



FY 2019

## Financial Section



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## First Female F-35B Pilot

*Click picture above for full article*



## **Message from the Under Secretary of Defense (Comptroller)/Chief Financial Officer**

November 15, 2019

It is my privilege to join the Secretary of Defense in presenting the Department of Defense (DoD) financial statements for Fiscal Year (FY) 2019, which are an integral part of the Department of Defense Agency Financial Report for Fiscal Year 2019 (AFR). The objective of the financial statements and accompanying information contained in the Financial Section of the AFR is to provide a comprehensive view of the financial activities undertaken in support of the Department's mission to deter war and protect national security. Further, we believe these statements support our commitment to be transparent with and accountable for the taxpayer resources entrusted to us. To fulfil this commitment, the annual audit regimen and focus on remediating audit findings will endure as we pursue an irreversible positive change to DoD culture.

In FY 2019, the Department continued its journey toward achieving an unmodified opinion by undergoing its second annual full-scope financial statement audit. Though the DoD Office of Inspector General, our independent auditor, issued a Disclaimer of Opinion, the audit continues to provide operational value through the identification and correction of issues hampering our ability to capture, record, and report financial activity. For example, the DoD Components developed more than 2,200 corrective action plans in response to FY 2018 audit findings. Completing corrective actions helps support DoD personnel in carrying out their important missions by addressing issues such as the accuracy and completeness of military equipment records and the security of financial management systems. In this year's audit, auditors confirmed the Department successfully remediated approximately 400 audit findings from the FY 2018 audit. Information about specific issues identified during the audit, planned corrective actions, and anticipated timeframes for resolving these issues are provided in the Other Information section of this report.

I give my thanks to the Congress and the American public for entrusting us with the resources necessary to protect our great nation. Additionally, I thank the civilian employees and military members of our financial and functional communities for their hard work and dedication in addressing audit findings, seeking opportunities for greater efficiency, and improving our business processes. The progress we achieved to date, and will achieve going forward, would not be possible without their efforts. We look forward to working through future audits as we improve the quality and reliability of our financial information, as well as the efficiency and effectiveness of our operations.



Elaine McCusker  
Acting

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

November 15, 2019

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

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2019 and  
FY 2018 Basic Financial Statements (Project No. D2019-D000FE-0067.000,  
Report No. DODIG-2020-031)

We are providing the subject report to be published in the Department of Defense FY 2019 Agency Financial Report in conjunction with the Department of Defense FY 2019 and FY 2018 Basic Financial Statements provided to us in a "preliminary final" state on November 14, 2019. The Independent Auditor's report includes our disclaimer of opinion on the basic financial statements and our required Reports on Internal Control Over Financial Reporting and Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements. We are issuing our disclaimer of opinion to accompany the Department of Defense FY 2019 and FY 2018 Basic Financial Statements; therefore, this audit report should not be disseminated separately from those statements.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA  
Assistant Inspector General for Audit  
Financial Management and Reporting



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
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ALEXANDRIA, VIRGINIA 22350-1500

November 15, 2019

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

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2019 and  
FY 2018 Basic Financial Statements (Project No. D2019-D000FE-0067.000,  
Report No. DODIG-2020-031)

***Report on the Basic Financial Statements***

Public Law 101-576, "Chief Financial Officers Act of 1990," requires the DoD Inspector General to audit the accompanying DoD Agency-Wide consolidated balance sheet as of September 30, 2019, and September 30, 2018, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic financial statements which are referred to as financial statements or the Agency Financial Report in this report.

***Management's Responsibility for the Annual Financial Statements***

DoD management is responsible for the annual financial statements. Specifically, management is responsible for: (1) preparing financial statements that conform with accounting principles generally accepted in the United States of America (GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the controls met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the DoD's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

***Auditor's Responsibility***

We are responsible for expressing an opinion on the financial statements based on our audit. We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 19-03.<sup>1</sup> However, because of the matters described in the "Basis for Disclaimer of Opinion" section below, we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

***Basis for Disclaimer of Opinion***

OMB Bulletin No. 19-03 identifies DoD Components that are required to undergo financial statement audits. Auditors conducting the audits of these components issued disclaimers of opinion on the Components' financial statements:

- Department of the Army General Fund
- U.S. Navy General Fund
- Department of the Air Force General Fund
- U.S. Marine Corps General Fund
- Department of the Army Working Capital Fund
- Department of the Navy Working Capital Fund
- Department of the Air Force Working Capital Fund

In addition to the required reporting entities, the auditors also issued disclaimers of opinion on the component financial statements for the Defense Health Program, Defense Logistics Agency, U.S. Transportation Command, and U.S. Special Operations Command.

When combined, these reporting entities are material to the DoD Agency-Wide Basic financial statements. As a result, we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

We performed limited audit procedures at the agency-wide level and compiled the work from the audits of the DoD Components to identify material weaknesses in internal control over financial reporting that affected the DoD as a whole. We also compiled

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<sup>1</sup> OMB Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," August 2019.

material weaknesses that DoD Components identified within their Statements of Assurance. These material weaknesses limit the DoD's ability to produce reliable financial statements. The underlying material weaknesses in internal control contributed to our disclaimer of opinion on the financial statements.

We considered the disclaimers of opinion on the DoD Component financial statements a scope limitation in forming our conclusions on the Agency-Wide Basic Financial Statements. Accordingly, we did not perform all the auditing procedures required by GAGAS and OMB Bulletin No. 19-03 to determine whether material amounts on the financial statements were presented fairly. Therefore, our work may not identify all issues that could affect the financial statements.

### ***Disclaimer of Opinion***

Because of the significance of matters described in the "Basis for Disclaimer of Opinion," we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. Thus, the financial statements may contain undetected misstatements that are both material and pervasive.

### ***Emphasis of Matter***

In May 2019, the DoD Office of Inspector General (OIG) issued Report No. DoDIG-2019-085, "Audit of the Defense Security Cooperation Agency—Security Assistance Accounts," which recommended that the DoD report all the Security Assistance Account (SAA) balances that are administered by the DoD in the Agency Financial Report. The SAA balances include Foreign Military Sales, the Special Defense Acquisition Fund, Foreign Military Financing, and International Military Education and Training.

The DoD OIG position is that Statement of Federal Financial Accounting Standards No. 47<sup>2</sup> requires the DoD to present the SAA balances within the DoD Agency Financial Report. DoD management disagreed with this position, and stated that the Defense Security Cooperation Agency (DSCA)-SAA should be a stand-alone entity that is reported in the Government-wide financial statements. During the FY 2019 audit of the DoD Agency-Wide Basic financial statements, DoD OIG management and DoD management met with the Federal Accounting Standards Advisory Board (FASAB) to discuss whether the SAA balances should be consolidated within the DoD Agency Financial Report. Discussions between the FASAB, DoD OIG management, and DoD management are ongoing. As of November 15, 2019, the FASAB has not rendered a

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<sup>2</sup> FASAB Handbook, Statement of Federal Financial Accounting Standards (SFFAS) No. 47, "Reporting Entity," December 2014.



decision on the presentation of the SAA balances. As a result, the DoD did not include the SAA balances in the consolidated DoD Agency Financial Report and these amounts were not considered when forming our opinion on the financial statements.

In addition, DoD management provided a “preliminary final” Agency Financial Report on November 14, 2019, which limited our ability to complete a thorough review of the published financial statements. However, during our review of the Agency Financial Report, we noted instances of non-compliances between the financial statements and applicable sections of OMB Circular No. A-136.<sup>3</sup> Specifically, Note 7, Note 19, Note 24, Note 25, and Note 26, did not contain required disclosures to be presented in accordance with OMB Circular No. A-136.<sup>4</sup>

The DoD also restated the FY 2018 financial statements to correct errors in liabilities, Cumulative Results of Operations–Dedicated Collections, and Cumulative Results of Operations–Other Funds, net cost, Earned Revenue, and budgetary resources. These restatements are presented in Note 28 to the financial statements. We considered these restatements during our audit; however, we did not modify our FY 2019 or FY 2018 disclaimers of opinion on the financial statements with respect to this matter.

Finally, in the Agency Financial Report, DoD management referenced information on websites or other forms of interactive data outside the Agency Financial Report. Because this information is not required as part of the financial statements, it was not subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

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

We performed our audit to form an opinion on the financial statements as a whole. DoD management presented the Management’s Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the financial statements. Therefore, we do not express an opinion or provide any assurance on the information. However, based on our limited review, we did not find any material inconsistencies between the information presented in these sections and applicable portions of OMB Circular No. A-136.

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<sup>3</sup> OMB Circular No. A-136, “Financial Reporting Requirements,” June 28, 2019.

<sup>4</sup> Note 7, “Direct Loan and Loan Guarantees, Non-Federal Borrowers,” Note 19, “General Disclosures Related to the Statement of Net Cost,” Note 24, “Reconciliation of Net Cost to Net Outlays,” Note 25, “Public-Private Partnerships,” and Note 26, “Disclosure Entities and Related Parties”.

***Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements***

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the financial statements and compliance with OMB regulations and audit requirements for financial reporting. We compiled the results from the audits of the DoD Components to determine whether the DoD complied with provisions of applicable laws and regulations, contracts, and grant agreements.

However, it was not our objective to provide an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

See the Attachment for additional details on internal control over financial reporting and compliance with legal and other regulatory requirements.

***Agency Comments and Our Evaluation***

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

This report will be made publicly available under section 8M, paragraph (b)(1)(A), of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; DoD management; and the DoD Office of Inspector General. This report is neither intended for, nor should it be used by, any other audience.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

A handwritten signature in black ink that reads "Lorin T. Venable". The signature is written in a cursive style with a red ink mark above the "T".

Lorin T. Venable, CPA  
Assistant Inspector General for Audit  
Financial Management and Reporting

Attachment:  
As stated

## Report on Internal Control Over Financial Reporting

### ***Internal Control Compliance***

In planning our audit, we considered the DoD's internal control over financial reporting to determine appropriate auditing procedures for expressing an opinion on the financial statements, but not for expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the DoD's internal control over financial reporting.

### ***Management Responsibilities***

DoD management is responsible for implementing and maintaining effective internal control, including providing reasonable assurance that DoD personnel recorded, processed, and summarized accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

### ***Auditor's Responsibilities***

The purpose of our audit was not to express an opinion on internal control over financial reporting, and we do not express such an opinion. However, we identified 25 material weaknesses and 1 significant deficiency by compiling the results from the audits of the DoD Components, performing limited audit procedures at the agency-wide level, and reviewing the DoD Components' Statements of Assurance. These material weaknesses and significant deficiency could adversely affect the DoD's financial operations.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the DoD's financial statements in a timely manner.

**Financial Management Systems and Information Technology.** The FMFIA requires financial systems provide reasonable assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial reports. The FFMA requires Government agencies to incorporate accounting standards and reporting objectives established for the Federal Government

Attachment  
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into their financial management systems. In addition, it requires that financial management systems have controls to support reliable financial management. However, the DoD had multiple financial management systems that did not comply with federal financial management system requirements. In addition, DoD Components did not implement effective controls over financial management systems to identify deficiencies that could impact the accuracy of the financial reporting. The DoD information systems environment had control weaknesses over security management, access, configuration management, segregation of duties, and business process applications. As a result, the DoD was unable to prepare reliable financial statements and disclosures.

**Universe of Transactions.** OMB Bulletin No. 19-03 states that internal control over financial reporting includes ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements. However, the DoD Components were unable to provide transaction-level populations supporting material financial statement line items. Additionally, reconciliations of the information presented within trial balances to underlying transaction-level details did not exist for all DoD Components. Specifically, DoD Components performed reconciliations at a summary level, rather than the transaction level, and did not always perform these reconciliations in a timely manner. Furthermore, the Defense Finance and Accounting Service (DFAS) personnel stated that it was unable to trace amounts presented on the financial statements to transaction-level detail because a universe of transactions did not exist at the DoD-wide level. Without a complete universe of transactions, the DoD and its components could not verify the completeness and accuracy of data reported on the DoD Component and the DoD Agency-Wide Basic Financial Statements.

**Fund Balance With Treasury.** For FY 2019, the DoD reported a Fund Balance With Treasury balance of \$607.6 billion. The Statement of Federal Financial Accounting Standards (SFFAS) No. 1 defines Fund Balance With Treasury as the aggregate amount of funds in the DoD's accounts with Treasury for which the DoD is authorized to make expenditures and pay liabilities.<sup>5</sup> SFFAS No. 1 and the Treasury Financial Manual (TFM) require the DoD to reconcile its Fund Balance With Treasury and explain any discrepancies between balances reported by the DoD and the U.S. Treasury to ensure the integrity and accuracy of the DoD and Government-Wide

<sup>5</sup> FASAB, "Handbook of Federal Accounting Standards and Other Pronouncements" (FASAB Handbook), SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993, as amended.

financial statements.<sup>6</sup> However, the DoD had ineffective processes and controls for reconciling its Fund Balance With Treasury, and as a result, the DoD was unable to ensure the completeness and accuracy of its Fund Balance With Treasury account. For example, the Cash Management Report, a tool used by the DFAS and Other Defense Organizations to reconcile Fund Balance With Treasury, was not complete, accurate, or supported. Other Defense Organizations account for \$101.2 billion, or 17 percent, of the DoD Agency-Wide Fund Balance With Treasury. The lack of effective control over Fund Balance With Treasury increased the risk that the financial statements may be materially misstated.

**Suspense Accounts.** OMB Circular No. A-11 defines suspense accounts as accounts used to temporarily hold transactions that belong to the Government while waiting for information that will allow the transactions to be matched to a specific receipt or expenditure account.<sup>7</sup> The DoD Financial Management Regulation states that suspense accounts may be used in accordance with Treasury guidance if transactions are reclassified to the correct line of accounting and properly reported in the accounting system within 60 days of the transaction entering suspense.<sup>8</sup> However, DFAS and the DoD Components lacked the controls necessary to sufficiently monitor funds in suspense accounts and to research transactions to clear account variances in accordance with the 60-day requirement. The DoD lacked the proper controls to ensure that transactions were not being intentionally placed into suspense. Additionally, the DoD was unable to properly attribute suspense accounts transactions to the appropriate DoD Component because multiple components share the same suspense accounts. These control deficiencies within the DoD suspense accounts created a high risk that the financial statements were misstated.

**Inventory and Related Property.** For FY 2019, the DoD reported an Inventory and Related Property balance of \$291.5 billion. SFFAS No. 48, which amends SFFAS No. 3, requires the DoD to value inventory at historical cost or to use a method that reasonably approximates historical cost.<sup>9</sup> However, multiple DoD Components did not account for Inventory and Related Property according to SFFAS No. 3, or the alternative valuation methods allowable by SFFAS No. 48. In addition, the DoD Components lacked the policies, procedures, controls, and supporting documentation necessary to

<sup>6</sup> Treasury Financial Manual, volume 1, part 2, chapter 5100, "FBWT," May 2019.

<sup>7</sup> OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," June 2019.

<sup>8</sup> DoD Financial Management Regulation, volume 12, chapter 1, "Funds," section 010403, "Temporary Account Requirement," March 2019.

<sup>9</sup> FASAB Handbook, SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.

substantiate the existence and completeness of Inventory and Related Property reported on their financial statements. Specifically, the DoD Components did not have internal control and procedures for inventory counts, movement of inventory, or in-transit inventory. In addition, the DoD Components could not produce documentation supporting the valuation of their inventory. As a result, the DoD was unable to support a material portion of its inventory, and there is high risk of material misstatement of Inventory and Related Property on the financial statements.

**Operating Materials & Supplies.** For FY 2019, the DoD reported an Operating Materials and Supplies (OM&S) balance of \$184.9 billion. SFFAS No. 3 requires the DoD to value its OM&S on the basis of historical cost or on a basis that reasonably approximates historical cost.<sup>10</sup> SFFAS No. 48 amends SFFAS No. 3, and allows DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. However, the DoD must make an unreserved assertion that the balance is in accordance with GAAP, and the DoD must have a sustainable process for implementing SFFAS No. 3 following the initial valuation. Material DoD Components did not account for OM&S according to SFFAS No. 3, or the alternative valuation methods allowable by SFFAS No. 48. The DoD's inability to value OM&S in accordance with SFFAS No. 3, as amended by SFFAS No. 48, creates a high risk that balances presented on the financial statements are materially misstated.

SFFAS No. 3 also requires that OM&S be categorized as (1) OM&S held for use, (2) OM&S held in reserve for future use, or (3) excess, obsolete and unserviceable. We determined that DoD Components were not properly categorizing OM&S. For example, DoD Components categorized OM&S inventory as held for use, or held in reserve for future use, when the OM&S inventory was actually excess, obsolete, or unserviceable. This increases the risk that OM&S balances are overstated on the Component financial statements, resulting in an overstatement at the DoD Agency-Wide level.

**General Property, Plant, and Equipment.** For FY 2019, the DoD reported a General Property, Plant, and Equipment (PP&E) balance of \$768.6 billion. SFFAS No. 6 requires the DoD to report General PP&E at acquisition cost.<sup>11</sup> SFFAS No. 50 allows alternative methods for establishing opening balances to be applied for the reporting period in which the reporting entity makes an unreserved assertion that its

<sup>10</sup> FASAB Handbook, SFFAS No. 3, "Accounting for Inventory and Related Property," October 1993.

<sup>11</sup> FASAB Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 30, 1995, as amended.

financial statements are presented in accordance with GAAP.<sup>12</sup> However, as of September 30, 2019, the DoD had not completed its implementation of SFFAS No. 50 to establish opening balances of its General PP&E. In addition, the DoD did not have sufficient procedures to account for its General PP&E in accordance with SFFAS No. 6. Because the DoD cannot accurately value its General PP&E, the DoD is at risk of materially misstating its financial statements.

**Real Property.** In FY 2019, DoD management identified real property as a financial statement audit priority, and issued a new financial reporting policy that affects how the DoD Components will report real property in FY 2020. This policy requires DoD Components to transfer all real property to the Military Services or Washington Headquarters Services. However, the DoD was unable to provide a universe of transactions for its real property and the DoD Components did not have processes in place, or did not fully implement corrective actions to generate and reconcile populations of real property to those reported on their financial statements. Unsupported real property balances significantly increase the risk that the General PP&E line item may be materially misstated on the financial statements. Additionally, transfers of real property required by the new policy may be unsupported if not properly monitored by DoD management, resulting in additional risks of material misstatement for FY 2020.

**Government Property in Possession of Contractors.** SFFAS No. 6 requires that property and equipment in the possession of contractors, or acquired on behalf of the Government for use in accomplishing a contract, be considered Government property. The DoD must account for this property based on the nature of the item, regardless of who has possession. However, the DoD lacked policies, procedures, control, and supporting documentation for the acquisition, disposal, and inventory processes related to Government property in the possession of contractors. This prevented the DoD from substantiating the existence and completeness of Government property in the possession of contractors. Additionally, not all DoD contract terms and conditions incorporated standard inventory management policies, procedures, and metrics. As a result, the financial statements may be incomplete or inaccurate and could be materially misstated.

<sup>12</sup> FASAB Handbook, SFFAS No. 50, "Establishing Opening Balances for General PP&E: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 4, 2016.



**Joint Strike Fighter Program.** The Joint Strike Fighter is a multiservice, multinational acquisition to develop and field the next-generation strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners. However, the DoD did not account for and manage Joint Strike Fighter Program property, or record the property in an accountable property system of record. As a result, the DoD did not report the property on its financial statements. Additionally, the DoD is relying on contractor records to value the property associated with the Joint Strike Fighter Program. These contractor records indicate that the program contains over 3.45 million pieces of property valued at \$2.1 billion. The omission of the Joint Strike Fighter program property from the financial statements and inability to provide documentation supporting the value of the property indicate material failures in controls for recording joint programs within the DoD and presents a high risk that the financial statements contain material misstatements.

**Military Housing Privatization Initiative (MHPI).** Accounting Standards Codification 323 requires the DoD to report real property ownership transfers to MHPI private entities as increases to reported Other Investments and annual private entity profits and losses allocated to the DoD as changes to reported Other Investments.<sup>13</sup> For FY 2019, the DoD reported an MHPI-related Other Investments balance of \$3.5 billion. However, the DoD did not report, as an increase to Other Investments, an estimated \$5.0 billion of real property transferred to the MHPI private entities in exchange for the DoD's ownership interest in the private entities. In addition, the DoD did not reduce Other Investments for an estimated \$1.1 billion in net cumulative annual losses allocated to the DoD based on its ownership interest. Furthermore, the DoD did not properly disclose information related to the MHPI as required by SFFAS No. 49<sup>14</sup> and OMB Circular No. A-136.<sup>15</sup> In the aggregate, deficiencies associated with the MHPI program present a high risk of material misstatement in the financial statements.

**Accounts Payable.** For FY 2019, the DoD reported a non-Federal Accounts Payable balance of \$39.7 billion. SFFAS No. 1 states that accounts payable are amounts owed to other Federal entities for receipt of goods and services, progress in contract performance, or rents. The DoD Components did not have sufficient policies, procedures, and control over their methodology for accruing payables. In addition, ineffective control over Accounts Payable increases the risk of unsupported transactions. As a result, the Accounts Payable balance on the financial statements

<sup>13</sup> Accounting Standards Codification, Financial Accounting Standards Board, as updated through November 1, 2019, Code Section 323.

<sup>14</sup> FASAB Handbook, "SFFAS No. 49, Public Private Partnerships: Disclosure Requirements," April 27, 2016.

<sup>15</sup> OMB Circular No. A-136, "Financial Reporting Requirements," June 28, 2019.

may be materially misstated. Additional control failures associated with Federal Accounts Payable were included in the intradepartmental eliminations and intragovernmental transactions material weakness.

**Environmental and Disposal Liabilities.** For FY 2019, the DoD reported an Environmental and Disposal Liabilities balance of \$76.1 billion. Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs as a result of past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable.<sup>16</sup> However, the DoD lacked formal policies, procedures, and supporting documentation to substantiate the completeness and accuracy of its Environmental and Disposal Liabilities. As a result, Environmental and Disposal Liabilities reported on the financial statements may be materially misstated.

**Legal Contingencies.** The TFM requires the DoD General Counsel to prepare a Legal Representation Letter that lists legal actions against the DoD. The Legal Representation Letter must be accompanied by a Management Schedule that summarizes the content of the Legal Representation Letter. This information supports financial statement disclosures. In FY 2019, there were control failures that affected the presentation and calculation of total legal contingencies at the DoD Agency-Wide level. Specifically, as a result of auditor-identified errors, DoD management made material changes to the Management Schedule. Additionally, the DoD Components did not record their legal contingencies using a consistent methodology and, as a result, the DoD Components posted adjustments to reconcile commitments and contingencies balances to the Management Schedule. Lack of controls over the process for preparing the Management Schedule, and the lack of consistent component reporting methodology, created a risk that the financial statements and related notes may be misstated.

<sup>16</sup> FASAB Handbook, Federal Financial Accounting and Auditing Technical Release 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government," March 15, 1998.

**Beginning Balances.** SFFAS No. 48 defines beginning balances as account balances that exist at the beginning of the reporting period and are based upon the closing balances of the prior period. These balances reflect the effects of transactions that occurred and accounting policies applied in prior periods. Material DoD Components did not have historical data to support beginning balances on their financial statements or the ability to reconcile beginning balances to closing balances at the end of the reporting period. Without support to confirm the completeness and accuracy of beginning balances, the financial statements may be materially misstated.

**Unsupported Accounting Adjustments.** The Federal Managers Financial Integrity Act (FMFIA) of 1982 requires the DoD to properly record and account for revenues and expenditures to permit the preparation of reliable financial reports and to maintain accountability over assets. Effective control is necessary to demonstrate compliance with the FMFIA. However, the DoD did not have effective control to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems. Material DoD Components recorded manual and system-generated accounting adjustments that lacked supporting documentation and appropriate approvals. Without effective control, the DoD cannot provide reasonable assurance that material misstatements would be prevented, or detected and corrected, in the DoD Components and DoD Agency-Wide Basic Financial Statements in a timely manner. Additionally, the failure to establish and implement effective controls over accounting adjustments creates a high risk of material misstatement for all financial statement line items.

**Intradepartmental Eliminations and Intragovernmental Transactions.** The TFM defines trading partners as Federal entities that are party to transactions with other Federal entities.<sup>17</sup> It further defines intradepartmental transactions as those occurring between two trading partners within the same entity. In order to properly present the balances on the financial statements, intradepartmental transactions must be eliminated during the financial statement preparation process. Additionally, the DoD must identify transactions that should be eliminated at the Government-wide level as a result of trading partner activity with other Federal entities. However, the DoD accounting systems were unable to capture intradepartmental and intragovernmental data at the transaction level to facilitate these required eliminations. Inability to reconcile and report intradepartmental and intragovernmental transactions creates a high risk of material misstatement for all financial statement line items.

<sup>17</sup> TFM, volume 1, part 2, chapter 4700, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," May 2019.

**Gross Costs.** For FY 2019, the DoD reported a Gross Costs balance of \$822.3 billion. Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 requires the DoD to provide gross and net cost information related to the amounts of outputs and outcomes for programs or organizations on the Statement of Net Cost.<sup>18</sup> The statement should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities. However, the DoD Components have material deficiencies related to the Gross Costs line item. These deficiencies included, but were not limited to, compliance with GAAP, inaccurate reporting of transactions, and inadequate procedures and controls for recording Gross Costs. Therefore, DoD management does not have reliable financial information to effectively manage and understand gross costs, and the DoD is at risk of materially misstating Gross Costs on its financial statements.

**Earned Revenue.** For FY 2019, the DoD reported an Earned Revenue balance of \$90.5 billion. SFFAC No. 2 requires the DoD to present the revenues earned by each program and organization on its statement of net costs. However, the DoD Components have material deficiencies related to the reliability of Earned Revenue on the Statement of Net Cost. These deficiencies included, but are not limited to, compliance with GAAP, inability to substantiate revenue-related transactions, and inadequate processes and controls for recording Earned Revenue. As a result, there is an increased risk that Earned Revenue may be materially misstated on the financial statements.

**Reconciliation of Net Cost of Operations to Outlays.** SFFAS No. 7 requires the DoD to perform a reconciliation of its proprietary and budgetary data.<sup>19</sup> OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the financial statements. However, the DoD was unable to adequately explain a \$10.3 billion reconciling difference between the budgetary and proprietary accounts in the DoD Agency Financial Report. This occurred because the DoD Components and DFAS have not designed and implemented controls to research and resolve variances between budgetary and proprietary data throughout the reporting period. The DoD's inability to provide details required to resolve this reconciling difference prevented auditors from determining the total impact to the financial statements and put the DoD at risk of materially misstating its financial statements.

<sup>18</sup> FASAB Handbook, SFFAC No. 2, "Entity and Display," June 6, 1995, as amended.

<sup>19</sup> FASAB Handbook, SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 10, 1996, as amended.



**Budgetary Resources.** SFFAS No. 7 requires the DoD to present material budgetary information that comes wholly or in part from the budget in its Statement of Budgetary Resources. The material budgetary information includes total budgetary resources available to the DoD during the period, status of those resources, and outlays of those resources. The balances presented on the DoD Components' Statement of Budgetary Resources may not be complete, accurate, or supported. As a result, the DoD Components, and the DoD as a whole, may not have been able to accurately determine and monitor the total budgetary resources available during the reporting period, or the status of those resources. The inability to monitor the status of budgetary resources creates the potential for violations of the Antideficiency Act and increases the risk that the Statement of Budgetary Resources may be materially misstated.

**Service Providers.** A service provider is a third party that performs activities for many agencies. OMB Circular No. A-123 states that service providers are responsible for providing assurance to their customers and assisting those customers in understanding the relationship between the service provider's controls and the customer's user controls. Certain DoD Components function as service providers for other DoD Components and Federal agencies. The DoD service providers perform critical activities across the DoD, and for other Federal agencies such as managing inventory and preparing financial statements, and for other DoD Components and Federal agencies. However, many of the service providers have not designed or implemented reliable controls that provide the required assurance to the DoD Component customers. While DoD Component management retains responsibility for the performance of processes assigned to service providers, service provider control deficiencies decrease the reliability and accuracy of the DoD Component-level financial statements. As a result, there is an increased risk of material misstatement on the DoD Agency-Wide Basic Financial Statements.

**Entity-Level Controls.** The Government Accountability Office Green Book presents the internal control standards for Federal agencies for both program and financial management.<sup>20</sup> The Green Book states that entity-level controls are controls that have a pervasive effect on an entity's internal control system and may pertain to multiple components. Entity-level controls may include controls related to the entity's risk-assessment process, control environment, service organizations, and management's ability to override existing controls. However, multiple DoD Components did not design and implement effective entity-level controls for reliable financial reporting.

<sup>20</sup> The Government Accountability Office Green Book, "Standards for Internal Control in the Federal Government," September 2014.

Specifically, multiple DoD Components lacked controls or performed insufficient reviews while preparing their financial statements. As a result, the DoD Components were unable to detect and correct misstatements in the financial statements and related disclosures. Furthermore, most DoD Component financial statements were not prepared in accordance with GAAP. Ineffective entity-level controls create a risk of material misstatements on the DoD Component financial statements and, as a result, a corresponding risk of material misstatement on the DoD Agency-Wide Basic Financial Statements.

**DoD-Wide Oversight and Monitoring.** OMB Circular No. A-123 defines management's responsibility for internal control. Specifically, it requires that the DoD establish and integrate internal control into the entity's operations in a risk-based and cost-beneficial manner, which helps to provide reasonable assurance that the DoD's internal control over operations, reporting, and compliance is operating effectively. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer [OUSD(C)] and DFAS are responsible for consolidating component level information to produce documents such as the DoD Agency Financial Report. However, this component level information is incomplete, inaccurate, and not GAAP compliant. The OUSD(C) does not perform effective oversight and monitoring over this consolidation or have adequate time to perform verification of the component level information prior to publishing agency-wide information. Furthermore, the DoD Components did not always comply with the OUSD(C) issued guidance intended to provide consistency in reporting at the DoD Agency-Wide level. As a result, there is an increased risk that consolidated component level information is not complete or accurate when presented at the DoD Agency-Wide level.

**Component-Level Oversight and Monitoring.** OMB Circular No. A-123 requires DoD Component management to continuously monitor, assess, and improve the effectiveness of internal control associated with those objectives identified as part of their risk profile. In addition, it requires DoD Component management to evaluate and document internal control deficiencies and determine appropriate corrective actions for those deficiencies on a timely basis. However, DoD Components did not implement oversight and monitoring activities in a timely manner to identify and resolve deficiencies that could impact their financial statement balances and related disclosures. Therefore, the DoD Components could not provide reasonable assurance that internal control over financial reporting are effective and there is a risk that the DoD Agency-Wide Financial Statements may be misstated.

### ***Identified Significant Deficiency***

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, that is less severe than a material weakness yet important enough to merit the attention of those charged with governance.

**Accounts Receivable.** For FY 2019, the DoD reported a non-Federal Accounts Receivable balance of \$5.9 billion. SFFAS No. 1 requires that the DoD recognize a receivable when it establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. The DoD Components have not developed or implemented effective controls to prevent or detect misstatements of non-Federal accounts receivable balances. For example, one DoD Component did not reduce receivables when cash was collected in prior accounting periods in the accounting records. This error created an overstatement to the non-Federal Accounts Receivable line item. Lack of effective controls creates a significant risk that balances presented on the financial statements are misstated. Additional control failures associated with Federal accounts receivable are included in the intradepartmental eliminations and intragovernmental transactions material weakness.

### **Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements**

Generally accepted government auditing standards and OMB guidance require auditors to report on an entity's compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws, regulations, contracts, and grant agreements related to financial reporting. We compiled the results from the audits of the DoD Components and determined that the DoD was not compliant with all laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements. Specifically, the DoD did not comply with the Antideficiency Act (ADA), FFMA, FMFIA, the Federal Information Security Modernization Act, and the Debt Collection Improvement Act. However, our objective was not to express, and we do not express, an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Additionally, because of the significance of the matters described in the "Basis for Disclaimer of Opinion," we performed limited procedures that may not have detected all instances of noncompliance. The following instances of noncompliance impacted DoD Components.

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### ***Compliance With Antideficiency Act***

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the DoD and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As required by 31 U.S.C. § 1517 (2004), the DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the ADA, the head of the agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2019, the DoD reported multiple ADA violations within four completed cases.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 3, "Antideficiency Act Violation Process," establishes timeframes for identifying and reporting ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. The DoD did not report any investigations of potential ADA violations that had been open for more than 15 months.

### ***Compliance With Federal Financial Management Improvement Act***

The FFMIA requires the 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. Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA.

For FY 2019, the DoD did not substantially comply with the FFMIA. The OUSD(C) represented that the internal controls in place were not effective to provide reasonable assurance that financial reporting was reliable. The OUSD(C) represented that its financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, or the U.S. Standard General Ledger at the transaction level as of September 30, 2019. In addition, the auditors of the DoD Components identified that the DoD Components did not substantially comply with the FFMIA.



***Compliance With Federal Managers' Financial Integrity Act***

The FMFIA requires the DoD to perform ongoing evaluations and reports on the adequacy of its systems of internal accounting and administrative control. OMB Circular No. A-123, which implemented the FMFIA, requires DoD management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

For FY 2019, the DoD did not substantially comply with the FMFIA. The OUSD(C) represented that the DoD's internal control over financial reporting was not effective because of the material weaknesses reported in the FY 2019 Agency Financial Report. In addition, the auditors of the DoD Components identified that the DoD Components did not substantially comply with the FMFIA.

***Compliance With Federal Information Security Modernization Act***

The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The National Institute of Standards and Technology publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from these standards and guidelines represent departures from FISMA requirements. Two DoD Components did not comply with FISMA standards and guidelines. As a result, the DoD is not in compliance with FISMA.

***Compliance With the Debt Collection Improvement Act***

The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires that any non-tax debts or claims owed to the U.S. Government that is over 120 days delinquent, are required to be reported to the Treasury for purposes of administrative offset. One DoD Component did not transfer all outstanding eligible debt in accordance with the Debt Collection Improvement Act requirements. As a result, the DoD is not in compliance with the Debt Collection Improvement Act.



***Recommendations***

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations. The DoD OIG and component auditors provided Notices of Findings and Recommendations to DoD management and the DoD Components, respectively, to address reported material weaknesses and significant deficiencies, when appropriate.

Attachment  
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## PRINCIPAL FINANCIAL STATEMENTS AND NOTES

The principal financial statements are prepared to report the financial position and results of operations of the Department of Defense (DoD or the Department), pursuant to the requirements of title 31, United States Code, section 3515(b) ([31 U.S.C. § 3515\(b\)](#)). The statements are prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget ([OMB](#)) [Circular No. A-136](#) and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board ([FASAB](#)). The statements, in addition to supporting financial reports, are used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government.

The principal financial statements of the Department include the four financial statements described in Table 1.

**Table 1. Principal Financial Statements**

Statement	Information Provided
Balance Sheet	Reflects the Department's financial position as of the statement date (September 30, 2018). The assets reflect the amount of future economic benefits owned or managed by the Department. The liabilities reflect amounts owed by the Department. The net position is the difference between the assets and liabilities.
Statement of Net Cost	Shows, by major program, the components of the net cost of the Department's operations for the period. Net cost is equal to the gross cost incurred by the Department less any exchange revenue earned from its activities.
Statement of Changes in Net Position	Presents the sum of the unexpended appropriations provided to the Department that remain unused at the end of the fiscal year and the cumulative results of the Department's operations since inception. The statement focuses on how the Department's net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.
Statement of Budgetary Resources	Provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the Department's budgetary general ledger in accordance with budgetary accounting rules. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are included in the balances reported on the statement.

**Department of Defense Agencywide  
Consolidated Balance Sheet  
As of September 30, 2019 and 2018**  
(\$ in millions)

	2019 (Unaudited)	Restated 2018 (Unaudited)
<b>Assets (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 607,555.3	\$ 580,213.8
Investments (Note 5)	1,187,609.0	1,091,764.4
Accounts Receivable (Note 6)	2,025.2	1,951.6
Other Assets (Note 10)	1,106.5	961.5
Total Intragovernmental Assets	1,798,296.0	1,674,891.3
Cash and Other Monetary Assets (Note 4)	918.3	968.0
Accounts Receivable, Net (Note 6)	5,894.5	5,694.1
Loans Receivable (Note 7)	1,738.7	1,697.4
Inventory and Related Property, Net (Note 8)	291,489.7	275,678.4
General Property, Plant and Equipment, Net (Note 9)	768,558.4	758,829.1
Investments (Note 5)	3,511.6	3,511.6
Other Assets (Note 10)	19,543.1	28,374.4
<b>Total Assets</b>	<u>\$ 2,889,950.3</u>	<u>\$ 2,749,644.3</u>
<b>Stewardship Property, Plant and Equipment (Note 9)</b>		
<b>Liabilities (Note 11)</b>		
Intragovernmental:		
Accounts Payable	\$ 1,544.3	\$ 1,914.1
Debt (Note 12)	1,714.1	1,685.7
Other Liabilities (Note 15 & 17)	7,777.0	7,403.7
Total Intragovernmental Liabilities	11,035.4	11,003.5
Accounts Payable	39,682.5	29,222.8
Military Retirement and Other Federal Employment Benefits (Note 13)	2,596,371.8	2,415,346.8
Environmental and Disposal Liabilities (Note 14)	76,124.9	70,411.4
Loan Guarantee Liability (Note 7)	50.7	58.4
Other Liabilities (Note 15 and Note 17)	36,758.2	38,017.8
<b>Total Liabilities</b>	2,760,023.5	2,564,060.7
<b>Commitments and Contingencies (Note 17)</b>		
<b>Net Position (Consolidated Totals)</b>		
Unexpended Appropriations - Other Funds	545,168.2	529,803.7
Cumulative Results of Operations - Dedicated Collections (Note 18)	30,331.1	27,734.0
Cumulative Results of Operations - Other Funds	(445,572.5)	(371,954.1)
<b>Total Net Position</b>	<u>129,926.8</u>	<u>185,583.6</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 2,889,950.3</u>	<u>\$ 2,749,644.3</u>

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

**Department of Defense Agencywide  
Consolidated Statement of Net Cost  
For the Years Ended September 30, 2019 and 2018**  
(\$ in millions)

	2019 (Unaudited)	Restated 2018 (Unaudited)
<b>Gross Program Costs:</b>		
Military Retirement Benefits	\$ 106,422.7	\$ 104,973.1
Civil Works	11,594.9	12,603.8
Military Personnel	150,995.7	145,255.3
Operations, Readiness & Support	297,033.2	259,690.3
Procurement	126,512.6	112,506.4
Research, Development, Test & Evaluation	104,654.5	88,386.3
Family Housing & Military Construction	25,123.1	11,714.5
<b>Total Gross Program Costs</b>	<u>822,336.7</u>	<u>735,129.7</u>
Less: Earned Revenue	<u>(90,502.2)</u>	<u>(90,483.6)</u>
Net Program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	731,834.5	644,646.1
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>138,808.5</u>	<u>16,735.0</u>
<b>Net Cost of Operations</b>	<u><u>\$ 870,643.0</u></u>	<u><u>\$ 661,381.1</u></u>

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

**Department of Defense Agencywide  
Consolidated Statement of Changes in Net Position  
For the Years Ended September 30, 2019 and 2018  
(\$ in millions)**

	2019 (Unaudited)	Restated 2018 (Unaudited)
<b>Unexpended Appropriations</b>		
Beginning Balance (Includes Funds from Dedicated Collections (See Note 18)	\$ 529,803.7	\$ 457,916.0
Prior Period Adjustments:		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning balances, as adjusted (Includes Funds from Dedicated Collections of \$0.0 in FY 2019 and \$0.0 in FY 2018) - (Note 18)	<u>\$ 529,803.7</u>	<u>\$ 457,916.0</u>
Budgetary Financing Sources:		
Appropriations Received	802,827.9	794,788.0
Appropriations Transferred In/Out	59.2	221.8
Other Adjustments	(22,533.9)	(20,876.0)
Appropriations Used	<u>(764,988.7)</u>	<u>(702,246.1)</u>
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections of \$0.0 in FY 2019 and \$0.0 in FY 2018) - (Note 18)	<u>15,364.5</u>	<u>71,887.7</u>
<b>Total Unexpended Appropriations</b> (Includes Funds from Dedicated Collections of \$0.0 in FY 2019 and \$0.0 in FY 2018) - (Note 18)	545,168.2	529,803.7
<b>Cumulative Results of Operations</b>		
Beginning Balance	(344,220.1)	(390,109.0)
Prior Period Adjustments:		
Changes in Accounting Principles	4,277.8	(2,461.7)
Corrections of Errors	<u>7,250.4</u>	<u>-</u>
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of \$27,734.0 in FY 2019 and \$25,574.5 in FY 2018 Restated) - (Note 18)	(332,691.9)	(392,570.7)
Budgetary Financing Sources:		
Other Adjustments	(210.8)	(734.2)
Appropriations Used	764,988.7	702,246.1
Nonexchange Revenue	3,997.6	3,736.7
Donations and Forfeitures of Cash and Cash Equivalents	137.5	480.3
Transfers In/Out Without Reimbursement	137.5	(188.2)
Other budgetary financing sources	<u>(2,521.5)</u>	<u>(3,490.4)</u>
Other Financing Sources		
Donations and Forfeitures of Property	-	19.8
Transfers In/Out Without Reimbursement	46.4	23.8
Imputed Financing from Costs Absorbed by Others	5,609.8	5,309.1
Other	<u>15,908.3</u>	<u>2,328.7</u>
Total Financing Sources (Includes Funds from Dedicated Collections of \$3,649.9 in FY 2019 and \$3,540.8 FY 2018, Restated)-(Note 18)	788,093.5	709,731.7
Net Cost of Operations (Includes Funds from Dedicated Collections of (\$1,052.8 in FY 2019 and \$1,381.3 in FY 2018)-(Note 18)	<u>870,643.0</u>	<u>661,381.1</u>
Net Change	<u>(82,549.5)</u>	<u>48,350.6</u>
<b>Cumulative Results of Operations</b> (Includes Funds from Dedicated Collections of \$30,331.1 in FY 2019 and \$27,734.0 in FY 2018 (Restated))	<u>(415,241.4)</u>	<u>(344,220.1)</u>
<b>Net Position</b>	<u><u>\$ 129,926.8</u></u>	<u><u>\$ 185,583.6</u></u>

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



**Department of Defense Agencywide  
Combined Statement of Budgetary Resources  
For the Years Ended September 30, 2019 and 2018**  
(\$ in millions)

	2019		Restated 2018	
	(Unaudited)		(Unaudited)	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
<b>Budgetary Resources</b>				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ 226,768.1	\$ 69.0	\$ 181,008.2	\$ 85.1
Appropriations (Discretionary and Mandatory)	874,378.1	-	863,583.0	-
Borrowing Authority (Discretionary and Mandatory)	-	63.3	-	55.4
Contract Authority (Discretionary and Mandatory)	86,854.4	-	88,428.1	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	112,965.6	56.8	119,413.9	61.6
<b>Total Budgetary Resources</b>	<b>\$ 1,300,966.2</b>	<b>\$ 189.1</b>	<b>\$ 1,252,433.2</b>	<b>\$ 202.1</b>
<b>Status of Budgetary Resources</b>				
New Obligations and Upward Adjustments (Total)	\$ 1,115,940.2	\$ 129.2	\$ 1,054,209.3	\$ 133.1
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	157,154.3	-	165,702.9	-
Exempt from Apportionment, Unexpired Accounts	4,040.4	-	3,797.2	-
Unapportioned, Unexpired Accounts	1,128.2	59.9	1,011.6	69.0
Unexpired Unobligated Balance, End of Year	162,322.9	59.9	170,511.7	69.0
Expired Unobligated Balance, End of Year	22,703.1	-	27,712.2	-
Unobligated Balance, End of Year (Total)	185,026.0	59.9	198,223.9	69.0
<b>Total Budgetary Resources</b>	<b>\$ 1,300,966.2</b>	<b>\$ 189.1</b>	<b>\$ 1,252,433.2</b>	<b>\$ 202.1</b>
<b>Outlays, Net</b>				
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 828,633.3	\$ 37.6	\$ 763,216.0	\$ 71.2
Distributed Offsetting Receipts (-)	(107,410.1)	-	(101,973.1)	-
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 721,223.2</b>	<b>\$ 37.6</b>	<b>\$ 661,242.9</b>	<b>\$ 71.2</b>

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

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## Note 1. Significant Accounting Policies

### A. Reporting Entity

The Department of Defense (*Department* or *DoD*) includes the Office of the Secretary of Defense ([OSD](#)), Joint Chiefs of Staff ([JCS](#)), DoD Office of the Inspector General ([DoD OIG](#)), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the [Army](#), the [Navy](#) (of which the [Marine Corps](#) is a component), and the [Air Force](#). Appendix A provides a list of the components which comprise the Department's reporting entity for the purposes of the consolidated/combined financial statements

### B. Mission of the Reporting Entity

The Department was established by the [National Security Act of 1947](#). Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States (U.S.) by deterring and defeating aggression and coercion in critical regions.

### C. Basis of Presentation

The financial statements have been prepared to report the financial position and results of DoD operations, as required by the [Chief Financial Officers Act of 1990](#), as amended and expanded by the [Government Management Reform Act of 1994](#) and other applicable legislation. The financial statements have been prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget ([OMB](#)) [Circular No. A-136](#), *Financial Reporting Requirements*, and, to the extent possible, in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board ([FASAB](#)). The financial statements account for all resources for which the Department is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The Department is unable to fully comply with all elements of U.S. GAAP and OMB Circular No. A-136 due to the limitations of financial and non-financial processes and systems that support the financial statements. The Department derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with U.S. GAAP. The Department continues to implement process and system improvements addressing these limitations.

In accordance with FASAB Statement of Federal Financial Accounting Standards ([SFFAS](#)) 47, *Reporting Entity*, in Note 26, *Disclosure-Entities and Related-Parties*, the Department is disclosing its relationships with Department-sponsored Federally Funded Research and Development Centers and DoD Nonappropriated Fund Instrumentalities.

## D. Basis of Accounting

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DoD Components and their sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections) from non-financial feeder systems and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The Department presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the DoD Components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the DoD Components; therefore intradepartmental activity has not been eliminated. DoD financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The Department is continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. The pronouncements listed below are expected to have an impact on the Department's financial statements; however, the Department is currently unable to determine the full impact.

1. [\*SFFAS 48, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials\*](#): Issued on January 27, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for inventory and related property (I&RP), as permitted by SFFAS 48. The Department has valued some of its I&RP using deemed cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with [\*SFFAS 3, Accounting for Inventory and Related Property\*](#), are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

2. [\*SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35\*](#): Issued August 4, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for general property, plant and equipment (GPP&E), as permitted by [\*SFFAS 50\*](#). However, systems required to account for historical cost for GPP&E in accordance with [\*SFFAS 6, Accounting for Property, Plant and Equipment\*](#), are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

3. [\*SFFAS 53, Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22\*](#): Issued October 27, 2017; Effective for periods beginning after September 30, 2018.
4. [\*SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment\*](#): Issued April 17, 2018; Effective for periods beginning after September 30, 2020. Early adoption is not permitted.

5. [\*Interpretation of SFFAS 9, Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6\*](#): Issued August 16, 2019; Effective for periods beginning after September 30, 2019. Early adoption is permitted.
6. [\*Technical Bulletin 2017-1, Intragovernmental Exchange Transactions\*](#): Issued November 1, 2017; Effective upon issuance.
7. [\*Technical Bulletin 2017-2, Assigning Assets to Component Reporting Entities\*](#): Issued November 1, 2017; Effective upon issuance.
8. [\*Technical Release 18, Implementation Guidance for Establishing Opening Balances\*](#): Issued October 2, 2017; Effective upon issuance.
9. [\*Staff Implementation Guidance 6.1: Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, As Amended\*](#): Issued July 17, 2018; Effective upon issuance.

The Department has not recorded all transactions consistent with GAAP. The Department continues to transition to systems that can produce GAAP compliant financial statements. The following known transactions were not recorded consistent with GAAP and are believed to be materially misstated in the financial statements (note: the below is not an exhaustive list):

- 1) Accounting errors recorded in prior years and impacting the current year financial statements have not been recorded and corrected in accordance with GAAP.
- 2) Transactions that should have been recorded in prior years, were recorded in the current year.

The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

## **E. Accounting for Intragovernmental and Intergovernmental Activities**

Treasury Financial Manual ([\*Treasury\*](#)), Volume I, Part 2, [\*Chapter 4700\*](#), provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental costs and exchange revenue represents transactions made between two reporting entities within the federal government. Costs and earned revenues with the public represents exchange transactions made between the reporting entity and a non-federal entity. The Department is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of the Department by another federal entity. In accordance with [\*SFFAS 55, Amending Inter-entity Cost Provisions\*](#), the Department recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the Federal



Employees' Compensation Act ([FECA](#)); and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the Department's financial statements.

For additional information, see Note 19, *General Disclosures Related to the Statement of Net Cost*.

## F. Non-Entity Assets

Non-entity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for non-entity assets. An example of a non-entity asset is the portion of Fund Balance with Treasury (FBwT) that consists of deposit and receipt funds.

For additional information, see Note 2, *Non-Entity Assets*.

## G. Fund Balance with Treasury

The FBwT represents the aggregate amount of the Department's available budget spending authority available to pay current liabilities and finance future authorized purchases. The Department's monetary resources of collections and disbursements are maintained in Department of the Treasury ([Treasury](#)) accounts. The disbursing offices of the Defense Finance and Accounting Service ([DFAS](#)), the Military Departments, the U.S. Army Corps of Engineers ([USACE](#)), and the Department of State's financial service centers process the majority of the Department of Defense's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center report to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBwT account.

For additional information, see Note 3, *Fund Balance with Treasury*.

## H. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Department, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the Treasury prevailing rate of exchange. The TFM Volume I, Part 2, [Chapter 3200](#), provides guidance for accounting and reporting foreign currency.

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

The Department conducts a significant portion of its operations overseas. Congress established a special appropriations account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance, (2) military personnel, (3) military construction, (4) family housing operations and maintenance, and (5) family housing construction. The gains and losses are calculated as the difference between the exchange rate at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify foreign currency fluctuation transactions.

For additional information, see Note 4, *Cash and Other Monetary Assets*.

## **I. Investments and Related Interest**

The Department reports investments in Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method yielding similar results. The Department's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Department invests in non-marketable, market-based Treasury securities issued to federal agencies by Treasury's [\*Bureau of the Fiscal Service\*](#). These securities are not traded on any financial exchange but are priced consistently with publicly traded Treasury securities.

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

Other investments represent joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of Military Housing Privatization Initiative ([\*MHPI\*](#)), authorized by the National Defense Authorization Act ([\*NDAA for FY 2005\*](#)).

For additional information, see Note 5, *Investments and Related Interest*.

## **J. Accounts Receivable**

Accounts receivable from other federal entities or the public include reimbursement receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies, as receivables from other federal agencies are considered to be inherently collectible.

The Department has fuel exchange agreements with foreign countries. These agreements allow the Department to periodically offset the accounts receivable by the amount the Department owes to the same foreign country. The accounts receivable for fuel exchange agreements are not included in the accounts receivable balance.

For additional information, see Note 6, *Accounts Receivable*.

## **K. Direct Loans and Loan Guarantees**

The Department operates a direct loan and loan guarantee program authorized by the [\*NDAA for FY 1996\*](#), which provides the Department with the authorities to work with the private sector to obtain private lending, expertise, innovation, and provide housing more efficiently. The Department uses these authorities to operate 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 to the extent of the sanctions which are defined in the Federal Credit Reform Act of 1990 ([\*FCRA\*](#)). FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

The [NDAA for FY 2005](#) provided permanent authorities to the MHPI.

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 taxpayers, to attract private lending, expertise, and innovation, and provide housing more efficiently.

As required by [SFFAS 2](#), *Accounting for Direct Loans and Loan Guarantees*, the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

OMB [Circular No. A-11](#), *Preparation, Submission, and Execution of the Budget*, Part 5 and OMB Circular No. A-136, specify disclosure requirements for government direct loans and loan guarantees.

For additional information, see Note 7, *Direct Loans and Loan Guarantees*.

## L. Inventories and Related Property

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

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

Related property includes Operating Materials and Supplies (OM&S) and stockpile materiel. OM&S, including munitions not held for sale, are valued using various methods including moving average cost, standard price, historical cost, replacement price, and direct method. The Department uses both the consumption method and the purchase method of accounting for OM&S. Centrally managed and stored items, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. Under this method, materiel and supplies are expensed when consumed. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than General Equipment. The Department determined the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

OM&S are recognized at net realizable value through the use of an allowance account. For excess, obsolete, and unserviceable (EOU) inventory transferred to the Defense Logistics Agency ([DLA](#))

[Disposition Services](#), the net realizable value will generally be zero. The net realizable value of EOU disposed of through a [Qualified Recycling Program](#) or by other means other than a transfer to DLA is estimated based on prior disposal proceeds for comparable EOU, buyer quotes, or other reasonable means.

For all types of inventory and related property, the Department, when applicable, will continue to adopt SFFAS 48, which permits alternative methods in establishing opening balances. The FASAB issued [SFFAS 48](#), permitting alternative methods in establishing opening balances, effective for periods beginning after September 30, 2016 with early implementation allowed. Some DoD Components used the deemed cost measures from this standard for FY 2016; additional DoD Components used the deemed cost measures from the standard in FY 2018 using a combination of standard price (selling price), latest acquisition cost, estimated historical cost, and actual historical cost as the basis for valuation.

For additional information, see Note 8 *Inventory and Related Property*.

## M. General Property, Plant and Equipment

The Department generally records General GPP&E at the estimated historical cost. When applicable, the Department will continue to adopt SFFAS 50, which permits alternative methods in establishing opening balances effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods from SFFAS 50 based on historical records such as expenditure data, contracts, budget information, and engineering documentation. See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 50.

General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold. The costs of modifications/improvements to existing General PP&E assets are capitalized if they (1) extends the asset's useful life by two or more years, or increases the assets capability, or increases its capacity or size, and (2) equals or exceeds the relevant capitalization threshold. The capitalization threshold for General PP&E assets is \$250 thousand for real property and general equipment, with the following exceptions:

DoD Entity	Capitalization Threshold
Department of the Navy General Fund General Equipment	\$1 million
Department of the Air Force General Fund General Equipment	\$1 million
Office of the Director of National Intelligence ( <a href="#">ODNI</a> ) DoD Members only	\$1 million
<a href="#">USACE Civil Works</a> General PP&E assets, other than buildings and structures related to hydropower projects	\$25 thousand
USACE Civil Works buildings and structures related to hydropower projects	Capitalized regardless of cost

Except for those related to USACE Civil Works and ODNI, these capitalization thresholds apply to General PP&E asset acquisitions and modifications/improvements placed into service after September 30, 2013; General PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds (\$100 thousand for general equipment and \$20 thousand for real property). However, in the years leading up to the DoD entities making unreserved assertions under SFFAS 50, each DoD Entity may apply the applicable capitalization threshold to its entire population of General PP&E retroactively, irrespective of the capitalization thresholds in effect for the years prior to October 1, 2013. The Department depreciates all General PP&E assets, other than land, on a straight-line basis.

The Department provides government-owned or leased General PP&E (Government-Furnished Property (GFP)) to contractors for performing a contract, for which the Department must recognize the GFP for accountability and financial reporting purposes.

Contractor-Acquired Property (CAP) is General PP&E acquired by a contractor on behalf of the Department for performing a contract, where the government will ultimately hold the title to the General PP&E. If the CAP has a useful life of at least two years and the value of the CAP meets or exceeds the relevant capitalization threshold, federal accounting standards require the CAP to be reported on the Department's Balance Sheet when title passes to the Department or when the General PP&E is delivered to the Department. For additional information, see Note 9, *General Property, Plant and Equipment*.

## N. Other Assets

Other Assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the Department's Balance Sheet. For advance payments recorded as assets, the Department properly expenses or capitalizes assets when the related goods and services are received.

The Department conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. The Department may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulation ([FAR](#)), [Part 32](#), as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

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

For additional information, see Note 10, *Other Assets*.

## O. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to the Department (a capital lease) and the value equals or exceeds the relevant capitalization threshold, the Department records the applicable asset as though purchased, with an offsetting liability, and records



depreciation on the asset. The Department records the asset and liability at the lesser of the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.

An operating lease does not substantially transfer all the benefits and risks of ownership to the Department. Payments for operating leases are expensed over the lease term. Office space leases entered into by the Department are the largest component of operating leases.

For additional information, see Note 16 *Leases*.

## **P. Liabilities**

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the Department absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources, for example future environmental cleanup liability, represent amounts owed in excess of available appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 11, *Liabilities Not Covered by Budgetary Resources*.

### **Q. Environmental and Disposal Liabilities**

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with [SFFAS 5](#), non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, the Department recognizes non-environmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

For additional information, see Note 14, *Environmental and Disposal Liabilities*.

## **R. Other Liabilities**

Other Liabilities includes:

Advances from Others which represent amounts received in advance for goods or services that have not been fully rendered by the Department.

Deposit Funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity, or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

For information on Judgement Fund Liabilities, see Note 17, *Commitments and Contingencies*.

Accrued Payroll consists of salaries, wages, and other compensation earned by employees but not disbursed as of September 30. The liability is estimated for reporting purposes based on historical pay information.

Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

The Federal Employees Compensation Act ([FECA](#)) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor ([DOL](#)), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

[SFFAS 51](#), *Insurance Programs*, established accounting and financial reporting standards for insurance programs. Office of Personnel Management ([OPM](#)) administers insurance benefit programs available for coverage to the Department's civilian employees. The programs are available to Civilian employees but employees do not have to participate. These programs include life, health, and long term care insurance.

The life insurance program, Federal Employee Group Life Insurance ([FEGLI](#)) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits ([FEHB](#)) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program ([FEDVIP](#)) FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

The Federal Long Term Care Insurance Program ([FLTCIP](#)) provides long term care insurance to help pay for costs of care when enrollees need help with activities they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB. However, employees are not required to be enrolled in FEHB.

OPM, as the administering agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. The Department has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

[TRICARE](#) is a worldwide health care program that provides coverage for Active and Reserve Component Military Service members and their families, survivors, retirees, and certain former spouses. TRICARE brings together the military hospitals and clinics worldwide with a network and non-network TRICARE authorized civilian health care professionals, institutions, pharmacies, and suppliers to provide access to health care services. TRICARE offers multiple health care plans. The Defense Health Program serves as the program manager for TRICARE, providing oversight, payment, and management of private sector care administered by contracted claims processors.

Custodial Liabilities represents liabilities for collections reported as nonexchange revenues where the Department is acting on behalf of another federal entity.

Other Liabilities primarily consists of unemployment compensation liabilities.

For additional information, see Note 15, *Other Liabilities*.

## S. Commitments and Contingencies

The Department recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 17, *Commitments and Contingencies*. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

The Department executes project agreements pursuant to the framework cooperative agreement with foreign governments. All of these agreements give rise to obligations that are fully reported in the DoD financial statements, pursuant to legal authority, appropriated funds, and none are contingent. The Department does not enter into treaties and other international agreements that create contingent liabilities.

The Department does not have environmental contingencies. The legal environmental cases are recorded as legal contingencies.

For additional information, see Note 17, *Commitments and Contingencies*.

## T. Military and Civilian Retirement Benefits

The Department applies [SFFAS 33](#), *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits* and Note 19, *General Disclosures Related to the Statement of Net Cost*, for additional information.

As an employer entity, the Department recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other postemployment benefit plans (plans) including health and life insurance plans. However, as the administering entity, OPM is responsible for executing the benefit plans including accounting for plan assets, liabilities and associated gains and losses. Accordingly, the Department does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

The majority of DoD employees hired prior to January 1, 1984, participate in the Civil Service Retirement System ([CSRS](#)), while the majority of DoD employees hired after December 31, 1983 are

covered by the Federal Employees Retirement System ([FERS](#)) and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. A primary feature of FERS is that it also offers a defined contribution plan ([Thrift Savings Plan](#)) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes to the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department reports both the full annual cost of providing these Other Retirement Benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for Other Post-employment Benefits (OPEB), including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

## U. Revenues and Other Financing Sources

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

General funds are used for collections not earmarked by law for a specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DoD appropriations funding covers costs including personnel, operations and maintenance, research and development, procurement, and military construction.

Working capital funds (WCF) conduct business-like activities and receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions flowing through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus. Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose and the expenditure of these receipts. Certain trust and special funds may be designated as Funds from Dedicated Collections. Funds from Dedicated Collections are financed by specifically identified revenues; are required by statute to be used for designated activities, benefits, or purposes; and remain available over time. In accordance with [SFFAS 27](#), *Identifying and Reporting Funds from Dedicated Collections*, as amended by [SFFAS 43](#), *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Department separately accounts

for and reports on the receipt, use, and retention of revenues and other financing sources for Funds from Dedicated Collections in Note 18, *Funds from Dedicated Collections*.

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

In accordance with [SFFAS 7](#), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Department recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned.

The Department does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost. The U.S. has cost sharing agreements with countries, through mutual or reciprocal defense agreements, where U.S. troops are stationed or where the U.S. Fleet is in a port.

## V. Recognition of Expenses

For financial reporting purposes, the Department's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

In the case of OM&S, operating expenses are generally recognized when the items are purchased. The Department has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method if certain operational and other criteria, as applicable, are met, as set forth under U.S. GAAP. Under the consumption method, OM&S would be expensed when consumed.

## W. Treaties for Use of Foreign Bases

The Department uses land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The Department of Defense purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Department continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any irretrievable capital assets. The settlement due to the United States or host nation is negotiated and takes into account the value of capital investments and may be offset by environmental cleanup costs, if applicable.

## X. Use of Estimates

The Department's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as environmental liabilities, year-end accruals of accounts payable, and actuarial liabilities related to workers' compensation.



## Y. Parent-Child Reporting

The Department is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity.

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

Additionally, the Department also receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Department's financial statements. These funds include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance.

As a parent, the Department reports in these financial statements certain funds allocated to the Departments of Transportation and Agriculture.

## Z. Transactions with Foreign Governments and International Organizations

The Department is implementing the administration's foreign policy objectives under the provisions of the [\*Arms Export Control Act of 1976\*](#) by facilitating the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

## AA. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Department of cash and other assets in which non-federal individuals or entities have an ownership interest that the Department must uphold. Fiduciary cash and other assets are not assets of the Department and are not recognized on the Balance Sheet. For additional information, see Note 23, *Fiduciary Activities*.

## BB. Tax Exempt Status

As an agency of the federal government, the Department is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

## CC. Subsequent Events

Subsequent events have been evaluated from the balance sheet date through November 15, 2019, which is the date the financial statements were available to be issued.

## Note 2. Non-Entity Assets

Non-entity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for non-entity assets.

**Table 2. Non-Entity Assets**

As of September 30 (\$ in millions)	2019	2018
Intragovernmental Assets		
Fund Balance with Treasury	\$ 3,135.3	\$ 2,849.2
Accounts Receivable	4.5	0.5
Total Intragovernmental Assets	3,139.8	2,849.7
Non-Federal Assets		
Cash and Other Monetary Assets	827.1	856.3
Accounts Receivable	2,194.6	2,205.7
Total Non-Federal Assets	3,021.7	3,062.0
<b>Total Non-Entity Assets</b>	6,161.5	5,911.7
Total Entity Assets	2,883,788.8	2,743,732.6
Total Assets	<u>\$ 2,889,950.3</u>	<u>\$ 2,749,644.3</u>

### Intragovernmental Assets

Fund Balance with Treasury (FBWT) consists primarily of deposit funds and receipt accounts. Deposit funds represent amounts held temporarily until paid to the appropriate party. Receipt accounts represent amounts collected on behalf of the Treasury General Fund.

Accounts Receivable are primarily amounts necessary to cover surcharge liabilities to be collected on behalf of others.

### Non-Federal Assets

Cash and Other Monetary Assets consist primarily of cash held by disbursing officers to carry out payment, collection, and foreign currency exchanges.

Accounts Receivable consists of amounts associated with canceled year appropriations, and interest, fines, and penalties due on debt. Generally, the Department cannot use the proceeds and must remit them to the Treasury unless permitted by law.

### Note 3. Fund Balance with Treasury

The Treasury records cash receipts and disbursements on the Department's behalf; funds are available only for the purposes for which they were appropriated. The Department's Fund Balances with Treasury consist of appropriation accounts, revolving funds, trust accounts, special funds and other fund types.

#### Restatement

The Department corrected a \$921.6 million understatement in Unobligated Balance, Available and an offsetting overstatement in Unobligated Balance, Unavailable. The Total FBWT balance did not change. See Note 28, *Restatements*, for further information.

**Table 3. Status of Fund Balance with Treasury**

As of September 30 (\$ in millions)	2019	Restated 2018
Unobligated Balance		
Available	\$ 161,194.7	\$ 169,500.0
Unavailable	1,099,882.1	1,008,337.0
Total Unobligated Balance	1,261,076.8	1,177,837.0
Obligated Balance Not Yet Disbursed	544,726.4	500,397.7
Non-Budgetary FBWT		
Clearing Accounts	16.5	(260.9)
Deposit funds	3,183.4	2,910.2
Non-entity and other	281.2	676.6
Total Non-Budgetary FBWT	3,481.1	3,325.9
Non-FBWT Budgetary Accounts		
Investments-Treasury-Securities	(1,082,792.7)	(985,638.6)
Unfilled Customer Orders without Advance	(73,853.7)	(74,792.5)
Contract Authority	(30,956.3)	(25,119.4)
Borrowing Authority	(79.9)	(111.1)
Receivables and Other	(14,046.4)	(15,685.2)
Total Non-FBWT Budgetary Accounts	(1,201,729.0)	(1,101,346.8)
<b>Total FBWT</b>	<b>\$ 607,555.3</b>	<b>\$ 580,213.8</b>

The Status of FBWT, as presented in Table 3, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance consists primarily of funds invested in Treasury securities and are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not

apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by public laws establishing the funds.

Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

Non-Budgetary FBWT includes accounts without budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and Non-Entity FBWT.

The Non-FBWT Budgetary Accounts line reduces budgetary resources to account for investments in Treasury securities, unfilled customer orders without advance, contract and borrowing authority, and receivables.

Treasury securities provide the Department with budgetary authority and enables the Department to access funds to make future benefit payments or other expenditures. The Department must redeem these securities before they become part of the FBWT.

Contract Authority and Reimbursable Authority (Spending Authority from Anticipated Collections) does not increase the FBWT when initially posted, but does provide budgetary resources. FBWT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBWT upon receipt of the budget authority.

Unfilled Customer Orders Without Advance and Reimbursements and Other Income Earned - Receivable provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies and fiduciary activities. The Department received allocation transfers from other federal agencies for execution on their behalf in the amount of \$357.3 million in FY 2019 and \$399.2 million in FY 2018. In addition, the Department held cash and cash equivalents for fiduciary activities in the amount of \$67.0 million in FY 2019 and \$77.9 million in FY 2018; these amounts are not reported in FBWT in accordance with [SFEAS 31](#).

The FBWT reported in the financial statements has been adjusted to reflect the Department's balance as reported by Treasury. The difference between FBWT in the Department's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DoD Components' general ledgers as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DoD Components' general ledger accounts.

## Note 4. Cash and Other Monetary Assets

**Table 4. Cash and Other Monetary Assets**

As of September 30 (\$ in millions)	2019	2018
Cash	\$ 428.2	\$ 444.2
Foreign Currency	490.1	523.8
<b>Total Cash and Other Monetary Assets</b>	<b>\$ 918.3</b>	<b>\$ 968.0</b>

The majority of cash and all foreign currency is classified as non-entity and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. These amounts are held outside of Treasury, in local deposit accounts, or cash, under the custodial responsibility of the disbursing officer and are not directly associated with an appropriation. An offsetting liability to Treasury is reported on Note 15, Other Liabilities.

In FY 2019 and FY 2018, cash includes unrestricted entity assets of \$90.1 million and \$108.9 million, respectively, comprised of undeposited collections and other cash.



## Note 5. Investments and Related Interest

**Table 5. Investments and Related Interest**

As of September 30 (\$ in millions)	2019				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>Intragovernmental Securities</b>					
Non-Marketable, Market-Based					
Military Retirement Fund	\$ 928,306.9	Eff. Int.	\$ (37,141.7)	\$ 891,165.2	\$ 997,841.3
Medicare Eligible Retiree	292,451.8		(16,436.8)	276,015.0	318,751.7
Health Care Fund		Eff. Int.			
U.S. Army Corps of Engineers	9,375.6	Eff. Int.	41.9	9,417.5	9,444.7
Other Funds	2,973.8	Eff. Int.	(43.1)	2,930.7	2,971.4
Total Non-Marketable, Market-Based	1,233,108.1		(53,579.7)	1,179,528.4	1,329,009.1
Accrued Interest	8,080.6	Eff. Int.	N/A	8,080.6	8,080.6
<b>Total Intragovernmental Securities</b>	<b>1,241,188.7</b>		<b>(53,579.7)</b>	<b>1,187,609.0</b>	<b>1,337,089.7</b>
<b>Other Investments</b>	<b>\$ 3,511.6</b>		<b>\$ -</b>	<b>\$ 3,511.6</b>	<b>N/A</b>

Legend for Amortization Methods: *Eff. Int.* = Effective Interest Method

As of September 30 (\$ in millions)	2018				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>Intragovernmental Securities</b>					
Non-Marketable, Market-Based					
Military Retirement Fund	\$ 842,584.2	Eff. Int.	\$ (34,499.7)	\$ 808,084.5	\$ 831,172.6
Medicare Eligible Retiree					
Health Care Fund	278,981.1	Eff. Int.	(15,090.3)	263,890.8	284,354.3
U.S. Army Corps of Engineers	9,364.2	Eff. Int.	(37.5)	9,326.7	9,294.2
Other Funds	2,663.4	Eff. Int.	(78.2)	2,585.2	2,564.7
Total Non-Marketable, Market-Based	1,133,592.9		(49,705.7)	1,083,887.2	1,127,385.8
Accrued Interest	7,877.2	Eff. Int.	N/A	7,877.2	7,877.2
<b>Total Intragovernmental Securities</b>	<b>1,141,470.1</b>		<b>(49,705.7)</b>	<b>1,091,764.4</b>	<b>1,135,263.0</b>
<b>Other Investments</b>	<b>\$ 3,511.6</b>		<b>\$ -</b>	<b>\$ 3,511.6</b>	<b>N/A</b>

Legend for Amortization Methods: *Eff. Int.* = Effective Interest Method

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

The Treasury securities are issued to authorized funds and are an asset to the Department and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated (e.g., from bond dividends, proceeds from bond sales, and proceeds from sureties reaching maturity) is deposited in the Treasury and used for general Government purposes. Since the Department and the Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The Treasury securities provide the Department with authority to access funds to make future benefit payments or other expenditures. When the Department requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all of its other expenditures.

The U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of \$9.3 billion and \$9.1 billion in Harbor Maintenance and Related Funds for FY 2019 and FY 2018, respectively.

In FY 2019, Other Funds consists primarily of \$1.6 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and \$1.1 billion in investments of the DoD Education Benefits Trust Fund. In FY 2018, Other Funds consists primarily of \$1.3 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and \$1.1 billion in investments of the DoD Education Benefits Trust Fund.

Other Investments consists of Military Housing Privatization Initiative (MHPI) limited partnerships. A limited partnership arrangement operates purely as a private business and does not require Market Value Disclosure. The Department invests in non-governmental entities involved in the acquisition or construction of family housing and supporting facilities at Army, Air Force, Navy, and Marine Corps installations. The Department provides cash, land, or facilities as equity, but has no role in the day-to-day operations and management of the limited partnership. Total Other Investments is currently reporting cash investments only. See Note 25, *Public-Private Partnerships* for additional information on cash and non-cash contributions to the MHPI limited partnerships.

## Note 6. Accounts Receivable, Net

**Table 6. Accounts Receivable**

As of September 30 (\$ in millions)	2019		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 2,025.2	N/A	\$ 2,025.2
Non-Federal Receivables (From the Public)	6,677.8	(783.3)	5,894.5
<b>Total Accounts Receivable</b>	<b>\$ 8,703.0</b>	<b>\$ (783.3)</b>	<b>\$ 7,919.7</b>

  

As of September 30 (\$ in millions)	2018		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 1,951.6	N/A	\$ 1,951.6
Non-Federal Receivables (From the Public)	6,474.0	(779.9)	5,694.1
<b>Total Accounts Receivable</b>	<b>\$ 8,425.6</b>	<b>\$ (779.9)</b>	<b>\$ 7,645.7</b>

Accounts receivable represent the Department's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, [Chapter 4700](#). The Department only recognizes an allowance for uncollectible amounts from the public. Allowances for uncollectible accounts are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances. Additionally, the Department has fuel exchange agreements with foreign countries. These agreements allow the Department to periodically offset the accounts receivable by the amount the Department owes to the same foreign country.

The gross amount due for Non-Federal Receivables (From the Public) for FY 2019 includes criminal restitution orders of \$1.1 billion monitored by the Department, of which \$0.5 billion is determined to be collectible. Restitution receivables and associated payments are pursued by the courts handling those cases. The Department establishes the receivables based on the court documents received and posts payments received through the courts. At two years delinquent, criminal restitution receivables are considered 100 percent uncollectible; however, the Department is only authorized to write off or close accounts with approval from the Department of Justice.

## Note 7. Direct Loan and Loan Guarantees, Non-Federal Borrowers

### Military Housing Privatization Initiative

The Department operates loan guarantee programs for MHPI. The MHPI includes both direct loan and loan guarantee programs. The programs are authorized by the [NDAA for FY 1996](#), which includes a series of authorities allowing the Department to work with the private sector to renovate and build military family housing, and the [NDAA for FY 2005](#), which provides the permanent authority. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage government funds. The Department provides protection to private sector partners against specific risks, such as base closure or member deployment.

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

**Table 7A. Summary of Direct Loans and Loan Guarantees**

As of September 30 (\$ in millions)	2019	2018
<b>Direct Loans:</b>		
Military Housing Privatization Initiative	\$ 1,738.7	\$ 1,697.4
<b>Total Direct Loans</b>	<u>\$ 1,738.7</u>	<u>\$ 1,697.4</u>
<b>Total Default Loan Guarantees</b>	\$ -	\$ -
<b>Total Loans Receivable</b>	<u>\$ 1,738.7</u>	<u>\$ 1,697.4</u>
 As of September 30 (\$ in millions)	 2019	 2018
<b>Loan Guarantee Liability:</b>		
Military Housing Privatization Initiative	\$ 50.7	\$ 58.4
<b>Total Loan Guarantee Liability</b>	<u>\$ 50.7</u>	<u>\$ 58.4</u>

### Loans Receivable

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

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

**Table 7B. Direct Loans Obligated After FY 1991**

As of September 30 (\$ in millions)	2019	2018
Military Housing Privatization Initiative		
Loans Receivable Gross	\$ 1,780.9	\$ 1,759.6
Allowance for Subsidy Cost (Present Value)	(42.2)	(62.2)
Value of Assets Related to Direct Loans, Net	\$ 1,738.7	\$ 1,697.4
<b>Total Loans Receivable</b>	<b>\$ 1,738.7</b>	<b>\$ 1,697.4</b>

Total Loans Receivable does not represent proceeds the Department would expect to receive from selling the loans. Interest is calculated using the interest earned method.

**Table 7C. Total Amount of Direct Loans Disbursed**

As of September 30 (\$ in millions)	2019	2018
Military Housing Privatization Initiative	\$ 46.4	\$ 75.8

**Table 7D. Subsidy Expense for Direct Loan by Program****Table 7D.1. Subsidy Expense for New Direct Loans Disbursed**

As of September 30 (\$ in millions)	2019				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	\$ 3.7	\$ 5.6	\$ -	\$ -	\$ 9.3

  

As of September 30 (\$ in millions)	2018				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	\$ 8.8	\$ 9.0	\$ -	\$ -	\$ 17.8

**Table 7D.2. Direct Loan Modifications and Reestimates**

As of September 30 (\$ in millions)	2019			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (5.6)	\$ (19.3)	\$ (24.9)

  

As of September 30 (\$ in millions)	2018			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (5.0)	\$ (7.4)	\$ (12.4)



**Table 7D.3. Total Direct Loan Subsidy Expense**

As of September 30 (\$ in millions)	2019	2018
Military Housing Privatization Initiative	<u>\$ (15.6)</u>	<u>\$ 5.4</u>

**Table 7E. Budget Subsidy Rates for Direct Loans for the Current Year**

As of September 30	2019				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2019 and FY 2018; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

The rates in Table 7E cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from current year (when applicable) and prior year loan guarantees. Subsidy expense reported in the current year also includes re-estimates.

**Table 7F. Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY 1991 Direct Loans**

For the years ended September 30 (\$ in millions)	2019	2018
Beginning Balance of the Subsidy Cost Allowance	\$ 62.2	\$ 60.4
Add: Subsidy Expense for Direct Loans Disbursed		
During the Reporting Years by Component:		
Interest Rate Differential Costs	3.7	8.8
Default Costs (Net of Recoveries)	<u>5.6</u>	<u>9.0</u>
Total of the Above Subsidy Expense Components	9.3	17.8
Adjustments:		
Subsidy Allowance Amortization	(4.1)	(3.6)
Other	<u>(0.3)</u>	<u>-</u>
Ending Balance of the Subsidy Cost Allowance		
Before Reestimates	67.1	74.6
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	(5.6)	(5.0)
Technical/Default Reestimates	<u>(19.3)</u>	<u>(7.4)</u>
Total of the Above Reestimates Components	<u>(24.9)</u>	<u>(12.4)</u>
Ending Balance of the Subsidy Cost Allowance	<u>\$ 42.2</u>	<u>\$ 62.2</u>

### Loan Guarantee Liability

Loan guarantee liabilities are reported at the NPV. The cost of the loan guarantee is the NPV of the estimated projected cash flows of payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Department including origination and other fees, penalties, and recoveries.

**Table 7G. Defaulted Guaranteed Loans**

There were no defaulted loan guarantees in FY 2019 or FY 2018.

**Table 7H. Guaranteed Loans Outstanding****Table 7H.1. Guaranteed Loans Outstanding**

As of September 30 (\$ in millions)	2019		2018	
	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	\$ 960.4	\$ 960.4	\$ 1,008.8	\$ 1,008.8

**Table 7H.2. New Guaranteed Loans Disbursed**

As of September 30 (\$ in millions)	2019		2018	
	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	\$ -	\$ -	\$ 52.9	\$ 52.9

**Table 7I. Liability for Loan Guarantees**

As of September 30 (\$ in millions)	2019	2018
Military Housing Privatization Initiative	\$ 50.7	\$ 58.4
<b>Total Loan Guarantee Liability</b>	<b>\$ 50.7</b>	<b>\$ 58.4</b>

**Table 7J. Subsidy Expense Loan Guarantees by Program****Table 7J.1. Subsidy Expense for New Loan Guarantees**

As of September 30 (\$ in millions)	2019				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	\$ -	\$ -	\$ -	\$ -	\$ -
As of September 30 (\$ in millions)	2018				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	\$ -	\$ 2.0	\$ -	\$ -	\$ 2.0

**Table 7J.2. Modifications and Reestimates**

As of September 30 (\$ in millions)	2019			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (1.9)	\$ (7.3)	\$ (9.2)
As of September 30 (\$ in millions)	2018			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (2.1)	\$ (8.5)	\$ (10.6)

**Table 7J.3. Total Loan Guarantee:**

As of September 30 (\$ in millions)	2019	2018
Military Housing Privatization Initiative	\$ (9.2)	\$ (8.6)

**Table 7K. Budget Subsidy Rates for Loan Guarantees for the Current Year**

As of September 30	2019				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2019 and FY 2018; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

These rates cannot be applied to loan guarantees disbursed during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes re-estimates. The subsidy expense for new loan guarantees reported in the current year results from both current year (when applicable) and prior year agreements.

**Table 7L. Schedule for Reconciling Loan Guarantee Liability Balances**

For the years ended September 30 (\$ in millions)	2019	2018
Beginning Balance of the Loan Guarantee Liability	\$ 58.4	\$ 65.2
Add: Subsidy Expense for Guaranteed Loans Disbursed		
During the Reporting Years by Component:		
Default Costs (Net of Recoveries)	-	2.0
Adjustments:		
Interest Accumulation on the Liability Balance	1.5	1.8
Ending Balance of the Loan Guarantee Liability		
Before Reestimates	59.9	69.0
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	(1.9)	(2.1)
Technical/Default Reestimates	(7.3)	(8.5)
Total of the Above Reestimate Components	(9.2)	(10.6)
Ending Balance of the Loan Guarantee Liability	\$ 50.7	\$ 58.4

### Administrative Expenses

Administrative Expenses are limited to separately identified expenses in support of the direct loan program and the loan guarantee program.

## Note 8. Inventory and Related Property

**Table 8A. Inventory and Related Property**

As of September 30 (\$ in millions)	2019	2018
Inventory, Net	\$ 105,832.5	\$ 103,772.5
Operating Materials & Supplies, Net	184,878.0	171,087.6
Stockpile Materiel, Net	779.2	818.3
<b>Total Inventory and Related Property, Net</b>	<b>\$ 291,489.7</b>	<b>\$ 275,678.4</b>

### Inventory

**Table 8B. Inventory Categories**

As of September 30 (\$ in millions)	2019			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
Held for Sale	\$ 67,274.1	\$ (1.0)	\$ 67,273.1	LAC, MAC
Held in Reserve for Future Sale	1,169.2	-	1,169.2	LAC, MAC
Held for Repair	40,518.8	(5,660.5)	34,858.3	LAC, MAC
Raw Material	1,234.1	-	1,234.1	MAC, LAC
Work-in-Process	995.2	-	995.2	MAC
Excess, Obsolete and Unserviceable	804.3	(501.7)	302.6	NRV
<b>Total</b>	<b>\$ 111,995.7</b>	<b>\$ (6,163.2)</b>	<b>\$ 105,832.5</b>	

*Legend for Valuation Methods:*

*LAC = Latest Acquisition Cost, adjusted for holding gains and losses*

*MAC = Moving Average Cost*

*NRV = Net Realizable Value*

As of September 30 (\$ in millions)	2018			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
Held for Sale	\$ 66,309.9	\$ 62.2	\$ 66,372.1	LAC, MAC
Held in Reserve for Future Sale	1,156.1	-	1,156.1	LAC, MAC
Held for Repair	37,668.8	(5,068.9)	32,599.9	LAC, MAC
Raw Material	1,171.8	-	1,171.8	MAC, LAC
Work-in-Process	2,106.4	-	2,106.4	MAC
Excess, Obsolete and Unserviceable	809.2	(443.0)	366.2	NRV
<b>Total</b>	<b>\$ 109,222.2</b>	<b>\$ (5,449.7)</b>	<b>\$ 103,772.5</b>	

*Legend for Valuation Methods:*

*LAC = Latest Acquisition Cost, adjusted for holding gains and losses*

*MAC = Moving Average Cost*

*NRV = Net Realizable Value*

### General Composition of Inventory

Inventory is tangible personal property such as raw materials to be consumed in the production of goods for sale or in the provision of service for a fee, the value of inventory used in the production process, finished goods held for sale, and goods held for repair and eventual sale. Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. The Department assigns inventory items to a category based on asset type and condition.



### Inventory Restrictions

The following types of inventory are subject to restrictions on use, sale, or disposition:

- Inventories maintained as war reserve materiel in accordance with [DoD Instruction 3110.06](#) with a recorded value of \$2.6 billion in FY 2019 (\$2.5 billion in FY 2018), consisting of stocks such as bulk petroleum, subsistence items, and other goods managed and positioned to reduce reaction time in response to contingencies and to sustain military forces;
- Defense Commissary Agency inventory with a recorded value of \$384.7 million in FY 2019 (\$386.4 million in FY 2018), consisting of grocery, meat, and produce items, limited for resale to authorized commissary patrons; and
- Dispositions pending litigation or negotiation (related to issues including inventory condition, pricing disputes, and product specifications) with a recorded value of \$115.5 million in FY 2019 (\$129.6 million in FY 2018).

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

### Operating Materials & Supplies

**Table 8C. OM&S Categories**

As of September 30 (\$ in millions)	2019			Valuation Method
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	
Held for Use	\$ 127,108.6	\$ -	\$ 127,108.6	DM, HC, MAC, RP, SP
Held in Reserve for Future Use	23,486.3	-	23,486.3	DM, HC, MAC, RP, SP
Held for Repair	31,237.3	-	31,237.3	DM, HC, MAC, RP, SP
In Development	3,045.8	-	3,045.8	DM, HC, MAC, RP, SP
Excess, Obsolete and Unserviceable	3,050.0	(3,050.0)	-	NRV
<b>Total</b>	<b>\$ 187,928.0</b>	<b>\$ (3,050.0)</b>	<b>\$ 184,878.0</b>	

*Legend for Valuation Methods:*

DM = Direct Method

NRV = Net Realizable Value

HC = Historical Cost

RP = Replacement Price

MAC = Moving Average Cost

SP = Standard Price

As of September 30 (\$ in millions)	2018			Valuation Method
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	
Held for Use	\$ 121,061.8	\$ -	\$ 121,061.8	DM, HC, MAC, RP, SP
Held in Reserve for Future Use	13,562.7	-	13,562.7	DM, HC, MAC, RP, SP
Held for Repair	31,996.8	-	31,996.8	DM, HC, MAC, RP, SP
In Development	4,466.3	-	4,466.3	DM, HC, MAC, RP, SP
Excess, Obsolete and Unserviceable	2,933.4	(2,933.4)	-	NRV
<b>Total</b>	<b>\$ 174,021.0</b>	<b>\$ (2,933.4)</b>	<b>\$ 171,087.6</b>	

*Legend for Valuation Methods:*

DM = Direct Method

NRV = Net Realizable Value

HC = Historical Cost

RP = Replacement Price

MAC = Moving Average Cost

SP = Standard Price

### General Composition of OM&S

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

During FY 2019, the Department determined the proper classification of Trident missile operations should be OM&S under [SFFAS 3](#). This decision resulted in an increase of \$12.8 billion in Operating Materials and Supplies Held in Reserve for Future Use.

### OM&S Restrictions

Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements based on condition. However, obsolete and unserviceable OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

### Other Disclosures

The FASAB issued [SFFAS 48](#), permitting alternative methods in establishing opening balances, effective for periods beginning after September 30, 2016 with early implementation allowed. Some DoD Components used the deemed cost measures from this standard for FY 2016; additional DoD Components used the deemed cost measures from the standard in FY 2017 using a combination of standard price (selling price), latest acquisition cost, estimated historical cost, and actual historical cost as the basis for valuation.

Effective FY 2018, certain assets previously reported under General Equipment Construction-in-Progress are now reported as OM&S In Development.

### Stockpile Materiel

**Table 8D. Stockpile Materiel Categories**

As of September 30 (\$ in millions)	2019			Valuation Method
	Stockpile Materiel Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net	
Held for Sale	\$ 28.5	\$ -	\$ 28.5	AC, LCM
Held in Reserve for Future Sale	750.7	-	750.7	AC, LCM
<b>Total</b>	<b>\$ 779.2</b>	<b>\$ -</b>	<b>\$ 779.2</b>	

*Legend for Valuation Methods:*

AC = Actual Cost

LCM = Lower of Cost or Market

As of September 30 (\$ in millions)	2018			Valuation Method
	Stockpile Materiel Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net	
Held for Sale	\$ 32.1	\$ -	\$ 32.1	AC, LCM
Held in Reserve for Future Sale	786.2	-	786.2	AC, LCM
<b>Total</b>	<b>\$ 818.3</b>	<b>\$ -</b>	<b>\$ 818.3</b>	

*Legend for Valuation Methods:*

AC = Actual Cost

LCM = Lower of Cost or Market

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### *General Composition of Stockpile Materiel*

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies. The estimated market price of stockpile materiel as of September 30, 2019, is \$1.0 billion (\$1.3 billion in FY 2018).

### *Stockpile Materiel Restrictions*

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

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, the National Defense Stockpile reclassifies the materiel from Held in Reserve to Held for Sale.

## Note 9. General PP&E, Net

**Table 9A. Major General PP&E Asset Classes**

As of September 30 (\$ in millions)	2019				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	\$ 9,094.2	N/A	\$ 9,094.2
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	465,456.4	(292,894.7)	172,561.7
Leasehold Improvements	S/L	Lease Term	546.3	(318.0)	228.3
Software	S/L	2 - 5 or 10	9,909.1	(4,868.3)	5,040.8
General Equipment	S/L	Various	1,154,130.0	(681,256.4)	472,873.6
Assets Under Capital Lease	S/L	Lease Term	366.2	(283.8)	82.4
Construction in Progress	N/A	N/A	108,179.7	N/A	108,179.7
Other	N/A	N/A	10,541.5	(10,043.8)	497.7
<b>Total General PP&amp;E</b>			<b>\$ 1,758,223.4</b>	<b>\$ (989,665.0)</b>	<b>\$ 768,558.4</b>

\* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings

Legend for Depreciation/Amortization Methods: S/L = Straight Line Method

As of September 30 (\$ in millions)	2018				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	\$ 9,076.7	N/A	\$ 9,076.7
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	432,389.3	(265,377.3)	167,012.0
Leasehold Improvements	S/L	Lease Term	551.2	(292.6)	258.6
Software	S/L	2 - 5 or 10	9,940.2	(5,053.2)	4,887.0
General Equipment	S/L	Various	1,134,083.5	(660,634.5)	473,449.0
Assets Under Capital Lease	S/L	Lease Term	353.7	(257.5)	96.2
Construction in Progress	N/A	N/A	103,695.4	N/A	103,695.4
Other	N/A	N/A	12,477.3	(12,123.1)	354.2
<b>Total General PP&amp;E</b>			<b>\$ 1,702,567.3</b>	<b>\$ (943,738.2)</b>	<b>\$ 758,829.1</b>

\* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings

Legend for Depreciation/Amortization Methods: S/L = Straight Line Method

The Department's General PP&E consists primarily of buildings and structures, furniture and fixtures, equipment, vehicles, internal use software, and land.

### Other Disclosures

The Department has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the Department's use and disposal of real property (land and buildings) located outside the United States.

The Department uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The FASAB issued [SFFAS 50](#), permitting alternative methods in establishing opening balances for General PP&E, effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. Land and land rights recognized in the prior year for certain DoD Components are excluded from General PP&E opening

balances in FY 2018, as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 20,926,485 in FY 2018. There are no new land or land rights excluded for FY 2019.

Other General PP&E includes Real Property held in Caretaker Status. Caretaker Status is defined as property under the legal jurisdiction of the Department, such as Base Realignment and Closure assets, awaiting further disposition, sale, or transfer to another entity.

### Heritage Assets and Stewardship Land

[\*SFFAS 29\*](#) provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. The Department's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

As the Department's mission to provide the military forces needed to deter war and protect the security of our country has been executed, the Department has become a large scale owner of historic buildings, structures, historical artifacts, art, stewardship land, and other cultural resources. Protection of these elements of the nation's heritage assets and stewardship land is an essential part of the Department's mission.

The Department, with minor exceptions, uses the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets.

Heritage assets receive such designation, and have such designation withdrawn, through the accessioning and deaccessioning procedures for collections or through evaluation in compliance with the [\*National Historic Preservation Act\*](#). Designation is in accordance with the standards articulated with the collection scopes and collecting plans, or by application of the criteria of the National Register of Historic Places.

Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. The Department defines these as follows in accordance with the National Historic Preservation Act:

- Buildings and Structures listed, or eligible for listing, on the National Register of Historic Places, including multi-use heritage assets;
- Archeological Sites listed, or eligible for listing, on the National Register of Historic Places; and
- Museum Collection Items considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

The Department continues to progress towards identifying heritage assets and stewardship land added through donation or devise (e.g., a clause in a will leaving real estate to the Department). Differences in heritage asset quantities between the FY 2018 ending unit counts and the FY 2019 beginning unit counts resulted from periodic reviews.



**Table 9B. Heritage Assets**

For the year ended September 30, 2019  
(physical unit count)

	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	43,737	1,196	(2,785)	42,148
Archeological Sites	13,283	1,917	(4,532)	10,668
Museum Collection Items (Objects, Not Including Fine Art)	1,301,801	7,114	(8,023)	1,300,892
Museum Collection Items (Objects, Fine Art)	59,598	488	(8)	60,078

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

The Department uses Stewardship Land for military bases, installations, training ranges, or other military mission related functions.

Stewardship land is categorized and reported in acres based on the predominant use of the land.

**Table 9C. Stewardship Land**

For the year ended September 30, 2019  
(acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	1,572	75	-	1,647
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	8,263	2	(73)	8,192
9130	Licensed and Permitted Land	750	-	(4)	746
9140	Public Land	1	4	-	5
9210	Land Easement	157	-	-	157
9220	In-Leased Land	101	-	-	101
9230	Foreign Land	297	-	-	297
Grand Total		<u>11,141</u>	<u>81</u>	<u>(77)</u>	<u>11,145</u>
Total All Other Lands					<u>1,301</u>
Total Stewardship Lands					<u>9,844</u>

The four categories of Stewardship land— Government Owned Land; State Owned Land; Withdrawn Public Land (not available for settlement, sale, location, or entry); and Public Land (held by local governments) – are held in public trust.

The Department's methods of acquisition and withdrawal of stewardship land are as follows:

- Acquiring additional land through donation or withdrawals from public domain,
- Identifying missing land records,
- Disposing of Base Realignment and Closure (BRAC) sites or transferring land to another DoD Component,
- Identifying cemeteries and historical facilities,
- Disposing of BRAC property or excess installations, and
- Privatizing residential community initiatives programs.

## Note 10. Other Assets

**Table 10. Other Assets**

As of September 30 (\$ in millions)	2019	2018
Intragovernmental Other Assets		
Advances and Prepayments	\$ 983.1	\$ 838.1
Other Assets	123.4	123.4
Total Intragovernmental Other Assets	1,106.5	961.5
Non-Federal Other Assets		
Outstanding Contract Financing Payments	18,241.1	26,016.6
Advances and Prepayments	1,107.6	2,316.3
Other Assets (With the Public)	194.4	41.5
Total Non-Federal Other Assets	19,543.1	28,374.4
<b>Total Other Assets</b>	<b>\$ 20,649.6</b>	<b>\$ 29,335.9</b>

### Intragovernmental Other Assets

Advances and Prepayments are amounts advanced or prepaid to other federal agencies.

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of \$123.3 million in FY 2019 and FY 2018), held by the Department of Energy. In accordance with the [Department of Defense Appropriations Act of 1993](#), these assets are maintained as a [Strategic Petroleum Reserve](#) for national defense purposes.

### Non-Federal Other Assets

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, includes \$18.2 billion in FY 2019 in contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets. During FY 2019, the Department began reporting \$6.0 billion as expenses or property, plant and equipment for the estimated costs incurred by a contractor per [FAR 52.232-16](#), related to the FY 2019 contract holdbacks. In comparison, FY 2018 Outstanding Contract Financing Payments included \$21.7 billion in contract financing payments and an additional \$4.3 billion in payments of estimated future amounts due to contractors upon delivery and government acceptance. This additional Contract Financing Payment asset is related to the FY 2018 Contingent Liabilities reported in Note 15, *Other Liabilities*.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as Outstanding Contract Financing Payments.

In FY 2019, Other Assets (With the Public) consisted primarily of inventory returns pending credit from vendors. In FY 2018, Other Assets (With the Public) consisted of General PP&E permanently removed but awaiting disposal.

## Note 11. Liabilities Not Covered by Budgetary Resources

**Table 11. Liabilities Not Covered by Budgetary Resources**

As of September 30 (\$ in millions)	2019	Restated 2018
<b>Intragovernmental Liabilities</b>		
Accounts Payable	\$ 40.1	\$ -
Debt	0.3	0.6
Other	1,913.3	1,762.8
<b>Total Intragovernmental Liabilities</b>	<b>1,953.7</b>	<b>1,763.4</b>
<b>Non-Federal Liabilities</b>		
Accounts Payable	2,318.2	1,467.7
Military Retirement and Other Federal Employee Benefits	1,525,256.1	1,440,808.5
Environmental and Disposal Liabilities	73,097.0	67,100.1
Other Liabilities	14,227.1	13,454.8
<b>Total Non-Federal Liabilities</b>	<b>1,614,898.4</b>	<b>1,522,831.1</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>1,616,852.1</b>	<b>1,524,594.5</b>
Total Liabilities Covered by Budgetary Resources	1,143,171.4	1,039,466.2
Total Liabilities Not Requiring Budgetary Resources	-	-
<b>Total Liabilities</b>	<b>\$ 2,760,023.5</b>	<b>\$ 2,564,060.7</b>

### Restatement

The Department corrected a \$57.1 million overstatement of Total Liabilities Covered by Budgetary Resources. See Note 28, *Restatements*, for further information.

### Intragovernmental Liabilities

Debt consists primarily of borrowing from the Treasury for capital improvements to the Washington Aqueduct Project expected to be completed by 2023. The related reimbursement to the Department from Arlington County, Virginia and Falls Church, Virginia, is recorded as Non-Federal Accounts Receivable.

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

### Non-Federal Liabilities

Accounts Payable primarily represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2019, these liabilities primarily consist of \$940.8 billion in pension liabilities and \$576.9 billion in health benefit liabilities. In FY 2018, these liabilities primarily consist of \$886.0 billion in pension liabilities and \$547.4 billion in health benefit liabilities. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details.

Environmental and Disposal Liabilities represents the Department's liability for existing and anticipated environmental clean-up and disposal. Refer to Note 14, *Environmental and Disposal Liabilities*, for additional details.

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

### **Total Liabilities**

Budgetary resources include (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections, and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without contingency having to be met first.

Liabilities Not Covered by Budgetary Resources require congressional action before budgetary resources can be provided.

Liabilities Not Requiring Budgetary Resources have not in the past and will not in the future require the use of budgetary resources.

## Note 12. Debt

**Table 12. Debt**

(\$ in millions)	2018 Beginning Balance	2018 Net Borrowing	2018 Ending Balance	2019 Net Borrowing	2019 Ending Balance
Agency Debt (Intragovernmental)					
Debt to Treasury	\$ 1,630.8	\$ 54.9	\$ 1,685.7	\$ 28.4	\$ 1,714.1
<b>Total Debt</b>	<b>\$ 1,630.8</b>	<b>\$ 54.9</b>	<b>\$ 1,685.7</b>	<b>\$ 28.4</b>	<b>\$ 1,714.1</b>

The Department's debt consists of interest and principal payments due to the Treasury. The Department borrows funds from the Treasury for the Military Housing Privatization Initiative and the Washington Aqueduct Capital Improvements Project. See Note 7, *Direct Loan and Loan Guarantees*, for more information pertaining to MHPI.

## Note 13. Military Retirement and Other Federal Employment Benefits

The Department complies with the requirements of [SFFAS 33](#), which directs that the long-term interest/discount rate, underlying inflation (cost of living adjustment, or COLA) rate and other economic assumptions be consistent with one another. A change in the interest/discount rate may cause other assumptions to change as well. SFFAS 33 also requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and postemployment benefits. SFFAS 33 provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

**Table 13A. Military Retirement and Other Federal Employment Benefits Liability**

As of September 30 (\$ in millions)	2019		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
<b>Pension and Health Benefits</b>			
Military Retirement Pensions	\$ 1,754,187.0	\$ (813,431.8)	\$ 940,755.2
Military Pre Medicare-Eligible Retiree Health Benefits	254,832.8	-	254,832.8
Military Medicare-Eligible Retiree Health Benefits	<u>573,219.1</u>	<u>(251,137.6)</u>	<u>322,081.5</u>
Total Pension and Health Benefits	2,582,238.9	(1,064,569.4)	1,517,669.5
<b>Other Benefits</b>			
FECA	5,786.9	-	5,786.9
Voluntary Separation Incentive Programs	219.5	(93.5)	126.0
DoD Education Benefits Fund	786.7	(786.7)	-
Other	<u>7,339.8</u>	<u>(5,666.1)</u>	<u>1,673.7</u>
Total Other Benefits	14,132.9	(6,546.3)	7,586.6
<b>Total Military Retirement and Other Federal Employment Benefits</b>	<u>\$ 2,596,371.8</u>	<u>\$(1,071,115.7)</u>	<u>\$ 1,525,256.1</u>

*Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method*  
*Market Value of Investments in Non-Marketable, Market Based Securities*  
*included in Assets Available to Pay Benefits: \$1.3 trillion*



**Table 13A. Military Retirement and Other Federal Employment Benefits Liability**

As of September 30 (\$ in millions)	2018		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
<b>Pension and Health Benefits</b>			
Military Retirement Pensions	\$ 1,616,398.1	\$ (730,405.6)	\$ 885,992.5
Military Pre Medicare-Eligible Retiree Health Benefits	249,694.0	-	249,694.0
Military Medicare-Eligible Retiree Health Benefits	535,318.1	(237,646.7)	297,671.4
<b>Total Pension and Health Benefits</b>	<b>2,401,410.2</b>	<b>(968,052.3)</b>	<b>1,433,357.9</b>
<b>Other Benefits</b>			
FECA	5,858.0	-	5,858.0
Voluntary Separation Incentive Programs	270.9	(108.6)	162.3
DoD Education Benefits Fund	921.7	(921.7)	-
Other	6,886.0	(5,455.7)	1,430.3
<b>Total Other Benefits</b>	<b>13,936.6</b>	<b>(6,486.0)</b>	<b>7,450.6</b>
<b>Total Military Retirement and Other Federal Employment Benefits</b>	<b>\$ 2,415,346.8</b>	<b>\$ (974,538.3)</b>	<b>\$ 1,440,808.5</b>

*Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method*

*Market Value of Investments in Non-Marketable, Market Based Securities*

*included in Assets Available to Pay Benefits: \$1.1 trillion*

**Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employment Benefits**

For the year ended September 30 (\$ in millions)	2019				
	Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Voluntary Separation Incentive Programs	DoD Education Benefits Fund
Beginning Actuarial Liability	\$ 1,616,398.1	\$ 249,694.0	\$ 535,318.1	\$ 270.9	\$ 921.7
Expense:					
Normal Cost	32,110.3	10,357.8	10,936.5	-	131.4
Interest on the Liability Balance	56,083.8	9,166.8	19,473.2	4.6	29.1
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	1,091.7	(6,049.4)	(9,261.9)	(2.2)	85.2
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	89,285.8	13,475.2	21,147.8	2.4	245.7
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(232.0)	14,926.6	-	-
Changes in Assumptions Other Than Trend	108,863.6	2,826.7	12,587.3	0.5	(164.2)
Losses (Gains) from Actuarial Assumption Changes	108,863.6	2,594.7	27,513.9	0.5	(164.2)
Total Expenses	198,149.4	16,069.9	48,661.7	2.9	81.5
Less: Benefit Outlays	60,360.5	10,931.1	10,760.7	54.3	216.5
Total Changes in Actuarial Liability	137,788.9	5,138.8	37,901.0	(51.4)	(135.0)
<b>Ending Actuarial Liability</b>	<b>\$ 1,754,187.0</b>	<b>\$ 254,832.8</b>	<b>\$ 573,219.1</b>	<b>\$ 219.5</b>	<b>\$ 786.7</b>

**Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employment Benefits**

For the year ended September 30 (\$ in millions)	2018				
	Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Voluntary Separation Incentive Programs	DoD Education Benefits Fund
Beginning Actuarial Liability	\$ 1,567,689.2	\$ 252,512.9	\$ 526,986.1	\$ 321.5	\$ 998.7
Plus Expenses:					
Normal Cost	29,673.5	10,135.7	10,498.3	-	138.8
Interest Cost	57,466.1	9,772.8	20,223.9	6.1	33.6
Plan Amendments	8,932.0	(2,678.3)	(18,195.0)	-	-
Experience Losses (Gains)	9,610.0	(8,729.9)	(8,492.0)	3.0	6.9
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	105,681.6	8,500.3	4,035.2	9.1	179.3
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(3,805.0)	(6,598.1)	-	-
Changes in Assumptions Other Than Trend	2,069.7	3,525.9	21,547.6	1.9	(7.0)
Losses (Gains) from Actuarial Assumption Changes	2,069.7	(279.1)	14,949.5	1.9	(7.0)
Total Expenses	107,751.3	8,221.2	18,984.7	11.0	172.3
Less: Benefit Outlays	59,042.4	11,040.1	10,652.7	61.6	249.3
Total Changes in Actuarial Liability	48,708.9	(2,818.9)	8,332.0	(50.6)	(77.0)
<b>Ending Actuarial Liability</b>	<b>\$ 1,616,398.1</b>	<b>\$ 249,694.0</b>	<b>\$ 535,318.1</b>	<b>\$ 270.9</b>	<b>\$ 921.7</b>

## Pension and Health Benefits

### *Military Retirement Pensions*

The Military Retirement Fund is a defined benefit plan authorized by the [NDAA for FY 1984](#) to provide funds used to pay annuities and pensions to retired military personnel and their survivors. The DoD Board of Actuaries approves the methods and non-economic assumptions for use in the valuation of benefits. Long-term economic assumptions for inflation, salary, and interest are set per SFFAS 33 guidance. The DoD Office of the Actuary (OACT) calculates the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended Retirement System ([BRS](#)) is a new retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the Thrift Savings Plan ([TSP](#)). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria were able to opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution.

OACT used the assumptions listed in Table 13C to calculate the FY 2019 actuarial liability.

**Table 13C. Actuarial Assumptions for Military Retirement Pension Liability**

Projection Year	Inflation (COLA)	Salary	Interest
FY 2019	2.8% (actual)	2.6% (actual)	3.4%
FY 2020	1.8% (estimated)	3.1% (estimated)	3.4%
Long Term	1.8%	1.8%	3.4%

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

*Market Value of Investments in Market-Based and Marketable Securities: \$997.8 billion*

*Assumed Interest Rate: 3.4%*

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

#### *Military Retirement Health Benefits (MRHB)*

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. OACT calculates actuarial liabilities annually using assumptions and actual experience.

For the FY 2019 actuarial liability calculation, OACT used the assumptions listed in Table 13D.

**Table 13D. Actuarial Assumptions for MRHB Liability**

MRHB Medical Trend	FY 2018 - FY 2019	Ultimate Rate FY 2043
Non-Medicare Inpatient (Direct Care)	4.00%	4.05%
Non-Medicare Outpatient (Direct Care)	5.50%	4.05%
Non-Medicare Prescriptions (Direct Care)	6.00%	4.05%
Non-Medicare Inpatient (Purchased Care)	2.50%	4.05%
Non-Medicare Outpatient (Purchased Care)	3.25%	4.05%
Non-Medicare Prescriptions (Purchased Care)	5.69%	4.05%
U.S. Family Health Plan (USFHP) (Purchased Care)	3.97%	4.05%

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

*Assumed Interest Rate: 3.5%*

For the FY 2019 financial statement valuation, a single equivalent medical cost trend rate of 4.25% can be used to reproduce the total retiree health benefits liability which includes MRHB and Medicare-Eligible Retiree Health Care Fund liabilities.

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

In accordance with [NDAA for FY 2001](#), MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Medicare-Eligible Retiree Health Care Board of Actuaries approves assumptions and methods used in actuarial valuations of the MERHCF to calculate normal cost contributions. OACT calculates the actuarial liabilities annually using assumptions and actual experience per SFFAS 33 guidance.

OACT used the assumptions listed in Table 13E to calculate the FY 2019 actuarial liability.

**Table 13E. Actuarial Assumptions for MERHCF Liability**

MERHCF Benefits Medical Trend	FY 2018 - FY 2019	Ultimate Rate FY 2043
Medicare Inpatient (Direct Care)	2.50%	4.05%
Medicare Outpatient (Direct Care)	4.00%	4.05%
Medicare Prescriptions (Direct Care)	5.68%	4.05%
Medicare Inpatient (Purchased Care)	1.00%	4.05%
Medicare Outpatient (Purchased Care)	4.00%	4.05%
Medicare Prescriptions (Purchased Care)	5.67%	4.05%
U.S. Family Health Plan (USFHP) (Purchased Care)	3.05%	4.05%

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

*Market Value of Investments in Market Based and Marketable Securities \$318.8 billion*

*Assumed Interest Rate: 3.5%*

The FY 2019 MERHCF liability includes Medicare liabilities for all Uniformed Services. The \$573.2 billion liability includes \$559.4 billion for the Department, \$12.3 billion for the Coast Guard, \$1.4 billion for the Public Health Service, and \$0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2018 \$535.3 billion liability included \$522.5 billion for the Department, \$11.4 billion for the Coast Guard, \$1.3 billion for the Public Health Service, and \$0.1 billion for NOAA.

The FY 2019 normal cost contributions from each of the Uniformed Services were \$7.5 billion from the Department, \$199.4 million from the Coast Guard, \$28.9 million from the Public Health Service, and \$1.4 million from NOAA. The FY 2018 contributions from each of the Uniformed Services were \$8.1 billion from the Department, \$204.1 million from the Coast Guard, \$32.0 million from the Public Health Service, and \$1.6 million from NOAA.

For the FY 2019 financial statement valuation, a single equivalent medical cost trend rate of 4.25% was used to reproduce the total retiree health benefits liability which includes MRHB and MERHCF liabilities.

#### *Federal Employees' Compensation Act (FECA)*

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues ([TNC Yield Curve](#)) to reflect the average duration of income payments and medical payments. An interest rate for wage benefits of 2.72% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.38% was assumed for year one and years thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2019 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 are provided in Table 13F.

**Table 13F. Actuarial Assumptions for FECA Liability**

CBY	COLA	CPIM
2020	1.47%	2.86%
2021	1.85%	3.05%
2022	2.12%	3.09%
2023	2.17%	3.47%
2024+	2.21%	3.88%

To test the reliability of the model discussed, DOL made comparisons between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. DOL concluded that the model has been stable and has accurately projected the actual payments by agency.

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

The [\*VSI Program\*](#) was established by [\*NDAA for FYs 1992 and 1993\*](#) to reduce the number of military personnel on active duty. The DoD Board of Actuaries approved the methods and non-economic assumptions for use in valuing the benefits. The assumed annual interest rate of 1.8% used to calculate the actuarial liability was determined in accordance with SFFAS 33 guidance. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest cost.

The Market Value of Investments in Market-based and Marketable Securities is \$95.7 million for FY 2019 and \$137.8 million for FY 2018.

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

The EBF was established by [\*NDAA for FY 1985\*](#) to recruit and retain military members and aid in the readjustment of military members to civilian life. The OACT calculates the actuarial liability annually based on the assumed interest rate of 3.25% as approved by the DoD Board of Actuaries.

The Market Value of Investments in Market-based and Marketable Securities is \$1.1 billion for both FY 2019 and FY 2018.

#### *Other Federal Employment Benefits*

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

## Note 14. Environmental and Disposal Liabilities

**Table 14. Environmental and Disposal Liabilities**

As of September 30 (\$ in millions)	2019	2018
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 13,915.9	\$ 13,621.0
Active Installations - Military Munitions Response Program (MMRP)	3,498.3	3,476.6
Formerly Used Defense Sites - IRP and BD/DR	2,736.6	2,942.1
Formerly Used Defense Sites - MMRP	7,735.4	7,683.0
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	2,197.7	1,902.3
Environmental Closure Requirements	8,619.8	4,089.8
Environmental Response at Operational Ranges	-	92.4
Asbestos	3,763.2	3,972.2
Non-Military Equipment	27.1	24.4
Other	2,064.0	2,078.9
Base Realignment and Closure Installations		
IRP	4,880.9	4,381.7
MMRP	778.9	766.0
Environmental Corrective Action/Closure Requirements	334.1	240.7
Asbestos	9.4	10.1
Non-Military Equipment	-	-
Other	-	-
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	17,046.1	16,439.6
Non-Nuclear Powered Military Equipment	767.4	126.1
Other Weapon Systems	377.9	383.7
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency	2,442.1	2,576.8
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	4,930.1	5,604.0
Other	-	-
<b>Total Environmental and Disposal Liabilities</b>	<b>\$ 76,124.9</b>	<b>\$ 70,411.4</b>

The Department has cleanup requirements for the Defense Environmental Restoration Program ([DERP](#)) for active installations, BRAC installations, and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not covered by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable.

Other Accrued Environmental Liabilities, Non-BRAC, Other consists primarily of Formerly Utilized Sites Remedial Action Program ([FUSRAP](#)) remediation of radiological contamination. The FUSRAP is a shared program between the Department and the Department of Energy's U.S. Atomic Energy and Weapons Program.



## Sources for Cleanup Requirements

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

The Department follows the Comprehensive Environmental Response, Compensation, and Liability Act ([CERCLA](#)), Superfund Amendments and Reauthorization Act of 1986 ([SARA](#)), Resource Conservation and Recovery Act ([RCRA](#)) or other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department's environmental policy and regulations for these vessels. The [Atomic Energy Act of 1954](#), as amended, assures the proper management of source, special nuclear, and byproduct material. The Department coordinates nuclear power actions with the Department of Energy. The [Nuclear Waste Policy Act of 1982](#), as amended, requires owners and generators of high-level nuclear waste and spent nuclear fuel to pay their share of the cost of the program. The [Low-Level Radioactive Waste Policy Amendments Act of 1985](#), as amended, provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on the [NDAA for FY 1986](#), directing the Department to destroy the unitary chemical stockpile in accordance with the Chemical Weapons Convention Treaty.

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

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

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

For General PP&E placed into service after September 30, 1997, the Department expenses associated environmental costs using two methods – (1) physical capacity for operating landfills and (2) life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination

for Heritage Assets and Stewardship Land and certain other General PP&E when the asset is placed into service.

The unrecognized portion of the estimated total cleanup costs associated with disposal of General PP&E as of September 30, 2019 was \$4.3 billion, and was \$4.8 billion as of September 30, 2018.

### **Nature and Possible Changes in Estimated Cleanup Costs**

Environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. The Department is unaware of pending changes affecting its estimated cleanup costs.

The Department revised estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

### **Uncertainty Regarding Accounting Estimates**

The accounting estimates used to calculate the reported environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown.

The Department has ongoing studies for FUSRAP and will update its estimate as additional information is identified.

The Department may incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department continues its efforts to reasonably estimate required restoration costs.

### **Asbestos-Related Cleanup Costs:**

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. At this time, the Department is working towards assessing a reasonable estimate for the total cleanup costs related to friable and non-friable asbestos.

## Note 15. Other Liabilities

**Table 15. Other Liabilities**

As of September 30 (\$ in millions)	2019		
	Current Liability	Non-Current Liability	Total
<b>Intragovernmental</b>			
Advances from Others	\$ 2,032.3	\$ -	\$ 2,032.3
Deposit Funds and Suspense Account Liabilities	115.5	-	115.5
Disbursing Officer Cash	828.5	-	828.5
Judgment Fund Liabilities	800.2	-	800.2
FECA Reimbursement to the Department of Labor	471.8	578.3	1,050.1
Custodial Liabilities	216.1	2,052.4	2,268.5
Employer Contributions and Payroll Taxes Payable	608.4	-	608.4
Other Liabilities	72.8	0.7	73.5
<b>Total Intragovernmental Other Liabilities</b>	<b>5,145.6</b>	<b>2,631.4</b>	<b>7,777.0</b>
<b>Non-Federal</b>			
Accrued Funded Payroll and Benefits	10,297.9	-	10,297.9
Advances from Others	5,303.0	(8.2)	5,294.8
Deposit Funds and Suspense Accounts	3,298.2	-	3,298.2
Non-Environmental Disposal Liabilities			
Military Equipment (Non-Nuclear)	1,179.2	65.9	1,245.1
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	10,721.3	-	10,721.3
Capital Lease Liability	-	-	-
Contract Holdbacks	2,752.4	15.6	2,768.0
Employer Contribution and Payroll Taxes Payable	732.3	-	732.3
Contingent Liabilities	493.6	1,055.8	1,549.4
Other Liabilities	226.8	618.4	845.2
<b>Total Non-Federal Other Liabilities</b>	<b>35,004.7</b>	<b>1,753.5</b>	<b>36,758.2</b>
<b>Total Other Liabilities</b>	<b>\$ 40,150.3</b>	<b>\$ 4,384.9</b>	<b>\$ 44,535.2</b>

**Table 15. Other Liabilities**

As of September 30 (\$ in millions)	Restated 2018		
	Current Liability	Non-Current Liability	Total
<b>Intragovernmental</b>			
Advances from Others	\$ 1,739.8	\$ -	\$ 1,739.8
Deposit Funds and Suspense Account Liabilities	242.0	-	242.0
Disbursing Officer Cash	867.6	-	867.6
Judgment Fund Liabilities	573.8	-	573.8
FECA Reimbursement to the Department of Labor	485.5	604.0	1,089.5
Custodial Liabilities	183.6	2,065.3	2,248.9
Employer Contributions and Payroll Taxes Payable	536.2	-	536.2
Other Liabilities	105.9	-	105.9
<b>Total Intragovernmental Other Liabilities</b>	<b>4,734.4</b>	<b>2,669.3</b>	<b>7,403.7</b>
<b>Non-Federal</b>			
Accrued Funded Payroll and Benefits	10,146.3	-	10,146.3
Advances from Others	5,639.4	(2.0)	5,637.4
Deposit Funds and Suspense Accounts	2,986.8	-	2,986.8
Non-Environmental Disposal Liabilities			
Military Equipment (Non-Nuclear)	1,166.6	60.5	1,227.1
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	10,589.6	-	10,589.6
Capital Lease Liability	-	-	-
Contract Holdbacks	534.9	27.4	562.3
Employer Contribution and Payroll Taxes Payable	586.8	-	586.8
Contingent Liabilities	695.6	5,347.6	6,043.2
Other Liabilities	232.3	-	232.3
<b>Total Non-Federal Other Liabilities</b>	<b>32,578.3</b>	<b>5,439.5</b>	<b>38,017.8</b>
<b>Total Other Liabilities</b>	<b>\$ 37,312.7</b>	<b>\$ 8,108.8</b>	<b>\$ 45,421.5</b>

**Restatement**

The Department corrected a \$57.1 million overstatement of Non-Federal Advances from Others. See Note 28, Restatements, for further information.

**Intragovernmental Other Liabilities**

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

Deposit Funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

For information on Judgment Fund Liabilities, see Note 17, *Commitments and Contingencies*.

Federal Employees' Compensation Act ([FECA](#)) Reimbursement to the Department of Labor represents liabilities for billed amounts payable in FY 2019 and FY 2020 and unbilled amounts, including both incurred and an estimated accrual. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where the Department is acting on behalf of another Federal entity.

Employer Contributions and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Other Liabilities primarily consists of unemployment compensation liabilities.

### **Non-Federal Other Liabilities**

Advances from Others includes an abnormal balance for the non-current portion of the liability. The Department is currently researching and working to resolve this.

Military Equipment (Non-Nuclear) is a part of the Non-Environmental Disposal liability related to the final disposition of equipment, munitions, and other national defense weapon systems that are considered non-nuclear. Disposal measurements involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item.

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance. Beginning in FY 2019, the liabilities for progress payments are included in contract holdbacks for the non-current portion and accounts payable for the current portion. In FY 2018, Contingent Liabilities included \$4.3 billion, related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation ([FAR](#)).

Contingent Liabilities for FY 2019 and 2018 include legal contingent liabilities.

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

### **Life Insurance Liabilities and Other Insurance Programs**

The Department's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management ([OPM](#)). The Department does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.

## Note 16. Leases

### Capital Leases:

The Department is reporting capital lease equipment and related amortization related to an arrangement for Indefeasible Right of Use agreements, allowing the Department access to portions of fiber optic, undersea cables. In addition, the Department has fully depreciated leased equipment for which no future lease payments are due.

**Table 16A. Entity as Lessee – Assets Under Capital Lease**

As of September 30  
(\$ in millions)

	2019	2018
Land and Buildings	\$ -	\$ 0.7
Equipment	\$ 366.2	\$ 353.0
Other	\$ -	\$ -
Accumulated Amortization	\$ (283.8)	\$ (257.5)
Total Assets Under Capital Leases	<u>\$ 82.4</u>	<u>\$ 96.2</u>

### Description of Lease Arrangements:

Lease arrangements provide information that describes the nature of the leases, such as major asset categories and/or the number of locations where building space is leased, the range of dates when lease terms expire, and, if applicable, the accounting treatment of rent holidays and leasehold improvements.

### Future Payments Due for Federal and Non-Federal Capital Leases

The Department currently has no significant future capital lease payments with terms longer than one year.

### Operating Leases:

The future lease payments due presented in Table 16B are for non-cancelable operating leases only. Unlike capital leases, operating leases do not transfer the benefits and risks of ownership; rather, payments for operating leases are expensed over the life of the lease. Future year cost projections use the Consumer Price Index. Office space is the largest component of land and building leases. Other leases are primarily commercial leases with the general public and include automobile leases.



**Table 16B. Future Payments Due for Non-Cancelable Operating Leases**

As of September 30 (\$ in millions)	2019			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
<b>Federal</b>				
Fiscal Year				
2020	647.0	3.8	96.1	746.9
2021	440.9	3.5	93.2	537.6
2022	438.5	3.3	94.9	536.7
2023	433.0	3.4	96.8	533.2
2024	434.2	2.7	98.7	535.6
After 5 Years	923.7	6.5	31.0	961.2
<b>Total Federal Future Lease Payments</b>	<b>3,317.3</b>	<b>23.2</b>	<b>510.7</b>	<b>3,851.2</b>
<b>Non-Federal</b>				
Fiscal Year				
2020	37.0	0.9	23.4	61.3
2021	53.3	0.8	23.9	78.0
2022	35.1	0.3	24.4	59.8
2023	30.9	0.3	24.9	56.1
2024	27.5	-	25.4	52.9
After 5 Years	27.9	-	30.5	58.4
<b>Total Non-Federal Future Lease Payments</b>	<b>211.7</b>	<b>2.3</b>	<b>152.5</b>	<b>366.5</b>
<b>Total Future Lease Payments</b>	<b>\$ 3,529.0</b>	<b>\$ 25.5</b>	<b>\$ 663.2</b>	<b>\$ 4,217.7</b>

## Note 17. Commitments and Contingencies

### Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the [Treasury Judgment Fund](#). In most cases, the Department does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the [Contracts Disputes Act](#) or the [No FEAR Act](#).

In accordance with [SFFAS 5](#), *Accounting for Liabilities of the Federal Government*, as amended by [SFFAS 12](#), *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The Department has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

**Table 17. Summary of Legal Contingent Liabilities\***

As of September 30 (\$ in millions)	Accrued Liabilities	2019	
		Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	\$ 1,363.2	\$ 606.5	\$ 1,115.8
Reasonably Possible		\$ 1,335.2	\$ 15,910.6

\* OMB Circular No. A-136, issued June 28, 2019, revised the presentation of commitments and contingencies. The revised format substantially differs from the format published in FY 2018. Comparative FY 2018 numbers are not available in this format and, therefore, are not presented.

As of September 30, 2019, legal claims exists for which the estimated loss amount or the range of loss cannot be reasonable measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect the Department's financial position or results of operation.

### Environmental Contingencies

The Department does not have any known environmental contingent liabilities to include friable and non-friable asbestos cleanup costs deemed probable but not reasonably estimable.

### Other Commitments and Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, which may potentially result in a future outflow of

budgetary resources. Contingencies considered both measurable and probable in the amount of \$186.2 million have been accrued. These liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

It is the Department's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in [SFFAS 5](#). The Department executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in Department's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

### **Commitments**

In FY 2019, the Department has \$2.3 billion in obligations related to canceled appropriations for which it has a contractual commitment for payment, \$909.7 million for contractual arrangements related to loan guarantees, and \$4.2 billion related to non-cancelable operating leases which may require future financial obligations. In FY 2018, the Department had \$1.5 billion in obligations related to canceled appropriations for which it has a contractual commitment for payment, \$950.4 million for contractual arrangements related to loan guarantees, and \$5.2 billion related to non-cancelable operating leases which may require future financial obligations. See Note 7, *Direct Loan and Loan Guarantees*, and Note 16, *Leases*, for additional information.

## Note 18. Funds from Dedicated Collections

The Department's Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources provided by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Department's general revenues. There has been no legislation in FY 2019 or FY 2018 which has significantly altered the purposes of the Department's Funds from Dedicated Collections.

The disclosures in this note are made in accordance with [SFFAS 27](#), as amended by [SFFAS 43](#).

**Table 18A. Combined Balance Sheet – Funds from Dedicated Collections**

As of September 30 (\$ in millions)	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
<b>Assets</b>				
Fund Balance with Treasury	\$ 127.4	\$ 1,859.8	\$ 2,296.1	\$ 4,283.3
Investments	9,319.2	-	1,747.5	11,066.7
Accounts and Interest Receivable	543.7	2.2	5.6	551.5
Other Assets	130.9	283.9	713.9	1,128.7
<b>Total Assets</b>	<b>\$ 10,121.2</b>	<b>\$ 2,145.9</b>	<b>\$ 4,763.1</b>	<b>\$ 17,030.2</b>
<b>Liabilities and Net Position</b>				
Accounts Payable and Other Liabilities	\$ 6.2	\$ 1,900.0	\$ 103.0	\$ 2,009.2
Total Liabilities	6.2	1,900.0	103.0	2,009.2
Unexpended Appropriations	-	-	-	-
Cumulative Results of Operations	10,115.0	245.9	4,660.1	15,021.0
<b>Total Liabilities and Net Position</b>	<b>\$ 10,121.2</b>	<b>\$ 2,145.9</b>	<b>\$ 4,763.1</b>	<b>\$ 17,030.2</b>
As of September 30 (\$ in millions)	2018			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
<b>Assets</b>				
Fund Balance with Treasury	\$ 297.4	\$ 1,598.2	\$ 2,172.6	\$ 4,068.2
Investments	9,231.6	-	1,391.8	10,623.4
Accounts and Interest Receivable	504.1	6.5	6.9	517.5
Other Assets	133.5	296.3	719.0	1,148.8
<b>Total Assets</b>	<b>\$ 10,166.6</b>	<b>\$ 1,901.0</b>	<b>\$ 4,290.3</b>	<b>\$ 16,357.9</b>
<b>Liabilities and Net Position</b>				
Accounts Payable and Other Liabilities	\$ 26.2	\$ 1,645.0	\$ 72.1	\$ 1,743.3
Total Liabilities	26.2	1,645.0	72.1	1,743.3
Unexpended Appropriations	-	-	-	-
Cumulative Results of Operations	10,140.4	256.0	4,218.2	14,614.6
<b>Total Liabilities and Net Position</b>	<b>\$ 10,166.6</b>	<b>\$ 1,901.0</b>	<b>\$ 4,290.3</b>	<b>\$ 16,357.9</b>

**Table 18B. Combined Statement of Net Cost – Funds from Dedicated Collections**

For the year ended September 30 (\$ in millions)	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	\$ 49.9	\$ 291.2	\$ 1,583.3	\$ 1,924.4
Less: Earned Revenues	-	(386.7)	(324.2)	(710.9)
<b>Net Cost of Operations</b>	<b>\$ 49.9</b>	<b>\$ (95.5)</b>	<b>\$ 1,259.1</b>	<b>\$ 1,213.5</b>

  

For the year ended September 30 (\$ in millions)	2018			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	\$ 85.6	\$ 316.5	\$ 1,811.3	\$ 2,213.4
Less: Earned Revenues	-	(400.5)	(308.8)	(709.3)
<b>Net Cost of Operations</b>	<b>\$ 85.6</b>	<b>\$ (84.0)</b>	<b>\$ 1,502.5</b>	<b>\$ 1,504.1</b>

**Table 18C. Combined Statement of Changes in Net Position – Funds from Dedicated Collections**

For the year ended September 30 (\$ in millions)	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	\$ 10,140.4	\$ 256.0	\$ 4,218.2	\$ 14,614.6
Budgetary Financing Sources	25.3	-	1,650.1	1,675.4
Other Financing Sources	(0.8)	(105.6)	50.9	(55.5)
Less: Net Cost of Operations	49.9	(95.5)	1,259.1	1,213.5
Change in Net Position	(25.4)	(10.1)	441.9	406.4
<b>Net Position, End of Period</b>	<b>\$ 10,115.0</b>	<b>\$ 245.9</b>	<b>\$ 4,660.1</b>	<b>\$ 15,021.0</b>

  

For the year ended September 30 (\$ in millions)	2018			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	\$ 10,314.5	\$ 249.9	\$ 4,054.5	\$ 14,618.9
Budgetary Financing Sources	373.4	-	1,584.5	1,957.9
Other Financing Sources	(461.9)	(77.9)	81.7	(458.1)
Less: Net Cost of Operations	85.6	(84.0)	1,502.5	1,504.1
Change in Net Position	(174.1)	6.1	163.7	(4.3)
<b>Net Position, End of Period</b>	<b>\$ 10,140.4</b>	<b>\$ 256.0</b>	<b>\$ 4,218.2</b>	<b>\$ 14,614.6</b>

Tables 18A, 18B, and 18C are presented on a combined basis and relate solely to Funds from Dedicated Collections. The Net Position amounts related to Funds from Dedicated Collections reflected on Tables 18A and 18C will not equal those reflected on the DoD Agencywide Balance Sheet and Statement of Changes in Net Position, as those statements are presented on a consolidated basis. Refer to Note 20,

*Disclosures Related to the Statement of Changes in Net Position*, for additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts.

## **Purpose, Source of Revenue, and Authority for Funds from Dedicated Collections**

### *Harbor Maintenance and Related Funds*

Harbor Maintenance Trust Fund (26 U.S.C. §9505) – The United States Army Corps of Engineers (USACE) *Civil Works* mission is funded by the Energy and Water Development Appropriations Acts. The Water Resources Development Act of 1986 covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of all administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Taxes collected from imports, domestics, passengers, and foreign trade are deposited into the Trust Fund. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection, and Restoration Act (16 U.S.C. §§3951-3956) – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds. Federal contributions are 75 percent of project costs, or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This Trust Fund receives funding from the Sport Fish Restoration and Boating Trust Fund.

Inland Waterways Trust Fund (26 U.S.C. §9506) – Excise taxes from the public are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

### *Rivers and Harbors Contributed and Advance Funds*

Rivers and Harbors Contributed and Advance Funds (33 U.S.C. §§701h, 702f, and 703) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, enlargement of river channels, and similar work, in the course of flood control and river and harbor maintenance.

### *Other Funds from Dedicated Collections*

Other funds from dedicated collection have been aggregated in accordance with SFFAS 43.

Special Recreation Use Fees (16 U.S.C. §§460l-6a and 6812(e)(1)) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. Receipts cover operation and maintenance of recreational sites.

Hydraulic Mining in California, Debris (33 U.S.C. §683) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. USACE collects taxes and expends funds under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.



Payments to States, Flood Control Act of 1954 (33 U.S.C. §701c-3) – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the counties where the property is located, or for defraying county government expenses.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (16 U.S.C. §§803(f) and 810) – The Federal Energy Regulatory Commission ([FERC](#)) assesses charges against licensees when a reservoir or other improvement is constructed by the U.S. All proceeds from Indian reservations are credited to the Indians of the reservations. All other proceeds arising from licenses, except those established by the FERC for administrative reimbursement, are paid to the Treasury and allocated for specific uses. The Department of the Army is allocated 50 percent of charges from all licenses, except licenses for the occupancy and use of public lands and national forests. These funds are deposited in a special fund and used for maintenance, operation, and improvement of dams, and other navigation structures owned by the U.S., or in construction, maintenance, or operation of headwater, or other improvements to navigable waters of the U.S.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) (33 U.S.C. §2326) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund (10 U.S.C. §2685) – Surcharge on sales of commissary goods finance the Commissary System operating expenses and capital purchases, precluded by law from being paid with appropriated funds. Revenue is generated through a five percent surcharge applied to each sale. These funds finance commissary-related information technology investments, equipment, advance design modifications to prior year construction projects, and maintenance and repair of facilities and equipment.

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

**Table 19. Costs and Exchange Revenue by Major Program**

For the years ended September 30 (\$ in millions)	2019	Restated 2018
<b>Military Retirement Benefits</b>		
Gross Cost	\$ 106,422.7	\$ 104,973.1
Less: Earned Revenues	(36,784.1)	(41,456.8)
Losses (Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	136,377.5	17,019.2
Net Program Costs	206,016.1	80,535.5
<b>Civil Works</b>		
Gross Cost	11,594.9	12,603.8
Less: Earned Revenues	(3,201.8)	(4,806.7)
Losses (Gains) from Actuarial Assumption Changes		
for Military Retirement Benefits	-	-
Net Program Costs	8,393.1	7,797.1
<b>Military Personnel</b>		
Gross Cost	150,995.7	145,255.3
Less: Earned Revenues	(1,030.1)	(1,349.3)
Losses (Gains) from Actuarial Assumption Changes		
for Military Retirement Benefits	-	-
Net Program Costs	149,965.6	143,906.0
<b>Operations, Readiness &amp; Support</b>		
Gross Cost	297,033.2	259,690.3
Less: Earned Revenues	(25,104.4)	(24,433.0)
Losses (Gains) from Actuarial Assumption Changes		
for Military Retirement Benefits	2,431.0	(284.2)
Net Program Costs	274,359.8	234,973.1
<b>Procurement</b>		
Gross Cost	126,512.6	112,506.4
Less: Earned Revenues	(11,209.0)	(7,297.4)
Losses (Gains) from Actuarial Assumption Changes		
for Military Retirement Benefits	-	-
Net Program Costs	115,303.6	105,209.0
<b>Research, Development, Test &amp; Evaluation</b>		
Gross Cost	104,654.5	88,386.3
Less: Earned Revenues	(12,114.1)	(9,905.5)
Losses (Gains) from Actuarial Assumption Changes		
for Military Retirement Benefits	-	-
Net Program Costs	92,540.4	78,480.8
<b>Family Housing &amp; Military Construction</b>		
Gross Cost	25,123.1	11,714.5
Less: Earned Revenues	(1,058.7)	(1,234.9)
Losses (Gains) from Actuarial Assumption Changes		
for Military Retirement Benefits	-	-
Net Program Costs	24,064.4	10,479.6
<b>Total Net Cost</b>	\$ 870,643.0	\$ 661,381.1

### *Restatement*

The Department corrected a \$36.8 million understatement in Gross Costs – Operations, Readiness & Support and a net \$27.3 million understatement in Earned Revenue, resulting in the correction of a \$9.5 million understatement in Total Net Cost. See Note 28, *Restatements*, for further information.

### *Other Disclosures*

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Department supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act of 1993 ([GPRA](#)). The Department is in the process of reviewing available data and developing a cost reporting methodology required by [SFFAS No. 4](#), *“Managerial Cost Accounting Concepts and Standards for the Federal Government as amended by [SFFAS No. 55](#), “Amending Inter-Entity Cost Provisions.”*

The Department implemented [SFFAS No. 55](#) in FY 2018 which rescinded [SFFAS No. 30](#), *“Inter-Entity Cost Implementation: Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts and Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4.”*

The Department's military retirement and postemployment costs are reported in accordance with [SFFAS No. 33](#), *“Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.”* The standard requires the separate presentation of gains and losses from changes in long term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the SNC.

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

### Cumulative Results of Operations – Prior Period Adjustments

The Department recorded prior period adjustments under [SFFAS 21](#), [SFFAS 48](#), and [SFFAS 50](#), that increased the FY 2019 beginning balance \$11.5 billion from (\$344.2) billion to (\$332.7) billion. In FY 2018, the Department recorded prior period adjustments that decreased the 2018 beginning balance \$2.5 billion from (\$390.1) billion to (\$392.6) billion. These prior period adjustments are attributable to the Correction of Error and/or Change in Accounting Principle.

The Department corrected an error in its financial statements for assets and net position corrected under SFFAS 21. SFFAS 21 requires that reporting entities restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period. During FY 2019, the Department increased the beginning Cumulative Results of Operations and Assets by \$7.2 billion due to the correction of an error.

Various components with the Department elected to implement new accounting principles in FY 2019 and FY 2018. FASAB issued SFFAS 48 and SFFAS 50 which permitted alternative methods in establishing opening balances and are effective for periods beginning after September 30, 2016 with early implementation allowed. In FY 2019, these changes in accounting principles increased the beginning Cumulative Results of Operations by \$4.3 billion as the components established opening balances for General PP&E (specifically, equipment and software). In FY 2018, these changes in accounting principles decreased the beginning Cumulative Results of Operations by (\$2.5) billion as the components established opening balances for General PP&E (specifically, land and buildings).

### Restatements

For FY 2018, the Department corrected a \$66.6 million understatement in the Beginning Balances for Unexpended Appropriations, offset by a \$9.5 million understatement in Appropriations Used, resulting in the correction of a \$57.1 million understatement in Total Unexpended Appropriations. In addition, a \$1.5 billion understatement and offsetting overstatement was corrected for Nonexchange Revenue and for Transfers-In/Out Without Reimbursement, respectively. This resulted in corrections of understatements of \$9.5 million for Total Financing Sources and \$57.1 million for Net Position. See Note 28, *Restatements*, for further information.

The Department restated FY 2018 Cumulative Results of Operations attributable to Dedicated Collections and Other Funds. The adjustments for the periods ended September 30, 2018 and 2019 increases the Dedicated Collections \$11.0 billion and decreases Other Funds \$11.0 billion to accurately reflect the breakout of Cumulative Operating Results. The net effect of this restatement on the Statement of Changes in Net Position is zero. For its effect on the Balance Sheet, refer to Note 28, *Restatements*.

### Other Financing – Other

The Department recorded \$15.9 billion in FY 2019 as Other Financing – Other resulting from the revaluation of General Plant and Equipment.

## Reconciliation Differences

### *Statement of Budgetary Resources to the Statement of Changes in Net Position*

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by \$71.6 billion in FY 2019 and \$68.8 billion in FY 2018. A reconciliation of these amounts is presented in the tables below.

**Table 20A. Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position**

For the year ended September 30 (\$ in billions)	2019	2018
<b>Appropriations, Statement of Budgetary Resources (SBR)</b>	\$ 874.4	\$ 863.6
Permanent and Temporary Reductions	101.6	95.8
Trust and Special Fund Receipts	(172.5)	(164.2)
Miscellaneous Items	(0.7)	(0.4)
Total Reconciling Difference	(71.6)	(68.8)
<b>Appropriations Received, Statement of Changes in Net Position</b>	<u>\$ 802.8</u>	<u>\$ 794.8</u>

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority permanently or temporarily reduced by enacted legislation.

Trust and Special Fund Receipts are not immediately available for obligation that are awaiting authorizing legislation and or the satisfaction of specific legal requirements.

Miscellaneous Items primarily includes the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

### *Funds from Dedicated Collections Information to the Balance Sheet and Statement of Changes in Net Position*

Funds from Dedicated Collections information is presented on a combined basis in Note 18, *Funds from Dedicated Collections*. The tables below summarize the elimination of intradepartmental activity between Funds from Dedicated Collections and all Other Fund types to arrive at the consolidated Net Position amounts presented on the DoD Agency-wide Balance Sheet and Statement of Changes in Net Position.

**Table 20B. Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds**

As of September 30 (\$ in millions)	2019		
	Combined	Reconciling Difference	Consolidated
Unexpended Appropriations - Dedicated Collections	\$ -	\$ -	\$ -
Unexpended Appropriations - Other Funds	545,168.2	-	545,168.2
Cumulative Results of Operations - Dedicated Collections	15,021.0	(15,310.1)	30,331.1
Cumulative Results of Operations - Other Funds	(430,262.4)	15,310.1	(445,572.5)
<b>Total Net Position</b>	<b>\$ 129,926.8</b>	<b>\$ -</b>	<b>\$ 129,926.8</b>

  

As of September 30 (\$ in millions)	2018 (Restated)		
	Combined	Reconciling Difference	Consolidated
Unexpended Appropriations - Dedicated Collections	\$ -	\$ -	\$ -
Unexpended Appropriations - Other Funds	529,803.7	-	529,803.7
Cumulative Results of Operations - Dedicated Collections	14,614.6	(13,119.4)	27,734.0
Cumulative Results of Operations - Other Funds	(358,834.7)	13,119.4	(371,954.1)
<b>Total Net Position</b>	<b>\$ 185,583.6</b>	<b>\$ -</b>	<b>\$ 185,583.6</b>



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

The Statement of Budgetary Resources is presented on a combined basis in accordance with OMB [Circular No. A-136](#); thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other principal financial statements, which are presented on a consolidated basis.

### Restatement

The Department corrected a \$921.6 million understatement of Exempt from Apportionment, Unexpired Accounts and overstatement of Unapportioned, Unexpired Accounts. See Note 28, Restatements, for further information.

### Net Adjustments to Unobligated Balance, Brought Forward, October 1

There were no material adjustments during FY 2019 to the budgetary resources available at the beginning of the year.

### Terms of Borrowing Authority Used

The Department utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB [Circular No. A-129](#). See Note 7, Direct Loans and Loan Guarantees, Non-Federal Borrower, for additional information related to MHPI.

### Available Borrowing/Contract Authority, End of Period

No available borrowing authority remained at the end of the period for FY 2019 or 2018.

### Budgetary Resources Obligated for Undelivered Orders

**Table 21A. Available Borrowing/Contract Authority**

As of September 30 (\$ in millions)	2019	2018
<b>Available Borrowing and Contract Authority at the End of the Period</b>	<b>\$ -</b>	<b>\$ -</b>

## Undelivered Orders at the End of the Period

**Table 21B. Budgetary Resources Obligated for Undelivered Orders at the End of the Period**

As of September 30 (\$ in millions)	2019	2018
<b>Intragovernmental</b>		
Unpaid	\$ 92,795.2	\$ 120,202.7
Prepaid/Advanced	3,523.4	3,285.7
Total Intragovernmental	<u>\$ 96,318.6</u>	<u>\$ 123,488.4</u>
<b>Non-Federal</b>		
Unpaid	\$ 381,742.3	\$ 319,795.6
Prepaid/Advanced	20,370.1	23,988.3
Total Non-Federal	<u>\$ 402,112.4</u>	<u>\$ 343,783.9</u>
<b>Total Budgetary Resources Obligated for Undelivered Orders At the End of the Period</b>	<u>\$ 498,431.0</u>	<u>\$ 467,272.3</u>

## Legal Arrangements Affecting the Use of Unobligated Balances

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

## Explanation of Differences between the SBR and the Budget of the U.S. Government

Table 21C presents a reconciliation between the budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays in the FY 2018 column on the Combined Statement of Budgetary Resources (SBR) to the actual amounts for FY 2018 from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2019 President's Budget. The FY 2020 Budget will display the FY 2018 actual values and is expected to be published in February 2020 at <https://www.whitehouse.gov/omb/budget>.

## Apportionment Categories for New Obligations and Upward Adjustments

**Table 21C. Explanation of Differences Between the SBR and the Budget of the U.S. Government**

For the year ended September 30  
(\$ in billions)

	FY 2018 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Agency Outlays, Net
<b>Combined Statement of Budgetary Resources</b>	<b>\$ 1,252.6</b>	<b>\$ 1,054.3</b>	<b>\$ 102.0</b>	<b>\$ 763.3</b>
Expired Accounts that are Excluded from the Budget of the U.S. Government	(46.5)	(18.8)	-	-
Closed accounts included in budget	0.1	0.1	-	0.1
Permanent Reporting Differences	(0.1) <sup>1</sup>	(0.1) <sup>1</sup>	-	-
Other	0.1	0.1	0.1	-
<b>Budget of the U.S. Government</b>	<b>\$ 1,206.2</b>	<b>\$ 1,035.6</b>	<b>\$ 102.1</b>	<b>\$ 763.4</b>

<sup>1</sup> The difference reported above for Budgetary Resources and New Obligations and Upward Adjustments is due to different reporting requirements on the SBR versus the Budget.

## Contributed Capital

There was no infusion of capital received in FY 2019.

## Other Disclosures

In compliance with OMB guidance, \$129.9 billion of FY 2019 and \$123.0 billion of FY 2018 General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received additional funding of \$68.8 billion in FY 2019 and \$65.9 billion in FY 2018 to cover obligations incurred above baseline operations in support of contingency operations.

The SBR reflects an unobligated expired appropriations in the amount of \$22.7 billion, (2 percent of total budget authority). The Department strives to obligate as close as prudently possible to the total available budget authority before it expires. Its internal controls and systems for administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the [Antideficiency Act](#). The enormous number of contracts, projects, and activities (for example, construction projects, complex acquisitions, cutting edge/high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must be recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by [31 U.S.C. §1553](#).

## Permanent Indefinite Appropriations:

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

The Department received the following permanent indefinite appropriations in FY 2019 and FY 2018:

Department of the Army General Gift Fund ([10 U.S.C. §2601\(c\)\(1\)](#))

Department of the Navy General Gift Fund ([10 U.S.C. §2601\(c\)\(2\)](#))

Department of the Air Force General Gift Fund ([10 U.S.C. §2601\(c\)\(3\)](#))

Department of Defense General Gift Fund ([10 U.S.C. §2601](#))

Disposal of Department of Defense Real Property ([40 U.S.C. §572\(b\)\(5\)\(A\)](#))

Lease of Department of Defense Real Property ([40 U.S.C. §485\(h\)](#))

Foreign National Employees Separation Pay Account, Defense ([10 U.S.C. §1581](#))

United States Naval Academy Gift and Museum Fund ([10 U.S.C. §8474](#))

Ship Stores Profits, Navy ([10 U.S.C. §8620](#), [31 U.S.C. §1321](#))

Burdensharing Contributions ([10 U.S.C. §2350j](#))

Forest Program ([10 U.S.C. §2665](#))

Medicare-Eligible Retiree Health Care Fund ([10 U.S.C. §1111](#))

Military Retirement Fund ([10 U.S.C. §1461](#))

Education Benefits Fund ([10 U.S.C. §2006](#))

Host Nation Support for U.S. Relocation Activities ([10 U.S.C. §2350k](#))

Hydraulic Mining Debris Reservoir ([33 U.S.C. §683](#))

Maintenance and Operation of Dams and Other Improvements of Navigable Waters ([16 U.S.C. §810\(a\)](#))

Payments to States ([33 U.S.C. §701c-3](#))

Wildlife Conservation ([16 U.S.C. §§670-670f](#))

Ainsworth Bequest ([31 U.S.C. §1321](#))

DoD Family Housing Improvement Fund ([10 U.S.C. §2883\(a\)](#))

DoD Military Unaccompanied Housing Improvement Fund ([10 U.S.C. §2883\(a\)](#))

Voluntary Separation Incentive Fund ([10 U.S.C. §1175\(h\)](#))

Rivers & Harbors Contributed Funds ([33 U.S.C. §§560](#), [701h](#))

Concurrent Receipt Accrual Payments to the Military Retirement Fund ([10 U.S.C. §1466\(b\)\(1\)](#))

Rocky Mountain Arsenal, Restoration (United States Statutes at Large, Volume 100, page 4003, section 1367 ([100 Stat. 4003 §1367](#)))

Homeowners Assistance Fund ([42 U.S.C. §3374\(d\)](#), [Public Law 111-5](#))

Payments to Military Retirement Fund, Defense ([10 U.S.C. §1466](#))

Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund ([10 U.S.C. §1116\(a\)](#))

Medicare-Eligible Retiree Health Fund Contribution, Navy ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, Marine Corps ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, Army ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, Air Force ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force ([10 U.S.C. §1116](#))

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force ([10 U.S.C. §1116](#))

Department of Defense Vietnam War Commemoration Fund, Defense ([Public Law 110-181](#), [122 Stat. 141 §598](#))

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**Note 22. Disclosures Related to Incidental Custodial Collections**

In FY 2019 and FY 2018, the Department collected \$4.9 million and \$11.8 million, respectively, of incidental custodial revenues generated primarily from forfeitures of unclaimed money and property. These funds are not available for use by the Department; the accounts are closed and relinquished to the U.S. Treasury at the end of the fiscal year.

## Note 23. Fiduciary Activities

**Table 23A. Schedule of Fiduciary Activity**

For the years ended September 30 (\$ in millions)	2019	2018
Fiduciary Net Assets, Beginning of Year	\$ 77.9	\$ 77.8
Fiduciary Revenues	-	-
Contributions	98.6	42.5
Investment Earnings	0.3	0.3
Gain (Loss) on Disposition of Investments, Net	-	-
Administrative and Other Expenses	-	-
Distributions To and On Behalf Of Beneficiaries	(109.8)	(42.7)
Increase / (Decrease) in Fiduciary Net Assets	(10.9)	0.1
<b>Fiduciary Net Assets, End of Year</b>	<b>\$ 67.0</b>	<b>\$ 77.9</b>

**Table 23B. Schedule of Fiduciary Net Assets**

As of September 30 (\$ in millions)	2019	2018
<b>Fiduciary Assets</b>		
Fund Balance with Treasury	\$ 67.0	\$ 77.9
Investments	-	-
Other Assets	-	-
<b>Fiduciary Liabilities</b>		
Less: Liabilities	-	-
<b>Total Fiduciary Net Assets</b>	<b>\$ 67.0</b>	<b>\$ 77.9</b>

Fiduciary activities exist when the Department has collected, received, held, or made disposition of assets on behalf of an individual or non-Federal entity. Fiduciary assets are not recognized on the Balance Sheet. The Department is not aware of any non-valued fiduciary assets for which it has management responsibility.

[Public Law 89-538](#) authorized the Department, through the Savings Deposit Program ([SDP](#)), to collect voluntary contributions from members of the Armed Forces serving in designated areas, up to \$10,000 per deployment per member. These contributions and earned interest (10% per year, paid quarterly) are deposited in the Treasury on behalf of the members and kept as a separate fund. Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, at 120 days if a request is not made, the funds are returned to the member via direct deposit by the Department. Funds in excess of \$10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations.



## Note 24. Reconciliation of Net Cost to Net Outlays

**Table 24. Reconciliation of the Net Cost of Operations to Net Outlays**

For the year ended September 30 (\$ in millions)	2019		
	Intragovernmental (4,377.9)	With the public 875,020.9	Total 870,643.0
<b>Net Cost of Operations (SNC)</b>			
<b>Components of Net Cost that are Not Part of Net Outlays:</b>			
Property, plant, and equipment depreciation	\$ -	\$ (67,691.6)	\$ (67,691.6)
Property, plant, and equipment disposal & revaluation	-	(9,029.7)	(9,029.7)
Year-end credit reform subsidy re-estimates	-	107.3	107.3
Unrealized valuation loss/(gain) on investments	-	-	-
Other	-	(60,774.3)	(60,774.3)
<b>Increase/(decrease) in assets:</b>			
Account Receivable	(2,466.7)	206.3	(2,260.4)
Loans Receivable	-	41.2	41.2
Investments	37.0	-	37.0
Other Assets	79.3	(8,884.9)	(8,805.6)
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable	2,481.1	(10,925.0)	(8,443.9)
Salaries and Benefits	97.1	(517.2)	(420.1)
Insurance guarantee program liabilities	-	7.7	7.7
Environmental and disposal liabilities	-	(5,713.5)	(5,713.5)
Other Liabilities (Unfunded Leave, Unfunded FECA Actuarial FECA)	(200.2)	(178,061.6)	(178,261.8)
<b>Other Financing Sources:</b>			
Federal Employee retirement benefit costs paid by OPM and Imputed to the agency	(5,237.4)	-	(5,237.4)
Transfers out (in) without reimbursement	73.0	-	73.0
Other imputed financing	(372.4)	-	(372.4)
<b>Total Components of Net Costs that are Not part of Net Outlays</b>	<b>(5,509.2)</b>	<b>(341,235.3)</b>	<b>(346,744.5)</b>
<b>Components of Net Outlays that are Not Part of Net Cost:</b>			
Effect of prior year agencies credit reform subsidy re-estimates	\$ -	\$ -	\$ -
Acquisition of capital assets	16.1	84,775.3	84,791.4
Acquisition of inventory	246.8	63,456.5	63,703.3
Acquisition of other assets	-	-	-
Other	61,075.8	(1,841.5)	59,234.3
<b>Total Components of Net Outlays that are Not Part of Net Cost</b>	<b>\$ 61,338.7</b>	<b>\$ 146,390.3</b>	<b>\$ 207,729.0</b>
<b>Other Temporary Timing Differences</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Outlays</b>	<b>\$ 51,451.60</b>	<b>\$ 680,175.90</b>	<b>\$ 731,627.5</b>
<b>Agency Outlays, Net, Statement of Budgetary Resources</b>			<b>\$ 721,260.8</b>
<b>Reconciling Differences</b>			<b>\$ 10,366.7</b>

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the Department's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Department's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the Department. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

Components of Net Cost that are Not Part of Net Outlays includes non-cash charges primarily consisting of \$180.8 billion in changes in Actuarial Pension and Health Insurance Liability and \$58.4 billion in depreciation, revaluation and disposal of property, plant and equipment.

Components of Net Outlays that are Not Part of Net Cost includes \$148.5 billion in amounts paid during the acquisition of capital assets and inventory. The Other line includes \$62.2 billion recognized as outlays in pass-through entities for Military Services contributions and Treasury payments to certain trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources* for additional information. The transaction of the pass-through entities are eliminated within consolidated financial reporting, but are not eliminated in budgetary reporting which is presented on a combined basis. These outlays primarily consist of payments made for costs incurred in prior years, as well as capitalized purchased, that are not recognized in net cost in the current period.

The Reconciling Difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the Statement of Net Cost and Statement of Budgetary Resources. Additionally, the Department's diverse business events may be recorded using different, but equally valid, transaction scenarios. Research is on-going to resolve the remaining difference.

Per [OMB Circular A-136](#), in the initial year of implementation, the disclosure requirements that were applicable in prior reporting periods are not required for comparative presentations.

## Note 25. Public-Private Partnerships

Public-Private Partnerships (P3s) are risk-sharing arrangements lasting more than 5 years between public and private sector entities that provide a service or asset for the government/general public. P3s can be extremely complex agreements (e.g. structural arrangements and special purpose vehicles) involving a wide variety of assets and liabilities and alternative financing arrangements (appropriated funds, third party financing and/or significant amounts of private capital/investment). P3s are a form of investment that are not reflected in the financial statements; therefore, disclosure is required so that financial statement users can assess assets of the U.S. government, how effectively the assets are being managed, and the risks associated with P3 arrangements.

[\*SFFAS 49 Public-Private Partnerships\*](#), effective October 1, 2018, requires the disclosure of the nature of the Government's relationship with the private entities, the nature and magnitude of the relevant activity during the period and balances at the end of the period, and a description of financial and non-financial risks, potential benefits, and, if possible, the amount of the Government's exposure to gains or losses from the past or future operations of the disclosure entity or entities. [\*SFFAS 49\*](#) helps achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts ([\*SFFAC\*](#)) 1, *Objectives of Federal Financial Reporting*, by making P3s more understandable.

### Military Housing Privatization Initiative (MHPI)

The National Defense Authorization Act for Fiscal Year 1996, [\*Public Law 104-106\*](#) (110, Stat 186, Section 2801), contains authorities for the Military Housing Privatization Initiative (MHPI). This act includes a series of authorities that allow the Department (DoD) to work with the private sector to build, renovate and sustain military housing. The 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 cheaper for American taxpayers. By engaging in P3s, the government benefits through the use of expertise and tools afforded to private Limited Liability Companies (LLC), the condition of military housing improvements occurred more expediently and efficiently than the traditional Military construction process would allow. [\*Title 10 U.S.C §§ 2871-2886\*](#) codifies the Service Secretaries' MHPI authority, oversight, and accountability measures.

With the enactment of [\*Pub. L. 115-91 § 603\*](#), and then [\*Pub L. 115-232 § 606\*](#), the Military Departments are required to make direct payments to the MHPI entities in an amount up to 5% of the Basic Allowance for Housing (BAH) amount as calculated under Section 403(b)(3)(A)(i) of the military pay statute in [\*Title 37, U.S.C. § 403\*](#) for the area in which the covered housing existed through September 30, 2018. From October 1, 2018 forward, Pub. L. 115-232 § 606 instructs that payments to the MHPI entities of 5% of BAH will occur monthly until Congress modifies or rescinds this direction.

### Funding and Contributions

MHPI projects operate under long-term (generally 50 years) ground leases and associated legal agreements with a Military Department, with one 25 year option period. The expected life of each MHPI arrangement corresponds to the duration of the ground lease (generally 50 years), and negotiations between the Military Departments and the private partners establish the duration of the ground lease based on the minimum duration required to ensure project success. The DoD MHPI program is expected to engage in future government direct loan and loan guarantees, which will be addressed in FY 2020.

The DoD MHPI program made direct cash contributions and loans to the LLCs. Cash contributions to MHPI P3 partners from the DoD Family Housing Improvement Fund (FHIF) or DoD Military Unaccompanied Housing Improvement Fund (MUHIF) requires Congressional notification (10 U.S.C. § 2883(f)). There are no contractual requirements for additional federal contributions to the LLCs.

The Military Departments are not required to contribute resources to the MHPI P3 beyond the initial contribution to the FHIF or MUHIF. However, the enactment of Pub L. 115-91 § 603, required the Military Departments to make direct payments to the MHPI entities (lessors) of 1% of the Basic Allowance for Housing (BAH) amount for the period January 1, 2018 through December 31, 2018. The amount of BAH was calculated under of the military pay statute in 37, U.S.C. § 403(b)(3)(A)(i) for the area in which the covered housing existed. From September 1, 2018 forward, [Pub L. 115-232 § 606](#) directs that payments to the MHPI entities of 5% of BAH will occur monthly until Congress modifies or rescinds this direction.

The following table represents the aggregated Federal and Private Partner LLC contribution amounts paid to MHPI Program and LLCs through September 30, 2019:

**Table 25. Summary of Contributions**

As of September 30	
(\$ in millions)	2019
<b>Military Department Contributions</b>	
Funding Contributions to DoD MHPI Program	\$ 2,771.1
Real Property Contributions to the LLCs (value of Real Property Assets (RPA) Conveyed, per OMB Scoring Documents)	7,598.4
Direct Payments as Required by Pub. L. 115-91 § 603 (1% BAH) and 15-232 § 606 (5% BAH)	160.0
BAH Under § 403 of Title 37	2,738.4
<b>DoD Contributions</b>	
Direct Cash Contributions	\$ 1,607.2
Differential Lease Payments	16.5
Direct Loans Disbursed	1,851.9
<b>Contributions by Private Partners</b>	
Direct Cash Contributions	\$ 606.5
Bonds/Loans Contributed	11,315.0
Real Property and Land Contributions	5.2
Real Property Asset Donations	51.7

### *Risk*

The Department's risk of loss is the initial cash contribution to the program, the risk of default on a government direct loan, the risk of a guaranty threshold event under a loan guaranty agreement, and the failure to deliver quality housing services to Military Personnel. The private partner's risk of loss includes the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. The MHPI Operating Agreements and Lockbox Agreements do not explicitly identify risk of loss contingencies, but some projects include reserve accounts for specific circumstances, such as an Operating Expense Reserve Account or Utility Reserve Account to save funds for protecting against unexpectedly high expenses. The total risk associated with these agreements are the total initial investment (funding and net book value of assets at the time of transfer) of these projects plus the commercial loan guarantees associated with three of the MHPI agreements. The LLC operates as its own entity, and all

assets revert back to the Department upon termination of the leasehold interest at no-cost to either party. The Military Services rights and responsibilities are limited to monitoring the financial conditions of the MHPI projects and reporting on them timely and accurately.

### *Investment Recognition*

The Military Services investments in limited partnerships and LLCs engaged in privatized military housing projects will be accounted for under the equity method of accounting. The FASAB currently has not issued specific accounting standards for this type of financial arrangement. As a result, beginning in FY 2020, the Department will apply a private sector accounting standard to account for investment/share of the public-private partnerships: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 323 Investments – Equity Method and Joint Ventures. Furthermore, the Department will treat such an investment/share as a consumption of budgetary resources, recording an obligation and an outlay in an amount equal to the equity investment. According to ASC 323, investments in limited partnerships generally should be accounted for under the equity method of accounting unless the investment is so minor that the limited partner may have virtually no influence over the partnership's operating or financial policies. In practice, investments of more than 3 to 5 percent are viewed as more than minor. See Note 5, *Investments and Related Interest*, for additional information on Other Investments.

### **Other Investments**

Other potential investments may exist, which would qualify as P3s, per the disclosure determinations set forth in [SFFAS 49](#) and OMB Circular A-136. These are currently being researched by the Military Services for scope and quantification.

## Note 26. Disclosure Entities and Related Parties

In accordance with [\*SFFAS 47 "Reporting Entity"\*](#), the Department is disclosing its relationship with its Department-sponsored DoD Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). The financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements.

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). The financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements. NAFIs and FFRDCs are, in aggregate, not quantitatively material to the DoD consolidated financial statement; however, both are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents.

### Nonappropriated Fund Instrumentalities

The Department has a distinctive relationship with NAFIs, entities supported in whole or in part by nonappropriated funds (NAFs) that are intended to enhance the quality of life of DoD personnel, retired Military Service members, and dependents of such members, and to support military readiness, recruitment, and retention. The NAFs that support these entities are generated primarily by sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by sections of [\*Title 10, U.S.C.\*](#). The Department does not have any ownership interest in the NAFIs; however, the Department establishes them and requires DoD components to assign organizational responsibility for NAFI administration, management, and control. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. There are currently approximately 460 DoD NAFIs, classified into six program groups to ensure uniformity in the establishment, management, allocation, and control or resource support:

- Military Morale, Welfare, and Recreational ([\*MWR\*](#)) Programs,
- Armed Services Exchange Programs,
- Civilian MWR Programs,
- Lodging Program Supplemental Mission Funds,
- Supplemental Mission Funds, and
- Special Purpose Central Funds.

The Under Secretary of Defense for Personnel and Readiness ([\*USD\(P&R\)\*](#)) exercises overall policy direction for and oversight of DoD NAF activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer ([\*USD\(C\)/CFO\*](#)) and the Defense Finance and Accounting Service ([\*DFAS\*](#)), in coordination with the USD(P&R), are responsible for NAF accounting policy. DoD Components appoint advisory groups to ensure that each NAFI is meeting the objectives for which they were created. Additionally, the NAFIs are subject to annual financial audits conducted by independent public accounting firms.

NAFIs present only very limited financial and non-financial risks to the Department, as they are separate legal entities apart from DoD, and they are operated and accounted for in financial systems separate from DoD. Together, these factors limit the Federal Government's financial exposure. NAFIs operate for the benefit of DoD Service members, so they provide non pay benefits to DoD; however, the non-financial risks arising from NAFI relationships are limited.

## Federally Funded Research and Development Centers

The Department maintains contractual relationships with the parent organizations of ten DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing government or contractor resources. The work performed by the FFRDCs provide significant benefits to the Department, which are considered critical to national security. FFRDCs that provide support to the Department are classified into three categories – (1) research and development laboratories, (2) systems engineering and integration centers, and (3) study and analysis centers.

FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. The Department does not have any ownership interest in the FFRDCs. An FFRDC may be used only for work within its purpose, mission, and general scope of effort, as established in the sponsoring agreement. Additionally, Congress sets annual limits on the amount of staff-years of technical effort that may be funded for FFRDCs. Together, the sponsoring agreements, contract terms, and Congressional controls on staff-years of effort and funding, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

## Related Parties

Organizations are considered related parties if: (1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions and (2) the organizations do not meet the inclusion principles of [SFFAS 47](#). The Department has identified that its Public Private Partnerships (P3) meet the criteria for disclosure as related parties and are continuing to perform an assessment on all of its P3 investments to determine if they meet the criteria for consolidation. See Note 25 *Public Private Partnerships* for additional disclosures.



## **Note 27. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Compilation in the U.S. Government wide Financial Report**

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government ([FR](#)). The FY 2019 FR will be published by [The Bureau of Fiscal Service](#) upon its release.

To prepare the FR, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The following tables display the relationship between each of the Department's financial statements (on the left side) and the Department's corresponding reclassified statements (on the right side) prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items.

"Non-Federal" transactions are with individuals, businesses, non-profit entities, and state, local, and foreign governments.

**Table 27A. Reclassification of Balance Sheet**

As of September 30  
(\$ in millions)

FY2019 Department of Defense SNC		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	Amount	Reclassified Financial Statement Line	Amount
		<b>1 Assets</b>	
		<b>2 Non-Federal</b>	
Cash and Other Monetary Assets (Note 4)	\$ 918.3	2.1 Cash and Other Monetary Assets	\$ 918.3
Total	\$ 918.3		
Accounts Receivable, Net (Note 6)	\$ 5,894.5	2.2 Accounts and Taxes Receivable, Net	\$ 5,894.5
Total	\$ 5,894.5		
Loans Receivable (Note 7)	\$ 1,738.7	2.3 Loans Receivable, Net	\$ 1,738.7
Total	\$ 1,738.7		
Inventory and Related Property, Net (Note 8)	\$ 291,489.7	2.4 Inventories and Related Property, Net	\$ 291,489.7
Total	\$ 291,489.7		
General Property, Plant and Equipment, Net (Note 9)	\$ 768,558.4	2.5 Property, Plant, and Equipment, Net	\$ 768,558.4
Total	\$ 768,558.4		
Investments (Note 5)	\$ 3,511.6	2.6 Debt and Equity Securities	\$ 3,511.6
Total	\$ 3,511.6		
Other Assets (Note 10)	\$ 19,543.1	2.8 Other Assets	\$ 19,543.1
Total	\$ 19,543.1		
<b>Total Non-Federal Assets</b>	<b>\$ 1,091,654.3</b>	<b>2.9 Total Non-Federal Assets</b>	<b>\$ 1,091,654.3</b>
		<b>3 Federal</b>	
Fund Balance with Treasury (Note 3)	\$ 607,555.3	3.1 Fund Balance With Treasury (RC 40)/1	\$ 607,555.3
Total	\$ 607,555.3		
Investments (Note 5) (1 of 2)	\$ 1,179,528.4	3.2 Federal Investments (RC 01)/1	\$ 1,179,528.4
Total	\$ 1,179,528.4		
Accounts Receivable (Note 6) (1 of 2)	\$ 1,465.8	3.3 Accounts Receivable (RC 22)/1	\$ 1,589.2
Other Assets (Note 10) (1 of 2)	\$ 123.4		
Total	\$ 1,589.2		
Investments (Note 5) (2 of 2)	\$ 8,080.6	3.5 Interest Receivable - Investments (RC 02)/1	\$ 8,080.6
Total	\$ 8,080.6		
Accounts Receivable (Note 6) (2 of 2)	\$ 559.4	3.8 Transfers Receivable (RC 27)/1	\$ 559.4
Total	\$ 559.4		
Other Assets (Note 10) (2 of 2)	\$ 983.1	3.10 Advances to Others and Prepayments (RC 23)/1	\$ 983.1
Total	\$ 983.1		
<b>Total Federal Assets</b>	<b>\$ 1,798,296.0</b>	<b>3.14 Total Federal Assets</b>	<b>\$ 1,798,296.0</b>
<b>Total Assets</b>	<b>\$ 2,889,950.3</b>	<b>4 Total Assets</b>	<b>\$ 2,889,950.3</b>

**Table 27A. Reclassification of Balance Sheet**

As of September 30  
(\$ in millions)

FY2019 Department of Defense SNC		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	Amount	Reclassified Financial Statement Line	Amount
		<b>5 Liabilities</b>	
		<b>6 Non-Federal</b>	
Accounts Payable	\$ 39,682.5	6.1 Accounts Payable	\$ 39,682.5
Total	\$ 39,682.5		
Military Retirement and Other Federal	\$ 2,596,371.8	6.3 Federal Employee and Veteran Benefits Payable	\$ 2,597,130.4
Other Liabilities (Note 15 and Note 17) (1 of 3)	\$ 758.6		
Total	\$ 2,597,130.4		
Environmental and Disposal Liabilities (Note 14)	\$ 76,124.9	6.4 Environmental and Disposal Liabilities	\$ 76,124.9
Total	\$ 76,124.9		
Other Liabilities (Note 15 and Note 17) (2 of 3)	\$ 3.3	6.5 Benefits Due and Payable	\$ 3.3
Total	\$ 3.3		
Loan Guarantee Liability (Note 7)	\$ 50.7	6.6 Loan Guarantee Liabilities	\$ 50.7
Total	\$ 50.7		
Other Liabilities (Note 15 and Note 17) (3 of 3)	\$ 35,996.3	6.9 Other Liabilities	\$ 35,996.3
Total	\$ 35,996.3		
<b>Total Non-Federal Liabilities</b>	<b>\$ 2,748,988.1</b>	<b>6.10 Total Non-Federal Liabilities</b>	<b>\$ 2,748,988.1</b>
		<b>7 Federal</b>	
Accounts Payable (1 of 2)	\$ 1,543.7	7.1 Accounts Payable (RC 22)/1	\$ 2,345.7
Other Liabilities (Note 15 & 17) (1 of 6)	\$ 802.0		
Total	\$ 2,345.7		
Debt (Note 12)	\$ 1,714.1	7.6 Loans Payable (RC 17)/1	\$ 1,714.1
Total	\$ 1,714.1		
Accounts Payable (2 of 2)	\$ 0.6	7.7 Transfers Payable (RC 27)/1	\$ 0.6
Total	\$ 0.6		
Other Liabilities (Note 15 & 17) (2 of 6)	\$ 1,716.6	7.8 Benefit Program Contributions Payable (RC 21)/1	\$ 1,716.6
Total	\$ 1,716.6		
Other Liabilities (Note 15 & 17) (3 of 6)	\$ 2,032.3	7.9 Advances from Others and Deferred Credits (RC 23)/1	\$ 2,032.3
Total	\$ 2,032.3		
Other Liabilities (Note 15 & 17) (4 of 6)	\$ 3,097.0	7.10 Liability to the General Fund for Custodial and Other Non-Entity Assets (RC 46)/1	\$ 3,097.0
Total	\$ 3,097.0		
Other Liabilities (Note 15 & 17) (5 of 6)	\$ 2.3	7.11 Liability to agency Other Than the General Fund of the U.S. Government for custodial and other non-entity assets (RC 29)/1	\$ 2.3
Total	\$ 2.3		
Other Liabilities (Note 15 & 17) (6 of 6)	\$ 126.8	7.12 Other Liabilities (Without Reciprocals) (RC 29)/1	\$ 126.8
Total	\$ 126.8		
<b>Total Federal Liabilities</b>	<b>\$ 11,035.4</b>	<b>7.15 Total Federal Liabilities</b>	<b>\$ 11,035.4</b>
<b>Total Liabilities</b>	<b>\$ 2,760,023.5</b>	<b>8 Total Liabilities</b>	<b>\$ 2,760,023.5</b>
		<b>9 Net Position:</b>	
Cumulative Results of Operations - Dedicated	\$ 30,331.1	9.1 Net Position - Funds From Dedicated Collections	\$ 30,331.1
Total	\$ 30,331.1		
Unexpended Appropriations - Other Funds	\$ 545,168.2	9.2 Net Position - Funds Other Than Those From Dedicated Collections	\$ 99,595.7
Cumulative Results of Operations - Other Funds	\$ (445,572.5)		
Total	\$ 99,595.7		
<b>Total Net Position</b>	<b>\$ 129,926.8</b>	<b>10 Total Net Position</b>	<b>\$ 129,926.8</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 2,889,950.3</b>	<b>11 Total Liabilities and Net Position</b>	<b>\$ 2,889,950.3</b>

Table 27B. Reclassification of Statement of Net Cost

As of September 30  
(\$ in millions)

FY2019 Department of Defense SNC		Line Items Used to Prepare FY 2019 Government-wide SNC	
Financial Statement Line	Amount	Reclassified Financial Statement Line	Amount
<b>Gross Cost</b>		<b>1 Gross Costs</b>	
Gross Cost	\$ 780,402.3	2 Non-Federal Gross Cost	\$ 780,402.3
Total	\$ 780,402.3		
<b>Losses/(Gains) from Actuarial Assumption Changes</b>		<b>4 Gains/Losses from Changes in Actuarial Assumptions</b>	
Losses/(Gains) from Actuarial Assumption Changes	\$ 138,808.5		\$ 138,808.5
Total	\$ 138,808.5		
<b>Total Non-Federal Gross Cost</b>	<b>\$ 919,210.8</b>	<b>6 Total Non-Federal Gross Cost</b>	<b>\$ 919,210.8</b>
<b>Gross Costs (1 of 6)</b>		<b>7 Federal Gross Cost</b>	
Gross Costs (1 of 6)	\$ 15,598.7	7.1 Benefit program costs (RC 26)/2	\$ 15,598.7
Total	\$ 15,598.7		
<b>Gross Costs (2 of 6)</b>		7.2 Imputed Costs (RC25)/2	\$ 5,609.8
Gross Costs (2 of 6)	\$ 5,609.8		
Total	\$ 5,609.8		
<b>Gross Costs (3 of 6)</b>		7.3 Buy/Sell Cost (RC24)/2	\$ 15,532.3
Gross Costs (3 of 6)	\$ 15,532.3		
Total	\$ 15,532.3		
<b>Gross Costs (4 of 6)</b>		7.4 Purchase of assets (RC 24)/2	\$ 262.8
Gross Costs (4 of 6)	\$ 262.8		
Total	\$ 262.8		
<b>Gross Costs (5 of 6)</b>		7.6 Borrowing and other interest expense (RC05)/2	\$ 67.2
Gross Costs (5 of 6)	\$ 67.2		
Total	\$ 67.2		
<b>Gross Costs (6 of 6)</b>		7.8 Other expenses (without reciprocals) (RC 29)	\$ 5,126.4
Gross Costs (6 of 6)	\$ 5,126.4		
Total	\$ 5,126.4		
<b>Total Federal Gross Cost</b>	<b>\$ 42,197.2</b>	<b>8 Total Federal Gross Cost</b>	<b>\$ 42,197.2</b>
<b>Department Total Gross Cost</b>	<b>\$ 961,408.0</b>	<b>9 Department Total Gross Cost</b>	<b>\$ 961,408.0</b>
<b>Less: Earned Revenue</b>		<b>10 Earned Revenue</b>	
Less: Earned Revenue	\$ (44,190.0)	11 Non-federal earned revenue	\$ (44,190.0)
Total	\$ (44,190.0)		
<b>Less: Earned Revenue (1 of 4)</b>		<b>12 Federal Earned Revenue</b>	
Less: Earned Revenue (1 of 4)	\$ (229.6)	12.1 Benefit Program Revenue (exchange) (RC26)/2	\$ (229.6)
Total	\$ (229.6)		
<b>Less: Earned Revenue (2 of 4)</b>		12.2 Buy/Sell Revenue (exchange) (RC24)/2	\$ (9,452.3)
Less: Earned Revenue (2 of 4)	\$ (9,452.3)		
Total	\$ (9,452.3)		
<b>Gross Costs</b>		12.3 Purchase of assets offset (RC 24)/2	\$ (262.8)
Gross Costs	\$ (262.8)		
Total	\$ (262.8)		
<b>Less: Earned Revenue (3 of 4)</b>		12.4 Federal securities interest revenue including associated gains and losses (exchange) (RC 03)/2	\$ (36,626.3)
Less: Earned Revenue (3 of 4)	\$ (36,626.3)		
Total	\$ (36,626.3)		
<b>Less: Earned Revenue (4 of 4)</b>		12.5 Borrowing and other interest revenue (exchange) (RC 05)/2	\$ (4.0)
Less: Earned Revenue (4 of 4)	\$ (4.0)		
Total	\$ (4.0)		
<b>Total Federal Earned Revenue</b>	<b>\$ (46,575.0)</b>	<b>13 Total Federal Earned Revenue</b>	<b>\$ (46,575.0)</b>
<b>Department Total Earned Revenue</b>	<b>\$ (90,765.0)</b>	<b>14 Department Total Earned Revenue</b>	<b>\$ (90,765.0)</b>
<b>Net Cost of Operations</b>	<b>\$ 870,643.0</b>	<b>15 Net Cost of Operations</b>	<b>\$ 870,643.0</b>

**Table 27C. Reclassification of Statement of Changes in Net Position**As of September 30  
(\$ in millions)

FY2019 Department of Defense SCNP		Line Items Used to Prepare FY 2019 Government-wide SCNP	
Financial Statement Line	Amount	Reclassified Financial Statement Line	Amount
Unexpended Appropriations, Beginning	\$ 529,803.7	1 Net position, beginning of period	\$ 185,583.6
Cumulative Results of Operations, Beginning	\$ (344,220.1)		
Total	\$ 185,583.6		
Cumulative Results of Operations ,Changes in accounting principles (+/-) (1 of 2)		<b>2 Non-Federal Prior-Period Adjustments</b>	
Total	\$ 5,727.6	2.1 Changes in Accounting Principles	\$ 5,727.6
Cumulative Results of Operations, Corrections of errors (+/-)		2.3 Corrections of Errors - Years Preceding the Prior Year - Non federal	\$ 7,250.4
Total	\$ 7,250.4		
Cumulative Results of Operations ,Changes in accounting principles (+/-) (2 of 2)		<b>3 Federal Prior Period Adjustments</b>	
Total	\$ (1,449.8)	3.1 Changes in Accounting Principles-Federal (RC 29)/1	\$ (1,449.8)
<b>Net position, beginning of period - adjusted</b>	<b>\$ 197,111.8</b>	<b>4 Net position, beginning of period - adjusted</b>	<b>\$ 197,111.8</b>
Nonexchange revenue		<b>5 Non-Federal Nonexchange Revenue:</b>	
Donations and Forfeitures of Cash and Cash Equivalents	\$ 137.5	5.7 Other Taxes and Receipts	\$ 16,469.5
Other budgetary financing sources	\$ (2,521.5)		
Other (+/-)	\$ 16,778.3		
Total	\$ 16,469.5		
<b>Total Non-Federal Nonexchange Revenue</b>	<b>\$ 16,469.5</b>	<b>5.9 Total Non-Federal Nonexchange Revenue</b>	<b>\$ 16,469.5</b>
Nonexchange revenue (1 of 3)		<b>6 Federal Nonexchange Revenue:</b>	
Total	\$ 231.7	6.1 Federal Securities Interest Revenue Including Associated Gains and Losses (Non-exchange) (RC	\$ 231.7
Nonexchange revenue (2 of 3)		6.4 Other Taxes and Receipts (RC 45)/1	\$ 117.0
Total	\$ 117.0		
Nonexchange revenue (3 of 3)		6.6 Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 15)	\$ 1,573.7
Total	\$ 1,573.7		
Other (+/-)		6.7 Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 16)	\$ (2.3)
Total	\$ (2.3)		
<b>Total Federal Nonexchange Revenue</b>	<b>\$ 1,920.1</b>	<b>6.9 Total Federal Nonexchange Revenue</b>	<b>\$ 1,920.1</b>

**Table 27C. Reclassification of Statement of Changes in Net Position**

As of September 30

(\$ in millions)

FY2019 Department of Defense SCNP		Line Items Used to Prepare FY 2019 Government-wide SCNP	
Financial Statement Line	Amount	Reclassified Financial Statement Line	Amount
<b>7 Budgetary Financing Sources:</b>			
Appropriations received	\$ 802,827.9	7.1 Appropriations Received As Adjusted (Rescissions and Other Adjustments) (RC 41)/1	\$ 780,294.0
Other adjustments (+/-)	\$ (22,533.9)		
<b>Total</b>	<b>\$ 780,294.0</b>		
Appropriations used (1 of 2)	\$ (764,988.7)	7.2 Appropriations Used (RC 39)	\$ (764,988.7)
<b>Total</b>	<b>\$ (764,988.7)</b>		
Appropriations used (2 of 2)	\$ 764,988.7	7.3 Appropriations expended (RC 38)/1	\$ 764,988.7
<b>Total</b>	<b>\$ 764,988.7</b>		
Transfers-in/out without reimbursement (1 of 3)	\$ 378.1	7.6 Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources (RC 08)/1	\$ 668.5
Appropriations transferred-in/out (1 of 2)	\$ 290.4		
<b>Total</b>	<b>\$ 668.5</b>		
Transfers-in/out without reimbursement (2 of 3)	\$ (42.9)	7.7 Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (RC 08)/1	\$ (274.1)
Appropriations transferred-in/out (2 of 2)	\$ (231.2)		
<b>Total</b>	<b>\$ (274.1)</b>		
Transfers-in/out without reimbursement (3 of 3)	\$ (197.7)	7.9 Expenditure transfers-out of financing sources (RC 09)/1	\$ (197.7)
<b>Total</b>	<b>\$ (197.7)</b>		
Other adjustments (+/-)	\$ (210.8)	7.12 Revenue and Other Financing Sources - Cancellations (RC 36)	\$ (210.8)
<b>Total</b>	<b>\$ (210.8)</b>		
<b>Total budgetary financing sources</b>	<b>\$ 780,279.9</b>	<b>7.20 Total budgetary financing sources</b>	<b>\$ 780,279.9</b>
<b>8 Other Financing Sources:</b>			
Transfers-in/out without reimbursement (+/-) (1 of 2)	\$ 173.3	8.1 Transfers-In Without Reimbursement (RC 18)/1	\$ 173.3
<b>Total</b>	<b>\$ 173.3</b>		
Transfers-in/out without reimbursement (+/-) (2 of 2)	\$ (126.9)	8.2 Transfers-Out Without Reimbursement (RC 18)/1	\$ (126.9)
<b>Total</b>	<b>\$ (126.9)</b>		
Imputed financing from costs absorbed by others	\$ 5,609.8	8.3 Imputed Financing Sources (RC 25)/1	\$ 5,609.8
<b>Total</b>	<b>\$ 5,609.8</b>		
Other (+/-) (1 of 2)	\$ (821.8)	8.4 Non-Entity Collections Transferred to the General Fund (RC 44)	\$ (821.8)
<b>Total</b>	<b>\$ (821.8)</b>		
Other (+/-) (2 of 2)	\$ (45.9)	8.5 Accrual for Non-Entity Amounts To Be Collected and Transferred to the General Fund of the U.S. Government (RC 48)	\$ (45.9)
<b>Total</b>	<b>\$ (45.9)</b>		
<b>Total Other Financing Sources</b>	<b>\$ 4,788.5</b>	<b>8.11 Total Other Financing Sources</b>	<b>\$ 4,788.5</b>
<b>Net Cost of Operations (+/-)</b>	<b>\$ (870,643.0)</b>	<b>9 Net Cost of Operations (+/-)</b>	<b>\$ (870,643.0)</b>
<b>Ending Net Position Balance</b>	<b>\$ 129,926.8</b>	<b>10 Ending Net Position Balance</b>	<b>\$ 129,926.8</b>

## Note 28. Restatements

The Department restated its financial statements as of September 30, 2018 to correct errors in liabilities, Cumulative Results of Operations – Dedicated Collections and Cumulative Results of Operations – Other Funds, net cost, earned revenue and budgetary resources. The restatement brought offline adjustments from published component Agency Financial Reports into the Department reporting system.

The following notes were restated: Note 3, *Fund Balance with Treasury*; Note 11, *Liabilities Not Covered by Budgetary Resources*; Note 15, *Other Liabilities*; Note 19, *General Disclosures Related to the Statement of Net Cost*; Note 20, *Disclosures Related to the Statement of Changes in Net Position*; Note 21, *Disclosures Related to the Statement of Budgetary Resources*.

**Table 28A. Effect on FY 2019 Beginning Cumulative Results of Operations and Unexpended Appropriations**

For the years ended September 30 (\$ in millions)	
<u>FY 2019 Net Position</u>	<u>2019</u>
Unexpended Appropriations - Other Funds	\$ 57.1
Cumulative Results of Operations - Dedicated Collections	10,955.6
Cumulative Results of Operations - Other Funds	(10,955.6)
<b>Total Net Position</b>	<b>\$ 57.1</b>

**Table 28B. Effect on FY 2018 Comparative Balances**

For the years ended September 30 (\$ in millions)	
<u>FY 2018 Balance Sheet</u>	
Fund Balance With Treasury (net effect of restatements)	\$ -
Other Liabilities	\$ (57.1)
<b>Total Other Liabilities</b>	<b>\$ (57.1)</b>
Unexpended Appropriations - Other Funds	\$ 57.1
Cumulative Results of Operations - Dedicated Collections	10,955.6
Cumulative Results of Operations - Other Funds	(10,955.6)
<b>Total Net Position</b>	<b>\$ 57.1</b>
<u>FY 2018 Statement of Net Cost</u>	
Gross Costs	\$ 36.8
Less Earned Revenue	(27.3)
<b>Net Cost of Operations</b>	<b>\$ 9.5</b>
<u>FY 2018 Statement of Changes in Net Position</u>	
Beginning Balance	\$ 66.6
Appropriations Used	(9.5)
<b>Total Unexpended Appropriations</b>	<b>\$ 57.1</b>
Appropriations Used	\$ 9.5
Nonexchange Revenue	1,513.2
Transfers-in/out without reimbursement	(1,513.2)
Total Financing Sources (Includes Funds from Dedicated Collections)	\$ 9.5
Net Cost of Operations	\$ 9.5
<b>Net Position</b>	<b>\$ 57.1</b>
<u>FY 2018 Statement of Changes in Net Position</u>	
Exempt from apportionment, unexpired accounts	\$ 921.6
Unapportioned, unexpired accounts	\$ (921.6)



## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

The Department makes substantial investments for the benefit of the Nation. Stewardship Investments are treated as expenses, when incurred, in calculating net costs. These investments are reported as Required Supplementary Stewardship Information to highlight the extent of the investments that are made for long-term benefit to the public.

The Department's stewardship investments are measured by expensed for (1) federally-financed, but not federally owned physical property (Non-Federal Physical Property) and (2) federally-financed Research and Development (R&D).

### NON-FEDERAL PHYSICAL PROPERTY

**Table RSSI-1. Non-Federal Physical Property Investments**

As of September 30 (\$ in millions)	2019	2018	2017	2016	2015
Transferred Assets					
National Defense Mission Related	\$ 1,119.5	\$ 1,162.4	\$ 1,011.4	\$ 1,265.2	\$ 1,307.2
Funded Assets					
National Defense Mission Related	41.1	16.4	15.5	17.2	12.7
<b>Total Non-Federal Physical Property Investments</b>	<b>\$ 1,160.6</b>	<b>\$ 1,178.8</b>	<b>\$ 1,026.9</b>	<b>\$ 1,282.4</b>	<b>\$ 1,319.9</b>

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

## INVESTMENTS IN RESEARCH AND DEVELOPMENT

Investment values included in this report are based on R&D expenditures. The R&D programs are classified in the following categories: Basic Research, Applied Research, and Development. The amounts reported in Table RSSI-2 present the expenditures from FY 2015 to FY 2019 for all DoD Components.

**Table RSSI-2. Investments in Research and Developments**

As of September 30 (\$ in millions)	2019	2018	2017	2016	2015
Basic Research	\$ 1,510.8	\$ 2,321.1	\$ 1,960.3	\$ 2,106.8	\$ 1,958.0
Applied Research	6,069.2	6,393.6	6,988.6	6,307.5	5,744.7
Development					
Advanced Technology Development	5,677.9	5,862.9	5,736.5	5,525.8	5,007.6
Advanced Component Development and Prototypes	16,405.2	16,243.7	13,965.7	12,517.9	11,954.9
System Development and Demonstration Research, Development, Test and Evaluation Management Support	9,328.2	13,241.3	11,487.3	11,037.7	10,733.8
Operational Systems Development	6,544.4	6,882.3	5,189.3	5,335.5	5,163.3
	23,954.6	24,776.1	21,611.1	20,428.8	20,441.9
<b>Subtotal</b>	<b>\$ 69,490.3</b>	<b>\$ 75,721.0</b>	<b>\$ 66,938.8</b>	<b>\$ 63,260.0</b>	<b>\$ 61,004.2</b>
Department of the Navy - FY 2019 in total*	18,519.0	N/A	N/A	N/A	N/A
<b>Total</b>	<b>\$ 88,009.3</b>	<b>\$ 75,721.0</b>	<b>\$ 66,938.8</b>	<b>\$ 63,260.0</b>	<b>\$ 61,004.2</b>

\* The Department of the Navy's (DON) investments in R&D for FY 2019 are presented separately. A mid-year data conversion from a legacy accounting system to its Enterprise Resource Planning System did not permit the classification of the DON's data into the proper categories for FY 2019 only. The DON's investments are consolidated with the other DoD Components for the other fiscal years presented.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, or limited construction of a weapon system component, to include non-system-specific development efforts.

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development consists of the five stages:

- Advanced Technology Development is the systematic use of the knowledge or understanding gained from research and directed toward proof of concept and feasibility rather than directed toward the development of hardware for service use. It employs demonstration activities intended to test a technology or method.
- Advanced Component Development and Prototypes evaluates integrated technologies in an operating environment as realistic as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system-specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components and complete weapon systems ready for operational and developmental testing and field use.

- System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.
- Research, Development, Test, and Evaluation Management Support bolsters installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses furthering the Research and Development program.
- Operational Systems Development funding finances projects, programs, or upgrades in engineering and manufacturing development stages which have received approval for production, including production funds that have been budgeted in subsequent fiscal years.

## REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs disclosures, required in accordance with [SFFAS 42](#), and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

### Real Property Deferred Maintenance and Repairs

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, [Standardizing Facility Condition Assessments](#). The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission, including multi-use Heritage Assets;
- Category 2: Buildings, Structures, and Linear Structures that are Heritage Assets; and
- Category 3: Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.

**Table RSI-1. Real Property Deferred Maintenance and Repairs (excluding Military Family Housing)**

As of September 30 (\$ in millions)	2019		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 1,153,937.2	\$ 101,584.8	9%
Category 2	81,209.7	11,332.8	14%
Category 3	38,216.2	6,074.0	16%
<b>Total</b>	<b>\$ 1,273,363.1</b>	<b>\$ 118,991.6</b>	<b>9%</b>

  

As of September 30 (\$ in millions)	2018		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 1,122,340.6	\$ 95,815.9	9%
Category 2	94,998.7	10,903.7	11%
Category 3	18,301.0	4,097.0	22%
<b>Total</b>	<b>\$ 1,235,640.3</b>	<b>\$ 110,816.6</b>	<b>9%</b>

**Table RSI-2. Real Property Deferred Maintenance and Repairs (Military Family Housing only)**

As of September 30		2019	
(\$ in millions)	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 24,285.0	\$ 3,197.0	13%
Category 2	595.0	162.0	27%
Category 3	410.0	105.0	26%
<b>Total</b>	<b>\$ 25,290.0</b>	<b>\$ 3,464.0</b>	<b>14%</b>

  

As of September 30		2018	
(\$ in millions)	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 24,560.0	\$ 1,451.0	6%
Category 2	531.0	123.0	23%
Category 3	383.0	111.0	29%
<b>Total</b>	<b>\$ 25,474.0</b>	<b>\$ 1,685.0</b>	<b>7%</b>

As of the end of FY 2019, the Department estimates facility maintenance cost of more than \$122.5 billion for facilities with replacement cost of \$1.3 trillion. The totals include \$7.9 billion in civil works related maintenance needs under the USACE with replacement cost of more than \$267.1 billion.

#### *Maintenance and Repair Policies*

The Department is migrating to the Sustainment Management System ([SMS](#)), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

#### *Maintenance and Repair Prioritization and Acceptable Condition Standards*

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

#### *Deferred Maintenance and Repair Exclusions*

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.

## EQUIPMENT DEFERRED MAINTENANCE AND REPAIRS

**Table RSI-3. Equipment Deferred Maintenance and Repairs**

As of September 30 (\$ in millions)	2019	2018
Major Categories		
Aircraft	\$ 986.3	\$ 583.7
Automotive Equipment	19.3	47.3
Combat Vehicles	284.6	372.6
Construction Equipment	11.5	8.7
Electronics and Communications Systems	122.9	113.9
Missiles	52.1	123.9
Ships	525.6	221.2
Ordnance Weapons and Munitions	88.2	65.8
Other Items Not Identified Above	75.3	74.3
<b>Total</b>	<b>\$ 2,165.8</b>	<b>\$ 1,611.4</b>

### *Maintenance and Repair Policies*

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution (PPBE) process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from cancelled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance.

### *Maintenance and Repair Prioritization and Acceptable Condition Standards*

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

### *Deferred Maintenance and Repair Exclusions*

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

### *Significant Changes in Deferred Maintenance and Repair*

The Department's deferred maintenance and repair work for equipment, platforms, and weapon systems increased by \$554.4 million during FY 2019. The increase was primarily driven by parts constraints, unplanned in-service repair, and increased unit costs related to aircraft as well as workload growth related to ships.

## Combining Statement of Budgetary Resources

Table RSI-4. Combining Statement of Budgetary Resources (Budgetary)

For the year ended September 30  
(\$ in millions)

For the year ended September 30 (\$ in millions)	2019							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Constuction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
<b>Budgetary Resources</b>								
Unobligated Balance from Prior Year Budget								
Authority, Net (Discretionary and Mandatory)	\$ 8,045.2	\$ 82,446.8	\$ 26,936.2	\$ 18,375.1	\$ -	\$ 31,327.1	\$ 59,637.7	\$ 226,768.1
Appropriations (Discretionary and Mandatory)	149,383.7	146,873.0	97,348.1	11,354.1	71,409.9	10,954.2	387,055.1	874,378.1
Borrowing Authority (Discretionary and Mandatory)	-	-	-	-	-	-	-	-
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	86,854.4	86,854.4
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,604.0	2,859.9	12,491.8	6,463.2	-	14,792.1	74,754.6	112,965.6
<b>Total Budgetary Resources</b>	<u>\$ 159,032.9</u>	<u>\$ 232,179.7</u>	<u>\$ 136,776.1</u>	<u>\$ 36,192.4</u>	<u>\$ 71,409.9</u>	<u>\$ 57,073.4</u>	<u>\$ 608,301.8</u>	<u>\$1,300,966.2</u>
<b>Status of Budgetary Resources</b>								
New Obligations and Upward Adjustments (Total)	\$ 155,371.6	\$ 159,675.6	\$ 117,159.1	\$ 17,043.3	\$ 71,409.9	\$ 24,400.7	\$ 570,880.0	\$1,115,940.2
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	428.8	69,888.6	17,815.5	18,108.2	-	32,687.8	18,225.4	157,154.3
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	43.0	3,997.4	4,040.4
Unapportioned, Unexpired Accounts	-	0.4	1.9	0.4	-	(64.6)	1,190.1	1,128.2
Unexpired Unobligated Balance, End of Year	428.8	69,889.0	17,817.4	18,108.6	-	32,666.2	23,412.9	162,322.9
Expired Unobligated Balance, End of Year	3,232.5	2,615.1	1,799.6	1,040.5	-	6.5	14,008.9	22,703.1
Unobligated Balance, End of Year (Total)	3,661.3	72,504.1	19,617.0	19,149.1	-	32,672.7	37,421.8	185,026.0
<b>Total Budgetary Resources</b>	<u>\$ 159,032.9</u>	<u>\$ 232,179.7</u>	<u>\$ 136,776.1</u>	<u>\$ 36,192.4</u>	<u>\$ 71,409.9</u>	<u>\$ 57,073.4</u>	<u>\$ 608,301.8</u>	<u>\$1,300,966.2</u>
<b>Outlays, Net</b>								
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 148,360.5	\$ 124,324.4	\$ 90,659.1	\$ 7,024.7	\$ 71,160.1	\$ 7,259.3	\$ 379,845.2	\$ 828,633.3
Distributed Offsetting Receipts (-)	-	-	-	-	(104,217.7)	(815.0)	(2,377.4)	(107,410.1)
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<u>\$ 148,360.5</u>	<u>\$ 124,324.4</u>	<u>\$ 90,659.1</u>	<u>\$ 7,024.7</u>	<u>\$ (33,057.6)</u>	<u>\$ 6,444.3</u>	<u>\$ 377,467.8</u>	<u>\$ 721,223.2</u>



**Table RSI-4. Combining Statement of Budgetary Resources (Budgetary)**

For the year ended September 30  
(\$ in millions)

	2018							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
<b>Budgetary Resources</b>								
Unobligated Balance from Prior Year Budget								
Authority, Net (Discretionary and Mandatory)	\$ 6,518.2	\$ 66,143.6	\$ 20,602.4	\$ 14,586.2	\$ -	\$ 11,986.6	\$ 61,171.2	\$ 181,008.2
Appropriations (Discretionary and Mandatory)	144,017.0	147,080.9	93,807.9	10,241.0	69,065.7	25,087.7	374,282.8	863,583.0
Borrowing Authority (Discretionary and Mandatory)	-	-	-	-	-	-	-	-
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	88,428.1	88,428.1
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,385.9	3,771.0	11,324.3	6,201.2	-	20,516.2	76,215.3	119,413.9
<b>Total Budgetary Resources</b>	<u>\$ 151,921.1</u>	<u>\$ 216,995.5</u>	<u>\$ 125,734.6</u>	<u>\$ 31,028.4</u>	<u>\$ 69,065.7</u>	<u>\$ 57,590.5</u>	<u>\$ 600,097.4</u>	<u>\$1,252,433.2</u>
<b>Memorandum (Non-Add) Entries</b>								
Net Adjustments to Unobligated Balances Brought Forward, Oct 1	<u>\$ 2,777.7</u>	<u>\$ 5,318.7</u>	<u>\$ 1,427.8</u>	<u>\$ 245.9</u>	<u>\$ -</u>	<u>\$ 442.5</u>	<u>\$ 12,087.7</u>	<u>\$ 22,300.3</u>
<b>Status of Budgetary Resources</b>								
New Obligations and Upward Adjustments (Total)	\$ 148,779.7	\$ 140,398.4	\$ 101,647.5	\$ 13,553.1	\$ 69,065.7	\$ 26,937.2	\$ 553,827.7	\$1,054,209.3
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	228.8	73,423.7	22,497.8	16,427.8	-	30,618.9	22,505.9	165,702.9
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	27.3	3,769.9	3,797.2
Unapportioned, Unexpired Accounts	-	14.9	11.3	0.9	-	-	984.5	1,011.6
Unexpired Unobligated Balance, End of Year	228.8	73,438.6	22,509.1	16,428.7	-	30,646.2	27,260.3	170,511.7
Expired Unobligated Balance, End of Year	2,912.6	3,158.5	1,578.0	1,046.6	-	7.1	19,009.4	27,712.2
Unobligated Balance, End of Year (Total)	3,141.4	76,597.1	24,087.1	17,475.3	-	30,653.3	46,269.7	198,223.9
<b>Total Budgetary Resources</b>	<u>\$ 151,921.1</u>	<u>\$ 216,995.5</u>	<u>\$ 125,734.6</u>	<u>\$ 31,028.4</u>	<u>\$ 69,065.7</u>	<u>\$ 57,590.5</u>	<u>\$ 600,097.4</u>	<u>\$1,252,433.2</u>
<b>Outlays, Net</b>								
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 138,990.3	\$ 111,904.0	\$ 78,315.2	\$ 6,338.1	\$ 64,541.9	\$ 5,932.9	\$ 357,193.6	\$ 763,216.0
Distributed Offsetting Receipts (-)	-	-	(7.8)	-	(98,904.2)	(860.2)	(2,200.9)	(101,973.1)
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<u>\$ 138,990.3</u>	<u>\$ 111,904.0</u>	<u>\$ 78,307.4</u>	<u>\$ 6,338.1</u>	<u>\$ (34,362.3)</u>	<u>\$ 5,072.7</u>	<u>\$ 354,992.7</u>	<u>\$ 661,242.9</u>

**Table RSI-5. Combining Statement of Budgetary Resources (Non-Budgetary Credit Reform Financing Account)**

For the year ended September 30 (\$ in millions)	2019		2018	
	Operations, Readiness & Support	Combined	Operations, Readiness & Support	Combined
<b>Budgetary Resources</b>				
Unobligated Balance from Prior Year Budget				
Authority, Net (Discretionary and Mandatory)	\$ 69.0	\$ 69.0	\$ 85.1	\$ 85.1
Appropriations (Discretionary and Mandatory)	-	-	-	-
Borrowing Authority (Discretionary and Mandatory)	63.3	63.3	55.4	55.4
Contract Authority (Discretionary and Mandatory)	-	-	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	56.8	56.8	61.6	61.6
<b>Total Budgetary Resources</b>	<u>189.1</u>	<u>189.1</u>	<u>202.1</u>	<u>202.1</u>
<b>Memorandum (Non-Add) Entries</b>				
Net Adjustments to Unobligated Balances Brought Forward, Oct 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Status of Budgetary Resources</b>				
New Obligations and Upward Adjustments (Total)	129.2	129.2	133.1	133.1
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Exempt from Apportionment, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	59.9	59.9	69.0	69.0
Unexpired Unobligated Balance, End of Year	59.9	59.9	69.0	69.0
Expired Unobligated Balance, End of Year	-	-	-	-
Unobligated Balance, End of Year (Total)	59.9	59.9	69.0	69.0
<b>Total Budgetary Resources</b>	<u>189.1</u>	<u>189.1</u>	<u>202.1</u>	<u>202.1</u>
<b>Outlays, Net</b>				
Outlays, Net (Total) (Discretionary and Mandatory)	37.6	37.6	71.2	71.2
Distributed Offsetting Receipts (-)	-	-	-	-
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<u>\$ 37.6</u>	<u>\$ 37.6</u>	<u>\$ 71.2</u>	<u>\$ 71.2</u>

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