The Department is executing a series of near and mid-term actions over the next several years in order to best achieve the military human resource actions outlined in the strategic plan. Currently, ten studies have been funded and are in progress. Completion of the studies will provide information for the Department to further develop its human resources strategic plan. Some of the study objectives include: determining how to increase the willingness of the American public to recommend military service to our youth; developing pilot tests for lateral entry from the civilian sector to the military; comparing levels of pay of military members to comparable civilian occupations; assessing non-monetary incentives; identifying opportunities to improve retention by introducing sabbaticals; studying the interrelationship of variable officer career lengths; determining general and flag officer requirements; studying means of enhancing participation, portability, vesting and equity of military retirement alternatives.

Quality of Life

The partnership between the American people and the military and their families is built on a tacit understanding that military families, as well as Service members, contribute enormously to the readiness and strength of America's Armed Forces. Unfortunately, past practices no longer fulfill the needs of the modern military family. Military members are more educated and diverse. More military spouses work, and they are better educated than they were ten years ago. The Department's personnel policies and programs must address these changing demographics and the expectations of a 21st century military force.

To understand what is needed, the Department undertook a review of quality of life programs. The results of this review have charted a course for the future of these programs, to include: providing a world-class health care system, eliminating inadequate housing by 2007, and providing lifelong learning opportunities to our Service members.

Because 60 percent of Service members have family responsibilities, efforts will also address family programs, such as: spousal employment in a mobile lifestyle; affordable, high quality programs for child care and youth activities; and improvements in education for children, including funding to modernize school facilities and broaden curricula. The DoD Quality of Life Executive Committee continues to exercise oversight of quality of life transformation implementation strategies. Supplemental funds were provided to the Services for child care and emergency extended hours and the number of spaces available for the total program increased by 5,000. Military child development programs continue to be a model for the nation.

The Department revised its tuition assistance policy, effective October 2002, to provide substantially improved benefits; providing up to 100 percent of tuition costs per course up to the annual limit, and increasing each service member's annual tuition limit to $4,500. The Troops-to-Teachers program provided financial support to 25 state liaison offices and issued about $15 million in stipends to former Service members interested in pursuing a second career as elementary and secondary teachers. The DoD and the Department of Labor have partnered to increase the opportunities for military spouse employment and education/training opportunities, including a web page at http://www.milspouse.org.

The Department has continued support for the families of those killed and wounded in the September 11, 2001, attack on the Pentagon. A password-protected website was established to provide continuous information flow to the families on important issues. Additionally, families were encouraged to participate in events during the week of the One Year Observance ceremonies.

The Department developed and implemented several programs to assist the families of deployed troops. Family assistance services were made available 24 hours a day, 7 days a week, 365 days a year, as well as on-line, to over 200,000 service members and their families. A contingency crisis family assistance model for use by all Services has been readied in the event of mass casualties. The Department, in partnership with the Federal Trade Commission (FTC), launched the Military Sentinel web site, to collect and distribute data dealing with consumer fraud perpetrated against the military community.

The Department sponsored a Hispanics in Government Conference in San Antonio that focused on increasing representation of Hispanics in the DoD workforce. By conducting this conference, the Department improved marketing strategies and distributed information regarding DoD employment, business and partnership opportunities.

The FY 2002 budget included funding to modernize school facilities, provide better access to on-line learning opportunities, and broaden curricula at small high schools. The Department distributed $3.5 million to eligible school districts in support of the districts' financial needs related to services provided to military dependent students with severe disabilities. This program was authorized for the first time in FY 2002. Additionally, $30 million was distributed to 120 public school districts that are heavily affected by the enrollment of a large number of military dependent students.

The Department undertook major projects to modernize and construct new school facilities at 12 installations. Full-day kindergarten has been implemented in 126 schools and the Department of Defense Education Activity (DoDEA) Distance Learning Electronic School continues to grow. It provides learning opportunities to students in grades 9-12 with an emphasis on small high schools. DoDEA entered into a collaborative effort with the University of Hawaii to develop on-line summer school courses in reading and mathematics. During school year 2001-2002, DoDEA has continued to support small high schools with materials, training and resources. Each school received a reading support specialist, reading support lab and technology to support elementary-level students who are below the basic grade level reading, and high school students with mild to moderate special needs. Reading support classes were established in all 56 DoDEA schools.

In FY 2002, the Department sponsored a meeting of school district superintendents who manage schools that enroll a large population of military dependent students. The superintendents shared their best practices and established a basis for ongoing communication regarding the adjustment of military dependent students to new schools. The Department hosted a series of discussions with students, parents, military commanders, state and local leaders to identify and seek solutions for problems that military dependent students encountered because of the great frequency with which they are required to re-locate and change schools.

Readiness

Deployments are part of military life and have increased as the war on terrorism has unfolded; however, the Department is fully aware of the effects of excessive time away from home on the morale and quality of life. The Department also understands that these factors ultimately affect the readiness of Service members. In November 2001, the Department issued formal policy guidance to the Services for implementing Section 991 of Title 10 and Section 435 of Title 37 (PERSTEMPO legislation) to reduce personnel turbulence and control the amount of time service members were deployed.

In keeping with the spirit of the PERSTEMPO legislation, the Department is working to ensure service members are not choosing to leave military service because of excessive deployments. This has affected all of the Services. Frequent deployments place greater stress on both individuals and families. Unit commanders are challenged with managing and balancing military training requirements with the stability necessary for the long-term health of military families.

Training

Tomorrow's operational environment will be more joint, more multinational, more interagency and intergovernmental. To build a force more agile in addressing future threats in such environments, the Department is exploring fundamental changes to doctrine, organizations, training, leadership education, policy, and facilities.

Military training will be a key enabler for achieving the operational goals of DoD transformation. One of the principal goals of the future training strategy will be to develop a Joint National Training Center that will better support joint training and enhance force interoperability. Training ranges must be modernized and sustained to test and train our operators adequately on new weapons and weapon systems. Over the past decade, new limitations on the use of DoD ranges have significantly affected essential training and testing. The Sustainable Range initiative represents the Department's overarching response to those limitations. The effort to date has emphasized nine critical issue areas: (1) Endangered Species Act, (2) Unexploded Ordnance and Other Constituents, (3) Frequency Encroachment, (4) Maritime Sustainability, (5) National Airspace System, (6) Air Quality, (7) Airborne Noise, (8) Urban Growth, and (9) Outreach. Preliminary action plans have been developed for each of the nine issues. The Department has created an Integrated Product Team, led by the Office of the Under Secretary of Defense for Personnel and Readiness, to act as the DoD coordinating body for developing the strategy to preserve the military's ability to train.

The Department's Advanced Distributed Learning (ADL) initiative is a collaborative effort among government, industry and academia. The goal is to ensure access to high-quality education, training, and job performance materials that can be tailored to individual needs. Training commands have created ADL programs and are increasing investments in advanced learning technologies to improve ways to provide individual and collective education and training. The National Guard has an ADL program to extend education and training resources across the local, state, and federal communities.

The Department has expanded authority to pay for college degrees and repay student loans and has launched a scholarship program for Information Technology professionals.

To enhance the use of the civilian-acquired skills of Reserve component members, the Department identified four new concepts, including: participation by Individual Ready Reserve, new/or expanded Service auxiliaries, a Direct Entry Program, and community-based partnerships. These concepts are currently being validated by the Services for meeting shortages in such fields as language and culture, information technology, information assurance, and spectrum management. Pilot programs are being developed to test these concepts during FY 2004. Additionally, in August 2002, the Department completed a study that made several recommendations to capture civilian occupation information of Reserve Component members in order to make it easier to capitalize on these skill resources.

Health Issues

An essential element to recruiting and retaining quality personnel is a high-quality, affordable, convenient Military Health System (MHS). Sweeping legislative changes in the military medical benefit program were enacted in FY 2001 and 2002, expanding eligibility for TRICARE coverage and improving access to care. As a result, an increased percentage of the Department's budget is required for health care. The long-term ability of the Department to stabilize these costs will require new approaches to providing care within the Department and to strengthening relationships with other federal and private sector health care partners.

The recent acts of terrorism increased the Department's attention to medical surveillance, detection, response, and treatment following a nuclear, biological, or chemical attack. Renewed emphasis has been placed on training military healthcare personnel in recognizing symptoms of and refreshing treatment plans for exposure to chemical and biological agents. A high-level working group from DoD and the Department of Health and Human Services (HHS) is focused on improving defense against chemical and biological terrorism. The Department established a revised anthrax immunization policy that resumed military immunization while also setting aside vaccine stockpiles for civilian use through coordination with HHS. The DoD/HHS working group is also coordinating smallpox vaccination policies and providing access to government stockpiles.

To date, more than 60,000 Reserve and National Guard personnel have been called to active duty in response to the September 11, 2001, terrorist attacks. All are eligible for the same healthcare and dental benefits as other active duty Service members. For Service members activated for 30 days or more, their family members are also eligible for TRICARE. The recently introduced TRICARE Reserve Family Demonstration Project provides special benefits to Reserve Component families to preserve continuity of care with their existing healthcare providers. In addition, the FY 2002 National Defense Authorization Act amended Section 8906 of Title 5 to provide that reservists who are employed in the federal civil service workforce may have their Federal Employee Health Benefit premiums paid for by their employing agency when they are called to active duty for more than 30 days in support of a contingency operation.

The Military Health System seeks to create a stable business environment by ensuring that military medical facilities are fully funded and able to provide the best clinical and business practices. It is developing a new generation of managed care support contracts that have greater financial predictability, are less cumbersome, create more competition and reduce administrative costs. DoD released its multi-year, multi-billion dollar Request for Proposal for the next generation of TRICARE contracts in August 2002 that would streamline the TRICARE structure, reduce administrative costs, and better align incentives for cost-effective, customer-sensitive performance. Also in 2002, DoD successfully implemented TRICARE For Life benefits for dual-eligible Medicare beneficiaries/military retirees. In addition to introducing benefits for 1.5 million people successfully, through careful management the Department also executed this program well under its budgeted amount, saving almost $1 billion in health care expenditures.

Civilian Human Resource Strategy

Civilian Human Resources Strategic Plan. The Department is taking a more strategic approach to managing its civilian employees and has published its first DoD Civilian Human Resources Strategic Plan. The Department plans to move away from an inflexible, longevity-based system of human resources management to one of greater accountability, flexibility, and opportunity.

Civilian Human Resources Management Best Practices Initiative. In FY 2002, the Under Secretary of Defense for Personnel and Readiness chartered a task force to identify the best human resources management practices. The task force reviewed nine DoD personnel demonstration projects covering more than 30,000 DoD civilians and several alternative personnel systems, such as the Federal Aviation Administration. The task force recommended a new system for white collar employees that retains the core values of the civil service system while energizing performance management by ending the role of longevity in pay, job changes, and reductions in force.

Defense Civilian Personnel Data System (DCPDS). This year, the Department completed deployment of the largest personnel management data system in the world--the Defense Civilian Personnel Data System (DCPDS)--as part of its Regionalization and Systems Modernization Program. DCPDS is capable of processing 1.75 million pay and benefit transaction combinations. The system generates all personnel transactions for civilian employees and interfaces fully with the department's automated payroll system. The overall objective of the Regionalization and Systems Modernization Program is to realize cost savings through the consolidation of DoD civilian human resource operations into a regionalized environment, based on standardized and reengineered business processes and supported by a single human resources information system.

Defense Leadership and Management Program (DLAMP). In response to Defense Component and participant concerns, DLAMP--the Department's groundbreaking program for developing civilian leaders--has been significantly restructured. It now provides leadership training, master's degree fellowships, and greater access to professional military education, reducing the cost of the program by one-third and cutting program length by one-half.

Student Loan Repayment. As part of the Department's initiatives to provide managerial flexibilities, policy was issued that allows all Defense Components to repay student loans up to $6,000 per year and a total of $40,000. Components began programming for payment of this important hiring incentive.

Operational Risk

The Department measures the degree to which U.S. forces are able to meet military objectives in the near term based on operational risk. To determine operational risk, the Department assesses its ability to defend the United States, deter forward in critical areas (i.e., maintain military forces at strategic locations overseas that can be rapidly deployed during a crisis), swiftly defeat aggression in overlapping major conflicts, and conduct a limited number of small-scale contingencies.

FY 2002 Accomplishments

Readiness Reporting

DoD has initiated a comprehensive reengineering of its current readiness reporting system. It is envisioned that the new system will allow measurement of the adequacy of the force to accomplish all of its assigned missions, not just major combat operations.

Land Forces

To meet near-term capability shortfalls, the Army is investing in advanced technologies and revising its doctrine, organizational designs, and leader development programs. The Marine Corps has developed the Expeditionary Maneuver Warfare (EMW) concept as a framework for the future. Capitalizing on the Corps' strength in maneuver warfare, EMW emphasizes the expeditionary and power projection capabilities that Marine forces provide for joint and coalition operations.

Aviation Forces

Aviation forces of the Air Force, Army, Navy, and Marine Corps are composed of fighter/attack, conventional bomber, and specialized support aircraft. The Department is providing resources to expand current capabilities and to build the capabilities necessary for the future. As an example, aircraft will rely increasingly on low observable technology to gain access to threat areas, and they will acquire targeting data--for their own weapons and the entire force--using new sensors and communication suites.

Additionally, tactical aircraft and bombers will employ smaller, internally-carried precision weapons, thus increasing the number of targets that can be attacked in a single mission.

Naval Forces

To bolster U.S. deterrent strength while providing a ready means of responding to crises worldwide, the Navy employs carrier battle groups, amphibious ready groups, submarines, surface combatants, and maritime patrol and reconnaissance aircraft. The Department is enhancing its overseas presence by stationing three attack submarines and by increasing carrier presence in strategic locations.

To counter various levels of threats and reduce operational risks, the Navy is developing improved surveillance, tracking, and area defense capabilities that will allow for continuous surveillance both on and below the surface of coastal waters.

Mobility Forces

Mobility forces--consisting of airlift and sealift forces, along with prepositioned equipment--move military personnel and materiel to and from operating locations worldwide. Mobility forces are a key component of the defense strategy, enabling the United States to maintain a forward deterrent presence and to conduct operations in distant places. To provide needed transport, the Department relies on military as well as commercial aircraft, cargo ships, and ground transportation systems. Through this combination of military and commercial assets, the Department maximizes efficiency in deploying and supporting forces abroad, while avoiding the cost of maintaining military systems that duplicate readily available commercial capabilities.

Special Operations Forces

Given their linguistic, cultural and political training, Special Operations Forces (SOF) make unique contributions to U.S. military operations. The diverse capabilities provided by these forces include specialized tactics, equipment, and training; foreign language skills; and flexible unit deployment options tailored to a wide range of missions. These forces--which include land, air, and maritime elements--play a key role in carrying out the military strategy and in supporting allies.

SOF units deployed in Afghanistan are coordinating humanitarian assistance operations, conducting psychological operations (such as leaflet drops and radio broadcasts), performing search and rescue missions, and helping to find targets for coalition aircraft. SOF are well suited for coordinating command, control, and intelligence information with allied headquarters and coalition forces; training indigenous forces such as the

Afghanistan National and the Philippine Armies; and being prepared to conduct other core missions such as counterterrorism, direct action, strategic reconnaissance, and unconventional warfare.

Reserve Components in the Total Force

Today's Reserve Components, comprised of the National Guard and Reserve forces, are an integral part of the defense strategy and day-to-day operations of the U.S. military. Since 1990, there have been six occasions on which the President has initiated an involuntary call-up of Reserve Component members to active duty, including the call-up after the events of September 11, 2001.

Within minutes of the September 11, 2001, attacks, National Guard and Reservists responded to the call to duty. They flew combat air patrols, patrolled the streets, and provided medical assistance, communications, and security at numerous critical sites across the country. Perhaps the National Guard's most visible support to civil authorities was to provide security at America's airports until additional security measures could be established. When the bombing in Afghanistan started on October 7, 2001, more than 30,000 reservists supported operations Noble Eagle and Enduring Freedom--the most Guard and Reserve personnel on active duty since Operation Desert Storm. By March 11, 2002, six months after the attacks, there were about 73,000 Reserve component members on duty. Guard and Reservists immediately integrated into operations across the full operational spectrum of the armed services. While Air Reserve personnel flew over Afghanistan, National Guard and Army Reserve personnel were participating in and supporting ongoing ground operations. Reserve component personnel from all services contributed by flying combat air patrols and providing force protection at home, enabling logistics support in neighboring countries, serving on ships in the Indian Ocean and delivering humanitarian supplies. Guard and Reservists continue to work with the active military components worldwide in ongoing operations in the Balkans, Operations Southern Watch and Northern Watch in Iraq, and port security in the Middle East.

The use of Guard and Reserve troops to support operational requirements has steadily grown from around 900,000 duty-days annually in the early 1990s to a sustained annual level of over 12 million duty-days since 1995, which equates to about 35,000 full-time personnel. Because of this increased participation, the Department's FY 2003 budget includes $2.34 billion in equipment procurement funding for the Reserve components, representing an increase of $680 million above the FY 2002 President's Budget. The FY 2003 budget demonstrates a concerted effort by the Department to apply more resources to the Reserve components' equipping needs, and to repair and replace the aging equipment currently in the inventory. It also reflects a conscious effort to improve interoperability of the Reserve components with the Active forces. Modernization of our Reserve forces is a cornerstone for integrating the Total Force. Properly equipping the Reserve components with interoperable, compatible, and up-to-date equipment is an important part of a capabilities based strategy.

Future Challenges Risk

For many years, a focus on near-term operational risk resulted in shortchanging preparations for the future. By the time pressing warfighting and readiness requirements were met, there was little funding or attention available for addressing the risk posed by less familiar and seemingly less urgent future challenges. September 11, 2001, demonstrated the danger of postponing preparations for the future. We must prepare now to anticipate future surprises and mitigate their effects.

The Department is moving forward on three fronts to manage future challenges risk. The first front is transformation, which is at the heart of the new defense strategy.

The second front involves the redesign of the Department's strategic forces. While current forces were appropriate to address the Cold War threat, they are inadequate to meet future challenges. For example, many leaders of rogue states and terrorist organizations are intent on acquiring weapons of mass destruction. Unlike the leaders of the former Soviet Union, these new leaders are subject to few if any institutional restraints that might preclude the use of these powerful weapons. To respond to this new challenge, the United States is implementing a strategy that combines conventional and nuclear weapons, offensive and defensive systems, and a responsive infrastructure in ways that enhance the Department's credibility, reassure allies, defeat adversaries, and conform to American values.

The third front of the Department's efforts to manage future challenges risk is focused on space, information, and intelligence. The Department's capabilities in these areas contribute to all of the major operational goals identified in the new strategy. Because of their crosscutting contributions to transformation, these areas are receiving separate, sustained attention.

Together, the Department's initiatives along these three fronts constitute a concerted effort to manage future challenges risk.

FY 2002 Accomplishments

Transforming the Force

To provide focus to DoD's transformation agenda, the Department has identified six critical operational goals addressing the most significant challenges and opportunities the Department's forces may face in the future:

- Protecting critical bases of operations (U.S. homeland, forces abroad, allies and friends) and defeating nuclear, biological and chemical (NBC) weapons and their means of delivery;
- Stationing and sustaining DoD forces in distant environments and defeating threats in those environments;
- Denying sanctuary to enemies by providing continual surveillance, tracking and rapid engagement against mobile and fixed targets, at various ranges and in all weather and terrains;
- Using information technology and innovative concepts to develop a joint architecture and capability that includes a tailorable joint operational picture;
- Maintaining the security and capabilities of information systems in the face of attack and conducting effective information operations; and
- Enhancing the capability and survivability of space systems and supporting infrastructure.

Taken together, these six goals will guide the Department's military transformation efforts and improvements in our joint forces.

To lend momentum to the transformation effort, and to foster innovation and experimentation, the Secretary established the Office of Force Transformation within the Office of the Secretary of Defense. The foremost goal of the Office of Force Transformation will be to ensure that transformation efforts are fully linked to the broad elements of national and departmental strategy. The Director of Force Transformation will evaluate the transformation efforts of the Department, recommend steps needed to integrate the work of the Military Departments into other ongoing transformation activities, and monitor ongoing experimentation programs encompassing activities involving risk management and associated metrics.

Adapting U.S. Strategic Forces

While nuclear forces were indispensable in deterring aggression during the Cold War, a strategic posture that relies solely on offensive nuclear weapons is not sufficient to support today's defense policy goals. The Nuclear Posture Review (NPR), a comprehensive review of the U.S. nuclear posture conducted by DoD, concluded that the U.S. will need a broader range of capabilities to assure friends, dissuade adversaries, and deter, and if necessary, defeat foes. The Nuclear Posture Review shifts the basis for strategic forces planning from specific threats to emerging capabilities that could exploit U.S. vulnerabilities or confer advantages to adversaries. The new strategy transforms the existing U.S. strategic nuclear triad--intercontinental ballistic missiles (ICBMs), heavy bombers, and submarine-launched ballistic missiles (SLBMs)--into a new strategic triad composed of conventional and nuclear strike forces, active and passive defenses, and a robust infrastructure, supported by improved command, control, intelligence, and planning systems. The new strategic force is designed to give the President and the Secretary of Defense a broad array of options to address a wide range of possible contingencies.

Investing in Space, Information and Intelligence

The Department of Defense is making a significant effort to improve our national capabilities in Space, Information and Intelligence (SII) to mitigate future risks. Over the Future Years Defense Program (FYDP), it has allocated an additional $30 billion in investments to transform these capabilities, which will greatly enhance the flexibility of our forces and improve our capacity to meet a wider range of contingencies.

Space Systems: The Space Commission (Report of the Commission to Assess United States National Security Space Management and Organization) recommended all DoD space responsibilities be consolidated under the Under Secretary of the Air Force. The Department is actively implementing this consolidation. The Department is seeking to improve environmental support to operational forces by partnering with allies, civil agencies and the commercial community to provide advanced satellite sensing systems. The Department continues to upgrade and improve the space surveillance network to detect, identify, catalog and track space objects, and to provide warning of dangerous or hostile space events.

Global Network. The Department is working to integrate all phases of the information cycle with operational decision-making and weapons systems processes. For example, in Afghanistan, real-time imagery from Predator unmanned aerial vehicles (UAVs), integrated with positioning information from global positioning systems (GPS), was datalinked to aircraft enabling them to strike high priority targets in minutes rather than hours or days. The Department is upgrading and developing additional capability for global communications, which is critical to transforming the way we fight.

Intelligence Initiatives. As the global network is built, it must be populated with quality information. Such information is the result of collecting the right data and being able to make the data available to a variety of users, to be processed and organized in different ways for different purposes, as user needs dictate. All available information, not just intelligence, must be brought to bear throughout the network. Systems need to be designed so that users only have to handle information once. Producers of information, wherever they may be, need to post what they know, as well as exploit what others have learned. Changes in airborne and space program plans, communications and interoperability are continuing to be implemented to provide data and information to the network. Our emphasis on UAVs and improving their intelligence collection capabilities resulted in the extensive warfighter support provided by Predator and Global Hawk UAVs in Afghanistan. We are continuing to expand the sensor and communication capabilities of those systems to improve the timeliness and effectiveness of the information they provide.

Information Assurance (IA) for Systems: The Department's strategy for protecting the Global Information Grid (GIG) (the Department's information infrastructure) is called Defense-in-Depth. Creating a coherent GIG architecture out of many legacy systems poses a significant challenge. To ensure the incorporation of security early in the design of new system acquisitions, DoD regulations now include the requirement for information assurance strategies for each acquisition program. The strategies are scrutinized at major acquisition milestones and are key considerations for program continuation. Legacy systems are subject to rigorous security certification and accreditation criteria for connection to both classified and unclassified networks.

Institutional Risk

The fourth element of the Department's formal risk management framework is institutional risk. Just as the Department transforms its military capabilities to meet changing threats, it must also change how it works and what it does. The Department must do more to ensure that its people can focus their talents on defending America, and that they have the resources, information, and freedom to perform.

While technology has transformed private sector organizations in recent years, DoD has fallen behind. The Department's acquisition process is based on numerous complex rules that slow the acquiring of products, services and weapon systems. This restricts the Department's investment in the industrial base to a limited of companies that choose to bid under these complex rules.

The Department's financial systems are decades old and incompatible with one another. This impacts the timeliness and accuracy of financial statement reporting and providing decision-makers with meaningful information.

The Department estimates there is between 20 to 25 percent more installation and facilities capacity than needed. This wastes billions of dollars per year that could be used elsewhere.

FY 2002 Accomplishments

During the past year, the Department has begun the process of systematically analyzing and addressing the sources of institutional risk. In order to revitalize the Defense establishment and reduce institutional risk, the Department is instituting programs to:

- Modernize DoD business processes;
- Improve the management of acquisition, technology, and logistics;
- Properly size and modernize DoD installations and facilities; and
- Spur innovation in the industrial base.

Modernizing Business Processes

The Department is reducing headquarters staffs and is working to realign or consolidate overlapping functions of the Office of the Secretary of Defense (OSD), the Services, and the Joint Staff. As of September 30, 2002, DoD Components had achieved aggregate personnel reductions of 11.1 percent. Changes to doctrine and structure, as opposed to past practices of meeting specific numeric targets, are enabling the Department to streamline headquarters staffs. The Department's fundamental headquarters streamlining objective is to return military resources to operational units. The USD(AT&L) has begun streamlining the Defense Acquisition Board (DAB) process, including the elimination of almost half of 72 acquisition-related advisory boards.

Additionally, the Department has taken steps to outsource and shed non-core warfighting responsibilities. Examples of initiatives in this area include the military housing privatization program and the privatization of utility systems on military installations. Based on the success of these early efforts, the Department will pursue additional opportunities to outsource.

The USD(C), in consultation with the USD(AT&L) and the Chief Information Officer (CIO), is overseeing the Department's financial management modernization efforts. As a first step, in FY 2002 the USD(C) initiated a $100 million project to create a DoD-wide architecture for how the Department's business processes will interact. This enterprise architecture will guide the development of all financially related processes and systems throughout the Department.

Improving the Management of Acquisition, Technology and Logistics

A cornerstone to DoD's ability to fight and win wars globally is the ability to acquire material and to deploy, employ, and recover forces and material rapidly. Acquisition, technology, and logistics excellence is paramount to achieving that objective.

The Department has promulgated a new acquisition process. This new model emphasizes (1) rapid acquisition with demonstrated technology, (2) time-phased requirements and evolutionary development, and (3) integrated test and evaluation.

DoD is improving the management of acquisition and technology programs to accelerate the fielding of weapon systems. The average time from program initiation to initial operational capability for a weapon system has been over nine years, with some new platforms taking as many as 20 years to field. DoD has adopted a new model for system development that uses an evolutionary acquisition development process. The goal is to provide the best technology available to the warfighter sooner while continuing to develop improvements for future system integration and fielding.

DoD is also learning from the best practices in both the public and private sectors. For example, a recent alliance between industry and the Department resulted in reduced delivery times of spare parts (from 200 to 15 days), eliminated $14 million in inventory, and lowered purchase prices by $3.3 million per year for the next 12 years.

Sizing and Modernizing DoD Installations and Facilities

For too long, the Department had neglected its facilities, and modernization efforts had been postponed, jeopardizing their long-term health. The Department's FY 2001 Installations' Readiness Report showed 68 percent of the facility classes assessed by Component Commanders were rated as having serious deficiencies or not supporting mission requirements. The Department invested additional money in FY 2002 to renew and revitalize facilities--cutting almost in half the previous replacement rate of 192 years. This progress was significant and moved the Department closer to its goal of a 67-year replacement cycle (equivalent to a commercial industrial standard).

In addition to overall DoD facilities, the quality of military housing declined over the past decade. Recognizing the link between safe, adequate housing and the retention of high caliber personnel, the Department established FY 2007 as its goal to eliminate all inadequate military family housing through military construction, privatization, and increases in the basic allowance for housing.

Spurring the Industrial Base

DoD's industrial partners are critical to the nation's success. If the Department is to provide U.S. fighting forces with the very best equipment, then the country must have a healthy, competitive, and innovative industrial base to design, produce and support that equipment. Competition is central to driving innovation within the industrial base. To increase competition, the Department is exploring ways to encourage more companies to compete for DoD contracts.

The Department is investing in research and development and in production programs, to ensure that DoD will be able to fight and win 21st century wars. The Department is exploring methods to promote the entry of less traditional suppliers into the defense industrial base to work alongside our legacy suppliers. Our challenge is to match innovative capabilities and companies with the defense strategy, and provide bridges – not barriers – to their participation.

President's Management Agenda

In August 2001, the President issued the President's Management Agenda, which outlines specific goals and strategies to address the federal government's most pressing management issues. The full report is available on the Internet at http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf.

An Executive Branch Management Scorecard is used to show how well a department or agency is executing the management initiatives, and where it scores at a time against the overall standards for success. The standards for success were developed by OMB and are available on the Internet at http://www.whitehouse.gov/omb/memoranda/m02-02standards.pdf. The scorecard employs a simple grading system: green for success, yellow for mixed results, and red for unsatisfactory. There are two sides to the scorecard: current status against the standards for success, and progress in implementing the initiatives. The progress side of the scorecard tracks whether a department's work plan for the initiatives is being successfully executed according to established timetables.

The Department performs its own internal assessment against the initiatives and forwards its findings to OMB for comment and discussion. The Department's status and progress ratings against the President's management goals in the five government-wide initiatives are depicted in the chart below.

Initiative	DoD Status Rating (September 30, 2002)	DoD Progress Rating (September 30, 2002)
Human Capital	Yellow	Green
Competitive Sourcing	Red	Yellow
Financial Management	Red	Green
Expanding E-Government	Red	Green
Integrating Budget and Performance	Red	Green

Human Capital

People are our most important asset. The Defense workforce has changed over the last several decades, however. U.S. military and civilian personnel are more educated and diverse. More military spouses work, and they are better educated than they were ten years ago. DoD's personnel policies and programs must address these changing demographics and the expectations of a 21st century military force. Toward these ends, we have formulated comprehensive strategic human resources plans for both our civilian and military personnel.

Civilian Personnel

Twelve years of downsizing have resulted in skills and age imbalances in the Department's civilian workforce. Sixty-six percent of the civilian workforce will be eligible to retire by 2006. The Department will have to compete with the private sector for quality replacements. Existing rules under which the civilian workforce is managed are inflexible--a stark contrast to the private sector recruiting environment where technology is revolutionizing the workplace, and where work-life balance issues are becoming more important as retention factors.

The Department has developed a Civilian Human Resources Strategic Plan using a balanced scorecard approach. The balanced scorecard is a strategic management tool that provides financial and operational measures tied directly to our vision, values, goals, and objectives. The Plan maps out the reform of human resources programs, systems and practices with objectives that include delayering, improving decision-making, and increasing supervisory span of control.

The Civilian Human Resources Strategic Plan is designed to determine the tools, policies, programs and compensation strategies needed for the future. The plan questions current management practices, and indicates whether the practices are based in law, policy, or tradition. The plan establishes a framework to develop metrics and standards for success. As a living document, the strategic plan does not presume to answer all of the questions, but rather provides a roadmap for the future.

Military Personnel

The policies the Department applied to successfully manage military personnel over the past 50 years will not necessarily support the transformed force of the future. Current rules designed to maintain a youthful, vigorous force, often encourage or require members to retire while they are at the peak of their talents and skills. Replacement costs for these highly trained, experienced personnel in the modern force are high. Human capital management must focus on recruiting the right kinds of people and retaining those high value assets for longer periods of service. Policies to develop the officer corps need to encourage a proper balance between solid grounding in operational art, meaningful exposure to joint operations, and sufficient tenure in key leadership jobs.

The Department has developed a comprehensive Military Personnel Human Resources Strategic Plan that focuses on determining the best mix of policies and programs to ensure that the right number of personnel have the requisite skills and abilities to carry out assigned missions effectively and efficiently. It focuses on recruiting the right number and quality of people; developing, sustaining, and retaining the force; transitioning members from active service; and preserving programs that maintain long-term capability. It addresses issues such as no-term enlistments, longer tours, fewer moves, expanding promotion windows, adjusting retirement for longer service, expanding entry programs, and enabling a seamless flow between Active and Reserve Components. The ultimate goal is to ensure that the Department has modern military personnel practices to meet the needs of a modern military force.

Competitive Sourcing

Public-private competition creates significant improvements in performance and cost savings. The competitive sourcing initiative strives to achieve greater efficiencies through the competition of sources and simplification of procedures. While a significant portion of federal employees perform tasks that are similar to those found in the private sector, rarely, if ever, are they subject to the pressures of the marketplace.

The Administration is aggressively encouraging market-based competition throughout the government, and simultaneously working with the private sector and federal employee unions to find long-term solutions to reform the currently cumbersome process governing competitions.

The Department of Defense has the largest competitive sourcing program in the federal government, with a competition goal of 226,000 positions. The Department will meet the OMB immediate goal of competing 15 percent of these positions by FY 2003.

Financial Performance

Improving financial management is critical to ensuring accountability. Federal managers need accurate and timely information for sound decision-making, but have neither. Through the financial performance initiative, the Administration seeks to ensure that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions, and thus improve accountability to the American people. To accomplish these objectives, OMB is working with federal agencies to improve the timeliness, enhance the usefulness, and ensure the reliability of financial reporting.

The Department of Defense is actively pursuing a comprehensive financial management modernization program that will reengineer business processes and consolidate or replace more than 1,800 disparate systems that initiate transactions with a financial impact; feed necessary information from a functional system to a financial management system; or calculate, consolidate or produce financial reports. Detailed information regarding this program is contained in the Financial Management Improvement Plan later in this report.

Expanded E-Government

The purpose of the E-Government initiative is to make better use of technology to better serve citizens and improve government efficiency, cutting government's time to make decisions from weeks or months to hours or days. The E-Government initiative requires agencies to focus Information Technology (IT) spending on improving mission performance, reducing duplication, ensuring information security, and cooperating across traditional agency stovepipes.

The Department has submitted complete business cases for 180 major IT projects. These systems represent about $11 billion of a total IT investment of $26 billion. We have improved the quality of our business case submissions and are proud to say that our projects are within 90 percent of their cost, schedule, and performance targets.

We are on schedule for the development of the Financial Management Enterprise Architecture, which will provide the business component of the Department's Global Information Grid Enterprise Architecture.

We are actively engaged in eight of the 24 E-Government initiatives: (1) International Trade Process Streamlining; (2) Consolidated Health Informatics; (3) Integrated Acquisition Systems; (4) E-Clearance; (5) E-training; (6) Recruitment-one-stop; (7) Enterprise Human Resource Integration; and (8) E-payroll. We believe we have potential solutions in each of these areas, and are working with the managing partners to facilitate use of these solutions by other government agencies.

Budget and Performance Integration

The initiative to integrate budget and performance has an important purpose--to improve programs by focusing on results. Dollars will go to programs that work; those programs that do not work will be reformed, constrained, or face closure. As measures improve, dollars will go to programs that yield the best results for each dollar spent.

The Department is adopting a DoD-wide approach to establishing performance outputs and tracking performance results. This approach is based upon the Secretary's Risk Management Framework introduced in the Department's *Report of the 2001 Quadrennial Defense Review*. The QDR adapted the balanced scorecard concept to the Department and provided a management framework to help defense managers balance investment priorities against risk over time. The Department developed supporting scorecards for the Budget and Performance Integration initiative. Beginning in February 2003, each DoD Component will be graded on its status and progress in:

- Displaying the linkage of plans-outputs-resources in budget justification materials;

- Expanding the treatment of metrics in the FY 2004 congressional justification materials; and
- Establishing a quarterly system of reporting on progress made towards the performance goals.

For FY 2003, Components will be required to associate performance metrics with at least 20 percent of the resources requested each year (FY 2004 - FY 2009). For the FY 2005 President's Budget, DoD Components will be required to associate 60 percent of the resources requested with performance metrics. In the FY 2006 budget, this requirement increases to 80 percent; and for FY 2007 and beyond, 100 percent of the resources requested will be associated with performance metrics.

Financial Management Improvement Plan

Objective and Scope

The Secretary of Defense has initiated a comprehensive business management transformation program for the Department, known as the Financial Management Modernization Program. As a result, the Department is currently undergoing a major reevaluation of the ways in which it performs its business and financial management operations. The centerpiece of this initiative is the development of a Department-wide financial management enterprise architecture. The development effort has begun and will continue until April 2003, when implementation begins. An initial "strawman" of the final "To-Be" architecture was delivered in October 2002.

The enterprise architecture will be a "blueprint" describing the Department's future business processes. The "blueprint" and its associated transition plan will be the basis for financial transformation in the Department.

Vision for Financial Transformation

To realize its goal of managing the Department in an efficient, business-like manner, the new administration is placing an unprecedented emphasis on transforming the Department's business processes and management information systems. Early in his tenure the Secretary of Defense sponsored a high-level, yet thorough agency-wide review designed to recommend improvements in the way the Department conducts its financial management operations. Known as the Friedman Study[1], it recommended a Department-wide financial management vision and suggested specific areas upon which special focus should be placed.

Drawing on the suggestions made in the study, the Secretary subsequently articulated his vision for financial management in the Department: **Financial Management should focus on a single objective - delivering relevant, reliable, and timely financial information on a routine basis to support management decisions.**

As stated earlier, the first step towards achieving the Secretary's vision will center on the development of a Department-wide financial management enterprise architecture. The architecture will describe an improved business support environment and the *requirements* for business process and information systems solutions for the Department.

[1] *Transforming Department of Defense Financial Management: A Strategy for Change*, April 13, 2001.

It will also describe how the Department will comply with federal mandates and requirements.

Developing and implementing a Department-wide financial management enterprise architecture will be a huge stride on the road to achieving the Secretary's vision. Using the architecture, the Department will begin building business processes and management information systems that will integrate financial and programmatic functions. Thus, the financial management environment of the Department's future will consist of cutting-edge business processes supported by integrated management information systems. The Secretary's vision for financial transformation will have an impact on almost all activities in the Department. Ultimately, it will affect most of the Department's business processes, people, and information systems.

Strategy for Transformation

Scope of Financial Transformation

The scope of the Secretary's transformation initiative encompasses those Defense policies, processes, people, and systems that guide, perform, or support all aspects of financial management within the Department.

Financial management activities include those found not only within the accounting and finance functional areas, but also in functional areas such as acquisition, inventory management, property management, personnel, and health care. The reason for such a large scope is the simple fact that most of the Department's financial information is generated and used outside the functional areas commonly associated with accounting and finance. Indeed, most of the Department's managers--those who have the greatest need for better financial information--work in functional areas other than accounting or finance.

Approach to Financial Transformation

The focal point of the Financial Management Modernization Program is the development and implementation of a Department-wide enterprise architecture. Transformation also includes updating the Department's financial policies and enhancing the skills of its financial workforce.

The Financial Management Modernization Executive Committee provides guidance and oversight to the Program. This committee, which meets quarterly, is chaired by the USD(C) and is comprised of the Department's senior leadership and is at the head of the Program's extensive governance structure. Upon completion of the Financial Management Enterprise Architecture development and the overall Department-wide business transformation strategy, the Executive Committee will ensure that information systems comply with the architecture's requirements. These requirements will also include applicable Federal financial management systems and accounting requirements.

Financial Management Enterprise Architecture

Implementing the Secretary's vision requires an agency-wide approach to coordinating the disparate and complex business processes and systems modernization efforts now underway throughout the Department. The most effective way to control these diverse efforts is to develop and implement a Department-wide financial management enterprise architecture that is consistent with the Department of Defense Chief Information Officer's Information Technology architecture--that prescribes how the Department's financial and nonfinancial feeder systems and business processes will interact."

A well-conceived agency-wide financial management enterprise architecture will guide investments in business processes and their associated management information systems. The financial management enterprise architecture will capture the full breadth and depth of the Department's mission-based mode of operations, using necessary models, diagrams, and narrative.

Objectives

The objectives of the architecture effort have been chosen to fit the recommendations made in the Friedman Report--and to directly support the Secretary's vision. Some of the key objectives in developing a Department-wide financial management enterprise architecture are:

- Transforming and standardizing the Department's business processes and information systems by employing leading private industry business processes wherever possible;
- Eliminating redundant databases, systems, and interfaces;
- Including systems having the ability to collect cost information--specifically collecting cost information by project, business line, or weapon system life cycle;
- Including systems designed to produce financial and cost management information targeted to meet specific performance goals and metrics;
- Developing and implementing business processes and information systems that incorporate the accounting and systems requirements mandated by the FFMIA.

Execution

DoD awarded a contract for the architecture's development in April 2002. A draft of the future architecture was delivered in October 2002. The overarching architecture and

Transition Plan will be completed by April 2003. Implementation of the architecture will begin at that time. The Transition Plan will include some preliminary implementation dates. At present, the Department has funded approximately $92 million in FY 2002 and $92 million in FY 2003 for completion of the architecture development. The full cost of implementing the architecture has not yet been identified

Full implementation of the reengineered architecture will make the Department compliant with the FFMIA. Representatives from OMB, GAO, and Department's Inspector General receive frequent updates on the architecture's progress.

Architecture Approach

The architecture strategy is "business-driven." This means that the Department will be viewed as a business, with architecture development focusing on its core business functions.

The architecture is being developed in two phases. Phase I produced an architecture based on best practices from industry and government and did not include statutory requirements that do not apply to industry. Phase II will produce an architecture that further defines the business processes based on best practices but incorporating statutory requirements. The final architecture will include implementable end-to-end business processes, standard data elements, and management-required information.

Concurrent with the architecture development in phases I and II, a Transition Strategy and a Transition Plan are being created. They will provide the detailed "roadmap" showing how the Department will modernize and transform its business functions and information systems.

Architecture Products

The architecture products present an operational, systems and technical way to look at the Department's business processes. We refer to these three perspectives as *views.*

The architecture products show how business processes will be used in a day-to-day *operational* mode; how *systems* will support the business processes; and the *technical* rules that will govern the use of the business rules across the systems. Specific products of the enterprise architecture will include:

1. operational, systems, and technical views of the Department's current business and financial management baseline;
2. operational, systems, and technical views of the Department's reengineered business and financial management architecture (including a strawman version); and
3. a Transition Strategy and Plan pointing the way from the current baseline to the reengineered enterprise architecture.

Part III

Financial Statements

Message from the Chief Financial Officer

January 31, 2003

Virtually every action taken by the Department produces financial information that is needed to manage and to report the results of the Departments operations. The Financial Management Modernization Program established by the Secretary, which is being accomplished under my direction, presents a singular opportunity to integrate financial data with other management information. The ultimate goal is to provide timely, accurate, and reliable financial information to the Department's decisionmakers.

I am proud of the progress we made during fiscal year 2002. We awarded a major contract to design a Department-wide financial management enterprise architecture that will be used to construct and guide the Department's future business environment. The strawman "To Be" architecture was unveiled in October 2002, and by April 2003, we expect to have the final "To Be" architecture and a transition plan for implementing that architecture.

In May 2002, we published interim financial statements for the first time, and took advantage of the extra reporting cycle to implement several improvements to the financial statement compilation process and the Department's reporting system. Additionally, we enhanced the accountability process to ensure that DoD Component managers and the Defense Finance and Accounting Service had jointly reviewed and reached agreement on their financial information.

We also made significant progress in correcting some long-standing material weaknesses. We put in place stricter policies for researching and resolving disbursement transactions and for reconciling fund balance with Treasury, and we authorized salary offset for delinquent government travel charge card accounts. As required by Section 1008 of the National Defense Authorization for FY 2002 (Public Law 107-107), we are minimizing the resources used to prepare and audit financial statements with unreliable data, and are redirecting those resources to improving financial management policies, procedures, and internal controls.

The Department is resolutely committed to improving its financial management. We will continue to build on our accomplishments in order to achieve a clean audit opinion on the Department's financial statements, but, more importantly, to reach our ultimate goal of providing timely, accurate, and reliable financial information to the Department's decisionmakers.

Dov S. Zakheim

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Principal Statements

Fiscal Year 2002

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Department of Defense Agency-wide
CONSOLIDATED BALANCE SHEET[1]
($ in millions)

As of September 30, 2002	FY 2002	FY 2001 Restated	FY 2001
ASSETS (Note 2)			
Intragovernmental			
Fund Balance with Treasury (Note 3)	$ 205,816.2	$ 190,129.1	$ 190,129.1
Investments (Note 4)	180,804.5	173,288.2	173,288.2
Accounts Receivable (Note5)	1,121.9	1,148.2	1,064.2
Other Assets (Note 6)	0.1	4.2	4.2
Total Intragovernmental Assets	**$ 387,742.7**	$ 364,569.7	$ 364,485.7
Cash and Other Monetary Assets (Note 7)	742.7	636.1	1,014.1
Accounts Receivable (Note 5)	6,341.9	4,613.8	4,613.8
Loans Receivable (Note 8)	44.2	0.0	0.0
Inventory and Related Property (Note 9)	146,198.6	146,638.2	205,406.2
General Property, Plant and Equipment (Note 10)	122,338.1	113,850.8	113,826.8
Other Assets (Note 6)	18,245.8	17,834.4	17,834.4
Total Assets	**$ 681,654.0**	$ 648,143.0	$ 707,181.0
LIABILITIES (Note 11)			
Intragovernmental			
Accounts Payable (Note 12)	$ 85.7	$ 188.4	$ 124.4
Debt (Note 13)	874.3	986.2	986.2
Environmental Liabilities (Note 14)	0.0	0.0	0.0
Other Liabilities (Note 15 & Note 16)	8,213.6	7,197.9	6,092.9
Total Intragovernmental Liabilities	**$ 9,173.6**	$ 8,372.5	$ 7,203.5
Accounts Payable (Note 12)	24,159.8	22,707.5	22,707.5
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,328,826.5	1,296,210.7	1,296,210.7
Environmental Liabilities (Note 14)	59,353.1	63,293.8	63,293.8
Loan Guarantee Liability (Note 8)	10.8	3.3	3.3
Other Liabilities (Note 15 and Note 16)	29,795.3	28,621.5	28,621.5
Total Liabilities	**$ 1,451,319.1**	$ 1,419,209.3	$ 1,418,040.3
NET POSITION			
Unexpended Appropriations (Note 18)	$ 177,282.6	$ 164,743.6	$ 163,190.6
Cumulative Results of Operations	(946,947.7)	(935,809.9)	(874,049.9)
Total Net Position	**$ (769,665.1)**	$ (771,066.3)	$ (710,859.3)
Total Liabilities and Net Position	**$ 681,654.0**	$ 648,143.0	$ 707,181.0

[1] The accompanying notes are an integral part of these statements. See Notes 1 - 18.

Department of Defense Agency-wide
CONSOLIDATED STATEMENT OF NET COST[1]
($ in millions)

For the Years Ended September 30, 2002 and 2001		**FY 2002**		FY 2001 Restated		FY 2001
Program Costs:						
Intragovernmental Gross Cost	$	10,728.0	$	10,235.2	$	10,235.2
Less: Intragovernmental Earned Revenue		(15,586.8)		(17,513.2)		(17,480.2)
Intragovernmental Net Costs	$	(4,858.8)	$	(7,278.0)	$	(7,245.0)
Gross Costs With the Public		399,151.9		751,104.0		754,851.0
Less: Earned Revenues From The Public		(13,876.7)		(12,590.8)		(12,590.8)
Net Cost With the Public	**$**	**385,275.2**	$	738,513.2	$	742,260.2
Total Net Costs	**$**	**380,416.4**	$	731,235.2	$	735,015.2
Costs not Assigned to Programs	$	0.0	$	0.0	$	0.0
Less: Earned Revenues not Attributable to Programs		0.0		0.0		0.0
Net Cost of Operations	**$**	**380,416.4**	$	731,235.2	$	735,015.2

[1] The accompanying notes are an integral part of these statements. See Notes 1 and 19.

Department of Defense Agency-wide
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION[1]
($ in millions)

For the Years Ended September 30, 2002 and 2001	FY 2002 Cumulative Results of Operations	FY 2002 Unexpended Appropriations	FY 2001 Restated Cumulative Results of Operations	FY 2001 Restated Unexpended Appropriations	FY 2001 Cumulative Results of Operations	FY 2001 Unexpended Appropriations
Beginning Balance	$ (874,049.9)	$ 163,190.6	$ (541,621.6)	$ 155,603.9	$ (541,621.6)	$ 155,603.9
Prior Period Adjustments (+/-)	(61,760.0)	1,553.3	(825.6)	1,553.3	60,934.4	0.0
Beginning Balance, as adjusted	**$ (935,809.9)**	**$ 164,743.9**	$ (542,447.2)	$ 157,156.9	$ (480,687.2)	$ 155,603.9
Budgetary Financing Sources						
Appropriation Received	$ 0.0	$ 365,636.4	$ 0.0	$ 7,586.7	$ 0.0	$ 7,586.7
Appropriations Transferred in/out (+/-)	0.0	9,389.2	0.0	0.0	0.0	0.0
Other Adjustments (rescissions, etc) (+/-)	0.0	(2,707.4)	0.0	0.0	0.0	0.0
Appropriations Used	361,217.9	(359,779.5)	318,537.0	0.0	318,537.0	0.0
Nonexchange Revenue	1,253.2	0.0	1,144.1	0.0	1,144.1	0.0
Donations and Forfeitures of Cash and Cash Equivalents	24.1	0.0	5.9	0.0	5.9	0.0
Transfers in/out Without Reimbursement (+/-)	(706.7)	0.0	(445.6)	0.0	(445.6)	0.0
Other Budgetary Financing Sources (+/-)	3,225.5	0.0	18,236.4	0.0	18,236.4	0.0
Other Financing Sources:						
Donations and forfeitures of property	$ 0.3	$ 0.0	$ 0.3	$ 0.0	$ 0.3	$ 0.0
Transfers-in/out without reimbursement (+/-)	744.3	0.0	752.9	0.0	752.9	0.0
Imputed financing from costs absorbed by others	3,520.0	0.0	3,421.5	0.0	3,421.5	0.0
Other (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing Sources	**$ 369,278.6**	**$ 12,538.7**	$ 341,652.5	$ 7,586.7	$ 341,652.5	$ 7,586.7
Net Cost of Operations (+/-)	**$ 380,416.4**	**$ 0.0**	$ 735,015.2	$ 0.0	$ 735,015.2	$ 0.0
Ending Balances	**$ (946,947.7)**	**$ 177,282.6**	$ (935,809.9)	$ 164,743.9	$ (874,049.9)	$ 163,190.6

[1] The accompanying notes are an integral part of these statements. See Notes 1 and 20.

Department of Defense Agency-wide
COMBINED STATEMENT OF BUDGETARY RESOURCES[1]
($ in millions)

For the Years Ended September 30, 2002 and 2001	FY 2002		FY 2001 Restated		FY 2001	
	Budgetary Financing Accounts	**Non-Budgetary Financing Accounts**	Budgetary Financing Accounts	Non-Budgetary Financing Accounts	Budgetary Financing Accounts	Non-Budgetary Financing Accounts
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	$ 415,113.9	$ 44.2	$ 366,707.7	$ 0.0	$ 366,707.7	$ 0.0
Borrowing Authority	0.0	0.0	0.0	0.0	0.0	0.0
Contract Authority	2,318.0	0.0	4,488.4	0.0	4,488.4	0.0
Net Transfers (+/-)	986.6	0.0	8,622.7	0.0	8,622.7	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Unobligated Balance						
Beginning Of Period	210,128.9	6.0	201,966.5	0.0	201,966.5	0.0
Net Transfers, Actual (+/-)	9,107.7	0.0	(2,846.2)	0.0	(2,846.2)	0.0
Anticipated Transfers Balances	0.0	0.0	0.0	0.0	0.0	0.0
Spending Authority From Offsetting Collections						
Earned						
Collected	117,942.4	22.3	104,953.3	0.0	104,953.3	0.0
Receivable From Federal Sources	(1,116.6)	90.6	(817.1)	0.0	(817.1)	0.0
Change In Unfilled Customer Orders						
Advance Received	185.9	0.0	(844.1)	0.0	(844.1)	0.0
Without Advance From Federal Sources	3,576.2	0.0	497.1	0.0	497.1	0.0
Anticipated For The Rest Of Year, Without Advances	0.0	0.0	0.0	0.0	0.0	0.0
Transfers From Trust Funds	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal	**$ 120,587.9**	**$ 112.9**	$ 103,789.2	$ 0.0	$ 103,789.2	$ 0.0
Recoveries Of Prior Year Obligations	15,293.1	0.0	18,522.4	0.0	18,522.4	0.0
Temporarily Not Available Pursuant To Public Law	0.0	0.0	0.0	0.0	0.0	0.0
Permanently Not Available	(7,954.7)	0.0	(7,727.8)	0.0	(7,727.8)	0.0
Total Budgetary Resources	**$ 765,581.4**	**$ 163.1**	$ 693,522.9	$ 0.0	$ 693,522.9	$ 0.0

[1] The accompanying notes are an integral part of these statements. See Notes 1 and 21.

Department of Defense Agency-wide
COMBINED STATEMENT OF BUDGETARY RESOURCES[4]
($ in millions)

For the Years Ended September 30, 2002 and 2001	FY 2002 Budgetary Financing Accounts	FY 2002 Non-Budgetary Financing Accounts	FY 2001 Restated Budgetary Financing Accounts	FY 2001 Restated Non-Budgetary Financing Accounts	FY 2001 Budgetary Financing Accounts	FY 2001 Non-Budgetary Financing Accounts
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred						
Direct	$ 420,239.6	$ 142.4	$ 378,580.4	$ 0.0	$ 378,580.4	$ 0.0
Reimbursable	128,045.3	0.0	104,466.9	0.0	104,466.9	0.0
Subtotal	$ **548,284.9**	$ **142.4**	$ 483,047.3	$ 0.0	$ 483,047.3	$ 0.0
Unobligated Balance						
Apportioned	40,902.7	0.7	40,513.5	0.0	40,513.5	0.0
Exempt From Apportionment	171,560.5	0.0	164,030.6	0.0	164,030.6	0.0
Other Available	(0.2)	0.0	(0.2)	0.0	(0.2)	0.0
Unobligated Balances Not Available	4,833.5	20.0	5,931.7	0.0	5,931.7	0.0
Total, Status of Budgetary Resources	$ **765,581.4**	$ **163.1**	$ 693,522.9	$ 0.0	$ 693,522.9	$ 0.0
Relationship of Obligations to Outlays						
Obligated Balance, Net - Beginning Of Period	$ 162,829.3	$ 0.0	$ 150,690.2	$ 0.0	$ 150,690.2	$ 0.0
Obligated Balance Transferred, Net (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Obligated Balance, Net - End Of Period:						
Accounts Receivable	(10,929.3)	90.6	(12,028.1)	0.0	(12,028.1)	0.0
Unfilled Customer Order From Federal Sources	(27,421.1)	0.0	(23,844.7)	0.0	(23,844.7)	0.0
Undelivered Orders	176,221.3	89.6	154,659.4	0.0	154,659.4	0.0
Accounts Payable	45,766.4	0.7	43,679.1	0.0	43,679.1	0.0
Outlays						
Disbursements	$ 509,723.7	$ 52.0	$ 453,069.1	$ 0.0	$ 453,069.1	$ 0.0
Collections	(118,128.2)	(22.3)	(104,109.1)	2.5	(104,109.1)	2.5
Subtotal	$ **391,595.5**	$ **29.7**	$ 348,960.0	$ 2.5	$ 348,960.0	$ 2.5
Less: Offsetting Receipts	(45,593.8)	0.0	0.0	0.0	0.0	0.0
Net Outlays	$ **346,001.7**	$ **29.7**	$ 348,960.0	$ 2.5	$ 348,960.0	$ 2.5

[4] The accompanying notes are an integral part of these statements. See Notes 1 and 21.

Department of Defense Agency-wide
COMBINED STATEMENT OF FINANCING[1]
($ in millions)

For the Years Ended September 30, 2002 and 2001	FY 2002	FY 2001 Restated	FY 2001
Resources Used to Finance Activities			
Budgetary Resources Obligated			
Obligations Incurred	$ 548,427.0	$ 483,047.1	$ 483,047.1
Less: Spending Authority From Offsetting Collections And Recoveries (-)	(135,993.9)	(122,311.5)	(122,311.5)
Obligations Net Of Offsetting Collections And Recoveries	$ 412,433.1	$ 360,735.6	$ 360,735.6
Less: Offsetting Receipts (-)	(45,593.8)	(41,286.0)	(41,286.0)
Net Obligations	**$ 366,839.3**	$ 319,449.6	$ 319,449.6
Other Resources			
Donations And Forfeitures Of Property	$ 0.3	$ 0.3	$ 0.3
Transfers In/Out Without Reimbursement (+/-)	24.1	(946.4)	(946.4)
Imputed Financing From Costs Absorbed By Others	3,520.0	3,421.5	3,421.5
Other (+/-)	(475.5)	(513.6)	(513.6)
Net Other Resources Used To Finance Activities	3,068.9	1,961.8	1,961.8
Total Resources Used To Finance Activities	**$ 369,908.2**	$ 321,411.4	$ 321,411.4
Resources Used To Finance Items Not Part Of The Net Cost Of Operations			
Change In Budgetary Resources Obligated For Goods, Services And Benefits Ordered But Not Yet Provided			
Undelivered Orders (-)	$ (28,381.4)	$ (2,565.2)	$ (2,565.2)
Unfilled Customer Orders	3,762.3	(347.2)	(347.2)
Resources That Fund Expenses Recognized In Prior Periods	(7,317.4)	(803.0)	(803.0)
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost Of Operations	819.3	0.0	0.0
Resources That Finance The Acquisition Of Assets	(4,160.6)	(20,142.3)	(16,363.3)
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	0.0
Other (+/-)	(1.1)	3,350.7	3,350.7
Total Resources Used To Finance Items Not Part Of The Net Cost Of Operations	**$ (35,277.5)**	$ (20,507.0)	$ (16,728.0)
Total Resources Used To Finance The Net Cost Of Operations	**$ 334,630.7**	$ 300,904.4	$ 304,683.4

[1] The accompanying notes are an integral part of these statements. See Note 22.

Department of Defense Agency-wide
COMBINED STATEMENT OF FINANCING (Continued)[1]
($ in millions)

For the Years Ended September 30, 2002 and 2001	FY 2002	FY 2001 Restated	FY 2001
Components Of The Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period			
Components Requiring Or Generating Resources In Future Periods			
Increase In Annual Leave Liability	$ 478.3	$ 0.0	$ 0.0
Increase In Environmental And Disposal Liability	1,712.9	0.0	0.0
Upward/Downward Re-estimates Of Credit Subsidy Expense (+/-)	0.0	0.0	0.0
Increase In Exchange Revenue Receivable From The Public (-)	(3.3)	(0.7)	(0.7)
Other (+/-)	34,269.8	411,921.9	411,921.9
Total Components Of Net Cost Of Operations That Will Require Or Generate Resources In Future Periods	**$ 36,457.7**	$ 411,921.2	$ 411,921.2
Components Not Requiring Or Generating Resources			
Depreciation And Amortization	5,215.8	$ 6,453.9	$ 6,453.9
Revaluation Of Assets Or Liabilities (+/-)	(377.4)	2,861.4	2,861.4
Other (+/-)	4,489.6	4,192.3	4,192.3
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources	**$ 9,328.0**	$ 13,507.6	$ 13,507.6
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period	**$ 45,785.7**	$ 425,428.8	$ 425,428.8
Net Cost Of Operations	**$** 380,416.4	**$** 726,333.2	$ 730,112.2

[1] The accompanying notes are an integral part of these statements. See Note 22.

Department of Defense Agency-wide
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY[1]
($ in millions)

For the Years Ended September 30, 2002 and 2001	FY 2002	FY 2001 Restated	FY 2001
SOURCE OF COLLECTIONS			
Deposits by Foreign Governments	$ 10,732.3	$ 9,743.6	$ 9,743.6
Other Collections	0.0	0.0	0.0
Total Cash Collections	**$ 10,732.3**	$ 9,743.6	$ 9,743.6
Accrual Adjustments (+/-)	0.2	0.0	0.0
Total Custodial Collections	**$ 10,732.5**	$ 9,743.6	$ 9,743.6
DISPOSITION OF COLLECTIONS			
Disbursed on Behalf of Foreign Governments and International Organizations	$ 10,570.0	$ 9,685.6	$ 9,685.6
Increase (Decrease) in Amounts to be Transferred	162.5	58.0	58.0
Collections Used for Refunds and Other Payments	0.0	0.0	0.0
Retained by The Reporting Entity	0.0	0.0	0.0
Total Disposition of Collections	**$ 10,732.5**	$ 9,743.6	$ 9,743.6
NET CUSTODIAL COLLECTION ACTIVITY	**$ 0.0**	$ 0.0	$ 0.0

[1] The accompanying notes are an integral part of these statements. See Note 23.

Notes to the Financial Statements

Fiscal Year 2002

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Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the "Chief Financial Officers (CFO) Act of 1990," expanded by the "Government Management Reform Act (GMRA) of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the Department in accordance with the "DoD Financial Management Regulation," Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible Federal generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Department is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. The DoD's financial statements are in addition to the financial reports also prepared by the Department pursuant to OMB directives that are used to monitor and control the DoD's use of budgetary resources.

The Department is unable to fully implement all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. The Department derives its reported values and information for major asset and liability categories largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the Department cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The Department continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems. The Department provides a more detailed explanation of these financial statement elements in the applicable footnote.

B. Mission of the Reporting Entity

The National Security Act of 1947 created The Department of Defense (DoD) on September 18, 1947. The overall mission of the Department is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal year (FY) 2003 is the seventh year that the Department has prepared audited DoD Agency-wide financial statements required by the CFO Act and GMRA. The reporting entities within the Department changed to facilitate this reporting requirement. Auditors will be issuing opinions on the financial statements of the following stand-alone reporting entities: (1) Army General Fund, (2) Army Working Capital Fund, (3) Navy General Fund, (4) Navy Working Capital Fund, (5) Air Force General Fund, (6) Air Force Working Capital Fund, (7) Military Retirement Fund, and (8) U.S. Army Corps of Engineers (Civil Works).

In addition to the eight stand-alone reporting entities, separate columns in the combining/consolidating statements are included with the financial information of the "Other Defense Organizations General Funds" or "Other Defense Organizations Working Capital Funds." The Office of the Inspector General will not issue separate audit opinions on the statements of the Other Defense Organizations; instead the financial statements and records of those organizations will be included in the audit performed to support the opinion issued on the DoD Agency-wide financial statements.

Also, the Department requires the following Defense Agencies to prepare internal stand-alone annual financial statements to be audited by certified public accounting firms: (1) Defense Logistics Agency, (2) Defense Finance and Accounting Service (DFAS), (3) Defense Information Systems Agency, (4) Defense Contract Audit Agency, (5) Defense Commissary Agency, (6) Defense Security Service, and (7) Defense Threat Reduction Agency.

C. Appropriations and Funds

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

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

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

- Special funds are accounts for government receipts earmarked for a specific purpose.

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

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

D. Basis of Accounting

The Department generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2002, the Department's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Department's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP.

The Department has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of the Department's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the DoD's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

In addition, the Department identifies programs based upon the major appropriation groups provided by Congress. The Department is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

E. Revenues and Other Financing Sources

The Department receives congressional appropriations as financing sources for general funds (annual and a multiyear basis). When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The Department recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Under the reimbursable order process, the Department recognizes revenue when earned.

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

Other financing sources reported by Department do not include non-monetary support provided by U.S. Allies for common defense and mutual security. The U.S. has agreements with foreign countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is in a port. DoD is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the Department's financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the Department's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. The Department's expenditures for capital and other long-term assets are not recognized as operating expenses until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made. The Departments adjust operating expenses as a result of the elimination of balances between DoD Components. See Note 19.I, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

G. Accounting for Intragovernmental Activities

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

- Public Debt

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

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

- Civilian/ Military Retirement Systems

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

- Actuarial Liability

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

- Inter/Intra Governmental Elimination

  Preparation of reliable financial statements requires the elimination of transactions occurring between entities within the Department or between two or more federal agencies. However, the Department, as well as the rest of the federal government, cannot accurately identify all Intragovernmental transactions by customer. For FY 1999 and beyond seller entities within the Department provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD Intragovernmental balances were then eliminated.

  The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department was not able to fully implement the policies and procedures in this guide related to reconciling Intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The Department, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling Intragovernmental transactions pertaining to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

H. Transactions with Foreign Governments and International Organizations

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

I. Funds with the U.S. Treasury

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

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Department's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. See Note 3, Fund Balance with Treasury for material disclosure. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

J. Foreign Currency

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

K. Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. See Note 5, Accounts Receivable for material disclosure.

L. Loans Receivable

The Department of Defense operates a loan guarantee program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106 Statute 186 Section 2801, that 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 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. In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

M. Inventories and Related Property

Inventories are reported at approximate historical cost using Latest Acquisition Cost (LAC) adjusted for holding gains and losses.

The Department uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the United States Government Standard General Ledger (USSGL), as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208).

The law distinguishes between "Inventory held for sale" and "Inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds material based on military need and support for contingencies. Therefore, the Department does not attempt to account separately for items held for "current" or "future" sale.

Related property includes Operating Materials and Supplies (OM&S) and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, the Department uses the purchase method - that is, expensed when purchased. For FY 2002, the Department reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deemed that the item is in the hands of the end user.

The Department implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided at Note 9.

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 amortize into interest income over the term of the investment using the effective interest rate method or another method obtaining similar results. The Department 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 both marketable and non-marketable securities. Marketable securities are investments trading on a public market. The two types of non-marketable securities are par value and market based Intragovernmental securities. The Bureau of Public Debt issues non-marketable Par Value Intragovernmental Securities. Non-marketable, Market Based Intragovernmental Securities mimic marketable securities, but are not traded publicly. See Note 4 for material disclosures.

O. General Property, Plant and Equipment

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. Also, DoD requires capitalization of improvement costs over the DoD capitalization threshold of $100,000 for General PP&E. The Department depreciates all General PP&E, other than land, on a straight-line basis.

Prior to FY 1996, General PP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of two or more years was capitalized. These assets remain capitalized and reported on WCF financial statements. General PP&E previously capitalized at amounts below $100,000 were written off General Fund financial statements in FY 1998. See Note 10, General PP&E, Net for material disclosures.

- <u>Government Equipment in the Hands of Contractors</u>

  When it is in the best interest of the government, the Department provides to contractors government property necessary 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 exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the Department's Balance Sheet.

  The Department completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Department currently reports only government property, maintained in the DoD's property systems, in the possession of contractors.

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

P. Advances and Prepayments

The Department records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. In addition, when the department receives the related goods and services it recognizes advances and prepayments as expenditures and expenses.

Q. Leases

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) the department records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The Departments records the amounts as 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 value. The Department deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases. In addition, the Department classifies leases that do not transfer substantially all of the benefits or risks of ownership as operating leases and records payment expenses over the lease term.

R. Other Assets

The Department conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Department provides financing payments. One type of financing payment that the Department makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net.

In addition, the Federal Acquisition Regulations allow the Department to make financing payments under fixed price contracts that are not based on a percentage of completion. The Department reports these financing payments as advances or prepayments in the "Other Assets" line item. The Department treats these payments as advances or prepayments because the Department becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Department is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Department for the full amount of the advance.

The Department has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The Department concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering appropriate actions.

S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Department. The uncertainty will be resolved when one or more future events occur or fail to occur. The DoD recognizes contingencies as 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. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Department's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Department's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment" recognition of an anticipated environmental disposal liability commences when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon the Department's policy, which is consistent with SFFAS No. 5 "Accounting for Liabilities of Federal Government". The Department agrees to the recognition of nonenvironmental disposal liability for National Defense PP&E nuclear powered assets when placed into service. Such amounts are developed in conjunction with, and not easily separately identifiable from, environmental disposal costs. See Notes 14 and 15 for material disclosures.

T. Accrued Leave

The Department reports civilian annual leave and military leave that has been accrued and not used as of the balance sheet date as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates.

U. Net Position

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

- Unexpended Appropriations represent amounts of authority, which are unobligated and have not been rescinded or withdrawn. It also represents amounts obligated for which legal liabilities for payments have not been incurred

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

V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas obtained through various international treaties and agreements negotiated by the

Department of State. DoD purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. The DoD's fixed assets decrease by not renewing a treaty or not reaching agreements. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is prohibited, losses are recorded for the value of any non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

W. Comparative Data

In FY 2002, the Department modified the financial statement presentation for the Statements of Net Cost, Changes in Net Position, and Financing. As a result, the Department's statements during this reporting period may not always lend themselves to comparative analysis. In some instances, amounts on the statements were reported on one financial line in FY 2001 and split into multiple financial lines for FY 2002, in accordance with OMB's guidance.

X. Unexpended Obligations

The Department obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods/services not yet delivered.

Note 2. Nonentity and Entity Assets

As of September 30, (Amounts in millions)	2002 Nonentity	2002 Entity	2002 Total	2001 Total
Intra-governmental Assets				
Fund Balance with Treasury	$ 537.3	$ 205,278.9	$ 205,816.2	$ 190,129.1
Investments		180,804.5	180,804.5	173,288.2
Accounts Receivable	5.4	1,116.5	1,121.9	1,064.2
Other Assets		0.1	0.1	4.2
Total Intra-governmental Assets	**$ 542.7**	**$ 387,200.0**	**$ 387,742.7**	$ 364,485.7
Nonfederal Assets				
Cash and Other Monetary Assets	$ 578.2	$ 164.5	$ 742.7	$ 1,014.1
Accounts Receivable	4,139.9	2,202.0	6,341.9	4,613.8
Loans Receivable		44.2	44.2	0.0
Inventory & Related Property		146,198.6	146,198.6	205,406.2
General PP&E		122,338.1	122,338.1	113,826.8
Other Assets	125.0	18,120.8	18,245.8	17,834.4
Total Non-Federal Assets	**$ 4,843.1**	**$ 289,068.2**	**$ 293,911.3**	$ 342,695.3
Total Assets	**$ 5,385.8**	**$ 676,268.2**	**$ 681,654.0**	$ 707,181.0

Other Information Related to Nonentity and Entity Assets

Relevant Information for Comprehension

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

  The purpose of this note is to disclose the $5.4 billion of nonentity assets that are not available for use by the Department in its day-to-day operations, but for which the Department maintains stewardship accountability and responsibility to report.

- Fund Balance With Treasury

NonEntity Assets -- Fund Balance With Treasury is comprised of other entity funds which can include disbursing officers' deposits and suspense accounts. The $537.3 million balance consists of $375.0 million in deposit and suspense accounts and $162.3 million from Foreign Military Sales.

- Non-Federal Assets

The Department is currently holding Nonentity Cash and Other Monetary Assets as follows: (in millions)

Type	Army GF	Navy GF	Air Force GF	USACE	ODO WCF	Total ($ in millions)
Disbursing Officer Cash	$ 178.1	$ 130.2	$ 116.3	$ .6	$ 4.4	$ **429.6**
Foreign Currency	123.6	.5	24.4	.2		$ **148.7**
Total	**$ 301.7**	**$ 130.7**	**$ 140.7**	**$ .8**	**$ 4.4**	**$ 578.3**

- Non-Federal Accounts Receivable

The Department is reporting accounts receivables of $5,004.0 million, interest of $1,332.8 million, and fines and penalties of $5.1 million. These Non-Federal receivables are related to aged Navy contract receivables for unliquidated progress payments made for the cancelled A-12 aircraft program and receivables related to litigation surrounding Air Force contracts. These contracts are in litigation and once settled the Department's collected sum will be deposited into the Department of Treasury Miscellaneous Receipt Accounts. The Department derived nor receives any benefit from these collections but incurs the cost of administering them.

- Loans Receivable

Loans Receivable of $44.2 million reported in 2002 are attributable to a Military Housing Privatization Initiative reported by the Other Defense Organization General Fund. There were no Loans Receivable reported in 2001.

- **Note Reference**

  - For Additional Line Item discussion, see:
    - Note 3, Fund Balance with Treasury
    - Note 4, Investments
    - Note 5, Accounts Receivable
    - Note 6, Other Assets

Note 3. Fund Balance with Treasury

As of September 30, (Amounts in millions)	2002	2001
Fund Balances		
Appropriated Funds	$ 195,621.4	$ 182,437.9
Revolving Funds	7,823.4	5,327.0
Trust Funds	809.6	556.3
Other Fund Types	1,561.8	1,807.9
Total Fund Balances	**$ 205,816.2**	$ 190,129.1
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 204,945.0	$ 187,673.7
Fund Balance per The Department of Defense	205,816.2	190,129.1
Reconciling Amount	**$ (871.2)**	$ (2,455.4)

Explanation of Reconciliation Amount

Reporting Entity (Amounts in millions)	Fund Balance with Treasury FY 2002	Fund Balance per Entity Books FY 2002	Reconciling Amount FY 2002	Reconciling Amount FY 2001
Navy GF	$ 68,250	$ 68,250	$ 0	$ 0
Air Force GF	47,943	47,943		
Army GF	39,510	39,510		
ODO GF	42,193	43,006	(813)	(2,812)
Corps of Engineers	2,485	2,544	(59)	(5)
MRF	19	19		
Air Force WCF	1,323	463	860	362
Army WCF	251	251		
ODO WCF	1,261	2,120	(859)	
Navy WCF	1,710	1,710		
Total	**$ 204,945**	**$ 205,816**	**$ (871)**	**$ (2,455)**

Analysis of Reconciling Amounts

Currently, the Department of Treasury reports fund balances at the appropriation basic symbol level. The Department of the Defense, Central Sites' adjust their funds to agree with the official DoD cash figures shown in each entity's expenditure system:

- Data Element Management/Accounting Reporting System: (DELMAR) for Army,
- Centralized Expenditure and Reimbursement Processing System (CERPS) for Navy, and
- Merged Accounting and Fund Reporting System (MAFR) for Air Force.

For the Defense Agencies, the Department of the Defense reconciles at the highest level, since Defense Treasury Index 97 funds allotted at limit level preclude individual entity reporting compliance. The Department continues to improve internal methodology to properly account for their funds at the lowest level.

As of September 30, 2002, the Department of the Defense shows a reconciling net difference of ($871) million with the Department of Treasury, which comprises of:

- ($813) million undistributed collections and disbursements reported at the departmental level for the ODO General Fund but not yet recorded by the applicable agency;

- ($859) million for ODO Working Capital Fund is a combination of two differences. The first is the result of an offsetting plus/minus reporting requirement of $860 million between the Department of Treasury and AFS reporting for the United States Transportation Command (USTRANSCOM). The Department of Treasury reports USTRANSCOM cash as part of Air Force Working Capital Fund; however, the reporting entity's fund balance is picked up in the ODO Working Capital Fund's footnote. The second adjustment reflects the reconciled DeCA FBWT as of September 30, 2001, with the final FY 2001 DeCA Audited Financial Statements (AFS), (i.e. DeCA's Version 3.5). In FY 2002, the disbursements and collections cash amounts have been adjusted to reflect the new Fund Balance and adjusted undistributed amounts.

- ($59) million in cash is reported by Department Treasury in the Fund Balance of U.S. Army Corp of Engineers (USACE) for the Inland Waterways and Harbor Maintenance Trust Funds. USACE is identified as the lead agency for the reporting of these fund; and,

Fluctuations and/or Abnormalities

- Total Fund Balance

  Fund Balance increased, between fiscal years 2002 and 2001, primarily as a result of additional funding from the Defense Emergency Response Fund (DERF) for fighting terrorism throughout the World. The Department of Defense received approximately $14,472 million in DERF funding for fiscal year 2002/2003 with additional transfer of approximately $8,901 million in no-year DERF funding in late fiscal year 2001.

- Unused Funds and Expired Appropriations Returned

  The aggregate amount of unused funds and expired appropriations returned to Treasury totaled $2,701 million, comprising of $820 million for the Department of the Air Force, $669 million for the Defense Agencies, $658 million for the Department of the Navy, and $554 million for the Department of the Army.

Other Information Related to Fund Balance with Treasury:

Relevant Information for Comprehension

- Accounting Adjustments to Canceled Appropriations

  The aggregate balance of accounting adjustments to canceled appropriations for fiscal year 96 and prior is $83 million. Balances related to these funds have no effect on these financial statements and have been disclosed for information purposes only.

- Check Issue Discrepancy

  The Department of Defense is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices, (2) the Department of the Treasury may not assist in research efforts for transactions over 1-year old, or (3) corrections were processed for transactions that the Department of the Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations shall be provided to the Department of the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the Department of Defense and the Department of Treasury for processing checks. Currently, the Department is not requesting the Department of Treasury to remove any dollars from the check issue comparison report.

- Intragovernmental Payment and Collection (IPAC)

  The Intragovernmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. As of September 30, 2001 and 2002 there were $1 million and $17 million respectively of IPAC differences greater than 180-days old reported by the DFAS Sites'. Automated reconciliation tools implemented during fiscal year 2001 and used throughout fiscal year 2002 virtually eliminated existing differences for the Department of the Army, and the Department of the Air Force. However, the Department of the Navy reported $1 million and $17 million as of September 30, 2001, and 2002. A majority of the differences represent internal DoD transactions and therefore do not affect the Fund Balance with Treasury (FBWT) at the DoD consolidated level. For individual entity level statements, however, these differences would affect the amount reported for the FBWT. The Department continues to work with its DFAS sites and the Department of the Treasury in reconciling the Treasury's Statement of Differences and to establish better internal controls over the IPAC process.

- Deposit Differences

  The deposit differences are reconcilable differences that represent deposit amounts reported by the Department of Treasury or the organization. As of September 30, 2002 and 2001, there were $5 million and $1 million, respectively, of deposit differences greater than 180-days old reported by the Department of the Army. The difference is due to an electronic funds transfer (EFT) voucher reported incorrectly by the Federal Reserve Bank of Atlanta. All other reported deposit differences greater than 180-days were of minimal value; i.e. less than $5 thousand.

- **Note Reference**

    - See Note Disclosure 1. I. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

    - See Footnote 2 and Footnote 21B for further discussions on Other Fund Balance Types (e.g., Suspense, Budget Clearing, Special and Deposit, etc.)

Note 4. Investments

As of September 30, (Amounts in millions)	2002 Cost	2002 Amortization Method	2002 Amortized (Premium)/ Discount	2002 Investments Net	2002 Market Value Disclosure	2001 Investments, Net
Intra-governmental Securities						
Marketable	$ 120.9	Effective Interest	$	$ 120.9	$	$ 16.5
Nonmarketable, Par Value						0.0
Nonmarketable, Market-Based	187,674.7	Effective Interest	(11,226.8)	176,447.9	196,458.5	168,451.0
Subtotal	187,795.6		(11,226.8)	176,568.8	196,458.5	168,467.5
Accrued Interest	4,235.7			4,235.7	4,235.7	4,820.7
Total Intra-governmental Securities	**$ 192,031.3**		**$ (11,226.8)**	**$ 180,804.5**	**$ 200,694.2**	**$ 173,288.2**

Other Information Related to Investments

Relevant Information For Comprehension

- Marketable Securities

The $120.9 million on Line 1A, Marketable Intragovernmental Securities, represents investments for limited partnerships which have been entered into on behalf of the U.S. Government by the Department of the Navy in support of the Military Housing Privatization Initiative as signed into Public Law 104-106 110 Stat 186 on February 11, 1996. This investment relates to limited partnerships that do not require Market Value Disclosure. The increase is the result of limited partnerships initiated during FY 2002 (see Table below). The limited partnerships support military housing at the following sites:

Installation	Amount Invested	Month Invested
Everett NAS, Washington	$ 12,176.6	December 2000
Kingsville NAS, Texas	4,300.0	December 2000
New Orleans Naval Complex, Louisiana	23,100.0	October 2001
Ft. Hood, Texas	52,000.0	November 2001
South Texas, Texas	29,400.0	November 2001
Total	**$ 120,976.6**	

- Other Department of Defense Disclosures

Investments in U.S. Treasury securities are reported at cost, net of amortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The DoD'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.

- Investments, Net

Department of Defense Net Investments are supported by various Trust Funds in each of the reporting entities. These Trust Funds are comprised of military retirement contributions, donations (Gift Funds) and amounts reported by the Corps of Engineers.

Reporting Entities		Amounts (in millions)
Military Retirement Fund (MRF)		
Bonds	$ 79,812	
Notes	76,584	
1-Day Certificates	6,000	
Total MRF		**$ 162,396**
U.S. Army Corps of Engineers (USACE)		
Inland Waterways	406	
Harbor Maintenance	1,821	
SD Terrestrial Wildlife Habitat Restoration Trust Funds	42	
Total USACE		**2,269**
Total of All Other Agencies		**11,904**
Subtotal		$ **176,569**
Accrued Interest		4,236
Total Investments		**$ 180,805**

- Investment Bid Price

The Department of Defense uses the "bid" price, shown in the Wall Street Journal on September 30, 2002 (the last trading day in the Department of Defense fiscal year), to provide the Market Value Disclosure column for securities values.

- **Note Reference**

  - See Note Disclosure 1.N. – Investments in U. S. Treasury for additional DoD policies governing Investments in U.S. Treasury Securities.

Note 5. Accounts Receivable

As of September 30, (Amounts in millions)	2002 Gross Amount Due	2002 Allowance For Estimated Uncollectibles	2002 Accounts Receivable, Net	2001 Accounts Receivable, Net
Intra-governmental Receivables	$ 1,121.9	N/A	$ 1,121.9	$ 1,064.2
Nonfederal Receivables (From the Public)	6,838.1	(496.2)	6,341.9	4,613.8
Total Accounts Receivable	**$ 7,960.0**	**$ (496.2)**	**$ 7,463.8**	$ 5,678.0

Fluctuations and/or Abnormalities

- Accounts Receivable

Total Accounts Receivable, Net increased by $1,785.8 million or 31.5 percent between FY 2001 and FY 2002. The increase was largely attributable to an increase in Non-Federal Receivables (From the Public), Net of $1,728.1 million or 37.5 percent. The major contributors to the increase in Non-Federal Receivables (From the Public), Net:

Reporting Activities	Amounts (in millions)
Army General Fund	$205.4
Navy General Fund	$1,019.0
Air Force General Fund	$456.1
Other Defense Organizations General Fund	$160.0
Army Corps of Engineers	($105.4)
Misc. Reporting Activities	($7.0)
Total	**$1,728.1**

The large net increase was primarily reported by Navy General Funds as they recorded interest receivable in the amount of $1,019.0 million for unliquidated progress payments of $1,333.5 million made for the A-12 aircraft program that was subsequently cancelled and remains in litigation. The entire amount is reported in accordance with a 1994 General Accounting Office audit recommendation. The Air Force General Fund increases were primarily attributable to newly identified contractor debts and to the Air Force's portion of the General Electric litigation debt of $316 million plus related interest. The Army General

Fund's increase was the result of the recording of Foreign Military Sales public receivables for $138.8 million. Partially off-setting the increases in Non-Federal Receivables, Net was a decrease of $105.4 million reported by the US Army Corps of Engineers.

Other Information Related to Accounts Receivable

Relevant Information for Comprehension

- Allowance Methods

  DoD Components used a variety of techniques for estimating the allowance for uncollectible accounts receivable from the public. While the exact details differed among the Components, estimates were usually based on either a percentage of actual prior-year write-offs or a percentage of aged receivables from the public. The difference in the size of the percentages used in either method was generally associated with each DoD Component's experience in bad debt collection. Following are major DoD Components and a brief description of the allowance methods used by each.

  - Army General Fund used a three-year average of actual write-offs.
  - Army Working Capital Fund used actual write-offs over the last five years.
  - Navy General Fund used a percentage of accounts receivable write-offs over the preceding three years.
  - The Air Force estimated allowances by using 50 percent of the closed years receivables.
  - The Defense Commissary Agency General Fund allowance varies based on a percentage applied to each aging category.
  - The Defense Commissary Agency Working Capital Fund used 10 percent of the receivables over 180 days old on Resale Stock.
  - The US Army Corps of Engineers based the allowance for estimated uncollectibles by aging receivables and based the percentages of write-offs by using prior year public receivables.

- Elimination Adjustments

  The Department's accounting systems do not capture trading partner data for purchases at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Department was unable to reconcile Intragovernmental accounts receivable balances with its trading partners. Through the ongoing Financial Management Enterprise Architecture (FMEA) Program, the Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of Intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

- **Note Reference**

  - See Note Disclosure 1.K. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

Note 6. Other Assets

As of September 30, (Amounts in millions)	2002	2001
Intra-governmental Other Assets		
Advances and Prepayments	$ 0.1	$ 4.2
Other Assets		0.0
Total Intra-governmental Other Assets	**$ 0.1**	$ **4.2**
Non-Federal Other Assets		
Outstanding Contract Financing Payments	$ 15,227.2	$ 14,757.3
Other Assets (With the Public)	3,018.6	3,077.1
Total Non-Federal Other Assets	**$ 18,245.8**	$ **17,834.4**
Total Other Assets	**$ 18,245.9**	**$ 17,838.6**

Other Information Related to Other Assets

Relevant Information For Comprehension

- <u>**Intragovernmental Other Assets**</u>

  - Advances and Prepayments

    In accordance with the elimination guidance, buyer-side "advances to others" balances were adjusted to agree with the seller-side "advances from others" to the financial records of other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits to the financial records of other DoD reporting entities. The majority of the Advances and Prepayments were within the DoD, and were eliminated in the preparation of these statements. The $.1 million represents the fiscal year 2002 advances and prepayment activity between the Department and other federal agencies compared to $4.1 million in similar activity in fiscal year 2001. This reduction is consistent with the overall downward trend in Intragovernmental advances and prepayments.

- **Non-Federal Other Assets**

  - Outstanding Contract Financing Payments (OCFP)

    The Department has reported outstanding financing payments for fixed price contracts that are not based on percentage or stage of completion as an advance and prepayment. This is because, under the contract terms the Department becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Department is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Department for the full amount of the outstanding contract financing payments.

    The $15.2 billion in the OCFP consists mainly of:

    - $4.6 billion from the Navy GF - For the Navy GF, the $1.3 billion decrease (from $5.9 to $4.6 billion) is due to the completion of active contracts, for which prepayments were no longer required.
    - $7.3 billion from the Air Force GF - For the Air Force GF, the $1.9 billion increase (from $5.4 to $7.3 billion) is mostly attributable to the start-up cost of the C-17 and F-22 aircraft programs.
    - $3.1 billion from Army GF – Army balances did not experience a material fluctuation in the year.

- Other Nonfederal Assets Disclosure

Type of Asset		FY 2002 (in millions)
Non-Federal		
Other Contract Financing Payments		
Army GF	$	3,109.6
Navy GF		4,609.3
Air Force GF		7,275.9
Other Agencies		232.4
Total Other Contract Financing Payments	**$**	**15,227.2**
Other Assets With The Public		
Army		
Advances to Others	$	418.7
MILCON Construction, Missile and Ammunition Procurement, RDT&E and Family Housing		54.5
Travel Advances, Contractor Advances, and Prepayments		18.8
Navy		
Advances to Others	$	181.9
Prepayments		110.7
Other Assets		1,019.3

Air Force		
Advances to Contractors and Non-Federal Advances	$	260.1
Advances and Prepayments SMAG		122.5
Advances and Prepayments DMAG		53.1
SMAG Deliveries suspense and pending vendor credit		354.7
DLA		
Payments to Contractors and Misc. Advances		225.6
Other Agencies		
Advances to Contractors and Non Federal Advances	$	56.9
Prepayments		99.9
Other Assets from Multiple Reporting Entities		41.9
Total Other Assets With the Public	**$**	**3,018.6**

- **Note Reference**

  - See Note Disclosure 1. R. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

Note 7. Cash and Other Monetary Assets

As of September 30, (Amounts in millions)		2002		2001
Cash	$	573.2	$	924.3
Foreign Currency (non-purchased)		148.6		68.9
Other Monetary Assets		20.9		20.9
Total Cash, Foreign Currency, & Other Monetary Assets	$	**742.7**	$	1,014.1

Definitions

- Cash and Foreign Currency – Cash is the total of cash resources under the control of the Department of Defense, which includes coin, paper currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use includes petty cash funds and cash held in revolving funds which will not be transferred into the U.S. Government General Fund. Foreign currency consists of the total U.S. dollar equivalent of both purchased and non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts). There is a very limited dollar amount for non-purchased foreign currency. Non-purchased foreign currencies are acquired under the provisions of foreign assistance or foreign agricultural development programs.

- Other Monetary Assets - includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

Fluctuation and/or Abnormalities

Foreign currency, including currency to pay foreign vendors, increased approximately $80 million primarily in support of contingency mission Operation Enduring Freedom during FY 2002.

Cash decreased by $351.1 million primarily resulting from the correction of an error in the Air Force General Fund (AFGF) which resulted in removing cash of $378.7 million. This total consisted of $182.6 million of Foreign Military Sales deposits and $196.1 million of Foreign Military Sales undeposited collections that were erroneously included in Cash in FY 2001. The remaining $27.6 million increase is composed of DoD Components that individually make up less than 10 percent of the total variance. The Balance Sheet prior period Cash column has been restated to $545.6 million to incorporate the AFGF correction.

Other Information Related to Cash and Other Monetary Assets

Relevant Information for Comprehension

- Cash and Foreign Currency

  Cash and foreign currency reported consists primarily of cash held by Disbursing Officers to carry out their paying, collecting and foreign currency accommodation exchange missions. The primary source of the amounts reported for cash and purchased foreign currency is the Standard Form 1219, Statement of Accountability. The non-purchased foreign currency, if there is any, is reported on the monthly DD Form 1363 (Statement of Transactions and Accountability (FT Accounts)). Foreign currency is valued using the Department of Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursements and accommodation exchange transactions.

- **Note Reference**

  - See Note Disclosure 1. J. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

Note 8.A. Direct Loans and Loans Guarantees Assets

Other Information Related to Direct Loan and/or Loan Guarantee Programs

Relevant Information For Comprehension.

- **Military Housing Privatization Initiative**

  The Military Housing Privatization Initiative (MHPI) fosters a mutually beneficial relationship between the DoD and the private sector. For the DoD, the MHPI results in the construction of more housing built to market standards, at a lower cost than through the military construction process. Commercial construction (Private Sector) is faster and less costly than military construction and significantly stretches and leverages the DoD's limited housing funds. The MHPI also provides protection against specific risks, such as base closure or member deployment, for the private sector partner.

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

  The Department of Defense operates a loan guarantee program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106 Stat. 186 Section 2801, includes a series of powerful 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 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
  - direct loans

  In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

- Direct loans - are reported net of allowance for subsidy at present value, and
- Loan Guarantee Liabilities - are reported at present value.

- Armament Retooling and Manufacturing Support Initiative

The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 U.S.C. 4551-4555, is designed to encourage commercial use of the Army's Inactive Ammunition Plants through many incentives for businesses willing to locate to a government ammunition production facility. These facilities' production capacity is greater than the current military requirements, however this capacity could be needed in the event of another major war. The revenues from the property rental are used to pay for the operation, maintenance and environmental clean up at the facilities. This savings in overhead cost lowers the production cost of the goods manufactured, and funds the environmental clean up at no cost to the government.

The US Department of Agriculture Rural Business-Cooperative Service (RBS) and the United States Army established a Memorandum of Understanding (MOU) to furnish services to the Army in connection with the ARMS Initiative Loan Guarantee Program (AILG) pursuant to section 195 of the Armament Retooling and Manufacturing Support Act of 1992, as amended (10 U.S.C. 2501 note). The MOU is entered into pursuant to section 195 and 31 U.S.C. 1535.

The Army, by means of the ARMS Initiative legislation, has been authorized to establish a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. Army is authorized by Public Law 103-337, the National Defense Authorization Act for Fiscal Year 1995, to enter into this agreement with RBS. RBS has the needed programmatic and administrative services necessary and convenient to process applications for loan guarantees, guarantee repayment for the loans, and to provide other services required to administer the AILG Program. Therefore, in order to ensure service to the public and for protection of the federal interests and rights, it is necessary for Army to obtain services from RBS.

Note 8.B Direct Loans Obligated after FY 1991

As of September 30, (Amounts in millions)	2002	2001
Loan Programs		
Military Housing Privatization Initiative		
Loans Receivable Gross	$ 92.6	$ 0
Interest Receivable		
Foreclosed Property		
Allowance for Subsidy Cost (Present Value)	(48.4)	
Value of Assets Related to Direct Loans	**$ 44.2**	**$ 0**
Total Loans Receivable	**$ 44.2**	**$ 0**

Other Information Related to Direct Loans Obligated after FY 1991

Relevant Information For Comprehension

- Military Housing Privatization Initiative

FY 2002 was the first year Direct Loans were disbursed. The Direct Loans were for Housing at Elmendorf, Alaska; Lackland Air Force Base, Texas; and Robbins Airforce Base, Georgia.

Note 8.C Total Amount of Direct Loans Disbursed

As of September 30, (Amounts in millions)	2002	2001
Direct Loan Programs		
Military Housing Privatization Initiative:	$ 92.6	$ 0
Total	**$ 92.6**	**$ 0**

Other Information Related to Total Amount of Direct Loans Disbursed

Relevant Information For Comprehension

- Military Housing Privatization Initiative

FY 2002 was the first year for Direct Loans in the Military Housing Privatization Initiative.

Note 8.D. Subsidy Expense for Post- FY 1991 Direct Loans

As of September 30,
(Amounts in millions)

Subsidy Expense for New Direct Loans Disbursed	Interest Differential	Defaults	Fees	Other	**Total**
Military Housing Privatization Initiative					
FY 2002	$ 34.6	$ 7.2	$	$	**$** 41.8
FY 2001	$	$	$	$	**$** 0

Direct Loan Modifications and Re-estimates:	Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates	***Total***
Military Housing Privatization Initiative					
FY 2002	$	$	$	$	**$** 0
FY 2001	$	$	$	$	**$** 0

5. Total Direct Loan Subsidy Expense:	2002	2001
Military Housing Privatization Initiative	41.8	0
Total	**$ 41.8**	**$ 0**

Other Information Related to Total Amount of Direct Loans Disbursed

Relevant Information For Comprehension

- Military Housing Privatization Initiative

  Subsidy Expense is based on the total direct loans disbursed in relationship to the subsidy rate for Direct Loans.

- **Note Reference**

  - See Note 8.E. – Subsidy Rate for Direct Loans

Note 8.E. Subsidy Rate for Direct Loans

As of September 30,	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Direct Loan Programs					
Military Housing Privatization Initiative	37%	8%			45%

Other Information Related to Direct Loan Programs

Relevant Information For Comprehension

The subsidy rates disclosed pertain only to the current year's cohorts. 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 reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

These rates are obtained from the following web site:

http://www.whitehouse.gov/omb/budget/fy2003/pdf/cr_supp.pdf.

The FY 2003 Federal Credit Supplement provides summary information about Federal direct loan and loan guarantee programs subject to the Federal Credit Reform Act (FCRA) of 1990, as amended by the Balanced Budget Act of 1997. The data is based on legislation enacted for FY 2002 and the proposals contained in the President's 2003 Budget.

Note 8.F. Schedule for Reconciling Subsidy Cost Allowance Balance for Post – 1991 Direct Loans

As of September 30, (Amounts in millions)	2002
Beginning balance of the subsidy cost allowance	$ 0
Add: Subsidy Expense For Direct Loans Disbursed During The Reporting Years By Component	
Interest Rate Differential Costs	$ 34.6
Default Costs (Net Of Recoveries)	7.2
Fees And Other Collections	
Other Subsidy Costs	
Total Of The Above Subsidy Expense Components	**$ 41.8**
Adjustments	
Loan Modifications	$ 0
Fees Received	
Foreclosed Property Acquired	
Loans Written Off	
Subsidy Allowance Amortization	
Other	
Total Of The Above Adjustment Components	**$ 0**
Ending Balance Of The Subsidy Cost Allowance Before Re-Estimates	$ **41.8**
Add Or Subtract Subsidy Re-Estimates By Component	
Interest Rate Re-Estimate	$ 0
Technical/Default Re-Estimate	
Total Of The Above Re-Estimate Components	**$ 0**
Ending Balance Of The Subsidy Cost Allowance	**$ 41.8**

Note 8.G. Defaulted Guaranteed Loans from Post – 1991 Guarantees

Other Information Related to Defaulted Guaranteed Loans from Post – 1991 Guarantees

Relevant Information For Comprehension

There were no Defaulted Guaranteed Loans from Post-1991 Guarantees for FY 2002.

Note 8.H Guaranteed Loans Outstanding

As of September 30, (Amounts in millions) Loan Guarantee Program Title	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
2002		
Military Housing Privatization Initiative	$ 75.0	$ 75.0
Armament Retooling and Manufacturing Support Initiative	8.6	**7.7**
Total	**$ 83.6**	**$ 82.7**
2001		
Military Housing Privatization Initiative	$ 45.6	$ 45.6
Total	**$ 45.6**	**$ 45.6**

Other Information Related to Guarantees Loans Outstanding

Relevant Information For Comprehension

- Armament Retooling and manufacturing Support Initiative (ARMS), Army

  This is a joint program with USDA. Prior to FY 2002 the USDA was required to include this program in USDA's financial statements. In FY 2002, the USDA is not required to include this program and Army reported the balance. This complies with the Office of Management and Budget (OMB) Bulletin No. 01-09, Note 36

Note 8.I. Liabilities for Post – 1991 Loan Guarantees, Present Value

As of September 30, (Amounts in millions)	2002	2001
Loan Guarantee Program(s)		
Military Housing Privatization Initiative	10.1	3.3
Armament Retooling and Manufacturing Support Initiative	0.7	
Total	**$ 10.8**	$ 3.3

Note 8.J. Subsidy Expense for Post FY 1991 Loan Guarantees

As of September 30,
(Amounts in millions)

Subsidy Expense for New Direct Loans Disbursed	Defaults	Fees	Interest	Other	Total
Military Housing Privatization Initiative					
FY 2002	$ 10.1	$	$	$	$ 10.1
FY 2001	$	$	$	$	$ 0

Subsidy Expense for New Loans Guarantees Disbursed	Defaults	Fees	Interest	Other	Total
Military Housing Privatization Initiative					
FY 2002	$	$	$	$	$ 0
FY 2001	$ 1.1	$	$	$	$ 1.1

Loan Modifications and Re-estimates	Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates	Total
Military Housing Privatization Initiative					
FY 2002	$	$	$	$	$ 0
FY 2001	$	$	$	$	$ 0

Total Direct Loan Subsidy Expense	2002	2001
Military Housing Privatization Initiative	$ 10.1	$ 1.1
Total	**$ 10.1**	**$ 1.1**

Other Information Related to Subsidy Expense for Post-1991 Loan Guarantees

Relevant Information for Comprehension

- Armament Retooling and Manufacturing Support Initiative (ARMS), Army

  Other Information consists of prepayments, losses other than default, and outflow other than disbursements

Note 8.K. Subsidy Rate for Loan Guarantees

As of September 30,	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantees					
Military Housing Privatization Initiative	%	6%	%	%	6%
Armament Retooling and Manufacturing Support Initiative		5%	-2%		3%

Other Information Related to Subsidy Rate for Loan Guarantees

Relevant Information for Comprehension

- Military Housing Privatization Initiative

  - Subsidy Rates

    The subsidy rates disclosed pertain only to the current year's cohorts. 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 reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

    These rates are obtained from the following web site:

    http://www.whitehouse.gov/omb/budget/fy2003/pdf/cr_supp.pdf.

    The FY 2003 Federal Credit Supplement provides summary information about Federal direct loan and loan guarantee programs subject to the Federal Credit Reform Act (FCRA) of 1990, as amended by the Balanced Budget Act of 1997. The data is based on legislation enacted for FY 2002 and the proposals contained in the President's 2003 Budget.

- <u>Armament Retooling and Manufacturing Support Initiative (ARMS), Army</u>

  Fees are collected from the borrower in order to partially offset subsidy cost.

Note 8.L. Schedule for Reconciling Loan Guarantee Liability Balances for Post – 1991 for Loan Guarantees

as of September 30, (Amounts in millions)		2002
Beginning Balance Of The Subsidy Cost Allowance	$	3.3
Add: Subsidy Expense For Direct Loans Disbursed During The Reporting Years By Component		
Interest Rate Supplemental Costs	$	0
Default Costs (Net Of Recoveries)		10.1
Fees And Other Collections		
Other Subsidy Costs		
Total Subsidy Expense Components	$	10.1
Adjustments		
Loan Modifications	$	
Fees Received		
Interest Supplements Paid		
Foreclosed Property And Loans Acquired		
Claims Payments To Lenders		
Interest Accumulation On The Liability Balance		
Other		0.7
Total Of The Above Adjustment	$	0.7
Ending Balance Of The Subsidy Cost Allowance Before Re-Estimates	$	14.1
Add Or Subtract Subsidy Re-Estimates By Component		
Interest Rate Re-Estimate	$	
Technical/Default Re-Estimate		
Total Of The Above Re-Estimate Components	$	0
Ending Balance Of The Subsidy Cost Allowance	**$**	**14.1**

Note 8.M. Administrative Expense

As of September 30, (Amounts in millions)		2002		2001
Direct Loan				
Military Housing Privatization Initiative	$	0		0
Total	**$**	**0**	**$**	**0**
Loan Guarantees				
Military Housing Privatization Initiative	$	0	$	2.4
Total	**$**	**0**	**$**	**2.4**

Other Information Related to the Schedule of Reconciling Loan Guarantee Liabilities

Relevant Information for Comprehension

- Armament Retooling and Manufacturing Support Initiative (ARMS), Army

  This is a joint program with USDA. Prior to FY 2002 the USDA was required to include this program in USDA's financial statements. In FY 2002, the USDA was not required to include this program in its financial statements and Army reported the balance. This complies with OMB Bulletin No. 01-09, Note 36.

Other Information Related to Administrative Expense

Relevant Information for Comprehension

Administrative Expense is limited to the separately identifiable expenses to administer the direct and guaranteed loans. DoD does not maintain a separate program account to administer the direct loans and loan guarantees. The program account contains the entire MHPI program.

Note 9. Inventory and Related Property

As of September 30, (Amounts in millions)	2002	2001
Inventory, Net (Note 9.A)	$ 53,375.1	$ 48,376.0
Operating Materials & Supplies, Net (Note 9.B)	90,715.4	154,636.9
Stockpile Materials, Net (Note 9.C)	2,108.1	2,393.3
Seized Property	0.0	0.0
Forfeited Property	0.0	0.0
Goods Held Under Price Support and Stabilization Programs	0.0	0.0
Total	**$ 146,198.6**	**$ 205,406.2**

Note 9.A. Inventory, Net

As of September 30, (Amounts in millions)	2002			2001	
	Inventory Gross Value	Revaluation Allowance	Inventory Net	Inventory Net	Valuation Method
Inventory Categories					
Available and Purchased for Resale	$ 62,196.7	$ (27,212.2)	$ 34,984.5	$ 31,206.3	*LAC; MAC: AC*
Held for Repair	28,508.7	(12,442.6)	16,066.1	14,446.5	*LAC; O, MAC*
Excess, Obsolete, and Unserviceable	4,484.1	(4,484.1)		344.6	*LAC; AC; NRV; O*
Raw Materials				0.0	
Work in Process	2,324.5		2,324.5	2,378.7	*MAC:LAC; SP*
Total	**$ 97,514.0**	**$ (44,138.9)**	**$ 53,375.1**	$ 48,376.1	

Legend for Valuation Methods

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

Definitions

- **Inventory Available and Purchased for Resale** includes consumable spare and repair parts and repairable items owned and managed by the Department. Material available and purchased for resale includes material held due to a managerial determination that it should be retained to support military or national contingencies.

- **Inventory Held for Repair** is damaged inventory that requires repair to make suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because the Department often relies on weapon systems and machinery no longer in production, 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.

- **Excess, Obsolete, and Unserviceable** inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. Potentially reusable material, presented in previous years as "Excess, Obsolete and Unserviceable" is included in "Held for Use" or "Held for Repair" categories according to its condition.

- **Work in Process** balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in Process also includes the value of finished products or completed services pending the submission of bills to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered.

- **General Composition of Inventory**

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

  1) Held for sale, or held for repair for eventual sale;
  2) In the process of production for sale; or
  3) To be consumed in the production of goods for sale or in the provision of services for a fee.

  "Inventory held for repair" is damaged material that requires repair to make it usable. "Excess inventory" is condemned material that must be retained for management purposes. "Work in process" includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services. The USSGL does not include a separate work in process account unrelated to sales.

- **Changes from Prior Year's Accounting Methods**

  - Inventory Valuation

    In a July 6, 2001 memo, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) prescribed moving average cost as the inventory valuation method to provide the Department based on the Components' analyses of the Department's material management policies and processes. OUSD(C) also noted that the Department's legacy systems were not designed to maintain historical cost valuation for inventory held for sale and operating materials and supplies in compliance with GAAP. Therefore, alternative valuation methods were authorized for continued use for other functional requirements (e.g. logistics, procurement and budget) as deemed necessary. The alternative valuation methods authorized include LAC and standard price.

    The LAC method, which approximates historical costs, applies the last representative invoice price to all like units held, including units acquired through donation, non-monetary exchange, and returns from end use or reutilization. Generally, LAC is determined by subtracting the appropriate surcharges from the standard cost to arrive at the price most recently paid for a carried item. The use of LAC requires these amounts be recognized only upon the sale or disposal of material, rather than as the price variance occurs. Therefore, an allowance account is established on the financial statements to display unrealized holding period gains and losses. This allowance account is not under general ledger control of the individual commodities, but is calculated and compiled on a spreadsheet application approved by the OUSD(C) and Defense Finance Accounting Service (DFAS). The purpose of the allowance account is to provide a representation of inventory at historical cost.

- **Restriction of Inventory Use, Sale or Disposition**

  Generally, there are no restrictions on the use, sale, or disposition of inventory except in the following situations:

  - Distributions without reimbursement are made when authorized by DoD directives;
  - War reserve material includes fuels and subsistence items that are considered restricted; and
  - Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of the President.

- **Decision Criteria for Identifying the Category to Which Operating Materials and Supplies are Assigned**

  Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded "condemned." The net value of these items is zero, and is shown as "Excess, Obsolete, and Unserviceable."

- **Changes in the Criteria for Identifying the Category to Which Inventory is Assigned**

  The category "Held for Sale" includes all issuable material. The category "Held for Repair" includes all economically reparable material. Before FY 2002, the Department showed "Potentially redistributable" material, regardless of condition, as "Excess, Obsolete, and Unserviceable."

Fluctuations and/or Abnormalities

- <u>Prior Period Adjustments</u>

  In accordance with a memo from OUSD(C) dated August 12, 2002, a policy change was implemented which discontinued the adjustment for inventory valuation for the amount of excess, obsolete and unserviceable inventory. As a result of this policy change, $5.8 billion of excess inventory which was recognized as expenses in prior years was reversed as a prior period adjustment. The inventory allowance account was decreased by this amount, which increased the overall value of inventory. Also, the inventory worksheet was adjusted to indicate the deletion of the excess expense, which increased the inventory amount and decreased cost of goods sold expense.

- <u>Re-established Inventory</u>

  Effective for fiscal years ending on September 30, 2002, in accordance with an OUSD(C) memo dated August 12, 2002, the Department implemented the change in policy with regard to the accounting and classification of inventory as "Excess, Obsolete, and Unserviceable". In the past, through the use of a stratification process, and using system-generated reports, excess inventories met the Department's definition of potential excess and were written down to the net realizable value (NRV). As a result of the policy change, inventory amounts previously expensed have been reversed and re-established as inventory "Available and Purchased for Resale." Based on this policy, the following inventories are presented by reporting entities:

Inventory Categories (Amounts in millions)	**Army WCF**	**Navy WCF**	**Air Force WCF**
Available and Purchased for Resale	$ $10,160.3	$ $ 4,456.2	$ 8,455.2
Held for Repair	1,154.2	11,796.1	3,104.8
Excess, Obsolete, and Unserviceable			
Work in Process	4.8	760.3	1,286.8
Total	**$ $11,319.3**	**$ 17,012.6**	**$ 12,846.8**

Inventory Categories (Amounts in millions)	Defense Logistics Agency WCF	Other Defense Agencies	Total
Available and Purchased for Resale	$ $11,513.6	$ $398.7	$ 34,984.0
Held for Repair	11.4	0.0	16,066.5
Excess, Obsolete, and Unserviceable	0.1		.1
Work in Process	0.0	272.6	2,324.5
Total	**$ 11,525.1**	**$ 671.3**	**$ 53,375.1**

- Redefinition of Operating Materials and Supplies (OM&S) as Inventory – Working Capital Funds (WCF)

  - Army

    The OUSD(C) issued guidance during FY 2002 directing the reported balance of material held by Depot Maintenance and Ordnance to be reported as inventory. In previous years this material was reported as OM&S. This change resulted in an increase in inventory of $140.0 million. A direct appropriation of $164.0 million and issued for the purpose of procuring additional inventory and a transfer-in of inventory from the Army General Fund (GF) of $74.3 million also contributed to the increase.

  - Navy

    The policy change resulted in a restoration of approximately $1.9 billion in inventory.

  - Air Force

    The policy change resulted in a restoration of approximately $1.5 billion in inventory.

  - Defense Logistics Agency (DLA)

    Inventory "Available and Purchased for Resale" increased approximately $2.1 billion over FY 2001. The increase is due mainly to the impact of the policy change, described above, resulting in the restoration of approximately $1.5 billion in inventory previously expensed. The change positively impacted Accumulated Operating Results by approximately $1.4 billion.

- **Note Reference**

  - See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

Note 9.B. Operating Materials and Supplies, Net

As of September 30, (Amounts in millions)	2002 OM&S Gross Value	2002 Revaluation Allowance	2002 OM&S, Net	2001 OM&S Net	Valuation Method
OM&S Categories					
Held for Use	$ 79,979.4	$ 0.0	$ 79,979.4	$ 141,469.4	*MAC;LAC;SP;AC; O,*
Held for Repair	13,516.4	(3,260.7)	10,255.7	11,434.4	*MAC;LAC;SP;O,*
Excess, Obsolete, and Unserviceable	1,943.6	(1,463.3)	480.3	1,733.1	*AC;NRV;SP;O*
Total	**$ 95,439.4**	**$ (4,724.0)**	**$ 90,715.4**	**$ 154,636.9**	

Legend for Valuation Methods

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

- **General Composition of Operating Materials and Supplies**

  Operating Materials and Supplies includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines.

- **Balances**

  In addition to the account balances shown in Table 9.B., the Federal Accounting Standard requires disclosure of the amount of OM&S held for "future use." The Department estimates that $82,229.0 million of the OM&S held for use will be used more than 24 months after the end of FY 2002.

- **Decision Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned**

  Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded "condemned." The net value of these items is zero, and is shown as "Excess, Obsolete, and Unserviceable."

- **Changes In The Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned**

  The category "Held for Use" includes all issuable material. The category "Held for Repair" includes all economically reparable material. Before FY 2002, the Department showed "Potentially re-distributable" material, regardless of condition, as "Excess, Obsolete, and Unserviceable."

Fluctuations and/or Abnormalities

- OM&S

  From a fluctuation and analysis perspective, the Department's consolidated balance did not change significantly. However, individually, the Air Force GF increased approximately $5.6 billion and the Navy GF decreased approximately $4.5 billion. The following table presents OM&S by reporting entities:

OM&S, Net Categories (Amounts in millions)		**Navy GF**		**Air Force GF**		**Army GF**
Held for Use	$	27,307.2	$	23,779.7	$	26,964.9
Held for Repair		5,217.8		5,037.8		0.0
Excess, Obsolete, and Unserviceable		478.6		0.0		0.0
Total	**$**	**33,003.6**	**$**	**28,817.5**	**$**	**26,964.9**

OM&S, Net Categories (Amounts in millions)	Air Force WCF	Navy WCF	Other Defense Agencies	Total
Held for Use	$ 1,145.1	$ 643.3	$ 139.2	$ 79,979.4
Held for Repair	0.0	0.0	0.0	10,255.6
Excess, Obsolete, and Unserviceable	0.0	0.0	1.7	480.3
Total	**$ 1,145.1**	**$ 643.3**	**$ 140.9**	**$ 90,715.3**

- Redefinition of Operating Materials and Supplies (OM&S) as Inventory

  - Navy GF

Operating Materials & Supplies Held for Use, Net decreased from $58,176.0 million in FY 2001 to $27,307.2 million in FY 2002 (a total of decrease of $30,868.8 million) due primarily to two audit adjustments. The first adjustment of ($6,904.4) million was necessary to remove Mobile Facilities, Aviation Support Equipment, and Calibration Standards items erroneously included in the FY 2001 OM&S values. The second adjustment was to remove $24,765.8,million of tactical missiles and torpedoes that were previously reported as ammunitions and munitions in FY 2001.

Operating Materials & Supplies Held for Repair, Net increased from $1,210.4 million in FY 2001 to $5,217.8 million in FY 2002 (a total increase of $4,007.4 million) as a result of the Department's implementation of USD(C)'s policy regarding condition codes. Numerous condition codes reported as Excess, Obsolete, and Unserviceable in FY 2001 are being reported as "Held for Repair" in FY 2002. For FY 2001, the standard general ledger structure did not include an account for OM&S held for repair. Also, the Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements" did not provide for specific footnote disclosure of the OM&S held for repair. Recognizing that the Department holds OM&S in need of repair, the USSGL Board approved for use, beginning in FY 2002, USSGL account 1514, OM&S Held for Repair.

Excess, Obsolete, and Unserviceable, Net decreased from $1,675.3 million in FY 2001 to $478.6 million in FY 2002, as a result of OUSD(C)'s memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies" dated August 12, 2002. The memo addresses the fact that the cost of disposal is greater than the potential scrap value, as such, all OM&S reported in this category has been revalued to zero. The residual balance of $478.6 million reported represents a prior period adjustment that was booked to adjust the general ledger balance in line with current reporting requirements. The Department implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." Potentially re-distributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

In addition to the account balances reported above, the Federal Accounting Standard requires disclosure of the amount of OM&S held for "future use." This information was not captured by the current OM&S system. However, the Navy major commands reported approximately $2,463.0 million the OM&S held for use that will not be used within the next fiscal year.

- Air Force GF

In FY 2002, several manually maintained accounts did not report any OM&S financial data for the Air Force financial statements even though values had been reported in prior years. Some of these accounts are automated and the Standard Base Supply System (SBSS) reported the retail inventory. However, the wholesale was not reported due to confusion of the account managers thinking the SBSS would report all materiel. To correct this reporting problem, a meeting was held with the Air Force Audit Agency (AFAA) in November and another meeting is scheduled for early December with the account managers to ensure all accounts properly report all inventory for the first quarter FY 2003 report. The Air Force instructed DFAS to use the wholesale prior year account balances for the FY 2002 financial statements to provide a more realistic picture of ending balances for OM&S. The prior year balance reported in the FY 2002 financial statements amounted to approximately $613 million.

The Air Force provided only minimal accounting data that could be used in the financial statements at year-end for OM&S. The data provided consisted of only serviceable and unserviceable ending balances. Without the required additional data (beginning balances, acquisitions, transfers in, amounts used, transferred and etc.), DFAS could only report the "net change" between prior year's ending balance and the values reported as current year ending balances. Although the required additional data is available in the Air Force systems, no electronic interface currently exists between the Air Force supply systems and DFAS accounting systems. To correct this problem, the Air Force and DFAS are working on a hard copy report to provide the additional data until the electronic interfaces can be developed.

Although, the Air Force OM&S systems in most cases capture trading partner data at the transaction level that identifies all items transferred out or in (to or from) other sources, there are no electronic interfaces between the Air Force supply systems and DFAS accounting systems. Consequently, Intragovernmental transactions (trading partner data) could not be reconciled. The Air Force is in the process of developing an electronic interface that will capture and report the required data to the General Accounting and Finance System – Rehost, a DFAS system currently under development.

The Federal Accounting Standards require disclosure of the amount of OM&S held for future use. Except for an immaterial amount of munitions, the Air Force does not have any items considered held for future use.

- Reversal of FY 2001 Early OM&S Implementation

  In accordance with Inspector General, Department of Defense (IG, DoD) direction, FY 2002 and FY 2001 OM&S balances for retail and wholesale guided and tactical missiles, missile motors, aircraft engines and electronic pods totaling $31,869.7 million were removed from the Balance Sheet. The IG, DoD opinion is that these items should not have been reclassified as OM&S from the National Defense Property, Plant and Equipment during FY 2001. A prior period adjustment was accomplished in FY 2002 and the FY 2001 prior year column was restated to reflect this adjustment.

- Army GF

  In accordance with the IG, DoD directive to remove FY 2001 OM&S balances for retail and wholesale guided missiles, a prior period adjustment was prepared to remove $7,114.2 million in FY 2001 OM&S and $6,747.6 million in FY 2002 from the Balance Sheet. The IG, DoD opinion is that these items should not have been reclassified as OM&S from the National Defense Property, Plant and Equipment during FY 2001. A prior period adjustment was accomplished in FY 2002 and the FY 2001 prior year column was restated to reflect this adjustment.

Other Information Related to Operating Materials and Supplies, Net

Relevant information for Comprehension

- Government Furnished Material (GFM) and Contractor Acquired Material (CAM)

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

- Munitions

  The total tonnage of munitions stock, to include chemical stocks, awaiting destruction for FY 2002 and out years is $.4 million. Army owns $5,000.0 million in ammunition that is under treaty agreements and is not intended for use by U. S. Forces. This ammunition is intended for use in defense of the host nation by the host nation.

- **Note Reference**

  - See Note Disclosure 1.M – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and related Property

Note 9.C. Stockpile Materials, Net

As of September 30, (Amounts in millions)	2002 Stockpile Materials Amount	2002 Allowance for Gains (Losses)	2002 Stockpile Materials, Net	2001 Stockpile Materials, Net	Valuation Method
Stockpile Materials Categories					
Held for Sale	$ 2,039.7	$ 0.0	$ 2,039.7	$ 2,117.2	*AC/LCM*
Held in Reserve	68.4	0.0	68.4	276.1	AC/LCM
Total	**$ 2,108.1**	**$ 0.0**	**$ 2,108.1**	$ 2,393.3	

Legend for Valuation Methods		
LAC = Latest Acquisition Cost	NRV = Net Realizable Value	AC = Actual Cost
SP = Standard Price	O = Other	MAC = Moving Average Cost

- **General Composition of Stockpile Materials**

  Stockpile materials are strategic and critical materials, held due to statutory requirements, for use in national defense, conservation or national emergencies. Required stockpile levels may only be changed by law through a presidential proposal in the Annual Material Plan submitted to Congress.

- **Restrictions On The Use Of Materials**

  There are legal restrictions on the use of stockpile materials. Strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence on foreign sources of supply in times of a national emergency. Due to environmental considerations, there is a moratorium on the sale of mercury and thorium nitrate.

- **Decision Criteria For Categorizing Stockpiles Materials As "Held For Sale"**

  Materials for which Congress has not authorized sale are classified as Materials Held in Reserve. The balance of the stockpile is available for sale on the open market. Disposals cannot be made from the stockpile except under the following situations: (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; and (4) as authorized by law.

- **Changes In The Criteria For Categorizing Stockpile Materials As "Held For Sale"**

  All materials held by the Defense National Stockpile (DNS) are classified as Materials Held in Reserve until Congressional action declares the materials are no longer required to be stockpiled and are available for sale on the open market. Until DNS receives authorization to offer materials declared no longer needed and can be made available for sale. DNS then removes the materials from Material Held in Reserve and reclassifies them as Material Held for Sale.

Other Information Related to Stockpile Material, Net

- **Note Reference**

  - <u>See Note Disclosure 1. M.</u> - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

Note 10. General PP&E, Net

As of September 30, (Amounts in millions)	2002					2001
	Depreciation /Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
Major Asset Classes						
Land	N/A	N/A	$ 9,560.0	N/A	$ 9,560.0	$ 9,359.9
Buildings, Structures and Facilities	S/L	20 or 40	151,787.8	$ (78,231.7)	73,556.1	70,190.8
Leasehold Improvements	S/L	Lease Term	188.8	(87.6)	101.2	78.1
Software	S/L	2-5 or 10	3,528.4	(2,136.6)	1,391.8	1,375.4
Equipment	S/L	5 or 10	33,375.8	(22,794.1)	10,581.7	7,897.5
Assets Under Capital Lease[1]	S/L	Lease Term	587.8	(323.4)	264.4	312.7
Construction-in-Progress	N/A	N/A	26,784.4	N/A	26,784.4	24,349.2
Other			98.5		98.5	263.1
Total General PP&E			**$ 225,911.5**	**$ (103,573.4)**	**$ 122,338.1**	$ 113,826.8

[1]Note 15.B for additional information on Capital Leases.
Legend for Depreciation/Amortization Methods: S/L = Straight Line N/A = Not Applicable

Fluctuations and /or Abnormalities

- Buildings and Structures

The $3.4 billion increase in Buildings and Structures is attributable to the following reporting entities:

Reporting Entity	Amounts (in millions)
U.S. Army Corps of Engineers	$ 808.7
Navy General Fund	766.8
Army General Fund	761.7
Air Force General Fund	697.0
Army Working Capital Fund	166.8
Navy Working Capital Fund	6.1
Air Force Working Capital Fund	(29.4)
Other Defense Organization Working Capital Fund	104.6
Other Defense Organization General Fund	83.0
Total	**$ 3,388.6**

The Army General Fund increase was attributable to the Army National Guard properly reclassifying federal assets. These assets were previously reported by the Army National Guard as state assets. The remaining change in this account was primarily attributable to completed construction in process.

- Equipment

The $2.7 billion increase in Equipment is reported primarily in Air Force General Fund ($3.0 billion increase), Army Working Capital Fund, Navy Working Capital Fund, and Other Defense Organization General Fund each had a $ .1 billion decrease in the equipment account.

The increase in Air Force General Fund is due to Air Force's extensive effort in FY 2001 to ensure completeness of reporting of equipment. In FY 2001 the costs of some items were estimated because historical cost or acquisition date was not readily available for FY 2001 reporting. In FY 2002, the estimates were reversed and historical cost reported. Additionally, the Air Force had new acquisitions that contributed to its $3.0 billion increase.

- Construction In Process

The $2.4 billion increase in Construction In Process is attributable to the following reporting entities:

Reporting Entity	Amounts (in millions)
U.S. Army Corps of Engineers (USACE)	$ 998.8
Other Defense Organization General Fund	390.1
Navy General Fund	470.4
Army General Fund	234.5
Navy Working Capital Fund	168.3
Various Other Reporting Entities	173.1
Total	**$ 2,435.2**

Other Information Related to General PP&E, Net

- Major Asset Class, "Other" Components:

Type of PP&E	Amounts (in millions)
Property Awaiting Sale or Disposition	$ 53.2
Natural Resources (primarily the value of timber reserves)	20.5
Archeological and Cultural Resources (USACE)	11.7
Deferred and Undistributed Items (USACE)	7.3
Other assets not previously classified (USACE)	5.8
Total	**$ 98.5**

No Accumulated Depreciation/Amortization is shown for Major Asset Class "Other" because current systems and related crosswalks do not provide for recording and presenting the acquisition cost, accumulated depreciation, and net book value of such items in accordance with DoDFMR, Volume 6B requirements. This limitation will be addressed as part of future DFAS efforts to record and report all General PP&E according to relevant standards and requirements.

- New Guidance for Reporting Military Equipment

In June 2002, the Federal Accounting Standards Advisory Board approved a standard entitled, " Eliminating the Category National Defense Property, Plant, and Equipment (ND PP&E)." In addition to eliminating the category ND PP&E, this standard rescinds Statement of Federal Financial Accounting Standards (SFFAS) No. 11, Amendment to Property, Plant, and Equipment – Definitional Changes; amends SFFAS No. 8, Supplementary Stewardship Reporting; and amends SFFAS No. 6, Accounting for Property, Plant, and Equipment. This standard is effective for years ending after September 30, 2002. The standard is currently sitting before Congress for a 45-day period in accordance with provisions of the Chief Financial Officers Act of 1990.

Prior standards provide for the expensing of ND PP&E when costs are incurred and the reporting of such costs as supplementary stewardship information. The Department of Defense has not reported the cost of ND PP&E in accordance with existing standards due to an absence of detailed cost information for property acquired over many decades.

The standard on eliminating the category of ND PP&E provides for the capitalization of property previously defined as ND PP&E and the reporting of such property as General Property, Plant, and Equipment. In recognition of the absence of detailed historical cost information, this standard provides that, "If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or engineering documents and other reports reflecting amounts expended may be used as the basis for estimating historical cost." The standard acknowledges that imprecision may result from the use of estimates or other information.

Capitalization of property previously defined as ND PP&E will require extensive research to develop cost estimates for the property inventory. The Department initiated the valuation process this fiscal year by conducting detailed reviews of three selected "pilot" programs, the Paladin Mobile Howitzer, the DDG-51 Arleigh Burke class destroyer and the F-15 tactical fighter. The objective of this effort was the development of a valuation methodology and associated business rules, which the Department could use to value the balance of its military equipment.

- Military Equipment, Pilot Program Valuation Basis

  The valuations are based on information derived from reports reflecting amounts expended on these programs.

  - Included costs - The estimated total program costs include funds expended for procurement, research, development, test and evaluation, trainers and simulators, government furnished equipment, and other items included in the cost of the acquisition programs. The estimated portion of total program cost attributable to equipment under construction is reported as "work-in-process."

  - Excluded costs - The cost of military construction (MILCON) has been excluded and will be reported as real property. In addition, where separately identifiable, the cost of initial spares has been excluded. Finally, the costs of modifications to the DDG-51 are not accounted for in the valuation for that program. The cost of DDG-51 modifications will be captured and reported separately in later phases of the implementation of this standard.

  - Useful life and depreciation – The estimated useful lives used for these valuations are 20 years for the Paladin program, 35 years for the DDG-51 program and 20 years for the F-15 program. Depreciation is calculated on a group basis whereby the depreciation rate is applied to the estimated cumulative cost of the equipment "placed in service."

Estimated program costs, accumulated depreciation, and net book values for the foregoing programs are presented in the following table:

Military Equipment (Amounts in millions)	Program Cost	Accumulated Depreciation	Net Book Value
Paladin Mobile Howitzer			
Placed in Service	$ 1,802.4	$ (541.6)	$ 1,260.8
Work in process	17.4		17.4
DDG-51 Arleigh Burke Class of Destroyer			
Placed in Service	32,991.1	(4,595.2)	28,395.9
Work in process	6,452.8		6,452.8
F-15 Tactical Fighter			
Placed in Service	23,077.3	(19,085.4)	3,991.9
Work in process	69.6		69.6
Total	**$ 64,410.6**	**$ (24,222.2)**	**$ 40,188.4**

- **Note Reference**
  - See Note Disclosure 1. O. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General Property, Plant and Equipment (PP&E)

Note 10.A. Assets Under Capital Lease

As of September 30, (Amounts in millions)		2002		2001
Entity as Lessee, Assets Under Capital Lease				
Land and Buildings	$	576.3	$	555.7
Equipment		11.5		28.0
Other				0.0
Accumulated Amortization		(323.4)		(270.9)
Total Capital Leases	$	**264.4**	$	312.8

Other Information Related to Assets under Capital Lease

The current portion of the liability, as shown on Note 15.A., is $46.5 million and the noncurrent portion is $320.7 million. Imputed interest was necessary to reduce net minimum lease payments to the present value calculated at the incremental borrowing rate at the inception of the leases. Assets Under Capital Lease decreased by $48.4 million primarily due to straight-line depreciation of Leased Assets.

- **Note Reference**
  - See Note Disclosure 1. Q. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.

Note 11. Liabilities Not Covered and Covered by Budgetary Resources

As of September 30, (Amounts in millions)	2002 Covered by Budgetary Resources	2002 Not Covered by Budgetary Resources	2002 Total	2001 Total
Intra-governmental Liabilities				
Accounts Payable	$ 78.8	$ 6.9	$ 85.7	$ 124.4
Debt	808.7	65.6	874.3	986.2
Environmental Liabilities				0.0
Other	3,807.6	4,406.0	8,213.6	6,092.9
Total Intra-governmental Liabilities	**$ 4,695.1**	**$ 4,478.5**	**$ 9,173.6**	$ 7,203.5
Nonfederal Liabilities				
Accounts Payable	$ 24,159.8	$	$ 24,159.8	$ 22,707.5
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	171,053.0	1,157,773.5	1,328,826.5	1,296,210.7
Environmental Liabilities		59,353.1	59,353.1	63,293.8
Loan Guarantee Liability	10.8		10.8	
Other Liabilities	18,282.2	11,513.1	29,795.3	28,621.2
Total Nonfederal Liabilities	**$ 213,505.8**	**$ 1,228,639.7**	**$ 1,442,145.5**	$ 1,410,833.5
Total Liabilities	**$ 218,200.9**	**$ 1,233,118.2**	**$ 1,451,319.1**	$ 1,418,037.0

Liabilities Not Covered and Covered by Budgetary Resources

- Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

- Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority; but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include (1) new budget authority; (2) spending authority from offsetting collections (credited to an appropriation or fund account); (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations; (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year; and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

- Other Liabilities Disclosures

  - Covered Intragovernmental

(Amounts in millions)	Army	Navy	Air Force	ODO	USACE	Total
Advances From Others	$ 63	$ 75	$ 174	$ 1	$ 17	$ 331
Deposit Funds, Clearing Accounts & Undeposited Collections Liabilities*	(1)	250	16	40	14	318
Disbursing Officers Cash	300	130	265	0	1	697
Employer Contributions	61	69	56	47	14	246
Employee Benefits	113	51	22	7	0	193
Future Contract Revenue	0	0	0	0	882	882
Resources Payable to Treasury	0	1	1,007	12	34	1,053
Subsidy Related to Undistributed Loans	0	0	0	87	0	87
Total	**$ 536**	**$ 576**	**$ 1,540**	**$ 194**	**$ 962**	**$ 3,808**

* An EFT voucher incorrectly reported by the Federal Reserve Bank of Atlanta resulted in a $1 million abnormal balance in Deposit Funds. This will be corrected in FY 2003.

  - Not Covered Intragovernmental

(Amounts in millions)	Army	Navy	Air Force	ODO	USACE	Total
FECA	$ 320	$ 566	$ 306	$ 182	$ 41	$ 1,415
Judgment Fund	75	106	304	9	145	639
Treasury Liability	0	2,352	0	0	0	2,352
Total	**$ 395**	**$ 3,024**	**$ 610**	**$ 191**	**$ 186**	**$ 4,406**

- Covered Non-Federal

(Amounts in millions)	Army	Navy	Air Force	ODO	USCOE	MRF	Total
Advances from Others	$ 508	$ 140	$ 94	$ 340	$ 112	$ 0	$ 1,194
Accrued Payroll	2,168	1,722	1,315	389	388	0	5,982
Deferred Credits	0	0	0	6	0	0	6
Deposit Funds, Clearing Accounts, & Undeposited Collections	0	0	39	4	7	0	50
Capital Leases	82	0	216	4	0	0	302
Contract Holdbacks	638	94	0	82	42	0	856
FMS Trust Funds	0	0	0	594	0	0	594
Contingent Liabilities	304	1,351	92	0	42	0	1,789
Pension Benefits	0	0	0	0	0	3,135	3,135
Employer Contributions	257	0	0	432	0	0	689
Non-Environmental Disposal	1	0	0	26	0	0	27
Progress Payments [1]	0	(329)	951	0	0	0	622
Contract Services	0	1,979	0	0	0	0	1,979
Unearned Revenue	0	0	0	(1)	0	0	(1)
Receipt Accruals				100			100
Undistributed Disbursements	0	(1,045)	0	0	0	0	(1,045)
TERA	10	2	17	0	0	0	29
Withholding Pay	15	0	0	0	0	0	15
Work in Process (WIP)	0	0	1,959	0	0	0	1,959
Total	**$ 3,982**	**$ 3,915**	**$ 4,683**	**$ 1,976**	**$ 591**	**$ 3,135**	**$ 18,282**

[1] Progress Payments – Navy WCF

A DFAS memorandum dated October 10, 1997, directed the allocation of undistributed disbursements to the DoD services from their DWCF corporate account. Since identifying transactional information does not support this allocation, it is still on the books. Navy WCF continues to work to obtain the necessary information. The abnormal Unearned Revenue is due to a system processing error that will be corrected in FY 2003.

- Not Covered Non-Federal

(Amounts in millions)	Army	Navy	Air Force	ODO	Total
Accrued Interest Liabilities	$ 0	$ 0	$ 1	$ 0	$ 1
Annual Leave	2,786	2,032	1,674	441	6,933
Cancelled Appropriations	69	69	453	89	680
Capital Leases	0	1	63	1	65
Contingent Liabilities	960	0	201	4	1,165
Custodial Liability				162	162
Non-Environmental Disposal	1,424	899	63	0	2,386
Entitlement Expenses Due and Payable				8	8
Other Unfunded Employment Related				9	9
Unfunded Leave				26	26
Contract Incentives		78		0	78
Total	**$ 5,239**	**$ 3,079**	**$ 2,455**	**$ 740**	**$ 11,513**

- **Note Reference**

  - For Additional Line Item discussion, see:
    - Note 8, Direct Loans and/or Loan Guarantee Programs
    - Note 12, Accounts Payable
    - Note 13, Liabilities Not Covered and Covered by Budgetary Resources
    - Note 14, Environmental Restoration Liabilities, and Environmental Disposal Liabilities
    - Note 15, Other Liabilities
    - Note 16, Commitments and Contingencies
    - Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

Note 12. Accounts Payable

As of September 30, (Amounts in millions)	2002			2001
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
Intra-governmental Payables	$ 85.7	N/A	$ 85.7	$ 124.4
Non-Federal Payables (to the Public)	$ 24,159.8	$ 0	$ 24,159.8	$ 22,707.5
Total	**$ 24,245.5**	**$ 0**	**$ 24,245.5**	$ 22,831.9

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to Intragovernmental payables. Non-Federal Payables (to the public) are payments to non-federal government entities.

Fluctuations and/or Abnormalities

- Intragovernmental Accounts Payable

  Intragovernmental Accounts Payable for DoD decreased $39.0 million between current year and prior year. The following reporting entities contributed to this decrease:

  - Air Force General Fund outstanding payables decreased by $11.7 million dollars.
  - Other Defense Organizations (ODO) General Fund outstanding payables decreased by $0.3 million dollars.
  - ODO Working Capital Fund outstanding payables decreased by $26.0 million dollars.
  - Other agency increases and decreases accounted for the remaining net decrease of $1.0 million dollars.

Other Information Related To Accounts Payable

Relevant Information For Comprehension

- Undistributed disbursements

  Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD 1329 and DD1400.

This should agree with the undistributed amounts reported on the Departmental Accounting Reports. Intransit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities outstanding accounts payable balance at year-end. Accounts payable were adjusted downward in the amounts indicated below for these payments.

- Army Accounts Payable total amount of $573.9 million was adjusted downward consisting of GF $449.2 million and WCF $124.7 million
- Air Force WCF Accounts Payable was adjusted downward by $1,367.4 million.
- ODO GF Accounts Payable total amount of $16.3 million was adjusted downward consisting of DeCA $7.3 million and DCAA $9.0 million
- ODO WCF Accounts Payable total amount of $290.7 million was adjusted downward consisting of DLA $263.7 million, DFAS $5.0 million, DeCA $20.2 million and DSS $1.7 million.
- Navy WCF Accounts Payable total was adjusted downward by $400.0 million.

- <u>Intragovernmental Eliminations</u>

The DoD summary level seller accounts receivable were compared to Agencies' accounts payable. An adjustment was posted to the Agencies' accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to the Agencies. Positive differences were treated as unrecognized accounts payable and in the case of the Agencies, accounts payable were adjusted upward in the amounts below:

- Army Accounts Payable total amount of $901.1 million was adjusted upward consisting of GF $839.1 million and WCF $62.0 million.
- Air Force GF Accounts Payable was adjusted upward by $219.0 million
- ODO GF Accounts Payable total amount of $312.0 million was adjusted upward consisting of DISA $308.0 million, DeCA $4.0 million.
- ODO WCF Accounts Payable total amount of $241.4 million was adjusted upward consisting of DLA $209.4 million, DFAS $28.0 million and DeCA $4.0 million.

- **Note Reference**

  - <u>See Note Disclosure 1.G.</u> – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

Note 13. Debt

As of September 30, (Amounts in millions)	2002 Beginning Balance	2002 Net Borrowings	2002 Ending Balance	2001 Ending Balance
Public Debt				
Held By the Government	$ 0	$ 0	$ 0	$ 0.0
Held by the Public				0.0
Total Public Debt	**$ 0**	**$ 0**	**$ 0**	$ 0.0
Agency Debt				
Debt to the Treasury	$ 30.6	$ 50.9	$ 81.5	$ 30.5
Debt to the Federal Financing Bank	955.7	(162.9)	792.8	955.7
Debt to Other Federal Agencies	0.0	0.0	0.0	0.0
Total Agency Debt	**$ 986.4**	**$ (112.0)**	**$ 874.3**	$ 986.2
Total Debt	**$ 986.4**	**$ (112.0)**	**$ 874.3**	$ 986.2
Classification of Debt				
Intra-governmental Debt			$ 874.3	$ 986.2
Non-Federal Debt				N/A
Total Debt			**$ 874.3**	$ 986.2

Fluctuation and/or Abnormalities

- Debt to the Treasury

  The ending balance for FY 2002 reported to Treasury reflects an increase to direct loan subsidy cost payments of $57.0 million from the Family Housing Improvement Fund. This includes funds borrowed from Treasury, interest and principal payments from borrowers, borrower fees, interest earned from Treasury, and proceeds from the sale of collateral. The additional increases and/or decreases are attributable to other multiple reporting entities.

Other Information Related to Debt

Relevant Information For Comprehension

- Debt to the Treasury

  The Department of the Treasury provided funds to the U.S. Army Corps of Engineers for capital improvements to the Washington Aqueduct. Funding to repay the debt is being provided by Arlington County, Virginia; Falls Church, Virginia; and the District of Columbia. Actual draw-down of funds has been made from the Treasury of $73.4 million with principal repayments totaling $49.3 million. The ending balance for FY 2002 of $24.7 million represents the difference between the draw-down and repayments plus accrued interest payable of $.6 million.

- Debt to the Federal Financing Bank

  - Navy WCF

    Once approved by Congress the Afloat Prepositioning Force (APF-N) program provides ships for Time Charter, a specific Military Sealift Command (MSC) program, to meet transportation requirements not available in the marketplace. These ships are built or converted by private Interim Vessel Owners using private non-government financing obtained from various banking institutions. There were no payments made by the government during the building/conversion phase. The availability for the APF-N Time Charters is five years with four optional renewal periods of five years each, for a total of 25 years. When the contracts expire, the ships become the property of the vessel's owner.

    The Federal Financing Bank (FFB) is one of the institutions that provides loans to the vessel owners. The FFB reported a debt for $750.7 million that includes an outstanding principal balance of $739.3 million and an accrued interest payable of $11.4 million for the Transportation Activity. The debt for these loans should have been recorded as public debt owed by the private vessel owners, rather than Intragovernmental debt to the transportation activity group. To simplify the payments and to meet their reporting requirements, the FFB cross-disburses the semi-annual principal and interest payments directly from the NWCF. This method of financing was used vice having MSC make Capital Hire payments to the vessel owners, who would in turn make loan obligation payments to FFB. This methodology was used in prior fiscal years and was not unusual. The FFB agreed with the vessel owner to have the government make payments directly to a bank.

MSC recorded these payments as operating expense to comply with the established guidance published by OUSD(C) as January 22, 1999. However, the outstanding debt principal amount reported in the NWCF Balance Sheet as Other Assets in order to reconcile with the amount reported by the FFB through the trading partner elimination process. The misclassification by the FFB generated this long-standing reporting problem. See Note 6 for additional disclosures.

The DoD Appropriation Act passed in December 1985 required that ten percent of the fifth year termination value of the vessels be obligated against Operation and Maintenance, Navy funds. To comply as directed, this process was completed as each vessel was delivered.

On the Balance Sheet, the Intragovernmental Debt decreased considerably from FY 2001 to FY 2002 as a result of the FY 2002 reduction of outstanding debt principal amount reported for the Transportation Activity Group.

- ODO WCF

  U. S. Transportation Command, Military Sealift Command (MSC), reported $41.4 million in loans from the Federal Financing Bank to ship owners. These loans were made available to provide their vessels for time charter to meet requirements not available in the marketplace for MSC.

- **Note Reference**

  - See Note Disclosure 1.G. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities Public Debt.

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

As of September 30, (Amounts in millions)	2002			2001
	Current Liability	Non-current Liability	Total	Total
Environmental Liabilities				
Non-Federal				
Accrued Environmental Restoration (To be funded by the Defense Environmental Restoration Program (DERP)) Costs:				
Active Installations--Environmental Restoration (ER)	$ 1,457.6	$ 11,576.1	$ 13,033.7	$ 13,071.1
Active Installation--ER for Closed Ranges	31.5	1,673.6	1,705.1	1,900.5
Formerly Used Defense Sites (FUDS)--ER	281.4	4,023.4	4,304.8	3,173.6
FUDS--ER for Transferred Ranges	114.1	11,106.2	11,220.3	14,473.4
Other Accrued Environmental Costs (Non-DERP funds)				
Active Installations--Environmental Corrective Action	68.1	388.2	456.3	612.7
Active Installations--Environmental Closure Requirements	10.6	99.1	109.7	114.6
Active Installations--Environ. Response at Active Ranges	38.9	253.3	292.2	277.7
Other	17.2	14.5	31.7	14.7
BRAC				
BRAC Installations--Environmental Restoration (ER)	404.5	3,610.5	4,015.0	3,543.2
BRAC Installations--ER for Transferring Ranges	11.2	386.2	397.4	398.6
BRAC Installations--Environmental Corrective Action	25.4	183.2	208.6	71.1
Other	269.7		269.7	710.4
Environmental Disposal for Weapons Systems Programs				
Nuclear Powered Aircraft Carriers		4,890.0	4,890.0	4,890.0
Nuclear Powered Submarines	43.6	4,845.3	4,888.9	5,122.4
Other Nuclear Powered Ships		269.1	269.1	269.1
Other National Defense Weapon Systems	6.8	271.5	278.3	286.6
Chemical Weapons Disposal Programs	2,168.5	10,648.8	12,817.3	14,252.5
Other	165.1		165.1	111.5
Total Non-Federal Environmental Liabilities:	**$ 5,114.2**	**$ 54,238.9**	**$ 59,353.1**	$ 63,293.8
Total Environmental Liabilities:	**$ 5,114.2**	**$ 54,238.9**	**$ 59,353.1**	$ 63,293.8

The Department of Defense (DoD) is disclosing the following data related to environmental cost and its associated estimated liabilities for the period ending FY 2002. Each of the Department's major reporting entity are responsible to track and report all required environmental information related to environmental restorations, costs, disposal of weapons systems and any environmental cost related to the base realignment closure that have taken place in prior years. The Department fully supports the clean-up efforts as displayed in this disclosure.

DOD is required to cleanup contamination resulting from waste disposal practices, leaks, spills and other past activity, which has created a public health or environmental risk. The Department is required to cleanup certain contamination in coordination with regulatory agencies, their responsible parties and current property owners.

Other Information Related to Environmental Liabilities

- Sources of Clean-up

  - Requirements Comprehensive Environment Response, Compensation Liability Act (CERCLA)
  - Superfund Amendment and Reauthorization Act (SARA)

  The Department of Defense is required by law to adhere to the Comprehensive Environment Response, Compensation Liability Act (CERCLA) and Superfund Amendment and Reauthorization Act (SARA) to clean up contamination resulting from past waste disposal practices, leaks, spills, and other activities which have created a risk to public health or the environment. The Army is DoD Executive Agent for cleaning up contamination at sites formerly used by military departments and defense agencies. CERCLA requires the Army to clean-up contamination in coordination with regulatory agencies, other responsible parties, and current property owners. Failure to comply with agreements and legal mandates can put DoD at risk of fines and penalties.

Relevant Information for Comprehension

- Accounting Standards

  DoD's Feeder Systems are limited; however, DoD continues to report the Department estimated and reported its environmental liabilities. In some instances when the DoD Components' financial systems could not be used to estimate the liability, the DoD Components based the reported amount on estimates prepared for other purposes. The Department is currently using two independently validated estimating models. The validation was performed in accordance with DoD Instruction 5000.61. The models are the Remedial Action Cost Engineering Requirements (RACER) model and the Navy CTC system.

- Environmental Cost Liabilities

- The Department of Army's Defense Environmental Restoration Program (DERP) was established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 and codified in Title 10 of the United States Code 2701. To further define the programs see Title 10 of the United States Code, Sections 2701-2706 and 2810-2811. The Department of Army implemented the DERP in accordance with the Department of Defense (DoD) Directive 4715.1, Environmental Security, February 24, 1996, and DoD Instruction 4715.7, Environmental Restoration Program, April 22, 1996 and the Management Guidance for the Defense Environmental Restoration Program, as of September 28, 2001. Environmental liabilities for the Army DERP and the Base Realignment and Closure (BRAC) are prepared in accordance with the Management Guidance for the DERP and the DoD Financial Management Regulation (DoDFMR) 7000.14.

- The Department of Navy estimated and reported a value of $3,871.0 million for Environmental Restoration (ER) liabilities FY 2002 under DERP as of 30 September 2002. This is comprised of $3,520.8 million in Active Installations ER liabilities and $350.0 million in Active Installations – ER for Closed Ranges liabilities which represents Unexploded Ordnance Cost (UXO) for 12 sites. The Department of Navy was not segregated and reported UXO prior to FY 2001 as part of the total amount disbursed. The DoD FMR, Volume 6B, Chapter 10 requires that "any estimate produced must be based on site specific information and use cost models validated in accordance with DoD Instruction 5000.61." The Navy plans to support this requirement, continue validating its range inventory, and pursue the process of obtaining valid cost estimates for each range. Once this process is complete, the Navy plans to report the processed site liabilities. The increase in Active Installations – ER for Closed Ranges started in FY 2002 for the Munitions Response Program (MRP) for Navy.

- **Environmental Disposal Cost Liabilities (Non-DERP funded)**

  - The Department of Navy reported an environmental disposal liability for Weapons Systems Programs valued at $10,274.9 million in FY 2002. Additionally, the Navy reported Weapons Systems, which included nuclear powered aircraft carriers, nuclear powered submarines, other nuclear powered ships and other national defense weapons systems.

- **Range Characteristics**

  The Department of Army estimated that its environmental liability for FY 2001 and FY 2002 at closed transferred and transferring ranges was $16,684.3 million and $12,237.3 million respectively. Currently, in the Army inventory database there are 430 sites at closed ranges, 1,650 properties at transferred ranges and 63 sites at transferring ranges.

  - Closed Ranges

    The Department of Army must expend $649.4 million and the Department of Navy $350.0 million respectively to characterize and to investigate closed ranges. The Navy determined that it owned 12 closed ranges. Total environmental liabilities cannot be estimated for Army or Navy until this characterization is completed.

Closed ranges for Army and Navy were taken out of service as a range and re-classified as a new use because of incompatibility with range activities. They are not classified by the military as a potential range area.

- Transferring Ranges

  The Department of Army site level investigations reveal that the total environmental liability for these types of ranges is valued at $367.5 million. Transferring ranges are proposed for transfer and/or will be returned from DoD to another entity, including other federal entities.

- Transferred Ranges

  The Department of Army completed 1,549 of 1,650 properties range inventories and the estimated amount of liability for those ranges is valued at $11,220.3 million. These were properties formerly used as a military range that are no longer under military control and have been leased by DoD, transferred, or returned from the DoD to another entity, including federal entities.

- Active Ranges

  The Department of Army is currently conducting only one active range investigation and characterization for Massachusetts Military Reservation at a cost of $292.2 million. This pays for sampling and analysis, groundwater monitoring, feasibility studies, soil and groundwater cleanup, and UXO investigation and response. Currently, the Active ranges in service include military ranges still being regularly used, but still considered a potential range area by the cognizant Military Service. They have not been re-classified due to incompatibility with range activities.

- Methodology Used to Estimate Environmental Liabilities

  The DoD guidance requires disposal costs for general PP&E to be amortized over the life of the asset.

  The Department of Army uses the annual cost-to-complete estimate as the basis for the environmental liability calculation. The cost-to-complete estimate is prepared for each site in the DERP in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

- Accrued Environmental Restoration (DERP Funded) Costs:

  - The Department of Army captures the cost-to-complete estimate data in the Defense Site Environmental Restoration Tracking System (DSERTS) for Active installations. The current liability number is based on FY 2003 allocation and unliquidated obligations (ULOs). The ULO data are pulled from preliminary FY 2002 year-end reports provided by DFAS. Non-current liabilities include the cost-to-complete estimates from FY 2004 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

All Formerly Used Defense Sites (FUDS) properties, cost-to-complete is captured in the FUDS Management Information System (FUDMIS). The current liability number is also based on FY 2003 allocation and ULOs. ULO data are obtained from the Corps of Engineers Financial Management System (CEFMS) for existing FUDS ULOs as of 30 Sep. Non-current liabilities include the cost-to-complete estimates from FY 2004 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

- The Department of the Navy liabilities (cleanup) for accrued restoration represents the cost to correct past environmental problems that are funded under the Defense Environmental Restoration Program (DERP) in accordance with "Management Guidance for the DERP," and "Accrued Environmental Restoration (Cleanup) Liabilities," Chapter 14 of Volume 4 of the DoDFMR. These liabilities relate to Property, Plant, and Equipment (PP&E), including acquired land and Stewardship Land. They fall in the major asset categories as described in Chapter 6 of Volume 4 of the DoD FMR. Environmental restoration activities are conducted at operating installations, at Formerly Used Defense Sites (FUDS), as Closed, Transferred, and Transferring Ranges. Environmental restoration measurements involve the use of cost estimates that consider, on a current cost basis, the anticipated costs of the level of effort required to effect the restoration, as well as applicable legal and/or regulatory requirements. Such cost estimates are based on the current technology available. Site inventory and estimated cost data prepared for the DERP was used by the Navy as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services) to report to the Congress. The Accrued Environmental Restoration (Cleanup) Costs did not include the costs of environmental compliance, pollution prevention, conservation activities, contamination or spills associated with current operations, or treaty obligations, all of which are accounted for as part of ongoing operations.

- Active Installations – Environmental Restoration for Closed Ranges.

  - The Department of Army is currently developing the requirement for non-current liability for ER for closed ranges based on the results of an Army-wide inventory of all ranges. The inventory for closed ranges is 30 percent complete. The estimated $1,695.0 million non-current liability for ER at closed ranges is the low (most probable) cost and is based on a mix of site-level and general installation specific data collected using a survey. Once the inventory is complete, site-level cost data will be available for calculating closed range liability. Also, an estimated value of $1,984.0 million was calculated for ER for closed ranges.

- The Department of Navy Active Installations ER represents the environmental liabilities associated with the identification, investigation and removal, and remedial actions to address environmental contamination at ranges that are closed or will be closed prior to September 30, 2002. The contamination may include munitions, chemical residues from military munitions and munitions scrap at ranges on active installations that pose a threat to human health or the environment. The amount reported for that portion of the liability was estimated based on site level investigations and characterizations. The estimate produced was based on site specific information and use cost models was validated in accordance with DoD Instruction 5000.61. Total liabilities (cost to complete) cannot be estimated until there is sufficient site specific data available to estimate the total liability.

- The Department of Air Force conducted an inventory of ranges for the Defense Environmental Restoration Program (DERP). Based on that inventory the Air Force identified 241 Sites that has an established liability of $705.7 million. Currently no appropriation exists for these cleanup actions. Air Force does not expect any expenditures prior to FY 2004. This liability will increase as the Air Force continues to refine the inventory and expand investigation of potential sites.

  Air Force's liability for environmental restoration on active installations increased by $198.7 million or 3.94 percent during FY 2002. This basically reflects an inflationary increase. While the total liability increased by $198.7 million, the liability increase from new sites and areas of concern added during the year totaled $556.4 million or 28.4 percent of the increase in total liabilities. Total sites and areas of concern included in the FY 2002 estimate of environmental restoration increased by 127 on active installations. Therefore, a total of 6,483 active sites as of 30 September 2002 was reported. The Air Force achieved for FY 2002 over half of its projected site investigations primarily due to regulatory delays. The estimates include total costs for environmental restoration and non-operational ranges. Direct and indirect costs were captured because the programs are accounted for separately.

- FUDS – Environmental Restoration for Transferred Ranges.

  The Department of Army non-current liability for ER for transferred ranges is based on results of an inventory of transferred ranges at 1,650 properties. Of the 1,650 properties inventoried of transferred ranges, 94 percent were completed based on data collected from the reported 1,549 properties.

- Other Accrued Environmental Costs (Non-DERP Funds)

  The Department of Air Force reported a decline of $71.1 million (28.9 percent) , during the fiscal year. The reduction is the result of reevaluations for solid waste management units at one installation. Reevaluation of the initially suspected contamination was substantially less than indicated through preliminary examinations of the sites. The estimates of non-DERP current liabilities were established the same as FY 2001.

The Department of the Navy (DON) developed guidance for the DON Major Commands to use as they begin to identify site data and develop estimates for DON's "ongoing" operations. The DON continued review of program areas such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retrofill, and/or disposal of PCB transformers and underground storage tank remedial investigation and closure.

- Active Installations – Environmental Corrective Action.

  - The Department of Army reflects the total of active projects in the Fall 2001 Environmental Program Requirements (EPR) data base which are reported under the:

    1 Law/Reg RCRA-C with Environmental Category (ECAT) CORA (Corrective Action),
    2. Law/Reg RCRA-D with ECAT CORA,
    3. Law/Reg RCRA-I with ECAT USTR (Underground Storage Tanks), and
    4. Law/Reg SFND/CLNP (Superfund/Cleanup) with all ECATs (including those for Preliminary Assessments/Site Investigations, Remedial Action (CONUS Cleanup), and Removal Actions (Overseas Cleanup)).

    The Current Liability total reflects costs recorded in the EPR for FY 2003, while the Noncurrent Liability total reflects total estimated costs for FY 2004 through FY 2015.

- Active Installations – Environmental Closure Requirements

  - The Department of Army reflects the total of active projects in the Fall 2001 EPR data base which are reported under:

    1. Law/Reg RCRA-C with ECAT CPLN (Closure Plan), and
    2. RCRA-D with ECAT CPLN.

    The Current Liability total reflects costs recorded in the EPR for FY 2003, while the Noncurrent Liability total reflects total estimated costs for FY 2004 through FY 2015.

  - The Department of Air Force reported for the second year environmental disposal liabilities for Resource Conservation and Recovery Act (RCRA) regulated facilities. Facilities reported include landfills; treatment, storage and disposal facilities (TSDFs) for hazardous waste; and underground storage tanks (USTs). The total disposal liability increased $3.6 million (6 percent), from September 30, 2001 to September 30, 2002. The significant change was lower than expected however, the individual areas showed a greater percentage change. Landfill liabilities increased $4.5 million (37 percent) and USTs increased $1.3 million (17 percent), but the TSDF liability declined $2.1 million (5 percent). The change in landfill liability reflects a greater number of landfills reported as of September 30, 2002 in comparison to September 30, 2001. Changes in TSDFs and USTs reflect changes in cost estimates, largely due to the increased use of the Remedial Action Cost Engineering Requirements (RACER) system. This system is used for all cost estimates for Air Force when there is not an actual bid and/or contract and to validate the Air Force estimates.

The Air Force's reporting of landfill liabilities is based on the proportion of the landfill used as of September 30, 2002 and includes the cost of capping the fill, as well as 30 years of monitoring as required by Federal regulations. The reported value of the total liability for closing landfills, without disclosure based on use, as of September 30, 2002 was $80.0 million.

The Air Force TSDF closure liabilities are based on an assumed useful life of 30 years and two years of monitoring with closure costs estimated for a "clean close". "Clean close" is defined in the Federal regulations. The total closure liability for TSDF's reported $226.1 million on an annual basis.

The Air Force UST closure liabilities are based on an assumed life of 20 years and two years of monitoring with closure costs estimated for a "clean close". The total closure liability for UST's reported $75.3 million on an annual basis. Therefore, total closure liabilities on a current basis, without disclosure over time, was reported as $381.4 million as of September 30, 2002.

The Air Force's reporting of landfill closure liability is not in compliance with the accounting standard. The standard would recognize all future costs regardless of timing. The Air Force recognizes only the initial closure. A landfill cap typically requires replacement every 20 to 40 years. An estimation of current costs based on all future costs, regardless of timing, would result in an infinite liability. This appears meaningless and not the intent of the standard. Therefore, the Air Force reports only the cost of the initial cap required to close a landfill. The Air Force believes this reporting is more meaningful. The present value of the future caps, those after the initial cap, would be negligible.

The Air Force's accounting methodology requires full cost be recognized for closure liability. Closure liabilities recognized by the Air Force cover only direct costs. There is no reliable cost accounting system to determine indirect closure costs. This is not considered material in the cost estimates because indirect costs incurred would not happen for at least 20 years and in many cases beyond 20 years. The present value of such costs would be negligible in recognition of the closure liabilities.

- <u>Active Installations – Environmental Response at Active Ranges</u>.

The Department of Army estimated total Non-DERP liability for Environmental Response at Active Ranges reflects costs for the Massachusetts Military Reservation, broken out into current and non-current liabilities. This includes soils and groundwater cleanup and UXO detection and removal.

- Base Realignment and Closure (BRAC):

  The Department of Army cost-to-complete estimate for BRAC installations are captured in the DSERTS. Because BRAC installations are funded separately using the Base Closure Account, restoration liabilities are reported as Environmental Restoration; unexploded ordnance liabilities are reported as Environmental Restoration for Transferring Ranges; and compliance liabilities are reported as Environmental Corrective Action. For current liabilities, the number is based on FY 2003 allocation and ULOs. Because prior year BRAC ULOs are not identified by individual program, BRAC ULOs for non-Federal liabilities are provided as "BRAC-Other". Non-current liabilities include the cost-to-complete estimates from FY 2004 through program completion (collected in DSERTS) in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

- BRAC – Environmental Restoration for Transferring Ranges.

  The Department of Army non-current liability for ER for transferring ranges is based on results of an inventory of transferring ranges at 63 properties. The inventory of transferring ranges is 99 percent complete with site-level cost data available for 62 of 63 properties.

- BRAC – Environmental Restoration/Environment Corrective Action.

  The Department of Air Force estimated and reported its BRAC environmental future liabilities for FY 2002. The Air Force Base Conversion Agency (AFBCA) estimates a $2.2 billion total environmental liability as of September 30, 2002. This amount includes all cleanup requirements to meet regulatory requirements and to transfer property (including the new radiological issues at McClellan and program increases at Chanute). However, this amount does not include potential future cost associated with long-term landfill management for which State laws probably will not relieve Air Force of their responsibility.

  Currently, AFBCA is working to identify Military Munitions Response Program (MMRP) costs. AFBCA is in the process of identifying MMRP sites based on DERP guidance, but has not been able to separate costs. Therefore, as of September 30, 2002 Air Force was unable to reasonably estimate MMRP costs separate from their ER and Closure costs.

- Environmental Disposal for Weapons Systems Programs

  - The Department of Army reported $12,817.3 million FY 2002 in comparison to $14,252.5 million reported for FY 2001 based on the probable costs for the Program Manager for Chemical Demilitarization, the Chemical Stockpile Emergency Preparedness Project, and the Project Manager for the Assemble Chemical Weapons.

- The Department of Air Force reported environmental disposal liability value of $51.3 million in Other National Defense Weapon Systems. This includes strategic, tactical, active, inactive missiles and missile motors as of 30 September 2002. The Air Force identified $48.6 million in environmental liability for the disposal of Minuteman III and Peacekeeper strategic, inactive missile motors. The estimated environmental disposal liability for tactical, active, inactive missiles and missile motors is $2.7 million.

- Year-to-Year Changes in the Liability Estimate

The Department of Army liability is $6,019.5 million and $4,818.0 million for FY 2001 and FY 2002 respectively for Environmental Restoration for FUDS (ER and ER for Closed Ranges). Currently the estimate reflects a decrease from the liability reported in the most recent prior fiscal year. Major factors contributing to the change includes increased QA/QC of program requirements. Non-current liability for ER for closed ranges is a developing requirement based on the results of an Army-wide inventory of all ranges.

The Department of Army reported totals of $17,643.7 million and $15,525.2 million for FY 2001 and 2002 for estimated total liability is FUDS for Environmental Restoration (ER and ERT for Transferred Ranges) respectively. Currently the estimate is a significant decrease from the prior fiscal year's liability. Major factors contributing to the changes include modifications to Remedial Action Cost Engineering Requirements (RACER) to account for varying ordnance densities at ranges (which decreased FUDS-ER Transferred Range estimate), increase in the number of HTRW projects, and review of all future cost-to-complete estimates (which increased FUDS-ER estimate).

The Department of Army estimated liability is $72.3 million for FY 2002 and $71.1 million for FY 2001 BRAC Installation – Environmental Corrective Action (includes current plus non-current liability). The current estimate is an increase from the liability reported in the most recent prior fiscal year. Major factors contributing to the change include refinement of cost estimates and identification of new requirements due to new characterization data and regulatory negotiations.

The Department of the Navy 296.62 percent increase in the environmental restoration for closed ranges at active installations is due to the fact that this is a new reporting requirement.

The Department of the Navy 100 percent increase for transferring ranges and Base Realignment and Closure is a result of a new reporting requirement. The DON is currently in the process of conducting Preliminary Assessment/Site Investigations (PA/SI)to determine the nature of the environmental restoration work that is actually at the ranges so estimates for cleanup can be completed. PA/SIs are expected to be completed by end of FY 2003.

- **Other Information**

  - Others Category Disclosure Comparative Table for the Department of Army

Types		FY2002 ($ in millions)
Non-DERP – Other		
Low Level Radioactive Waste Clean up	$	15.1
Accrued Restoration Cost Other Defense Organization	$	16.5
BRAC – Other		
Prior Year BRAC ULOs That Cannot Be Identified To A Specific Program	$	269.4
Low Level Radioactive Waste Clean up	$	.2
Environmental Disposal for Weapons Systems Programs		
National Stockpile		
Thorium Nitrate Disposal or Upgrade	$	60.0
Long Term Storage or Repackaging of Mercury	$	20.0
Cleanup Cost	$	25.0
Badalite Ore Disposal	$	6.0
Other Defense Organization	$	54.0

- Material Changes in Total Estimated Liability Costs Due to Changes in Laws, Technology, or Plans

Survey data of the Department of the Navy Environmental Restoration Program cost estimate changes, representing FY 2002 through completion changes between end of year 2001 and end of year 2002, for sites that had over 10 percent change or 500K indicates diverse reasons for change in estimates. Multiple reasons may apply both as plus-ups and deducts at any site. The reasons for changes are estimation changes (26 percent), regulatory changes (60 percent), and technical changes (15 percent). Reasons for changes in estimation are as follows: cost to complete (CTC) overlooked or previously unknown, better site characterization with sampling, cost avoidance rerun CTC, re-estimation based on different assumptions and/or escalation, and re-estimation of costs based on lessons learned. Reasons for changes in the area of regulatory are as follows: addition of range rule/munitions requirements, additional or extended long term monitoring requirements or 5 year reviews, no further action agreement with regulator, and risk based corrective action. Reasons for changes in the area of technical are as follows: additional contamination level reduction with sampling, additional or extended remedial action operation, additional sites and incomplete site data, and technical solution changed.

The Department of the Army does not have any unrecognized portion of the estimated total cleanup cost associated with general PP&E and there are no material changes in the total estimated liability due to changes in laws, technology, or plans. The major change in technology affecting the liability estimate was standardizing use of the estimating tools consistently across the Army programs.

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

  The Department of the Army estimates used for environmental liability calculations are estimates of the cost to complete all activities at a site of environmental concern. The cost estimates are calculated at the site-level using a validated cost-estimating model or an engineered cost and entered into a database. There were no changes to the total liability cost due to inflation, deflation, technology, or applicable laws and regulations.

Service Component – Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities (amounts in millions)	**Army**	**Navy**	**Air Force**	**ODO**
Environmental Liabilities:				
Non-Federal				
Accrued Environmental Restoration (To be funded by the Defense Environmental Restoration Program (DERP)) Costs:				
Active Installations--Environmental Restoration (ER)	$ 4,168.5	$ 3,521.0	$ 5,237.4	$ 106.8
Active Installation--ER for Closed Ranges	649.4	350.0	705.7	
Formerly Used Defense Sites (FUDS)--ER	4,304.9			
FUDS--ER for Transferred Ranges	11,220.3			
Other Accrued Environmental Costs (Non-DERP funds)				
Active Installations--Environmental Corrective Action	281.2		175.0	
Active Installations--Environmental Closure Requirements	44.6		65.2	
Active Installations--Environ. Response at Active Ranges	292.2			
Other	15.2			16.5
BRAC				
BRAC Installations--Environmental Restoration (ER)	575.2	1,293.3	2083.7	62.7
BRAC Installations--ER for Transferring Ranges	367.5	29.9		
BRAC Installations--Environmental Corrective Action	72.3		136.2	
Other	269.7			
Environmental Disposal for Weapons Systems Programs				
Nuclear Powered Aircraft Carriers		4,890.0		
Nuclear Powered Submarines		4,888.9		
Other Nuclear Powered Ships		269.0		
Other National Defense Weapon Systems		227.0	51.3	
Chemical Weapons Disposal Programs	12,817.3			
Other				165.1
Total	**$ 35,078.3**	**$ 15,469.1**	**$ 8,454.6**	**$ 351.1**

Note 15.A. Other Liabilities

As of September 30, (Amounts in millions)	2002 Current Liability	2002 Non-current Liability	2002 Total	2001 Total
Intra-governmental				
Advances from Others	$ 331.2	$ 0	$ 331.2	$ 214.1
Deferred Credits				991.3
Deposit Funds and Suspense Account Liabilities	318.5		318.5	243.6
Resources Payable to Treasury	1,053.4		1,053.4	647.6
Disbursing Officer Cash	696.9		696.9	944.6
Nonenvironmental Disposal Liabilities:				
Military Equipment (Non-nuclear)				0.0
Excess/Obsolete Structures				0.0
Conventional Munitions Disposal				0.0
Other				0.0
Accounts Payable-Cancelled Appropriations				7.2
Judgment Fund Liabilities	349.4	288.8	638.2	729.9
FECA Reimbursement to the DoL	562.4	852.6	1,415.0	1,389.3
Capital Lease Liability				0.0
Other Liabilities	2,876.9	883.5	3,760.4	925.1
Total Intra-governmental Other Liabilities	**$ 6,188.7**	**$ 2,024.9**	**$ 8,213.6**	$ 6,092.7

As of September 30, (Amounts in millions)	2002 Current Liability	2002 Non-current Liability	2002 Total	2001 Total
Non-federal				
Accrued Funded Payroll and Benefits	$ 9,113.8	$ 24.8	$ 9,138.6	$ 8,138.5
Advances from Others	1,194.0		1,194.0	939.4
Deferred Credits	6.4		6.4	1.9
Loan Guarantee Liability				0.0
Liability for Subsidy Related to Undisbursed Loans				0.0
Deposit Funds and Suspense Accounts	50.1		50.1	34.0
Temporary Early Retirement Authority	19.0	10.1	29.1	68.0
Nonenvironmental Disposal Liabilities:				
Military Equipment (Non-nuclear)	1.7	564.4	566.1	588.0
Excess/Obsolete Structures	89.2	305.9	395.1	210.0
Conventional Munitions Disposal		1,424.3	1,424.3	0.0
Other	27.0		27.0	0.5
Accounts Payable-Cancelled Appropriations	532.1	147.5	679.6	560.6
Accrued Unfunded Annual Leave	6,959.3		6,959.3	6,618.2
Accrued Entitlement Benefits for Military Retirees and Survivors				
Capital Lease Liability	46.5	320.7	367.2	572.2
Other Liabilities	8,222.3	736.2	8,958.5	10,890.0
Total Non-Federal Other Liabilities	**$ 26,261.4**	**$ 3,533.9**	**$ 29,795.3**	$ 28,621.3
Total Other Liabilities	**$ 32,450.1**	**$ 5,558.8**	**$ 38,008.9**	$ 34,714.0

Fluctuations and/or Abnormalities-Intragovernmental Liabilities

For the Intragovernmental Other Liabilities, total amount has increased $2,120.9 million (35 percent) from FY 2001 to FY 2002. The areas that have contributed the most to the increase include:

- Deferred Credits

  Deferred Credits decreased $991.3 million. The U.S. Army Corps of Engineers reclassified deferred credits in FY 2002 to Intragovernmental – Other Liabilities.

- Resources Payable to Treasury

  Resources Payable to Treasury increased $405.8 million in FY 2002. A comprehensive review of aged Accounts Receivable in FY 2002 resulted in the identification of many accounts receivable for cancelled appropriations that had been dropped from the DoD Statements. These receivables, along with interest were added in FY 2002, along with the associated liability to the Treasury.

- Intragovernmental Other

  Intragovernmental Other increased $2,835.3 million (134 percent) in FY 2002. The areas that contributed the most to the increase include:

  - Army GF increased $125.6 million due to increased Employer Contributions of $12.4 million, increased Federal Employment Compensation Act (FECA) liabilities of $24.0 million and Unemployment Compensation, not previously reported, of $89.2 million.

  - Navy GF increased $2,403.9 million primarily as they recorded liabilities to Treasury to offset non-entity contract receivables for the Navy's A-12 aircraft program's unliquidated progress payments and associated accrued interest payments.

  - ODO GF decreased $575.3 million in FY 2002 as a result of National Defense Stockpile Transaction Fund sale of material authorized by Public Laws.

  - Army Corps of Engineers increased $895.6 million, due chiefly to a reclassification of deferred credits to Other liabilities for long term water storage contracts in accordance with DoD regulations.

  - The remaining $15.1 million decrease is attributable to various programs.

  - Items Comprising more than 10 percent of Intragovernmental Other Liabilities ($3,760.4 million):

    - Navy General Funds: Principal and interest on the A-12 aircraft program payable to the U.S. Treasury totals $2,352 million (63 percent).
    - U.S. Army Corps of Engineers: The liability for long-term water storage and hydraulic mining contracts totals $895.6 million (24 percent).

- Delinquent FECA Payments

The DoD-wide delinquency for FECA at fiscal year-end 2002 is $25.5 million. Delinquencies by entity are:

• Department of the Army	$24.0 million
• DoD Dependent Schools	$00.7 million
• DoD Section 6 Education	$00.6 million
• U.S. University Health Sciences	$00.2 million

Fluctuations and/or Abnormalities-Non-Federal Liabilities

The Non-Federal Other Liabilities Account increased by $1,174.0 million (4 percent) from FY 2001 to FY 2002 due primarily to the following:

- Accrued Funded Payroll and Benefits

  Accrued Funded Payroll and Benefits increased $1,000.1 million.

  - The Army GF increased $610.1 million due to reclassification of amounts previously reported in Non-Federal Accounts Payable in FY 2001 to Accrued Funded Payroll and Benefits in FY 2002.
  - The Air Force GF increased $172.4 million due to the accrual of military payroll.
  - The Military Retirement Fund increased $128.3 million.
  - The remaining difference of $89.3 million is attributable to miscellaneous increases/decreases in the remaining programs.

- Advances from Others

  Advances from Others increased $254.6 million.

  - DLA WCF increased $120.3 million due to an increase in advance payments being held in reserve for future orders from civilian agencies for Supply Management Material and DRMS Unearned Revenue.
  - Army Corps of Engineers increased $34.9 million chiefly due to an increase in contributed funds from state and local municipalities for work to be done on a cost-share basis.
  - Army GF increased $43.6 million with the majority of the increase in Military Construction and Family Housing.
  - Air Force GF increased $34.8 million due to the timing of receipts and execution of orders.
  - The remaining difference of $21.0 million is attributable to miscellaneous increases/decreases in the remaining programs.

* *Non-environmental Disposal Liabilities*

  Total Non-environmental Disposal Liabilities increased by $1,614.0 million.

  * The Department's Excess/Obsolete Structures increased $185.2 million and Conventional Munitions Disposal increased $1,424.3 million.
  * The FY 2002 increase for Excess/Obsolete Structures relates to Navy GF for the preliminary cost estimate to complete the disposal or demolition of excess and/or obsolete real property and structures at active installations.
  * Army GF reported the liability for Conventional Munitions Disposal for the first time in FY 2002 in response to direction from the Senate Armed Services Committee. Army is unable at this time to distinguish between current and non-current liability.

* Accounts Payable—Cancelled Appropriations

  Accounts Payable-Cancelled Appropriations increased $119.0 million.

  * Army GF increased $25.1 million due to reclassification from Intragovernmental to Non-Federal.
  * Air Force GF increased $372.2 million.
  * Navy GF increased $68.8 million. Cancelled year appropriations for FY 2001 and FY 2002 were reported in FY 2002.
  * ODO GF decreased $347.2 million due to reclassification of cancelled receivables to Other Liabilities.

* Accrued Unfunded Annual Leave

  Accrued Unfunded Annual Leave increased by $341.1 million.

* Capital Lease Liability

  The following reporting entities contributed to the $205.0 million decrease in Capital Lease Liability:

  * Air Force General Funds capital leases decreased $182.8 million.
  * Army General Funds capital leases decreased $9.9 million.
  * Navy General Funds capital leases decreased $9.2 million.

- Non-Federal Other Liabilities

  The following reporting entities contributed to the $1,931.5 million decrease in Non-Federal Other Liabilities:

  - Army GF decreased $296.7 million in the fiscal year. Contingent Liabilities decreased $752.5 million, Contract Holdbacks increased $277.7 million and Employer Contributions increased $178.1 million.
  - Navy WCF decreased $1,233.0 million due to their allocation of undistributed disbursements. The remainder of the Other Liabilities consists primarily of Progress Payments and Property Furnished by Others Liability.
  - Air Force GF decreased $439.6 million due to the change in the number of pending claims and settlements.
  - The remaining $39.0 million increase is attributable to various programs.

Other Information Related to Other Liabilities

Relevant Information for Comprehension

- Non-environmental Disposal Liability for Nuclear Assets

  The DoD has agreed to recognize the non-environmental liability for National Defense (ND) Property, Plant and Equipment (PP&E) nuclear powered assets when the asset is initially placed in service. The non-environmental costs are included with the environmental disposal cost and reported in Note 14.

- Intragovernmental Reconciliation for Fiduciary Transactions with the Department of Labor (DoL) and the Office of Personnel Management (OPM)

  With respect to the major fiduciary balances with the DoL and OPM, the Department was able to reconcile. During the reconciliations, no material differences were identified as non-current liability.

Note 15.B. Capital Lease Liability

As of September 30, (Amounts in millions)	2002 Asset Category				2001
	Land and Buildings	Equipment	Other	Total	Total
Future Payments Due:					
Fiscal Year 2003	$ 66.5	$ 3.1	$ 0	$ 69.6	$ 78.0
Fiscal Year 2004	66.4	1.5		67.9	70.8
Fiscal Year 2005	66.4	0.7		67.1	68.0
Fiscal Year 2006	66.1			66.1	66.5
Fiscal Year 2007	60.2			60.2	66.2
After 5 Years	220.5			220.5	281.5
Total Future Lease Payments Due	**$ 546.1**	**$ 5.3**	**$ 0**	**$ 551.4**	$ 631.0
Less: Imputed Interest Executory Costs	184.2			184.2	222.6
Net Capital Lease Liability	**$ 361.9**	**$ 5.3**	**$ 0**	**$ 367.2**	$ 408.4
Capital Lease Liabilities Covered by Budgetary Resources:				**$ 336.5**	$ 377.4
Capital Lease Liabilities Not Covered by Budgetary Resources:				**$ 165.2**	$ 191.6

Other Information Related to Capital Lease Liability

Relevant Information for Comprehension

- Capital Lease Liabilities Not Covered by Budgetary Resources

  For the Department of Defense, all leases prior to FY 1992 are funded on a FY basis causing the non-current amounts to be shown as Not Covered by Budgetary Resources. All capital leases and lease purchases entered into after FY 1992 are funded in the first year of the lease.

- **Note Reference**

  - See Note Disclosure 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies

- Nature of Contingency

  The Department is subject to various claims that represent contingent liabilities for the United States Government. While no opinion has been expressed regarding the likely outcome or possible loss associated with specific claims, experience indicates that many claims are settled for less than sought, dismissed altogether, or the possibility of loss is remote. Liabilities considered remote are not accrued in the Department's financial statements.

  In addition, the Department has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the Department's financial statements. As of September 30, 2002, the Department has approximately $13,308.4 million in claims considered reasonably possible. The Components reporting contingent liabilities and estimates follows:

- Estimate of the Possible Liability by Major Component

Contingent Liabilities (Amounts in millions)	Army	Navy	Air Force	ODO WCF	USACOE	Total
Chemical Demilitarization Stockpile Disposal	$ 85.6	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 85.6
Chemical Demilitarization Non-Stockpile Disposal	8,900.0					8,900.0
Contractual Actions	4.7	117.5	14.1	4.4 (DISA)		140.7
Tax Related Issues	.9					.9
Damage to Personal Effects	3.0					3.0
Employee Related Actions		6.8				6.8
Environmental Claims	40.0					40.0
Judgement Fund Liabilities	48.0					48.0
Claims & Litigation from Civil Law	2.5	139.4	271.5			413.4
Environmental Restoration	1,070.0			2.600.0 (DLA)		3,670.0
Total	**$ 10,154.8**	**$ 263.7**	**$ 285.6**	**$ 2,604.4**	**$**	**$ 13,308.4**

- **Note Reference**

  - See Note Disclosure 1.S. – Significant Accounting Policies for additional discussion on financial reporting requirements and DOD policies governing Contingencies and Other Liabilities.

- Subsequent to the date of the financial statements, a payment was made for a previously unsettled claim in the amount of $53.2 million that is not reflected in the contingent liabilities above. The DoD General Counsel was previously unable to express an opinion concerning the likely outcome of this case.

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

As of September 30, (Amounts in millions)	2002				2001
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
Pension and Health Benefits					
Military Retirement Pensions	$ 726,915.4	6.25%	$ (169,269.2)	$ 557,646.2	$ 543,839.3
Military Retirement Health Benefits	592,046.0	6.25%		592,046.0	580,881.0
Total Pension and Health Benefits	$ 1,318,961.4		$ (169,269.2)	$ 1,149,692.2	$ 1,124,720.3
Other					
Federal Employees Compensation Act	$ 7,183.2	5.20%	$	$ 7,183.2	$ 7407.7
Voluntary Separation Incentive Programs	1,545.7		(782.4)	763.3	781.5
DoD Education Benefits Fund	1,136.2	6.00%	(1,001.4	134.8	152.1
Total Other	$ 9,865.1		$ (1,783.8)	$ 8,081.3	$ 8,341.3
Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities	**$ 1,328,826.5**		**$ (171,053.0)**	**$ 1,157,773.5**	$ 1,133,061.6

Other Information Related to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities

Relevant Information for Comprehension

- Military Retirement Pensions:

  - Actuarial Cost Method Used:

Net Pension and Health Benefit Expenses
for the Years Ended September 30,
(Amount in millions)

	2002	2001
Beginning of Year Accrued Liability	$ 705,248.9	$ 687,583.5
Normal Cost Liability	12,935.3	11,370.9
Plan Amendment Liability	5,563.5	3,058.2
Assumption Change Liability	(2,334.4)	(48.7)
Benefit Outlays	(35,187.8)	(34,205.9)
Interest on Pension Liability	43,393.2	42,271.2
Actuarial Loss (Gain)	(2,703.4)	(4,780.4)
End-of-Year Accrued Liability	726,915.4	705,248.9
Net Change in Actuarial Liabilities	**$ 21,666.5**	**$ 17,665.4**

  - Assumptions

Each year the Accrued Liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost. In the absence of (1) actuarial gains or losses or (2) plan benefit changes, and (3) assumption changes, an increase of $21.141 billion in the Accrued Liability was expected during FY 2002.

The September 30, 2002 Accrued Liability includes changes due to (1) new demographic assumptions, (2) benefit changes, and (3) an experience gain. The new assumptions include (a) non-disability retiree death and other loss rates, (b) retired pay adjustment factors, (c) first-year partial pay and benefit factors, and (d) enhancements to the reserve valuation model.

Changes in retirement benefits for FY 2002 are (a) reform of basic pay rates mandated by the FY 2002 DoD Authorization Act, and (b) giving the Survivor Benefit Plan (SBP) benefit for survivors of members who die on active duty with less than 20 years of service. The combined effect of the benefit changes is an increase in the September 30, 2002, Accrued Liability of $5.564 billion. The combined effect of the actuarial assumption changes is a decrease in the September 30, 2002, Accrued Liability of $2.334 billion. The decrease in Accrued Liability due to the net experience gain of $2.703

billion reflects primarily the new population on which the September 30, 2001, roll forward is based.

The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of the Fund are not ascertainable. Projected revenues deposited in the fund consist of three sources authorized by PL 98-94:

1. Interest earning on Fund assets,
2. Monthly DoD contributions - The monthly contributions are determined as a percentage (approved by the DoD Retirement board of Actuaries) of basic pay, and
3. Annual contributions from the Department of Treasury.

Treasury's contribution is paid at the beginning of each fiscal year and represents the amortization of the unfunded liability for service performed prior to October 1, 1984; as well as the amortization of actuarial gains and losses that have arisen since then. The Actuary Board determines Treasury's contribution while the Secretary of Defense directs the Secretary of Treasury to make payments.

For FY 2002 and FY 2001 valuations, the same long-term assumptions were used. Along with the 6.25 percent assumed annual interest rate, the long-term annual increase in the Consumer Price Index is assumed to be 3.0 percent. The long-term annual salary increase is assumed to be 3.5 percent. For FY 2002 and FY 2001, the actual inflation rates of 2.6 percent and 1.4 percent, and the actual salary increases of 4.6 percent and 4.1 percent were used. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience.

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

The portion of the military retirement benefits actuarial liability applicable to the Department is reported on the financial statements of the Military Retirement Fund.

Market Value of Investments in Market-Based and Marketable Securities: $192,218.4 million

- Military Retirement Health Benefits

  - Actuarial Cost Method Used: Aggregate Entry-Age Normal
  - Assumptions

  Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to the Department is reported only on the DoD Agency-wide financial statements.

Change in Military Retirement Health Benefits Liability		**Amount (in millions)**
1. Reported Military Retirement Health Benefits Actuarial Liability as of 9/30/01	$	580,881
2. Change in actuarial liability due to NDAA '02 benefit decisions		(36,477)
3. Actuarial (Gains)/Losses Due to Changes in Population and Population Projections		68,403
4. Actuarial (Gains)/Losses Due to Changes in Claims and Expenses		(60,255)
5. Actuarial (Gains)/Losses Due to Change in Medical Trend Assumption		2,080
6. Actuarial Liability as of 9/30/01 (line 1+line 2+line 3+line 4+line 5)	$	554,632
7. Normal Cost for FY 2002		13,128
8. Benefit Payments for FY 2002		(10,461)
9. Interest Cost for FY 2002		34,747
10. Projected Actuarial Liability as of 9/ 30/02 (line 6+line 7-line 8+line 9)	$	592,046
11. Actuarial (Gains)/Losses Due to Change in Funding Method		
12. Actuarial (Gains)/Losses Due to Plan Amendments		
13. Net Change in Actuarial Liability (line 2+line 3+line 4+line 5+line 7+line 8+line 9+line 11+line 12)		11,165
14. Military Retirement Health Benefits Actuarial Liability as of 9/30/02 (line 1+line 13)	$	592,046

- Assumptions in Calculation of Military Retirement Health Benefits Actuarial Liability:

  Interest Rate: 6.25%

  Medical Trend:

Type	**FY 02 to 03**	**Ultimate Rate**
Medicare Inpatient	3.6%	6.25% in 2026
Medicare Outpatient	2.1%	6.25% in 2026
Medicare Prescriptions (Direct Care)	6.25%	6.25% in 2026
Medicare Prescriptions (Purchased Care)	16.73%	6.25% in 2026
Non-Medicare Inpatient	4.5%	6.25% in 2026
Non-Medicare Outpatient	9.7%	6.25% in 2026
Non-Medicare Prescriptions	13.9%	6.25% in 2026

- FECA

  - Assumptions

The Department's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Department at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. Interest rate assumptions utilized for discounting were as follows:

2002
5.20 percent in Year 1
5.20 percent in Year 2 and thereafter

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

CBY	**COLA**	**CPIM**
2003	1.80%	4.31%
2004	2.67%	4.01%
2005	2.40%	4.01%
2006+	2.40%	4.01%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

- Voluntary Separation Incentive Programs

  - Assumptions:

    The Voluntary Separation Incentive (VSI) Fund (recorded on the books of the U.S. Treasury) is used to accumulate funds to finance, on an actuarially sound basis, the liabilities of the DoD incurred under this program. The VSI benefit is an annual annuity paid to members who have separated under this program, and is paid for a period of time equal to twice the member's years of service. These benefits are paid by the VSI fund, which receives contributions from the services from their military personnel accounts. Contributions amounts are determined by the DoD, Office of the Actuary in conjunction with the USD(C), based on a comparison of liabilities to assets.

  - Market Value of Investments in Market-Based and Marketable Securities: $853.9 million

- DoD Education Benefits Fund

  - Assumptions

    The DoD Education Benefits Fund is designed to accumulate funds for the educational programs described under Title 10 United States Code, section 2006. This program promotes the recruitment and retention of members for the All-Volunteer Forces program and the Total Force Concept of the Armed Forces and aids in the readjustment of members of the Armed Forces to civilian life after separation from military service.

  - Market Value of Investments in Market-Based and Marketable Securities: $1,060.3 million

Note 18 Unexpended Appropriations

As of September 30, (Amounts in millions)		2002		2001
Unexpended Appropriations:				
Unobligated, Available	$	30,115.5	$	32,532.5
Unobligated, Unavailable		4,551.8		4,793.7
Unexpended Obligations		142,615.3		125,864.4
Total Unexpended Appropriations	**$**	**177,282.6**	**$**	**163,190.6**

Definitions

- Unexpended appropriations are the amount of budget authority remaining for disbursement against current or future obligations.

- Unobligated balances are classified as available or unavailable. Unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed.

- Unexpended obligations represent goods and services that have not yet been received/performed.

Fluctuations/Abnormalities:

- Unexpended Obligations

  The 13.2 percent increase in Unexpended Obligations is due primarily to increased funding for fighting terrorism throughout the world, the Defense Emergency Response Fund (DERF).

Other Information Related to Unexpended Appropriations

Relevant Information for Comprehension:

- Unexpended Obligations

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

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

Disclosures Related to the Statement of Net Cost

Relevant Information For Comprehension

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and or organization administered by a responsible reporting entity.

Reporting Entities

- General Fund

  The amounts presented in the Statement of Net Cost (SoNC) are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The Department of Defense (DoD) generally records transactions on a cash basis and not an accrual basis as is required by generally accepted accounting principles. Therefore, the DoD accounting systems do not capture actual costs. The information presented in the SoNC is based on budgetary obligations, disbursements, and collection transactions, as well as non-financial feeder systems. Afterward, this information is adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

- Working Capital Fund

The Department of Defense Working Capital Funds (WCFs) generally record transactions on an accrual basis as required by generally accepted accounting principles however, the systems do not always capture actual costs. Information presented on the Statement of Net Cost (SoNC) is primarily based on budgetary obligation, disbursements, or collection transactions, as well as information from nonfinancial feeder systems.

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

As of September 30, (Amounts in millions)	2002			2001
Budget Functional Classification	Gross Cost	(Less: Earned Revenue)	Net Cost	Net Cost
Department of Defense Military (051)	$ 348,344.1	$ (16,286.5)	$ 332,057.6	$ 691,927.1
Water Resources by U.S. Army Corps of Engineers (301)	4,227.2	(729.5)	3,497.7	3,983.5
Pollution Control and Abatement by US. Army Corps of Engineers (304)	149.6	(0.6)	149.0	152.3
Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	56,855.8	(12,397.7)	44,458.1	38,689.2
Veterans Education, Training, and Rehabilitation by the Department of Defense Education Benefits Trust Fund (702)	303.2	(49.2)	254.0	263.1
Total	**$ 409,879.9**	**$ (29,463.5)**	**$ 380,416.4**	$ 735,015.2

Other Information Related to Gross Cost and Earned Revenue by Functional Classification

Relevant Information for Comprehension

- Military Retirement Health Benefits Liability (MRHB)

  The large net cost decrease is due to the large net increase in the MRHB Actuarial Liability during FY 2001. The MRHB Actuarial Liability as of September 30, 2001, included the effect of Public Law No. 106-398 (the National Defense Authorization Act), which was signed into law on October 30, 2000. Under this legislation, TRICARE benefits were extended to military retirees and their beneficiaries eligible for Medicare, and a fund was established to pay these benefits. The Act also included a number of other enhanced medical benefits in addition to the specific Medicare-eligible benefits. (See notes 17 and 22 for additional details.)

- Other Decreases

  - Working Capital Funds

    - Air Force

      A policy change for inventory valuation of excess, obsolete and unserviceable inventory resulted in a $1.6 billion decrease in cost of goods sold expense. The Fuels Division of Supply Management was transferred to the Defense Energy Supply Center (DESC) which accounted for a decrease in net operating costs of $2 billion. Depot Maintenance customer surcharge accounted for a $1.1 billion decrease in net operating costs.

    - Other Defense Organizations

      Net costs decreased as a result of increased revenue generated from increased activity for Operation Enduring Freedom and the capitalization of worldwide fuel points.

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

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

Note 19.D. Imputed Expenses

As of September 30, (Amounts in millions)	2002	2001
Civilian (e.g., CSRS/FERS) Retirement	$ 1,340.1	$ 1,312.6
Civilian Health	1,864.7	1,928.6
Civilian Life Insurance	20.6	6.3
Judgment Fund		
Military Retirement Pension		
Military Retirement Health	294.6	174.0
Total Imputed Expenses	**$ 3,520.0**	$ 3,421.5

Note 19.E. Benefit Program Expenses

As of September 30, (Amounts in millions)	2002	2001
Service Cost	$ 13,128.0	$ 16,102.9
Period Interest on the Benefit Liability	34,747.0	53,879.2
Prior (or past) Service Cost	(36,477.0)	296,060.2
Period Actuarial Gains or (Losses)	8,148.0	(9,780.0)
Gains/Losses Due to Changes in Medical Inflation Rate Assumption	2,080.0	91,265.0
Total Benefit Program Expense	**$ 21,626.0**	$ 447,527.3

Other Information Related to Benefit Program Expenses

Relevant Information For Comprehension

The Department of Defense is the administrating entity for the Military Retirement Fund and the Military Post Retirement Health Benefits Program. Employee benefits of military personnel include pensions and other post-employment and retirement benefits. The administrating entity is responsible for recognizing the benefit program expense. This expense is comprised of five elements identified above. (See Note 19B for fluctuation disclosure). The Office of Personnel Management is the administrating entity for programs related to civilian personnel and is responsible for reporting the associated benefit expense.

Note 19. F. Exchange Revenue

Exchange Revenue arises when a Government entity provides goods and services to the public or to another Government entity for a price, - "earned revenue." Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges.

Note 19.G. Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors

The cost of items purchased by foreign governments under the Foreign Military Sales Program and provided directly to the foreign governments by contractors are not reported in the Statement of Net Cost. For FY 2002, we estimated these amounts to be $9.0 billion, which is 80 percent of the disbursement during the fiscal year.

Note 19.H. Stewardship Assets

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

Note 19.I. Intragovernmental Revenue and Expense

Other Information Related to Intragovernmental Revenue and Expenses

- Revenue

  The Department of Defense (DoD) accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DoD was unable to reconcile Intragovernmental revenue balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of Intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

- Operating Expenses

  The Department of Defense (DoD) operating expenses were adjusted based on a comparison between the Department's accounts payable and the DoD summary level seller accounts receivable. An adjustment was posted to accounts payable and operating expenses to reflect unrecognized accounts payable and operating expenses. The operating expenses of the Department were adjusted upwards in the amount of 6.0 billion.

Note 19.J. Suborganization Program Costs

Other Information Related to Suborganization Program Costs

Relevant Information For Comprehension

- Programs and Major Appropriation Groups

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

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

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

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

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

As of September 30, (Amount in millions)	Cumulative Results of Operations **2002**	Unexpended Appropriations **2002**	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance				
Changes in Accounting Standards	$	$	$ 55,632.1	$ 0
Errors and Omissions in Prior Year Accounting Reports	(63,388.8)	1,553.3	10,106.5	
Other Prior Period Adjustments	1,628.8		(4,804.3)	
Total Prior Period Adjustments	**$ (61,760.0)**	**$ 1,553.3**	$ 60,934.3	$ 0
Imputed Financing				
Civilian CSRS/FERS Retirement	1,340.1		1,312.6	
Civilian Health	1,864.7		1,928.6	
Civilian Life Insurance	20.6		6.3	
Judgment Fund				
Military Retirement Pension				
Military Retirement Health	294.6		174.0	
Total Imputed Financing	**$ 3,520.0**		$ 3,421.5	

Fluctuations and/or Abnormalities

- Errors and Omissions in Prior Year Accounting Reports

  Prior period adjustments were reported for errors and omissions in prior-year accounting reports for both cumulative results of operations and for unexpended appropriations in the amounts of ($63,388.8) million and $1,553.3 million, respectively.

- Cumulative Results of Operations

  Net position was affected by adjustments to Cumulative Results of Operations for the following prior period adjustments due to errors and/or omissions in prior years:

Reduced Operating Materials and Supplies (OM&S) accounts to remove items formerly classified as National Defense Plant, Property and Equipment. These items were added to the balance sheet in fiscal year 2001. This change is made at the direction of the Department of Defense Inspector General. Amounts by entity follow:

Entity		Amounts in millions
Army GF	$	(7,114.2)
Air Force GF		(31,869.7)
Navy GF		(24,765.8)
Total	**$**	**(63,749.7)**

Revaluation of Excess, Obsolete and Unserviceable (EOU) Inventory. EOU had previously been estimated based upon a percentage of inventory value. EOU is now identified based upon condition codes of specific inventory items. This change served to increase inventory values by entity as follows:

Entity		Amounts in millions
Navy WCF	$	1,952.4
ODO WCF (DLA)		1,400.8
Total	**$**	**3,353.2**

Correction of fiscal year 2001 errors made in the preparation of the Navy General Funds financial statements. Amounts that should have been applied to expenses in 2001 were erroneously applied to Unexpended Appropriations. These amounts were reclassified in fiscal year 2002 to Cumulative Results of Operations for a total of ($3,036.7) million.

Miscellaneous other prior period adjustments affecting Cumulative Results of Operations totaled $44.5 million

- Unexpended Appropriations

  Net position was affected by adjustments to Unexpended Appropriations for the following prior-period adjustments due to errors and/or omissions in prior years:

  - Correction of fiscal year 2001 errors made in the preparation of the Navy General Funds financial statements. Amounts that should have been applied to expenses in fiscal year 2001 were erroneously applied to Unexpended Appropriations. These amounts were reclassified in fiscal year 2002 to Cumulative Results of Operations for a total of $3,036.7 million.

  - Correction of a fiscal year 2001 error made in the preparation of the Navy General Funds financial statements. A-12 Program Accounts Receivable were established, however the offsetting entry was applied incorrectly to Unexpended Appropriations. The offset should have been to other liabilities. The correction totaled ($1,483.4) million.

- Other Prior Period Adjustments

  Other prior period adjustments were recorded in fiscal year 2002 affecting Cumulative Results of operations in the amount of $1,628.8 million for the revaluation of Excess, Obsolete and Unserviceable (EOU) Inventory recorded by the Air Force Working Capital Funds. EOU had previously been estimated based upon a percentage of inventory value. EOU is now identified based upon condition codes of specific inventory items.

- Other General Fund Disclosures

  - Imputed Financing:

    Civilian life insurance increased by $14.2 million or 225 percent between FY 2001 and FY 2002. The increase was attributable to a $13.9 million entry for the component level of the Other Defense Organizations General Funds and the remaining $0.3 million is attributable to other DoD Components that individually reported less than 10 percent of the total.

    The amounts remitted to OPM by and for employees covered by CSRS, FERS, FEHB, and FEGLI do not fully cover the Government's cost to provide these benefits. An imputed cost is recognized as the difference between the Government's cost of providing these benefits to the employee contributions made by and for them by DFAS. The imputed financing cost factors are provided by the OPM to DFAS. The civilian employees' gross base pay and the number of employees electing health benefits are extracted directly from the Defense Civilian Pay System (DCPS) by reporting entity. The DFAS computes the imputed expenses for civilian employees' retirement and other benefits and provides such expenses to OUSD(P&R) for validation. Once OUSD (P&R) approves the imputed costs, DFAS provides amounts to the reporting components.

    The Judgement Fund increased by $120.6 million or 69.3 percent between FY 2001 and FY 2002. The increase was largely attributable to increases in the Air Force General Fund of $46.5 million, the Navy General Fund of $45.7 million and the Army General Fund of $26.3 million. The imputed financing increase for the Air Force General Fund was due to the nature, size, dollar amount and number of previously pending claims settled that resulted in payments by the Department of the Treasury. The increase for the Navy General Fund was also due to the volume and outcome of settled claims as reported by the Department of the Treasury. The increase in imputed financing for the Army General Fund was due to an increase in payments to settle tort claims.

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

As of September 30, (Amount in millions)	2002	2001
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 183,957.7	$ 155,604.5
Available Borrowing and Contract Authority at the End of the Period	$ 20,165.4	$ 18,288.5

Fluctuations and/or Abnormalities

- Statement of Budgetary Resources

  Fiscal year 2002, the Statement of Budgetary Resources presentation changed to closely follow the Report on Budget Execution (SF 133). Resources increased between Fiscal Year 2002 and fiscal year 2001 primarily as a result of additional funding from the Defense Emergency Response Fund (DERF) for fighting terrorism throughout the World.

- Accounting Standard U.S. Standard General Ledger

  The Department of Defense has not fully implemented the U.S. Government Standard General Ledger (USSGL) in all operational accounting systems. Guidance from the Treasury Financial Manual, Part 2, Chap 4000, Federal Agencies' Centralized Trial Balance System II is used in the population of the Department's Statement of Budgetary Resources. However, some of the Department's entities still use proprietary accounts to produce their budgetary accounting data. The Department's accounting systems do not provide or capture data needed for obligations incurred and recoveries of prior year obligations in accordance with OMB Circular A-11, " Preparation, Submission, and Execution of the Budget" requirements. Although the Department of Defense developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined, and may or may not be material.

- Statement Presentation

  In fiscal year 2002, to facilitate the reconciliation of information between the Statement of Budgetary Resources, the following two enhancements were made to the Statement of Budgetary Resources, the budget execution reports (SF 133) and the Budget of the United States Government:

- Separate Column for Non-budgetary Credit Program Financing Accounts

  This change allows for a clear distinction between budgetary and non-budgetary credit program financing account information. Non-budgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the United States Government. Separate reporting on the Statement of Budgetary Resources enhances the reconciliation of the two sets of information.

- Offsetting Receipts Line

  Offsetting Receipts are introduced as a new line item in the Statement of Budgetary Resources. These receipts are collections that are credited to the general, special or trust funds receipt accounts. In addition they represent offsetting receipts distributed to the Department of Defense. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government. Offsetting receipts must be included in the Statement of Budgetary Resources to reconcile it to information in the Budget of the United States Government.

Other Information Related to the Statement of Budgetary Resources

Relevant Information For Comprehension

- Intra-entity Transactions

  The Statement of Budgetary Resources does not include intra-entity transactions because the statements are presented as combined and combining. As a result, a Disaggregated Statement of Budgetary Resources is presented in the Required Supplementary Information section of the financial statements.

- Apportionment Categories

  OMB Bulletin No. 01-09 section 9.27 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B and exempt from apportionment. This disclosure should agree with the aggregate of the related information as reported on the agency's Budgetary Execution Report (SF 133) and lines 8A and 8B in the Statement of Budgetary Resources.

- Spending Authority from Offsetting Collections

  Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available are not included in the "Spending Authority From Offsetting Collections" line on the Statement of Budgetary Resources or the "Spending Authority for Offsetting Collections and Recoveries" line on the Statement of Financing.

- ***Undelivered Orders***

  Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both direct and reimbursable funds.

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

1. Disclosures Related to Problem Disbursements, In-transit Disbursements

As of September 30, (Amounts in millions)	Sept 2000	Sept 2001	**Sept 2002**	(Decrease)/ Increase from FY01 to FY02
Total Problem Disbursements, Absolute Value				
Unmatched Disbursements (UMDs)	$ 1,593.0	$ 1,041.0	$ 858.0	$ (183.0)
Negative Unliquidated Obligations (NULOs)	$ 1,179.0	$ 205.0	$ 122.0	$ (83.0)
Total In-transit Disbursements, Net	$ 6,171.0	$ 6,240.0	$ 4,550.0	$ (1,690.0)

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

For FY 2002 the DoD reports $858 million in Unmatched Disbursements (UMDs) and $122 million in Negative Unliquidated Obligations (NULOs). A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. A NULO occurs when a payment is made against a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These problem disbursements represent the absolute value of disbursements of DoD funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. These payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts.

For FY 2002 the DoD reports $4,550 million for In-Transits. The In-Transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity that has not been posted to the accounting system.

Suspense/Budget Clearing Accounts, Net

Account		Sep 2000		Sep 2001		Sep 2002		(Decrease)/ Increase
F3875	$	145.0	$	92.5	$	525.0	$	432.5
F3880		6.3		.3		2.5		2.2
F3882		0.0		0.0		23.2		23.2
F3885		136.6		350.5		258.7		(91.8)
F3886		(10.5)		5.2		6.3		1.1
Total	**$**	**277.4**	**$**	**448.5**	**$**	**815.7**	**$**	**367.2**

Fluctuations and/or Abnormalities

- Contributors to the Department of Defense Suspense/Budget Clearing Accounts, Net

Reporting Entity ($ in millions)		Army Sep 2002		Army (Decrease) /Increase		Air Force Sep 2002		Air Force (Decrease) /Increase		Navy Sep 2002		Navy (Decrease) /Increase
F3875	$	0	$	0	$	398	$	367	$	113	$	69
F3880		0		(2)		0		0		2		4
F3882		(1)		(1)		0		0		24		24
F3885		0		0		(194)		284		446		(355)
F3886		6		1		0		0		1		1
Total*	**$**	**5**	**$**	**(2)**	**$**	**204**	**$**	**651**	**$**	**586**	**$**	**(257)**

*rounding

Reporting Entity ($ in millions)		USACE Sep 2002		USACE (Decrease) /Increase		ODO Sep 2002		ODO (Decrease) /Increase		Total Sep 2002		Total (Decrease) /Increase
F3875	$	14	$	(3)	$	0	$	(1)	$	525	$	433
F3880										2		2
F3882										23		23
F3885						6		(20)		258		(91)
F3886										6		1
Total*	**$**	**14**	**$**	**(3)**	**$**	**6**	**$**	**(21)**	**$**	**815**	**$**	**368**

*rounding

Account F3882 (Uniformed Services Thrift Savings Plan), established in fiscal year 2002, will not have any trend information for Fiscal Year 2001 and prior. The two main contributors to the balance were the Department of the Navy $24 million and the Department of the Army ($1) million. The Department is making every effort to establish policy and guidance to ensure a proper audit trail exists and that variances do not exist between collections and disbursements.

On September 30 of each fiscal year, most of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to proper appropriation accounts. On October 1 of the following year, the uncleared suspense/clearing account balances are reestablished.

Other Information Related to Suspense/Budget Clearing Accounts

The Department of Defense has made a concerted effort to reduce balances in the suspense and budget/clearing accounts related to disbursements. Additionally, the Department of Defense established policies and procedures to ensure accurate and consistent use of these accounts.

- Deposit Fund

  The Department of Defense has made a concerted effort to reduce balances in the deposit fund accounts (X6500, X6501, and X6276). Deposit fund accounts hold non-government monies for individual statutory authorizations or programs.

- **Note Reference**

  - See Note 2 - Intragovernmental Assets - Fund Balance with Treasury for further explanation on deposits, suspense and budgetary clearing accounts.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing

The statement of financing was expanded to further articulate and detail the relationship between net obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect its components. Several new line items were added to separately identify and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

"Net Cost of Operations" in the 2001 column of the Statement of Financing shows $730,112.2 million, compared to $735,015.2 million in the Statement of Net Cost, and the amount reflected on the FY 2001 financial statements. Improper posting of the change in unfunded liability during preparation of the FY 2001 financial statements created a $4,003 million difference. Incorrectly posting the change in FY 2001 of the actuarial liability contributed $592 million to the difference. The remaining $308 million difference is caused by miscellaneous other account mapping changes.

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. Differences between budgetary and proprietary data for Agency-wide are a previously identified deficiency. To bring the Statement of Financing into balance with the Statement of Net Cost, the following adjustments were made:

- Resources that Finance the Acquisition of Assets $(5,276) million
- Revaluation of assets or liabilities $(1,877) million
- Total components of Net Cost of Operations that will Require or Generate Resources in Future Periods $ 3,073 million

The large decrease in Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period, Other (+/-) is due to the large net increase in the Military Retirement Health Benefits liability (MRHB) Actuarial Liability during fiscal year 2001. The MRHB Actuarial Liability as of September 30, 2001 included the effect of Public Law No. 106-398 (the National Defense Authorization Act), which was signed into law on October 30, 2000. Under this legislation, TRICARE benefits were extended to military retirees and their beneficiaries eligible for Medicare, and a fund was established to pay these benefits. The Act also included a number of other enhanced medical benefits in addition to the specific Medicare eligible benefits. The effect of this law and other actuarial gains and losses resulted in an increase to the MRHB Actuarial Liability of $388.5 billion. In FY 2002 the effects of the NDAA FY 2002 Benefit Definitions reduced the actuarial liability by $36.5 billion. This decrease when combined with the actuarial gains and losses and related costs resulted in a much smaller net increase to the MRHB Actuarial Liability (See Note 17 for further details).

Intra-entity transactions have not been eliminated because the statements are presented as combined and combining.

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Note 23. Disclosures Related to the Statement of Custodial Activity

A Statement of Custodial Activity is prepared by reporting entities whose primary mission is collecting taxes or other revenues, particularly sovereign revenues that are intended to finance the entire governments operations, or at least the programs of other entities, rather than their own activities.

Other Information Related to the Statement of Custodial Activity

Relevant Information for Comprehension

"Under authority of the Arms Export and Control Act, the Foreign Military Sales Trust Fund (FMSTF) receives collections from foreign governments that are dedicated specifically to FMS purchases. Funds collected into the Trust Fund are in advance of the performance of services or sale of articles. These advance collections constitute a fiduciary relationship with the countries and are outside of the Federal budget. Current-year collections into the FMSTF for this fiscal year, 2002, equal $10,732.3 million and disposition (disbursements) of collections equals ($10,570.0). The Defense Security Cooperation Agency (DSCA) is the only organization within DoD that reports Funds using the Statement of Custodial Activity. This information is reflected in the financial statements. In accordance with the DoD Acting Chief Financial Officers memorandum of August 31, 1992, the FMSTF does not recognize nor report revenue, with the exception of cost clearing accounts which are reflected in all other components of the Audited Financial Statements except the Statement of Custodial Activity. Since various DoD components actually perform the services and sell the articles, recognition of revenue and expense to a non-government entity occurs in the financial statements of the applicable DoD components."

Note 24.A. Other Disclosures Leases

ENTITY AS LESSEE - Operating Leases

As of September 30, (Amounts in millions)	2002 Asset Category: Equipment and Facilities	Military Family Housing	Motor Vehicles	Total	2001 Total
Future Payments Due:					
Fiscal Year 2003	$ 57.5	$ 9.8	$ 4.3	$ 71.6	$ 63.4
Fiscal Year 2004	58.4	8.4	1.4	68.2	62.8
Fiscal Year 2005	59.9	7.5	0.3	67.7	63.9
Fiscal Year 2006	60.3	7.3	0.1	67.7	60.0
Fiscal Year 2007	56.0	6.8		62.8	54.9
After 5 Years	52.7	24.9		77.6	74.8
Total Future Lease Payments Due	**$ 344.8**	**$ 64.7**	**$ 6.1**	**$ 415.6**	$ 379.8

Other Information Related to Entity as Lessee – Operating Leases

Relevant Information for Comprehension

- Category 1 - Leases for Equipment and Facilities.

  "Office Space" is the largest component. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements. Future year projections used the Consumer Price Index (CPI) of 3.5 percent, rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites.

- Category 2 - Leases for Military Family Housing

  The majority of these leases are for Section 801 Family Housing with a variety of lease terms. Leases are not expected to be renewed upon expiration.

- Category 3 - Leases for Motor Vehicles

  Operating leases for Motor Vehicles are essentially one-year leases. The Department expects to continue to reduce the level of owned assets while increasing the number of operational leases. The Department will strive to displace commercial leases in favor of GSA leases because GSA leases are typically more economical.

- Other Information

  Definitions

  - Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

  - Operating Lease - A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

Note 24.B. Other Disclosures

Other Disclosures

The Military Retirement Trust Fund reports net pension expense for the actuarially accrued liability, as provided in the table below:

- Net Pension Expense

	Year Ending Sept 30, 2002	Year Ending Sept. 30, 2001
A. Beginning of Year Accrued Liability	$ 705,249	$ 687,584
B. Normal Cost Liability	12,935	11,371
C. Plan Amendment Liability	5,564	3,058
D. Assumption Change Liability	(2,334)	(49)
E. Benefit Outlays	(35,188)	(34,206)
F. Interest on Pension Liability	43,393	42,271
G. Actuarial Loss (Gain)	(2,704)	(4,780)
H. End of Year Accrued Liability (A+B+C+D+E+F+G)	**$ 726,915**	**$ 705,249**
I. Net Change in Actuarial Liabilities (B+C+D+E+F+G)	**$ 21,666**	**$ 17,665**

- Other Information

Each year the Accrued Liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost. In the absence of (1) actuarial gains and losses, (2) plan benefit changes, and (3) assumption changes, an increase of $21.141 billion in the Accrued Liability was expected during FY 2002.

The September 30, 2002, Accrued Liability includes changes due to (1) new demographic assumptions, (2) benefit changes, and (3) an experience gain. The new assumptions include (a) non-disability retiree death and other loss rates, (b) retired pay adjustment factors, (c) first-year partial pay and benefit factors, and (d) enhancements to the reserve valuation model.

Changes in retirement benefits for FY 2002 are (a) reform of basic pay rates mandated by the FY 2002 DoD Authorization Act, and (b) giving the SBP benefit for survivors of members who die on active duty with less than 20 years of service. The combined effect of the benefit changes is an increase in the September 30, 2002, Accrued Liability to $5.564 billion, shown in Line C. The combined effect of the actuarial assumption changes is a decrease in the September 30, 2002, Accrued Liability of $2.334 billion, shown in Line D. The decrease in Accrued Liability due to the net experience gain of $2.704 billion, shown in Line G, reflects primarily the new population on which the September 30, 2001, roll forward is based.

Consolidating And Combining Statements

Fiscal Year 2002

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Department of Defense Agency-wide
CONSOLIDATING BALANCE SHEET
($ in millions)

	General Fund			Working Capital Fund			
As of September 30, 2002	*Army*	*Navy*	Air Force	Army	Navy	Air Force	Military Retirement Fund
ASSETS (Note 2)							
Intragovernmental							
Fund Balance with Treasury (Note 3)	$ 39,510.5	$ 68,250.0	$ 47,942.8	$ 251.0	$ 1,709.7	$ 463.3	$ 19.4
Investments (Note 4)	5.2	9.6	0.7	0.0	0.0	0.0	176,496.5
Accounts Receivable (Note5)	452.8	742.4	443.1	222.1	525.1	628.1	0.0
Other Assets (Note 6)	209.1	67.1	5.0	0.0	0.3	0.0	0.0
Total Intragovernmental Assets	$ 40,177.6	$ 69,069.1	$ 48,391.6	$ 473.1	$ 2,235.1	$ 1,091.4	$ 176,515.9
Cash and Other Monetary Assets (Note 7)	$ 301.7	$ 130.7	$ 140.6	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Accounts Receivable (Note 5)	568.1	2,799.9	1,017.9	16.4	80.9	15.8	18.3
Loans Receivable (Note 8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory and Related Property (Note 9)	27,259.4	33,003.6	28,817.6	11,319.3	17,655.9	13,992.0	0.0
General Property, Plant and Equipment (Note 10)	18,700.6	26,109.4	24,247.2	1,250.2	4,190.8	1,320.8	0.0
Other Assets (Note 6)	3,582.8	4780.5	7,535.9	251.3	1,140.7	530.3	0.0
Total Assets	$ 90,590.2	$ 135,893.2	$ 110,150.8	$ 13,310.3	$ 25,303.4	$ 16,950.3	$ 176,534.2
LIABILITIES (Note 11)							
Intragovernmental							
Accounts Payable (Note 12)	$ 774.6	$ 748.3	$ 1,124.8	$ 77.6	$ 434.8	$ 154.7	$ 0.0
Debt (Note 13)	0.2	0.1	0.1	0.0	750.7	0.0	0.0
Environmental Liabilities (Note 14)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities (Note 15 & Note 16)	876.4	3,489.5	2,179.1	262.0	177.8	11.4	0.2
Total Intragovernmental Liabilities	$ 1,651.2	$ 4,237.9	$ 3,304.0	$ 339.6	$ 1,363.3	$ 166.1	$ 0.2
Accounts Payable (Note 12)	5,967.2	1,510.3	6,207.0	511.0	1,799.7	1,791.5	0.0
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,624.6	1,546.4	1,211.0	304.5	1,325.9	247.7	726,915.4
Environmental Liabilities (Note 14)	35,078.3	15,469.1	8,454.6	0.0	0.0	0.0	0.0
Loan Guarantee Liability (Note 8)	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities (Note 15 and Note 16)	9,008.7	4,185.5	3,987.2	212.1	2,807.8	3,151.1	3,135.3
Total Liabilities	$ 53,330.7	$ 26,949.2	$ 23,163.8	$ 1,367.2	$ 7,296.7	$ 5,356.4	$ 730,050.9
NET POSITION							
Unexpended Appropriations (Note 18)	31,468.7	64,774.3	39,543.8	30.0	0.0	0.0	0.0
Cumulative Results of Operations	5,790.8	44,169.7	47,443.2	11,913.1	18,006.7	11,593.9	(553,516.7)
Total Net Position	$ 37,259.5	$ 108,944.0	$ 86,987.0	$ 11,943.1	$ 18,006.7	$ 11,593.9	$ (553,516.7)
Total Liabilities and Net Position	$ 90,590.2	$ 135,893.2	$ 110,150.8	$ 13,310.3	$ 25,303.4	$ 16,950.3	$ 176,534.2

Department of Defense Agency-wide
CONSOLIDATING BALANCE SHEET
($ in millions)

As of September 30, 2002	US Army Corps of Engineers	ODO General Funds	ODO Working Capital Funds	Combined Total	Intra-entity Eliminations	2002 Consolidated	2001 Consolidated Restated	2001 Consolidated
ASSETS (Note 2)								
Intragovernmental								
Fund Balance with Treasury (Note 3)	$ 2,544.0	$ 43,006.0	$ 2,119.5	$ 205,816.2	$ 0.0	$ 205,816.2	$ 190,129.1	$ 190,129.1
Investments (Note 4)	2,269.1	2,023.8	0.0	180,804.9	0.4	180,804.5	173,288.2	173,288.2
Accounts Receivable (Note5)	528.1	289.9	2,043.6	5,875.2	4,753.3	1,121.9	1,148.2	1,064.2
Other Assets (Note 6)	0.0	34.8	0.1	316.4	316.3	0.1	4.2	4.2
Total Intragovernmental Assets	$ 5,341.2	$ 45,354.5	$ 4,163.2	$ 392,812.7	$ 5,070.0	$ 387,742.7	$ 364,569.7	$ 364,485.7
Cash and Other Monetary Assets (Note 7)	$ 0.8	$ 43.7	$ 125.2	$ 742.7	$ 0.0	$ 742.7	$ 636.1	$ 1,014.1
Accounts Receivable (Note 5)	922.9	591.1	310.6	6,341.9	0.0	6,341.9	4,613.8	4,613.8
Loans Receivable (Note 8)	0.0	44.2	0.0	44.2	0.0	44.2	0.0	0.0
Inventory and Related Property (Note 9)	63.1	2,191.6	11,896.1	146,198.6	0.0	146,198.6	146,638.2	205,406.2
General Property, Plant and Equipment (Note 10)	36,874.0	5,695.2	3,949.9	122,338.1	0.0	122,338.1	113,850.8	113,826.8
Other Assets (Note 6)	0.1	147.9	276.3	18,245.8	0.0	18,245.8	17,834.4	17,834.4
Total Assets	$ 43,202.1	$ 54,068.2	$ 20,721.3	$ 686,724.0	$ 5,070.0	$ 681,654.0	$ 648,143.0	$ 707,181.0
LIABILITIES (Note 11)								
Intragovernmental								
Accounts Payable (Note 12)	$ 83.7	$ 1,233.3	$ 207.2	$ 4,839.0	$ 4,753.3	$ 85.7	$ 188.4	$ 124.4
Debt (Note 13)	24.7	56.8	42.1	874.7	0.4	874.3	986.2	986.2
Environmental Liabilities (Note 14)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities (Note 15 & Note 16)	1,146.9	275.6	111.0	8,529.9	316.3	8,213.6	7,197.9	6,092.9
Total Intragovernmental Liabilities	$ 1,255.3	$ 1,565.7	$ 360.3	$ 14,243.6	$ 5,070.0	$ 9,173.6	$ 8,372.5	$ 7,203.5
Accounts Payable (Note 12)	$ 596.0	$ 2,287.3	$ 3,489.8	$ 24,159.8	$ 0.0	$ 24,159.8	$ 22,707.5	$ 22,707.5
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0.0	595,181.7	469.3	1,328,826.5	0.0	1,328,826.5	1,296,210.7	1,296,210.7
Environmental Liabilities (Note 14)	0.0	351.1	0.0	59,353.1	0.0	59,353.1	63,293.8	63,293.8
Loan Guarantee Liability (Note 8)	0.0	10.1	0.0	10.8	0.0	10.8	3.3	3.3
Other Liabilities (Note 15 and Note 16)	590.8	2,043.3	673.5	29,795.3	0.0	29,795.3	28,621.5	28,621.5
Total Liabilities	$ 2,442.1	$ 601,439.2	$ 4,992.9	$ 1,456,389.1	$ 5,070.0	$ 1,451,319.1	$ 1,419,209.3	$ 1,418,040.3
NET POSITION								
Unexpended Appropriations (Note 18)	1,064.9	40,441.2	(40.3)	177,282.6	0.0	177,282.6	164,743.6	163,190.6
Cumulative Results of Operations	39,695.1	(587,812.2)	15,768.7	(946,947.7)	0.0	(946,947.7)	(935,809.9)	(874,049.9)
Total Net Position	$ 40,760.0	$ (547,371.0)	$ 15,728.4	$ (769,665.1)	$ 0.0	$ (769,665.1)	$ (771,066.3)	$ (710,859.3)
Total Liabilities and Net Position	$ 43,202.1	$ 54,068.2	$ 20,721.3	$ 686,724.0	$ 5,070.0	$ 681,654.0	$ 648,143.0	$ 707,181.0

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF NET COST
($ in millions)

For the Years Ended September 30, 2002 and 2001	General Fund *Army*	General Fund *Navy*	General Fund Air Force	Working Capital Fund Army	Working Capital Fund Navy	Working Capital Fund Air Force	Military Retirement Fund
Program Costs							
Military Personnel							
Intragovernmental Gross Cost	$ 5,944.0	$ 5,070.7	$ 3,873.1	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Less: Intragovernmental Earned Revenue	(170.5)	(209.2)	(152.9)				
Intragovernmental Net Costs	$ 5,773.5	$ 4,861.5	$ 3,720.2	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Gross Costs With the Public	26,580.7	25,061.6	20,842.1				
Less: Earned Revenues From The Public	(19.3)	(68.1)	(68.2)				
Net Cost with The Public	$ 26,561.4	$ 24,993.5	$ 20,773.9	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Total Net Costs	$ 32,334.9	$ 29,855.0	$ 24,494.1	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Operation and Maintenance							
Intragovernmental Gross Cost	$ 11,839.8	$ 20,573.9	$ 17,472.7	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Less: Intragovernmental Earned Revenue	(3,002.7)	(824.8)	(1,157.0)				
Intragovernmental Net Costs	$ 8,837.1	$ 19,749.1	$ 16,315.7	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Gross Costs With the Public	18,813.8	15,215.2	19,969.1				
Less: Earned Revenues From The Public	(650.5)	(1,031.1)	(481.8)				
Net Cost with The Public	$ 18,163.3	$ 14,184.1	$ 19,487.3	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Total Net Costs	$ 27,000.4	$ 33,933.2	$ 35,803.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Procurement							
Intragovernmental Gross Cost	$ 759.5	$ 4,108.0	$ 321.7	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Less: Intragovernmental Earned Revenue	(427.6)	(100.1)	(153.1)				
Intragovernmental Net Costs	$ 331.9	$ 4,007.9	$ 168.6	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Gross Costs With the Public	10,981.6	24,291.6	16,329.6				
Less: Earned Revenues From The Public	(25.3)	(463.3)	(10.4)				
Net Cost with The Public	$ 10,956.3	$ 23,828.3	$ 16,319.2	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Total Net Costs	$ 11,288.2	$ 27,836.2	$ 16,487.8	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Research, Development, Test & Evaluation							
Intragovernmental Gross Cost	$ 218.5	$ 26.8	$ 136.7	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Less: Intragovernmental Earned Revenue	(897.9)	(1.7)	(864.4)				
Intragovernmental Net Costs	$ (679.4)	$ 25.1	$ (727.7)	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Gross Costs With the Public	7,292.4	10,376.8	15,364.9				
Less: Earned Revenues From The Public	(126.2)	(53.7)	(113.1)				
Net Cost with The Public	$ 7,166.2	$ 10,323.1	$ 15,251.8	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Total Net Costs	$ 6,486.8	$ 10,348.2	$ 14,524.1	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Military Construction/Family Housing							
Intragovernmental Gross Cost	$ 20.8	$ 62.1	$ 4.2	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Less: Intragovernmental Earned Revenue	(1,010.0)	(73.8)	0.0				
Intragovernmental Net Costs	$ (989.2)	$ (11.7)	$ 4.2	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Gross Costs With the Public	2,993.6	647.7	417.4				
Less: Earned Revenues From The Public	(175.7)	(69.1)	0.0				
Net Cost with The Public	$ 2,817.9	$ 578.6	$ 417.4	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Total Net Costs	$ 1,828.7	$ 566.9	$ 421.6	$ 0.0	$ 0.0	$ 0.0	$ 0.0

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF NET COST
($ in millions)

For the Years Ended September 30, 2002 and 2001	General Fund Army	General Fund Navy	General Fund Air Force	Working Capital Fund Army	Working Capital Fund Navy	Working Capital Fund Air Force	Military Retirement Fund
Program Costs							
Military Retirement Fund							
Intragovernmental Gross Cost	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Less: Intragovernmental Earned Revenue							(42,380.1)
Intragovernmental Net Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ (42,380.1)
Gross Costs With the Public							56,855.8
Less: Earned Revenues From The Public							0.0
Net Cost with The Public	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 56,855.8
Total Net Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 14,475.7
Civil Works							
Intragovernmental Gross Cost	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Less: Intragovernmental Earned Revenue							
Intragovernmental Net Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Gross Costs With the Public							
Less: Earned Revenues From The Public							
Net Cost with The Public	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Total Net Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Working Capital Funds							
Intragovernmental Gross Cost	$ 0.0	$ 0.0	$ 0.0	$ 1,424.5	$ 5,382.3	$ 4,864.1	$ 0.0
Less: Intragovernmental Earned Revenue				(6,849.9)	(20,916.3)	(10,907.4)	
Intragovernmental Net Costs	$ 0.0	$ 0.0	$ 0.0	$ (5,425.4)	$ (15,534.0)	$ (6,043.3)	$ 0.0
Gross Costs With the Public				6,358.7	18,837.4	5,367.3	
Less: Earned Revenues From The Public				(345.2)	(862.7)	(308.0)	
Net Cost with The Public	$ 0.0	$ 0.0	$ 0.0	$ 6,013.5	$ 17,974.7	$ 5,059.3	$ 0.0
Total Net Costs	$ 0.0	$ 0.0	$ 0.0	$ 588.1	$ 2,440.7	$ (984.0)	$ 0.0
Other							
Intragovernmental Gross Cost	$ 259.6	$ 69.7	$ 12.4	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Less: Intragovernmental Earned Revenue	(22.4)	(0.4)	(0.1)				
Intragovernmental Net Costs	$ 237.2	$ 69.3	$ 12.3	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Gross Costs With the Public	631.2	43.1	4.1				
Less: Earned Revenues From The Public	212.3	(36.3)	(7.2)				
Net Cost with The Public	$ 843.5	$ 6.8	$ (3.1)	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Total Net Costs	$ 1,080.7	$ 76.1	$ 9.2	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Total Program Costs							
Intragovernmental Gross Cost	$ 19,042.2	$ 29,911.2	$ 21,820.8	$ 1,424.5	$ 5,382.3	$ 4,864.1	$ 0.0
Less: Intragovernmental Earned Revenue	(5,531.1)	(1,210.0)	(2,327.5)	(6,849.9)	(20,916.3)	(10,907.4)	(42,380.1)
Intragovernmental Net Costs	$ 13,511.1	$ 28,701.2	$ 19,493.3	$ (5,425.4)	$ (15,534.0)	$ (6,043.3)	$ (42,380.1)
Gross Costs With the Public	67,293.3	75,636.0	72,927.2	6,358.7	18,837.4	5,367.3	56,855.8
Less: Earned Revenues From The Public	(784.7)	(1,721.6)	(680.7)	(345.2)	(862.7)	(308.0)	0.0
Net Cost with The Public	$ 66,508.6	$ 73,914.4	$ 72,246.5	$ 6,013.5	$ 17,974.7	$ 5,059.3	$ 56,855.8
Total Net Costs	$ 80,019.7	$ 102,615.6	$ 91,739.8	$ 588.1	$ 2,440.7	$ (984.0)	$ 14,475.7
Cost Not Assigned to Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Less: Earned Revenue Not Attributable to Programs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Costs of Operations	$ 80,019.7	$ 102,615.6	$ 91,739.8	$ 588.1	$ 2,440.7	$ (984.0)	$ 14,475.7

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF NET COST
($ in millions)

For the Years Ended September 30, 2002 and 2001	US Army Corps of Engineers	ODO General Funds	ODO Working Capital Funds	Combined Total	Intra-entity Eliminations	2002 Consolidated	2001 Consolidated Restated	2001 Consolidated
Program Costs								
Military Personnel								
Intragovernmental Gross Cost	$ 0.0	$ 0.0	$ 0.0	$ 14,887.8	$ 14,888.0	$ (0.2)	$	$ 3.2
Less: Intragovernmental Earned Revenue				(532.6)	(324.6)	(208.0)		(43.0)
Intragovernmental Net Costs	$ 0.0	$ 0.0	$ 0.0	$ 14,355.2	$ 14,563.4	$ (208.2)	$	$ (39.9)
Gross Costs With the Public				72,484.4	0.0	72,484.4		64,229.0
Less: Earned Revenues From The Public				(155.6)	0.0	(155.6)		(231.2)
Net Cost with The Public	$ 0.0	$ 0.0	$ 0.0	$ 72,328.8	$ 0.0	$ 72,328.8	$	$ 63,997.8
Total Net Costs	$ 0.0	$ 0.0	$ 0.0	$ 86,684.0	$ 14,563.4	$ 72,120.6	$	$ 63,957.9
Operation and Maintenance								
Intragovernmental Gross Cost	$ 0.0	$ 10,718.9	$ 0.0	$ 60,605.3	$ 53,745.0	$ 6,860.3	$	$ 6,159.6
Less: Intragovernmental Earned Revenue		(930.0)		(5,914.5)	(5,059.3)	(855.2)		(495.4)
Intragovernmental Net Costs	$ 0.0	$ 9,788.9	$ 0.0	$ 54,690.8	$ 48,685.7	$ 6,005.1	$	$ 5,664.2
Gross Costs With the Public		34,795.2		88,793.3	0.0	88,793.3		476,105.7
Less: Earned Revenues From The Public		(807.8)		(2,971.2)	0.0	(2,971.2)		(2,433.2)
Net Cost with The Public	$ 0.0	$ 33,987.4	$ 0.0	$ 85,822.1	$ 0.0	$ 85,822.1	$	$ 473,672.5
Total Net Costs	$ 0.0	$ 43,776.3	$ 0.0	$ 140,512.9	$ 48,685.7	$ 91,827.2	$	$ 479,336.7
Procurement								
Intragovernmental Gross Cost	$ 0.0	$ 269.4	$ 0.0	$ 5,458.6	$ 5,457.9	$ 0.7	$	$ 46.3
Less: Intragovernmental Earned Revenue		(0.8)		(681.6)	(644.5)	(37.1)		(127.5)
Intragovernmental Net Costs	$ 0.0	$ 268.6	$ 0.0	$ 4,777.0	$ 4,813.5	$ (36.5)	$	$ (81.2)
Gross Costs With the Public		2,006.2		53,609.0	0.0	53,609.0		52,340.7
Less: Earned Revenues From The Public		(58.1)		(557.1)	0.0	(557.1)		(348.2)
Net Cost with The Public	$ 0.0	$ 1,948.1	$ 0.0	$ 53,051.9	$ 0.0	$ 53,051.9	$	$ 51,992.5
Total Net Costs	$ 0.0	$ 2,216.7	$ 0.0	$ 57,828.9	$ 4,813.5	$ 53,015.4	$	$ 51,911.3
Research, Development, Test & Evaluation								
Intragovernmental Gross Cost	$ 0.0	$ 699.4	$ 0.0	$ 1,081.4	$ 1,253.5	$ (172.1)	$	$ 32.0
Less: Intragovernmental Earned Revenue		(215.3)		(1,979.3)	(1,765.6)	(213.7)		(127.7)
Intragovernmental Net Costs	$ 0.0	$ 484.1	$ 0.0	$ (897.9)	$ (512.1)	$ (385.8)	$	$ (95.7)
Gross Costs With the Public		11,017.6		44,051.7	0.0	44,051.7		38,697.5
Less: Earned Revenues From The Public		(238.1)		(531.1)	0.0	(531.1)		(392.5)
Net Cost with The Public	$ 0.0	$ 10,779.5	$ 0.0	$ 43,520.6	$ 0.0	$ 43,520.6	$	$ 38,305.0
Total Net Costs	$ 0.0	$ 11,263.6	$ 0.0	$ 42,622.7	$ (512.1)	$ 43,134.8	$	$ 38,209.3
Military Construction/Family Housing								
Intragovernmental Gross Cost	$ 0.0	$ 54.0	$ 0.0	$ 141.1	$ 140.9	$ 0.2	$	$ 3.5
Less: Intragovernmental Earned Revenue		0.0		(1,083.8)	(1,068.7)	(15.1)		(14.4)
Intragovernmental Net Costs	$ 0.0	$ 54.0	$ 0.0	$ (942.7)	$ (927.8)	$ (14.9)	$	$ (10.9)
Gross Costs With the Public		600.8		4,659.5	0.0	4,659.5		6,227.8
Less: Earned Revenues From The Public		(0.3)		(245.1)	0.0	(245.1)		(233.9)
Net Cost with The Public	$ 0.0	$ 600.5	$ 0.0	$ 4,414.4	$ 0.0	$ 4,414.4	$	$ 5,993.9
Total Net Costs	$ 0.0	$ 654.5	$ 0.0	$ 3,471.7	$ (927.8)	$ 4,399.5	$	$ 5,983.0

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF NET COST
($ in millions)

For the Years Ended September 30, 2002 and 2001	US Army Corps of Engineers	ODO General Funds	ODO Working Capital Funds	Combined Total	Intra-entity Eliminations	2002 Consolidated	2001 Consolidated Restated	2001 Consolidated
Program Costs								
Military Retirement Fund								
Intragovernmental Gross Cost	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$	$ 0.0
Less: Intragovernmental Earned Revenue				(42,380.1)	(29,982.3)	(12,397.8)		(13,182.9)
Intragovernmental Net Costs	$ 0.0	$ 0.0	$ 0.0	$ (42,380.1)	$ (29,982.3)	$ (12,397.8)	$	$ (13,182.9)
Gross Costs With the Public				56,855.8	0.0	56,855.8		51,872.1
Less: Earned Revenues From The Public				0.0	0.0	0.0		0.0
Net Cost with The Public	$ 0.0	$ 0.0	$ 0.0	$ 56,855.8	$ 0.0	$ 56,855.8	$	$ 51,872.1
Total Net Costs	$ 0.0	$ 0.0	$ 0.0	$ 14,475.7	$ (29,982.3)	$ 44,458.0	$	$ 38,689.2
Civil Works								
Intragovernmental Gross Cost	$ 786.6	$ 0.0	$ 0.0	$ 786.6	$ 55.3	$ 731.3	$	$ 923.8
Less: Intragovernmental Earned Revenue	(616.4)			(616.4)	(8.2)	(608.2)		(454.6)
Intragovernmental Net Costs	$ 170.2	$ 0.0	$ 0.0	$ 170.2	$ 47.1	$ 123.1	$	$ 469.2
Gross Costs With the Public	3,645.3			3,645.3	0.0	3,645.3		3,768.7
Less: Earned Revenues From The Public	(121.7)			(121.7)	0.0	(121.7)		(102.1)
Net Cost with The Public	$ 3,523.6	$ 0.0	$ 0.0	$ 3,523.6	$ 0.0	$ 3,523.6	$	$ 3,666.6
Total Net Costs	$ 3,693.8	$ 0.0	$ 0.0	$ 3,693.8	$ 47.1	$ 3,646.7	$	$ 4,135.8
Working Capital Funds								
Intragovernmental Gross Cost	$ 0.0	$ 0.0	$ 2,535.1	$ 14,206.0	$ 11,137.5	$ 3,068.5	$	$ 2,848.1
Less: Intragovernmental Earned Revenue			(28,351.7)	(67,025.3)	(65,888.5)	(1,136.8)		(2,758.2)
Intragovernmental Net Costs	$ 0.0	$ 0.0	$ (25,816.6)	$ (52,819.3)	$ (54,751.0)	$ 1,931.7	$	$ 90.0
Gross Costs With the Public			31,347.5	61,910.9	0.0	61,910.9		56,637.8
Less: Earned Revenues From The Public			(6,488.7)	(8,004.6)	0.0	(8,004.6)		(7,684.6)
Net Cost with The Public	$ 0.0	$ 0.0	$ 24,858.8	$ 53,906.3	$ 0.0	$ 53,906.3	$	$ 48,953.2
Total Net Costs	$ 0.0	$ 0.0	$ (957.8)	$ 1,087.0	$ (54,751.0)	$ 55,838.0	$	$ 49,043.2
Other								
Intragovernmental Gross Cost	$ 0.0	$ 18,382.7	$ 0.0	$ 18,724.4	$ 18,485.2	$ 239.2	$	$ 218.6
Less: Intragovernmental Earned Revenue		(513.5)		(536.4)	(421.5)	(114.9)		(276.5)
Intragovernmental Net Costs	$ 0.0	$ 17,869.2	$ 0.0	$ 18,188.0	$ 18,063.7	$ 124.3	$	$ (57.9)
Gross Costs With the Public		12,463.6		13,142.0	0.0	13,142.0		4,971.7
Less: Earned Revenues From The Public		(1,459.1)		(1,290.3)	0.0	(1,290.3)		(1,165.1)
Net Cost with The Public	$ 0.0	$ 11,004.5	$ 0.0	$ 11,851.7	$ 0.0	$ 11,851.7	$	$ 3,806.6
Total Net Costs	$ 0.0	$ 28,873.7	$ 0.0	$ 30,039.7	$ 18,063.7	$ 11,976.0	$	$ 3,748.7
Total Program Costs								
Intragovernmental Gross Cost	$ 786.6	$ 30,124.4	$ 2,535.1	$ 115,891.2	$ 105,163.2	$ 10,728.0	$ 10,235.2	$ 10,235.2
Less: Intragovernmental Earned Revenue	(616.4)	(1,659.6)	(28,351.7)	(120,750.0)	(105,163.2)	(15,586.8)	(17,513.2)	(17,480.2)
Intragovernmental Net Costs	$ 170.2	$ 28,464.8	$ (25,816.6)	$ (4,858.8)	$ 0.0	$ (4,858.8)	$ (7,278.0)	$ (7,245.0)
Gross Costs With the Public	3,645.3	60,883.4	31,347.5	399,151.9		399,151.9	751,104.0	754,851.0
Less: Earned Revenues From The Public	(121.7)	(2,563.4)	(6,488.7)	(13,876.7)		(13,876.7)	(12,590.8)	(12,590.8)
Net Cost with The Public	$ 3,523.6	$ 58,320.0	$ 24,858.8	$ 385,275.2	$ 0.0	$ 385,275.2	$ 738,513.2	$ 742,260.2
Total Net Costs	$ 3,693.8	$ 86,784.8	$ (957.8)	$ 380,416.4	$ 0.0	$ 380,416.4	$ 731,235.2	$ 735,015.2
Cost Not Assigned to Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Less:Earned Revenue Not Attributable to Programs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Costs of Operations	$ 3,693.8	$ 86,784.8	$ (957.8)	**$ 380,416.4**	**$ 0.0**	**$ 380,416.4**	$ 731,235.2	$ 735,015.2

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
($ in millions)

	General Fund					
	Army		Navy		Air Force	
For the Years Ended September 30, 2002 and 2001	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	$ 8,776.6	$ 28,895.6	$ 74,443.9	$ 61,982.5	$ 70,732.4	$ 39,006.8
Prior Period Adjustments (+/-)	(7,114.2)	0.0	(27,802.5)	1,553.3	(31,869.7)	0.0
Beginning Balance, as adjusted	$ 1,662.4	$ 28,895.6	$ 46,641.4	$ 63,535.8	$ 38,862.7	$ 39,006.8
Budgetary Financing Sources						
Appropriation Received	0.0	80,338.4	0.0	99,524.5	0.0	96,952.1
Appropriations Transferred in/out (+/-)	0.0	4,903.5	0.0	2,727.3	0.0	5,084.8
Other Adjustments (rescissions, etc) (+/-)	0.0	(114.8)	0.0	(1,363.6)	0.0	(2,062.4)
Appropriations Used	82,553.9	(82,553.9)	99,612.7	(99,649.7)	99,437.4	(99,437.4)
Nonexchange Revenue	205.6	0.0	0.0	0.0	0.0	0.0
Donations and Forfeitures of Cash and Cash Equivalents	0.0	0.0	0.0	0.0	12.7	0.0
Transfers in/out Without Reimbursement (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Other Budgetary Financing Sources (+/-)	743.5	0.0	0.0	0.0	246.5	0.0
Other Financing Sources:						
Donations and forfeitures of property	0.0	0.0	0.0	0.0	0.0	0.0
Transfers-in/out without reimbursement (+/-)	(43.2)	0.0	5.9	0.0	26.7	0.0
Imputed financing from costs absorbed by others	688.3	0.0	525.3	0.0	597.1	0.0
Other (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing Sources	$ 84,148.1	$ 2,573.2	$ 100,143.9	$ 1,238.5	$ 100,320.4	$ 537.1
Net Cost of Operations (+/-)	$ 80,019.7	$ 0.0	$ 102,615.6	$ 0.0	$ 91,739.8	$ 0.0
Ending Balances	$ 5,790.8	$ 31,468.8	$ 44,169.7	$ 64,774.3	$ 47,443.3	$ 39,543.9

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
($ in millions)

	Working Capital Fund					
	Army		Navy		Air Force	
For the Years Ended September 30, 2002 and 2001	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	$ 11,767.9	$ 38.9	$ 17,718.6	$ 0.0	$ 8,784.0	$ 0.0
Prior Period Adjustments (+/-)	0.0	0.0	1,952.4	0.0	1,628.8	0.0
Beginning Balance, as adjusted	$ 11,767.9	$ 38.9	$ 19,671.0	$ 0.0	$ 10,412.8	$ 0.0
Budgetary Financing Sources						
Appropriation Received	0.0	167.4	0.0	0.0	0.0	32.9
Appropriations Transferred in/out (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Other Adjustments (rescissions, etc) (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations Used	176.2	(176.2)	0.0	0.0	32.9	(32.9)
Nonexchange Revenue	170.0	0.0	0.0	0.0	0.0	0.0
Donations and Forfeitures of Cash and Cash Equivalents	0.0	0.0	0.0	0.0	0.0	0.0
Transfers in/out Without Reimbursement (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Other Budgetary Financing Sources (+/-)	202.8	0.0	312.1	0.0	0.0	0.0
Other Financing Sources:						
Donations and forfeitures of property	0.0	0.0	0.0	0.0	0.0	0.0
Transfers-in/out without reimbursement (+/-)	74.3	0.0	(1.1)	0.0	36.9	0.0
Imputed financing from costs absorbed by others	109.9	0.0	465.6	0.0	127.2	0.0
Other (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing Sources	$ 733.2	$ (8.8)	$ 776.6	$ 0.0	$ 197.0	$ 0.0
Net Cost of Operations (+/-)	$ 588.1	$ 0.0	$ 2,440.7	$ 0.0	$ (984.0)	$ 0.0
Ending Balances	$ 11,913.0	$ 30.1	$ 18,006.9	$ 0.0	$ 11,593.8	$ 0.0

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
($ in millions)

	Military Retirement Fund		U.S. Army Corps of Engineers		ODO General Fund	
For the Years Ended September 30, 2002 and 2001	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	$ (539,041.0)	$ 0.0	$ 37,604.2	$ 1,214.9	$ (576,990.1)	$ 32,138.5
Prior Period Adjustments (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Beginning Balance, as adjusted	$ (539,041.0)	$ 0.0	$ 37,604.2	$ 1,214.9	$ (576,990.1)	$ 32,138.5
Budgetary Financing Sources						
Appropriation Received	0.0	0.0	0.0	4,325.0	0.0	83,203.5
Appropriations Transferred in/out (+/-)	0.0	0.0	0.0	198.4	0.0	(3,599.8)
Other Adjustments (rescissions, etc) (+/-)	0.0	0.0	0.0	(153.4)	0.0	986.8
Appropriations Used	0.0	0.0	4,704.8	(4,520.0)	73,574.9	(72,287.8)
Nonexchange Revenue	0.0	0.0	836.0	0.0	41.6	0.0
Donations and Forfeitures of Cash and Cash Equivalents	0.0	0.0	0.0	0.0	11.4	0.0
Transfers in/out Without Reimbursement (+/-)	0.0	0.0	(706.7)	0.0	0.0	0.0
Other Budgetary Financing Sources (+/-)	0.0	0.0	(3.2)	0.0	1,864.2	0.0
Other Financing Sources:						
Donations and forfeitures of property	0.0	0.0	0.3	0.0	0.0	0.0
Transfers-in/out without reimbursement (+/-)	0.0	0.0	744.3	0.0	(37.8)	0.0
Imputed financing from costs absorbed by others	0.0	0.0	209.0	0.0	508.4	0.0
Other (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing Sources	$ 0.0	$ 0.0	$ 5,784.5	$ (150.0)	$ 75,962.8	$ 8,302.7
Net Cost of Operations (+/-)	$ 14,475.7	$ 0.0	$ 3,693.8	$ 0.0	$ 86,784.8	$ 0.0
Ending Balances	$ (553,516.7)	$ 0.0	$ 39,694.9	$ 1,064.9	$ (587,812.1)	$ 40,441.2

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
($ in millions)

For the Years Ended September 30, 2002 and 2001	ODO Working Capital Fund: Cumulative Results of Operations	ODO Working Capital Fund: Unexpended Appropriations	2002Combined Total: Cumulative Results of Operations	2002Combined Total: Unexpended Appropriations	Intra-entity Eliminations
Beginning Balance	$ 12,153.6	$ (86.6)	$ (874,049.9)	$ 163,190.6	$ 0.0
Prior Period Adjustments (+/-)	1,445.2	0.0	(61,760.0)	1,553.3	0.0
Beginning Balance, as adjusted	$ 13,598.8	$ (86.6)	$ (935,809.9)	$ 164,743.9	$ 0.0
Budgetary Financing Sources					
Appropriation Received	0.0	1,092.6	0.0	365,636.4	0.0
Appropriations Transferred in/out (+/-)	0.0	75.0	0.0	9,389.2	0.0
Other Adjustments (rescissions, etc) (+/-)	0.0	0.0	0.0	(2,707.4)	0.0
Appropriations Used	1,125.0	(1,121.3)	361,217.9	(359,779.5)	0.0
Nonexchange Revenue	0.0	0.0	1,253.2	0.0	0.0
Donations and Forfeitures of Cash and Cash Equivalents	0.0	0.0	24.1	0.0	0.0
Transfers in/out Without Reimbursement (+/-)	0.0	0.0	(706.7)	0.0	0.0
Other Budgetary Financing Sources (+/-)	(140.4)	0.0	3,225.5	0.0	0.0
Other Financing Sources:					
Donations and forfeitures of property	0.0	0.0	0.3	0.0	0.0
Transfers-in/out without reimbursement (+/-)	(61.7)	0.0	744.3	0.0	0.0
Imputed financing from costs absorbed by others	289.2	0.0	3,520.0	0.0	0.0
Other (+/-)	0.0	0.0	0.0	0.0	0.0
Total Financing Sources	$ 1,212.1	$ 46.3	$ 369,278.6	$ 12,538.7	$ 0.0
Net Cost of Operations (+/-)	$ (957.8)	$ 0.0	$ 380,416.4	$ 0.0	$ (0.0)
Ending Balances	$ 15,768.7	$ (40.3)	$ (946,947.7)	$ 177,282.6	$ 0.0

Department of Defense Agency-wide
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
($ in millions)

For the Years Ended September 30, 2002 and 2001	2002 Consolidated		2001 Consolidated Restated		2001 Consolidated	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	$ (874,049.9)	$ 163,190.6	$ (541,621.6)	$ 155,603.9	$ (541,621.6)	$ 155,603.9
Prior Period Adjustments (+/-)	(61,760.0)	1,553.3	(825.6)	1,553.0	60,934.4	0.0
Beginning Balance, as adjusted	$ (935,809.9)	$ 164,743.9	$ (546,227.2)	$ 157,156.9	$ (480,687.2)	$ 155,603.9
Budgetary Financing Sources						
Appropriation Received	0.0	365,636.4	0.0	7,586.7	0.0	7,586.7
Appropriations Transferred in/out (+/-)	0.0	9,389.2	0.0	0.0	0.0	0.0
Other Adjustments (rescissions, etc) (+/-)	0.0	(2,707.4)	0.0	0.0	0.0	0.0
Appropriations Used	361,217.9	(359,779.5)	318,537.3	0.0	318,537.0	0.0
Nonexchange Revenue	1,253.2	0.0	1,144.1	0.0	1,144.1	0.0
Donations and Forfeitures of Cash and Cash Equivalents	24.1	0.0	5.9	0.0	5.9	0.0
Transfers in/out Without Reimbursement (+/-)	(706.7)	0.0	(445.6)	0.0	(445.6)	0.0
Other Budgetary Financing Sources (+/-)	3,225.5	0.0	18,236.4	0.0	18,236.4	0.0
Other Financing Sources:						
Donations and forfeitures of property	0.3	0.0	0.3	0.0	0.3	0.0
Transfers-in/out without reimbursement (+/-)	744.3	0.0	752.9	0.0	752.9	0.0
Imputed financing from costs absorbed by others	3,520.0	0.0	3,421.5	0.0	3,421.5	0.0
Other (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing Sources	$ 369,278.6	$ 12,538.7	$ 341,652.5	$ 7,586.7	$ 341,652.8	$ 7,586.7
Net Cost of Operations (+/-)	$ 380,416.4	$ 0.0	$ 735,015.2	$ 0.0	$ 735,015.2	$ 0.0
Ending Balances	$ (946,947.7)	$ 177,282.6	$ (935,809.9)	$ 164,743.6	$ (874,049.9)	$ 163,190.6

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

	General Fund					
	Army		Navy		Air Force	
For the Years Ended September 30, 2002 and 2001	Budgetary Financing Accounts	Non-Budgetary Financing Accounts	Budgetary Financing Accounts	Non-Budgetary Financing Accounts	Budgetary Financing Accounts	Non-Budgetary Financing Accounts
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	$ 81,067.3	$ 0.0	$ 99,561.2	$ 0.0	$ 96,329.9	$ 0.0
Borrowing Authority						
Contract Authority						
Net Transfers (+/-)	5,290.6		2,676.2		4,954.6	
Other						
Unobligated Balance						
Beginning Of Period	5,701.7	0.7	13,835.9		7,203.2	
Net Transfers, Actual (+/-)	409.0		51.1		130.2	
Anticipated Transfers Balances						
Spending Authority From Offsetting Collections						
Earned						
Collected	12,012.6		6,490.0		6,551.6	
Receivable From Federal Sources	(146.3)		(263.5)		274.5	
Change In Unfilled Customer Orders						
Advance Received	87.1		1.3		106.5	
Without Advance From Federal Sources	1,164.8		186.5		(1.2)	
Anticipated For The Rest Of Year, Without Advances						
Transfers From Trust Funds						
Subtotal	$ 13,118.2	$ 0.0	$ 6,414.3	$ 0.0	$ 6,931.4	$ 0.0
Recoveries Of Prior Year Obligations	8,287.4		2,286.8		1,051.6	
Temporarily Not Available Pursuant To Public Law						
Permanently Not Available	(1,569.2)		(1,400.0)		(2,062.4)	
Total Budgetary Resources	$ 112,305.0	$ 0.7	$ 123,425.5	$ 0.0	$ 114,538.5	$ 0.0

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

	Working Capital Fund					
	Army		Navy		Air Force	
For the Years Ended September 30, 2002 and 2001	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	$ 167.4	$ 0.0	$ 0.0	$ 0.0	$ 32.9	$ 0.0
Borrowing Authority						
Contract Authority	66.6		818.9		362.7	
Net Transfers (+/-)						
Other						
Unobligated Balance						
Beginning Of Period	1,505.5		3,106.6		191.2	
Net Transfers, Actual (+/-)					78.0	
Anticipated Transfers Balances						
Spending Authority From Offsetting Collections						
Earned						
Collected	6,145.5		24,242.3		15,835.5	
Receivable From Federal Sources	(55.1)		(478.5)		102.2	
Change In Unfilled Customer Orders						
Advance Received	128.9		58.7		(262.2)	
Without Advance From Federal Sources	177.2		773.4		591.2	
Anticipated For The Rest Of Year, Without Advances						
Transfers From Trust Funds						
Subtotal	$ 6,396.5	$ 0.0	$ 24,595.9	$ 0.0	$ 16,266.7	$ 0.0
Recoveries Of Prior Year Obligations	403.9					
Temporarily Not Available Pursuant To Public Law						
Permanently Not Available			(417.2)		(141.0)	
Total Budgetary Resources	$ 8,539.9	$ 0.0	$ 28,104.2	$ 0.0	$ 16,790.5	$ 0.0

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

For the Years Ended September 30, 2002 and 2001	Military Retirement Fund		US Army Corp of Engineers		ODO General Fund	
	Budgetary Financing Accounts	Non-Budgetary Financing Accounts	Budgetary Financing Accounts	Non-Budgetary Financing Accounts	Budgetary Financing Accounts	Non-Budgetary Financing Accounts
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	$ 43,047.6	$ 0.0	$ 4,325.0	$ 0.0	$ 89,402.0	$ 44.2
Borrowing Authority						
Contract Authority					491.3	
Net Transfers (+/-)			1,006.2		(12,938.9)	
Other						
Unobligated Balance						
Beginning Of Period	161,409.6		1,713.3		12,975.2	5.3
Net Transfers, Actual (+/-)			(23.1)		8,462.5	
Anticipated Transfers Balances						
Spending Authority From Offsetting Collections						
Earned						
Collected			4,837.6		4,467.5	22.3
Receivable From Federal Sources			(53.5)		(1,031.6)	90.6
Change In Unfilled Customer Orders						
Advance Received			37.3		40.2	
Without Advance From Federal Sources			115.6		84.0	
Anticipated For The Rest Of Year, Without Advances						
Transfers From Trust Funds						
Subtotal	$ 0.0	$ 0.0	$ 4,937.0	$ 0.0	$ 3,560.1	$ 112.9
Recoveries Of Prior Year Obligations						
Temporarily Not Available Pursuant To Public Law					3,251.0	
Permanently Not Available			(16.5)		(2,166.0)	
Total Budgetary Resources	$ 204,457.2	$ 0.0	$ 11,941.9	$ 0.0	$ 103,037.2	$ 162.4

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

For the Years Ended September 30, 2002 and 2001	ODO Working Capital Fund Budgetary Financing Accounts	ODO Working Capital Fund Non-Budgetary Financing Accounts	2002 Combined Budgetary Financing Accounts	2002 Combined Non-Budgetary Financing Accounts
BUDGETARY RESOURCES				
Budget Authority				
Appropriations Received	$ 1,180.6	$ 0.0	$ 415,113.9	$ 44.2
Borrowing Authority				
Contract Authority	578.5		2,318.0	
Net Transfers (+/-)	(2.1)		986.6	
Other				
Unobligated Balance				
Beginning Of Period	2,486.7		210,128.9	6.0
Net Transfers, Actual (+/-)			9,107.7	
Anticipated Transfers Balances				
Spending Authority From Offsetting Collections				
Earned				
Collected	37,359.8		117,942.4	22.3
Receivable From Federal Sources	535.2		(1,116.6)	90.6
Change In Unfilled Customer Orders				
Advance Received	(11.9)		185.9	
Without Advance From Federal Sources	484.7		3,576.2	
Anticipated For The Rest Of Year, Without Advances				
Transfers From Trust Funds				
Subtotal	$ 38,367.8	$ 0.0	$ 120,587.9	$ 112.9
Recoveries Of Prior Year Obligations	12.4		15,293.1	
Temporarily Not Available Pursuant To Public Law				
Permanently Not Available	(182.4)		(7,954.7)	
Total Budgetary Resources	$ 42,441.5	$ 0.0	$ 765,581.4	$ 163.1

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

For the Years Ended September 30, 2002 and 2001	2001 Combined Restated Budgetary Financing Accounts	2001 Combined Restated Non-Budgetary Financing Accounts	2001Combined Budgetary Financing Accounts	2001Combined Non-Budgetary Financing Accounts
BUDGETARY RESOURCES				
Budget Authority				
Appropriations Received	$ 366,707.7	$ 0.0	$ 366,707.7	$ 0.0
Borrowing Authority				
Contract Authority	4,488.4		4,488.4	
Net Transfers (+/-)	8,622.7		8,622.7	
Other				
Unobligated Balance				
Beginning Of Period	201,966.5		201,966.5	
Net Transfers, Actual (+/-)	(2,846.2)		(2,846.2)	
Anticipated Transfers Balances				
Spending Authority From Offsetting Collections				
Earned				
Collected	104,953.3		104,953.3	
Receivable From Federal Sources	(817.1)		(817.1)	
Change In Unfilled Customer Orders				
Advance Received	(844.1)		(844.1)	
Without Advance From Federal Sources	497.1		497.1	
Anticipated For The Rest Of Year, Without Advances				
Transfers From Trust Funds				
Subtotal	$ 103,789.2	$ 0.0	$ 103,789.2	$ 0.0
Recoveries Of Prior Year Obligations	18,522.4		18,522.4	
Temporarily Not Available Pursuant To Public Law				
Permanently Not Available	(7,727.8)		(7,727.8)	
Total Budgetary Resources	$ 693,522.9	$ 0.0	$ 693,522.9	$ 0.0

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

	General Fund					
	Army		Navy		Air Force	
For the Years Ended September 30, 2002 and 2001	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred						
Direct	$ 91,731.9	$ 0.0	$ 99,307.8	$ 0.0	$ 100,622.1	$ 0.0
Reimbursable	14,715.0		12,208.8		7,849.9	
Subtotal	$ 106,446.9	$ 0.0	$ 111,516.6	$ 0.0	$ 108,472.0	$ 0.0
Unobligated Balance						
Apportioned	4,788.5	0.7	10,590.6		5,268.2	
Exempt From Apportionment					4.6	
Other Available			(0.1)			
Unobligated Balances Not Available	1,069.6		1,318.4		793.7	
Total, Status of Budgetary Resources	$ 112,305.0	$ 0.7	$ 123,425.5	$ 0.0	$ 114,538.5	$ 0.0
Relationship of Obligations to Outlays						
Obligated Balance, Net – Beginning Of Period	$ 31,626.6	$ 0.0	$ 52,333.8	$ 0.0	$ 37,049.2	$ 0.0
Obligated Balance Transferred, Net (+/-)						
Obligated Balance, Net – End Of Period:						
Accounts Receivable	(1,467.7)		(2,109.4)		(1,482.0)	
Unfilled Customer Order From Federal Sources	(7,161.0)		(2,027.2)		(465.2)	
Undelivered Orders	30,611.3		55,633.8		34,030.7	
Accounts Payable	11,679.7		4,603.0		9,738.7	
Outlays						
Disbursements	$ 95,105.4	$ 0.0	$ 105,540.3	$ 0.0	$ 102,374.1	$ 0.0
Collections	(12,099.7)		(6,491.2)		(6,658.1)	
Subtotal	$ 83,005.7	$ 0.0	$ 99,049.1	$ 0.0	$ 95,716.0	$ 0.0
Less: Offsetting Receipts	(184.8)		(213.3)		(121.2)	
Net Outlays	$ 82,820.9	$ 0.0	$ 98,835.8	$ 0.0	$ 95,594.8	$ 0.0

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

	Working Capital Fund					
	Army		Navy		Air Force	
For the Years Ended September 30, 2002 and 2001	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred						
Direct	$ 171.7	$ 0.0	$ 0.0	$ 0.0	$ 32.9	$ 0.0
Reimbursable	6,660.0		23,987.0		16,451.8	
Subtotal	$ 6,831.7	$ 0.0	$ 23,987.0	$ 0.0	$ 16,484.7	$ 0.0
Unobligated Balance						
Apportioned	1,708.2		4,117.2		305.8	
Exempt From Apportionment						
Other Available						
Unobligated Balances Not Available						
Total, Status of Budgetary Resources	$ 8,539.9	**$** 0.0	**$** 28,104.2	**$** 0.0	$ 16,790.5	**$** 0.0
Relationship of Obligations to Outlays						
Obligated Balance, Net – Beginning Of Period	$ 1,129.5	$ 0.0	$ 2,421.1	$ 0.0	$ 3,490.4	$ 0.0
Obligated Balance Transferred, Net (+/-)						
Obligated Balance, Net – End Of Period:						
Accounts Receivable	(280.2)		(773.3)		(1,061.4)	
Unfilled Customer Order From Federal Sources	(2,300.5)		(6,792.0)		(3,798.8)	
Undelivered Orders	2,770.0		7,328.0		5,698.6	
Accounts Payable	729.3		3,223.1		2,665.7	
Outlays						
Disbursements	$ 6,516.4	$ 0.0	$ 23,127.4	$ 0.0	$ 15,775.5	$ 0.0
Collections	(6,274.4)		(24,300.9)		(15,573.4)	
Subtotal	$ 242.0	$ 0.0	$ (1,173.5)	$ 0.0	$ 204.1	$ 0.0
Less: Offsetting Receipts						
Net Outlays	$ 242.0	**$** 0.0	**$** (1,173.5)	**$** 0.0	$ 204.1	**$** 0.0

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

For the Years Ended September 30, 2002 and 2001	Military Retirement Fund		US Army Corp of Engineers		ODO General Fund	
	Budgetary Financing Accounts	Non-Budgetary Financing Accounts	Budgetary Financing Accounts	Non-Budgetary Financing Accounts	Budgetary Financing Accounts	Non-Budgetary Financing Accounts
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred						
Direct	$ 35,188.0	$ 0.0	$ 5,415.4	$ 0.0	$ 86,666.7	$ 142.4
Reimbursable			4,785.5		3,773.3	
Subtotal	$ 35,188.0	$ 0.0	$ 10,200.9	$ 0.0	$ 90,440.0	$ 142.4
Unobligated Balance						
Apportioned			1,246.1		9,153.6	
Exempt From Apportionment	169,269.2		495.0		1,791.7	
Other Available			(0.1)		0.1	
Unobligated Balances Not Available					1,651.8	20.0
Total, Status of Budgetary Resources	$ 204,457.2	$ 0.0	$ 11,941.9	$ 0.0	$ 103,037.2	$ 162.4
Relationship of Obligations to Outlays						
Obligated Balance, Net – Beginning Of Period	$ 3,006.8	$ 0.0	$ 1,098.0	$ 0.0	$ 22,388.8	$ 0.0
Obligated Balance Transferred, Net (+/-)						
Obligated Balance, Net – End Of Period:						
Accounts Receivable			(235.4)		(697.4)	90.6
Unfilled Customer Order From Federal Sources			(1,373.1)		(636.6)	
Undelivered Orders			1,475.2		29,232.1	89.6
Accounts Payable	3,135.1		1,180.7		4,222.8	0.7
Outlays						
Disbursements	$ 35,059.7	$	10,189.4		78,404.4	52.0
Collections			(4,875.0)		(4,507.7)	(22.3)
Subtotal	$ 35,059.7	$ 0.0	$ 5,314.4	$ 0.0	$ 73,896.7	$ 29.7
Less: Offsetting Receipts	(42,380.1)		(819.3)		(1,875.1)	
Net Outlays	$ (7,320.4)	$ 0.0	$ 4,495.1	$ 0.0	$ 72,021.6	$ 29.7

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

For the Years Ended September 30, 2002 and 2001	ODO Working Capital Fund Budgetary Financing Accounts	ODO Working Capital Fund Non-Budgetary Financing Accounts	2002 Combined Budgetary Financing Accounts	2002 Combined Non-Budgetary Financing Accounts
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	$ 1,103.1	$ 0.0	$ 420,239.6	$ 142.4
Reimbursable	37,614.0		128,045.3	
Subtotal	$ 38,717.1	$ 0.0	$ 548,284.9	$ 142.4
Unobligated Balance				
Apportioned	3,724.5		40,902.7	0.7
Exempt From Apportionment			171,560.5	
Other Available	(0.1)		(0.2)	0.0
Unobligated Balances Not Available			4,833.5	20.0
Total, Status of Budgetary Resources	$ 42,441.5	**$** 0.0	**$** 765,581.4	**$** 163.1
Relationship of Obligations to Outlays				
Obligated Balance, Net - Beginning Of Period	$ 8,285.1	$ 0.0	$ 162,829.3	$ 0.0
Obligated Balance Transferred, Net (+/-)				
Obligated Balance, Net - End Of Period:				
Accounts Receivable	(2,822.5)		(10,929.3)	90.6
Unfilled Customer Order From Federal Sources	(2,866.7)		(27,421.1)	
Undelivered Orders	9,441.6		176,221.3	89.6
Accounts Payable	4,588.3		45,766.4	0.7
Outlays				
Disbursements	$ 37,629.1	$	$ 509,723.7	$ 52.0
Collections	37,347.8		(118,128.2)	(22.3)
Subtotal	$ 281.3	$ 0.0	$ 391,595.5	$ 29.7
Less: Offsetting Receipts			(45,593.8)	
Net Outlays	$ 281.3	**$** 0.0	**$** 346,001.7	**$** 29.7

Department of Defense Agency-wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
($ in millions)

For the Years Ended September 30, 2002 and 2001	2001 Combined Restated		2001 Combined	
	Budgetary Financing Accounts	**Non-Budgetary Financing Accounts**	**Budgetary Financing Accounts**	**Non-Budgetary Financing Accounts**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	$ 378,580.4	$ 0.0	$ 378,580.4	$ 0.0
Reimbursable	104,466.9		104,466.9	
Subtotal	$ 483,047.3	$ 0.0	$ 483,047.3	$ 0.0
Unobligated Balance				
Apportioned	40,513.5		40,513.5	
Exempt From Apportionment	164,030.6		164,030.6	
Other Available	(0.2)		(0.2)	
Unobligated Balances Not Available	5,931.7		5,931.7	
Total, Status of Budgetary Resources	$ 693,522.9	**$** 0.0	**$** 693,522.9	**$** 0.0
Relationship of Obligations to Outlays				
Obligated Balance, Net - Beginning Of Period	$ 150,690.2	$ 0.0	$ 150,690.2	$ 0.0
Obligated Balance Transferred, Net (+/-)				
Obligated Balance, Net - End Of Period:				
Accounts Receivable	(12,028.1)		(12,028.1)	
Unfilled Customer Order From Federal Sources	(23,844.7)		(23,844.7)	
Undelivered Orders	154,659.4		154,659.4	
Accounts Payable	43,679.1		43,679.1	
Outlays				
Disbursements	$ 453,069.1	$	$ 453,069.1	$
Collections	(104,109.1)	2.5	(104,109.1)	2.5
Subtotal	$ 348,960.0	$ 2.5	$ 348,960.0	$ 2.5
Less: Offsetting Receipts				
Net Outlays	$ 348,960.0	**$** 2.5	**$** 348,960.0	**$** 2.5

Department of Defense Agency-wide
COMBINING STATEMENT OF FINANCING
($ in millions)

For the Years Ended September 30, 2002 and 2001	General Fund *Army*	General Fund *Navy*	General Fund Air Force	Working Capital Fund Army	Working Capital Fund Navy	Working Capital Fund Air Force	Military Retirement Fund
Resources Used to Finance Activities							
Budgetary Resources Obligated							
Obligations Incurred	$ 106,446.9	$ 111,516.5	$ 108,472.0	$ 6,831.6	$ 23,987.0	$ 16,484.7	$ 35,188.0
Less: Spending Authority From Offsetting Collections And Recoveries (-)	(21,405.6)	(8,701.1)	(7,983.0)	(6,800.4)	(24,595.8)	(16,266.8)	0.0
Obligations Net Of Offsetting Collections And Recoveries	$ 85,041.3	$ 102,815.4	$ 100,489.0	$ 31.2	$ (608.8)	$ 217.9	$ 35,188.0
Less: Offsetting Receipts (-)	(184.8)	(213.3)	(121.2)	0.0	0.0	0.0	(42,380.1)
Net Obligations	$ 84,856.5	$ 102,602.1	$ 100,367.8	$ 31.2	$ (608.8)	$ 217.9	$ (7,192.1)
Other Resources							
Donations And Forfeitures Of Property	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Transfers In/Out Without Reimbursement (+/-)	0.0	0.0	26.7	0.0	0.0	0.0	0.0
Imputed Financing From Costs Absorbed By Others	688.3	525.3	597.1	109.9	465.6	127.2	0.0
Other (+/-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Other Resources Used To Finance Activities	$ 688.3	$ 525.3	$ 623.8	$ 109.9	$ 465.6	$ 127.2	$ 0.0
Total Resources Used To Finance Activities	$ 85,544.8	$ 103,127.4	$ 100,991.6	$ 141.1	$ (143.2)	$ 345.1	$ (7,192.1)
Resources Used To Finance Items Not Part Of The Net Cost Of Operations							
Change In Budgetary Resources Obligated For Goods, Services And Benefits Ordered But Not Yet Provided							
Undelivered Orders (-)	$ (2,138.9)	$ (10,676.3)	$ (2,222.8)	$ 259.2	$ (3,023.6)	$ (385.9)	$ 0.0
Unfilled Customer Orders	1,251.9	187.9	105.3	306.1	832.1	329.1	0.0
Resources That Fund Expenses Recognized In Prior Periods	(5,656.7)	(620.2)	(651.9)	(4.1)	(46.7)	0.0	0.0
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost Of Operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Resources That Finance The Acquisition Of Assets	(152.2)	7,487.8	(10,860.0)	(338.3)	5,167.2	(1,402.5)	0.0
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	0.0	0.0	0.0	0.0	0.0
Other (+/-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Resources Used To Finance Items Not Part Of The Net Cost Of Operations	$ (6,695.9)	$ (3,620.9)	$ (13,629.4)	$ 222.9	$ 2,929.0	$ (1,459.3)	$ 0.0
Total Resources Used To Finance The Net Cost Of Operations	$ 78,848.9	$ 99,506.5	$ 87,362.2	$ 364.0	$ 2,785.8	$ (1,114.2)	$ (7,192.1)

Department of Defense Agency-wide
COMBINING STATEMENT OF FINANCING
($ in millions)

For the Years Ended September 30, 2002 and 2001	US Army Corps of Engineers	ODO General Funds	ODO Working Capital Funds	2002 Combined	2001 Combined Restated	2001 Combined
Resources Used to Finance Activities						
Budgetary Resources Obligated						
Obligations Incurred	$ 10,200.9	90,582.3	$ 38,717.1	$ 548,427.0	$ 483,047.1	$ 483,047.1
Less: Spending Authority From Offsetting Collections And Recoveries (-)	(4,937.1)	(6,924.0)	(38,380.1)	(135,993.9)	(122,311.5)	(122,311.5)
Obligations Net Of Offsetting Collections And Recoveries	$ 5,263.8	$ 83,658.3	$ 337.0	$ 412,433.1	$ 360,735.6	$ 360,735.6
Less: Offsetting Receipts (-)	(819.3)	(1,875.1)	0.0	(45,593.8)	(41,286.0)	(41,286.0)
Net Obligations	**$ 4,444.5**	**$ 81,783.2**	**$ 337.0**	**$ 366,839.3**	**$ 319,449.6**	**$ 319,449.6**
Other Resources						
Donations And Forfeitures Of Property	$ 0.3	$ 0.0	$ 0.0	$ 0.3	$ 0.3	$ 0.3
Transfers In/Out Without Reimbursement (+/-)	1.2	0.0	(3.8)	24.1	(946.4)	(946.4)
Imputed Financing From Costs Absorbed By Others	209.0	508.4	289.2	3,520.0	3,421.5	3,421.5
Other (+/-)	16.7	(492.4)	0.2	(475.5)	(513.6)	(513.6)
Net Other Resources Used To Finance Activities	$ 227.2	16.0	$ 285.6	$ 3,068.9	$ 1,961.8	$ 1,961.8
Total Resources Used To Finance Activities	**$ 4,671.7**	**$ 81,799.2**	**$ 622.6**	**$ 369,908.2**	**$ 321,411.4**	**$ 321,411.4**
Resources Used To Finance Items Not Part Of The Net Cost Of Operations						
Change In Budgetary Resources Obligated For Goods, Services And Benefits Ordered But Not Yet Provided						
Undelivered Orders (-)	$ (2.7)	$ (8,931.8)	$ (1,257.2)	$ (28.380.0)	$ (2,585.2)	$ (2,565.2)
Unfilled Customer Orders	153.0	124.2	472.8	3,762.3	(347.2)	(347.2)
Resources That Fund Expenses Recognized In Prior Periods	0.0	(252.9)	(84.9)	(7,317.4)	(803.0)	(803.0)
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost Of Operations	819.3	0.0	0.0	819.3	0.0	0.0
Resources That Finance The Acquisition Of Assets	(2,461.6)	(438.9)	(1,162.1)	(4,160.6)	(15,543.3)	(16,363.3)
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	0.0	0.0	0.0	0.0
Other (+/-)	0.0	(1.1)	0.0	(1.1)	3,350.7	3,350.7
Total Resources Used To Finance Items Not Part Of The Net Cost Of Operations	**$ (1,492.0)**	**$ (9,500.5)**	**$ (2,031.4)**	**$ (35,277.5)**	**$ (15,908.0)**	**$ (16,728.0)**
Total Resources Used To Finance The Net Cost Of Operations	**$ 3,179.7**	**$ 72,298.7**	**$ (1,408.8)**	**$ 334,630.7**	**$ 305,503.4**	**$ 304,683.4**

Department of Defense Agency-wide
COMBINING STATEMENT OF FINANCING
($ in millions)

	General Fund			Working Capital Fund			
For the Years Ended September 30, 2002 and 2001	*Army*	*Navy*	Air Force	Army	Navy	Air Force	Military Retirement Fund
Components Of The Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period							
Components Requiring Or Generating Resources In Future Periods							
Increase In Annual Leave Liability	$ 276.7	$ 263.1	$ (71.3)	$ 2.2	$ 0.0	$ 0.0	$ 0.0
Increase In Environmental And Disposal Liability	0.0	595.5	1,117.4	0.0	0.0	0.0	0.0
Upward/Downward Reestimates Of Credit Subsidy Expense (+/-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase In Exchange Revenue Receivable From The Public (-/+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (+/-)	1,486.9	117.6	73.2	1.1	0.0	5.6	21,666.5
Total Components Of Net Cost Of Operations That Will Require Or Generate Resources In Future Periods	$ 1,763.6	$ 976.2	$ 1,119.3	$ 3.3	$ 0.0	$ 5.6	$ 21,666.5
Components Not Requiring Or Generating Resources							
Depreciation And Amortization	$ 596.8	$ 916.4	$ 1,795.1	$ 105.1	$ 210.5	$ 124.6	$ 0.0
Revaluation Of Assets Or Liabilities (+/-)	(1,793.3)	(1,684.4)	3,715.5	107.7	(555.4)	0.0	0.0
Other (+/-)	603.9	2,900.8	(2,252.3)	8.0	0.0	0.0	1.3
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources	$ (592.6)	$ 2,132.8	$ 3,258.3	$ 220.8	$ (344.9)	$ 124.6	$ 1.3
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period	1,171.0	3,109.0	4,377.6	224.1	(344.9)	130.2	21,667.8
Net Cost Of Operations	$ 80,019.9	$ 102,615.5	$ 91,739.8	$ 588.1	$ 2,440.9	$ (984.0)	$ 14,475.7

Department of Defense Agency-wide
COMBINING STATEMENT OF FINANCING
($ in millions)

For the Years Ended September 30, 2002 and 2001	US Army Corps of Engineers	ODO General Funds	ODO Working Capital Funds	2002 Combined	2001 Combined Restated	2001 Combined
Components Of The Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period						
Components Requiring Or Generating Resources In Future Periods						
Increase In Annual Leave Liability	$ 0.0	$ (0.4)	$ 8.0	$ 478.3	$ 0.0	$ 0.0
Increase In Environmental And Disposal Liability	0.0	0.0	0.0	1,712.9	0.0	0.0
Upward/Downward Re-estimates Of Credit Subsidy Expense (+/-)	0.0	0.0	0.0	0.0	0.0	0.0
Increase In Exchange Revenue Receivable From The Public (-/+)	(3.4)	(1.6)	1.7	(3.3)	(0.7)	(0.7)
Other (+/-)	41.5	10,871.8	5.6	34,269.8	411,921.9	411,921.9
Total Components Of Net Cost Of Operations That Will Require Or Generate Resources In Future Periods	**$ 38.1**	**$ 10,869.8**	**$ 15.3**	**$ 36,457.7**	$ 411,921.2	$ 411,921.2
Components Not Requiring Or Generating Resources						
Depreciation And Amortization	$ 475.5	$ 419.7	$ 572.1	$ 5,215.8	$ 6,453.9	$ 6,453.9
Revaluation Of Assets Or Liabilities (+/-)	0.0	0.0	(167.5)	(377.4)	2,861.4	2,861.4
Other (+/-)	0.5	3,196.3	31.1	4,489.6	4,192.3	4,192.3
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources	**$ 476.0**	**$ 3,616.0**	**$ 435.7**	**$ 9,328.0**	$ 13,507.6	$ 13,507.6
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period	**$ 514.1**	**$ 14,485.8**	**$ 451.0**	**$ 45,785.7**	$ 425,428.8	$ 425,428.8
Net Cost Of Operations	**$ 3,693.8**	**$ 86,784.5**	**$ (957.8)**	**$ 380,416.4**	$ 730,932.2	$ 730,112.2

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Required Supplementary Stewardship Information

Fiscal Year 2002

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National Defense Property, Plant and Equipment

The Federal Accounting Standards Advisory Board (FASAB) amended the Statement of Federal Financial Accounting Standard No. 6 to require the capitalization and depreciation of military equipment (formerly known as National Defense Property, Plant and Equipment) for fiscal years (FY) 2003 and beyond, and encouraged early implementation. Accordingly, the Department began the process of developing and reporting values for these assets in notes to the Balance Sheet, beginning in FY 2002.

Heritage Assets

DEPARTMENT OF DEFENSE CONSOLIDATED
HERITAGE ASSETS
For Fiscal Year Ended September 30, 2002

Categories	Unit of Measure	As of 10/01/01	Additions	Deletions	As of 9/30/02
Museums	Each	257	16	12	261
Monuments & Memorials	Each	1,281	207	24	1,464
Cemeteries & Archeological Sites	Sites	25,253	348	9	25,592
Buildings & Structures	Each	19,237	129	437	18,929
Major Collections	Each	10	0	0	10

Heritage Assets are property, plant and equipment items that are unique due to their historical or natural significance; cultural, educational or artistic importance; and/or significant architectural characteristics. The FY 2002 beginning balances were changed to reflect Military Department-level adjustments.

The processes used to establish items as having heritage significance vary among categories and type of assets. Subject matter experts, criteria such as listing on the National Register of Historic Places, and Federal statutes, all play a significant role in characterizing these assets.

The condition assessment of Heritage Assets is based on whether the assets are being cared for and safeguarded in accordance with relevant regulations. The Department's Heritage Assets are in acceptable or good condition, and are appropriately safeguarded.

Heritage assets that are also used for general government operations, such as the Pentagon, are classified as Multi-Use Heritage Assets and are reported as both Heritage Assets and Balance Sheet items

The FY 2002 categories are defined as follows:

- Museums - Buildings that house collection-type items including artwork, archeological artifacts, archival materials, and other historical artifacts. The primary use of such buildings is the preservation, maintenance and display of collection-type Heritage Assets.

- Monuments and Memorials - Sites and structures built to honor and preserve the memory of significant individuals and/or events in history.

- Cemeteries and Archeological Sites - Land on which gravesites of prominent historical figures and/or items of significance are located.

- Buildings and Structures - Includes buildings and structures that are listed on, or are eligible for listing on, the National Register of Historic Places, including Multi-Use Heritage Assets. These buildings do not include museums.

- Major Collections - Significant collections that are maintained outside of a museum.

Supplemental information pertaining to Army, Navy and Air Force Heritage Assets follows.

Department of the Army

The opening balance for the Major Collection category was increased because the Army Tank-Automotive and Armaments Command identified six major collections not reported previously. Additions and deletions, in the number of cemeteries and historical structures that are reported, result primarily from CFO audits.

Department of the Navy

The FY 2001 ending balance for Monuments and Memorials was decreased by 704 resulting in an FY 2002 beginning balance of 475. This adjustment resulted from a Department of the Navy decision to utilize the Navy Facility Assets Data Store to collect Heritage Asset information.

Department of the Air Force

The Air Force Museum located at Wright-Patterson Air Force Base, Ohio, houses the main collection of historical artifacts that are registered as historical property in the U.S. Air Force Museum System. The other Air Force museums are considered Air Force Field Museums or Heritage Centers, which also contain items of historical interest; some however, are specific to the general locality.

Except for 28 memorials that are located on various Air Force bases throughout the United States, the memorials and monuments reported by the Air Force are located at the Air Force Academy in the Air Gardens and Honor Court. Most of these monuments and memorials honor specific individuals or cadet wings for various accomplishments.

The Air Force has administrative and curatorial responsibilities for 39 cemeteries on its bases. The cemeteries are maintained by the bases and are in good condition. The Air Force has 1,685 listed archeological sites. The Air Force also has 9,779 potentially eligible archeological sites and 2,464 non-eligible sites, none of which are listed on this report.

The Air Force currently considers 4,074 buildings and structures as Heritage Assets. Most of these buildings and structures are considered Multi-use Heritage Assets and, as such, are reported as General Property, Plant and Equipment on the Balance Sheet. The buildings and structures are maintained by each base civil engineering group and are considered to be in good condition.

The Air Force has four significant or major collections consisting of: (a) the Air Force Art Collection, and (b) three collections at the Air Force Academy containing historical items and memorabilia as well as distinctive works of art. The Air Force Art collection consists of original oils, drawings, sketches and sculptures.

Stewardship Land

DEPARTMENT OF DEFENSE CONSOLIDATED
STEWARDSHIP LAND
For Fiscal Year Ended September 30, 2002
(Acres in Thousands)

Land Use	As of 10/01/01	Additions	Deletions	As of 9/30/02
1. Mission	16,844	--	97	16,747
2. Parks and Historic Sites	1	--	--	1
Total	**16,845**			**16,748**

Stewardship Land is land that is not acquired for, or in connection with, items of General Property, Plant and Equipment. All land, regardless of its use, provided to the Department from the Public Domain, or at no cost, is classified as Stewardship Land. Stewardship Land is reported in physical units (acres) rather than cost or fair value.

Stewardship Land transactions during the year consisted of deletions through the disposal of property using the Base Realignment and Closure process.

Nonfederal Physical Property

DEPARTMENT OF DEFENSE CONSOLIDATED
NONFEDERAL PHYSICAL PROPERTY
Annual Investments in State and Local Governments
For Fiscal Years 1998 through 2002
(In Millions of Dollars)

Categories	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Transferred Assets:					
National Defense Mission Related	$34	$20	$5	$95	$7
Funded Assets:					
National Defense Mission Related	--	17	7	20	21
Total	**$34**	**$37**	**$12**	**$115**	**$28**

The Department incurs investments in Nonfederal Physical Property for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets. In addition, Nonfederal Physical Property Investments include federally owned physical property transferred to state and local governments.

Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD accounting systems are unable to capture and summarize costs in accordance with Federal Accounting Standards Advisory Board requirements.

Department of the Army

The total reported transferred asset values are for non-cash items that were transferred to state and local governments by the Department of the Army. These properties are essential in accomplishing the mission of the Army National Guard. The Army National Guard funds maintenance costs for these nonfederal assets.

Department of the Air Force

The total reported funded asset values are Air National Guard investments in Military Construction Cooperative Agreements. These agreements involve the transfer of funds and allow joint participation with states, counties, and airport authorities for construction or repair of airfield pavements and facilities required to support the flying mission assigned to civilian airfields.

Investments in Research and Development

DEPARTMENT OF DEFENSE CONSOLIDATED INVESTMENTS IN RESEARCH AND DEVELOPMENT
Annual Investments in Research and Development
For Fiscal Years 1998 through 2002
(In Millions of Dollars)

Categories	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
1. Basic Research	$1,258	$1,115	$812	$1,311	$1,356
2. Applied Research	2,756	2,985	3,095	3,843	4,311
3. Development					
A. Advanced Technology Development	3,861	4,444	3,753	4,383	4,604
B. Demonstration and Validation	6,762	6,564	6,557	8,166	10,525
C. Engineering and Manufacturing Development	8,336	7,934	8,353	8,831	9,500
D. Research, Development, Test & Evaluation Management Support	3,331	3,146	2,954	2,946	3,351
E. Operational Systems Development	9,850	9,801	10,124	11,000	11,804
4. Other	1,585	1,636	1,906	--	--
Total	**$37,739**	**$37,625**	**$37,554**	**$40,480**	**$45,451**

DoD Research and Development programs are classified in the following categories:

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. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicality of proposed solutions. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system 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 is comprised of five stages defined below:

1. Advanced Technology Development (ATD) is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operability and producibility rather than the development of hardware for service use. ATD typically employs demonstration activities intended to prove or test a technology or method.

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

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

4. Management Support is support for installations and operations for general research and development use. This category includes test ranges, military construction, maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the Research and Development program.

5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

Investment values included in this report are based on research, development, test and evaluation (RDT&E) outlays (expenditures). Outlays are used because current DoD accounting systems are unable to capture and summarize costs in accordance with the Federal Accounting Standards Advisory Board requirements.

Representative program examples for each of the major Research and Development categories are provided below:

Department of the Army

- **Basic Research**

  Defense Research Sciences: This program sustains scientific and technological superiority in land warfighting capability, provides new concepts and technologies for the Army's Objective Force, and the means to exploit scientific breakthroughs and avoid technological surprise. This program responds to the scientific and technological requirements of the DoD Basic Research Plan, the Army Science and Technology Master Plan, and the Army Modernization Plan, enabling technologies that can significantly improve joint warfighting capabilities. The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to expeditiously transition knowledge and technology into the appropriate developmental activities.

University and Industry Research Centers: This program leverages research in the private sector through Federated Laboratories, Collaborative Technology Alliances (CTA), Centers of Excellence, and the University Affiliated Research Centers. A significant portion of the work performed within this program directly supports Objective Force requirements, providing the enabling technologies that make Objective Force equipment development possible. CTAs are innovative alliances among government, industry and academic organizations, built to exploit scientific and technological breakthroughs, and to transition them to exploratory development and applied research. CTAs will be competitively established in the areas of Advanced Sensors, Advanced Decision Architecture, Communications and Networks, Power and Energy, and Robotics.

- **Applied Research**

Combat Vehicle and Automotive Technology: This program develops component technology to improve automotive and survival capabilities of Army ground vehicle systems for the Objective Force and funds a portion of the Army's share of the Army/Defense Advanced Research Project Agency (DARPA) collaborative Future Combat Systems (FCS) program. Funding supports both the FCS design and demonstration activities, and critical enabling technologies at DARPA. To achieve the Army vision, systems must be more strategically deployable and agile, with a smaller logistical footprint. These lighter ground vehicles must also be more lethal, survivable, and tactically mobile.

- **Development**

Medical Technology: This program supports focused research for healthy, medically protected soldiers, and research consistent with the Medical Survivability and Future Warrior technology areas of the Objective Force. The primary goal of this program is to provide, with minimum adverse effects, maximum soldier survivability and sustainability on the integrated battlefield, as well as in military operations other than war. This program funds advanced technology development for the DoD core Vaccine and Drug Program, field medical protective devices, and combat injury management.

Comanche: This program provides for the development, operational testing and evaluation of the RAH-66 Comanche and the T800-801 growth engine. The Comanche is a multi-mission aircraft optimized for the critical battlefield mission of tactical armed reconnaissance. It provides a globally self-deployable attack platform for light/contingency forces. Comanche provides the solution to reconnaissance deficiencies (i.e. no night/adverse weather/high/hot/ stand-off capability) and is a key component on the digitized battlefield in winning the information war. The Comanche is the Army's technology leader and provides significant horizontal technology transfer within the Army and DoD. This program also provides for the continued development and qualification of the T800-801 growth engine and air vehicle support for integration into the Comanche aircraft. It includes funding for the operational testing of Comanche, as well as modeling and simulation accreditation for Early User Test, Limited User Test and Initial Operational Test and Evaluation.

Department of the Navy

- **Basic Research**

Partial Differential Equation-Based Interpolation of Lost Image Regions: Scientists and researchers have developed computer techniques that can interpolate images of lost regions based on partial differential equations and computer algorithms. Utilizing the relationships between art, image processing, applied mathematics, and fluid dynamics, the computer techniques automatically fill-in the lost pieces of an image by using information from neighboring available regions. The technology may increase the quality of imagery and video surveillance by overcoming obstacles associated with bandwidth and noisy channels.

Controlled Biological and Biometric Systems (Robotic Fly Project): Scientists formed a joint military and university research project team to develop a tiny winged robot modeled after a housefly and successfully invented the mechanical wings necessary to give the robotic fly flight. Upon completion of the robotic insect, the faux fly will likely become the lightest weight autonomous robot in existence at a mere tenth of a gram. The robotic fly project is part of an overall study by the Defense Advanced Research Project Agency and the Office of Naval Research.

- **Applied Research**

Robotic Gliders: Scientists and researchers are developing two gliders that move through the water instead of the air. The two ocean gliders, autonomous underwater vehicles powered by changes in their buoyancy or by different temperature layers in the ocean, collect high resolution profiles of physical, chemical, and bio-optical properties of the ocean. The gliders could potentially provide data necessary for mine countermeasures and other tasks important to expeditionary warfare.

Supersonic Combustion Ramjet (SCRAMJET): The SCRAMJET is a cruise missile engine capable of speeds of up to MACH 6.5 at an altitude of 90,000 feet and a range of 600 nautical miles. Ultimately, missiles powered by SCRAMJET will launch from ships, submarines, and aircraft. The SCRAMJET powered missiles will reach their targets more quickly, thus reducing the possibility that enemies will intercept them on the way in.

- **Development**

High Strength, Low Alloy Steel (HSLA): A new high strength, low alloy steel, HSLA-65, is undergoing certification tests to determine whether it could be used in the Navy's next generation aircraft carrier. If the HSLA-65 passes the certification tests, the steel could provide equal or greater service life than traditional high-strength steel and weigh less. This will enable the carrier room for normal growth for new weapons, aircraft, sensors, communications, and maintenance equipment.

MV-22 Osprey: Technicians and engineers are continuing their development in support of the "Return to Flight" of the MV-22. The MV-22 has undergone a broad range of modifications per recommendations from the DoD and National Aeronautics and Space Administration (NASA) panels. Chief among the modifications was to the 5,000-psi high-pressure hydraulic system and rerouting of electrical lines. Software upgrades will be a part of the next Osprey production blocks.

Department of the Air Force

- **Basic Research**

The Air Force's (AF) Basic Research program funded basic scientific disciplines that are core to developing future warfighting capabilities. One example is the development of technology that could be the breakthrough for a new generation of computers (quantum computers). The AF Research Lab (AFRL) demonstrated the ability to stop light and release it again without losing any of its original characteristics. This development could lead to a breakthrough in nonlinear optics with applications from telecommunications to imaging. As another example, AFRL researchers developed a new mathematical theory that would result in a new radar wave that would aid in rapid and accurate target identification through foliage and beneath soil, which is better than any radar currently in use.

- **Applied Research:**

The AF's Applied Research program is developing technologies to support the Air and Space Force of the future. Technology developments are focused in those areas that are essential to warfighting capabilities. This investment strategy allows the AF to focus on those military-relevant technologies that are not being developed by industry. One example is the F119 turbine engine case redesign using a new casting process, with a predicted lifecycle cost savings of 35 percent. The redesign makes extensive use of thin-wall castings in place of the existing complex, multi-walled, and diffusion-bonded sheet metal assemblies. The AF is now looking at this technology for use on other aircraft engines. As another example, AFRL recently achieved a milestone in wireless Internet communications with the first commercial installation of the Space Communications Protocol Standards (SCPS) transport gateway over National Aeronautics and Space Administration's Advanced Communications Technology Satellite. The SCPS transport gateway offers up to several times the bandwidth utilization efficiency of the well-known Internet protocols.

- **Development**

The AF's Advanced Technology Development program demonstrates, in a realistic operational environment, integrated sets of technology to prove military worth and utility. One example is the AF and the Defense Advanced Research Projects Agency accomplishing the first Unmanned Combat Air Vehicle (UCAV) flight. This successful flight test demonstrated the command and control links between the aircraft and a mission-oriented ground station. As another example, AFRL demonstrated a 330 Gigahertz detector that operates at frequencies billions of times faster than the blink of an eye. This technology will be used to produce compact solid-state circuits operating at Terahertz frequencies. A likely technology application would be to enable a new generation of sensors to enhance homeland security.

Defense Advanced Research Projects Agency (DARPA)

- **Basic Research**

Metamaterials: Metamaterials are engineered nanocomposites that exhibit superior properties that are not observed in the constituent materials or nature. These superior properties are derived from the inclusion of artificially fabricated, extrinsic, low dimensional inhomogeneities. The objective of the DARPA Metamaterials program is to develop, fabricate, and implement new, bulk metamaterials for a number of applications that are of critical importance to the Military Services. DARPA has made considerable progress in understanding the physics of nanocomposite permanent magnets for achieving increased energy product, a figure-of-merit that determines the amount of work that can be extracted from a permanent magnet motor/generator.

BioSPICE: DARPA unveiled the first release of BioSPICE, a suite of software tools used to construct sophisticated computer models that simulate the complex behavior of living cells. BioSPICE Version 1.0 provides life science researchers with a powerful set of open source software modules that can be used to create computer models of many different cellular processes, thereby allowing investigators to explore research questions that are not currently amenable to direct experimentation. It is expected to prove particularly useful in simulating the effects of heretofore unknown pathogenic agents in order to rapidly respond to new biological threats.

- **Applied Research**

Augmented Cognition (AugCog): The AugCog program will extend, by an order-of-magnitude or more, the information management capacity of the "human-computer" combination by developing and demonstrating enhancements to human cognitive ability in diverse and stressful operational environments. Specifically, this program will develop the technologies needed to measure and track a subject's cognitive state in real-time. Military operators are often placed in complex human-machine interactive environments that fail when a stressful situation is encountered. The technologies under development in AugCog have the potential to enhance operational capability, support reduction in the numbers of persons required to perform current functions and improve human performance in stressful environments.

Babylon: The goal of the Babylon program is to develop rapid, two-way, natural language speech translation interfaces and platforms for users in combat and other field environments with constrained military task domains of force protection, refugee processing, and medical triage. Although this technology is immature and unstable due to the vast complexities of human-to-human communications and open-domain (multitask), and unconstrained dialog translation in multiple environments is still five to ten years away, DARPA's research is the stimulus to make sure that that capability becomes a reality.

- **Development**

A160 Hummingbird Unmanned Air Vehicle: The DARPA/Frontier Systems Inc. (Irvine, Calif.) Hummingbird A160 vertical takeoff and landing unmanned aerial vehicle successfully conducted its first forward flight. All flight systems, including avionics, flight control, power plant and drive train, fuel systems, electrical power generation, data link and telemetry performed completely as planned.

Unmanned Combat Air Vehicle (UCAV): The DARPA/Air Force/Boeing X-45A UCAV technology demonstration aircraft completed its first flight. The 14-minute flight is a key first step to provide a transformational combat capability for the Air Force later this decade. Flight characteristics and basic aspects of aircraft operations, particularly the command and control link between the aircraft and mission-control station, were successfully demonstrated. The UCAV program is a joint DARPA/Air Force System Demonstration Program (SDP). The overall purpose of the UCAV SDP is to design, develop, integrate, and demonstrate the critical technologies, processes, and system attributes pertinent to an operational UCAV system.

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Required Supplementary Information

Fiscal Year 2002

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Disaggregated Statement of Budgetary Resources
Budgetary Financing Accounts

Department of Defense Year Ending September 30, 2002 ($ in millions)	Military Retirement Fund	Other	Research, Development, Test & Evaluation	Civil Works	Operation and Maintenance	Procurement
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	$ 43,047.6	$ 39,365.0	$ 46,646.1	$ 4,325.0	$ 128,683.3	$ 62,239.8
Borrowing Authority						
Contract Authority		491.3				
Net Transfers (+/-)		(14,104.5)	363.6	1,006.2	7,849.2	1,078.4
Other						
Unobligated Balance						
Beginning Of Period	161,409.6	8,690.2	4,685.2	1,713.3	4,754.3	18,162.6
Net Transfers, Actual (+/-)		7,400.7	24.0	(23.1)	1,281.6	138.5
Anticipated Transfers Balances						
Spending Authority From Offsetting Collections						
Earned						
Collected		1,969.3	4,963.5	4,837.6	17,563.7	1,685.9
Receivable From Federal Sources		(477.4)	29.3	(53.5)	(467.0)	(87.1)
Change In Unfilled Customer Orders						
Advance Received		(2.7)	152.5	37.3	13.7	(8.8)
Without Advance From Federal Sources		(33.1)	302.2	115.6	804.1	230.1
Anticipated For The Rest Of Year, Without Advances						
Transfers From Trust Funds						
Subtotal		1,456.2	5,447.6	4,937.1	17,914.6	1,820.1
Recoveries Of Prior Year Obligations		412.1	1,582.0		8,903.5	1,456.7
Temporarily Not Available Pursuant To Public Law						
Permanently Not Available		(957.9)	(1,171.4)	(16.5)	(2,466.7)	(1,736.6)
Total Budgetary Resources	204,457.2	42,753.1	57,577.3	11,941.9	166,919.8	83,159.5
Status Of Budgetary Resources						
Obligations Incurred						
Direct	35,188.0	34,704.6	46,208.9	5,415.4	141,668.3	60,400.1
Reimbursable		1,574.3	5,741.0	4,785.5	19,958.6	7,756.0
Subtotal	35,188.0	36,278.9	51,949.9	10,200.9	161,626.8	68,156.1
Unobligated Balance						
Apportioned		3,882.1	5,410.9	1,246.1	2,452.9	14,572.3
Exempt From Apportionment	169,269.2	1,796.3		495.0		
Other Available						
Unobligated Balances Not Available		795.8	216.5		2,840.1	431.2
Total, Status Of Budgetary Resources	204,457.2	42,753.1	57,577.3	11,941.9	166,919.8	83,159.5
Relationship Of Obligations To Outlays:						
Obligated Balance, Net - Beginning Of Period	3,006.8	4,822.8	18,941.7	1,098.0	40,212.8	67,016.9
Obligated Balance Transferred, Net (+/-)						
Obligated Balance, Net ? End Of Period						
Accounts Receivable		218.5	(941.7)	(235.4)	(3,904.6)	(401.5)
Unfilled Customer Order From Federal		(96.3)	(1,777.8)	(1,373.1)	(4,370.2)	(1,129.2)

Disaggregated Statement of Budgetary Resources
Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2002 ($ in millions)	Military Retirement Fund	Other	Research, Development, Test & Evaluation	Civil Works	Operation and Maintenance	Procure Ment
BUDGETARY RESOURCES						
Undelivered Orders		8,239.2	21,948.8	1,475.2	43,282.4	66,294.6
Accounts Payable	3,135.1	1,414.2	2,410.4	1,180.7	13,230.3	5,580.0
Outlays						
Disbursements	35,059.7	31,424.5	47,338.3	10,189.4	144,361.1	63,229.3
Collections		(1,966.6)	(5,116.0)	(4,875.0)	(17,577.4)	(1,677.1)
Subtotal	35,059.7	29,457.9	42,222.3	5,314.5	126,783.7	61,552.3
Less: Offsetting Receipts	(42,380.1)	(2,089.0)		(819.3)	(305.4)	
Net Outlays	**$ (7,320.3)**	**$ 27,368.9**	**$ 42,222.3**	**$ 4,495.2**	**$ 126,478.3**	**$ 61,552.3**

Disaggregated Statement of Budgetary Resources
Budgetary Financing Accounts (Continued)

Department of Defense **Year Ending September 30, 2002** **($ in millions)**	**Military Personnel**	**Military Construction/ Family Housing**	**Working Capital Fund**	**2002 Combined**	**2001 Combined**
BUDGETARY RESOURCES					
Budget Authority					
Appropriations Received	$ 82,203.1	$ 7,223.1	$ 1,380.9	$ 415,113.8	$ 366,707.6
Borrowing Authority					
Contract Authority			1,826.7	2,318.1	4,488.4
Net Transfers (+/-)	4,792.7	3.2	(2.1)	986.7	8,622.7
Other					
Unobligated Balance					
Beginning Of Period	533.2	2,890.4	7,290.2	210,129.0	201,966.5
Net Transfers, Actual (+/-)	221.0	(13.1)	78.0	9,107.6	(2,846.1)
Anticipated Transfers Balances					
Spending Authority From Offsetting Collections					
Earned					
Collected	611.0	2,728.2	83,583.1	117,942.3	104,953.2
Receivable From Federal Sources	(55.7)	(109.0)	103.7	(1,116.7)	(817.0)
Change In Unfilled Customer Orders					
Advance Received		80.3	(86.5)	185.9	(844.1)
Without Advance From Federal Sources	45.8	84.9	2,026.6	3,576.4	497.0
Anticipated For The Rest Of Year, Without Advances					
Transfers From Trust Funds					
Subtotal	601.1	2,784.4	85,626.8	120,587.8	103,789.1
Recoveries Of Prior Year Obligations	1,928.1	594.3	416.3	15,293.1	18,522.4
Temporarily Not Available Pursuant To Public Law					
Permanently Not Available	(565.9)	(299.0)	(740.6)	(7,954.7)	(7,727.8)
Total Budgetary Resources	89,713.2	13,183.2	95,876.1	765,581.4	693,522.9
Status Of Budgetary Resources					
Obligations Incurred					
Direct	87,593.4	7,753.2	1,307.7	420,239.5	378,580.4
Reimbursable	1,550.0	1,967.1	84,712.7	128,045.2	104,466.7
Subtotal	89,143.4	9,720.3	86,020.3	548,284.7	483,047.2
Unobligated Balance					
Apportioned	127.5	3,355.2	9,855.8	40,902.7	40,513.6
Exempt From Apportionment				171,560.4	164,030.5
Other Available					
Unobligated Balances Not Available	442.4	107.7		4,833.6	5,931.6
Total, Status Of Budgetary Resources	89,713.2	13,183.2	95,876.1	765,581.4	693,522.9
Relationship Of Obligations To Outlays:					
Obligated Balance, Net - Beginning Of Period	6,418.7	5,985.4	15,326.1	162,829.2	150,690.1
Obligated Balance Transferred, Net (+/-)					
Obligated Balance, Net - End Of Period					
Accounts Receivable	(569.1)	(158.0)	(4,937.4)	(10,929.3)	(12,028.1)
Unfilled Customer Order From Federal Sources	(55.0)	(2,861.6)	(15,757.9)	(27,421.1)	(23,844.7)

Disaggregated Statement of Budgetary Resources
Budgetary Financing Accounts (Continued)

Department of Defense **Year Ending September 30, 2002** **($ in millions)**	**Military Personnel**	**Military Construction/ Family Housing**	**Working Capital Fund**	**2002 Combined**	**2001 Combined**
BUDGETARY RESOURCES					
Undelivered Orders	259.8	9,483.2	25,238.2	176,221.3	154,659.5
Accounts Payable	6,595.2	1,014.1	11,206.5	45,766.4	43,679.0
Outlays					
Disbursements	87,413.1	7,657.8	83,050.5	509,723.8	453,069.1
Collections	(611.0)	(2,808.5)	(83,496.5)	(118,128.2)	(104,109.1)
Subtotal	86,802.1	4,849.3	(446.1)	391,595.6	348,959.9
Less: Offsetting Receipts				(45,593.7)	
Net Outlays	**$ 86,802.1**	**$ 4,849.3**	**$ (446.1)**	**$ 346,001.9**	**$ 348,959.9**

Disaggregated Statement of Budgetary Resources
Non-Budgetary Financing Accounts

Department of Defense **Year Ending September 30, 2002** **($ in millions)**	**Military Retirement Fund**	**Other**	**Research, Development, Test & Evaluation**	**Civil Works**	**Operation and Maintenance**	**Procure ment**
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	$	$ 44.2	$	$	$	$
Borrowing Authority						
Contract Authority						
Net Transfers (+/-)						
Other						
Unobligated Balance						
Beginning Of Period		5.9				
Net Transfers, Actual (+/-)						
Anticipated Transfers Balances						
Spending Authority From Offsetting Collections						
Earned						
Collected		22.4				
Receivable From Federal Sources		90.6				
Change In Unfilled Customer Orders						
Advance Received						
Without Advance From Federal Sources						
Anticipated For The Rest Of Year, Without Advances						
Transfers From Trust Funds						
Subtotal		113.0				
Recoveries Of Prior Year Obligations						
Temporarily Not Available Pursuant To Public Law						
Permanently Not Available						
Total Budgetary Resources		163.1				
Status Of Budgetary Resources						
Obligations Incurred						
Direct		142.4				
Reimbursable						
Subtotal		142.4				
Unobligated Balance						
Apportioned		.7				
Exempt From Apportionment						
Other Available						
Unobligated Balances Not Available		20.0				
Total, Status Of Budgetary Resources		163.1				
Relationship Of Obligations To Outlays:						
Obligated Balance, Net - Beginning Of Period						
Obligated Balance Transferred, Net (+/-)						
Obligated Balance, Net ? End Of Period						
Accounts Receivable		90.6				
Unfilled Customer Order From Federal						

Disaggregated Statement of Budgetary Resources
Non-Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2002 ($ in millions)	Military Retirement Fund	Other	Research, Development, Test & Evaluation	Civil Works	Operation and Maintenance	Procure Ment
BUDGETARY RESOURCES						
Undelivered Orders		89.6				
Accounts Payable		.7				
Outlays						
Disbursements		52.0				
Collections		(22.4)				
Subtotal		29.6				
Less: Offsetting Receipts						
Net Outlays	$	$ **29.6**	$	$	$	$

Disaggregated Statement of Budgetary Resources
Non-Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2002 ($ in millions)	Military Personnel	Military Construction/ Family Housing	Working Capital Fund	2002 Combined	2001 Combined
BUDGETARY RESOURCES					
Budget Authority					
Appropriations Received	$	$	$	$ 44.2	$
Borrowing Authority					
Contract Authority					
Net Transfers (+/-)					
Other					
Unobligated Balance					
Beginning Of Period				5.9	
Net Transfers, Actual (+/-)					
Anticipated Transfers Balances					
Spending Authority From Offsetting Collections					
Earned					
Collected				22.4	
Receivable From Federal Sources				90.6	
Change In Unfilled Customer Orders					
Advance Received					
Without Advance From Federal Sources					
Anticipated For The Rest Of Year, Without Advances					
Transfers From Trust Funds					
Subtotal				113.0	
Recoveries Of Prior Year Obligations					
Temporarily Not Available Pursuant To Public Law					
Permanently Not Available					
Total Budgetary Resources				163.1	
Status Of Budgetary Resources					
Obligations Incurred					
Direct				142.4	
Reimbursable					
Subtotal				142.4	
Unobligated Balance					
Apportioned				.7	
Exempt From Apportionment					
Other Available					
Unobligated Balances Not Available				20.0	
Total, Status Of Budgetary Resources				163.1	
Relationship Of Obligations To Outlays:					
Obligated Balance, Net - Beginning Of Period					
Obligated Balance Transferred, Net (+/-)					
Obligated Balance, Net ? End Of Period					
Accounts Receivable				90.6	
Unfilled Customer Order From Federal Sources					

Disaggregated Statement of Budgetary Resources
Non-Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2002 ($ in millions)	Military Personnel	Military Construction/ Family Housing	Working Capital Fund	2002 Combined	2001 Combined
BUDGETARY RESOURCES					
Undelivered Orders				89.6	
Accounts Payable				.7	
Outlays					
Disbursements				52.0	
Collections				(22.4)	
Subtotal				29.6	
Less: Offsetting Receipts					
Net Outlays	$	$	$	$ **29.6**	$

General Property Plant and Equipment
Real Property Deferred Sustainment Tables
As of September 30, 2002 (Amount in Thousands)

Fiscal Year 2002 Annual Sustainment

Property Type	*Required*	Actual	*Difference*	Restoration Prior *(1)*	Restoration Ending *(1)*
Buildings & Structures *(2)*	$7,428,000	$5,667,000	($1,761,000)	$49,800,000	$41,200,000

Annual Deferred Sustainment Trend ($K)

Property Type	(Army Only) FY 2000	FY 2001	FY 2002
Buildings and Structures	($629,000)	($2,109,000)	($1,761,000)

(1) Restoration requirements are reported only for the Army and Air Force (Navy, Marine Corps, and Defense Agencies cannot be reported at this time). The method of computing restoration requirements changed significantly in the Army between FY 2001 and FY 2002, which accounts for the decrease from restoration prior to restoration ending.

(2) Buildings and structures include facilities funded from multiple funding sources (general operations and maintenance funds, family housing operations and maintenance funds, and working capital funds, for example).

The Department is transitioning to new methods for tracking deferred annual sustainment as well as unfunded restoration and modernization requirements. In the deferred sustainment trend table, this report adjusts earlier DoD estimates using data provided by the Military Departments. This report also includes for the first time an estimate of restoration requirements (but not for the Navy or Marine Corps). These estimates will be adjusted in the future as the Department implements common condition reporting standards and restoration cost estimation methodologies. Detail sustainment by reporting entities can be found below:

FY2002 Annual Sustainment

Department	Required	Actual	Difference
Army	$3,122	$2,209	($913)
Navy/MC	1,829	1,789	(40)
Air Force	2,477	1,669	(808)
Total	**$7,428**	**$5,667**	**($1,761)**

Annual Sustainment Trend

Department	FY 00	FY 01	FY02
Army	($629)	($1,167)	($913)
Navy/MC	NR	(573)	(40)
Air Force	NR	(369)	(808)
Total	**($629)**	**($2,109)**	**($1,761)**

Restoration & Modernization Requirement

Department	FY01	FY02	Change
Army	$28,600	$20,200	($8,400)
Navy/MC	NR	NR	NR
Air Force	21,200	21,000	(200)
Total	**$49,800**	**$41,200**	**($8,600)**

NR = Not Reported

General Property Plant and Equipment
Deferred Maintenance Military Equipment Tables

As of September 30, 2002 (Amount in Thousands)

Major Type	Amounts
Aircraft	$ 348,070
Ships	243,615
Missiles	55,230
Combat Vehicles	133,650
Other Weapon Systems	463,022
Total	**$ 1,243,587**

The amounts reported are consistent with amounts reported in the Department's budget submission to the Congress. The Military Departments determine depot maintenance requirements for National Defense PP&E as they develop their annual budgets and consider a series of factors on an individual item basis. These factors include changes in the fleet size or in-use inventory; the date of last overhaul or operating hours since last overhaul; the current maintenance engineering plan expressed as a time interval or as an operational factor; and the planned operational tempo expressed in miles, flying hours, or steaming hours. Costing models are then applied to determine depot-level maintenance costs for each type of National Defense PP&E and total cost for each major program. Fiscal constraints determine requirements that are funded.

The Department is continuing its efforts to develop and provide more detailed reporting guidance and to improve the deferred maintenance requirement generation process. The Department has hired a contractor that is providing assistance to better define deferred maintenance definitions, methodologies, and reporting requirements. Accordingly, the Department expects to improve the consistency between the DoD Components and the reliability of deferred maintenance amounts reported in future financial statements.

As of September 30, 2001 ($ in Millions)	Defense Information Systems Agency	Defense Commissary Agency	Joint Logistics Systems Command	Defense Security Service	Defense Logistics Agency	Defense Finance & Accounting Services	U.S. Transportation Command	Total
PART A.	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
1. Fund Balance	0.0	216.5	0.0	0.0	0.0	0.0	859.9	1,076.4
2. Accounts Receivable	398.5	47.4	0.0	45.2	1,290.1	81.0	865.6	2,727.8
3. Property Plant and Equipment	278.5	22.2	117.8	40.5	1,303.8	919.9	1,236.4	3,919.1
4. Other Assets	0.0	434.5	0.0	0.2	11,765.0	0.2	97.8	12,297.7
5. TOTAL ASSETS	**$ 677.0**	**$ 720.6**	**$ 117.8**	**$ 85.9**	**$ 14,358.9**	**$ 1,001.1**	**$ 3,059.7**	**$ 20,021.0**
6. Liabilities Due and Payable for Goods and Services Received	$ 695.7	$ 549.5	$ 2.6	$ 49.1	$ 1,791.3	$ 167.1	$ 877.8	$ 4,133.1
7. Deferred Revenue	0.0	0.0	0.0	0.0	167.5	0.0	3.9	171.3
8. Other Liabilities	46.4	306.5	0.4	33.2	378.5	134.8	223.6	1,123.6
9. TOTAL LIABILITIES	**$ 742.1**	**$ 856.0**	**$ 3.0**	**$ 82.3**	**$ 2,337.3**	**$ 301.9**	**$ 1,105.3**	**$ 5,428.0**
10. Unexpended Appropriations	$ 0.0	$ (30.7)	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ (30.7)
11. Cumulative Results of Operations	(65.1)	(104.7)	114.8	3.6	12,021.6	699.2	1,954.4	14,623.7
12. TOTAL NET POSITION	(65.1)	(135.4)	114.8	3.6	12,021.6	699.2	1,954.4	14,593.0
13. TOTAL LIABILITIES & NET POSITION	**$ 677.0**	**$ 720.6**	**$ 117.8**	**$ 85.9**	**$ 14,358.9**	**$ 1,001.1**	**$ 3,059.7**	**$ 20,021.0**
PART B.	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
1. The Full Cost of Goods and Services Provides	2,480.6	6,033.9	(2.4)	467.5	19,339.2	1,747.3	5,658.5	35,724.5
2. The Related Exchange Revenue	(2,496.4)	(4,987.5)	0.0	(488.9)	(3,298.4)	(1,573.0)	(6,318.7)	(19,162.8)
3. The Excess of Costs Over Exchange Revenue	**$ (15.8)**	**$ 1,046.4**	**$ (2.4)**	**$ (21.4)**	**$ 16,040.8**	**$ 174.3**	**$ (660.2)**	**$ 16,561.7**

Amounts are net of Intra-segment eliminations.

Narrative Related to Segment Information

- Defense Information Systems Agency

  The Defense Information Systems Agency (DISA) – Defense Working Capital Fund (DWCF) entities, the Defense Megacenters and the Communications Information Services Activity, provide data processing, and telecommunication and information systems, services and support to the Department of Defense (DoD) and other federal government customers under a revolving fund concept. These funds are represented by fund symbol 97X4930. DISA's major customers are: Army, Navy, Air Force, DFAS and DLA.

- Defense Commissary Agency

  Commissary Operations Fund finances operations cost for resale stores, command and region headquarters and operations support center. This fund receives appropriated funds annually. Commissary Resale Stock Fund finances the purchases of inventory for resale items to be sold to commissary patrons. This fund is a major activity group of the DWCF, requiring no appropriated fund support. Revenues from sales are used to replace inventory sold.

- Joint Logistics Systems Center

  The Assistant Secretary of Defense for Production and Logistics (ASD(P&L)) directed that a Joint Logistics Systems Center (JLSC) be established effective December 31, 1991. The JLSC was established as a separate DWCF business area. The JLSC implements integrated business process improvements by managing the development, integration, implementation and maintenance of the logistics business areas for Depot Maintenance and Supply Management. The JLSC mission requires that it take a central role in the logistics functional area. The JLSC will facilitate, in conjunction with the functional communities, the identification of corporate business improvements, and the appropriate application of Automated Information Systems (AIS) and related technologies to maximize operational effectiveness and achieve cost savings. The JLSC will employ data standardization to support corporate logistics systems design, development, integration, implementation and maintenance. On August 18, 1997, the Acting Under Secretary of Defense (Comptroller) approved the final decisions and approved recommendations resulting from the Working Capital Fund Study Group. Among the decisions was one to terminate JLSC and begin to devolve its programs and responsibilities to the individual components no later than October 1, 1997. The decision included a prohibition of any new starts at JLSC, required the individual activity groups or DWCFs to be responsible for financing the liquidation of any unfunded liabilities remaining at JLSC, and directed the return of any unneeded cash and financial assets not used for paying off program liabilities or program shutdown costs or not needed for the initial deployments of systems developed by JLSC. FY 2001 was the fourth year JLSC operated as a residual activity.

- Defense Security Service

Effective October 1, 1998, Defense Security Service (DSS) was transferred from a direct appropriation to a separate activity group in the DWCF. This transfer also reflected a name change from the Defense Investigative Service to the DSS. Full implementation of the DSS as a DWCF began with FY 2000. This activity provides goods and services on a commercial-like basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

The DSS was chartered to administer two major programs: Personnel Security Investigations (PSI) and National Industrial Security Programs (NISP). The mission of the PSI program is to conduct background investigations on individuals assigned to or affiliated with the Department of Defense. The investigative product which contains information concerning an individual's character, loyalty, emotional stability, and reliability, is used to determine if a security clearance should be granted. The purpose of the NISP is to ensure that private industry, while performing on government contracts, properly safeguards classified information in its possession. The DSS also administers the Key Asset Protection Program and the Arms, Ammunition, and Explosives Program.

- Defense Logistics Agency

The Defense Logistics Agency (DLA) is a combat support agency responsible for worldwide logistics support throughout the DoD. The primary focus of DLA is to provide logistics support to the war fighter. In addition, DLA provides support to relief efforts during times of national emergency. DLA's major DoD customers are the Army, Navy, and Air Force. Their other major federal government customers are the Department of Agriculture and the Department of Transportation. The DLA organization has five active entity sub-organizations funded through the DWCF. These sub-organizations are referred to as activity groups and are as follows:

The Supply Management Activity Group (Supply), appropriation symbol 97X4930.5C, helps carry out its mission by procuring, managing and supplying over three billion consumable items to Military Departments, other DoD Components, federal agencies and selected foreign governments.

The Distribution Depot Activity Group (Distribution), appropriation symbol 97X4930.5B, receives, stores and distributes commodities, principal end items, and depot level reparables for the Military Departments, other DoD Components, federal agencies, and selected foreign governments.

The Defense Reutilization and Marketing Service Activity Group (DRMS), appropriation symbol 97X4930.5N, provides utilization services which include receiving, classifying, segregating, demilitarizing, accounting for and reporting excess material for screening, lotting, merchandising, and sale. They also have the mission of hazardous property disposal and the economic recovery of precious metals from excess and surplus precious metal-bearing material. The Information Services Activity Group, appropriation symbol

97X4930.5F50, provides information management support. The mission of this information services business is to provide integrated information management support by delivering products and services of increasing quality and decreasing cost, on time and within budget.

The Defense Automated Printing Service Activity Group (DAPS), appropriation symbol 97X4930.5G, is responsible for document automation and printing within the DoD, encompassing electronic conversion, retrieval, output, and distribution of digital and hardcopy.

- Defense Finance and Accounting Service

Defense Finance and Accounting Service (DFAS) was created in 1991. The mission of DFAS is to provide responsive, professional finance and accounting service to the DoD in times of peace and conflict. DFAS has prepared the annual financial statements as required by the CFO Act and the GMRA since 1994.

DFAS's major activities are funded through working capital funds. The DoD expanded the use of businesslike financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. On December 11, 1996, the DBOF became the DWCF. The DWCF ("the Fund") operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Fund builds on revolving fund principles previously used for industrial and commercial-type activities. The Department's working capital funds include industrial and commercial type transactions. These activities provide supplies and inventories to Defense Department organizations on a commercial basis. Receipts derived from resale operations are normally available to DFAS for use without further congressional action. Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when a liability is incurred, without regard to receipt of payment of cash. Budgetary accounting is accomplished through a separate series of general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds.

- U.S. Transportation Command

Secretary of Defense memorandum, dated February 14, 1992, prescribed the creation of a consolidated service transportation command. United States Transportation Command (USTRANSCOM) represents the single DoD financial manager for all common-user transportation in peace and war. Its components include (1) Headquarters, USTRANSCOM (HQTRANS); (2) Air Mobility Command (AMC); (3) Military Traffic Management Command (MTMC); (4) Military Sealift Command (MSC); and (5) Defense Courier Service (DCS). The Army and Navy continue to manage their own service-unique transportation functions.

Intragovernmental Accounts

The intragovernmental amounts displayed in the following schedules, Part A, B, and C represent transactions between the Department of Defense and other federal entities.

Schedule, Part A DoD Intra-governmental Asset Balances
Balances reflect amounts on the books of DoD Components in regard to transactions with other federal entities.

($ Amounts in Millions)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Investments	Other
Executive Office of the President	11	$ 0	$ 43.4	$ 0	$ 0
Department of Agriculture	12		13.9		
Department of Commerce	13		27.5		
Department of the Interior	14		313.5		
Department of Justice	15		69.4		
Department of Labor	16		4.8		
Navy General Fund	17			.1	
United States Postal Service	18		1.6		
Department of State	19		67.7		
Department of the Treasury	20	205,816.2	48.8	180,804.6	
Army General Fund	21			.2	
Office of Personnel Management	24		.1		
Social Security Administration	28		.4		
Federal Trade Commission	29		.3		
Smithsonian Institution	33		.2		
Department of Veterans Affairs	36		12.9		
General Service Administration	47		36.6		.1
National Science Foundation	49		2.3		
General Printing Office	5		.8		
Central Intelligence Agency	56		.8		
Air Force General Fund	57			.1	
Federal Emergency Management Agency	58		37.5		
Tennessee Valley Authority	64		.3		
United States Information Agency	67		.8		
Environmental Protection Agency	68		31.6		

Schedule, Part A DoD Intra-governmental Asset Balances (Continued) Balances reflect amounts on the books of DoD Components in regard to transactions with other federal entities.					
($ Amounts in Millions)	**Treasury Index**	**Fund Balance with Treasury**	**Accounts Receivable**	**Investments**	**Other**
Department of Transportation	69		162.2		
Agency for International Development	72		17.5		
Small Business Administration	73		.1		
Department of Health and Human Services	75		9.6		
National Aeronautics and Space Administration	80		60.3		
Armed Forces Retirement Home	84		1.0		
Department of Housing and Urban Development	86		.1		
Department of Energy	89		25.3		
Selective Service System	90		10.6		
Department of Education	91		1.2		
Arms Control and Disarmament Agency	94		.1		
Independent Agencies	95		118.2		
Totals		**$ 205,816**	**$ 1,121.4**	**$ $180,805.0**	**$ .1**

Schedule, Part B DoD Intra-governmental Entity Liabilities
Balances reflect amounts on the books of DoD Components in regard to transactions with other federal entities.

($ Amounts in Millions)	Treasury Index	Accounts Payable	Debts/Borrowings from Other Agencies	Other
Executive Office of the President	11	$ 0	$ 0	$ 33.9
Department of Agriculture	12	3.0		1.8
Department of Commerce	13	5.0		24.6
Department of the Interior	14	15.0		31.9
Department of Justice	15	1.6		26.7
Department of Labor	16	.2		1,607.5
United States Postal Service	18			.3
Department of State	19	.5		5.2
Department of the Treasury	20	1.5	874.3	6,036.1
Office of Personnel Management	24	.7		246.2
Library of Congress	3	.1		
Department of Veterans Affairs	36	.7		.3
Government Printing Office	4	.1		
General Service Administration	47	49.8		35.8
National Science Foundation	49			10.8
Federal Emergency Management Agency	58			1.8
Tennessee Valley Authority	64	2.9		
Environmental Protection Agency	68	.3		.1
Department of Transportation	69	.2		55.6
Agency for International Development	72			4.3
Department of Health and Human Services	75	.8		26.5
National Aeronautics and Space Administration	80			49.0
Department of Housing and Urban Development	86			6.2
Department of Energy	89	3.0		5.5
Department of Education	91			2.9
Independent Agencies	95			.7
Totals		**$ 85.4**	**$ 874.3**	**$ 8,213.7**

Schedule, Part C DoD Intra-governmental Revenues and Related Costs Balances reflect amounts on the books of DoD Components in regard to transactions with other federal entities.		
($ Amounts in Millions)	**Treasury Index**	**Earned Revenue**
Executive Office of the President	11	$ 173.8
Department of Agriculture	12	62.7
Department of Commerce	13	168.6
Department of the Interior	14	43.8
Department of Justice	15	231.9
Department of Labor	16	14.5
United States Postal Service	18	6.0
Department of State	19	179.7
Department of the Treasury	20	12,585.5
United States Tax Court	23	.2
Office of Personnel Management	24	.1
Social Security Administration	28	.7
Nuclear Regulatory Commission	31	2.3
Smithsonian Institution	33	.8
Department of Veterans Affairs	36	26.0
General Service Administration	47	53.1
National Science Foundation	49	66.0
General Printing Office	5	1.4
Central Intelligence Agency	56	.4
Federal Emergency Management Agency	58	101.2
National Foundation on the Arts and Humanities	59	.1
Tennessee Valley Authority	64	.5
United States Information Agency	67	.7
Environmental Protection Agency	68	143.5
Department of Transportation	69	914.9
Agency for International Development	72	22.0
Small Business Administration	73	.4
American Battle Monuments	74	.1
Department of Health and Human Services	75	88.8

Schedule, Part C DoD Intra-governmental Revenues and Related Costs (Continued) Balances reflect amounts on the books of DoD Components in regard to transactions with other federal entities.			
National Aeronautics and Space Administration	80		323.5
Armed Forces Retirement Home	84		2.4
Department of Housing and Urban Development	86		1.1
Department of Energy	89		137.3
Other Legislative Branch Agencies	9		.1
Selective Service System	90		4.4
Department of Education	91		5.4
Independent Agencies	95		222.6
Totals		**$**	**15,586.5**

Schedule, Part D DoD Agency-Wide Intra-governmental Gross			
($ Amounts in Millions)	**Budget Function Code**	**Gross Cost**	
Department of Defense Military	051	$	7,232.0
Water Resources by U.S. Army Corps of Engineers	301		121.0
Pollution Control and Abatement by U.S. Army Corps of Engineers	304		2.2
Federal Employees Retirement and Disability Department of Defense Military Retirement Trust Fund	602		(12,397.7)
Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund	702		183.9
Totals		**$**	**(4,858.6)**

Schedule, Part E DoD Intra-governmental Non-exchange Revenues					
(Amounts in Millions)	**Treasury Index**	**Transfers IN**		**Transfers Out**	
Department of the Interior	14	$	63.9	$	0.1
Department of the Treasury	20		756.1		770.3
General Service Administration	47				0.1
Tennessee Valley Authority	64				0.1
Department of Transportation	69		1.4		13.3
Totals		**$**	**821.4**	**$**	**783.9**

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Other Accompanying Information

Fiscal Year 2002

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Department of Defense – Appropriations, Funds, and Accounts

Department of the Army:

21*0390	Chemical Agents and Munitions Destruction, Army
21X0810	Environmental Restoration
21*7020	Family Housing, Army Construction
21*7025	Operation & Maintenance, Family Housing
21X1705	National Board for the Promotion of Rifle Practice, Army
21X1805	Salaries and Expenses, Cemeterial Expenses, Army
21*2010	Military Personnel, Army
21*2020	Operation and Maintenance, Army
21*2031	Aircraft Procurement, Army
21*2032	Missile Procurement, Army
21*2033	Procurement of Weapons and Tracked Combat Vehicles, Army
21*2034	Procurement of Ammunition, Army
21*2035	Other Procurement, Army
21*2040	Research, Development, Test, and Evaluation, Army
21*2050	Military Construction, Army
21*2060	National Guard Personnel, Army
21*2065	Operation and Maintenance, Army National Guard
21*2070	Reserve Personnel, Army
21*2080	Operation and Maintenance, Army Reserve
21*2085	Military Construction, Army National Guard
21*2086	Military Construction, Army Reserve
21X4275	Arms Initiative Guaranteed Loan Financing
21X4528	Working Capital Fund, Army Conventional Ammunition
21X5095	Wildlife Conservation, etc., Military Reservations, Army
21X5098	Restoration, Rocky Mountain Arsenal, Army
21X5194	Department of Defense (DoD), 50th Anniversary of World War II Commemoration Account, Army
21X5285	DoD, Forest Products Program, Army
21X5286	National Science Center, Army
21X8063	Bequest of Major General Fred C. Ainsworth Library, Walter Reed Army Medical Center
21X8927	Department of the Army General Gift Fund
21*6xxx	(Nonentity) Deposit Fund Accounts

Department of the Navy:

17X0380	Coastal Defense Augmentation, Navy
17*0703	Family Housing, Navy and Marine Corps
17X0810	Environmental Restoration, Navy
17*1105	Military Personnel, Marine Corps
17*1106	Operation and Maintenance, Marine Corps
17*1107	Operation and Maintenance, Marine Corps Reserve
17*1108	Reserve Personnel, Marine Corps
17*1109	Procurement, Marine Corps
17*1205	Military Construction, Navy
17*1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17*1319	Research, Development, Test, and Evaluation, Navy
17*1405	Reserve Personnel, Navy
17*1453	Military Personnel, Navy
17*1506	Aircraft Procurement, Navy
17*1507	Weapons Procurement, Navy
17*1508	Procurement of Ammunition, Navy and Marine Corps
17*1611	Shipbuilding and Conversion, Navy
17*1804	Operation and Maintenance, Navy
17*1806	Operation and Maintenance, Navy Reserve
17*1810	Other Procurement, Navy
17 3041	Recoveries Under the Foreign Military Sales Program
17 3210	General Fund Proprietary Receipts , Defense Military, Not Otherwise Classified
17*4557	National Defense Sealift Fund, Navy
17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	KahoOlawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account
17X8423	Midshipmen's Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ships Stores Profits, Navy
17X8733	United States Naval Academy General Gift Fund
17*6xxx	(Nonentity) Deposit Fund Accounts

Department of the Air Force:

57*0704	Family Housing, Air Force
57*0810	Environmental Restoration, Air Force
57X1999	Unclassified Receipts and Expenditures, Air Force
57*3010	Aircraft Procurement, Air Force
57*3011	Procurement of Ammunition, Air Force
57*3020	Missile Procurement, Air Force
57*3080	Other Procurement, Air Force
57*3300	Military Construction, Air Force
57*3400	Operation and Maintenance, Air Force
57*3500	Military Personnel, Air Force
57*3600	Research, Development, Test, and Evaluation, Air Force
57*3700	Reserve Personnel, Air Force
57*3730	Military Construction, Air Force Reserve
57*3740	Operation and Maintenance, Air Force Reserve
57*3830	Military Construction, Air National Guard
57*3840	Operation and Maintenance, Air National Guard
57*3850	National Guard Personnel, Air Force
57X5095	Wildlife Conservation, etc., Military Reservations, Air Force
57*6xxx	(Nonentity) Deposit Fund Accounts
57X8418	Air Force Cadet Fund
57X8928	Department of the Air Force General Gift Fund

Department of Defense Working Capital Funds:

97X8097	DoD Military Retirement Fund
97X4930.001	Army Working Capital Fund (WCF)
97X4930.002	Navy WCF
97X4930.003	Air Force WCF
97X4930.005	U.S. Transportation Command (USTRANSCOM) WCF
97X4930.004	Defense Commissary Agency WCF
97X4930.005	Defense Logistics Agency WCF
97X4930.005	Defense Finance and Accounting Service WCF
97X4930.005	Joint Logistics Systems Center WCF
97X4930.005	Management Systems Support Office/Corporate Information Management
97X4930.005	Defense Information Systems Agency WCF
97X4930.005	Defense Technical Information Services Center
97X4930.005	Defense Security Services WCF
97X4930.005	Headquarters Account
97X4930.005	Component Level Adjustment

Note: The USTRANSCOM WCF is included in Other Defense Organizations WCF for financial statement purposes.

Other Defense Organizations:

11X8242	Foreign Military Sales Trust Fund (Cost clearing accounts only)
97*0040	Payments to Military Retirement Fund, Defense
97X0100	Operation and Maintenance, Defense-Wide
97*0100	Operation and Maintenance, Defense-Wide
97*0101	Contingencies, Defense
97*0102	Claims, Defense
97*0103	Base Realignment and Closure Account, Part I, Defense
97*0104	Court of Military Appeals, Defense
97*0105	Drug Interdiction and Counter-Drug Activities, Defense
97*0106	Goodwill Games, Defense
97*0107	Office of the Inspector General
97*0108	Emergency Expenses, Defense Account
97X0110	Persian Gulf Regional Defense Fund, Defense
97*0115	Corporate Information Management (Business Process Reengineering)
97*0116	Summer Olympics, Defense
97*0118	Overseas Contingency Operations Fund
97X0118	Overseas Contingency Operations Fund
97*0130	Defense Health Program, Defense
97*0131	Real Property Maintenance, Defense
97X0132	Claims, Mount Pinatubo, Defense
97*0132	Claims, Mount Pinatubo, Defense
97*0133	Payment to Coast Guard, Defense
97X0134	Former Soviet Union Threat Reduction, Defense
97*0135	Military Training, Equipment and Associated Support Transfer Fund, Defense
97*0136	Depot level Maintenance and Repair Transfer Fund, Defense
97*0137	Spares, Repairs and Associated Logistical Support Transfer Fund, Defense
97*0138	New Horizons Exercise Transfer Fund, Defense
97*0139	Operational Rapid Response Transfer Fund, Defense
97*0140	Military Construction Transfer Fund, Defense
97*0300	Procurement, Defense-Wide
97*0350	National Guard and Reserve Equipment, Defense
97X0360	Defense Production Act Purchases, Defense
97*0360	Defense Production Act Purchases, Defense
97*0370	North Atlantic Treaty Organization Cooperative Defense Fund
97X0390	Chemical Agents and Munitions Destruction, Defense
97*0390	Chemical Agents and Munitions Destruction, Defense
97X0400	Research, Development, Test, and Evaluation, Defense-Wide
97*0400	Research, Development, Test, and Evaluation, Defense-Wide
97*0450	Developmental Test and Evaluation, Defense
97*0460	Operational Test and Evaluation, Defense
97*0500	Military Construction, Defense-Wide
97X0510	Base Realignment and Closure Account, Part II, Defense
97*0706	Family Housing, Defense-Wide
97*0800	Special Foreign Currency Program, Defense

Other Defense Organizations (Continued):

97X0801	Foreign Currency Fluctuations, Defense
97X0803	Foreign Currency Fluctuation, Construction, Defense
97X0804	North Atlantic Treaty Organization Investment Programs Defense
97X0810	Environmental Restoration, Defense
97X0819	Humanitarian Assistance, Defense
97*0819	Humanitarian Assistance, Defense
97*0827	World University Games, Defense
97*0828	Defense Reinvestment for Economic Growth, Defense
97*0829	World Cup USA, Defense
97*0832	Special Olympics - World Games
97*0834	DoD Family Housing Improvement Fund
97X8035	Defense Export Loan Guarantee Program Account
97X8036	DoD Military Unaccompanied Housing Improvement Program
97X8038	Support for International Sporting Competitions, Defense
97*0839	Quality of Life Enhancement, Defense
97*0840	OPLAN 34A-35 P.O.W. Payment
97*3296	Pinatubo Disaster Relief Fund
97X3910	ADP Equipment Management Fund, Defense
97X4090	Homeowners Assistance Fund, Defense
97*4090	Homeowners Assistance Fund, Defense
97X4093	William Langer Jewel Bearing Plant Revolving Fund, Defense
97*4166	Family Housing Improvement Fund, Direct Loan Financing Account
97*4167	Family Housing Improvement Fund, Guaranteed Loan Financing Account
97*4168	Defense Expense Loan Guarantee Financing Program
97*4179	Reserve Mobilization Fund
97X4555	National Defense Stockpile Transaction Fund, Defense
97X4931	Buildings Maintenance Fund
97X4950	Pentagon Reservation Maintenance Revolving Fund
97X4965	Emergency Response Fund, Defense
97X5187	Defense Cooperation Account, Defense
97X5188	Disposal of Department of Defense Real Property
97X5189	Lease of DoD Real Property
97X5193	DoD Overseas Military Facility Investment Recovery Account
97X5195	Use of Proceeds from the Transfer or Disposition of Commissary Facilities, Defense
97X5196	Theater Missile Defense Cooperation Account, Defense
97X8098	DoD, Education Benefits Fund
97*8164	Surcharge Collections, Sales of Commissary Stores

Other Defense Organizations (Continued):

97X8165	Foreign National Employees Separation Pay Account, Defense
97X8168	National Security Education Trust Fund
97*8238	Kuwait Civil Reconstruction Trust Fund
97X8311	Uniformed Services University of the Health Sciences Gift Fund
97X8335	Voluntary Separation Incentive Trust Fund
97X8337	Host Nation Support for U.S. Relocation Activities, Defense
97*6xxx	(Nonentity) Deposit Fund Accounts

U.S. Army Corps of Engineers:

96*1039	Construction, National Parks Service
96*1105	State and Private Forestry, Forest Service
96*2020	Manu'a Islands, Department of Army
96*2050	Levee Restoration Program, Economic Development Administration
96X3112	Flood Control, Mississippi River and Tributaries, Corps of Engineers, Civil
96X3121	General Investigations, Corps of Engineers, Civil
96X3122	Construction, General, Corps of Engineers, Civil
96X3123	Operation and Maintenance, General, Corps of Engineers, Civil
96*3123	Operation and Maintenance, General, Corps of Engineers, Civil
96X3124	General Expenses, Corps of Engineers, Civil
96*3124	General Expenses, Corps of Engineers, Civil
96X3125	Flood Control and Coastal Emergencies, Corps of Engineers, Civil
96*3125	Flood Control and Coastal Emergencies, Corps of Engineers, Civil
96X3126	General Regulator Functions, Corps of Engineers, Civil
96X3128	Washington Aqueduct Capital Improvements, Corps of Engineers (Borrowing Authority)
96*3129	Payments to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X3130	Formerly Utilized Sites Remedial Action Program (FUSRAP)
96*4045	Bonneville Power Administration
96X4902	Revolving Fund, Corps of Engineers, Civil
96X5007	Special Recreation Use Fees, Corps of Engineers, Civil
96X5066	Hydraulic Mining in California, Debris Fund
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X5483	San Gabriel Basin Restoration Fund
96X8217	South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
96X8861	Inland Waterways Trust Fund
96X8862	Rivers and Harbors Contributed and Advance Funds, Corps of Engineers, Civil
96X8863	Harbor Maintenance Trust Fund
96X8868	Oil Spill Research, Corps of Engineers, Civil Nonentity Funds:
96*6xxx	(Nonentity) Deposit Fund Accounts
96 12X1105	State and Private Forestry, Forest Service

U.S. Army Corps of Engineers (Continued):

96 13X2050	Economic Development Administration
96 14X1039	Construction National Park Service
96 21X2020	Operation and Maintenance, Army, American Samoa Projects
96 89X4045	Bonneville Power Administration
96 72*1021	Development Assistance, Agency for International Development
96 69X8083	Federal Aid Highways

Note: The USACE is executive agency for the Inland Waterways Trust Fund and the Harbor Maintenance Trust Fund.

The following are applicable to multiple DoD Reporting Entities:

F3875	Budget Clearing Account (Suspense)
F3878	Budget Clearing Account (Deposits)
F3879	Undistributed Letter of Credit Differences
F3880	Unavailable Check Cancellations and Overpayments
F3885	Undistributed Intra-Governmental Payments
F3886	Civilian Thrift Savings Plan

NOTE: Appropriations shown with an asterisk (*) in the third position of the appropriation symbol indicates the appropriation may be single-year, multi-year or no-year.

NOTE: Appropriations shown with an (X) in the third position of the appropriation symbol indicates the appropriation is a "no-year" appropriation.

Funds Appropriated to the President
Administered by the Department of Defense

BALANCE SHEET **As of September 30, 2002** **($ in Thousands)**	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
ASSETS			
Fund Balance With Treasury	$ 59,705	$ 2,242,319	$ 51
Accounts Receivable			1
Other Assets			
Loans Receivable			5,540
Inventory and Related Property, Net			
Other Assets			
Total Assets	**$ 59,705**	**$ 2,242,319**	**$ 5,592**
LIABILITIES			
Debt	$ 0	$ 0	$ 1,046
Other Liabilities			
Accounts Payable	15,869	269	
Other Liabilities			
Total Liabilities	**$ 15,869**	**$ 269**	**$ 1,046**
NET POSITION			
Unexpended Appropriations	$ 43,836	$ 2,241,384	$
Cumulative Results of Operations	0.00	666	4,546
Total Net Position	**$ 43,836**	**$ 2,242,050**	**$ 4,446**
Total Liabilities and Net Position	**$ 59,705**	**$ 2,242,319**	**$ 5,592**

Funds Appropriated to the President
Administered by the Department of Defense

BALANCE SHEET **As of September 30, 2002** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Mil Financing, Direct Loan Financing 11X4122
ASSETS			
Fund Balance With Treasury	$ 38,303	$ 0	$ 48,638
Accounts Receivable			25,191
Other Assets			
Loans Receivable		4,534,203	1,348,396
Inventory and Related Property, Net	3,876		
Other Assets	(109,330)		
Total Assets	**$ (67,151)**	**$ 4,534,203**	**$ 1,422,225**
LIABILITIES			
Debt	$ 0	$ 4,534,203	$ 1,342,650
Accounts Payable			6,952
Other Liabilities	1,657		25,191
Total Liabilities	**$ 1,657**	**$ 4,534,203**	**$ 1,374,793**
NET POSITION			
Unexpended Appropriations	$ 0	$ 0	$ 0
Cumulative Results of Operations	(68,808)		47,432
Total Net Position	**$ (68,808)**	**$ 0**	**$ 47,432**
Total Liabilities and Net Position	**$ (67,151)**	**$ 4,534,203**	**$ 1,422,225**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF NET COST **As of September 30, 2002** **($ in Thousands)**	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Program Costs:			
Intragovernmental Gross Cost	$ 0	$ 0	$ 89
Less: Intragovernmental Earned Revenue			
Intragovernmental Net Costs			
Gross Costs With the Public	60,780	4,402,943	
Less: Earned Revenues From The Public			(57)
Net Cost With the Public	**$ 60,780**	**$ 4,402,943**	**$ (57)**
Total Net Costs	**$ 60,780**	**$ 4,402,943**	**$ 32**
Costs not Assigned to Programs			
Less: Earned Revenues not Attributable to Programs			(4,578)
Net Cost of Operations	**$ 60,780**	**$ 4,402,943**	**$ (4,546)**

STATEMENT OF NET COST **As of September 30, 2002** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Program Costs			
Intragovernmental Gross Cost	$ 0	$ 178,354	$ 117,114
Less: Intragovernmental Earned Revenue			(66,905)
Intragovernmental Net Costs	**$ 0**	**$ 178,354**	**$ 50,209**
Gross Costs With the Public			191,878
Less: Earned Revenues From The Public	**$ 0**	**$ (84,952)**	**$ (123,416)**
Net Cost With the Public	**$ 0**	**$ (84,952)**	**$ 68,462**
Total Net Costs	**$ 0**	**$ 93,402**	**$ 118,671**
Costs not Assigned to Programs			
Less: Earned Revenues not Attributable to Programs	**$ 0**	**$ (93,402)**	**$ 0**
Net Cost of Operations	**0**	**0**	**118,671**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF CHANGES IN NET POSITION **As of September 30, 2002** **($ in Thousands)**	International Military Education And Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Cumulative Results of Operations			
Beginning Balance	$ 0	$ 666	$ 0
Prior Period Adjustments (+/-)			
Beginning Balance, as adjusted	**$ 0**	**$ 666**	**$ 0**
Budgetary Financing Sources			
Appropriation Received	$ 0	$ 0	$ 0
Appropriations Transferred in/out (+/-)			
Other Adjustments (rescissions, etc) (+/-)			
Appropriations Used	60,780	4,402,943	
Nonexchanged Revenue			
Donations and Forfeitures of Cash and Cash Equivalents			
Transfers in/out Without Reimbursement (+/-)			
Other Budgetary Financing Sources (+/-)			
Other Financing Sources:			
Donations and forfeitures of property	$ 0	$ 0	$ 0
Transfers-in/out without reimbursement (+/-)			
Imputed financing from costs absorbed by others			
Other (+/-)			
Total Financing Sources	**$ 60,780**	**$ 4,402,943**	**$ 0**
Net Cost of Operations (+/-)	**$ 60,780**	**$ 4,402,943**	**$ (4,546)**
Ending Balances	**$ 0.00**	**$ 666**	**$ 4,546**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF CHANGES IN NET POSITION **As of September 30, 2002** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Cumulative Results of Operations			
Beginning Balance	$ (58,808)	$ 0	$ 0
Prior Period Adjustments (+/-)			
Beginning Balance, as adjusted	**$ (58,808)**	**$ 0**	**$ 0**
Budgetary Financing Sources			
Appropriation Received	$ 0	$ 0	$ 0
Appropriations Transferred in/out (+/-)			
Other Adjustments (rescissions, etc) (+/-)			
Appropriations Used			166,103
Nonexchanged Revenue			
Donations and Forfeitures of Cash and Cash Equivalents			
Transfers in/out Without Reimbursement (+/-)			
Other Budgetary Financing Sources (+/-)			
Other Financing Sources:			
Donations and forfeitures of property	$ 0	$ 0	$ 0
Transfers-in/out without reimbursement (+/-)	(10,000)		
Imputed financing from costs absorbed by others			
Other (+/-)			
Total Financing Sources	**$ (10,000)**	**$ 0**	**$ 166,103**
Net Cost of Operations (+/-)	**$ 0**	**$ 0**	**$ 118,671**
Ending Balances	**$ (68,808)**	**$ 0**	**$ 47,432**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF CHANGES IN NET POSITION **As of September 30, 2002** **($ in Thousands)**	International Military Education And Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Unexpended Appropriations			
Beginning Balance	$ 37,685	$ 2,592,235	$ 0
Prior Period Adjustments (+/-)			
Beginning Balance, as adjusted	**$ 37,685**	**$ 2,592,235**	**$ 0**
Budgetary Financing Sources			
Appropriation Received	$ 6,151	$ (350,851)	$ 0
Appropriations Transferred in/out (+/-)			
Other Adjustments (rescissions, etc) (+/-)			
Appropriations Used			
Nonexchanged Revenue			
Donations and Forfeitures of Cash and Cash Equivalents			
Transfers in/out Without Reimbursement (+/-)			
Other Budgetary Financing Sources (+/-)			
Other Financing Sources:			
Donations and forfeitures of property	$ 0	$ 0	$ 0
Transfers-in/out without reimbursement (+/-)			
Imputed financing from costs absorbed by others			
Other (+/-)			
Total Financing Sources	**$ 6,151**	**$ (350,851)**	**$ 0**
Net Cost of Operations (+/-)	**$ 0**	**$ 0**	**$ 0**
Ending Balances	**$ 43,836**	**$ 2,241,384**	**$ 0**

STATEMENT OF CHANGES IN NET POSITION **As of September 30, 2002** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Unexpended Appropriations			
Beginning Balance	$ 0	$ 0	$ 0
Prior Period Adjustments (+/-)			
Beginning Balance, as adjusted	**$ 0**	**$ 0**	**$ 0**
Budgetary Financing Sources			
Appropriation Received	$ 0	$ 0	$ 0
Appropriations Transferred in/out (+/-)			
Other Adjustments (rescissions, etc) (+/-)			
Appropriations Used			
Nonexchanged Revenue			
Donations and Forfeitures of Cash and Cash Equivalents			
Transfers in/out Without Reimbursement (+/-)			
Other Budgetary Financing Sources (+/-)			
Other Financing Sources:			
Donations and forfeitures of property	$ 0	$ 0	$ 0
Transfers-in/out without reimbursement (+/-)			
Imputed financing from costs absorbed by others			
Other (+/-)			
Total Financing Sources	**$ 0**	**$ 0**	**$ 0**
Net Cost of Operations (+/-)	**$ 0**	**$ 0**	**$ 0**
Ending Balances	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2002 ($ in Thousands)	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 0	$ 357,000	$ 0
Borrowing Authority			588
Contract Authority			
Net Transfers (+/-)	70,016	3,699,751	
Other			
Unobligated Balance			
Beginning Of Period	5,930	651	
Net Transfers, Actual (+/-)	(31)	(4,500)	
Anticipated Transfers Balances			
Spending Authority From Offsetting Collections			
Earned			
Collected			(432)
Receivable From Federal Sources			
Change In Unfilled Customer Orders			
Advance Received			
Without Advance From Federal Sources			
Anticipated For The Rest Of Year, Without Advances			
Transfers From Trust Funds			
Subtotal	**$ 0**	**$ 0**	**$ (432)**
Recoveries Of Prior Year Obligations	10,195	4,557	
Temporarily Not Available Pursuant To Public Law			
Permanently Not Available	(3,054)	(159)	(7)
Total Budgetary Resources	**$ 83,056**	**$ 4,057,300**	**$ 149**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2002 ($ in Thousands)	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ 78,088	$ 3,749,241	$ 149
Reimbursable			
Subtotal	**$ 78,088**	**$ 3,749,241**	**$ 149**
Unobligated Balance			
Apportioned	765	3,075	
Exempt From Apportionment		(1)	
Other Available			
Unobligated Balances Not Available		476	
Total, Status of Budgetary Resources	**$ 83,056**	**$ 4,057,300**	**$ 149**
Relationship of Obligations to Outlays			
Obligated Balance, Net - Beginning Of Period	$ 45,911	$ 2,592,963	$ 0
Obligated Balance Transferred, Net (+/-)			
Obligated Balance, Net - End Of Period:			
Accounts Receivable			
Unfilled Customer Order From Federal Sources			
Undelivered Orders	38,868	1,933,990	51
Accounts Payable	15,869	270	
Outlays			
Disbursements	59,067	4,403.388	97
Collections			432
Subtotal	**$ 59,067**	**$ 4,403.388**	**$ 529**
Less: Offsetting Receipts			
Net Outlays	**$ 59,067**	**$ 4,403.388**	**$ 529**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES **As of September 30, 2002** **($ in Thousands)**	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 0	$ 0	$ 0
Borrowing Authority			
Contract Authority			
Net Transfers (+/-)			
Other			
Unobligated Balance			
Beginning Of Period			
Net Transfers, Actual (+/-)			
Anticipated Transfers Balances			
Spending Authority From Offsetting Collections			
Earned			
Collected			
Receivable From Federal Sources			
Change In Unfilled Customer Orders			
Advance Received			
Without Advance From Federal Sources			
Anticipated For The Rest Of Year, Without Advances			
Transfers From Trust Funds			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Recoveries Of Prior Year Obligations			
Temporarily Not Available Pursuant To Public Law			
Permanently Not Available			
Total Budgetary Resources	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2002 ($ in Thousands)	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ 0	$ 0	$ 0
Reimbursable			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Unobligated Balance			
Apportioned	$ 0	$ 0	$ 0
Exempt From Apportionment			
Other Available			
Unobligated Balances Not Available			
Total, Status of Budgetary Resources	**$ 0**	**$ 0**	**$ 0**
Relationship of Obligations to Outlays			
Obligated Balance, Net - Beginning Of Period	$ 0	$ 0	$ 0
Obligated Balance Transferred, Net (+/-)			
Obligated Balance, Net - End Of Period:			
Accounts Receivable			
Unfilled Customer Order From Federal Sources			
Undelivered Orders			
Accounts Payable			
Outlays			
Disbursements			
Collections			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Less: Offsetting Receipts			
Net Outlays	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES **As of September 30, 2002** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 0	$ 27,000	$ 166,103
Borrowing Authority			16,419
Contract Authority			
Net Transfers (+/-)			
Other			
Unobligated Balance			
Beginning Of Period	$ 28,495	$	$
Net Transfers, Actual (+/-)	(10,000)		
Anticipated Transfers Balances			
Spending Authority From Offsetting Collections			
Earned			
Collected	$ 2,073	$ 596,350	$ 811,286
Receivable From Federal Sources			(44,881)
Change In Unfilled Customer Orders			
Advance Received			
Without Advance From Federal Sources			
Anticipated For The Rest Of Year, Without Advances			
Transfers From Trust Funds			
Subtotal	**$ 2,073**	**$ 596,350**	**$ 766,405**
Recoveries Of Prior Year Obligations	9,469		
Temporarily Not Available Pursuant To Public Law			
Permanently Not Available		(558,671)	(641,756)
Total Budgetary Resources	**$ 30,037**	**$ 64,679**	**$ 307,171**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES **As of September 30, 2002** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ (15)	$ 64,679	$ 307,171
Reimbursable			
Subtotal	**$ (15)**	**$ 64,679**	**$ 307,171**
Unobligated Balance			
Apportioned	$ 0	$ 0	$ 0
Exempt From Apportionment			
Other Available	1		
Unobligated Balances Not Available	30,051		
Total, Status of Budgetary Resources	**$ 30,037**	**$ 64,679**	**$ 307,171**
Relationship of Obligations to Outlays			
Obligated Balance, Net - Beginning Of Period	$ 16,218	$ 0	$ 411,878
Obligated Balance Transferred, Net (+/-)			
Obligated Balance, Net - End Of Period:			
Accounts Receivable			(25,238)
Unfilled Customer Order From Federal Sources			
Undelivered Orders	8,251		74,569
Accounts Payable			32,841
Outlays			
Disbursements	$ (1,517)	$ 64,679	$ 681,758
Collections	(2,073)	(596,350)	(811,286)
Subtotal	**$ (3,590)**	**$ (531,671)**	**$ (129,528)**
Less: Offsetting Receipts			
Net Outlays	**$ (3,590)**	**$ (531,671)**	**$ (129,528)**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES **As of September 30, 2002** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 0	$ 0	$ 0
Borrowing Authority			
Contract Authority			
Net Transfers (+/-)			
Other			
Unobligated Balance			
Beginning Of Period	$ 0	$ 0	$ 0
Net Transfers, Actual (+/-)			
Anticipated Transfers Balances			
Spending Authority From Offsetting Collections			
Earned			
Collected	$ 0	$ 0	$ 0
Receivable From Federal Sources			
Change In Unfilled Customer Orders			
Advance Received			
Without Advance From Federal Sources			
Anticipated For The Rest Of Year, Without Advances			
Transfers From Trust Funds			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Recoveries Of Prior Year Obligations			
Temporarily Not Available Pursuant To Public Law			
Permanently Not Available			
Total Budgetary Resources	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2002 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ 0	$ 0	$ 0
Reimbursable			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Unobligated Balance			
Apportioned	$ 0	$ 0	$ 0
Exempt From Apportionment			
Other Available			
Unobligated Balances Not Available			
Total, Status of Budgetary Resources	**$ 0**	**$ 0**	**$ 0**
Relationship of Obligations to Outlays			
Obligated Balance, Net - Beginning Of Period	$ 0	$ 0	$ 0
Obligated Balance Transferred, Net (+/-)			
Obligated Balance, Net - End Of Period:			
Accounts Receivable			0
Unfilled Customer Order From Federal Sources			
Undelivered Orders			
Accounts Payable			
Outlays			
Disbursements	$ 0	**$ 0**	**$ 0**
Collections			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Less: Offsetting Receipts			
Net Outlays	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING **As of September 30, 2002** **($ in Thousands)**	International Military Education And Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
Obligations Incurred	$ 78,088	$ 3,749,241	$ 149
Less: Spending Authority From Offsetting Collections And Recoveries (-)	(10,195)	(4,557)	432
Obligations Net Of Offsetting Collections And Recoveries	$ 67,893	$ 3,744,684	$ 581
Less: Offsetting Receipts (-)			
Net Obligations	**$ 67,893**	**$ 3,744,684**	**$ 581**
Other Resources			
Donations And Forfeitures Of Property	$ 0	$ 0	$ 0
Transfers In/Out Without Reimbursement (+/-)			
Imputed Financing From Costs Absorbed By Others			
Other (+/-)			(5,234)
Net Other Resources Used To Finance Activities	**0**	**0**	**(5,234)**
Total Resources Used To Finance Activities	**$ 67,893**	**$ 3,744,684**	**$ (4,653)**
Resources Used To Finance Items Not Part Of The Net Cost Of Operations			
Change In Budgetary Resources Obligated For Goods, Services And Benefits Ordered But Not Yet Provided			
Undelivered Orders (-)	$ (7,113)	$ 658,259	$ (51)
Unfilled Customer Orders			
Resources That Fund Expenses Recognized In Prior Periods			
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost Of Operations			158
Resources That Finance The Acquisition Of Assets			
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 (-)			
Other (+/-)			
Total Resources Used To Finance Items Not Part Of The Net Cost Of Operations	**$ (7,113)**	**$ 658,259**	**$ 107**
Total Resources Used To Finance The Net Cost Of Operations	**$ 60,780**	**$ 4,402,943**	**$ (4,546)**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING **As of September 30, 2002** **($ in Thousands)**	International Military Education And Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Components Of The Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period			
Components Requiring Or Generating Resources In Future Periods			
Increase In Annual Leave Liability	$ 0	$ 0	$ 0
Increase In Environmental And Disposal Liability			
Upward/Downward Reestimates Of Credit Subsidy Expense (+/-)			
Increase In Exchange Revenue Receivable From The Public (-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Require Or Generate Resources In Future Periods	**$ 0**	**$ 0**	**$ 0**
Components Not Requiring Or Generating Resources			
Depreciation And Amortization	$ 0	$ 0	$ 0
Revaluation Of Assets Or Liabilities (+/-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources	**$ 0**	**$ 0**	**$ 0**
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period	**$ 0**	**$ 0**	**$ 0**
Net Cost Of Operations	**$ 60,780**	**$ 4,402,943**	**$ (4,546)**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING As of September 30, 2002 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Resources Used to Finance Activities			
Budgetary Resources Obligated			
Obligations Incurred	$ (15)	$ 64,679	$ 307,171
Less: Spending Authority From Offsetting Collections And Recoveries (-)	(11,542)	(596,350)	(766,405)
Obligations Net Of Offsetting Collections And Recoveries	$ (11,557)	$ (531,671)	$ (459,234)
Less: Offsetting Receipts (-)			
Net Obligations	**$ (11,557)**	**$ (531,671)**	**$ (459,234)**
Other Resources			
Donations And Forfeitures Of Property	$ 0	$ 0	$ 0
Transfers In/Out Without Reimbursement (+/-)	(10,000)		
Imputed Financing From Costs Absorbed By Others			
Other (+/-)	13,590	596,350	299,302
Net Other Resources Used To Finance Activities	3,590	596,350	299,302
Total Resources Used To Finance Activities	**$ (7,967)**	**$ 64,679**	**$ (159,932)**
Resources Used To Finance Items Not Part Of The Net Cost Of Operations			
Change In Budgetary Resources Obligated For Goods, Services And Benefits Ordered But Not Yet Provided			
Undelivered Orders (-)	$ 7,967	$ 0	$ 337,241
Unfilled Customer Orders			
Resources That Fund Expenses Recognized In Prior Periods			
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost Of Operations			(95,984)
Resources That Finance The Acquisition Of Assets		(64,679)	37,346
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 (-)			
Other (+/-)			
Total Resources Used To Finance Items Not Part Of The Net Cost Of Operations	**$ 7,967**	**$ (64,679)**	**$ 278,603**
Total Resources Used To Finance The Net Cost Of Operations	**$ 0**	**$ 0**	**$ 118,671**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING As of September 30, 2002 ($ in Thousands)	Special Defense Acquisition Fund 11X 4116	Foreign Military Loan Liquidating Account 11*4121	Foreign Military Financing Direct Loan Financing 11X4122
Components Of The Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period			
Components Requiring Or Generating Resources In Future Periods			
Increase In Annual Leave Liability	$ 0	$ 0	$ 0
Increase In Environmental And Disposal Liability			
Upward/Downward Reestimates Of Credit Subsidy Expense (+/-)			
Increase In Exchange Revenue Receivable From The Public (-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Require Or Generate Resources In Future Periods	**$ 0**	**$ 0**	**$ 0**
Components Not Requiring Or Generating Resources			
Depreciation And Amortization	$ 0	$ 0	$ 0
Revaluation Of Assets Or Liabilities (+/-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources	**$ 0**	**$ 0**	**$ 0**
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period	**$ 0**	**$ 0**	**$ 0**
Net Cost Of Operations	**$**	**$**	**$**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING **As of September 30, 2002** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Components Of The Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period			
Components Requiring Or Generating Resources In Future Periods			
Increase In Annual Leave Liability	$ 0	$ 0	$ 0
Increase In Environmental And Disposal Liability			
Upward/Downward Reestimates Of Credit Subsidy Expense (+/-)			
Increase In Exchange Revenue Receivable From The Public (-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Require Or Generate Resources In Future Periods	**$ 0**	**$ 0**	**$ 0**
Components Not Requiring Or Generating Resources			
Depreciation And Amortization	$ 0	$ 0	$ 0
Revaluation Of Assets Or Liabilities (+/-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources	**$ 0**	**$ 0**	**$ 0**
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period	**$ 0**	**$ 0**	**$ 0**
Net Cost Of Operations	**$ 0**	**$ 0**	**$ 118,671**

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

January 15, 2003

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

SUBJECT: Independent Auditor's Report on the Department of Defense Fiscal Year 2002 Agency-Wide Principal Financial Statements (Report No. D-2003-050)

The Chief Financial Officers (CFO) Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying DoD Consolidated Balance Sheet as of September 30, 2002 and 2001, the related Consolidated Statements of Net Cost and Changes in Net Position, the Combined Statements of Financing and Budgetary Resources, and the Statement of Custodial Activity for the fiscal years then ended. The financial statements are the responsibility of DoD management. DoD is also responsible for implementing effective internal control and for complying with laws and regulations. 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.

Disclaimer of Opinion on the Financial Statements

The Under Secretary of Defense (Comptroller)/Chief Financial Officer has acknowledged that (1) DoD financial management systems do not substantially comply with Federal financial management systems requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level and (2) DoD financial management and feeder systems cannot currently provide adequate evidence to support various material amounts on the financial statements. Therefore, we did not perform auditing procedures to support material amounts on the financial statements. In addition, other auditing procedures were not performed because Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only the audit procedures required by generally accepted government auditing standards that are consistent with representations made by DoD management. DoD has also acknowledged, and prior audits have identified, the material weaknesses listed in the Summary of Internal Control. These material weaknesses also affected the reliability of certain financial information contained in the accompanying Management's Discussion and Analysis and certain other information, much of which is taken from the same data sources as the principal financial statements.[1] These deficiencies would have precluded an audit opinion. Based on the representations of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, we did not obtain sufficient, competent, evidential matter to support material amounts on the financial statements and accompanying information. Therefore, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

[1]The annual financial statements are accompanied by Required Supplementary Stewardship Information, Required Supplementary Information, and supporting consolidating and combining financial statements.

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States, Article I, Section 9

Summary of Internal Control

We considered DoD internal control over financial reporting and compliance to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance but not to express an opinion on internal control. We do not express an opinion on internal control over financial reporting and compliance; however, previously identified reportable conditions,[2] all of which are material, continued to exist in the following areas:

- financial management systems;
- Fund Balance with Treasury and problem disbursements;
- Inventory;
- Operating Materials and Supplies;
- Property, Plant, and Equipment;
- Government-Furnished Material and Contractor-Acquired Material;
- Military Retirement Health Care Liabilities;
- Environmental Liabilities;
- intragovernmental eliminations and other accounting entries;
- Statement of Net Cost; and
- Statement of Financing.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

Summary of Compliance with Laws and Regulations

Our work to determine compliance with selected provisions of laws and regulations applicable to financial reporting was limited because management acknowledged, and prior audits confirm, that instances of material noncompliance continued to exist. The Under Secretary of Defense (Comptroller)/Chief Financial Officer acknowledged to us that DoD financial management systems do not comply substantially with Federal financial management system requirements. These requirements include those established by the Office of Management and Budget (OMB), generally accepted

[2] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to meet the internal control objectives in the report.

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accounting principles, and the U.S. Government Standard General Ledger at the transaction level. Prior audits support the Department's conclusions and confirm that uncorrected instances of noncompliance continued to exist related to selected provisions of the Prompt Payment Act, Government Information Security Reform Act, and the Government Performance and Results Act.

In order for DoD to comply with statutory reporting requirements and applicable financial management systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing a DoD-wide financial management enterprise architecture. It is unlikely that DoD will be able to fully comply with the statutory reporting requirements until the architecture is developed and implemented. See the Attachment for additional details on compliance with laws and regulations.

Our objective was not to express an opinion on compliance with applicable laws and regulations; therefore, we did not determine whether DoD was in compliance with applicable laws and regulations related to financial reporting. We caution that other noncompliance may have occurred and not been detected, and the results of our limited procedures may not be sufficient for other purposes.

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of section 3512, title 31, United States Code, which incorporates the reporting requirements of the Federal Managers' Financial Integrity Act of 1982, are met;
- ensuring that DoD financial management systems substantially comply with Federal Financial Management Improvement Act (FFMIA) of 1996 requirements; and
- complying with applicable laws and regulations.

David Steensma
David K. Steensma
Deputy Assistant Inspector General
for Auditing

Attachment
As stated

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States, Article I, Section 9

Report on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control; for providing reasonable assurance that accounting data is accumulated, recorded, and reported properly; and that assets are safeguarded. We did not perform tests of DoD internal control over financial reporting and we did not obtain sufficient evidence to support or express an opinion on internal control because previously identified reportable conditions, all of which are material, continued to exist. DoD financial management deficiencies are indications of internal control weaknesses that significantly impair the ability of DoD to prepare financial statements in compliance with generally accepted accounting principles and to detect and investigate fraud or theft of assets. A high risk of material misstatements will continue to exist until the internal control deficiencies are corrected.

Financial Management Systems. The FFMIA mandates that financial management systems comply with Federal financial system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The Under Secretary of Defense (Comptroller)/CFO acknowledged that DoD financial management systems lack the capability to provide reliable and timely information. To overcome the deficiencies, the Secretary of Defense established the Department-Wide Financial Modernization Program with the goal of improving the Department's financial management systems so that they can produce reliable and timely information.

Fund Balance With Treasury and Problem Disbursements. DoD is required by the U.S. Treasury Financial Manual and DoD Financial Management Regulation 7000.14-R to resolve financial and accounting inconsistencies to accurately report Fund Balance with Treasury. However, deficiencies continued to exist related to: in-transit disbursements; problem disbursements including unmatched disbursements and negative unliquidated obligations; unreconciled differences in suspense accounts; and unreconciled differences between U.S. Treasury records and DoD disbursing stations for checks issued, deposits and electronic fund transfers, and interagency transfers.

Inventory. DoD disclosed in the financial statement notes that the Department primarily records inventory using the latest acquisition cost adjusted for holding gains and losses instead of historical cost as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property." For example, the value for most of the Defense Logistics Agency inventory, which represents a material portion of the Department's overall inventory, is derived from legacy logistics systems that do not maintain the necessary historical cost data. Additionally, DoD does not distinguish between Inventory Held for Sale and Inventory Held in Reserve for Future Sale, as required by SFFAS No. 3, "Accounting for Inventory and Related Property".

Operating Material and Supplies. DoD is required by SFFAS No. 3 to calculate and report the value of operating materials and supplies using historical cost and to expense operating materials and supplies when items are consumed. However, DoD has acknowledged that operating material and supplies are valued using the standard purchase price, and an expense is recorded when materials are purchased or consumed. The Navy, for example, has not taken action to accurately capture and report historical cost data for more than $35.6 billion of conventional ordnance.

Property, Plant, and Equipment. SFFAS No. 6, "Accounting for Property, Plant, and Equipment," requires that all Property, Plant, and Equipment (PP&E) be recorded at cost. It also requires that depreciation expense be recognized on all general PP&E. Depreciation is to be calculated through the systematic and rational allocation of the cost of general PP&E, less the estimated salvage or residual value, over the estimated useful life. DoD disclosed that due to system limitations, the Department did not capture the correct acquisition date and cost, and therefore could not provide reliable information for reporting account balances and computing depreciation.

For FY 2002, DoD was required by SFFAS No. 8, "Supplementary Stewardship Information," to report a value for National Defense PP&E, also known as military equipment, in the Required Supplementary Stewardship Information accompanying the financial statements. However, DoD has been unable to accumulate the cost data necessary to prepare an accurate value for National Defense PP&E and did not report a value as required.

Government Furnished Material and Contractor Acquired-Material. DoD did not report Government-owned property held by defense contractors. DoD Financial Management Regulation, volume 4 "Accounting Policy and Procedures," chapter 6, "Property, Plant, and Equipment," August 2000 sets forth the requirements for accounting for Government-furnished property in the possession of contractors. DoD Components are required to record, in DoD property accountability systems, detailed information on property provided to contractors and DoD property transferred from one contractor to another contractor. DoD acknowledged that accounting for Government-furnished property in the possession of contractors was a material weakness in the FY 2002 DoD Agency-Wide Financial Statements.

Military Retirement Health Care Liabilities. For FY 2002, DoD acknowledged that the quality of data within the military health care system impacted the accuracy of the Military Retirement Health Care Actuarial Liability. DoD is considering alternatives for calculating the liability estimate.

Environmental Liabilities. DoD acknowledged, and prior audits confirm, that problems with environmental liabilities continued to exist related to guidance, audit trails, the use of estimating models, and inventories of sites. SFFAS No. 5, "Accounting for Liabilities of the Federal Government," provides guidance for recognition of liabilities in which the future outflow of resources is probable and reasonably estimable. Until the deficiencies are fully corrected, DoD will not be able to report environmental liabilities as required by SFFAS No. 5.

Intragovernmental Eliminations and Other Accounting Entries. DoD accounting systems did not capture trading partner data at the transaction level in a manner that facilitated reconciliation of trading partner transactions. DoD currently forces buyer-side transaction data to agree with seller-side transaction data without reconciling differences. In addition, DoD did not have procedures to reconcile all intra-fund transactions. DoD has acknowledged intragovernmental eliminations as a material weakness in the FY 2002 DoD Agency-Wide Financial Statements. During the preparation of the FY 2002 financial statements, DoD also continued to make other accounting entries that were not supported as required by OMB Circular No. A-123, "Management Accountability and Control," June 21, 1995.

Statement of Net Cost. DoD acknowledged the following deficiencies related to the Statement of Net Cost:

- amounts presented in the Statement of Net Cost may not in all cases report actual accrued costs,
- accounting systems do not capture cost data in a manner that enables the Department to determine if costs were incurred to generate Intragovernmental revenue,
- accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations, therefore, DoD was unable to reconcile Intragovernmental revenue balances with its trading partners,
- net costs are not reported by responsibility segments that align with major goals and outputs, and
- revenues and expenses are reported by appropriation categories and not by performance measures as required by the Government Performance and Results Act because current financial processes and systems do not capture and report this type of cost information.

Statement of Financing. DoD has acknowledged that the Department cannot reconcile budgetary obligations to net cost, and that budgetary data does not agree with proprietary expenses and assets capitalized. DoD disclosed in the notes to the financial statements that the Statement of Financing was adjusted by a net $4.1 billion to force Net Cost of Operations on the Statement of Financing to match the Statement of Net Cost. Because the differences are not reconciled, the adjustments are unsupported. Additionally, DoD prepared the Statement of Financing on a combined basis instead of the consolidated basis required by OMB Bulletin No. 01-09.

Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether DoD was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Statutory Financial Management Systems Reporting Requirements. DoD is required to comply with the following financial management systems reporting requirements.

- Section 3512, title 31, United States Code incorporated the reporting requirements of the Federal Managers' Financial Integrity Act of 1982 and requires DoD to evaluate its systems and to annually report whether those systems are in compliance with applicable requirements.

- The CFO Act of 1990 requires DoD to prepare and annually revise an agency plan to implement the Government-Wide 5-year Financial Management Plan–prepared by the Director of OMB–describing activities that DoD will conduct during the next 5 years to improve financial management.

- The FFMIA of 1996 requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger. The FFMIA also requires DoD to develop a remediation plan when its financial management systems do not comply with Federal financial management systems requirements. The remediation plan is to include remedies, resources required, and target dates.

For FY 2002, DoD did not fully satisfy its statutory reporting requirements identified in the provisions above. DoD acknowledged that many of its critical financial management and feeder systems do not comply substantially with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In an attempt to comply with statutory reporting requirements and applicable financial management systems requirements, DoD is developing a DoD-wide financial management enterprise architecture. As part of that process, DoD has reported that more than 1,800 systems contribute to the Department's financial reporting process. DoD anticipates having a "To Be" architecture and transition plan by April 2003. The transition plan is expected to contain specific actions, priorities, milestones, and improvements necessary to improve the quality of the Department's financial reporting. The enterprise architecture–when completed–is expected to prescribe how the Department's financial management and feeder systems and business processes will interact. It is unlikely that DoD will be able to fully comply with the statutory reporting requirements until the architecture is developed and implemented. Therefore, we did not perform tests of compliance for these requirements.

Prompt Payment Act of 1982. DoD is required to review and approve invoices for payment as soon as practicable after receipt to determine if the invoice is proper. DoD is required to make payments by the due date stated in the contract or within 30 days of receipt of a proper invoice if a due date is not stated. However, control deficiencies existed related to the adequacy of documentation and timeliness of vendor and contract payments.

Government Performance and Results Act of 1993. The Government Performance and Results Act, along with the subsequent implementation guidance issued by OMB in Circular No. A-11, requires DoD to issue a performance plan covering each program activity set forth in the budget by December 31 for the current fiscal year. DoD did not issue a performance plan for FY 2002 as required, and as a result, could not comply with other performance reporting requirements established by OMB. In addition, DoD has acknowledged that the Department is unable to accumulate costs for major programs based on performance measures identified under the Government Performance and Results Act because of system limitations.

Government Information Security Reform of FY 2001. DoD is required to develop and implement information security policies, procedures, and control techniques sufficient to afford security protections. DoD is also required to assess the information security risks associated with assets and operations of systems and programs under the Department's control and to determine the level of information security appropriate for protecting the assets and operations. Further, DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988, required all

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automated information systems, including stand-alone systems, communications systems, and computer systems, to be certified and accredited[3]. DoD did not fully comply with the Government Information Security Reform of FY 2001. For example, an estimated 60 percent of the 1,365 unique applications that the Defense Information Systems Agency has residing on its computer systems did not have written, current certifications or accreditations. These applications support DoD installations and include: finance and accounting, pay and disbursement, material shipping, receiving and storing, munitions maintenance, and weapon-systems associated applications. As a result, risks to information technology may not have been fully identified, assessed, and managed.

Audit Disclosures

The Under Secretary of Defense (Comptroller)/Chief Financial Officer acknowledged to us on August 27, 2002, that DoD financial management systems cannot provide adequate evidence supporting various material amounts on the financial statements. As a result, we were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal control, and compliance with laws and regulations.

We did not perform audit tests of DoD compliance with selected provisions of the Anti-Deficiency Act, the Debt Collection Improvement Act of 1996, the Federal Credit Reform Act of 1990, and the Pay and Allowance System for Civilian Employees. This report does not include recommendations to correct the material control weaknesses and instances of noncompliance because previous audit reports contained recommendations for corrective actions.

[3]DoD Directive 5200.28 was canceled on October 24, 2003, and the requirements incorporated into DoD Directive 8500.1, "Information Assurance."

Summary of Management Challenges

The "Reports Consolidation Act of 2000," Public Law 106-531, requires the Inspector General to include a statement in the Agency's combined financial and performance report of the most serious management and performance challenges facing the Agency. The Office of the Inspector General (OIG) identified challenges for supporting the Department's dual wars on terrorism and bureaucracy. The challenges are Joint Warfighting and Readiness, Homeland Security, Human Capital, Information Technology Management, Streamlined Acquisition Processes, Financial Management, Health Care, Logistics, and Infrastructure and Environment. The challenges also parallel and support the Secretary of Defense's top 10 priorities and the President's Management Agenda initiatives.

In each area that the OIG identifies as a challenge there is a relationship to one or more of the Secretary's top priorities. For example, the priorities of "Strengthen Joint Warfighting Capabilities," and "Homeland Security" are directly identified as challenges, and the priority to "Streamline DoD Business Processes" is intrinsic in many of the challenges that face the Department.

In September 2002, the Secretary of Defense released his top ten priorities for the next 6 to 12 months.

- Successfully Pursue the Global War on Terrorism,
- Strengthen Joint Warfighting Capabilities,
- Transform the Joint Force,
- Optimize Intelligence Capabilities,
- Improve Force Manning,
- New Concepts of Global Engagement,
- Counter the Proliferation of Weapons of Mass Destruction,
- Homeland Security,
- Streamline DoD Business Processes, and
- Improve Interagency Processes, Focus, and Integration.

The President's Management Agenda includes five initiatives to help government work better. The five initiatives--Management of Human Capital, Improved Financial Management, Budget and Performance Integration, Competitive Sourcing, and Expanded Electronic Government--are also identified within the challenges.

A myriad of Defense internal business operations provide direct or indirect support to the warfighters. The need to transform those support functions, chiefly by reducing bureaucracy and applying modern information technology, has been recognized for several years, but reform efforts have had limited success, or have not yet been fully implemented. The terrorist attacks on our country, the ensuing military operations, and the compelling need to defend against emerging threats have added urgency to the needs to expedite management improvement and to use Defense resources wisely. If allowed to continue as is, the current organizational arrangements, processes, and systems will continue to drain scarce resources from the warfighters training, infrastructure, and operations. As Secretary of Defense Donald Rumsfeld stated in his "Bureaucracy to Battlefield" speech on September 10, 2001:

"Just as we must transform America's military capability to meet changing threats, we must transform the way the Department works and what it works on."

"Our challenge is to transform not just the way we deter and defend, but the way we conduct our daily business. Let's make no mistake: The modernization of the Department of Defense is a matter of some urgency. In fact, it could be said that it's a matter of life and death, ultimately, every American's."

"The old adage that you get what you inspect, not what you expect, or put differently, that what you measure improves, is true. It is powerful, and we will be measuring."

Measuring improvement on the challenges is difficult when using high level or strategic performance measures because the Department lacks common processes and integrated systems that can produce quality information for decision making. As a consequence, Defense managers resort to using performance metrics that are assembled from data calls, ad hoc queries, and makeshift analysis. The Office of the Inspector General (OIG) can and does provide assistance to the Department by independently assessing the quality and reliability of data used to measure the progress of improvement efforts.

Joint Warfighting and Readiness

In order for U.S. forces to operate jointly in conflict, they must also train and operate together in peacetime. Ensuring that U.S. forces are ready to carry out assigned missions is the preeminent responsibility and challenge of the DoD. A wide variety of Defense functions, particularly in the personnel management, logistics, and acquisition areas, directly support and impact joint warfighting and military readiness. Many of the other management challenges encompass those functions that support joint warfighting and readiness issues.

The DoD needs to design and produce new systems with joint warfighting requirements in mind. Joint Vision 2020 states that interoperability is a mandate for the future joint force especially for communications, logistics, and information technology. To attain Joint Vision 2020 and reduce the risk of building stovepipe systems, the Defense Components are required to develop and retrofit DoD systems into common interoperable and secure systems. An OIG report on implementation of interoperability and information assurance policies for acquisition of DoD weapon systems pointed out the need for consistent guidance and a process to measure and assess interoperability. Otherwise, DoD is at risk of developing systems that operate independently of other systems and of not fully realizing the benefits of interoperable systems to satisfy the needs of the joint warfighter. The Director, Joint Staff agreed with the report and also commented that there was a fundamental issue beyond the audit "that DoD is not effectively structured to affect the organizing, training, and equipping of joint capabilities. There is no joint process responsible for developing and acquiring joint command and control systems and integrating capabilities."

Although readiness is frequently assessed in exercises and inspections, multiple independent reviews by the OIG and by the Service Audit Agencies indicate that the readiness reporting system is cumbersome, subjective, and not fully responsive to the needs of senior decision makers. In FY 2002 there were 27 reports on joint warfighting and readiness. OIG reports on Active, Reserve, and National Guard units identified readiness issues related to the accurate reporting of preparedness for chemical and biological defense. The Naval Audit Service also issued reports on the need to improve readiness reporting for selected aircraft, submarine, and marine forces. The Department is implementing a new DoD Readiness Reporting System that will be the primary means by which the DoD Components will measure and report on their readiness to execute the missions assigned to them by the Secretary of Defense.

The proliferation of biological and chemical technology and material has provided potential adversaries with the means to challenge directly the safety and security of the United States and its military. The Chemical and Biological Defense Program is an excellent example of a program supporting joint warfighting to ensure that military personnel are the best equipped and best prepared forces in the world for operating in battle space that may feature chemically and biologically contaminated environments. The program development of common masks, the Joint Service Lightweight Integrated Suit Technology ensembles and an integrated suite of chemical and biological detection equipment are noteworthy examples of eliminating service stovepipes and related overlapping costs in order to promote jointness. The Commander, U.S. Central Command exhibited a high degree of joint warfighting expertise in its chemical and biological defense program. The U.S. Naval Forces, Central Command, located in Bahrain enacted a vigorous and comprehensive program for not only naval personnel, but also for the other services, DoD civilians, and dependents as well.

The OIG has continued its strong presence in ensuring adequate oversight of chemical and biological defense issues. Since we began working on this issue in 1994, the Department has made significant strides in improving the quality of chemical and biological defense equipment, the individual and unit training, and equipping of military units. Although much progress was made, additional program improvements were needed. The OIG reported on issues with the logistics and maintenance of chemical and biological protective equipment in the European Command and Central Command, and the acquisition of the chemical agent detector. The need for a joint inventory management tool at the unit-level for chemical and biological equipment was identified as a key requirement to improve readiness of the forces. The Army Audit Agency and Naval Audit Service reported on the need to improve Army and Marine Corps unit-level training for chemical and biological defense and provide additional support for chemical and biological defense to forward-stationed DoD civilians and contractors. In five reports, the GAO concluded that chemical and biological defense equipment, training, and medical problems persisted, and if not addressed, were likely to result in a degradation of U.S. warfighting capabilities.

Homeland Security

As the events of September 11, 2001, have reminded us, the geographic position of the United States will not provide immunity from direct attack on its people, territory, or infrastructure. The range of means that adversaries may use includes nuclear, chemical, and biological weapons and weapons of mass disruption, such as information warfare attacks on the Defense information structure. The DoD is engaged in a wide range of activities to strengthen homeland security, but longstanding problems such as backlogged personnel security clearance investigations remain a concern.

Eight GAO reports identified the following improvements needed for Homeland Security: security for shipments of ammunition, accountability over missiles and munitions, port security, and installation development and exercise of weapons of mass destruction preparedness plans.

Information security is a cornerstone of Homeland Security. The information security threat to DoD systems and to other public and private sector systems on which national security depends is greater than ever. Its sources include foreign governments, terrorist groups, disgruntled government or contractor employees, vandals, criminals with financial motives, and mere curiosity seekers. The challenge to DoD is to minimize vulnerabilities without losing the advantages of open, interconnected systems with large numbers of users. Because of the constantly evolving threat and the sheer size of DoD information operations, the Department needs to be both highly flexible and systematic in its approach to information security. Although the DoD is a leader in resolving many aspects of this complex problem, we continue to find a wide range of security weaknesses.

Since FY 2001 the Government Information Security Reform Act required that each agency obtain an independent assessment of its security posture. In FY 2001 and FY 2002 the OIG evaluated the security posture based on an independently selected subset of information systems, and a summary of the OIG review was provided to DoD for inclusion in its report to the Office of Management and Budget. The FY 2002 review assessed the accuracy of the data DoD used in FY 2001 to report the security status for 560 information technology systems. DoD reported invalid data on the security status of systems for an estimated 370 systems. Further, although the requirement for systems to obtain security certification and accreditation has existed since 1997, we estimate that only 101 of 560 systems met the requirement. Consequently, the Office of Management and Budget and DoD managers do not have dependable information to ascertain the degree to which information security controls exist in systems.

During FY 2002, the DoD audit community issued 22 reports and the GAO issued 2 reports related to the requirements of the Government Information Security Reform Act. Reports identified security issues for the Air Force Medical Treatment Facility Systems, the Computerized Accounts Payable System, and several other financial systems processing millions of transactions.

Four reports by the OIG and GAO on exporting technology underscored the need for continued emphasis in this area. In addition, the DoD continues to work with other agencies to improve the controls over exports of sensitive technology. In this regard, the Congress can help by reauthorizing the long-expired Export Administration Act so that national policy objectives are clear and the controls are completely consistent with those objectives.

A series of OIG reports identified the need to improve the policy and security of controls over biological agents at Defense laboratories and medical facilities.

The Cooperative Threat Reduction (CTR) Program was initiated to reduce the threat posed by weapons of mass destruction in the former Soviet Union. Under the program, the United States assists former Soviet Union states in building facilities and operating programs to safeguard, transport, and ultimately destroy chemical, biological, and nuclear weapons, delivery systems, and infrastructure. Adequate controls for the program are vital to ensuring that the limited program funds are used effectively. The lack of adequate controls was clearly demonstrated in an OIG review that showed a recently completed $95 million facility in Siberia for converting rocket fuel to nonmilitary purposes now sits idle because Russia began using the rocket fuel for space launches during construction of the facility without informing DoD. Adequate inspections and firm agreements, in this case to provide the rocket fuel for conversion, were not in place. Extensive measures have been taken since March 2001 to add adequate controls including: the Under Secretary of Defense (Policy) requested an OIG audit of this project; all pending CTR projects have been scrubbed to identify instances of reliance on Russian obligations; in July 2002 an extensive executive review of all CTR projects in Russia was conducted; another review is scheduled for January 2003; and DoD proposed amendments to implementing agreements to make Russian obligations legally binding and increase audit and inspection rights for the U.S.

Human Capital

The challenge in the area of human capital is to ensure that the DoD civilian and military workforces are appropriately sized, well trained and motivated, held to high standards of integrity, encouraged to engage in intelligent risk taking, and thus capable of handling the emerging technologies and threats of the 21st century. The Department has 2.6 million active duty and Reserve men and women under arms and a civilian workforce of nearly

700,000. The size of DoD and the wide variety of skills needed to meet this challenge are complicating factors, as are the constraints posed by Government civilian personnel management rules. Also, the 1990s were a period of downsizing and reduced hiring, which led to an aged workforce. The current average age in most civilian job series is late forties. In some job series, such as quality assurance specialists and test range engineers, the average age is well over fifty. The aging workforce is highlighted by the fact that 66 percent of the workforce will be eligible to retire by 2006.

The Department recognized the need for a strategic plan for the civilian workforce by publishing the first civilian human resources strategic plan this year. This filled a longstanding gap. The DoD is a world leader in uniform military training. In civilian training DoD made strides in focusing on leadership development by establishing the Defense Leadership and Management Program. Achieving an appropriate mix of in-house and contractor personnel, better analysis of workload and staffing requirements, and more effective workforce incentives will promote far greater efficiency and effectiveness.

The Department initiated many positive actions for the President's Management Agenda initiative of Management of Human Capital. The Department is requiring military personnel to perform their core mission of warfighting and transferring support functions to the private sector. For example, a Naval Audit Service report identified that the Service Week portion of boot camp could be eliminated because the recruits spent that week performing commercial type work. Eliminating the Service Week from boot camp allowed 50,000 enlisted sailors to report earlier to the fleet. There were major headquarters reductions, planned reorganizations, and reductions in the number of managers. Thousands of additional civilian positions are being made available for outsourcing. The Department is also improving its recruitment efforts through intern recruitment initiatives and by providing additional funding for development programs. For example, the Air Force budgeted funds for FY 2003 specifically for the purposes of paying recruitment bonuses and student loan repayments for critical skills such as scientists and engineers.

Some of the poor decisions, noncompliance with procedures, and incomplete actions reported by auditors are caused by staffing shortages or inadequate training. This is especially noticeable in contracting and contract administration activities, where the workforce was cut in half in the 1990s. This particular challenge is also evident in problems with inventory management, erroneous contractor payments, unreconciled contract payment and financial information, and weak controls over Government credit cards. During FY 2002 there were 12 reports addressing human capital issues. Reports often discuss a lack of staff or the need to retain experienced staff. The OIG reported that the Naval Air Systems Command Program for reporting and tracking defective repair parts was not effective because of the lack of adequate staff and lack of training. Another report identified an 8 percent processing error rate by the Washington Headquarters Services Human Resources Center of personnel actions that resulted in pay and other problems.

Information Technology Management

The key to success on the modern battlefield and in internal business activities is the ability to produce, collect, process, and distribute information. Data must be accurate, timely, secure, and in usable form. The huge scale, unavoidable complexity, and dynamic nature of DoD activities make them heavily dependent on automated information technology. This dependence has proven to be a major challenge because DoD management techniques have not kept pace with the continual growth in information user requirements and the shortened life spans of technologies before obsolescence. The President's Management Agenda initiative on Expanded Electronic Government will assist the Department in meeting this management challenge.

During FY 2002, 30 audit reports continued to indicate a wide range of management problems in systems selected for review. The important systems for which management improvements were recommended included the Defense Finance and Accounting Service Corporate Database, Defense Counterintelligence Information System, Wide Area Workflow, Joint Simulation System, Computerized Accounts Payable System, Military Airspace Management System, and USXPORTS Automation Initiatives.

For example, after years of development and $166 million spent on the Defense Travel System, Preventive Health Care application, and Military Airspace Management System, they are either still not working or providing only a limited amount of their intended benefits. Those reports are reminders that bringing new systems online is difficult.

In addition, auditors reported ways to enhance compliance by Army, Navy, and Air Force Web sites with applicable guidelines for data content and privacy. Other issues include interoperability, data quality, crowding of the radio frequency spectrum, and protecting sensitive data.

Streamline Acquisition Processes

No other organization in the world buys the amount and variety of goods and services purchased by the DoD. In FY 2001 the Department spent $175 billion through contracts and other instruments, using about 19,000 transactions per day. There are about 1,500 weapon acquisition programs valued at $1.8 trillion over the collective lives of these programs. The amount spent to procure services, $77 billion in fiscal year 2001, is increasing as DoD Components continue to expand outsourcing pursuant to the Federal Activities Inventory Reform Act of 1998 and the President's Management Agenda initiatives. The management challenge is, despite this huge scale, to provide materiel and services that are superior in performance, high in quality, sufficient in quantity, and reasonable in cost.

During FY 2002 the DoD internal audit community issued 83 reports that addressed a range of continuing acquisition issues. The Defense Contract Audit Agency continued to assist contracting officers through 40,142 contract audits that identified $5.1 billion of questioned costs and funds put to better use. These monetary benefits reduce program costs and the need for additional appropriations.

There has been particular concern over the past two decades about the length of the acquisition cycle and the high per unit cost of weapon systems. For example, the V-22 Advanced Tiltrotor Aircraft (Osprey) has been under development since 1981, and the currently estimated production cost is $65 million per plane. Despite years of development, the OIG reported that the V-22 hydraulics system performed at reliability rates significantly lower than predicted. Other audits have continued to reveal the lack of competition for service contracts. One report identified where the Navy exceeded the 5-year regulatory time limit for $1 billion of environmental service contracts and thus did not benefit from recompeting the requirements. Abuse of the $9.7 billion charge card program recently emerged as another special concern. The Department convened a special task force that included OIG auditors and investigators and issued a report calling for additional controls and instituting new policies of zero tolerance for abuse of credit cards.

Requirements computations and pricing continue as problems for spare parts. Another audit showed the Department did not effectively implement the changes related to obtaining certified cost and pricing data. Those audits provided continued indications that many of the acquisition reforms initiated over the past few years have not been fully or effectively implemented, often because the acquisition workforce is both understaffed and undertrained.

The continued depth of the problems are highlighted by mismatches between requirements and available funding, the continual lack of data to manage and oversee contracts and programs and types of contracts, and the relatively low priority given to improvement in contracting for services until very recently. For example, the Department could not provide Congress with data on goals and savings from the management of service contracts required by the Authorization Act.

It is vital that the DoD quality assurance programs ensure that the products delivered to our warfighters are of the highest quality. Recent reviews have shown that reductions in personnel and funds adversely affected the quality assurance programs. The Defense Logistics Agency Quality Manufacturer's List and Quality Products List Program aims to increase product quality and reliability and buying productivity, and to enhance logistics management operations by establishing a list of vendors that received manufacturing line audits and are certified as providing high quality critical items. An OIG report showed that 42 percent of the audits were not accomplished for 1,196 vendors manufacturing lines needing certification. Some certifications were 8 years overdue. A lack of staff to perform the audits and certifications resulted in a higher risk of receiving nonconforming parts. Similarly, a lack of staff for the Navy Product Quality Deficiency Program resulted in as many as 1.4 million potentially nonconforming items in the inventory.

Another report identified where the Navy and Defense Logistics Agency failure to enforce contract specifications resulted in the purchase of $12 million of mattresses for ships that were not fire resistant.

Financial Management

The President's Management Agenda has initiatives on Improved Financial Performance and Budget and Performance Integration. These initiatives will help focus the Department on the Financial Management challenge. The Department's financial statements are the largest and most complex and diverse financial statements in the world. The Department prepares nine primary financial statements, and an additional three financial statements are now required for the intelligence agencies. In comparison, the most number of financial statements prepared by another Federal agency is four. The Department's FY 2001 financial statements include $707 billion in assets, excluding the value of weapon systems, and $1.4 trillion in liabilities. The DoD audit community issued 116 reports during FY 2002 to improve financial management.

Improving financial performance means ensuring fiscal control over financial and physical assets; avoiding fraud and misappropriation of funds; distributing resources effectively; efficiently making millions of payments per year; integrating budget and performance data; and providing timely, accurate, and useful financial information for management and oversight. This challenge will be one of the most difficult for the DoD to master. Contributing factors have included the lack of adequate systems to compile, integrate, and distribute fiscal reports; the unparalleled complexity of the DoD accounts structure; a past proclivity to bypass official accounting systems to generate financial information; and lack of sustained top management interest in fundamental financial management reform during the 1990s.

The Department has made a bold decision to pause the modernization efforts of financial management systems and invest significant funding in developing a new and far more comprehensive system architecture. The financial modernization program will address consolidating the functions performed by about 1,800 disparate systems and likely result in a more manageable family of integrated systems, designed to provide useful information to managers for decision-making. Clean audit opinions on year-end financial statements will come later. This will parallel requirements in the National Defense Authorization Act for FY 2002, which prohibits unproductive efforts to compile and audit financial statements whose managers assert there are material problems precluding reliance on them. The OIG has consistently advocated a primary focus on financial systems, and we welcome the new strategy.

The Department has also continued to work on correcting material weaknesses such as intergovernmental transactions, environmental and health care liabilities, and payment problems that preclude clean audit opinions. For example, unmatched disbursements have decreased by approximately 80 percent to $1.4 billion.

The Department's ongoing efforts to address its problems with financial systems and data are critical to the success of performance based budgeting because meaningful links between performance results and resources consumed are only as good as the underlying data. Consistent with the initiative and to further improve the Planning, Programming, and Budget System, the DoD Components were requested to incorporate performance metrics into the FY 2004 budget. Although DoD has several initiatives underway to develop and improve the Department's ability to measure performance, it has been constrained by the lack of a 2002 performance plan and performance measures and the inability to directly tie goals to supporting financial data. Without good performance measures, the impact that additional resources have on levels of output cannot adequately be determined. In many instances, DoD managers do not have access to useful financial data to support them in measuring outcomes.

The OIG is working with the Department to address the administration's requirement for accelerated submission of audited financial statements. The OIG reviewed and streamlined the audit processes and cooperatively established, with the Department, interim due dates to ensure that the Department can meet the accelerated due dates in FYs 2003 and 2004. The extent of cooperation the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and Defense Finance and Accounting Service has provided to the OIG for improving financial systems and statements is unparalleled in the history of the OIG.

Health Care

The DoD military health system (MHS) challenge is to provide high quality health care in both peacetime and wartime. The MHS must provide quality care for approximately 8 million eligible beneficiaries within fiscal constraints and in the face of price growth pressure that has made cost control difficult in both the public and private sectors. The MHS was funded at approximately $25 billion in FY 2002, including about $5.8 billion in military personnel appropriations and $3.6 billion for the newly implemented TRICARE for Life program.

During FY 2002, the DoD audit community issued 12 reports addressing issues such as the Armed Services Blood Program, Navy fleet hospital requirements, resource sharing between DoD health care facilities and systems, use of reprocessed medical single-use devices, pharmaceutical management, and other matters. Fraud is also a factor in controlling health care costs. Health care fraud continued to be a high DoD investigative priority. During 2001, the TRICARE Management Activity recouped $11.3 million as a result of criminal investigative recoveries.

A primary challenge for the MHS in 2003 will be transitioning to the next generation of TRICARE support contracts. Currently there are seven managed care support contracts for TRICARE. These multibillion-dollar service contracts are at or near the end of their planned existence. Significant changes will occur in the next generation of contracts, and the success of the new contracts will greatly impact the ability of MHS to control health care cost while maintaining access and quality standards. A related issue is the TRICARE Prime Remote program that provides health care to active duty service members and their families while assigned at remote locations not served by the traditional direct care portion of the MHS.

The President's Management Agenda for FY 2002 includes nine agency-specific initiatives. One of the specific initiatives is the coordination of the DoD and Department of Veterans Affairs (DVA) medical programs and systems. In addition, the National Defense Authorization Act for FY 2003 tasks the General Accounting Office to develop reports on progress and impediments to DoD and DVA sharing of resources. We believe the sharing requirement will benefit both agencies and reduce costs.

The increased use of Reserve forces in ongoing operations raises another significant issue for the MHS. The health status of the Reserve force, to include dental status, has provided a significant deployment challenge to DoD. In addition to the deployment status, the Reserve forces present unique health care challenges because of their limited eligibility to use the MHS. Families of reservists that relied on TRICARE when the sponsor was deployed experienced difficulties in obtaining medical care.

Logistics

The DoD logistics support operations for supplies, transportation, and maintenance costs $82 billion a year. This includes $40 billion for the maintenance of more than 300 ships; 15,000 aircraft; 1,000 strategic missiles; and 250,000 ground combat vehicles. The purpose of logistics is to reliably provide the warfighter with the right material at the right time to support the continuous combat effectiveness of the deployed force. The Department has a strategic plan and numerous pilot programs to help improve logistics. The scope alone makes business process reform a challenge. However, audits continue to demonstrate that DoD can substantially improve the efficiency and cost effectiveness of purchasing and managing items for wholesale and retail supply inventories that would more effectively support the warfighter.

Many weapon systems are over 25 years old and require ever increasing levels of maintenance. The increase in operational tempo since September 11, 2001, in turn increases the demands on the DoD logistics community to perform timely and efficient maintenance on aging weapons systems; provide adequate transportation capabilities; and ensure the availability of sufficient ready parts, materials, and supplies to support the warfighter.

The DoD maintenance and supply infrastructure is supported by more than 700,000 DoD military and civilian personnel as well as more than 1,000 private sector firms. Consistent with all of the Federal Government, this workforce is aging. As a result, DoD faces the challenge of recruiting, training, and retaining experienced personnel to continue to effectively perform logistics functions and avoid an acute loss of critical logistics skills.

During FY 2002, 59 audit reports addressed a broad range of logistics issues. Topics included deficiencies in the Joint Total Asset Visibility Program, accuracy of logistics data, asset accountability, contractor logistics support, war reserve requirements, and maintenance management systems.

Infrastructure and Environment

The challenge in managing the 638 major military installations and other DoD sites is to provide reasonably modern, habitable, and well-maintained facilities, which cover a wide spectrum from test ranges to housing. This challenge is complicated by the need to minimize spending on infrastructure, so that funds can be used instead on weapons modernization and other priorities. Unfortunately, there is an obsolescence crisis in the facilities area itself, and environmental requirements are continually growing.

The DoD maintains more facility infrastructure than needed to support its forces. DoD estimates there is 20 to 25 percent more base capacity than needed. Maintaining those facilities diverts scarce resources from critical areas. An additional round of base closures in 2005 will help to eliminate this excess capacity. The challenge for the Department is to produce reliable data and metrics on which the Base Realignment and Closure Commission can make informed decisions.

The Defense Department is the world's largest steward of properties, responsible for more than 46,425 square miles in the United States and abroad—nearly five and-a-half times the size of the state of New Jersey—with a physical plant of some 621,850 buildings and other structures valued at approximately $600 billion. These installations and facilities are critical to supporting our military forces, and they must be properly sustained and modernized to be productive assets. The goal of the Department is a 67-year replacement cycle for facilities. The replacement cycle was reduced from a recapitalization rate of 192 years to 101 years in FY 2002. However, for FY 2003 funding levels will only allow recapitalization on a 149 year cycle.

At the start of FY 2001, the Services owned 1,612 electric, water, wastewater, and natural gas systems worldwide. The Department has implemented an aggressive program to privatize utility systems and set a milestone of privatizing at least 65 percent of the available utility systems by September 2004. In addition, while installation commanders must strive to operate more efficiently, they must do so without sacrificing in areas that enhance their ability to operate in the event of a terrorist attack on our homeland. Comprehensive plans for preventing sabotage and responding to attacks on water or power at military installations will be complicated by civilian control of utilities.

The DoD has an estimated $63 billion in environmental liabilities. This daunting task seems to be never ending, and indeed, liabilities may be increased when installations are selected for closure. One of the most significant cleanup challenges is that of unexploded ordnance on ranges. Compliance with environmental legislation such as that related to the endangered species act, noise abatement, and air quality also challenges the Department's capability to balance being good stewards of the land while ensuring that our forces receive adequate training.

The DoD audit agencies issued 31 reports on infrastructure and environmental issues during FY 2002. The topics ranged from the DoD wastewater treatment systems, planned construction projects, fuel infrastructure requirements, expenditures on general and flag officer quarters, energy conservation, and environmental cleanup.

Acronyms

ADL	Advanced Distributed Learning
AFAA	Air Force Audit Agency
AICPA	American Institute of Certified Public Accountants
AILG	Armament Retooling and Manufacturing Support Initiative Loan Guarantee Program
APF-N	Afloat Prepositioning Force - Navy
ARMS	Armament Retooling and Manufacturing Support
CAM	Contractor Acquired Material
CCMS	Case Control Management System
CERCLA	Comprehensive Environmental Response, Compensation Liability Act
CFO	Chief Financial Officer
CIO	Chief Information Officer
CSRS	Civil Service Retirement System
CTR	Cooperative Threat Reduction
DAB	Defense Acquisition Board
DARPA	Defense Advanced Research Projects Agency
DCPDS	Defense Civilian Personnel Data System
DERF	Defense Emergency Response Fund
DERP	Defense Environmental Restoration Program
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DLAMP	Defense Leadership and Management Program

Acronyms

DoD	Department of Defense
DoDEA	Department of Defense Education Activity
DoDFMR	Department of Defense Financial Management Regulation
DoL	Department of Labor
DON	Department of Navy
DSS	Defense Security Service
DTS	Defense Travel System
DVA	Department of Veterans Affairs
EFT	Electronic Funds Transfer
EMW	Expeditionary Maneuver Warfare
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCRA	Federal Credit Reform Act
FERS	Federal Employees' Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FMEA	Financial Management Enterprise Architecture
FMFIA	Federal Managers' Financial Integrity Act
FMS	Department of the Treasury Financial Management Service
FTC	Federal Trade Commission
FUDS	Formerly Used Defense Sites
FY	Fiscal Year

Acronyms

GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GF	General Fund
GFM	Government Furnished Material
GIG	Global Information Grid
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GPS	Global Positioning System
GSA	General Services Administration
HHS	Health and Human Services
IA	Information Assurance
IAVA	Information Assurance Vulnerability Alert
IBA	Individually Billed Account
ICBM	Intercontinental Ballistic Missile
IG	Inspector General
IT	Information Technology
JCS	Joint Chiefs of Staff
JFMIP	Joint Financial Management Improvement Program
LAC	Latest Acquisition Cost
MAP	Munitions Action Plan
MD&A	Management's Discussion and Analysis
MHPI	Military Housing Privatization Initiative

Acronyms

MHS	Military Health System
MILCON	Military Construction
MOU	Memorandum of Understanding
MRS	Military Retirement System
MSC	Military Sealift Command
NA	Not Applicable
NBC	Nuclear, Biological and Chemical
NCO	Noncommissioned Officer
NDPP&E	National Defense Property, Plant and Equipment
NORAD	North American Aerospace Defense Command
NPR	Nuclear Posture Review
NRV	Net Realizable Value
OASD(C3I)	Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence)
OCFP	Outstanding Contract Financing Payments
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OM&S	Operating Materials and Supplies
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OUSD(AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology and Logistics)
P.L.	Public Law

Acronyms

PMO	Program Management Office
PP&E	Property, Plant and Equipment
PPBS	Planning, Programming and Budgeting System
QDR	Quadrennial Defense Review
RACER	Remedial Action Cost Engineering and Requirements
RBS	U.S. Department of Agriculture Rural Business-Cooperative Service
RCRA	Resource Conservation and Recovery Act
SARA	Superfund Amendment and Reauthorization Act
SBR	Statement of Budgetary Resources
SBSS	Standard Base Supply System
SII	Space, Information and Intelligence
SLBM	Submarine-Launched Ballistic Missile
SOF	Special Operations Forces
SSG	Senior Steering Group
TI	Treasury Index
UAV	Unmanned Aerial Vehicle
U.S.	United States
U.S.C.	United States Code
USACE	U.S. Army Corps of Engineers
USDA	U.S. Department of Agriculture
USD(AT&L)	Under Secretary of Defense (Acquisition, Technology & Logistics)
USD(C)	Under Secretary of Defense (Comptroller)

Acronyms

USSGL	United States Government Standard General Ledger
UXO	Unexploded Ordnance
WCF	Working Capital Fund
WIP	Work in Process

Department of Defense financial reports are available on the Internet at:
http://www.dtic.mil/comptroller

Additional DoD Web Sites

Department of Defense (www.defenselink.mil)
Department of the Army (www.army.mil)
Department of the Navy (www.navy.mil)
Marine Corps (www.usmc.mil)
Department of the Air Force (www.af.mil)
Coast Guard (www.uscg.mil/uscg.shtm)
Defend America (www.defendamerica.mil)