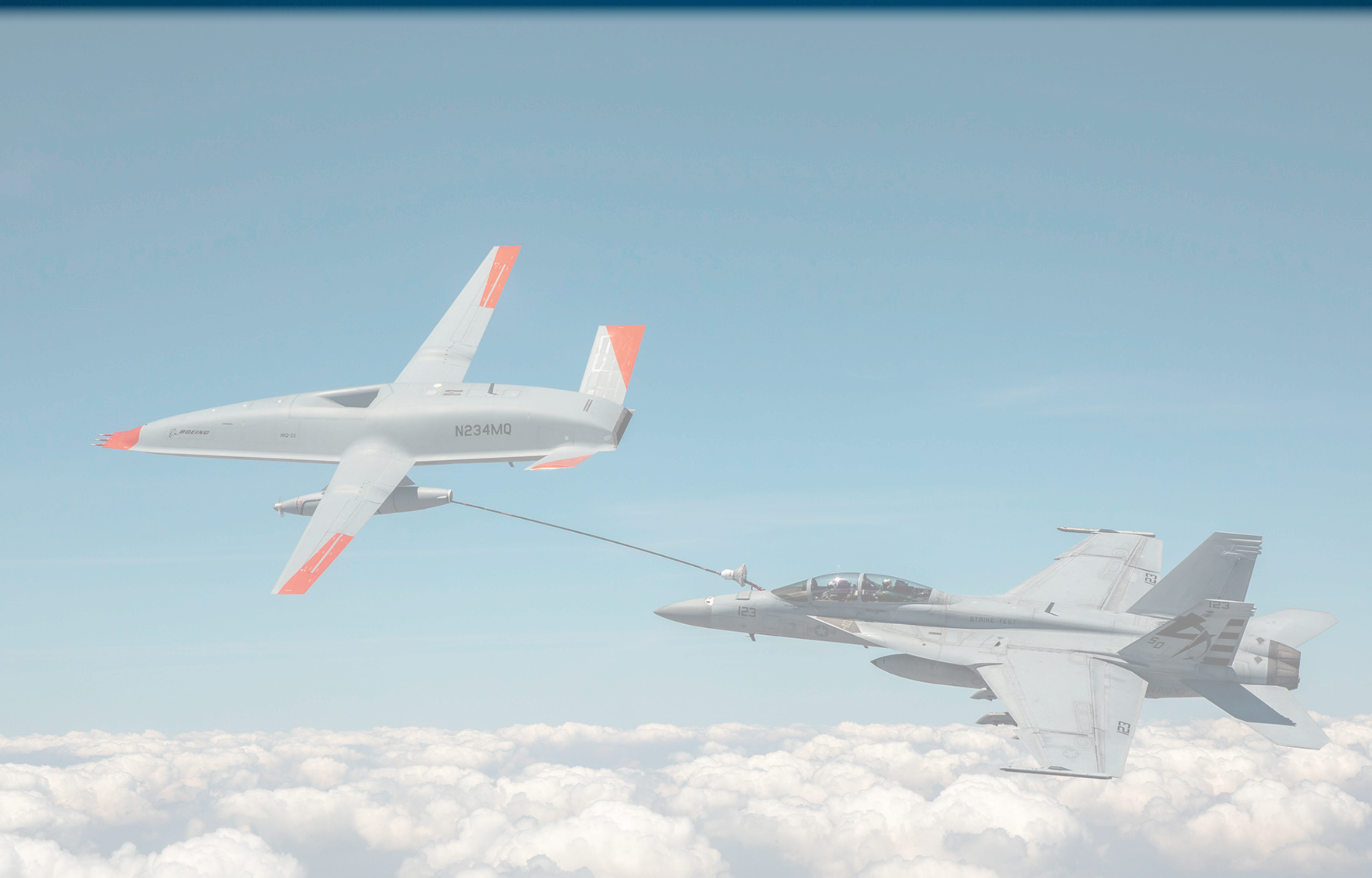
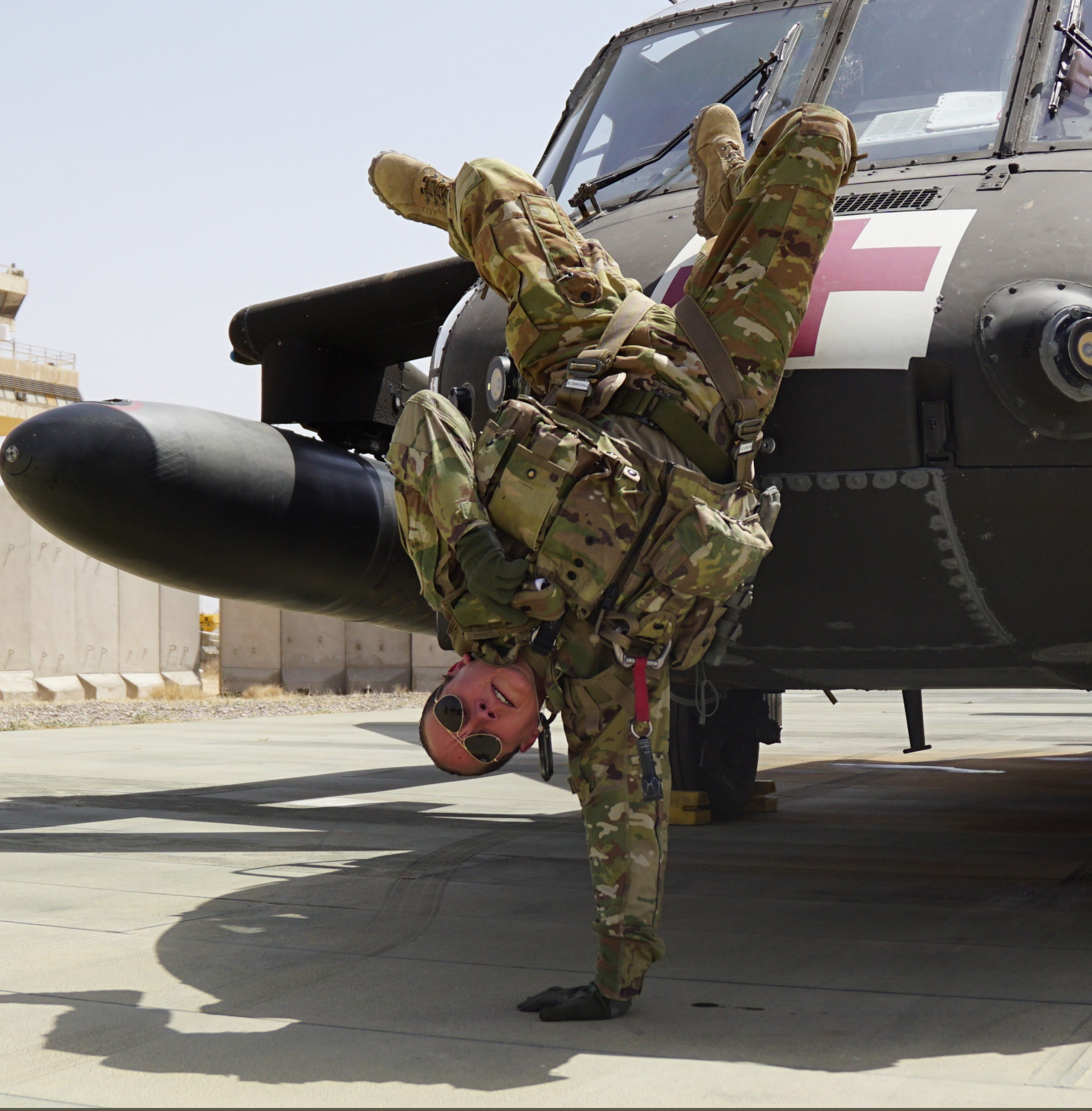
Financial Section
(Unaudited)



Provides a High Level Overview of the Department's Programmatic and Financial Performance

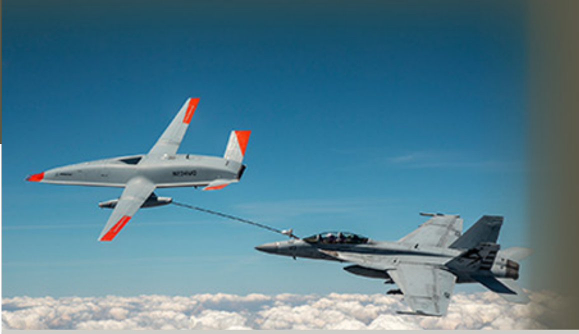


(*Previous page*) MASCOUTAH, Ill. (June 4, 2021) An unmanned Boeing MQ-25 T1 Stingray test aircraft, left, refuels a manned F/A-18 Super Hornet, June 4, 2021. (U.S. Navy photo courtesy of Boeing).

Unmanned MQ-25 Conducts Historic Refueling Mission

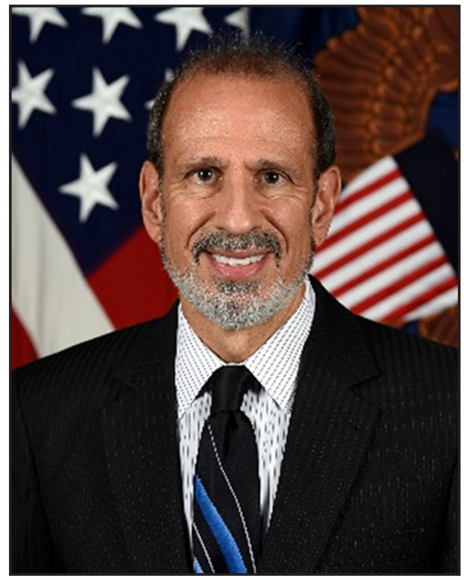
(*Above*) Staff Sgt. Brianna Pritchard, an Army National Guard UH-60 Black Hawk helicopter mechanic from Anchorage, Alaska, shows her Olympic breaking moves at Al Asad Air Base, Iraq. (Photo by Sgt. Daniel Soto).

Army, Olympic Hopeful, 'Breakin' Barriers'



MESSAGE FROM THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER

November 15, 2021



It is an honor to be back in the Department of Defense (DoD) and join the Secretary in presenting the DoD Agency Financial Report (AFR) for fiscal year (FY) 2021. The FY 2021 financial statements and accompanying information reflect our continuing efforts to advance the DoD mission through the Secretary's priorities of defending the Nation, taking care of our people, and succeeding through teamwork. Sound financial management is a cornerstone of effective and efficient stewardship over the resources for which we are responsible and we are committed to demonstrating transparency and accountability to the President, Congress, and the American public.

This is the fourth consecutive year the Department has undergone a financial statement audit performed by various independent public accounting firms and the DoD Office of Inspector General (OIG). Though we received a disclaimer of opinion on the Agency-wide financial statement audit, the audit is part of a long-term effort to transform and modernize the Department as well as to provide value by identifying opportunities for improving how we spend the budgetary resources entrusted to us. This year, the DoD OIG identified three additional Agency-wide material weaknesses, two of which were previously downgraded in FY 2020–Contingent Legal Liabilities and Reconciliation of Net Cost of Operations to Outlays–and one newly identified material weakness–Financial Statement Compilation. However, we successfully downgraded one Agency-wide material weakness identified by the DoD OIG in previous audits, related to the Military Housing Privatization Initiative, as a result of corrective actions implemented. Additionally, the Navy General Fund successfully downgraded one Component-level material weakness (Property, Plant, and Equipment: Utilities), the Air Force General Fund successfully downgraded two Component-level material weaknesses (Oversight and Monitoring of Internal Control and Contingent Legal Liabilities), and the Air Force Working Capital Fund successfully downgraded one Component-level material weakness (General Property, Plant, and Equipment). We continue striving to achieve an unmodified audit opinion, create a sustainable audit environment, and address areas of non-compliance. We have a detailed plan in place that aligns corrective actions to the budget and strengthens accountability.

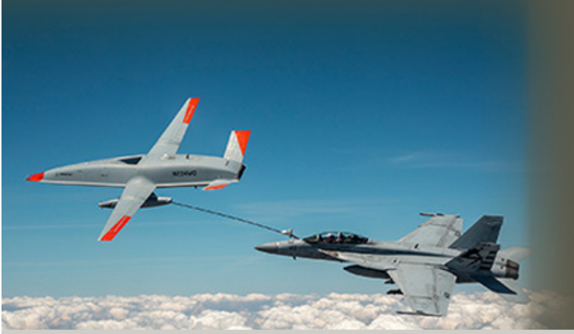
The benefits we realize through the audit exceed the cost, enabling reinvestment in operational capability. One of the audit's most significant benefits is the improvement of our data, which collectively is one of our most valuable, strategic assets. In line with the Deputy Secretary of Defense's plan for creating a DoD data advantage, we use Advana, our centralized data and analytics platform originally developed to support the financial statement audits, to provide access to large volumes of real time, common enterprise data—both financial and non-financial—and facilitate an enterprise mindset and management of business operations. We are also using data analytics to identify high-risk areas and further mitigate fraud risk.

Similar to previous years, fragmented business practices and the widespread use of vulnerable business systems continue to be our leading challenges in the effort to remediate material weaknesses. We are addressing these challenges through a variety of mitigation strategies including retiring outdated business systems in favor of modern enterprise resource planning systems, revising financial management policies to align with authoritative guidance, and implementing emerging technologies (such as artificial intelligence, machine learning, and data analytics) throughout the Department. Additionally, this year we developed audit roadmaps to facilitate aligning material weakness remediation strategies across the Department, identifying remediation timelines, prioritizing focus areas, and monitoring resources and audit progress. These roadmaps were developed as part of a collaborative Department-wide effort for each reporting entity that received a disclaimer of opinion on its standalone audit, which we then aggregated into a roadmap defining the prospective timeline and major milestones toward the achievement of an Agency-wide unmodified audit opinion.

The progress the Department continues to make in these challenging areas would not be possible without the efforts of the Military Service members and civilian employees. Their hard work and dedication in providing accountability for our resources, addressing audit findings, seeking opportunities for greater efficiency, and improving our business processes drive the Department's progress toward achieving an unmodified opinion. I am grateful for the continued support received from Congress and the American public for entrusting us with the resources necessary to protect our great Nation. I look forward to addressing the challenges that will be presented through future audits as we improve the quality and reliability of our financial information, as well as the efficiency and effectiveness of our operations

Michael McCord

Under Secretary of Defense
(Comptroller)/Chief Financial Officer



Independent Auditor's Report

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

November 15, 2021

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

SUBJECT: Independent Auditor's Reports on the Department of Defense FY 2021 and FY 2020 Basic Financial Statements (Project No. D2021-D000FE-0043.000, Report No. DODIG-2022-037)

We are providing the subject Independent Auditor's Reports to be published in the DoD FY 2021 Agency Financial Report. Our reports are issued to accompany the DoD Agency-Wide Basic Financial Statements as of and for the fiscal years ended September 30, 2021, and September 30, 2020; and should not be disseminated separately from these financial statements.[1]

We were required to conduct our audit in accordance with generally accepted government auditing standards and the Office of Management and Budget Bulletin No. 21-04.[2] Our attached Independent Auditor's Reports consist of the:

- Report on the Basic Financial Statements;
- Report on Internal Control Over Financial Reporting; and
- Report on Compliance With Applicable Laws and Regulations, Contracts, and Grant Agreements.

Our audit resulted in a disclaimer of opinion, which is presented in the Report on the Basic Financial Statements. We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the basic financial statements. Accordingly, we did not express an opinion on the basic financial statements.

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[1] The basic financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures.

[2] U.S. Government Accountability Office, GAO-21-368G, "Government Auditing Standards," April 2021; and Office of Management and Budget Bulletin No. 21-04, "Audit Requirements for Federal Financial Statements," June 2021.

The Report on Internal Control Over Financial Reporting identified 28 material weaknesses and 4 significant deficiencies related to the DoD's internal controls over financial reporting.[3] The Report on Compliance With Applicable Laws and Regulations, Contracts, and Grant Agreements identified seven instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements.

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

Lorin T. Venable

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

[3] A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely manner. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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November 15, 2021

Report on the Basic Financial Statements

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the DoD Agency-Wide consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2021, and September 30, 2020.[1] These statements are referred to as the basic financial statements in this report. The basic financial statements are included in the Agency Financial Report. We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) and Office of Management and Budget (OMB) Bulletin No. 21-04.[2]

Management's Responsibility for the Agency Financial Report

DoD management is responsible for the Agency Financial Report. Specifically, management is responsible for: (1) preparing basic financial statements that conform with the Generally Accepted Accounting Principles (GAAP); (2) preparing, measuring, and presenting the Required Supplementary Information, which includes the Management's Discussion and Analysis, in accordance with GAAP; (3) preparing and presenting Other Information included in the Agency Financial Report, and ensuring the consistency of that information with the basic financial statements and Required Supplementary Information; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on our performance of the audit in accordance with GAGAS and OMB Bulletin No. 21-04.

[1] Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, November 1990.

[2] U.S. Government Accountability Office, GAO-21-368G, "Government Auditing Standards," April 2021, and OMB Bulletin No. 21-04, "Audit Requirements for Federal Financial Statements," June 2021.

We are also responsible for applying certain limited procedures to the Required Supplementary Information and Other Information included with the basic financial statements. Because of the matters described in the "Basis for Disclaimer of Opinion" section of this report, we were unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion on the basic financial statements.

Basis for Disclaimer of Opinion

OMB Bulletin No. 21-04 identifies DoD Components that are required to undergo financial statement audits. Auditors issued disclaimers of opinion on the following Components' financial statements that were required to undergo audit.

- Department of the Army General Fund
- U.S. Marine Corps General Fund
- U.S. Navy General Fund
- Department of the Air Force 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 disclaimers of opinion on Components required by OMB to undergo audit, auditors issued disclaimers of opinion on the following Components' financial statements.

- Defense Health Program General Fund
- Defense Information Systems Agency General Fund
- Defense Logistics Agency General Fund
- Defense Logistics Agency Working Capital Fund
- Defense Logistics Agency Transaction Fund
- U.S. Special Operations Command General Fund
- U.S. Transportation Command Transportation Working Capital Fund

When combined, the Components that received disclaimers of opinion on their financial statements are material to the 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 on the basic financial statements.

We performed audit procedures at the agency-wide level and considered the results of Component audits to identify material weaknesses and significant deficiencies in internal control over financial reporting that affected the DoD as a whole. These material weaknesses and significant deficiencies limited the DoD's ability to produce reliable basic financial statements and contributed to our disclaimer of opinion.

We performed sufficient audit work to provide this report on the basic financial statements. We considered the disclaimers of opinion on the Component financial statements a scope limitation in forming our conclusions on the Agency-Wide Basic Financial Statements. Accordingly, we did not perform all audit procedures required by GAGAS and OMB Bulletin No. 21-04 to determine whether material amounts on the basic financial statements were presented fairly. Therefore, our work may not have identified all issues that could affect the basic financial statements.

Disclaimer of Opinion

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

Other Limitations on the Scope of Our Work

For FYs 2021 and 2020, there were other limitations on the scope of our work, in addition to the matters noted above, that contributed to our disclaimer of opinion on the basic financial statements. Such limitations primarily related to weaknesses identified in the Report on Internal Control Over Financial Reporting and DoD management's inability to assert to the reliability of the basic financial statements. Based on the scope of our work, our audit procedures were not designed to, and would not necessarily, identify all weaknesses in internal controls over financial reporting or instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements.

Emphasis of Matter

The Security Assistance Accounts (SAAs) include balances from the security assistance programs for which the DoD has responsibility, including Foreign Military Sales, the Special Defense Acquisition Fund, Foreign Military Financing, and International Military Education and Training. The SAA basic financial statements are consolidated into the Government-wide Financial Statements. DoD management included the SAA basic financial statements in an appendix to the Agency Financial Report and included disclosures within the Agency-Wide Basic Financial Statements to describe the relationship between the DoD and the SAAs. However, DoD management did not represent that the SAA information was complete and accurate. In addition, the SAA financial statements are not scheduled to undergo a full financial statement audit until FY 2022. Therefore, we did not perform audit procedures to determine whether the disclosures were appropriate or review the SAA basic financial statements included in the Agency Financial Report. As a result, we did not consider this information when forming our audit opinion.

The audit ready Agency Financial Report provided by DoD management on November 10, 2021, was incomplete. Specifically, the Management's Discussion and Analysis and Other Information sections were not ready for review until November 13, 2021. DoD management provided five versions of the Agency Financial Report between November 10 and November 15, 2021. The inability to review all sections of the Agency Financial Report with the initial submission, and receiving multiple versions of the Agency Financial Report limited our ability to complete a thorough review. However, during our review of the basic financial statements that were included in the Agency Financial Report, we noted instances of noncompliance with applicable sections of OMB Circular No. A-136.[3] Specifically, Note 9, Note 19, Note 25, and Note 29 did not contain required disclosures in accordance with OMB Circular No. A-136.[4]

In Note 28, DoD management restated the FY 2020 basic financial statements to correct errors in the following areas.

- Accounts Receivable (net) (Intragovernmental)
- Inventory and Related Property (net)

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[3] OMB Circular No. A-136, "Financial Reporting Requirements," August 2021.

[4] Note 9, "General Property, Plant and Equipment, net"; Note 19, "Disclosures Related to the Statement of Net Cost"; Note 25, "Public-Private Partnerships"; and Note 29, "COVID-19 Activity."

- General Property, Plant and Equipment (net)
- Advances and Prepayments (Other than Intragovernmental)
- Investments (Other than Intragovernmental)
- Accounts Payable (Other than Intragovernmental)
- Other Liabilities (Other than Intragovernmental)
- Net Costs of Operations; Cumulative Results of Operations – Beginning Balances and Prior Period Adjustments - Correction of Errors
- Transfer In/Out without Reimbursement
- Unobligated Balance from Prior Year Budget Authority (net)
- Spending Authority from Offsetting Collections
- New Obligations and Upward Adjustments (total)
- Outlays (net) (total) (discretionary and mandatory)

We performed limited audit procedures on the restatements. However, based on the significance of matters described in the "Basis for Disclaimer of Opinion" section, we were unable to audit these restatements. Based on our limited review, these restatements did not affect the overall disclaimer of opinion on the FY 2021 or FY 2020 basic financial statements. As a result, we did not modify our audit opinion.

Other Matters

Required Supplementary Information

In addition to the basic financial statements, DoD management presented Management's Discussion and Analysis, Required Supplementary Information, and Other Information for additional analysis as part of its Agency Financial Report. We performed our audit to form an opinion on the basic financial statements as a whole. Therefore, we do not express an opinion or provide any assurance on the information presented in these sections in the Agency Financial Report. However, based on our limited review, we did not identify any material inconsistencies between the information presented in these sections and the basic financial statements.[5]

Other Information

In the Agency Financial Report, DoD management referenced information on websites or other forms of interactive data. We did not subject any of these websites or interactive data to auditing procedures, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with GAGAS and OMB Bulletin No. 21-04, we also issued reports dated November 15, 2021, on our consideration of the DoD's internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on the effectiveness of the DoD's internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with GAGAS and OMB Bulletin No. 21-04 and should be considered in assessing the results of our audit.

Agency Comments

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

Lorin T. Venable

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

[5] As of the date of this audit report, the Agency Financial Report for the Defense Information Systems Agency Working Capital Fund has not been published. As a result, we were unable to confirm accuracy or consider amounts or disclosures directly attributed to this Component within the Agency Financial Report.

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

November 15, 2021

Report on Internal Control Over Financial Reporting

We audited the DoD Agency-Wide Basic Financial Statements in accordance with generally accepted government auditing standards (GAGAS) and Office of Management and Budget (OMB) Bulletin No. 21-04.[1] The basic financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2021, and September 30, 2020. Our Report on the Basic Financial Statements, dated November 15, 2021, disclaims an opinion on the basic financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for: (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud, abuse, or error, and (2) evaluating the effectiveness of internal control over financial reporting, based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA).[2]

Auditor's Responsibilities

GAGAS and OMB guidance require auditors to report on an entity's internal control over financial reporting. In connection with our audit of the basic financial statements, we performed audit procedures at the agency-wide level and considered the results of Component audits to identify material weaknesses and significant deficiencies in internal control over financial reporting. Based on the scope of our work and the effects

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[1] U.S. Government Accountability Office, GAO-21-368G, "Government Auditing Standards," April 2021, and OMB Bulletin No. 21-04, "Audit Requirements for Federal Financial Statements," June 2021.
[2] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.

of the other limitations on the scope of our audit noted throughout this audit report, our internal control work was not designed to, and would not necessarily, identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. Therefore, additional material weaknesses or significant deficiencies may exist that we did not identify.

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 a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, in a timely manner. Our report includes a description of 28 material weaknesses.

Legacy Systems. DoD management defines legacy systems as systems that are scheduled for retirement within 36 months and systems that were originally designed to support functional purposes rather than the development of auditable financial statements. The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that the DoD implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction-level.[3] However, because legacy systems were not designed to support the development of auditable financial statements, these systems are often not FFMIA compliant. In an effort to mitigate the risk of using legacy systems, DoD management stated that it implemented a plan to aggressively retire and replace the legacy systems. However, DoD management extended retirement dates for nine systems that it planned to retire from September 2020 to September 2021. In addition, Components used at least 140 systems during FY 2021 that did not comply with the FFMIA, but they were not categorized as legacy systems by DoD management. Some of these systems will not be retired until at least FY 2036. As a result, we determined the DoD definition and categorization of legacy systems fails to consider the FFMIA compliance of each system. Without the proper categorization of its systems, DoD management may be failing to correct deficiencies in or retire non FFMIA-compliant systems that impact multiple Components. The continued use of systems that do not comply with the FFMIA inhibits the ability of the DoD and its Components to produce auditable basic financial statements, and the failure to prioritize the proper categorization and retirement of

[3] Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996," September 1996.

these systems will continue to impede the DoD and its ability to achieve a clean audit opinion.

Configuration Management and Security Management. National Institute of Standards and Technology (NIST), Special Publication (SP) 800-53, and the Government Accountability Office Green Book, hereinafter referred to as "Green Book," require the DoD to design and implement configuration management and security management controls.[4] These controls focus on establishing and maintaining the integrity of information systems, and require the development, documentation, and implementation of configuration management and security management policies, procedures, and plans. However, Components lacked effective configuration management and security management controls for significant financial management and feeder systems. For example, Components did not have formalized and comprehensive policies and procedures for configuration management and security management. The lack of effective configuration management and security management controls increases the risk of unauthorized use of or inappropriate modifications to significant financial management and feeder systems, which could result in inaccurate financial data within the basic financial statements. As a result, there is an increased risk that balances presented in the basic financial statements may be materially misstated.

Access Controls. NIST SP 800-53 and the Green Book require the DoD to design and implement controls to provide reasonable assurance that only authorized individuals have access to computer resources such as data, equipment, and facilities. Access controls also ensure that roles for authorized users are reasonable. However, Components did not design and implement effective access controls for various significant financial management and feeder systems. For example, Components did not perform comprehensive periodic reviews of all users with access to certain systems to validate that current access and roles are appropriate. Additionally, DoD management did not fully implement corrective actions to develop an overarching policy or authoritative lists to identify and remove terminated or transferred users. Without proper access controls over significant financial systems, the DoD could compromise the confidentiality, integrity, or availability of financially relevant data.

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[4] NIST, SP 800-53, Revision 5, "Security and Privacy Controls for Information Systems and Organizations," September 2020, and the Government Accountability Office Green Book, "Standards for Internal Control in the Federal Government," September 2014.

The lack of controls increased the risk that amounts presented in the basic financial statements may be materially misstated.

Segregation of Duties. NIST SP 800-53 and the Green Book require the DoD to design and implement controls to provide reasonable assurance that incompatible duties are segregated. However, Components did not design and implement effective segregation of duties controls for significant financial management and feeder systems. Specifically, Components did not develop processes to properly identify conflicting roles or segregate key function roles. Additionally, Components did not prioritize the implementation of segregation of duties or did not collaborate with all stakeholders to ensure that effective segregation of duties controls were implemented. For example, one Component accepted the risks associated with segregation of duties findings instead of implementing corrective actions. The lack of effective segregation of duties controls could increase the risk of inappropriate personnel processing transactions, and could result in inaccurate financial data, expose the systems to security risks, or allow for fraudulent activity. Because Components did not implement segregation of duties controls effectively, there is an increased risk that line item balances in the basic financial statements may be materially misstated.

Universe of Transactions. OMB Bulletin No. 21-04 states that internal control over financial reporting includes ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements. However, Components were unable to provide transaction-level populations supporting material line items. Additionally, the Defense Finance and Accounting Service (DFAS) and Components were unable to reconcile the information presented within the trial balances to underlying transaction-level detail. Specifically, Components performed reconciliations at a summary level, rather than the transaction-level, and did not always perform these reconciliations before their basic financial statements were prepared. As a result, the DoD was unable to completely and accurately reconcile its basic financial statements to transaction-level data because a universe of transactions did not exist at the agency-wide level. Without a complete universe of transactions, the DoD and its Components could not verify the completeness and accuracy of data reported on their respective basic financial statements. This increased the risk that the balances in the Agency-Wide Basic Financial Statements may be materially misstated.

Financial Statement Compilation. OMB Circular No. A-123 states that management is responsible for developing and maintaining effective internal control to ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.[5] However, DoD and DFAS management lacked controls and documented processes over the compilation of Component-level financial information and when requested, DFAS did not provide support for material variances between Component financial statements and the Agency-Wide Basic Financial Statements. As a result, the DoD did not correctly compile Component financial information to produce the Agency-Wide Basic Financial Statements. Without proper controls and documented processes over the consolidation of Component-level financial information, the DoD is unable to ensure that Component balances were presented consistently or that appropriate adjustments were made at the agency-wide level. As a result, there is an increased risk that balances presented in the basic financial statements are materially incomplete and inaccurate.

Fund Balance With Treasury. As of September 30, 2021, the DoD reported a Fund Balance With Treasury balance of $623.2 billion. 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.[6] SFFAS No. 1 and the Treasury Financial Manual (TFM) require the DoD and its Components to reconcile their Fund Balance With Treasury and explain any discrepancies between balances reported by the DoD and the Treasury, to ensure the integrity and accuracy of the DoD and Government-wide Financial Statements.[7] However, the DoD and its Components did not have effective controls for reconciling their Fund Balance With Treasury. Additionally, the DoD and its Components did not have documented control procedures over the Fund Balance With Treasury reconciliation process. As a result, the DoD and its Components were unable to ensure the completeness and accuracy of their Fund Balance With Treasury. The lack of effective controls over the Fund Balance With Treasury balance increased the risk that the Agency-Wide Basic Financial Statements may be materially misstated.

Suspense Accounts. The TFM 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

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[5] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

[6] Federal Accounting Standards Accounting Board (FASAB), "Handbook of Federal Accounting Standards and Other Pronouncements" (FASAB Handbook), SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 1993, as amended.

[7] TFM, volume 1, part 2, chapter 5100, "Fund Balance With Treasury."

or expenditure account.[8] The DoD Financial Management Regulation (FMR), volume 12, chapter 1, 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.[9] However, DFAS and the Components lacked the necessary controls to monitor funds in suspense accounts sufficiently and to research these transactions to clear account variances in accordance with the 60-day requirement. In addition, the suspense accounts universe of transactions is not available until more than 50 days after quarter- and year-end. DFAS and the Components did not have sufficient documented control procedures to research and clear suspense accounts transactions. Additionally, DFAS was unable to attribute defense agency suspense account transactions to the appropriate Component because the defense agencies share a treasury index, and therefore share the same suspense accounts. These control deficiencies resulted in an increased risk that the balance of the DoD's suspense accounts in the basic financial statements may be materially misstated.

Inventory and Stockpile Materials. As of September 30, 2021, the DoD reported an Inventory and Related Property balance of $326.9 billion. SFFAS No. 3 requires the DoD to value its inventory on the basis of historical cost or on a basis that reasonably approximates historical cost.[10] SFFAS No. 48 amends SFFAS No. 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of inventory and stockpile material.[11] However, Components did not account for inventory and stockpile materials according to SFFAS No. 3, or an alternative valuation method allowable by SFFAS No. 48. Components could not produce documentation supporting the valuation of their inventory and stockpile materials balances. In addition, Components were unable to substantiate the existence and completeness of inventory and stockpile materials reported on their basic financial statements. Specifically, Components could not: (1) accurately account for inventory balances, movement of inventory, and in-transit inventory, and (2) record stockpile materials balances accurately and in a timely manner. Overall, the DoD was unable to support a material portion of its Inventory and Stockpile Materials balance. As a result, there is an

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[8] TFM, volume 1, part 2, chapter 1500, "Description of Accounts Relating to Financial Operations."

[9] DoD Regulation 7000.14-R, "DoD Financial Management Regulation (DoD FMR)," volume 12, chapter 1, "Funds."

[10] FASAB Handbook, SFFAS No. 3, "Accounting for Inventory and Related Property," October 1993.

[11] FASAB Handbook, SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.

increased risk that the balance presented in the basic financial statements is materially misstated.

Operating Materials and Supplies. As of September 30, 2021, the DoD reported an Operating Materials and Supplies (OM&S) balance of $214.2 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. SFFAS No. 48 amends SFFAS No. 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. In addition, SFFAS No. 3 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. Overall, Components did not account for OM&S according to SFFAS No. 3, or an alternative valuation method allowable by SFFAS No. 48. In addition, Components did not have procedures to accurately identify and value excess, obsolete, and unserviceable OM&S reported on their basic financial statements. Ultimately, Components were unable to substantiate the existence and completeness of OM&S reported on their basic financial statements. As a result, there is an increased risk that the OM&S balance reported in the Inventory and Related Property line in the basic financial statements may be materially misstated.

General Property, Plant, and Equipment. As of September 30, 2021, the DoD reported a General Property, Plant, and Equipment (PP&E) balance of $810.2 billion. SFFAS No. 6 requires the DoD to value its General PP&E on the basis of historical cost or on a basis that reasonably approximates historical cost.[12] SFFAS No. 50 amends SFFAS No. 6 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of General PP&E in the same reporting period in which the reporting entity makes an unreserved assertion, also known as an unconditional statement, that its financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP).[13] However, Components did not have sufficient policies and procedures to report General PP&E balances accurately in accordance with SFFAS No. 6 or the one-time alternative valuation method allowed under SFFAS No. 50. In addition, Components were unable to substantiate the existence and completeness of General PP&E reported on their basic financial statements. Because Components could not accurately value or account for their General PP&E,

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[12] FASAB Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 1995, as amended.

[13] FASAB Handbook, SFFAS No. 50, "Establishing Opening Balances for General PP&E: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 2016.

there is an increased risk that the General PP&E balance in the Agency-Wide Basic Financial Statements may be materially misstated.

Real Property. The DoD FMR, volume 4, chapter 24, requires that Components properly recognize, account for, and report their real property on the appropriate financial statements.[14] In addition, the DoD FMR requires that Components ensure real property activity is supported, and the accountable property systems of record that account for real property can be reconciled to the Component's basic financial statements. However, Components could not support real property balances in their basic financial statements. In addition, Components could not substantiate the existence and completeness of their real property assets. This occurred because Components have insufficient internal controls to ensure that real property assets were recorded completely and accurately within their accountable property systems of record. Without proper internal controls and procedures, there is a risk that real property balances may be unsupported at the Component-level. As a result, there is an increased risk that the real property balance reported in the General PP&E line item in the basic financial statements may be materially misstated.

Government Property in the Possession of Contractors. According to the Federal Acquisition Regulation, Government property means all property owned or leased by the Government, including material and property the Government furnished to the contractor for performance of a contract. The DoD is required to: (1) recognize and account for Government furnished materials in accordance with SFFAS No. 3 and SFFAS No. 48 and (2) recognize and account for Government-furnished property in accordance with SFFAS No. 6 and SFFAS No. 50. However, Components could not reconcile the Government Property in the Possession of Contractor balances reported on their basic financial statements to an accountable property system of record or report. In addition, Components could not substantiate the existence and completeness of Government Property in the Possession of Contractor balances reported on their basic financial statements. This occurred because Components did not have the policies, procedures, and internal controls in place to report Government Property in the Possession of Contractor balances consistently and accurately on their basic financial statements in accordance with SFFAS standards. In addition, Components did not have the policies, procedures, and internal controls in place to provide effective oversight of the contractors who manage material and property on the Government's behalf. Therefore, Components were unable to record and report Government Property

[14] DoD FMR, Volume 4, Chapter 24, "Real Property."

in the Possession of Contractors balances accurately on their basic financial statements. As a result, there is an increased risk that the Agency-Wide Basic Financial Statements may be incomplete or inaccurate, and therefore materially misstated.

Joint Strike Fighter Program. OMB Circular No. A-136 states that management is responsible for providing complete and reliable information.[15] The Joint Strike Fighter acquisition is intended 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 or manage Joint Strike Fighter Program Government property, or record the property in an accountable property system of record. During FY 2021, the DoD performed an inventory to support the physical existence of Joint Strike Fighter Program Government property, but was unable to substantiate the completeness and valuation of this property. Despite ongoing remediation efforts, the DoD was unable to provide documentation supporting the value of the program, and did not report Joint Strike Fighter Program assets on its basic financial statements as of September 30, 2021. The omission of the Joint Strike Fighter program resulted in an unquantifiable, and potentially material, misstatement on the basic financial statements.

Accounts Payable. As of September 30, 2021, the DoD reported a non-Federal Accounts Payable balance of $39.4 billion. SFFAS No. 1 states that accounts payable are amounts the DoD owes to other entities for receipt of goods and services, progress in contract performance, or rents. However, Components did not have sufficient documentation to support the existence and completeness of their Accounts Payable balances. In addition, these Components did not have sufficient policies, procedures, and controls over their methodology for accruing payables, which increases the risk of unsupported transactions. As a result, there is an increased risk that the Accounts Payable balance in the basic financial statements may be materially misstated.

Environmental and Disposal Liabilities. As of September 30, 2021, the DoD reported an Environmental and Disposal Liabilities balance of $82.0 billion. SFFAS No. 5 defines "liability," for Federal accounting purposes, as a probable future outflow or other sacrifice of resources as a result of past transactions or events. Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs.[16] However, Components lacked formal procedures, controls, and supporting documentation to substantiate the completeness and accuracy

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[15] OMB Circular No. A-136, "Financial Reporting Requirements, "August 2021.

[16] FASAB Handbook, Federal Financial Accounting and Auditing Technical Release 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government," March 1998, and FASAB Handbook, SFFAS No. 5, "Accounting for Liabilities of The Federal Government," December 1995.

of their Environmental and Disposal Liabilities. As a result, there is an increased risk that the Environmental and Disposal Liabilities balance in the basic financial statements may be materially misstated.

Contingent Legal Liabilities. The TFM requires that the DoD General Counsel prepare a Legal Representation Letter, which summarizes legal actions against the DoD and its Components. In addition, DoD management must prepare a Management Schedule that summarizes the content of the Legal Representation Letter. The Management Schedule must support disclosures in the basic financial statements. Components prepare Legal Representation Letters and Management Schedules for consolidation and presentation at the agency-wide level. However, the DoD and its Components lacked controls over the Legal Representation Letter and Management Schedule process that affected the presentation and calculation of contingent legal liabilities at the agency-wide level. Specifically, the DoD General Counsel did not provide DoD management and the DoD OIG complete documentation of the legal actions against the DoD and DoD management did not properly summarize the legal actions within the agency-wide Management Schedule. In addition, Components did not report contingent legal liabilities on their Management Schedules consistently and did not accrue contingent legal liabilities in accordance with the TFM. Lack of controls over the Legal Representation Letter and Management Schedule process increased the risk that balances in the basic financial statements may be materially misstated.

Beginning Balances. SFFAS No. 48 defines beginning balances as account balances that exist at the beginning of the reporting period. Beginning balances are based on the closing balances of the prior period and reflect the effects of transactions and accounting policies applied in prior periods. However, Components did not have complete and accurate beginning balances in their basic financial statements. This occurred because the Components did not have historical data to support or the ability to reconcile beginning balances at the end of the reporting period. Without complete and accurate beginning balances, the basic financial statements may be materially misstated.

Unsupported Accounting Adjustments. In the last two quarters of FY 2021, the DoD recorded more than 1,700 unsupported accounting adjustments totaling more than $270 billion. The Green Book requires that transactions be recorded accurately. Additionally, the TFM and the DoD FMR, volume 4, chapter 2, state that Components must ensure that all adjustments are researched and traceable to supporting documents. Supporting documentation is necessary to provide an audit trail. However, the DoD and its Components did not have effective controls to provide reasonable assurance that accounting adjustments were supported, valid, complete, and accurately recorded in their accounting and general ledger systems. In addition, Components recorded manual and system-generated accounting adjustments that lacked appropriate approvals. Without effective controls over the recording of accounting adjustments, the DoD was unable to provide reasonable assurance that material misstatements were prevented, or detected and corrected before the basic financial statements were prepared. As a result, there is an increased risk that balances in the basic financial statements may be materially misstated.

Intragovernmental Transactions and Intradepartmental Eliminations. The TFM, volume 1, part 2, chapter 4700, explains that intragovernmental transactions result from business activities conducted between two Government entities, such as the DoD and Department of State.[17] These entities conducting business are called trading partners. The TFM further defines intradepartmental transactions as those occurring between two trading partners within the same entity; for example, transactions between the Army General Fund and the Defense Logistics Agency Working Capital Fund, which are both DoD Components. The DoD is required to report intragovernmental balances in its basic financial statements and eliminate intradepartmental balances from its basic financial statements. The Treasury eliminates intragovernmental balances, identified by the DoD, from the Government-wide Financial Statements. For proper eliminations to occur, it is essential that accurate trading partner data be captured for intragovernmental and intradepartmental transactions. However, multiple DoD accounting systems were unable to capture the trading partner data required to eliminate intragovernmental and intradepartmental transactions. Without the proper elimination of trading partner transactions in the basic financial statements, there is an increased risk that the basic financial statements may be materially misstated.

Gross Costs. As of September 30, 2021, the DoD reported a Gross Costs balance of $892.1 billion. SFFAS No. 4 states that the DoD should report the full costs of outputs in general purpose financial reports and reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations.[18] Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 requires the DoD to provide gross and net cost information related to the amounts of

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[17] TFM, volume 1, part 2, chapter 4700, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," June 2021.

[18] FASAB Handbook, SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts," July 1995, as amended.

outputs and outcomes for programs or organizations on the Statement of Net Cost.[19] 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, Components had material deficiencies related to Gross Costs. These deficiencies included noncompliance with GAAP, insufficient support for transactions related to Gross Costs, and inadequate procedures and controls for recording Gross Costs. Therefore, DoD management did not have reliable financial information to effectively manage and understand Gross Costs. As a result, there is an increased risk that the Gross Costs balance in the basic financial statements may be materially misstated.

Earned Revenue. As of September 30, 2021, the DoD reported an Earned Revenue balance of $155.9 billion. SFFAS No. 7 states that earned revenues arise when the DoD provides goods and services to the public or to another Federal entity for a price.[20] However, Components had material deficiencies related to the Earned Revenue line item. The Components' deficiencies included noncompliance with GAAP, inaccurate recording of transactions, inability to substantiate revenue-related transactions, and inadequate controls for recording Earned Revenue. Therefore, DoD management did not have reliable financial information to manage earned revenue and effectively evaluate performance. As a result, there is an increased risk that Earned Revenue balance in the basic financial statements may be materially misstated.

Reconciliation of Net Cost of Operations to Outlays. SFFAS No. 7 requires the DoD to perform a reconciliation of its proprietary and budgetary data. OMB Circular No. A-136 requires the DoD to include this reconciliation in the basic financial statements. However, Components were unable to support adjustments made to reconcile budgetary and proprietary data on the Component basic financial statements, and, as a result, the DoD reported a $9.9 billion reconciling difference between the budgetary and proprietary accounts in Note 24 of the Agency-Wide Basic Financial Statements. This reconciling difference occurred because the Components have not designed and implemented controls to research and resolve variances between budgetary and proprietary data. Therefore, the Agency-Wide Basic Financial Statements did not accurately reflect the financial position of the DoD, and, as a result, there is an increased risk that balances in the basic financial statements may be materially misstated.

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[19] FASAB Handbook, SFFAC No. 2, "Entity and Display," June 1995.

[20] FASAB Handbook, SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 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 statement presents total budgetary resources available to the DoD during the period, the status of those resources, and outlays of those resources. However, the balances presented on the Components' Statement of Budgetary Resources were not complete, accurate, or supported. Therefore, the DoD and its Components were unable to determine and monitor their total available budgetary resources, the status of those resources, or outlays of those resources during the reporting period. The inability to sufficiently monitor budgetary resources created the potential for violations of the Antideficiency Act and increased the risk that the Statement of Budgetary Resources balances may be materially misstated.

Service Organizations. A service organization provides services to user entities, which are likely to be relevant to those user entities' internal control over financial reporting. For example, DFAS is a service organization that provides accounting services to the DoD and its Components. OMB Circular No. A-123 states that user entities are ultimately responsible for the services and processes provided by service organizations as they relate to the entity's ability to maintain internal control over operations, reporting, and compliance with laws and regulations. Service organizations perform critical activities across the DoD, such as managing inventory and preparing financial statements. However, service organizations did not design or implement reliable controls to provide the required assurance to user entities. Additionally, user entity management did not develop enterprise-wide procedures for the governance and monitoring of service organizations. Service organization control deficiencies and user entity management's lack of monitoring of the service organizations decreased the reliability and accuracy of the basic financial statements. As a result, there is an increased risk that balances in the basic financial statements may be materially misstated.

Entity-Level Controls. The FMFIA requires the DoD to establish internal control, and the Green Book defines the standards for internal control in the Government. Green Book principle 10, "Design Control Activities," 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. This principle also states that management should design entity-level control activities depending on the level of precision needed for the entity to meet its objectives and address related risks. However, Components did not design, document, and implement effective entity-level controls. Specifically, Components lacked sufficient internal controls to achieve the objectives of reliable financial reporting, operating efficiency and effectiveness, and GAAP compliance. A lack of effective entity-level controls increased the risk that the balances in the basic financial statements may be materially misstated.

DoD-Wide Oversight and Monitoring. The FMFIA establishes management's responsibility for producing reliable financial reports and ensuring proper recording of financial transactions in accordance with GAAP. In addition, OMB Circular No. A-123 requires DoD management to establish and integrate internal controls into the DoD's operations. DoD and DFAS management are responsible for consolidating Component level information to produce documents such as the Agency Financial Report, which includes the basic financial statements. However, Component-level information was incomplete, inaccurate, and not compliant with GAAP. Additionally, DoD management did not ensure that Components followed issued guidance or consistently prepared their basic financial statements. For example, multiple Components did not present current and prior year financial information within their basic financial statements for FY 2021, as required by OMB Circular No. A-136. Without proper oversight and monitoring to ensure GAAP-compliant information and consistent financial statement preparation at the Component-level, there is an increased risk that information presented in the basic financial statements is not complete or accurate.

Component-Level Oversight and Monitoring. OMB Circular No. A-123 states that agency managers must continuously monitor, assess, and improve the effectiveness of internal control associated with those internal control objectives identified as part of their risk profile. In addition, the circular requires Component management to evaluate and document internal control deficiencies and determine appropriate corrective actions for those deficiencies. However, Components did not sufficiently implement oversight and monitoring activities to identify and resolve deficiencies that could affect their basic financial statements. This occurred, in part, because Components did not allocate sufficient resources to ensure effective internal control environments and implementation of corrective action plans. Additionally, Components did not establish policies or procedures to address significant risks, as required by OMB Circular No. A-123. Without sufficient oversight and monitoring activities to identify and remediate deficiencies and address significant risks, there is an increased risk of material misstatement on the Components' basic financial statements. As a result, there is an increased risk that the Agency-Wide Basic Financial Statements may be materially misstated.

Identified Significant Deficiencies

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. Our report includes a description of four significant deficiencies.

Transition to Risk Management Framework. The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk of not having those controls in place.[21] DoD Instruction 8510.01 requires that the DoD transition to the Risk Management Framework (RMF) to satisfy the requirements of FISMA.[22] NIST SP 800-37 provides standards and guidance for applying the transition to the RMF.[23] Under the authority, direction, and control of the DoD Chief Information Officer, the DoD Senior Information Security Officer oversees implementation of DoD Instruction 8510.01, directs the cybersecurity risk management of DoD information technology, distributes RMF information standards and sharing requirements, and manages the transition from the DoD Information Assurance Certification and Accreditation Process to the RMF. However, Components have not fully completed their transition from the DoD Information Assurance Certification and Accreditation Process to the RMF for significant financial management and feeder systems. For example, Component financial systems did not have valid security plans, did not create or oversee plans of actions and milestones in a timely manner, or did not implement continuous monitoring capabilities as required by the RMF. Therefore, the DoD Senior Information Security Officer and the DoD Chief Information Officer have not effectively monitored the Components to ensure that systems that are relevant to internal control over financial reporting or the financial statement audits fully transitioned to the RMF. Components that have not transitioned these systems to the RMF could expose the DoD's financial data to unidentified security risks. Additionally, the DoD's continued use of systems that have not transitioned to the RMF may negatively impact financial data, which increased the risk that balances in the basic financial statements may be misstated.

Defense Agency Deposit Fund Accounts. As of September 30, 2021, the defense agency deposit fund accounts balance, as presented by the Treasury, totaled more than $1.2 billion. The TFM defines deposit fund accounts as accounts established by the

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[21] Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

[22] DoD Instruction 8510.01, "Risk Management Framework for DoD Information Technology," December 2020.

[23] NIST, SP 800-37, "RMF for Information Systems and Organizations," December 2018.

Treasury to record deposits and disbursements of funds that do not belong to the Government. The DoD FMR, volume 12, chapter 1, states that deposit fund accounts are established to account for collections that are either held temporarily and later refunded or paid upon determination as to the proper disposition, or held by the Government for others and paid out at the direction of the depositor. The Treasury requires that entities review deposit fund accounts at least quarterly to ensure that all funds held within the account are reported appropriately and that entities address identified problems. In FY 2020, DoD management issued a policy requiring all deposit fund activity to be reported at the consolidated level. However, DoD management issued this policy without considering the impact to Component basic financial statements. Specifically, auditors for certain Components determined that the policy was not GAAP-compliant for certain business processes. As of September 30, 2021, the DoD had 47 actively used deposit fund accounts—35 were maintained at the Military Department level and 12 were maintained at the defense agency level. More than 49,000 transactions, with an absolute value of $62 billion, were processed through the defense agency deposit fund accounts during the fiscal year. DoD management is responsible for explaining differences between deposit fund account balances and the balances at the Treasury. However, as of September 30, 2021, two defense agency deposit fund accounts did not match the balances reported at the Treasury. Additionally, two defense agency deposit fund accounts reported abnormal balances during the fiscal year. As a result, we determined that DFAS did not have controls to prevent or resolve abnormal balances prior to reporting balances and reconciling them with the Treasury. Without proper controls to reconcile defense agency deposit fund accounts to Treasury, and prevent or resolve abnormal balances within the defense agency deposit fund accounts, the DoD was unable to substantiate the defense agency deposit fund account balances, which increased the risk that balances within the basic financial statements may be misstated.

Accounts Receivable. As of September 30, 2021, the DoD reported a non-Federal Accounts Receivable balance of $5.6 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. However, Components had not developed or implemented effective controls to prevent or detect misstatements in non-Federal accounts receivable balances and they did not have sufficient documentation to ensure the completeness and accuracy of non-Federal Accounts Receivable transactions. Additionally, Components had not developed or implemented effective controls to prevent or detect misstatements of non-Federal accounts receivable balances. The DoD is implementing corrective actions to remediate these findings; however, these actions encompass only half of the DoD's total non-Federal Accounts Receivable balance. As a result, there is an increased risk that the non-Federal Accounts Receivable balance in the basic financial statements may be misstated.

Military Housing Privatization Initiative. As of September 30, 2021, the DoD reported a Military Housing Privatization Initiative (MHPI)-related Other Investments balance of $11.4 billion. The Financial Accounting Standards Board, Accounting Standards Codification 323 requires the DoD to report private entity investee profits and losses allocated to the DoD as increases or decreases to Other Investments, respectively.[24] However, the DoD did not report private entity investee profits and losses allocated to the DoD based on its ownership interest as changes to Other Investments. Additionally, SFFAS No. 49 requires certain additional disclosures about Public-Private Partnerships, such as MHPI private entities.[25] However, the DoD did not report complete and accurate disclosures required under SFFAS No. 49. Overall, the DoD lacked GAAP-compliant accounting policies and effective internal controls over MHPI financial reporting. As a result, there is an increased risk that balances and footnotes reporting MHPI information in the basic financial statements may be misstated.

Recommendations

This report does not include recommendations to correct the material weaknesses and significant deficiencies. Auditors provided Notices of Findings and Recommendations to DoD and Component management to address reported material weaknesses and significant deficiencies, when appropriate. In addition, auditors of the Components' basic financial statements included recommendations within their Reports on Internal Control Over Financial Reporting.

Agency Comments

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

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[24] Accounting Standards Board, Accounting Standards Codification 323, as updated through November 2021.

[25] FASAB Handbook, SFFAS No. 49, "Public-Private Partnerships: Disclosure Requirements," April 2016.

Purpose of This Report

The Report on Internal Control Over Financial Reporting is an integral part of our audit. The purpose of this report is to describe the scope and results of our testing of internal control over financial reporting, not to provide an opinion on the effectiveness of internal control over financial reporting. This report is not suitable for any other purpose.

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November 15, 2021

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

We audited the DoD Agency-Wide Basic Financial Statements in accordance with generally accepted government auditing standards (GAGAS) and Office of Management and Budget (OMB) Bulletin No. 21-04.[1] The basic financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2021, and September 30, 2020. Our Report on the Basic Financial Statements, dated November 15, 2021, disclaims an opinion on the basic financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for complying with provisions of applicable laws and regulations, contracts, and grant agreements related to financial reporting and ensuring that the DoD's financial management systems comply substantially with the Federal Financial Management Improvement Act of 1996 (FFMIA).[2]

Auditor's Responsibilities

GAGAS and OMB guidance require auditors to report on an entity's compliance with provisions of applicable laws and regulations, contracts, and grant agreements. In connection with our audit of the DoD Agency-Wide Basic Financial Statements, we performed tests at the agency-wide level and considered the results of Component audits to determine whether the DoD complied with provisions of applicable laws and regulations, contracts, and grant agreements. In addition, we determined whether the

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[1] U.S. Government Accountability Office, GAO-21-368G, "Government Auditing Standards," April 2021 and OMB Bulletin No. 21-04, "Audit Requirements for Federal Financial Statements," June 2021.
[2] Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996," September 1996.

DoD complied with the requirements referred to in Section 803(a) of the FFMIA. We identified instances of noncompliance that could have a direct and material effect on the determination of financial statement amounts. Based on the scope of our work, our compliance testing was not designed to, and would not necessarily, identify all instances of noncompliance with certain provisions of applicable laws and regulations, contracts, and grant agreements. Therefore, additional instances of noncompliance may exist that we did not identify.

Identified Instances of Noncompliance

The Antideficiency Act. The Antideficiency Act (ADA) prohibits the DoD and its agents from making or authorizing expenditures or obligations that exceed the available appropriations or funds.[3] It states that 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. Additionally, the DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. The ADA specifies that if a DoD officer or employee violates the ADA, the Chief Financial Officer must immediately report to the President and Congress all relevant facts and a statement of actions taken in response to the ADA violation. The DoD Financial Management Regulation, volume 14, chapter 3, requires the DoD to complete formal investigations of ADA violations within 15 months.[4] Each formal investigation is assigned a case number. As of September 30, 2021, the DoD reported multiple ADA violations within three completed cases to the President and Congress. Additionally, the DoD identified seven ongoing investigations related to potential ADA violations. Two of the seven investigations had been open for more than 15 months.

Federal Financial Management Improvement Act of 1996. The FFMIA requires DoD management to establish and maintain financial management systems that substantially comply 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 planned or ongoing remediation activities within its Agency Financial Report.[5] We identified that the DoD and its Components did not substantially comply with the FFMIA. In addition, we determined that DoD

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[3] Public Law 97-258, "Antideficiency Act," September 1982.

[4] DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 3, "Antideficiency Act Violation Process."

[5] OMB Circular No. A-136, "Financial Reporting Requirements," August 2021.

management was unable to assert that the financial management and feeder systems inventory listing, which houses FFMIA compliance data for each system, was complete or accurate. A majority of systems included on the inventory listing were not compliant with the FFMIA.

The Federal Managers' Financial Integrity Act of 1982. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires DoD management to perform ongoing evaluations and report on the adequacy of DoD systems of internal accounting and administrative control.[6] 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 provisions of applicable laws and regulations.[7] We identified that Components did not substantially comply with the FMFIA. In addition, we reported multiple material weaknesses that related to FMFIA noncompliance within our Report on Internal Control Over Financial Reporting.

The Federal Information Security Modernization Act. The Federal Information Security Modernization Act (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place.[8] The National Institute of Standards and Technology publishes standards and guidelines for Federal entities to implement for non-national security systems.[9] We identified that one Component did not comply with certain aspects of the FISMA. Specifically, the Component did not fully implement policies and procedures for managing and monitoring access controls, proper segregation of duties, and implementing Complementary User Entity Controls.

The Debt Collection Improvement Act. The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires the DoD to report to the Treasury any non-tax debts or claims owed to the Government that are over 120 days delinquent.[10] We identified that one Component did not comply

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[6] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.

[7] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 2016.

[8] Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

[9] National Institute of Standards and Technology, Special Publication 800-37, "Risk Management Framework of Information Systems and Organizations," December 2018.

[10] Public Law 104-134, "Debt Collection Improvement Act of 1996," as amended by Public Law 113-101, "Digital Accountability and Transparency Act of 2014," May 2014.

with the Debt Collection Improvement Act. Specifically, the Component did not report debts that were over 120 days delinquent to the Treasury, as required.

The Prompt Payment Act. The Prompt Payment Act states the head of an agency will owe an interest penalty if the agency does not pay for delivered property or services by established payment dates.[11] It also states that the head of an agency must pay this interest penalty out of amounts made available to carry out the program for which the penalty occurred. We identified that Components did not comply with the Prompt Payment Act. Specifically, Components did not accrue or pay interest when required, and, when paid, the Components did not pay interest from the appropriate Treasury Account Symbol.

The Coronavirus Aid, Relief, and Economic Security Act. Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to societal and economic impacts of the coronavirus disease-2019.[12] The CARES Act appropriated funds for the fiscal year ending September 30, 2020, to the DoD for multiple purposes. In total, the DoD was provided $10.6 billion in supplemental appropriations from the CARES Act. The CARES Act requires the DoD report certain obligations and expenditures to the OMB, the Treasury, and Congress. We identified that the DoD did not comply with related provisions of the CARES Act. Specifically, DoD management represented that it did not have the mechanisms within its financial reporting systems to track transactions and separately report the impact of the CARES Act funding on the DoD's assets, liabilities, costs, revenues, and net position. In addition, DoD management did not track $1.45 billion of the supplemental appropriations received from the CARES Act. Specifically, DoD management added these funds to the Defense Working Capital Fund as cash through multiple journal vouchers.

Recommendations

This report does not include recommendations to correct identified noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Auditors provided Notices of Finding and Recommendation to DoD and Component management to address reported instances of noncompliance with certain provisions of applicable laws and regulations, contracts, and grant agreements, when appropriate. In addition, auditors of the Components' financial statements included recommendations

[11] Public Law 97-177, "Prompt Payment Act," May 1982.

[12] Public Law 116-136, "Coronavirus Aid, Relief, and Economic Security Act," March 2020.

within their Reports on Compliance With Applicable Laws and Regulations, Contracts, and Grant Agreements.

Agency Comments

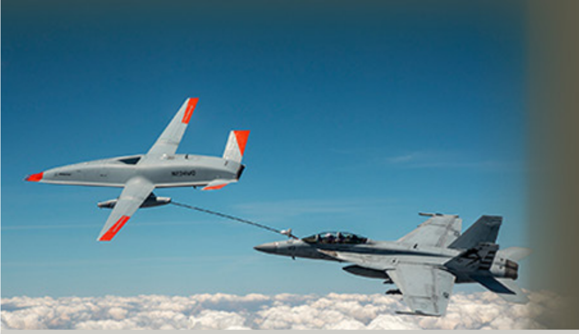
We provided a draft of this report to the Office of Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. Its personnel provided technical comments that we incorporated, as appropriate.

Purpose of this Report

The Report on Compliance With Applicable Laws and Regulations, Contracts, and Grant Agreements is an integral part of our audit. The purpose of this report is to describe the scope and results of our testing of compliance with provisions of applicable laws and regulations, contracts, and grant agreements, not to provide an opinion on compliance. This report is not suitable for any other purpose.

Lorin T. Venable

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



Principal Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, 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 and, to the extent possible, in accordance with the formats prescribed by Office of Management and Budget (OMB) *Circular No. A-136* and, U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). Reports used to monitor and control budgetary resources are prepared from the same records. The financial 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 below.

01 *Consolidated Balance Sheet*

Presents the Department's financial position as of September 30, 2021, and September 30, 2020. Assets reflect the economic benefits controlled by the Department, Liabilities reflect probable future outflows or other sacrifices of resources as a result of past transactions or events, and Net Position reflects the residual amounts.

02 *Consolidated Statement of Net Cost*

Presents the Net Cost of the Department's operations by major program for the years ended September 30, 2021, and September 30, 2020. The Department's Net Cost of Operations is equal to the gross cost incurred net of exchange revenue earned and gains/losses from actuarial assumption changes for Military Retirement Benefits.

03 *Consolidated Statement of Changes in Net Position*

Presents the change in the Department's Net Position that resulted from the Net Cost of Operations, Budgetary Financing Sources, and Other Financing Sources for the years ended September 30, 2021, and September 30, 2020.

04 *Combined Statement of Budgetary Resources*

Presents information about the Budgetary Resources available to the Department, the year-end status of the resources, and the outlays of resources for the years ended September 30, 2021, and September 30, 2020. 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 reflected in the amounts reported on the statement.

DEPARTMENT OF DEFENSE
CONSOLIDATED BALANCE SHEET

As of September 30, 2021 and 2020 (dollar in millions)	**2021** (Unaudited)	Restated **2020** (Unaudited)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 623,247.2	$ 637,175.8
Investments (Note 5)	1,430,646.9	1,281,767.1
Accounts Receivable, Net (Note 6)	5,293.5	2,207.2
Other Assets (Note 10)	705.4	879.6
Total Intragovernmental Assets	2,059,893.0	1,922,029.7
Total Other than Intragovernmental:		
Cash and Other Monetary Assets (Note 4)	1,002.9	966.3
Accounts Receivable, Net (Note 6)	5,649.8	5,149.9
Loans Receivable, Net (Note 7)	1,598.3	1,602.6
Inventory and Related Property , Net (Note 8)	326,939.6	312,438.6
General Property , Plant and Equipment, Net (Note 9)	810,150.8	785,425.8
Advances and Prepayments (Note 10)	20,688.6	20,501.8
Investments (Note 5)	11,361.7	11,361.7
Other Assets (Note 10)	34.3	232.6
Total Other than Intragovernmental:	1,177,426.0	1,137,679.3
Total Assets	3,237,319.0	3,059,709.0
Stewardship Property, Plant and Equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	4,168.0	3,621.7
Debt (Note 12)	1,600.5	1,662.6
Other Liabilities (Notes 13 and 15)	9,139.1	9,729.0
Total Intragovernmental Liabilities	14,907.6	15,013.3
Other Than Intragovernmental:		
Accounts Payable	39,363.8	36,098.3
Federal Employee and V etaran Benefits Payable (Note 13)	2,823,096.4	2,668,096.5
Environmental and Disposal Liabilities (Note 14)	81,963.4	75,041.9
Benefits Due and Payable	2.2	2.3
Loan Guarantee Liabilities (Note 7)	37.6	44.1
Other Liabilities (Notes 15, 16, and 17)	28,486.9	25,291.1
Total Other Than Intragovernmental:	2,972,950.3	2,804,574.2
Total Liabilities	2,987,857.9	2,819,587.5
Commitments and Contingencies (Note 17)		

As of September 30, 2021 and 2020 (dollar in millions)	2021 (Unaudited)	Restated 2020 (Unaudited)
Net Position (Consolidated Totals)		
Unexpended Appropriations - Funds Other Than Dedicated Collections	552,868.5	569,725.2
Total Unexpended Appropriations (Consolidated)	552,868.5	569,725.2
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	34,149.5	32,557.9
Cumulative Results of Operations - Funds Other Than Dedicated Collections	(337,556.9)	(362,161.6)
Total Cumulative Results of Operations (Consolidated)	(303,407.4)	(329,603.7)
Total Net Position	249,461.1	240,121.5
Total Liabilities and Net Position	$ 3,237,319.0	$ 3,059,709.0

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
CONSOLIDATED STATEMENT OF NET COST

For Years Ended September 30, 2021 and 2020 *(dollar in millions)*		2021 (Unaudited)		Restated 2020 (Unaudited)
Gross Program Costs (Note 19)				
Military Retirement Benefits	$	141,244.1		139,257.2
Civil Works		12,669.0		12,978.8
Military Personnel		167,230.7		157,010.7
Operations, Readiness & Support		298,728.9		284,471.2
Procurement		112,233.2		103,861.1
Research, Development, Test & Evaluation		145,624.3		110,644.6
Family Housing & Military Construction		14,331.8		9,744.4
Total Gross Program Costs		892,062.0		817,968.0
Less: Earned Revenue		(155,922.7)		(81,240.6)
Net Program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		736,139.3		736,727.4
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits (Note 13)		82,869.5		(17,375.3)
Net Cost of Operations	$	819,008.8	$	719,352.1

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

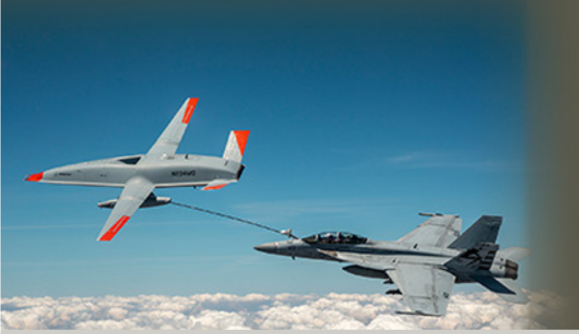
For Years Ended September 30, 2021 and 2020 (dollar in millions)	**2021** (Unaudited)	Restated **2020** (Unaudited)
Unexpended Appropriations		
Beginning Balance (Includes Funds from Dedicated Collections of $0.0 in FY2021 and $0.0 in FY2020 - See Note 18)	$ 569,725.2	$ 543,945.8
Prior Period Adjustments:		
Corrections of Errors	-	(14.7)
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $0.0 in FY 2021 and $0.0 in FY 2020 - See Note 18)	569,725.2	543,931.1
Appropriations Received	832,477.7	842,566.6
Appropriations Transferred In/Out	152.7	197.3
Other Adjustments (+/-)	(17,662.5)	(18,619.7)
Appropriations Used	(831,824.6)	(798,350.1)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections of $0.0 in FY 2021 and $0.0 in FY 2020 - See Note 18	(16,856.7)	25,794.1
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections of $0.0 in FY 2021 and $0.0 in FY 2020 - See Note 18)	552,868.5	569,725.2
Cumulative Results of Operations		
Beginning Balance	(328,658.9)	(414,155.2)
Prior Period Adjustments:		
Changes in Accounting Principles (+/-)	789.5	1,858.8
Corrections of Errors (+/-)	(944.7)	4,735.9
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $32,557.9 in FY2021 and $30,331.1 in FY2020 - See Note 18)	(328,814.1)	(407,560.5)
Other Adjustments (+/-)	(86.0)	(265.7)
Appropriations Used	831,824.6	798,350.1
Nonexchange Revenue (Note 20)	1,980.1	2,421.8
Donations and Forfeitures of Cash and Cash Equivalents	84.3	62.4
Transfers In/Out Without Reimbursement	275.1	(419.0)
Donations and Forfeitures of Property	22.8	8.2
Imputed Financing	5,174.7	4,608.2
Other (+/-)	5,139.9	(7,457.1)
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of $(315.8) in FY 2021 and $(92.2) in FY 2020 - See Note 18)	819,008.8	719,352.1
Net Change in Cumulative Results of Operations (Includes Funds from Dedicated Collections of $1,591.6 in FY 2021 and $2,226.8 in FY 2020 - See Note 18)	25,406.7	77,956.8
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections of $34,149.5 in FY 2021 and $32,557.9 in FY 2020 - See Note 18)	(303,407.4)	(329,603.7)
Net Position	$ 249,461.1	$ 240,121.5

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
COMBINED STATEMENT OF BUDGETARY RESOURCES

	2021 (Unaudited)		Restated 2020 (Unaudited)	
For Years Ended September 30, 2021 and 2020 (dollar in millions)	**Budgetary**	**Non-Budgetary Credit Reform Financing Account**	**Budgetary**	**Non-Budgetary Credit Reform Financing Account**
Budgetary Resources				
Unobligated Balance from Prior Year Budget				
Authority, Net (Discretionary and Mandatory) (Note 21)	$ 211,169.5	$ 52.0	$ 213,281.1	$ 59.9
Appropriations (Discretionary and Mandatory)	905,143.6	-	914,251.5	-
Borrowing Authority (Discretionary and Mandatory)	-	624.0	-	69.9
Contract Authority (Discretionary and Mandatory)	74,016.8	-	78,672.5	-
Spending Authority from Offsetting Collections	-	-	-	-
(Discretionary and Mandatory)	153,707.5	53.1	130,289.6	54.4
Total Budgetary Resources	1,344,037.4	729.1	1,336,494.7	184.2
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	1,168,628.6	683.9	1,157,332.3	132.2
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	150,483.4	-	151,814.0	-
Exempt from Apportionment, Unexpired Accounts	3,772.9	-	4,210.3	-
Unapportioned, Unexpired Accounts	327.3	45.2	1,982.9	52.0
Unexpired Unobligated Balance, End of Year	154,583.6	45.2	158,007.2	52.0
Expired Unobligated Balance, End of Year	20,825.2	-	21,155.2	-
Unobligated Balance, End of Year (Total)	175,408.8	45.2	179,162.4	52.0
Total Budgetary Resources	1,344,037.4	729.1	1,336,494.7	184.2
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	908,677.8	-	872,148.6	-
Distributed Offsetting Receipts (-)	(125,197.9)	-	(108,929.2)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 783,479.9	$ -	$ 763,219.4	$ -
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	$ -	$ (55.3)	$ -	$ (46.9)

The accompanying notes are an integral part of these statements.



Notes to the Financial Statements

Note Disclosures Related to the Balance Sheet

Other Statements

Note 19. *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*

Note Disclosures Not Pertaining to a Specific Statement

Note 22. *Disclosures Related to Incidental Custodial Collections*

Note 23. *Fiduciary Activities*

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

Note 25. *Public-Private Partnerships*

Note 26. *Disclosure Entities and Related Parties*

Note 27. *Security Assistance Accounts*

Note 28. *Restatements*

Note 29. *COVID-19 Activity*

Note 30. *Subsequent Events*

Note 31. *Reclassification of Financial Statement Line Items for Financial Report compilation Process*

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* (of which the *Space Force* is a component). Appendix A provides a list of the consolidation entities which comprise the Department's reporting entity for the purposes of these 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 war and ensuring our nation's security.

C. Basis of Presentation

The principal financial statements have been prepared to report the financial position, financial condition, 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 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.

To the extent possible, 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 with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). The Department is unable to fully comply with all elements of 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 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 consolidation 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 consolidation entities 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 of adopting the below recent accounting standards and other authoritative guidance issued by FASAB.

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 49*, "*Public-Private Partnerships*:" Issued on April 27, 2016; Effective for periods after September 30, 2018.

The Department identified Military Housing Privatization Initiative (*MHPI*) agreements as public-private partnerships (P3s) requiring disclosure. Accordingly, in concurrence with the considerations of SFFAS 47, "*Reporting Entity*", the Department performed assessments of the MHPI P3s and has determined that they meet the criteria for disclosure entities, in accordance with *SFFAS 47*. See Notes 25, *Public Private Partnerships* and 26, *Disclosure Entities and Related Parties* for additional disclosure details and information.

3. *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 the GPP&E line item.

4. *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.
5. *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. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under *SFFAS 58*, *"Deferral of the Effective Date of SFFAS 54, Leases:"* Issued June 19, 2020. Early adoption is not permitted.
6. *SFFAS 55*, "*Omnibus Amendments*:" Issued September 27, 2019; Effective dates vary based on the paragraph number.
7. *Interpretation 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.
8. *Technical Bulletin 2020-1*, *Loss Allowance for Intragovernmental Receivables:* Issued February 20, 2020; Effective upon issuance.

The Department has not recorded all transactions consistent with GAAP. The Department continues transitioning 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 they are for a component of the U.S. Government.

E. Accounting for Intragovernmental and Intergovernmental Activities

Treasury Financial Manual (*TFM*), 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 cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent 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, *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) consisting 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.

FBwT is an asset of the Department and a liability of the U.S. Government General Fund. Similarly, investments in Federal Government securities held by dedicated collections accounts are assets of the Department and liabilities of the U.S. Government General Fund. In both cases, the amounts represent commitments by the U.S. Government to provide resources for particular programs, but they do not represent net assets to the Government as a whole.

When the Department seeks to use FBWT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

In addition, the Department reports 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 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, no provision is made for unrealized gains or losses on these securities.

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

J. Accounts Receivable

Accounts receivable from other federal entities or the public include reimbursements 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 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 National Defense Authorization Act *(NDAA) for FY 1996*, which provides the Department with the 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*).

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, *Loans Receivable, Net and Loan Guarantee Liabilities*.

L. Inventories and Related Property

The Department values substantially all of its inventory available at historical cost using the moving average cost flow assumption. Inventory held for sale 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 to defend the nation. The Department's policy for accounting and reporting for Inventory Held for Repair is to use the allowance method as described in SFFAS 3. 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 relating 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 Materiel 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 purchases 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. The purchase method expenses OM&S when purchased. 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 additional information, see Note 8 *Inventory and Related Property*.

M. General Property, Plant and Equipment

The Department generally records General PP&E at the estimated historical cost. Some consolidating entities 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) extend the asset's useful life by two or more years, increase the asset's capability, or increase its capacity or size, and (2) equal or exceed the relevant capitalization threshold. The capitalization threshold for General PP&E assets is $250 thousand with the following exceptions:

DoD Entity	Capitalization Threshold
Department of the Navy General Fund (General Equipment and Real Property)	$1 million
Department of the Air Force General Fund (General Equipment)	$1 million
Office of the Director of National Intelligence (*ODNI*) DoD Members only	$1 million
USACE Civil Works 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, ODNI, and Department of Navy General Fund (Real Property), 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.

Contactor-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, GAAP requires 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

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, internal use software, 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. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities not covered by budgetary resources are liabilities that will require budgetary resources.

For additional information, see 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:

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30. 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. The 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 administrating 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 providing 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.

For additional information, see Note 13, *Federal Employee and Veteran Benefits Payable* and 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 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 report environmental contingencies separate from legal 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 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 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 FEHB Program and FEGLI Programs. 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

As a component of the Government-wide reporting entity, the Department is subject to the Federal budget process, which involves appropriations provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in the DoD and Government-wide financial reports.

The Department's budgetary resources reflect past congressional action and enable the Department to incur budgetary obligations, but do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

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 reports on resource usage.

General funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DoD general fund appropriations cover 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. For additional information, see 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

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 consolidating entities 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 GAAP.

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 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 and a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. 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 all activity be reported in the financial statements of the child entity.

The Department receives allocation transfers, as a child entity, from the following agencies: Departments of Agriculture, Interior, Energy, and Transportation and the Appalachian Regional Commission.

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 entity, 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 which the Department must uphold are the collection or receipt, and the management, protection, accounting, investment, and disposition of cash and other assets in which non-federal individuals or entities have an ownership interest. 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. Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2020 Balance Sheet and the related footnotes was modified to be consistent with the fiscal year 2021 presentation. The mapping of U.S. Standard General Ledger (*USSGL*) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, *Section V*. The footnotes affected by the modified presentation are Note 6, *Accounts Receivable, Net*; Note 10, *Other Assets*; Note 12, *Federal Debt and Interest Payable*; Note 13, *Federal Employee and Veteran Benefits Payable*, Note 15, *Other Liabilities*, Note 18, *Funds from Dedicated Collections*, and Note 24, *Reconciliation of Net Cost to Net Outlays*.

The Statement of Changes in Net Position also changed to conform with the presentation in OMB Circular A-136. Certain lines were consolidated. Note 18, *Funds from Dedicated Collections* was affected by the modified presentation.

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 (dollar in millions)	2021	Restated 2020
Intragovernmental Assets		
Fund Balance with Treasury	$ 3,229.2	$ 2,533.0
Accounts Receivable	0.1	1.2
Total Intragovernmental Assets	3,229.3	2,534.2
Non-Federal Assets		
Cash and Other Monetary Assets	937.2	865.4
Accounts Receivable	2,146.5	2,146.8
Other Assets	0.2	0.2
Total Non-Federal Assets	3,083.9	3,012.4
Total Non-Entity Assets	6,313.2	5,546.6
Total Entity Assets	3,231,005.8	3,054,162.4
Total Assets	$ 3,237,319.0	$ 3,059,709.0

Restatement

The Department corrected a net $5.0 billion understatement of the FY 2020 Investments (Other than Intragovernmental), Inventory, General PP&E, and other assets which affect FY 2020 Total Entity Assets in Table 2. See Note 28, *Restatements* for further information.

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 in FY 2021 are related to Foreign Military Sales and other miscellaneous receivables not otherwise classified and in FY 2020 were 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. See Note 1.H., Significant Accounting Policies, Cash and Other Monetary Assets and Note 4, *Cash and Other Monetary Assets*, for further information.

Accounts Receivable consists of amounts associated with multiple types of long-term agreements such easements, sales of hydroelectric power, recreational development, and water storage agreements; canceled year appropriations; and interest, fines, and penalties receivables. Generally, the Department cannot use the proceeds and must remit them to the Treasury unless permitted by law.

Other Assets consists of the advance or prepayment made in contemplation of future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, for other than outstanding contract financing payments or advanced personnel reimbursements.

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.

Restatements

The Department corrected a net $19.5 million understatement in Unfilled Customer Orders without Advance and a net offsetting overstatement in Receivables and Other. 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 (dollar in millions)	2021	Restated 2020
Unobligated Balance		
Available	$ 154,256.3	$ 156,024.3
Unavailable	1,325,771.4	1,190,467.0
Total Unobligated Balance	1,480,027.7	1,346,491.3
Obligated Balance Not Yet Disbursed	599,141.6	594,286.6
Non-Budgetary FBWT		
Clearing accounts	25.8	(1.4)
Deposit funds	3,282.6	2,591.9
Non-entity and other	337.6	158.9
Total Non-Budgetary FBWT	3,646.0	2,749.4
Non-FBWT Budgetary Accounts		
Investments-Treasury Securities	(1,311,428.6)	(1,174,266.2)
Unfilled Customer Orders without Advance	(105,865.0)	(89,175.1)
Contract Authority	(25,678.6)	(27,869.2)
Borrowing Authority	(658.5)	(79.9)
Receivables and Other	(15,937.4)	(14,961.1)
Total Non-FBWT Budgetary Accounts	(1,459,568.1)	(1,306,351.5)
Total FBWT	$ 623,247.2	$ 637,175.8

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.

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 $897.7 million in FY 2021 and $494.7 million in FY 2020. In addition, the Department held cash and cash equivalents for fiduciary activities in the amount of $1.5 billion in FY 2021 and $972.8 million in FY 2020; these amounts are not reported in FBWT in accordance with *SFFAS 31*. For additional information, see Note 23, *Fiduciary Activities*.

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 (dollar in millions)	2021	2020
Cash	$ 379.6	$ 488.8
Foreign Currency	623.3	477.5
Total Cash and Foreign Currency	$ 1,002.9	$ 966.3

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 2021 and FY 2020, cash includes unrestricted entity assets of $65.7 million and $100.9 million, respectively, comprised of undeposited collections and other cash.

NOTE 5. INVESTMENTS AND RELATED INTEREST

Table 5. Investments and Related Interest

	2021				
As of September 30 (dollar in millions)	**Cost**	**Amortization Method**	**Amortized (Premium) / Discount**	**Investments, Net**	**Market Value Disclosure**
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$ 1,146,106.1	Eff. Int.	$ (45,734.6)	$ 1,100,371.5	$ 1,308,521.4
Medicare Eligible Retiree					
Health Care Fund	328,169.9	Eff. Int.	(18,761.5)	309,408.4	376,709.3
U.S. Army Corps of Engineers	9,503.3	Eff. Int.	(28.6)	9,474.7	9,479.1
Other Funds	2,963.9	Eff. Int.	(33.0)	2,930.9	2,941.9
Total Non-Marketable, Market-Based	1,486,743.2		(64,557.7)	1,422,185.5	1,697,651.7
Accrued Interest	8,461.4		N/A	8,461.4	8,461.4
Total Intragovernmental Securities	1,495,204.6		(64,557.7)	1,430,646.9	1,706,113.1
Other Investments	$ 11,361.7	Eff. Int.	$ -	$ 11,361.7	N/A
Legend for Amortization Methods: Eff. Int. = Effective Interest Method					

	Restated 2020				
As of September 30 (dollar in millions)	**Cost**	**Amortization Method**	**Amortized (Premium) / Discount**	**Investments, Net**	**Market Value Disclosure**
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$ 1,013,708.9	Eff. Int.	$ (40,106.4)	$ 973,602.5	$ 1,218,732.9
Medicare Eligible Retiree					
Health Care Fund	305,586.8	Eff. Int.	(17,785.7)	287,801.1	363,974.1
U.S. Army Corps of Engineers	9,280.8	Eff. Int.	20.5	9,301.3	9,341.5
Other Funds	2,993.8	Eff. Int.	(23.0)	2,970.8	3,052.1
Total Non-Marketable, Market-Based	1,331,570.3		(57,894.6)	1,273,675.7	1,595,100.6
Accrued Interest	8,091.4		N/A	8,091.4	8,091.4
Total Intragovernmental Securities	1,339,661.7		(57,894.6)	1,281,767.1	1,603,192.0
Other Investments	$ 11,361.7	Eff. Int.	$ -	$ 11,361.7	N/A
Legend for Amortization Methods: Eff. Int. = Effective Interest Method					

Restatement

Total Other Investments was restated as of the beginning of FY 2020 to correct an understatement of $7.9 billion. See additional details in the last paragraph of this note and on Note 28, *Restatements*.

Other Disclosures

The Department invests primarily in non-marketable, market-based Treasury securities (See Note 1.I *Significant Accounting Policies*). 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 were issued to trust and special funds legally authorized to invest funds with Treasury 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.

In FY 2021, the U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of $9.1 billion in the Harbor Maintenance Trust Fund for FY 2021 and FY 2020, respectivley.

In FY 2021, Other Funds consists primarily of $1.7 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.0 billion in investments of the DoD Education Benefits Trust Fund. In FY 2020, Other Funds consists primarily of $1.6 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.0 billion in investments of the DoD Education Benefits Trust Fund.

Total Other Investments consists of Military Housing Privatization Initiative (MHPI) limited partnerships (LP) and limited liability companies (LLC). These business enterprises are designed as public-private partnerships, which are defined as long-term contractual arrangements between the government and the private sector whereby the private partner delivers and funds public services using a capital asset, and sharing the associated risks. 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, housing or facilities as equity, and the Department's involvement in the operations and management of the LP/LLC is governed by evaluating the percentage of ownership interest, along with analyzing the indicators of control, which determines the level of influence over the partnership. See Note 25, *Public-Private Partnerships* for additional information on cash and non-cash contributions to the MHPI limited partnerships.

In accordance with *SFFAS 21*, the MHPI investments were restated as of the beginning of FY 2020 to correct an understatement of $7.9 billion and record the value of the real property assets previously contributed by the Department to the LPs and LLCs associated with the MHPI projects. The values were established using estimated real property values from the time frame that the related MHPI agreements were entered into. Previously, the investment balance reported only the Department's cash contributions.

NOTE 6. ACCOUNTS RECEIVABLE, NET

Table 6. Accounts Receivable, Net

	2021		
As of September 30 (dollar in millions)	**Gross Amount Due**	**Allowance for Estimated Uncollectibles**	**Accounts Receivable, Net**
Intragovernmental Receivables	$ 5,365.2	$ (71.7)	$ 5,293.5
Non-Federal Receivables (From the Public)	6,651.3	(1,001.5)	5,649.8
Total Accounts Receivable	$ 12,016.5	$ (1,073.2)	$ 10,943.3

	Restated 2020		
As of September 30 (dollar in millions)	**Gross Amount Due**	**Allowance for Estimated Uncollectibles**	**Accounts Receivable, Net**
Intragovernmental Receivables	$ 2,239.1	$ (31.9)	$ 2,207.2
Non-Federal Receivables (From the Public)	6,051.9	(902.0)	5,149.9
Total Accounts Receivable	$ 8,291.0	$ (933.9)	$ 7,357.1

Restatements

The Department corrected a $7.7 million overstatement (net) of the FY 2020 Intragovernmental Receivables. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures

Intragovernmental Receivables increased $2.7 billion, primarily attributable to reimbursable activity for Operation Warp Speed which included the prioritizing, packaging and distribution of the COVID-19 vaccine. The Department recognized a $755.0 million increase with the Department of Homeland Security's FEMA Disaster Relief Fund.

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*. Allowances for uncollectible accounts due from the public are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances.

FASAB issued *Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables* which clarified previously issued guidance. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. The intragovernmental allowance was calculated using the same methodology as for public receivables.

The gross amount due for Non-Federal Receivables (From the Public) for FY 2021 includes criminal restitution orders of $391.3 million monitored by the Department, of which $6.0 million 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. For FY 2020, the criminal restitution orders were $370.1 million of which $18.3 million was determined to be collectible.

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.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

Direct Loan and Loan Guarantee Programs

Military Housing Privatization Initiative (MHPI)

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.

There were no credit program activities subject to the FCRA identified in FY 2021 or FY 2020.

MHPI Loan Modification

Since inception of the program, no direct loan project has ever defaulted on its obligations to MHPI. The Department recognizes that situations may arise that necessitate the modification of the terms of certain direct loan agreements to ensure the sustainability of affected projects. Although projects may not be at risk of imminent default or forecasted to have debt issues, a sustainment review is performed every 2 to 3 years outlining the needs of a project. On an annual basis, there is a re-forecast of projected cash flows to assess each project's sustainability.

- No modifications were completed during the period of 2021.
- Loan modification completed during the period of 2020 is as follows:

The sustainment review for the three-base BLB Group (Barksdale Langley Bolling) project consisting of Barksdale Air Force Base (AFB), Langley AFB, and Joint Base Anacostia Bolling identified an estimated $100.0 million shortfall in sustainment funding over the next 10 years, which would have potentially impacted the overall viability of the project. These sustainment funding shortfalls would likely have led to a debt service issue if occupancy were impacted by the deteriorating housing product at the project. As a result, the OMB approved a restructure of the project, and a government direct loan modification was completed on May 8, 2020. The government direct loan modification cost, using Air Force General Fund budgetary authority, was $56.0 million. The subsidy cost allowance portion of the modification was $52.4 million and referenced in Table 7D and 7F. As a condition of the restructure, the Air Force also obtained a commensurate concession from the project owner.

There was no single effective discount rate used in calculating the modification. The present value (PV) factors were applied to each cash flow year based on OMB's PV factors. The basis for recognizing a gain or loss on the modification of the loan is the difference between the net present value (NPV) before and after the modification. In this specific modification, the Air Force transferred Military Construction funding to MHPI to cover additional costs.

MHPI Projects Under Review

Currently the following project is under review and subject to possible modification:

The Air Education and Training Command (AETC) I direct loan project

In October 2018, Tyndall AFB suffered a direct hit by Hurricane Michael and all 867 privatized units (813 end state and 54 excess units) sustained damage. The Basic Allowance for Housing at Tyndall continues to be suspended. Tyndall provided 42.0% of total Net Operating Income for the AETC I direct loan project consisting of Altus AFB, Oklahoma; Luke AFB, Arizona; Sheppard AFB, Texas; and Tyndall AFB, Florida. In January 2019, OMB approved a 12-month forbearance of the AETC I direct loan, which is in an interest-only period through February 2023 pending the development of a restructuring plan.

The Air Force and project owner adopted a two-phased approach, working closely with the senior lender in establishing a plan to restore and rebuild homes at Tyndall AFB with a central focus on achieving the stated mission of the project. The Phase I Tyndall restoration was approved by OMB on October 4, 2019. The Phase I plan uses funds from the Non-Debt Sized Units (separate units under the same project but which have a separate cash flow waterfall) at the Northern Group and Western Group MHPI projects as a loan to the AETC Group I project through a credit facility to address a funding shortfall in the proposed restoration plan in Phase I. The loan is non-recourse, no interest, and payable at the end of the AETC I lease term. The Phase I plan also included the Air Force take-back of 274 units for demolition, which has been completed. Phase II will include a restructure of the AETC I project to ensure long-term sustainment and is anticipated to include adjustments to the Government Direct Loan and other changes to project deal terms to ensure the viability of the AETC I project through the end of the lease term.

FY 2020: At the end of first quarter of FY 2020, the Project Owner experienced delays in receiving the next major tranche of insurance proceeds. Ongoing delays in recovering units at Tyndall AFB may place repayment of the government direct loan at risk as the project is currently using Non-Debt Sized Units loan funds to avoid a default.)

FY 2021: By the end of the FY 2021, 97 homes were online and available for occupancy with the remaining 496 homes to be fully restored.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

In response to the Coronavirus Disease 2019 (COVID-19) outbreak, *Executive Order (EO) 13922* issued on May 14, 2020, authorizes the Chief Executive Officer of the U.S. International Development Finance Corporation (*DFC*) to originate and monitor loans on the Department's behalf while the Department maintains responsibility to commit, obligate, invoice and financially report the government direct loans. This delegation of authority applies for the 2-year period ending March 27, 2022, during which time the requirements described in section 302(c)(1) of the Defense Production Act (DPA) (*50 U.S.C. 4532(c)(1)*) are waived pursuant to Title III of Division B of the Coronavirus Aid, Relief, and Economic Security Act (*CARES*). The EO delegates DPA loan authority for purchases and commitments to purchase, and takes additional actions to create, maintain, protect, and expand the domestic industrial base capabilities, including supply chains within the United States and its territories, needed to respond to the COVID-19 outbreak. The Department has not yet originated any direct loans under this authority.

Table 7A. Summary of Direct Loans and Loan Guarantees

As of September 30 (dollar in millions)	2021	2020
Loans Receivable, Net		
Direct Loan		
Military Housing Privatization Initiative	$ 1,598.3	$ 1,602.6
Total Direct Loan	1,598.3	1,602.6
Total Default Loan Guarantees	-	-
Total Loans Receivable, Net	$ 1,598.3	$ 1,602.6

As of September 30 (dollar in millions)	2021	2020
Loan Guarantee Liabilities		
Military Housing Privatization Initiative	$ 37.6	$ 44.1
Total Loan Guarantee Liabilities	$ 37.6	$ 44.1

Loans Receivable

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

- Loan disbursements;
- Repayment 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

As of September 30 (dollar in millions)	2021	2020
Direct Loans Obligated After FY 1991:		
Military Housing Privatization Initiative		
Loans Receivable, Gross	$ 1,757.3	$ 1,755.2
Allowance for Subsidy Cost (Present Value)	(159.0)	(152.6)
Direct Loans, Net	$ 1,598.3	$ 1,602.6

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 (Post-1991)

As of September 30 (dollar in millions)	2021	2020
Direct Loan Program		
Military Housing Privatization Initiative	$ 32.3	$ -

The $32.3 million disbursement made in October 2020 was the fourth of six scheduled distributions under an existing Air Force direct loan project. The fifth and sixth distributions are scheduled to occur in FY 2022. See Table 7D for the related subsidy expense for new direct loans disbursed and further discussion of subsidy expense on Table 7E.

Table 7D. Subsidy Expense for Direct Loan by Program

Table 7D.1. Subsidy Expense for New Direct Loans Disbursed

	2021				
As of September 30 (dollar in millions)	**Interest Differential**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
Military Housing Privatization Initiative	$ 4.5	$ 3.8	$ -	$ -	$ 8.3

	2020				
As of September 30 (dollar in millions)	**Interest Differential**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
Military Housing Privatization Initiative	$ -	$ -	$ -	$ -	$ -

Table 7D.2. Direct Loan Modifications and Reestimates

	2021			
As of September 30 (dollar in millions)	**Total Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**
Military Housing Privatization Initiative	$ -	$ (0.2)	$ 2.4	$ 2.2

	2020			
As of September 30 (dollar in millions)	**Total Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**
Military Housing Privatization Initiative	$ 52.4	$ 17.5	$ 42.5	$ 60.0

Table 7D.3. Total Direct Loan Subsidy Expense

As of September 30 (dollar in millions)	2021	2020
Military Housing Privatization Initiative	$ 10.5	$ 112.4

See the MHPI Loan Modification section at the beginning of this Note for an explanation of the $52.4 million direct loan modification in FY 2020.

Table 7E. Budget Subsidy Rates for Direct Loans by Program for the Current Year's Cohorts

	2021				
As of September 30	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 2021 and FY 2020; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

The budget assumption discount rates are part of the economic assumptions for the budget year of obligation. Economic assumptions include the interest rates used for discounting cash flows, the rate of inflation, and may include other assumptions as applicable to a particular program. They also include the interest rate charged to the borrower on the loan, if the rate is tied to a variable benchmark, such as the rate on specified Treasury securities.

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 the current year (when applicable) and prior-year loan guarantees. Subsidy expense reported in the current year also includes re-estimates.

The Department is required to re-estimate the subsidy cost throughout the life of each direct loan or loan guarantee to account for differences between the original assumptions of cash flow and actual cash flow or revised assumptions about future cash flow. These re-estimates represent additional costs or savings to the Government, new forecasts about future economic conditions, and other events and improvements in the methods used to estimate future cash flows.

Table 7F. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

As of September 30 (dollar in millions)	2021	2020
Beginning Balance of the Subsidy Cost Allowance	$ 152.6	$ 42.2
Add total subsidy expense for direct loans disbursed during the reporting years shown in Table 7D.1 and 7D.2	8.3	-
Adjustments:		
Loan Modifications	-	52.4
Subsidy Allowance Amortization	(4.1)	(2.0)
Other	-	-
Ending Balance of the Subsidy Cost Allowance before Reestimates	156.8	92.6
Add or subtract total subsidy reestimates as shown in Table 7D.3 and 7D.4	2.2	60.0
Ending Balance of the Subsidy Cost Allowance	$ 159.0	$ 152.6

The data used for budgetary subsidiary cost estimates are updated, or re-estimated, annually after the end of the fiscal year to reflect actual loan performance and to incorporate any changes in assumptions about future loan performance. An upward re-estimate indicates that insufficient funds had been paid to the financing account. A downward re-estimate indicates that too much subsidy had been paid to the financing account.

In cases where the Department executes a risk category on a loan-by-loan basis, increases or decreases in subsidy cost for different loans within the same cohort and risk category will be netted against each other; that is, loans which require increased subsidies may first draw on the excess from any risk categories within the cohort where the re-estimate shows a subsidy decrease. Characteristics or indicators that may predict cost include the loan-to-value ratio; the relationship between the loan interest rate and relevant market rates; type of school attended for education loans; country risk categories for international loans; various asset or income rations; and major contract terms.

See the MHPI Loan Modification section at the beginning of this Note for an explanation of the $52.4 million Loan Modification Adjustment on the table above and on Table 7D.4 for FY 2020.

Table 7G. Defaulted Guaranteed Loans from Post-1991 Guarantees

There were no defaulted loan guarantees in FY 2021 or FY 2020

Loan Guarantee Liabilities

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.

In estimating default costs, the following risk factors are considered: (a) loan performance experience; (b) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (c) financial and other relevant characteristics of borrowers; (d) the value of collateral to the loan balance; (e) changes in recoverable value of collateral; and (f) newly developed events that would affect the performance of the loan. Improvements in methods to re-estimate defaults also are considered.

Table 7H. Guaranteed Loans Outstanding

Table 7H.1. Guaranteed Loans Outstanding

	2021		2020	
As of September 30 (dollar in millions)	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$ 924.8	$ 924.8	$ 943.2	$ 943.2

Table 7H.2. New Guaranteed Loans Disbursed

There were no new guaranteed loan disbursed in FY 2021 or FY 2020.

Table 7I. Liabilities for Loan Guarantees (Present Value)

As of September 30 (dollar in millions)	2021	2020
Liabilities for Post-1991 Guarantees (Present Value):		
Military Housing Privatization Initiative	$ 37.6	$ 44.1
Total Loan Guarantee Liabilities for Loan Guarantees	$ 37.6	$ 44.1

Table 7J. Subsidy Expense for Loan Guarantees by Program

Table 7J.1. Subsidy Expense for New Loan Guarantees

There were no subsidy expenses for new loan guarantees in FY 2021 or FY 2020.

Table 7J.2. Modifications and Reestimates

	2021			
As of September 30 (dollar in millions)	**Total Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**
Military Housing Privatization Initiative	$ -	$ (1.8)	$ (5.8)	$ (7.6)

	2020			
As of September 30 (dollar in millions)	**Total Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**
Military Housing Privatization Initiative	$ -	$ (1.8)	$ (6.1)	$ (7.9)

Table 7J.3. Total Loan Guarantee Subsidy Expense

As of September 30 (dollar in millions)	2021	2020
Military Housing Privatization Initiative	$ (7.6)	$ (7.9)

Table 7K. Budget Subsidy Rates for Loan Guarantees by Program for the Current Year's Cohorts

	2021				
As of September 30	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 2021 and FY 2020; 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 (Post-FY1991 Loan Guarantees)

As of September 30 (dollar in millions)	2021	2020
Beginning Balance of the Loan Guarantee Liabilities	$ 44.1	$ 50.7
Add interest expense on entity borrowings	1.1	1.3
Less downward reestimates	(7.6)	(7.9)
Ending Balance of the Loan Guarantee Liabilities	$ 37.6	$ 44.1

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, NET

Table 8A. Inventory and Related Property, Net

As of September 30 (dollar in millions)	2021	Restated 2020
Inventory, Net	$ 111,644.5	$ 108,748.3
Operating Materiels & Supplies, Net	214,243.8	202,720.9
Stockpile Materiel, Net	1,051.3	969.4
Total Inventory and Related Property, Net	$ 326,939.6	$ 312,438.6

Restatement

The Department corrected a FY 2020 $2.2 billion understatement (net) of operating material and supplies and a $6.0 million overstatement of stockpile materiel. See Table 8C. *OM&S Categories* and Table 8D. *Stockpile Materiel Categories* for further information. Also, see Note 28, *Restatements* for a summary of all restatements and further information.

Inventory, Net

Table 8B. Inventory Categories

	2021			
As of September 30 (dollar in millions)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$ 71,230.8	$ (163.2)	$ 71,067.6	LAC, MAC
Held in Reserve for Future Sale	872.5	-	872.5	LAC, MAC
Held for Repair	42,855.0	(6,092.6)	36,762.4	LAC, MAC
Raw Materials	1,376.6	-	1,376.6	LAC, MAC
Work-in-Process	1,565.4	-	1,565.4	LAC, MAC
Excess, Obsolete and Unserviceable	682.4	(682.4)	-	NRV
Total	$ 118,582.7	$ (6,938.2)	$ 111,644.5	

Table 8B. Inventory Categories (continued)

	2020			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$ 68,627.4	$ (413.4)	$ 68,214.0	LAC, MAC
Held in Reserve for Future Sale	991.3	-	991.3	LAC, MAC
Held for Repair	41,485.7	(5,465.1)	36,020.6	LAC, MAC
Raw Materials	1,415.6	-	1,415.6	LAC, MAC
Work-in-Process	2,106.8	-	2,106.8	LAC, MAC
Excess, Obsolete and Unserviceable	591.7	(591.7)	-	NRV
Total	$ 115,218.5	$ (6,470.2)	$108,748.3	

Legend for Valuation Methods:
LAC = Latest Acquisition Cost, adjusted for holding gains and losses
NRV = Net Realizable Value; MAC = Moving Average Cost

General Composition of Inventory

Inventory is tangible personal property that is held for sale, 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 types of inventory to a category based on 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 $4.7 billion in FY 2021 ($2.6 billion in FY 2020), 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 (*DeCA*) inventory with a recorded value of $343.0 million in FY 2021 ($313.6 million in FY 2020), 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 $96.8 million in FY 2021 ($111.5 million in FY 2020).

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

Operating Materiels and Supplies, Net

Table 8C. OM&S Categories

As of September 30 (dollar in millions)	2021 OM&S, Gross Value	2021 Revaluation Allowance	2021 OM&S, Net	Valuation Method
Held for Use	$ 154,293.2	$ -	$ 154,293.2	Note 1
Held in Reserve for Future Use	23,193.0	-	23,193.0	Note 1
Held for Repair	32,497.1	(924.3)	31,572.8	Note 1
In Development	5,184.8	-	5,184.8	Note 1
Excess, Obsolete and Unserviceable	691.6	(691.6)	-	NRV
Total	$ 215,859.7	$ (1,615.9)	$ 214,243.8	

As of September 30 (dollar in millions)	Restated 2020 OM&S, Gross Value	Restated 2020 Revaluation Allowance	Restated 2020 OM&S, Net	Valuation Method
Held for Use	$ 145,095.6	$ -	$ 145,095.6	Note 1
Held in Reserve for Future Use	38,582.6	-	38,582.6	Note 1
Held for Repair	14,738.1	-	14,738.1	Note 1
In Development	4,304.6	-	4,304.6	Note 1
Excess, Obsolete and Unserviceable	3,242.5	(3,242.5)	-	NRV
Total	$ 205,963.4	$ (3,242.5)	$ 202,720.9	

Legend for Valuation Methods:
Note 1: Direct Method, Historical Cost, Moving Average Cost, Replacement Price, and Standard Price
NRV = Net Realizable Value

General Composition of OM&S

OM&S consists of tangible personal property to be consumed in normal operations, including spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns types of OM&S to a category based on condition.

During FY 2021, the Department restated FY 2020 OM&S. By category, the correction was for an understatement of $2.1 billion for Held for Use; $122.2 million for Held in Reserve for Future Use; and $37.7 million in Held for Repair. Excess, Obsolete and Unserviceable inventory and its related allowance were also restated for a FY 2020 $192.5 million understatement. See Note 28, *Restatements* for a summary of all restatements and further information.

For additional information, see Note 1. *Significant Accounting Policies D. Basis of Accounting.*

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.

Stockpile Materiel, Net

Table 8D. Stockpile Materiel Categories

As of September 30 (dollar in millions)	2021 Stockpile Materiel, Gross Value	2021 Allowance for Gains (Losses)	2021 Stockpile Materiel, Net	Valuation Method
Held for Sale	$ 10.1	$ -	$ 10.1	MAC
Held in Reserve for Future Sale	1,041.2	-	1,041.2	MAC
Total	$ 1,051.3	$ -	$ 1,051.3	

As of September 30 (dollar in millions)	Restated 2020 Stockpile Materiel, Gross Value	Restated 2020 Allowance for Gains (Losses)	Restated 2020 Stockpile Materiel, Net	Valuation Method
Held for Sale	$ 17.4	$ -	$ 17.4	MAC
Held in Reserve for Future Sale	952.0	-	952.0	MAC
Total	$ 969.4	$ -	$ 969.4	

Legend for Valuation Methods: MAC = Moving Average Cost

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 Defense Logistics Agency (DLA) National Defense Stockpile Transaction Fund reported stockpile materiel for FY 2021 and FY 2020 with a net value of $809.3 million and $740.4 million, respectively and with estimated market value of $1.3 billion for FY 2021 and $888.1 million for FY 2020.

The Defense Health Programs (DHP) reported stockpile materiel with a net value $242.0 million for FY 2021 and $229.0 million for FY 2020. The estimated market value is unknown at this time.

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. Stockpile materiel held for sale includes ores, metals, and alloys authorized for sale. For additional information on Defense Logistics Agency's mission related to the National Defense Stockpile, please see: *DLA Strategic Materials*.

The DHP's stockpile materiel includes medicine, vaccines and other biological products, medical devices and other supplies.

The COVID-19 vaccine is not reported by the Department as Inventory and Related Property, as stockpile materiel or other inventory categories, or as other assets. The title for COVID-19 vaccine handled by the Department does not transfer to the Department. Defense Logistics Agency's role is a courier service on behalf of the U.S. Department of Health and Human Services (*HHS*), and DHP's role is administering the vaccine. However, neither role provides for the transfer of title to DoD.

During FY 2021, the Department restated FY 2020 Stockpile Materiel, Held in Reserve for Future Sale to correct a FY 2020 overstatement of $6.0 million. See Note 28, *Restatements* for a summary of all restatements and further information.

NOTE 9. GENERAL PP&E, NET

Table 9A. Major General PP&E Asset Classes

	2021				
As of September 30 (dollar in millions)	**Depreciation / Amortization Method**	**Service Life**	**Acquisition Value**	**(Accumulated Depreciation / Amortization)**	**Net Book Value**
Land	N/A	N/A	$ 9,110.0	N/A	$ 9,110.0
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	343,470.2	(185,840.9)	157,629.3
Leasehold Improvements	S/L	Lease Term	697.1	(403.1)	294.0
Software	S/L	2 - 5 or 10	11,965.9	(5,266.8)	6,699.1
General Equipment	S/L	Various	1,181,466.5	(711,670.4)	469,796.1
Assets Under Capital Lease	S/L	Lease Term	367.1	(303.5)	63.6
Construction in Progress	N/A	N/A	166,283.6	N/A	166,283.6
Other	N/A	N/A	868.5	(593.4)	275.1
Total General PP&E			$1,714,228.9	$ (904,078.1)	$ 810,150.8

	Restated 2020				
As of September 30 (dollar in millions)	**Depreciation / Amortization Method**	**Service Life**	**Acquisition Value**	**(Accumulated Depreciation / Amortization)**	**Net Book Value**
Land	N/A	N/A	$ 9,106.1	N/A	$ 9,106.1
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	470,310.3	(302,648.7)	167,661.6
Leasehold Improvements	S/L	Lease Term	705.5	(375.7)	329.8
Software	S/L	2 - 5 or 10	11,450.6	(5,113.3)	6,337.3
General Equipment	S/L	Various	1,145,016.8	(674,485.6)	470,531.2
Assets Under Capital Lease	S/L	Lease Term	367.1	(294.9)	72.2
Construction in Progress	N/A	N/A	130,921.9	N/A	130,921.9
Other	N/A	N/A	10,059.0	(9,593.3)	465.7
Total General PP&E			$1,777,937.3	$ (992,511.5)	$ 785,425.8

Legend for Depreciation/Amortization Methods: S/L = Straight Line Method
** Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings*

The Department's General PP&E consists primarily of buildings and structures, furniture and fixtures, equipment, vehicles, internal use software, and land. A building is a roofed and floored facility with exterior walls and one or more levels suitable for single or multiple functions, including protecting human beings and enclosed property from direct harsh effects of weather and other natural factors (e.g., office building, hospital, housing, museum). A linear structure is a facility whose function requires traversing land (e.g., runway, road, rail line, pipeline, fence, pavement, electrical distribution line). A structure is a facility, other than a building or linear structure, constructed on or in the land (e.g., bridge, dam, parking garage).

Restatement

The Department corrected a $5.1 billion overstatement of the net book value of Buildings, Structures, and Facilities, Construction-in-Progress, and General Equipment. These overstatements were primarily due to the revaluations of Real Property, Military Equipment (aircraft and missiles), as well as Construction-in-Progress. See Note 28, *Restatements*, and other Notes cited there for further information.

Other Disclosures

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

The Department 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 consolidation entities 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 consolidation entities are excluded from General PP&E opening balances in FY 2021, as permitted under *SFFAS 50*. The total acreage of land and land rights excluded in this manner was 23,566,363 in FY 2021 and 23,521,368 in FY 2020.

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. Multi-use heritage assets are recognized and presented with General PP&E in the basic financial statements, and additional information for the multi-use heritage assets is included with the heritage assets information below and in the Required Supplementary Information section.

The Department is unable to identify quantities of heritage assets and stewardship land added through donation or devise (e.g., a clause in a will leaving real estate to the Department) due to limitations of financial and non-financial management processes and systems. However, the Department continues to progress towards this goal. The Department is also working towards disclosing transfers of heritage assets and stewardship land, as well as establishing standardized methods for acquisition and withdrawal. The heritage asset quantities for Buildings and Structures decreased by 1,105 between the FY 2020 ending unit counts and the FY 2021 beginning unit counts. This is due to a revision on one consolidation entity's FY 2020 AFR not reflected in the DoD-wide FY 2020 consolidated count.

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, as amended*. 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.

Table 9B. Heritage Assets

For the period ended September 30, 2021 (physical unit count)	**Beginning Balance**	**Additions**	**(Deletions)**	**Ending Balance**
Categories:				
Buildings and Structures	30,715	9,855	(35)	40,535
Archeological Sites	14,087	32	(356)	13,763
Museum Collection Items (Objects, Not Including Fine Art)	1,280,403	7,520	(6,623)	1,281,300
Museum Collection Items (Objects, Fine Art)	60,708	228	(5,165)	55,771

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 by facility type and reported in acres based on the predominant use of the land.

Table 9C. Stewardship Land

For the Period Ended September 30, 2021
(acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	1,540	6,764	(61)	8,243
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	8,272	15	(5,627)	2,660
9140	Public Land	5	1	-	6
Total Stewardship Land		9,817	6,780	(5,688)	10,909
9130	Licensed and Permitted Land	728	-	(728)	-
9210	Land Easement	10	-	(10)	-
9220	In-leased Land	102	-	(102)	-
9230	Foreign Land	297	-	(297)	-
Total All Other Land		1,137	-	(1,137)	-
Grand Total		10,954	6,780	(6,825)	10,909

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.

for All Other Lands consists of Licensed and Permitted Land, Land Easement, In-Leased Land, and Foreign Land. These categories are not included in the total amount of considered Stewardship Land. A consolidation entity of the Department recategorized land balances previously under All Other Land and Withdrawn Public Land. As of September 30, 2021, the land balances were categorized as Government Owned Land, due to the reconfiguration of its Accountable Property System of Record (APSR). Research is on-going to determine the correct categorization of land and to validate land acreage amounts reported in the APSR.

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.

Summary of Activity

To support the Financial Report of the United States Government compilation process for General PP&E, Net, activity for the current and prior years are provided in Table 9D.

Table 9D. General PP&E, Net – Summary of Activity

As of September 30 (dollar in millions)	2021	Restated 2020
General PP&E, Net beginning of year	$ 785,425.8	$ 760,601.8
Capitalized acquisitions	79,436.5	28,541.8
Dispositions	(2,971.1)	(849.0)
Transfer in/(out) without reimbursement	285.0	222.2
Revaluations(+/-)	3,279.9	51,220.4
Depreciation expense	(58,717.5)	(54,273.6)
Other(+/-)	3,412.2	(37.8)
General PP&E, Net end of year	$ 810,150.8	$ 785,425.8

NOTE 10. OTHER ASSETS

Table 10. Other Assets

As of September 30 (dollar in millions)	2021	Restated 2020
Intragovernmental		
Advances and Prepayments	$ 705.4	$ 879.6
Total Intragovernmental	705.4	879.6
Other than Intragovernmental		
Outstanding Contract Financing Payments	19,088.1	19,655.1
Advances and Prepayments	1,600.5	846.7
Other Assets	34.3	232.6
Subtotal	20,722.9	20,734.4
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(20,688.6)	(20,501.8)
Net Other than Intragovernmental	34.3	232.6
Total Other Assets	$ 739.7	$ 1,112.2

Restatement

The Department corrected a $1.2 million understatement of the FY 2020 Other than Intragovernmental Advances and Prepayments. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental

Advances and Prepayments are amounts advanced or prepaid to other federal agencies. Advances are payments made before a good or a service is actually received, such a travel advance. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred, such as prepaid rent.

Other than Intragovernmental

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, are contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets.

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 2021, Other Assets (Other than Intragovernmental) consists primarily of general property, plant, and equipment that is permanently removed from service but not yet disposed and for a payment for goods which would not be properly classified as a prepayment or advance. In FY 2020, Other Assets (Other than Intragovernmental) consisted primarily of general property, plant, and equipment that was permanently removed from service but not yet disposed.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30 *(dollar in millions)*	2021	Restated 2020
Intragovernmental Liabilities		
Accounts payable	$ 1,221.6	$ 1,123.9
Debt	-	0.1
Other	991.9	1,172.8
Total Intragovernmental Liabilities	2,213.5	2,296.8
Other than Intragovernmental Liabilities		
Accounts payable	3,218.2	2,143.0
Federal employee and veteran benefits payable	1,524,057.7	1,505,346.8
Environmental and disposal liabilities	79,266.7	72,307.7
Other liabilities	3,405.6	2,476.6
Total Other than Intragovernmental Liabilities	1,609,948.2	1,582,274.1
Total Liabilities Not Covered by Budgetary Resources	1,612,161.7	1,584,570.9
Total Liabilities Covered by Budgetary Resources	1,375,696.2	1,235,016.6
Total Liabilities Not Requiring Budgetary Resources	-	-
Total Liabilities	$ 2,987,857.9	$ 2,819,587.5

Restatement

The Department corrected a net $22.9 million overstatement of Total Liabilities Covered by Budgetary Resources. See Note 28, *Restatements,* for a summary of all restatements and further information.

Intragovernmental Liabilities

Accounts payable consists primarily of amounts due for unfunded *Judgment Fund* liabilities.

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

Other than Intragovernmental Liabilities

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

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2021, these liabilities primarily consist of $920.6 billion in pension liabilities and $582.4 billion in health benefit liabilities. In FY 2020, these liabilities primarily consist of $901.7 billion in pension liabilities and $583.5 billion in health benefit liabilities. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, 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.

In FY 2021, Other Liabilities consists primarily of expected expenditures for the unfunded non-environmental disposal of conventional munitions and contingent liabilities. In FY 2020, Other Liabilities consisted primarily of contingent liabilities and other liabilities not otherwise classified.

Total Liabilities

Budgetary Resources includes (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 requires future congressional action before budgetary resources can be provided; whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

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

NOTE 12. FEDERAL DEBT AND INTEREST PAYABLE

Table 12. Debt

As of September 30 (dollar in millions)	2021 Beginning Balance	2021 Net Borrowing	2021 Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 1,662.6	$ (62.1)	$ 1,600.5
Total Agency Debt	1,662.6	(62.1)	1,600.5
Total Debt	$ 1,662.6	$ (62.1)	$ 1,600.5

As of September 30 (dollar in millions)	2020 Beginning Balance	2020 Net Borrowing	2020 Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 1,714.1	$ (51.5)	$ 1,662.6
Total Agency Debt	1,714.1	(51.5)	1,662.6
Total Debt	$ 1,714.1	$ (51.5)	$ 1,662.6

The Department's debt consists of principal amounts due to the Treasury. The Department borrows funds from the Treasury for the Military Housing Privatization Initiative (MHPI). Debt is established when MHPI borrows funds from the Treasury to provide loans to the private sector for the acquisition, construction and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the Treasury. See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities* for more information pertaining to the MHPI direct loan program. In addition, during Fiscal Year 2021, the remaining balance for the Washington Aqueduct Capital Improvements Project was paid.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

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. Federal Employee and Veteran Benefits Liability

	2021		
As of September 30 (dollar in millions)	**Liabilities**	**(Assets Available to Pay Benefits)**	**Unfunded Liabilities**
Pension and Health Benefits			
Military Retirement Pensions	$ 1,928,444.6	$ (1,007,817.7)	$ 920,626.9
Military Pre Medicare-Eligible Retiree Health Benefits	256,828.6	-	256,828.6
Military Medicare-Eligible Retiree Health Benefits	609,423.6	(283,822.0)	325,601.6
Total Pension and Health Benefits	2,794,696.8	(1,291,639.7)	1,503,057.1
Other Benefits			
FECA	5,230.7	-	5,230.7
Voluntary Separation Incentive Programs	136.5	(62.5)	74.0
DoD Education Benefits Fund	565.8	(565.8)	-
Other	22,466.6	(6,770.7)	15,695.9
Total Other Benefits	28,399.6	(7,399.0)	21,000.6
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	2,823,096.4	(1,299,038.7)	1,524,057.7
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	2,174.4	(1,181.4)	993.0
Total Federal Employee and Veteran Benefits Payable	$ 2,825,270.8	$ (1,300,220.1)	$ 1,525,050.7

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: $1.7 trillion

Table 13A. Federal Employee and Veteran Benefits Liability (continued)

	2020		
As of September 30 (dollar in millions)	**Liabilities**	**(Assets Available to Pay Benefits)**	**Unfunded Liabilities**
Pension and Health Benefits			
Military Retirement Pensions	$ 1,794,054.3	$ (892,379.0)	$ 901,675.3
Military Pre Medicare-Eligible Retiree Health Benefits	270,264.7	-	270,264.7
Military Medicare-Eligible Retiree Health Benefits	576,131.0	(262,934.3)	313,196.7
Total Pension and Health Benefits	2,640,450.0	(1,155,313.3)	1,485,136.7
Other Benefits			
FECA	5,337.6	-	5,337.6
Voluntary Separation Incentive Programs	174.1	(76.0)	98.1
DoD Education Benefits Fund	675.6	(675.6)	-
Other	21,459.2	(6,684.8)	14,774.4
Total Other Benefits	27,646.5	(7,436.4)	20,210.1
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	2,668,096.5	(1,162,749.7)	1,505,346.8
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	2,058.1	(882.9)	1,175.2
Total Federal Employee and Veteran Benefits Payable	$ 2,670,154.6	$ (1,163,632.6)	$ 1,506,522.0

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: $1.6 trillion

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

	2021				
As of September 30 (dollar in millions)	**Military Retirement Pensions**	**Military Pre Medicare-Eligible Retiree Health Benefits**	**Military Medicare-Eligible Retiree Health Benefits**	**Other**	**Total**
Beginning Actuarial Liability	$ 1,794,054.2	$ 270,264.7	$ 576,131.0	$ 849.7	$ 2,641,299.6
Plus Expense:					
Normal Cost	38,335.4	12,950.9	12,385.5	92.4	63,764.2
Interest Cost	57,027.1	9,166.3	19,234.9	20.4	85,448.7
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	47,367.4	(11,604.9)	(28,762.5)	25.3	7,025.3
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	142,729.9	10,512.3	2,857.9	138.1	156,238.2
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(13,958.7)	8,419.5	-	(5,539.2)
Changes in Assumptions Other Than Trend	54,100.3	995.7	33,386.0	(73.2)	88,408.8
Losses (Gains) from Actuarial Assumption Changes	54,100.3	(12,963.0)	41,805.5	(73.2)	82,869.6
Total Expenses	196,830.2	(2,450.7)	44,663.4	64.9	239,107.8
Less: Benefit Outlays	62,439.8	10,985.4	11,370.8	212.3	85,008.3
Total Changes in Actuarial Liability	134,390.4	(13,436.1)	33,292.6	(147.4)	154,099.5
Ending Actuarial Liability	$ 1,928,444.6	$ 256,828.6	$ 609,423.6	$ 702.3	$2,795,399.1

Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employee Benefits (continued)

	2020				
As of September 30 (dollar in millions)	**Military Retirement Pensions**	**Military Pre Medicare-Eligible Retiree Health Benefits**	**Military Medicare-Eligible Retiree Health Benefits**	**Other**	**Total**
Beginning Actuarial Liability	$ 1,754,187.0	$ 254,832.8	$ 573,219.1	$ 1,006.2	$ 2,583,245.1
Plus Expense:					
Normal Cost	37,145.7	10,746.9	12,250.2	187.9	60,330.7
Interest Cost	59,245.7	9,103.9	20,301.6	28.9	88,680.1
Plan Amendments	15,537.8	-	-	-	15,537.8
Experience Losses (Gains)	3,811.8	(3,977.1)	(5,899.1)	(132.1)	(6,196.5)
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	115,741.0	15,873.7	26,652.7	84.7	158,352.1
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	5,390.7	(39,577.5)	-	(34,186.8)
Changes in Assumptions Other Than Trend	(15,200.0)	5,198.1	26,775.5	37.9	16,811.5
Losses (Gains) from Actuarial Assumption Changes	(15,200.0)	10,588.8	(12,802.0)	37.9	(17,375.3)
Total Expenses	100,541.0	26,462.5	13,850.7	122.6	140,976.8
Less: Benefit Outlays	60,673.8	11,030.6	10,938.8	279.1	82,922.3
Total Changes in Actuarial Liability	39,867.2	15,431.9	2,911.9	(156.5)	58,054.5
Ending Actuarial Liability	$ 1,794,054.2	$ 270,264.7	$ 576,131.0	$ 849.7	$ 2,641,299.6

The Other column is actuarial liability activity related to the Voluntary Separation Incentive Program and the DoD Education Benefits Fund.

Pension and Health Benefits

Military Retirement Pensions

The Military Retirement Fund (MRF) is a nonrevolving trust fund. 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.

The Military Retirement Fund is authorized by the *NDAA for FY 1984* to accumulate funds to pay pensions to retired military personnel and annuities to their survivors. The Military Retirement System is a single-employer, defined benefit plan. 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 the most recent retirement benefit provision 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.

Information Related to Military Retirement Fund Benefit Liabilities

Each year the actuarial liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost; however, it is a complex calculation impacted by the other factors previously discussed, including revised actuarial assumptions, plan amendments, and experience.

The first column of Table 13A reflects two distinct types of liabilities related to MRF. The line entitled "Military Retirement Pensions" represents the actuarial liability for future pension benefits not yet paid, i.e., the present value of future benefits less the present value of future normal costs. The line entitled "Other" represents retirement benefits due and payable on the first business day of the next reporting period.

The second column of Table 13A for MRF, "Assets Available to Pay Benefits," differ from those reported on the balance sheet for MRF. MRF's balance sheet assets consist primarily of investments, the value of which is based on the fully amortized cost or "book value" of the securities (see Note 5, *Investments and Related Interest)*. The value of assets available to pay benefits presented in Table 13A is based on available budgetary funding. The difference between investments and assets available to pay benefits is the premium on U.S. Treasury Securities. At the time of purchase, budgetary funding is reduced by the premium on U.S. securities because the premium on securities is no longer a budgetary resource.

Table 13A also discloses the "Unfunded Liabilities", i.e. liabilities not covered by budgetary resources, which is the difference between the "Liabilities" and the "Assets Available to Pay Benefits."

Information Related to MRF's Actuarial Cost Method

As prescribed by law, the MRF is funded using the Aggregate Entry-Age Normal (AEAN) method. Per *SFFAS No. 5*, "*AEAN*" is also used to compute the actuarial liabilities reported herein. AEAN is a method whereby the costs of future retirement and survivor benefits for a new entrant cohort are spread over the projected salaries of that group.

Assumptions listed in Table 13C are used by the OACT to calculate the FY 2021 actuarial liability.

Table 13C. Actuarial Assumptions for Military Retirement Pension Liability

Projection Year	Inflation (COLA)		Salary		Interest
FY 2021	1.3%	(actual)	3.0%	(actual)	3.2%
FY 2022	6.0%	(estimated)	2.7%	(estimated)	2.9%
Long Term	1.6%		2.0%		2.9%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market-Based and Marketable Securities: $1,308.5 billion
Assumed Interest Rate: 2.9%

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 20-year period.

Information Related to MRF's Revenues

The MRF receives revenues from three sources: (1) interest earnings on MRF assets, (2) monthly contributions from the Military Services, and (3) an annual contribution from the U.S. Treasury. The contribution from the U.S. Treasury is paid into the MRF at the beginning of each fiscal year and represents the amortizations of (1) the unfunded liability for service performed before October 1, 1984, and (2) subsequent actuarial gains and losses. Starting October 1, 2004, *Public Law 108-136* requires a Treasury contribution for the normal cost amount for the concurrent receipt provisions under Sections 1413a and 1414 in addition to the unfunded liability amortization payment. The DoD Board of Actuaries (the Board) approves methods and assumptions used to determine the amounts for contributions by the U.S. Treasury and the Military Services, and the Secretary of Defense directs the Secretary of Treasury to make the required payment.

See Note 5, *Investments and Related Interest* and Note 21, *Disclosures Related to the Statement of Budgetary Resources* for additional information related to MRF's investments and contributions received.

Information Related to MRF for FY 2022 and FY 2023

The *NDAA for FY 2021, §§ 8224-8225* requires the U.S. Coast Guard (USCG) be covered by the MRF no later than the beginning of FY 2023. The USCG actuarial liability will be included on the Department's September 30, 2022 financial statements, and the first amortization payment for the original USCG unfunded liability of the MRF is scheduled to be made on October 1, 2022.

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.

Assumptions listed in Table 13D were used to calculate the FY 2021 actuarial liability. In general, the rates reflected below are higher than recent previous years because retirees and their dependents are making up for medical services delayed due to COVID-19. Beneficiaries are shifting their prescription services from direct care to retail pharmacy (purchased care), resulting in a negative trend rate for Non-Medicare Prescriptions (Direct Care) shown below.

Table 13D. Actuarial Assumptions for MRHB Liability

MRHB Medical Trend	FY 2020 - FY 2021	Ultimate Rate FY 2045
Non-Medicare Inpatient (Direct Care)	4.55%	3.60%
Non-Medicare Outpatient (Direct Care)	5.15%	3.60%
Non-Medicare Prescriptions (Direct Care)	-8.96%	3.60%
Non-Medicare Inpatient (Purchased Care)	4.55%	3.60%
Non-Medicare Outpatient (Purchased Care)	5.15%	3.60%
Non-Medicare Prescriptions (Purchased Care)	10.61%	3.60%
U.S. Family Health Plan (USFHP) (Purchased Care)	5.06%	3.60%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Assumed Interest Rate: 3.0%

For the FY 2021 financial statement valuation, a single equivalent medical cost trend rate of 4.11% was used to calculate 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.

Assumptions listed in Table 13E were used to calculate the FY 2021 actuarial liability.

Table 13E. Actuarial Assumptions for MERHCF Liability

MERHCF Benefits - Medical Trend	FY 2020 - FY 2021	Ultimate Rate FY 2045
Medicare Inpatient (Direct Care)	6.08%	3.60%
Medicare Outpatient (Direct Care)	9.55%	3.60%
Medicare Prescriptions (Direct Care)	-2.10%	3.60%
Medicare Inpatient (Purchased Care)	6.08%	3.60%
Medicare Outpatient (Purchased Care)	9.55%	3.60%
Medicare Prescriptions (Purchased Care)	2.93%	3.60%
Medicare USFHP (Purchased Care)	7.38%	3.60%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market-Based and Marketable Securities: $376.7 billion
Assumed Interest Rate: 3.0%

The FY 2021 MERHCF liability includes Medicare liabilities for all Uniformed Services. The $609.4 billion liability includes $594.6 billion for the Department, $13.2 billion for the Coast Guard, $1.5 billion for the Public Health Service, and $0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2020 $576.1 billion liability included $562.1 billion for the Department, $12.4 billion for the Coast Guard, $1.5 billion for the Public Health Service, and $0.1 billion for NOAA.

The FY 2021 normal cost contributions from each of the Uniformed Services were $8.3 billion from the Department, $214.9 million from the Coast Guard, $29.9 million from the Public Health Service, and $1.6 million from NOAA. The FY 2020 contributions from each of the Uniformed Services were $7.8 billion from the Department, $202.9 million from the Coast Guard, $29.1 million from the Public Health Service, and $1.4 million from NOAA.

For the FY 2021 financial statement valuation, a single equivalent medical cost trend rate of 4.11% was used to calculate 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) 2021 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
2022	2.11%	3.14%
2023	2.48%	3.55%
2024	2.55%	3.96%
2025	2.62%	3.89%
2026	2.68%	4.19%

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 1.7% 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 $68.4 million for FY 2021 and $83.8 million for FY 2020.

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 DoD OACT calculates the actuarial liability annually based on the assumed interest rate of 2.5% 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 2021 and FY 2020.

Other Federal Employment Benefits

Other Federal Employment Benefits primarily consists of unfunded annual leave and accrued pensions and annuities related to certain life insurance and pension plans.

Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet includes Liabilities for Clearing Accounts, amounts that offset undistributed disbursements or collections deposited in clearing accounts awaiting disposition or reclassification. It also includes Employer Contributions and Payroll Taxes Payable, representing the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments. Unfunded FECA Liability, representing the amount of Federal Employees' Compensation Act (*FECA*) liability billed to DoD by the Department of Labor for FECA payments made on the DoD's behalf, is also included. This liability will be funded by future years' budgetary resources.

Life Insurance Liabilities and Other Civilian 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.

Other Military Insurance Programs

The Defense Health Program (DHP) within the Department provides healthcare for military members through the Military Health System (MHS). DHP is the nomenclature used to describe a congressionally-mandated uniform program of medical and dental care for members and certain former members of the uniformed services, and for their dependents. The term "uniformed services" means the armed forces and the Commissioned Corps of the National Oceanic and Atmospheric Administration (NOAA) and of the Public Health Service.

MHS is a complex system, globally integrating healthcare delivery, public health and medical education, and cutting-edge medical research and development. More information, including its most recently published Annual Financial Report, may be found at *Office of the Assistant Secretary of Defense for Health Affairs.*

Covered individuals of the Department include active duty personnel, military retirees, certain members of the Reserve Component, family members, survivors, ex-spouses, and other eligible members. These MHS beneficiaries receive direct care through Military Medical Treatment Facilities (MTFs), private sector care through TRICARE's civilian provider networks and other authorized TRICARE providers, and prescription and mail order coverage through the TRICARE Pharmacy Program (TPharm).

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty family members, retirees and Reserve members. The TRICARE Insurance Portfolio includes TRICARE Prime, TRICARE Select, TRICARE Continued Health Care Benefits Program (CHCBP), TRICARE Young Adult Program (TYA), TRICARE Reserve Select (TRS), and TRICARE Retired Reserve (TRR). The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted either upward, or downward for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected, due to the relative stability in the number of enrollees. Premium rate calculations are based on the benefit cost from prior calendar years. Premiums are based on the Program's benefit cost, which eliminates any inherent risk to third parties, including the beneficiary and the Manage Care Support Contractors who provide healthcare claims processing and the initial collections on behalf of DHP.

The total amount of Insurance Premium collections in FY 2021 was $864.9 million and $755.6 million for FY 2020. The benefit cost for FY 2021 and FY 2020 correlate to the premium collections reported.

For Calendar Year 2021 Monthly Premium Rates are established on an annual basis in accordance with *Title 10, U.S.C. Sections 1076d*, *1076e*, *1078a*, and *1110b* along with *Title 32, Code of Federal Regulations, part 199.20*, *24*, *25* and *26*, as enacted by *FY 2017 Section 701 of NDAA; Public Law 114 328*. The enrollment fee and or premium collections are credited to the DHP appropriation available under Treasury Account Symbol 0130 for the fiscal year collected. Renewal in a specific plan is generally automatic unless declined; however, upper age limitations do exist for certain plans. More detailed information is found in the DHP's Annual Financial Report at the link previously noted.

Unfunded actuarial liabilities ($256.8 billion and $270.3 billion for FY 2021 and FY 2020, respectively) related to MHS are reported in Table 13A where it is referred to as Military Pre Medicare-Eligible Retiree Health Benefits. The estimated MHS liability for incurred-but-not-reported (IBNR) medical claims ($1.8 and $1.7 billion in FY 2021 and FY 2020, respectively) is included on Table 13A, Other Benefits, Other.

Liability for Unpaid Insurance Claims:

Beneficiary claims for Premium health care services are processed through the TriCARE Encounter Data Set. The liability balance represents unpaid claims received as of the end of the reporting period. The risk for future claim cost is accounted for under the IBNR calculation. The IBNR change is a net result of several factors that increase or decrease the reserve, including change in claims cost and volume per member, changes in administration cost estimates and required margin, change in population size, and movement of health care delivery to alternative types of service.

The table below presents the changes in the liability balance for unpaid insurance claims, including IBNR.

Table 13G. Liability for Unpaid Insurance Claims

As of September 30 (dollar in millions)	2021	2020
Beginning Balance	$ 1,966.0	$ 2,038.5
Claims Expense	15,074.5	14,040.3
Claims Adjustment Expense	(22.2)	(30.5)
Payments to Settle Claims	(14,918.9)	(14,098.7)
Recoveries and Other Adjustments	(14.7)	16.4
Ending Balance	$ 2,084.7	$ 1,966.0

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Table 14. Environmental and Disposal Liabilities

As of September 30 (dollar in millions)	2021	2020
Environmental Liabilities - Non-Federal		
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 13,952.6	$ 13,651.1
Active Installations - Military Munitions Response Program (MMRP)	3,644.6	3,203.9
Formerly Used Defense Sites - IRP and BD/DR	3,243.7	3,032.2
Formerly Used Defense Sites - MMRP	8,657.2	7,748.5
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	1,715.4	1,756.1
Environmental Closure Requirements	8,142.5	8,373.0
Asbestos	9,810.0	5,047.9
Non-Military Equipment	8.1	86.8
Other	2,452.5	2,129.6
Base Realignment and Closure Installations		
IRP	5,441.9	5,075.4
MMRP	1,109.8	900.7
Environmental Corrective Action/Closure Requirements	405.7	368.1
Asbestos	9.4	9.6
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	16,994.2	16,530.9
Non-Nuclear Powered Military Equipment	634.2	741.6
Other Weapon Systems	361.6	380.5
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency (CMA)	2,130.8	2,314.1
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	3,249.2	3,691.9
Total Environmental and Disposal Liabilities	$ 81,963.4	$ 75,041.9

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.

Environmental and Disposal Liabilities Involving Multiple Component Entities

There are instances when a component reporting entity recognizes General PP&E during its useful life differs from the component reporting entity that will eventually be responsible for the future outflow of resources required for cleanup when the asset is removed from service. *FASAB Interpretation 9*, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 and SFFAS 6*, clarifies during the asset's useful life the reporting entity owning the asset must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for General PP&E on its Balance Sheet. When the asset is transferred to the entity designated responsible by law, statute or policy for cleanup, the General PP&E and the associated liability must be de-recognized by the component reporting entity that recognized them during the General PP&E's useful life and recognized by the component reporting entity responsible for clean-up and liquidating the liability. De-recognition and recognition of the general PP&E and liability must be performed in accordance with existing accounting standards. The Component recording the environmental liability must have sufficient supporting documentation to establish its responsibility for the liability.

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. Tracking and reporting all environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapons systems, and environmental costs related to BRAC action are required by the Department.

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 materiel. 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 was $4.9 billion as of September 30, 2021, and $4.3 billion as of September 30, 2020.

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.

Emerging Contaminants

Per- and Polyfluoroalkyl Substances (PFAS) are a large class of chemicals found in many consumer products, as well as in a certain firefighting foam called aqueous film forming foam (AFFF). While DoD is only one of many users of AFFF, there is significant attention on DoD's use and the subsequent potential impact to human health and the environment. PFAS are classified as emerging contaminants because they do not have established regulatory standards, but evolving science has identified potential risk to humans and regulatory standards are under consideration. DoD follows the existing federal cleanup law CERCLA and long-standing Environmental Protection Agency regulations for all chemicals in its cleanup program, including PFAS. DoD is conducting assessments for PFAS use or potential release at DoD installations and National Guard locations. At this time, some future costs are not yet estimable. However, as DoD continues these investigations, the cost estimates related to PFAS cleanup are likely to increase as more is known about the sites.

Asbestos-Related Cleanup Costs

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. There is no legal requirement to test for asbestos or to remove/remediate non-friable asbestos prior to renovation or disposal. In accordance with *FASAB Technical Bulletin 2006-1*, *Recognition and Measurement of Asbestos-Related Cleanup Costs,* DoD environmental and disposal liabilities include estimated cleanup costs related to friable and non-friable asbestos. DoD components estimate asbestos remediation costs based on historic cost factors applied to facility square footage in the real property inventory. Based on the inherent uncertainties associated with asbestos environmental cleanup, the estimated cost is not exact and will change as more relevant data becomes available.

NOTE 15. OTHER LIABILITIES

Table 15. Other Liabilities

	2021		
As of September 30 (dollar in millions)	Current Liability	Non-Current Liability	Total
Intragovernmental			
Advances from Others and Deferred Revenue	$ 3,825.0	$ -	$ 3,825.0
Disbursing Officer Cash	938.7	-	938.7
Liabilities for Non-entity Assets	254.8	1,946.2	2,201.0
Subtotal	5,018.5	1,946.2	6,964.7
Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	2,174.4	-	2,174.4
Total Intragovernmental	7,192.9	1,946.2	9,139.1
Other than Intragovernmental			
Accrued Funded Payroll and Benefits	13,304.7	-	13,304.7
Advances from Others and Deferred Revenue	5,698.5	1.0	5,699.5
Deposit Funds and Suspense Accounts	3,386.8	-	3,386.8
Non-Environmental Disposal Liabilities:			
Conventional Munitions Disposal	256.6	1,375.2	1,631.8
Contract Holdbacks	480.4	1,218.2	1,698.6
Contingent Liabilities	231.2	532.4	763.6
Other Liabilities without Related Budgetary Obligations	101.4	911.5	1,012.9
Other Liabilities with Related Budgetary Obligations	989.0	-	989.0
Total Other than Intragovernmental	24,448.6	4,038.3	28,486.9
Total Other Liabilities	$ 31,641.5	$ 5,984.5	$ 37,626.0

Table 15. Other Liabilities (continued)

	Restated 2020		
As of September 30 (dollar in millions)	**Current Liability**	**Non-Current Liability**	**Total**
Intragovernmental			
Advances from Others and Deferred Revenue	$ 4,638.3	$ -	$ 4,638.3
Disbursing Officer Cash	860.0	-	860.0
Liabilities for Non-entity Assets	172.7	1,999.9	2,172.6
Subtotal	5,671.0	1,999.9	7,670.9
Other Liabilities reported on Note 13, *Federal Employee and V eteran Benefits Payable*	2,058.1	-	2,058.1
Total Intragovernmental	7,729.1	1,999.9	9,729.0
Other than Intragovernmental			
Accrued Funded Payroll and Benefits	11,921.4	-	11,921.4
Advances from Others and Deferred Revenue	5,434.0	(1.2)	5,432.8
Deposit Funds and Suspense Accounts	2,699.1	-	2,699.1
Non-Environmental Disposal Liabilities:			
Conventional Munitions Disposal	-	6.0	6.0
Contract Holdbacks	1,654.3	16.1	1,670.4
Contingent Liabilities	429.0	820.4	1,249.4
Other Liabilities without Related Budgetary Obligations	567.9	655.6	1,223.5
Other Liabilities with Related Budgetary Obligations	1,088.5	-	1,088.5
Total Non-Federal Other Liabilities	23,794.2	1,496.9	25,291.1
Total Other Liabilities	$ 31,523.3	$ 3,496.8	$ 35,020.1

Restatement

The Department corrected a $0.1 million overstatement of the FY 2020 Advances from Others and Deferred Revenue – Other than Intragovernmental. The amount is related to advances and affects the Current Liability column of the FY 2020 table. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental Other Liabilities

Advances from Others and Deferred Revenue represents liabilities for collections received to cover future expenses or acquisition of assets the Department incurs or acquires on behalf of another organization. For FY 2021, Advances from Others and Deferred Revenue includes $552.2 million to deliver medical supplies in support of COVID-19 efforts. The FY 2020 Advances from Others and Deferred Revenue includes $1.8 billion to deliver medical supplies and food in support of COVID-19 relief efforts.

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.

Liabilities for Non-entity Assets represents offsetting liabilities for non-entity assets, primarily non-entity receivables that, upon collection, will be remitted to Treasury.

"Intragovernmental Other Liabilities" on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined balance sheet format (see additional information is Note 1.CC *Significant Accounting Policies)*. Certain USSGLs on the Balance Sheet line "Intragovernmental Other Liabilities" are required to be reported on Note 13, *Federal Employee and Veteran Benefits Payable*, while others are reported on this Note 15. The amounts from the Balance Sheet "Intragovernmental Other Liabilities" reported on Note 13 are aggregated and also included above as Other Liabilities Reported on Note 13. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Other Than Intragovernmental Other Liabilities

Advances from Others and Deferred Revenue included an abnormal balance for the non-current portion of the liability in FY 2020. The abnormal no longer exists at the agency-wide level in FY 2021, however the Department will research the required corrective action as the abnormal balance remains at a sub-component level.

Deposit Funds and Suspense Accounts Liabilities represents liabilities that offset 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 and liabilities that offset undistributed disbursements. The net amount of these may present as an overall positive or negative balance.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2021 and FY 2020 contract holdbacks include $1.4 billion and $1.3 billion for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation (*FAR*).

Contingent Liabilities for FY 2021 and 2020 include legal contingent liabilities. See Note 17, *Commitments and Contingencies.*

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.

NOTE 16. LEASES

Entity as Lessee

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. The Department has other leased assets recorded as equipment for which no future lease payments are due.

Table 16A. Entity as Lessee - Assets Under Capital Lease

As of September 30 (dollar in millions)	**2021**	**2020**
Equipment	$ 367.1	$ 367.1
Accumulated Amortization	(303.5)	(294.9)
Total Assets Under Capital Leases	$ 63.6	$ 72.2

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:

Table 16B. Entity as Lessee - Future Payments Due for Federal Capital Lease

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

Table 16C. Entity as Lessee - Future Payments Due for Non-Federal Capital Lease

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

Operating Leases:

Description of Lease Arrangements:

The future lease payments due presented in the table below are for non-cancelable operating leases only. Unlike capital leases, operating leases do not transfer the benefits and risk of ownership; rather, payments for operating leases are expensed over the life of the lease. Future year cost projections use the Consumer Price Index (CPI). 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 16D. Entity as Lessee - Future Payments Due for Non-Cancelable Operating Leases

	2021			
	Asset Category			
As of September 30 (dollar in millions)	Land and Buildings	Equipment	Other	Total
Federal				
Fiscal Year				
2022	$ 695.1	$ 5.1	$ 95.9	$ 796.1
2023	485.8	3.2	92.1	581.1
2024	487.8	2.9	93.7	584.4
2025	498.4	2.7	93.6	594.7
2026	512.0	2.6	95.1	609.7
After 5 Years	1,313.8	2.5	21.1	1,337.4
Total Federal Future Lease Payments	3,992.9	19.0	491.5	4,503.4
Non-Federal				
Fiscal Year				
2022	243.7	0.6	29.6	273.9
2023	195.0	0.4	30.0	225.4
2024	149.1	0.4	30.4	179.9
2025	103.5	0.4	30.7	134.6
2026	62.3	0.4	30.8	93.5
After 5 Years	106.8	0.1	31.3	138.2
Total Non-Federal Future Lease Payments	860.4	2.3	182.8	1,045.5
Total Future Lease Payments	$ 4,853.3	$ 21.3	$ 674.3	$ 5,548.9

Entity as Lessor

Capital Leases:

Description of Lease Arrangements:

Table 16E. Entity as Lessee - Future Projected Receipts for Capital Lease

The Department currently has no significant future non-cancelable capital leases where it is the lessor.

Operating Leases:

Description of Lease Arrangements:

The future lease payments due presented in the table below are for non-cancelable operating leases in which the Department is the lessor. The United States Army Corps of Engineers (USACE) and the Department of the Army have a small volume of operating leases as the lessor for easements. Private companies and individuals lease easements are managed by USACE to operate marinas, restaurants, cell towers, and other businesses on USACE lands and Army installations. USACE also permits a small number of federal entities to use its office spaces on a break-even basis.

Table 16F. Entity as Lessor - Future Projected Receipts for Non-Cancelable Operating Leases

As of September 30 (dollar in millions)	2021 Land, Land Rights, and Buildings
Federal	
Fiscal Year	
2022	$ 0.1
2023	0.1
2024	0.1
2025	0.1
2026	-
After 5 Years	-
Total Federal Future Projected Receipts	0.4
Non-Federal	
Fiscal Year	
2022	24.2
2023	19.5
2024	15.4
2025	13.2
2026	10.9
After 5 Years	49.7
Total Non-Federal Future Projected Receipts	132.9
Total Future Projected Receipts for Operating Leases	$ 133.3

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

	2021		
As of September 30 (dollar in millions)	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 632.8	$ 508.0	$ 1,494.3
Reasonably Possible	-	$ 1,620.2	$ 15,779.8

	2020		
As of September 30 (dollar in millions)	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 1,000.0	$ 421.8	$ 978.8
Reasonably Possible	-	$ 1,356.5	$ 15,769.4

As of September 30, 2021, legal claims exist for which the estimated loss amount or the range of loss cannot be reasonably 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 continues to review possible environmental contingent liabilities to include friable and non-friable asbestos cleanup costs.

Other 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 $130.9 million and $249.4 million have been accrued for FY 2021 and FY 2020, respectively. 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

The Department has the following obligations as of FY 2021 and FY 2020: obligations related to canceled appropriations for which it has a contractual commitment for payment ($3.2 billion and $2.1 billion, respectively); for contractual arrangements related to loan guarantees ($887.2 million and $899.1 million, respectively), and amounts related to non-cancelable operating leases which may require future financial obligations ($5.5 billion and $5.2 billion, respectively). See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for the face value of outstanding principal of guaranteed loans net of the liability recognized at NPV 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 2021 or FY 2020 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

	2021			
As of September 30 (dollar in millions)	**Harbor Maintenance and Related Funds**	**Rivers and Harbors Contributed and Advance Funds**	**Other Funds**	**Combined Total**
Intragovernmental Assets				
Fund Balance with Treasury	$ 146.3	$ 2,184.5	$ 2,791.5	$ 5,122.3
Investments	9,376.8	-	1,847.0	11,223.8
Accounts Receivable, Net	568.2	-	1.3	569.5
Total Intragovernmental Assets	10,091.3	2,184.5	4,639.8	16,915.6
Other than Intragovernmental Assets				
Cash and Other Monetary Assets	-	-	2.3	2.3
Accounts Receivable, Net	-	61.8	4.6	66.4
General Property, Plant and Equipment, Net	125.3	252.5	127.8	505.6
Advances to Others and Prepayments	-	-	0.2	0.2
Total Other than Intragovernmental Assets	125.3	314.3	134.9	574.5
Total Assets	10,216.6	2,498.8	4,774.7	17,490.1
Intragovernmental Liabilities				
Accounts Payable	6.0	13.1	18.0	37.1
Other Liabilities	-	-	2.3	2.3
Total Intragovernmental Liabilities	6.0	13.1	20.3	39.4

Table 18A. Combined Balance Sheet — Funds from Dedicated Collections (continued)

	2021			
As of September 30 (dollar in millions)	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Other Funds	Combined Total
Other than Intragovernmental Liabilities				
Accounts Payable	0.1	42.8	45.5	88.4
Environmental & Disposal Liabilities	-	-	31.1	31.1
Other Liabilities:				
Other	-	2,165.9	-	2,165.9
Total Other Liabilities	-	2,165.9	-	2,165.9
Total Other than Intragovernmental Liabilities	0.1	2,208.7	76.6	2,285.4
Total Liabilities	6.1	2,221.8	96.9	2,324.8
Cumulative Results of Operations	10,210.5	277.0	4,677.8	15,165.3
Total Liabilities and Net Position	$ 10,216.6	$ 2,498.8	$ 4,774.7	$ 17,490.1

	2020			
As of September 30 (dollar in millions)	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Intragovernmental Assets				
Fund Balance with Treasury	$ 148.1	$ 1,912.9	$ 2,749.1	$ 4,810.1
Investments	9,206.3	-	1,822.8	11,029.1
Accounts Receivable, Net	532.1	-	1.4	533.5
Total Intragovernmental Assets	9,886.5	1,912.9	4,573.3	16,372.7
Other than Intragovernmental Assets				
Cash and Other Monetary Assets	-	-	3.5	3.5
Accounts Receivable, Net	-	6.1	3.9	10.0
General Property, Plant, and Equipment, Net	126.9	290.2	106.5	523.6
Advances to Others and Prepayments	-	-	0.2	0.2
Total Other than Intragovernmental Assets	126.9	296.3	114.1	537.3
Total Assets	10,013.4	2,209.2	4,687.4	16,910.0

Table 18A. Combined Balance Sheet — Funds from Dedicated Collections (continued)

	2020			
As of September 30 (dollar in millions)	**Harbor Maintenance and Related Funds**	**Rivers and Harbors Contributed and Advance Fund**	**Other Funds**	**Combined Total**
Intragovernmental Liabilities				
Accounts Payable	6.0	13.0	13.9	32.9
Other Liabilities	-	-	2.3	2.3
Total Intragovernmental Liabilities	6.0	13.0	16.2	35.2
Other than Intragovernmental Liabilities				
Accounts Payable	0.1	59.4	68.2	127.7
Environmental & Disposal Liabilities	-	-	30.7	30.7
Other Liabilities:				
Other	-	1,891.0	-	1,891.0
Total Other Liabilities	-	1,891.0	-	1,891.0
Total Other than Intragovernmental Liabilities	0.1	1,950.4	98.9	2,049.4
Total Liabilities	6.1	1,963.4	115.1	2,084.6
Cumulative Results of Operations	10,007.3	245.8	4,572.3	14,825.4
Total Liabilities and Net Position	$ 10,013.4	$ 2,209.2	$ 4,687.4	$ 16,910.0

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

	2021			
For the period ended September 30 (dollar in millions)	**Harbor Maintenance and Related Funds**	**Rivers and Harbors Contributed and Advance Funds**	**Other Funds**	**Combined Total**
Gross Program Costs	$ 67.4	$ 324.4	$ 2,060.0	$ 2,451.8
Less: Earned Revenues	-	(519.9)	(1,999.2)	(2,519.1)
Net Program Costs	67.4	(195.5)	60.8	(67.3)
Net Cost of Operations	$ 67.4	$ (195.5)	$60.8	$ (67.3)

	2020			
For the period ended September 30 (dollar in millions)	**Harbor Maintenance and Related Funds**	**Rivers and Harbors Contributed and Advance Fund**	**Other Funds**	**Combined Total**
Gross Program Costs	$ 96.3	$ 452.8	$ 1,473.8	$ 2,022.9
Less: Earned Revenues	-	(569.4)	(1,359.3)	(1,928.7)
Net Program Costs	96.3	(116.6)	114.5	94.2
Net Cost of Operations	$ 96.3	$ (116.6)	$ 114.5	$ 94.2

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

For the period ended September 30 (dollar in millions)	2021			
	Harbor Maintenance and Related Funds	**Rivers and Harbors Contributed and Advance Funds**	**Other Funds**	**Combined Total**
Cumulative Results of Operations				
Beginning Balance	$ 10,007.3	$ 245.8	$ 4,572.3	$ 14,825.4
Prior Period Adjustments:				
Changes in accounting principles (+/-)	-	-	-	-
Changes in errors (+/-)	-	-	-	-
Beginning Balance, as adjusted	10,007.3	245.8	4,572.3	14,825.4
Other than Intragovernmental Nonexchange revenue	-	-	17.0	17.0
Intragovernmental Nonexchange revenue	1,725.8	-	11.5	1,737.3
Donations and forfeitures of cash and cash equivalents	-	-	79.3	79.3
Transfers-in/out without reimbursement (+/-)	(1,455.2)	(171.7)	(47.7)	(1,674.6)
Imputed financing	-	7.4	27.5	34.9
Other	-	-	78.7	78.7
Less: Net Cost of Operations	67.4	(195.5)	60.8	(67.3)
Net Change in Cumulative Results of Operations	203.2	31.2	105.5	339.9
Net Position, End of Period	$ 10,210.5	$ 277.0	$ 4,677.8	$ 15,165.3

For the period ended September 30 (dollar in millions)	2020			
	Harbor Maintenance and Related Funds	**Rivers and Harbors Contributed and Advance Fund**	**Other Funds**	**Combined Total**
Cumulative Results of Operations				
Beginning Balance	$ 10,115.0	$ 245.9	$ 4,660.1	$ 15,021.0
Prior Period Adjustments:				
Changes in accounting principles (+/-)	-	-	-	-
Changes in errors (+/-)	-	-	-	-
Beginning Balance, as adjusted	10,115.0	245.9	4,660.1	15,021.0
Other than Intragovernmental Nonexchange revenue	0.1	-	513.5	513.6
Intragovernmental Nonexchange revenue	1,565.0	-	11.3	1,576.3
Donations and forfeitures of cash and cash equivalents	-	-	55.6	55.6
Transfers-in/out without reimbursement (+/-)	(1,576.5)	(123.6)	(636.9)	(2,337.0)
Imputed financing	-	6.9	-	6.9
Other	-	-	83.2	83.2
Less: Net Cost of Operations	96.3	(116.6)	114.5	94.2
Net Change in Cumulative Results of Operations	(107.7)	(0.1)	(87.8)	(195.6)
Net Position, End of Period	$ 10,007.3	$ 245.8	$ 4,572.3	$ 14,825.4

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 Agency-wide 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 directly benefiting when a reservoir or other improvement is constructed by the United States. Proceeds arising from licenses, except those established by the FERC for administrative reimbursement or other limited situations, are paid to the Treasury from which special allocations will be made. From the specific allocations, 50% of charges from all other licenses is reserved and appropriated as a special fund in the U.S. Treasury. This special fund is to be expended under the direction of the Secretary of the Army (Secretary) for the maintenance and operation of dams and other navigation structures that are owned by the U.S. or for construction, maintenance, or operation of headwater or other improvements of U.S. navigable waters. The revenue is received from the public and is an inflow of resources to the government.

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. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Table 19. Costs and Exchange Revenue by Appropriation Category

For the period ended September 30 (dollar in millions)	2021	Restated 2020
Military Retirement Benefits		
Gross Cost	$ 141,244.1	$ 139,257.2
Less: Earned Revenue	(74,544.6)	(30,482.5)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	95,905.8	(28,002.0)
Net Program Costs	162,605.3	80,772.7
Civil Works		
Gross Cost	12,669.0	12,978.8
Less: Earned Revenue	(2,639.7)	(3,401.3)
Net Program Costs	10,029.3	9,577.5
Military Personnel		
Gross Cost	167,230.7	157,010.7
Less: Earned Revenue	(3,949.4)	(2,231.6)
Net Program Costs	163,281.3	154,779.1
Operations, Readiness & Support		
Gross Cost	298,728.9	284,471.2
Less: Earned Revenue	(35,818.1)	(21,855.6)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(13,036.3)	10,626.7
Net Program Costs	249,874.5	273,242.3
Procurement		
Gross Cost	112,233.2	103,861.1
Less: Earned Revenue	(6,803.4)	(8,040.4)
Net Program Costs	105,429.8	95,820.7
Research, Development, Test & Evaluation		
Gross Cost	145,624.3	110,644.6
Less: Earned Revenue	(31,226.4)	(13,319.8)
Net Program Costs	114,397.9	97,324.8
Family Housing & Military Construction		
Gross Cost	14,331.8	9,744.4
Less: Earned Revenue	(941.1)	(1,909.4)
Net Program Costs	13,390.7	7,835.0
Consolidated		
Gross Cost	892,062.0	817,968.0
Less: Earned Revenue	(155,922.7)	(81,240.6)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	82,869.5	(17,375.3)
Total Net Cost	$ 819,008.8	$ 719,352.1

Restatements

The Department corrected a $806.9 million overstatement (net) of Net Cost of Operations affecting Gross Costs for Procurement ($817.0 million overstatement); Operations, Readiness and Support ($11.0 million understatement); and Family Housing & Military Construction ($3.3 million understatement). Additionally, Earned Revenue was corrected for a $4.2 million overstatement. 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 Department is in the process of reviewing available data and developing a cost reporting methodology required by *SFFAS 4*, "*Managerial Cost Accounting Concepts and Standards for the Federal Government" as amended by SFFAS 55*, "*Amending Inter-Entity Cost Provisions."*

The Department also continues to review the available data and applicability of *SFFAS 7*, "*Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,"* for disclosures related to the pricing of goods and services provided to the public or another Federal entity. Please see Note 1.E., *Significant Accounting Policies, Accounting for Intragovernmental and Intergovernmental Activities*, for accounting policy related to intra-entity and inter-entity activities.

The Department's military retirement and postemployment costs are reported in accordance with *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*." 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

Unexpended Appropriations – Prior Period Adjustments

The Department recorded a prior period adjustment under *SFFAS 21* that decreased the 2020 beginning balance $14.7 million. The Department identified the FY 2019 Operating Materiel and Supplies balances were incorrectly valued in the accounting system of record. To correct these balances, the Cumulative Unexpended Appropriations was also adjusted.

Cumulative Results of Operations – Prior Period Adjustments

The Department recorded prior period adjustments under *SFFAS 21*, *SFFAS 48*, and *SFFAS 50*, that decreased the FY 2021 beginning balance $0.1 billion from ($328.7) billion to ($328.8) billion. In FY 2020, the Department recorded prior period adjustments that increased the 2020 beginning balance $6.6 billion from ($414.2) billion to ($407.6) billion. These prior period adjustments are attributable to the Corrections of Errors and Changes in Accounting Principles.

The Department corrected an error in its financial statements for assets and net position 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 2021, the Department corrected reporting errors resulting in a decrease to the beginning Cumulative Results of Operations balance of $944.7 million. In FY 2020, the Department corrected reporting errors which resulted in an increase to the beginning Cumulative Results of Operations of $4.7 billion.

Various components with the Department elected to implement new accounting principles in FY 2021 and FY 2020. FASAB issued SFFAS 48 and SFFAS 50 which permitted alternative methods in establishing opening balances and were effective for periods beginning after September 30, 2016. In FY 2021, these changes in accounting principles increased the beginning Cumulative Results of Operations by $789.5 million as the components established opening balances for General PP&E. In FY 2020, these changes in accounting principles increased the beginning Cumulative Results of Operations by $1.9 billion as the components established opening balances for General PP&E.

Restatements

In addition to the prior period adjustments to Cumulative Results of Operations, the Department restated its Statement of Changes in Net Position as of September 30, 2020 to correct errors in:

- Inventory and Related Property, Net (was understated by $2,228.1 million);
- General Property Plant and Equipment, Net (was overstated by $5,079.4 million);
- Investments (was understated by $7,850.1 million);
- Transfers in/out without reimbursement (was overstated by $137.8 million);
- Net Cost of Operations (was understated by $806.9 million)

The restatement correctly states values in Real Property, Military Equipment, Construction-in-progress, Stockpile Inventory, and Investments. See Note 28, *Restatements*, and other Notes cited there for further information.

Cumulative Results of Operations – Other

The Department recorded $5.1 billion in FY 2021 as Cumulative Results of Operations – Other resulting from the revaluation of General PP&E. This amount was ($7.5) billion in FY 2020, also due to the revaluation of General PP&E.

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 $72.6 billion in FY 2021 and $71.7 billion in FY 2020. A reconciliation of these amounts is presented in Table 20A.

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

As of September 30 *(dollar in billions)*	2021	2020
Appropriations, Statement of Budgetary Resources	$ 905.1	$ 914.3
Permanent and Temporary Reductions	144.4	97.6
Trust and Special Fund Receipts	(215.9)	(168.5)
Miscellaneous items	(1.1)	(0.8)
Total Reconciling Difference	(72.6)	(71.7)
Appropriations Received, Statement of Changes in Net Position	$ 832.5	$ 842.6

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

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*. Table 20B summarizes 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

	2021		
As of September 30 (dollar in millions)	**Combined**	**Less: Reconciling Differences**	**Consolidated**
Unexpended Appropriations - Other Funds	$ 552,868.5	$ -	$ 552,868.5
Cumulative Results of Operations - Dedicated Collections	15,165.3	(18,984.2)	34,149.5
Cumulative Results of Operations - Other Funds	(318,572.7)	18,984.2	(337,556.9)
Total Net Position	$ 249,461.1	$ -	$ 249,461.1

	Restated 2020		
As of September 30 (dollar in millions)	**Combined**	**Less: Reconciling Differences**	**Consolidated**
Unexpended Appropriations - Other Funds	$ 569,725.2	$ -	$ 569,725.2
Cumulative Results of Operations - Dedicated Collections	14,825.4	(17,732.5)	32,557.9
Cumulative Results of Operations - Other Funds	(344,429.1)	17,732.5	(362,161.6)
Total Net Position	$ 240,121.5	$ -	$ 240,121.5

Non-custodial Nonexchange Revenue

The Department is assessing the applicability of SFFAS 7 "*Accounting for Revenues and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*" disclosure requirements for non-custodial nonexchange revenue. The U.S. Army Corps of Engineers (USACE) reported about 90 percent of the Department's non-custodial nonexchange revenue for FY 2021. The USACE recognizes non-custodial 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. The USACE reported the following non-custodial nonexchange revenue: Trust Funds - interest earned on investments, excise taxes and custom duties; General Fund Receipt Accounts – miscellaneous receipts, penalties and donations; and Special Fund Receipt Accounts – taxes, receipts, licenses, and fees. For the majority of the non-custodial nonexchange revenue recognized in FY 2021, USACE is not the collecting entity, but receives trust fund revenues from Treasury which is recorded in accordance with applicable law.

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.

Restatements

The Statement of Budgetary Resources had corrections to the Budgetary column for Spending Authority from Offsetting Collections, New Obligations and Upward Adjustments (Total), and to Outlays, Net (Total) (Discretionary and Mandatory). However, due to the offsetting nature of the individual adjustments, the overall balance on each SBR line was not impacted. The corrections were primarily related to business transactions inadvertently excluded from the prior year which resulted in overstatements in Reimbursements Earned – Receivable and Delivered Orders – Obligations Unpaid, with corresponding understatements in Unfilled Customer Orders without Advance and Undelivered Orders – Obligations, Unpaid, respectively.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

There were no material adjustments during FY 2021 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, *Loans Receivable, Net and Loan Guarantee Liabilities,* for additional information related to MHPI.

Available Borrowing/Contract Authority, End of Period

Table 21A. Available Borrowing/Contract Authority, End of Period

No available borrowing authority remained at the end of the period for FY 2021 or 2020.

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 (dollar in millions)	2021	Restated 2020
Intragovernmental		
Unpaid	$ 112,052.0	$ 129,191.9
Prepaid / Advanced	4,504.6	4,029.3
Total Intragovernmental	116,556.6	133,221.2
Non-Federal		
Unpaid	411,496.9	395,038.8
Prepaid / Advanced	20,421.0	21,387.0
Total Non-Federal	431,917.9	416,425.8
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 548,474.5	$ 549,647.0

As discussed in the Restatement section above, the totals on the individual SBR lines were not changed by the restatements due to offsetting adjustments. However, the restatements impacted the FY 2020 Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period, primarily related to the restatement of Non-Federal Accounts Payable. Total Non-Federal was previously understated by $24.0 million.

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

The table below presents a reconciliation between the budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays in the FY 2020 column on the Combined Statement of Budgetary Resources (SBR) to the actual amounts for FY 2020 from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2022 President's Budget.

The FY 2023 Budget will display the FY 2021 actual values and will be available at a later date at *https://www.whitehouse.gov/omb/budget*.

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

(dollar in billions)	Fiscal Year 2020 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	$ 1,336.7	$ 1,157.5	$ 108.9	$ 872.1
Expired Accounts Excluded from the Budget	(38.8)	(17.4)	-	-
Closed Accounts included in the Budget	-	-	-	-
Permanent Reporting Differences*	(0.1)	(0.1)	-	-
Other	0.2	0.2	-	-
Budget of the U.S. Government	$ 1,298.0	$ 1,140.2	$ 108.9	$ 872.1

** 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 2021.

Other Disclosures

In compliance with OMB guidance, $148.6 billion of FY 2021 and $136.8 billion of FY 2020 General Fund appropriations received by the Department are also recognized on the SBR, Appropriations (discretionary and mandatory) line 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 $68.0 billion in FY 2021 and $71.3 billion in FY 2020 to cover obligations incurred above baseline operations in support of contingency operations.

The SBR reflects an unobligated expired appropriations in the amount of $20.8 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 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 2021 and FY 2020:

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*)

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

In FY 2021 and FY 2020, the Department collected $41.7 million and $29.2 million, respectively, of incidental custodial revenues generated primarily from fines, penalties, and 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 Activities

For the period ended September 30 (dollar in millions)	2021 Foreign Cooperative Project, Navy	2021 Savings Deposit Program	2021 Total
Fiduciary Net Assets, Beginning of Year	$ 909.4	$ 63.4	$ 972.8
Contributions	1,008.5	66.2	1,074.7
Investment Earnings	-	-	-
Distributions To and On Behalf Of Beneficiaries	(421.6)	(88.5)	(510.1)
Other Adjustments (+/-)	-	-	-
Increase / (Decrease) in Fiduciary Net Assets	$ 586.9	$ (22.3)	$ 564.6
Fiduciary Net Assets, End of Period	$ 1,496.3	$ 41.1	$ 1,537.4

For the period ended September 30 (dollar in millions)	2020 Foreign Cooperative Project, Navy	2020 Savings Deposit Program	2020 Total
Fiduciary Net Assets, Beginning of Year	$ 821.6	$ 72.2	$ 893.8
Contributions	403.8	92.6	496.4
Investment Earnings	-	0.2	0.2
Distributions To and On Behalf Of Beneficiaries	(316.0)	(101.6)	(417.6)
Other Adjustments (+/-)	-	-	-
Increase / (Decrease) in Fiduciary Net Assets	$ 87.8	$ (8.8)	$ 79.0
Fiduciary Net Assets, End of Period	$ 909.4	$ 63.4	$ 972.8

Table 23B. Schedule of Fiduciary Net Assets

As of September 30 (dollar in millions)	**2021** Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Assets			
Fund Balance with Treasury	$ 1,496.3	$ 41.1	$ 1,537.4
Fiduciary Liabilities			
Less: Liabilities	$ -	$ -	$ -
Total Fiduciary Net Assets	$ 1,496.3	$ 41.1	$ 1,537.4

As of September 30 (dollar in millions)	**2020** Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Assets			
Fund Balance with Treasury	$ 909.4	$ 63.4	$ 972.8
Fiduciary Liabilities			
Less: Liabilities	$ -	$ -	$ -
Total Fiduciary Net Assets	$ 909.4	$ 63.4	$ 972.8

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.

Foreign Cooperative Project, Navy

In an effort to leverage share of costs, contracts and other resources where shared interests exist, the President may enter into a cooperative project agreement with the North Atlantic Treaty Organization or with one or more of its member countries. The Navy recognizes this activity as fiduciary through an established deposit fund which allows it to continue providing support to foreign governments without utilizing or encumbering any reimbursable authority.

Savings Deposit Program

Public Law 89-538 authorized the Department, through 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

As of September 30 (dollar in millions)	2021 Federal	2021 Non-Federal	2021 Total
Net Cost of Operations (SNC)	$ (59,904.8)	$ 878,913.6	$ 819,008.8
Components of Net Cost Not Part of Net Outlays			
General property, plant, and equipment, net change	-	24,725.0	24,725.0
Increase/(decrease) in assets:			-
Accounts and taxes receivable, net	5,111.0	341.6	5,452.6
Other assets	(502.9)	379.1	(123.8)
Increase/(decrease) in liabilities:			
Accounts payable	(2,602.0)	(3,242.6)	(5,844.6)
Loans guarantee liability	-	6.5	6.5
Environmental and disposal liabilities	-	(6,921.5)	(6,921.5)
Benefits due and payable	-	0.2	0.2
Federal employee and veteran benefits payable	-	(155,000.0)	(155,000.0)
Other liabilities	866.2	(3,194.6)	(2,328.4)
Other financing sources			
Imputed Cost	(5,174.8)	-	(5,174.8)
Donated Revenue	-	(84.3)	(84.3)
Total Components of Net Cost Not Part of Net Outlays	(2,302.5)	(142,990.6)	(145,293.1)
Components of Net Outlays Not Part of Net Cost			
Investments	(17.7)	7,850.2	7,832.5
Inventory and related property	-	16,729.1	16,729.1
Other	154.6	-	154.6
Total Components of Net Outlays Not Part of Net Cost	136.9	24,579.3	24,716.2
Miscellaneous Reconciling Items			
Distributed offsetting receipts	85.8	(1,029.3)	(943.5)
Other	102,992.2	(7,118.3)	95,873.9
Total Other Reconciling Items	103,078.0	(8,147.6)	94,930.4
Total Net Outlays	$ 41,007.6	$ 752,354.7	$ 793,362.3
Agencies Outlays, Net (Statement of Budgetary Resources)			$ 783,479.9
Unreconciled Difference			$ 9,882.4

Table 24. Reconciliation of the Net Cost of Operations to Net Outlays (continued)

As of September 30 *(dollar in millions)*	Restated 2020 Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ 7,492.3	$ 711,859.8	$ 719,352.1
Components of Net Cost Not Part of Net Outlays			
General property, plant, and equipment, net change	-	16,951.4	16,951.4
Increase/(decrease) in assets:			
Accounts and taxes receivable, net	1,029.3	(795.1)	234.2
Other assets	978.7	1,104.9	2,083.6
Increase/(decrease) in liabilities:			
Accounts payable	(2,555.1)	3,584.1	1,029.0
Loans guarantee liability	-	6.6	6.6
Environmental and disposal liabilities	-	1,082.9	1,082.9
Benefits due and payable	-	0.9	0.9
Federal employee and veteran benefits payable	-	(60,244.7)	(60,244.7)
Other liabilities	(3,558.5)	(74.8)	(3,633.3)
Other financing sources			
Imputed Cost	(4,608.2)	-	(4,608.2)
Donated Revenue	-	(62.4)	(62.4)
Total Components of Net Cost Not Part of Net Outlays	(8,713.8)	(38,446.2)	(47,160.0)
Components of Net Outlays Not Part of Net Cost			
Investments	(1.4)	7,850.2	7,848.8
Inventory and related property	-	20,948.9	20,948.9
Other	184.8	-	184.8
Total Components of Net Outlays Not Part of Net Cost	183.4	28,799.1	28,982.5
Miscellaneous Reconciling Items			
Distributed offsetting receipts	4.7	(421.3)	(416.6)
Other	59,930.1	4,066.7	63,996.8
Total Other Reconciling Items	59,934.8	3,645.4	63,580.2
Total Net Outlays	$ 58,896.7	$ 705,858.1	$ 764,754.8
Agencies Outlays, Net (Statement of Budgetary Resources)			$ 763,219.4
Unreconciled Difference			$ 1,535.4

Presentational Changes for FY 2020 and Restatements

The FY 2020 reconciliation conforms to presentational changes resulting from the Department's continual effort to reconcile the Net Cost of Operations with Net Budgetary Outlays. The presentation is revised from the prior year's presentation to capture the revised Balance Sheet presentation (see Note 1.CC, *Significant Accounting Policies, Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation* for further information) and in consideration of updated Treasury Financial Management guidance to the extent possible. The TFM guidance is moving Note 24 toward a balance sheet-based presentation.

In addition, the Department corrected FY 2020 balances affecting lines on the table above. See Note 28, *Restatements* for a summary of all restatements and further information. The system logic which calculates each amount presented above is not properly capturing all effects of the restatements for certain lines. The Department has a planned system update in FY 2022 to the Note 24 table based on the continued refinement of the TFM guidance. Additionally, the Department will research the proper treatment of prior period adjustments as part of that project.

Other Disclosures

The Reconciliation of Net Cost to Net Budgetary 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 Budgetary 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 of receipt of cash by the Department. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principle.

Components of Net Cost that are Not Part of Outlays primarily consists of a $96.5 billion increase in Federal Employee and Veteran Benefits Payable due to changes in actuarial pension liabilities. Other Assets include a $1.8 billion decrease in advances and prepayments for contract financing and the future performance of services, receipt of goods, or incurrence of expenditures. Other Liabilities include a $1.3 billion decrease in accrued funded payroll and leave and liability for advances and prepayments.

Components of Net Outlays That are Not Part of Net Cost includes a $4.2 billion decrease in Inventory and Operating Materials and Supply balances.

Miscellaneous Reconciling Items, Other, includes $101.4 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 Unreconciled Difference is due to timing differences between the recognition of expenses/revenues and disbursements/collection 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.

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

Public-Private Partnerships (P3s) are risk-sharing agreements between public and private sector entities with expected lives greater than five years. P3s can be extremely complex agreements which transfer or share various forms of risk among the P3 partners and may involve government assets. Disclosure of P3s fosters accountability and improves understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. *SFFAS 49* "*Public-Private Partnerships*," requires the disclosure of the nature of the Government's relationship with the private entities and 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.

The Department identified Military Housing Privatization Initiative (MHPI) agreements as P3s requiring disclosure. Military Departments are reviewing the details of individual agreements to ensure the underlying transactions are recorded and reported in accordance with GAAP. Due to the complexity of some of the MHPI agreements, the Department may need to adjust previous transactions in order to be GAAP compliant and is currently performing research and analysis to determine the materiality of prospective adjustments, which may result in a relevant effect on the financial position and results of operations of the MHPI agreements.

Overview

The MHPI agreements are private sector/market driven businesses established as Limited Liability Companies or Limited Partnerships (LLC/LP) single purpose entities. These entities allow the Department to work with the private sector to build, renovate and sustain military housing by obtaining private capital to leverage government dollars. By engaging in MHPI agreements, the government benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow. The MHPI authority stems from the National Defense Authorization Act for Fiscal Year 1996, *Public Law 104-106* (110, Stat 186, Section 2801). *Title 10 U.S.C. §§ 2871-2885* codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. The Private Partner serves as the majority managing member which ensures performance objectives are met over the expected life of the operating agreement. The Military Department generally serves as the minority member and enters into a long-term ground lease (generally 50 years), and conveys the associated real property assets (buildings, structures, facilities, and utilities) to the LLC or LP. The contractual terms and termination clauses vary by agreement. The Department's involvement in the operations and management of the LLC or LP is governed by evaluating the percentage of ownership interest, along with analyzing the indicators of control, which determines the level of influence over the partnership.

Funding and Contributions

The Department provides funding to the LLC or LP through:

- **Equity Investments** - Provision of cash and transfer of real property ownership (land, housing units, and other structures) to a project and, in return, the DoD receives a portion of that project's profits and losses. In addition, the DoD also receives compensation if the investment is sold;
- **Government Direct Loans** - Provision of cash to a project with the expectation of future payment;
- **Government Loan Guarantees** - Agreement to pay a percentage of the outstanding balance on a non-Government loan in the event of nonpayment by the project;
- **Differential Lease Payments** - Provision of monthly payments to a project above the Basic Allowance for Housing (BAH) paid by the military personnel.

See Note 7, *Loan Receivable, Net and Loan Guarantee Liabilities*.

Cash contribution from the Department's Family Housing Improvement Fund (FHIF) or the Department's Military Unaccompanied Housing Improvement Fund (MUHIF) requires Congressional notification, per *10 U.S.C. § 2883*, to provide a justification for the transfer of appropriated amounts to a fund from amounts authorized and appropriated to the Department for the acquisition, improvement, or construction of military family housing. The expected life of each MHPI agreement corresponds to the length of the ground lease. The agreement is established through negotiations between the Military Department and the Private Partner based on the duration of the project to establish housing, which determines the amount of contributions at the inception of the agreement. 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 BAH amount for the period January 1, 2018 through December 31, 2018. The amount of BAH was calculated under 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 through December 2019, *Pub L. 115-232 § 606* required the Military Departments to make monthly direct payments to the MHPI entities of 5% of the BAH. From January 1, 2020 forward, *Pub. L.116-92 §§ 3036 and 3037* require the Military Departments to make monthly direct payments to the MHPI entities of 2.5% of BAH and "underfunded" projects may receive up to an additional 2.5% of BAH monthly at the determination of the Chief Housing Officer of the Department of Defense and Secretaries of the Military Departments until Congress modifies or rescinds this direction. Upon termination of the leasehold interest, all assets revert back to the Department at no-cost to either party. Upon dissolution of the LLC or LP and, after the contractual terms have been met, excess funds will be returned to the FHIF.

The following tables represent the aggregated Federal and Private Partner LLC contribution amounts paid to the MHPI Program and LLCs through September 30, 2021:

Table 25. Cumulative Contributions as of September 30, 2021
Military Housing Privatization Initiative (MHPI)

(dollar in millions)	2021
DoD Initial Contributions to the MHPI Programs *	
Direct cash contributions (see Note 5 [regarding Other Investments])	$ 4,419.5
Real property contributions to the LLCs & LPs (value of Real Property Assets (RPA) conveyed, per OMB Scoring Documents) (see Note 5 [regarding Other Investments])	7,901.6
Bonds	-
Direct loans disbursed	1,931.5
DoD On-Going Contributions to the DoD MHPI Partnerships	
DoD direct payments as required by Pub. L. 115-91 § 603 (1% BAH) and 15-232 § 606 (5% BAH) as of FY 2019	478.4
Basic allowance for housing (BAH) under § 403 of Title 37 to members living in privatized housing for FY 2021 and FY 2020	5,672.3
Differential lease payments	16.5
Property, cash, bonds, and loans	-
Private Partner Initial Contributions to the MHPI Partnerships	
Direct cash contributions	618.1
Real property contributions to the LLCs and LPs	1.5
Bonds	18,885.3
Direct loans disbursed	2.5
Private Partner On-Going Contributions to the MHPI Partnerships	
Direct cash contributions	277.3
Bonds/Loans contributed	12,731.7
Real property and land contributions	0.3

**The DoD cash and real property contributions in the table above are currently reported in the DoD's consolidated financial statements. See Note 5, Investments and Related Interest. Variances to Note 5 are being researched.*

Risk

The Private Partner's potential risks are (1) inability to recover initial cash and non-cash contributions, (2) inability to repay bonds and/or loans, and (3) loss of a long-term revenue source. The Private Partner is not entitled to the return of its capital contribution, or to be paid interest on its capital contribution. The Department's potential risks are (1) loss of the initial cash and non-cash assets contribution to the program,

(2) default by the Private Partner on a government direct loan, (3) guarantee threshold event, such as the need to request additional funds above the initial threshold amount, triggered under a loan guarantee agreement, (4) need to provide direct management support and financial contribution to the project until its completion if the Private Partner fails to comply with contractual terms, and (5) failure to deliver quality housing services to Military Personnel. Likewise, when unpredicted events occur, such as natural disasters and severe weather events, the Military Departments may need to provide direct intervention, depending on the terms of the agreement and the laws that govern MHPI.

To mitigate financial risk, each MHPI operating agreement prescribes to a revenue flow operating tool during the life of the arrangement and upon liquidation of the arrangement, in order to track revenue, expenses, cash flow, and operating metrics. The revenue flow generally allows the Private Partner an opportunity to earn incentives and returns for economic performance after providing capital for the maintenance of the facilities. Cash and non-cash assets in excess of required reserves are returned to the FHIF at agreement liquidation.

The MHPI agreements do not explicitly identify risk of loss contingencies, although some projects include reserve accounts for specific circumstances, such as an Operating Expense Reserve Account or Utility Reserve Account to save funds to protect against unexpectedly high expenses. The Department's overall risk associated with these agreements are the total initial investment (funding and net book value of assets at the time of transfer), plus the commercial loan guarantees associated with the MHPI agreements.

The Department recognizes other risk scenarios may occur, such as Private Partner non-compliance with the MHPI agreements or risk of loan modifications. To address non-compliance risk, the Department performs reviews of compliance, a joint effort between the local military housing office, the Private Partners, Military Department installation commands, and other ranking members of the Military Department. These reviews can include neighborhood tours to view project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the Private Partner companies, as well as exteriors of military housing units. Private Partner performance is measured through a variety of metrics, such as resident satisfaction, maintenance management, project safety, and financial management. The Government Accountability Office Report, *GAO-20-280T*, *Preliminary Observations on DoD's Oversight of the Condition of Privatized Military Housing*, provides information about the Department's governance activities, and the National Defense Authorization Act *(NDAA) 2020* Sections 3001-3064 prescribes the authoritative guidance which defines the accountability and oversight measures of the MHPI projects, the protections and responsibilities for tenants, and any additional requirements relating to contracts and management of MHPI projects. To address the risk of loan modifications or restructures, which may be necessary to ensure the sustainability of affected projects, a sustainment review is required to be performed every two to three years, outlining the future needs of a project. This review occurs even when the projects may not be at risk of imminent loan default. On an annual basis, the Department is required to re-forecast projected cash flows to assess each project's sustainability. If the assessment results in a funding shortfall or going concern for the project, a loan modification may be requested from the OMB. OMB is required to approve all loan modifications before the Military Departments and LLCs or LPs can begin to restructure the loan.

Investment Recognition

Beginning in FY 2020, the Department adopted *FASB ASC 323* Investments – Equity Method and Joint Ventures to account for its investments in LPs and LLCs engaged in MHPI projects. This treatment was chosen in the absence of specific FASAB accounting standards for the MHPI financial arrangement. In FY 2021, the Department performed additional analysis and research and as a result, the Department issued a revised policy to refine the guidance and instruction prescribing the most appropriate financial treatment to account for and report investments and contributions to the MHPI projects. The revised guidance provides detailed instructions on recording initial cash and non-cash asset contributions, and recording gains and losses at the dissolution of the agreements. The Department is continuing to evaluate the most applicable GAAP compliant methodology to report profits and losses on the initial and on-going contributions to the investments. The Military Departments continue to provide details of the MHPI agreements and associated financial activity in the footnote disclosures, to include a description of contractual terms, significant events, inherent risks, and any gains or losses associated with contributions to the private entity.

See Note 5, *Investments and Related Interest* for DoD's consolidated cash and real property contributions.

OMB A-136 Significant Entity Disclosure Requirement

The Military Departments are assessing their MHPI agreements and contracts to provide actual and estimated amounts paid and received by the Department for future periods, in compliance with OMB A-136's significant entity disclosure requirement.

The Components continue to assess agreements using criteria from *SFFAS 49* to determine if they have P3s to disclose. The Department will report these agreements as soon as these assessments are complete.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). In accordance with *SFFAS 47 "Reporting Entity"*, 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 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:

(1) Military Morale, Welfare, and Recreational (*MWR*) Programs,

(2) Armed Services Exchange Programs,

(3) Civilian MWR Programs,

(4) Lodging Program Supplemental Mission Funds,

(5) Supplemental Mission Funds, and

(6) 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 NAFI 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), provide guidance on accounting policies to the NAFI for use in the preparation of financial statements for their annual audit. 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 very limited financial and non-financial risks to the Department. NAFIs are separate legal entities apart from the DoD, and they are operated and accounted for in financial systems separate from the DoD. Historically, appropriated funding in support of the NAFIs is less than one percent of the sponsor's budgetary resources. Together, these factors limit the Federal Government's financial exposure.

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 benefits to the Department, which support 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 an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, 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. Historically, funding placed on contract to the FFRDCs is less than one percent of the sponsor's budgetary resources. 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

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. While the Department identified Public Private Partnerships (P3s) as related parties in prior years, the Department performed assessments of P3s and determined that these partnerships and relationships do not meet the criteria to be reported as related parties, because they meet the inclusion principles defined in SFFAS 47: a) In the Budget, b) Majority Ownership Interest, c) Control with Risk of Loss or Expectation of Benefit. The Department's P3s meet the criteria for disclosure entities, in accordance with SFFAS 47. See Note 25, *Public Private Partnerships* for additional disclosure details and information.

NOTE 27. SECURITY ASSISTANCE ACCOUNTS

The DoD has a significant role, and works closely with the U.S. Department of State in the execution of the activities of the Security Assistance Accounts (SAA), which is budgeted and reported in the *Title 22, Foreign Relations and Intercourse* under the purview of the Foreign Relations Committee in Congress. The SAA is a significant reporting entity, and in accordance with *SFFAS 47 "Reporting Entity"*, its stand-alone financial statements are consolidated directly into the U.S. Government-wide financial statements.

Due to DoD's considerable activities executing *Foreign Military Sales*, the SAA financial statements and associated notes have been included in Appendix C of the DoD Agency Financial Report. In FY 2021 and FY 2020, SAA reported approximately $224.1 billion and $244.5 billion, respectively, in budgetary resources; $86.5 billion and $86.0 billion, respectively, in assets; and $185.0 billion and $139.3 billion, respectively, in liabilities, mostly attributable to the Foreign Military Sales Trust Fund. Of these amounts, in FY 2021 and FY 2020, approximately 97% and 97%, respectively, of budget authority; 87% and 87%, respectively, of assets; and 98% and 98%, respectively, of liabilities are financed primarily by foreign countries and deposits to acquire military weapons for those countries.

The DoD leverages its financial and acquisition systems to facilitate the acquisition of U.S. weapon systems by foreign countries. Based on the contract terms included in the agreements with each foreign country acquiring assets utilizing the Foreign Military Sales Trust Fund, there is minimal financial risk to the DoD or the U.S. Government resulting from the transactions entered into.

NOTE 28. RESTATEMENTS

In addition to the consolidated audit on the DoD-wide financial statements, twenty-six reporting entities within the Department underwent independent standalone audits in FY 2021. These reporting entities include the entities with the highest asset values, as well as those deemed by management to be special-focus. While striving to maintain or moving closer to achieving an unmodified opinion, reporting entities may uncover accounting errors related to a prior fiscal year. *SFFAS 21* "*Reporting Corrections of Errors and Changes in Accounting Principles*" requires a restatement of the prior year presented when the errors discovered in the prior period financial statements are material. In FY 2021, some entities restated the prior year presentation, in certain cases even when the amounts were individually immaterial, as opposed to including the effects of a prior year error in the current year activity. This resulted in a greater volume of restatements compared to previous fiscal years.

The Department restated its financial statements as of September 30, 2020 for the following. The net effects of the restatements on each financial statement line affected are included in the Table 28B.

- Accounts Receivable, Net (Intragovernmental) was overstated due to transactions that were inadvertently omitted from the FY 2020 financial statements due to an issue with a source accounting system.
- Inventory and Related Property, Net was understated due to certain operating materials and supplies were expensed upon acquisition in the prior year, rather than being reported as inventory.
- General Property, Plant, and Equipment, Net was overstated primarily due to the revaluation of military equipment (aircraft and missiles), as well as Construction-in-Progress.
- Advances and Prepayments (Other than Intragovernmental) was understated due to a vendor receiving a payment prior to the work being done in the prior year.
- Investments (Other than Intragovernmental) was understated in FY 2020 and prior fiscal year financial statements. The correction was recording of the value of real property non-cash assets conveyed under long-standing MHPI agreements, generally at the beginning of the individual agreements.
- Accounts Payable (Other than Intragovernmental) was overstated due to transactions that were inadvertently omitted from the FY 2020 financial statements due to an issue with a source accounting system.
- Other Liabilities (Other than Intragovernmental) was overstated due to transactions that were inadvertently omitted from the FY 2020 financial statements due to an issue with a source accounting system.
- Net Cost of Operations was understated primarily due to the understatement of gross costs related to the revaluation of military equipment (aircraft and missiles) and physical inventory counts and the overstatement of earned revenue related to intragovernmental accounts receivable.

- Cumulative Results of Operations – Beginning Balances and Prior Period Adjustments - Corrections of Errors was understated due to the recording of real property assets identified during FY 2021 which were not being included in the FY 2020 and prior fiscal year financial statements.
- Transfers in/out without reimbursement was overstated due to a revaluation of Construction-in-Progress.
- Unobligated balance from prior year budget authority, net was overstated due to transactions that were inadvertently omitted from the FY 2020 financial statements due to an issue with a source accounting system.
- The Statement of Budgetary Resources had corrections to the lines presented in the table below; however, due to the offsetting nature of the individual adjustments, the overall balance on each line was not impacted. More information is disclosed on Note 21, *Disclosures Related to the Statement of Budgetary Resources*.

The following notes were restated: Note 2, *Non-Entity Assets*, Note 3, *Fund Balance with Treasury**, Note 5, *Investments*, Note 6, *Accounts Receivable*, Net, Note 8, *Inventory and Related Property, Net*, Note 9, *General PP&E,* Note 10, *Other Assets*, Note 11, *Liabilities Not Covered by Budgetary Resources*, Note 15, *Other Liabilities*, Note 19, *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* and Note 24, *Reconciliation of Net Cost to Net Outlays*.

* Although the activity on Note 3 was revised due to a restatement, the net change on the Note 3 total was zero. The Department's Fund Balance with Treasury did not change.

Table 28A. Effect on FY 2021 Beginning Cumulative Results of Operations

(dollar in millions)	Prior to Restatements	Effect of Restatements	After Restatements
FY 2021 Net Position			
Cumulative Results of Operations - Other Funds	(334,619.0)	5,960.1	(328,658.9)

Table 28B. Effect on FY 2020 Comparative Balances

(dollar in millions)	Per FY 2020 Statements	Effect of FY 2021 Restatements	After Restatements
***FY 2020** Balance Sheet*			
Accounts Receivable, Net - Intragovernmental	2,214.8	(7.6)	2,207.2
Inventory and Related Property, Net	310,210.5	2,228.1	312,438.6
General PP&E, Net	790,505.2	(5,079.4)	785,425.8
Advances and Prepayments - Other Than Intragovernmental	20,500.6	1.2	20,501.8
Investments - Other Than Intragovernmental	3,511.6	7,850.1	11,361.7
Total Assets	**3,054,716.6**	**4,992.4**	**3,059,709.0**
Accounts Payable - Intragovernmental***	3,621.6	0.1	3,621.7
Accounts Payable - Other Than Intragovernmental	36,121.2	(22.9)	36,098.3
Other Liabilities - Other Than Intragovernmental	25,291.3	(0.1)	25,291.2
Total Liabilities	**2,819,610.4**	**(22.9)**	**2,819,587.5**
Cumulative Results of Operations - Other Funds	(367,176.9)	5,015.3	(362,161.6)
Total Net Position	**235,106.2**	**5,015.3**	**240,121.5**
***FY 2020** Statement of Changes in Net Position*			
Cumulative Results of Operations - Beginning Balances	(415,377.8)	1,222.6	(414,155.2)
Cumulative Results of Operations - Prior Period Adjustments - Corrections of Errors	(1.7)	4,737.6	4,735.9
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)**	(413,520.7)	5,960.2	(407,560.5)
Transfers in/out without reimbursement	(281.2)	(137.8)	(419.0)
Net Cost of Operations	718,545.2	806.9	719,352.1
Net Change in Cumulative Results of Operations**	78,901.7	(944.9)	77,956.8
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	**(334,619.0)**	**5,015.3**	**(329,603.7)**
Net Position	**235,106.2**	**5,015.3**	**240,121.5**
***FY 2020** Statement of Net Cost*			
Gross Costs**	817,165.3	802.7	817,968.0
Gross Costs - Operations, Readiness & Support	284,482.2	(11.0)	284,471.2
Gross Costs - Procurement	103,044.1	817.0	103,861.1
Gross Costs - Family Housing & Military Construction	9,747.7	(3.3)	9,744.4
(Less: Earned Revenue)	(81,244.8)	4.2	(81,240.6)
Net Cost before Losses/(Gains) from Actuarial Assumption**	735,920.5	806.9	736,727.4
Net Cost of Operations**	**718,545.2**	**806.9**	**719,352.1**
***FY 2020** Statement of Budgetary Resources (Budgetary Column)*			
Spending Authority from offsetting collections	130,289.6	-	130,289.6
New obligations and upward adjustments (total)	1,157,332.3	-	1,157,332.3
Outlays, net (total (discretionary and mandatory))	872,148.6	-	872,148.6

*** This is a subtotal or total line impacted by the restated lines elsewhere in the statement.*
**** Accounts Payable – Intragovernmental is used by the system as an auto rounding line to balance the other rounded transactions and was impacted by +0.1 as a result of the various restatements.*

The amounts presented in the "Per FY 2020 Statements" column are based on the presentation of the current financial statements which had significant changes during FY 2021, and may not tie to the FY 2020 AFR (see additional information on Note 1.CC *Significant Accounting Policies, Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation*).

NOTE 29. COVID-19 ACTIVITY

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to soften the impact of this pandemic on individuals, businesses, and federal, state and local government operations. In FY 2020, two of these public laws had a direct impact on the Department through the provision of $10.6 billion in supplemental appropriations. Additional supplemental funding was not received for FY 2021.

Families First Coronavirus Response Act

The Families First Coronavirus Response Act (*FFCRA*) (Public Law 116-127) was signed into law on March 18, 2020. FFCRA responds to the COVID-19 outbreak by providing paid sick leave, tax credits, free COVID-19 testing; expanding food assistance and unemployment benefits; and increasing Medicaid funding. The provisions of the FFCRA included $82.0 million in emergency supplemental Operations and Maintenance funding for the *Defense Health Program* to waive *TRICARE* participant copayments and cost sharing associated with COVID-19 related testing and medical visits. The funds are to remain available until September 30, 2022 or until the funds are used, whichever occurs first. For additional information on TRICARE, see Note 1. *Significant Accounting Policies, R. Other Liabilities*.

Table 29A. FY 2020 DoD Appropriations in the FFCRA (P.L. 116-127)

Appropriations Enacted	(dollar in millions)	
Defense Health Program	$	82.0
Defense-Wide Total		82.0
TOTAL DoD Appropriations	$	82.0

Coronavirus Aid, Relief and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (*CARES Act*) (Public Law 116-136) was signed into law, which provided FY 2020 supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations were designated as emergency spending, which is exempt from discretionary spending limits. Within the DoD budget, the CARES Act provided the Department with $10.5 billion in supplemental funding for National Guard personnel, operations and maintenance, Defense Production Act (*50 U.S.C. 4532(c)(1)*) purchases, the Defense Working Capital Funds, the Defense Health Agency, and the Office of the Inspector General.

In an effort to quickly respond to pandemic needs, the CARES Act waives certain undefinitized contract restrictions for the Department to authorize contractors to begin work before reaching a final agreement on contract terms, specifications, or price, where it is determined the waiver is necessary due to the national emergency for COVID-19. The CARES Act also allows the DoD to waive certain restrictions on the usage of other transaction authority in contracts related to COVID-19, affording the DoD the authority to enter into certain contracts generally exempt from federal procurement laws and regulations.

On April 10, 2020, the Office of Management and Budget (OMB) issued implementation guidance for supplemental funding provided in response to the COVID-19. In balancing speed with transparency, *OMB Memorandum M-20-21* directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. OMB M-20-21 further instructed agencies to consider three core principles: (1) mission achievement, by using data and evidence to meet program objectives; (2) expediency in issuing awards to meet crucial needs; and (3) transparency and accountability to the public.

In FY 2021, there were no additional appropriations or changes to the reprogramming action amounts in the September 30, 2020 table below.

Table 29B. FY 2020 DoD Appropriations in the CARES Act (P.L. 116-136)

Appropriation *(dollar in millions)*	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
Personnel, Army National Guard	$ 746.6	$ (677.0)	$ 69.6
Military Personnel, Army	-	89.4	89.4
Operations & Maintenance (O&M), Army	160.3	728.1	888.4
O&M, Army National Guard	186.7	(122.1)	64.6
O&M, Army Reserve	48.0	(12.0)	36.0
Research, Development, Test & Evaluation (RDT&E), Army	-	65.3	65.3
Other Procurement, Army	-	61.4	61.4
Department of the Army Total	1,141.6	133.1	1,274.7
Military Personnel, Navy	-	3.0	3.0
Military Personnel, Marine Corps	-	5.4	5.4
Personnel, Marine Corps Reserve	-	0.2	0.2
O&M, Navy	360.3	545.9	906.2
O&M, Navy Reserve	-	6.3	6.3
O&M, Marine Corps	90.0	100.5	190.5
Other Procurement, Navy	-	10.8	10.8
Working Capital Fund, Navy**	475.0	-	475.0
Department of the Navy Total	925.3	672.1	1,597.4

Table 29B. FY 2020 DoD Appropriations in the CARES Act (P.L. 116-136) (continued)

Appropriation *(dollar in millions)*	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
Military Personnel, Air Force	-	106.1	106.1
Personnel, Air Force National Guard	482.1	(424.7)	57.4
Personnel, Air Force Reserve	-	16.7	16.7
O&M, Air Force	155.0	783.4	938.4
O&M, Air Force National Guard	75.8	(58.8)	17.0
O&M, Air Force Reserve	-	19.6	19.6
RDT&E, Air Force	-	60.0	60.0
Other Procurement, Air Force	-	32.1	32.1
Working Capital Fund, Air Force**	475.0	2.8	477.8
Department of the Air Force Total	1,187.9	537.2	1,725.1
Defense Health Program	3,806.1	(1,302.7)	2,503.4
Defense Health Program*	1,095.0	-	1,095.0
O&M, Defense-Wide (DW)	827.8	(540.0)	287.8
Defense Production Act Purchases	1,000.0	(100.0)	900.0
Defense Production Act Program Account	-	100.0	100.0
Working Capital Fund, DW (DLA)**	500.0	30.2	530.2
Working Capital Fund, DW (DeCA)	-	34.7	34.7
Overseas Humanitarian, Disaster, and Civic Aid	-	120.3	120.3
Chemical Agents & Munitions Destruction	-	14.9	14.9
Office of the Inspector General	20.0	-	20.0
RDT&E, DW	-	298.1	298.1
Procurement, DW	-	2.1	2.1
Defense-Wide Total	7,248.9	(1,342.4)	5,906.5
TOTAL DoD Appropriations	10,503.7	-	10,503.7
O&M, U.S. Army Corps of Engineers (USACE)	50.0	-	50.0
General Expenses, USACE	20.0	-	20.0
U.S Army Corps of Engineers Total	70.0	-	70.0
TOTAL DoD and USACE Appropriations	$ 10,573.7	$ (0.0)	$ 10,573.7

* Additional Appropriations non-COVID-19 related, per section 13002
**Included in the CARES Act, Congress appropriated $1.45 billion for the DWCF as an emergency requirement under *Section 251(b)(2)(A)(i)of the Balanced Budget and Emergency Deficit Control Act of 1985* to prevent, position, prepare for, and respond to coronavirus, domestically or internationally. The appropriations were used to position funds to address an anticipated impact on cash liquidity to cover actual costs incurred and expected future costs.

Other Information

As of September 30, 2021, obligations and outlays related to the supplemental funding ($10,655.7 million) were $9.0 billion and $5.6 billion, respectively. Remaining available funding for future obligations is $54.6 million. As of September 30, 2020, obligations and outlays were $8.1 billion and $2.7 billion, respectively.

Disbursements for COVID-19 prevention, preparation and response include:

- Purchase of medical supplies and equipment;
- Payroll/other personnel costs;
- Co-pay/cost share waivers for COVID-19 diagnostic testing and health care related expenses;
- Training, mobilization and preparedness;
- Operations support programs and base support;
- Emergency operations support;
- Restriction of movement measures and quarantine implementation;
- Cost of isolation measures to include stocking Meals, Ready to Eat (MREs), to be served to Soldiers, in lieu of dining facility operations to maintain social distancing;
- Enhancements of IT equipment and services to facilitate increased telework operations and delivery of distributed learning in lieu of on-site training;
- Purchase of non-medical personal protective equipment;
- Cleaning/disinfecting supplies and contracts;
- Measures to mitigate impacts at recruit training depots;
- Increased cost of conducting initial entry and advanced individual training with appropriate distancing measures;
- Costs incurred to deliver inventory at overseas commissaries;
- Continued operations of Non-Appropriated Fund Instrumentalities;
- Administrative costs.

The Department has incurred costs related to the pandemic that are not reimbursable from the supplemental funding, but will be paid from DoD's existing budgetary resources. As of September 30, 2021, the estimated year-to-date obligations and outlays are $4.1 billion and $3.6 billion, respectively. As of September 30, 2020, the estimated obligations and outlays were $1.1 billion and $562.9 million, respectively.

Additionally, for FY 2021, the Department performed reimbursable work on behalf of other Federal agencies who received supplemental funding related COVID-19. The Department entered into a reimbursable agreement with the Department of Health and Human Services (HHS) for the distribution of COVID-19 vaccines to DoD, which is one of sixty-five jurisdictions that received an allocation of the vaccines. The vaccines were received from multiple commercial vendors based on the agreements with HHS. The vaccine quantities are posted to standard distribution systems for purpose of accountability, tracking and distribution.

The Department of the Army supported other federal agencies participating in Operation Warp Speed through Army contracting support, facilitating the procurement of supplies needed to distribute and administer approved COVID-19 vaccines.

See Note 7. *Loans Receivable, Net and Loan Guarantee Liabilities* for information related to federal loans to create, maintain, protect, expand or restore domestic industrial base capabilities to support national COVID-19 response. As of September 30, 2021, no loans have been approved or disbursed under *Executive Order 13922*, which authorizes the activity.

The impact on the Department's assets, liabilities, costs, revenues, and net position cannot be separately determined, as mechanisms within the financial reporting systems needed to track such transactions through the proprietary accounts generally do not exist. However, given the nature of the COVID-19 transactions, impacts to the Department's balances in the following accounts would be expected, although not easily quantifiable: Fund Balance with Treasury, Accounts Receivable, Inventory, General PP&E, Non-federal and Intragovernmental Accounts Receivable and Payables. In addition, impacts would be expected to the Statement of Net Cost and the Statement of Changes in Net Position.

NOTE 30. SUBSEQUENT EVENTS

As of the date of this report, there are no subsequent events to report. However, the below DoD Components' FY 2021 financial statements and related notes were not yet finalized. As a result, these DoD consolidated/combined financial statements were prepared using current draft financial statements of the outstanding DoD Components. If changes that are material to the DoD Agency-wide consolidated/combined financial statements are identified upon the finalization of the outstanding DoD Components' financial statements, the Department would revise and re-issue the DoD Agency-wide financial statements. The expected timeframe for these events is December 2021.

- Defense Information Systems Agency, Working Capital Fund
- Office of the Inspector General

NOTE 31. RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government (*Financial Report*). The FY 2021 FR will be published by *The Bureau of Fiscal Service* upon its release.

To prepare the Financial Report, 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, which represent activity between agencies, from the reclassified statements and aggregates lines with the same title to develop the Financial Report statements.

The following tables display the relationship between 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. Certain financial statement lines are presented prior to aggregation of repeated items. The table also displays the details of Dedicated Collections and All Other Funds (funds that are non-dedicated Collections). The following four columns sum across to the Total amount and may be defined as follows:

- "Dedicated Collections Combined" represents all transactions that involve Funds from Dedicated Collections prior to the elimination of any intra-DoD transactions.
- "Dedicated Collections Eliminations" reflects identified transactions between the Department's Dedicated Collections.
- "All Other Amounts (with Eliminations)" includes funds other than Dedicated Collections, presented net of their eliminations.
- "Eliminations between Dedicated and All Other" reflects intra-DoD transactions between Funds from Dedicated Collections and other funds.

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

FY 2021 DoD Balance Sheet		**Line Items Used to Prepare FY 2021 Government-wide Balance Sheet**					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
ASSETS							**ASSETS**
Intragovernmental Assets							**Intragovernmental Assets**
Fund Balance with Treasury (Note 3)	$ 623,247.2	4,597.9		618,649.3		$ 623,247.2	FBWT
Investments (Note 5)	1,422,185.5	11,252.8		1,410,932.7		1,422,185.5	Federal investments
Investments (Note 5)	8,461.4	30.5		8,430.9		8,461.4	Interest receivable - investments
Total Investments, Net	$ 1,430,646.9					$ 1,430,646.9	Total Investments, Net
Accounts Receivable (Note 6)	4,710.4			4,727.1	(16.7)	4,710.4	Accounts receivable, net
Accounts Receivable (Note 6)	583.1	568.2		14.9		583.1	Transfers receivable
Total Accounts Receivable, Net	$5,293.5					$5,293.5	Total Accounts Receivable, Net
Other Assets (Note 10)	705.4			705.4		705.4	Advances and prepayments
Total Intragovernmental Assets	$ 2,059,893.0					$ 2,059,893.0	**Total Intragovernmental Assets**
Other Than Intragovernmental							**Other Than Intragovernmental**
Cash and Other Monetary Assets (Note 4)	1,002.9	2.3		1,000.6		1,002.9	Cash and other monetary assets
Accounts Receivable, Net (Note 6)	5,649.8	66.4		5,583.4		5,649.8	Accounts receivable, net
Loans Receivable, Net (Note 7)	1,598.3			1,598.3		1,598.3	Loans receivable, net
Inventory and Related Property, Net (Note 8)	326,939.6			326,939.6		326,939.6	Inventory and related property, net
General Property, Plant and Equipment, Net (Note 9)	810,150.8	505.6		809,645.2		810,150.8	General PP&E, net
Advances and Prepayments (Note 10)	20,688.6	0.2		20,688.4		20,688.6	Advances and prepayments
Investments (Note 5)	11,361.7			11,361.7		11,361.7	Investments, net
Other Assets (Note 10)	34.3			34.3		34.3	Other assets
Total Other Than Intragovernmental	$ 1,177,426.0					$ 1,177,426.0	Total Other Than Intragovernmental
Total Assets	$ 3,237,319.0					$ 3,237,319.0	Total Assets
LIABILITIES							**LIABILITIES**
Intragovernmental							**Intragovernmental**
Other Liabilities (Notes 13 and 15)	1,943.2			1,943.2		1,943.2	Benefit program contributions payable
Accounts Payable	4,167.4	38.4		4,145.7	(16.7)	4,167.4	Accounts payable
Accounts Payable	0.6			0.6		0.6	Transfers payable
Total Accounts Payable	$ 6,111.2					$ 6,111.2	Total Accounts Payable
Debt (Note 12)	1,600.5			1,600.5		1,600.5	Loans payable
Total Debt Associated with Loans	$ 1,600.5					$ 1,600.5	Total Debt Associated with Loans
Other Liabilities (Notes 13 and 15)	3,825.1			3,825.1		3,825.1	Advances from others and deferred revenue
Other Liabilities (Notes 13 and 15)	231.2			231.2		231.2	Other liabilities (w/o reciprocals)
Other Liabilities (Notes 13 and 15)	3,136.7			3,136.7		3,136.7	Liability to the GF of the USG for custodial and other non-entity assets
Other Liabilities (Notes 13 and 15)	2.9			2.9		2.9	Liability to agency other than GF for custodial and other non-entity assets
Total Intragovernmental Liabilities	$ 14,907.6					$ 14,907.6	Total Intragovernmental Liabilities

FY 2021 DoD Balance Sheet		Line Items Used to Prepare FY 2021 Government-wide Balance Sheet					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Other Than Intragovernmental							**Other Than Intragovernmental**
Accounts Payable	39,363.8	216.3		39,147.5		39,363.8	Accounts payable
Federal Employee and Veteran Benefits	2,823,096.4	136.5		2,822,959.9		2,823,096.4	Federal employee and veteran benefits payable
Environmental and Disposal Liabilities (Note 14)	81,963.4	31.1		81,932.3		81,963.4	Environmental and disposal liabilities
Benefits Due and Payable	2.2	1.8		0.4		2.2	Benefits due and payable
Loan Guarantee Liabilities (Note 7)	37.6	-		37.6		37.6	Loan guarantee liabilities
Other Liabilities (Notes 15, 16 and 17)	5,699.5	2,154.7		3,544.8		5,699.5	Advances from others and deferred revenue
Other Liabilities (Notes 15, 16 and 17)	22,787.4	538.4		22,249.0		22,787.4	Other liabilities
Total Other Than Intragovernmental	$ 2,972,950.3					$ 2,972,950.3	Total Other Than Intragovernmental
Total Liabilities	$ 2,987,857.9					$ 2,987,857.9	**Total Liabilities**
NET POSITION							**NET POSITION**
Unexpended Appropriations - Funds from Dedicated Collections	-					-	Unexpended appropriations - Funds from Dedicated Collections
Unexpended Appropriations - Funds Other than Dedicated Collections	552,868.5			552,868.5		552,868.5	Unexpended appropriations - Funds other than Dedicated Collections
Total Unexpended Appropriations (Consolidated)	552,868.5					552,868.5	Total Unexpended Appropriations (Consolidated)
Cumulative Results of Operations - Funds from Dedicated Collections	34,149.5	15,170.2		18,820.0	159.3	34,149.5	Cumulative results of operations - Funds from Dedicated Collections
Cumulative Results of Operations - Funds Other than Dedicated Collections	(337,556.9)	(42.4)		(337,355.2)	(159.3)	(337,556.9)	Cumulative results of operations - Funds other than Dedicated Collections
Total Cumulative Results of Operations (Consolidated)	(303,407.4)					(303,407.4)	Total Cumulative Results of Operations
Total Net Position	$ 249,461.1					$ 249,461.1	**Total Net Position**
Total Liabilities and Net Position	$ 3,237,319.0					$ 3,237,319.0	**Total Liabilities and Net Position**

FY 2021 DoD Statement of Net Cost		Line Items Used to Prepare FY 2021 Government-wide Statement of Net Cost					
Financial Statement Line[1]	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
Gross Costs							Gross Cost
Gross Costs	$ 839,901.7	2,136.6		837,765.1		$ 839,901.7	Non-federal gross cost
Losses/(Gains) from Actuarial Assumption Changes	82,869.5	(0.7)		82,870.2		82,869.5	Gains/losses from changes in actuarial assumptions
Gross Costs	162.6			162.6		162.6	General PP&E partial impairment loss
Total Non-Federal Gross Cost	$ 922,933.8					$ 922,933.8	Total Non-Federal Gross Cost
Federal Gross Cost							**Federal Gross Cost**
Gross Costs	18,131.4	12.0		18,140.8	(21.4)	18,131.4	Benefit program costs (RC 26)
Gross Costs	5,174.8	7.4		5,194.9	(27.5)	5,174.8	Imputed costs (RC 25)
Gross Costs	24,234.2	250.0		24,211.8	(227.6)	24,234.2	Buy/sell cost (RC24)
Gross Costs	226.3	19.5		226.3	(19.5)	226.3	Purchase of assets (RC 24)
Gross Costs	62.7			62.7		62.7	Borrowing and other interest expense (RC05)
Gross Costs	4,394.6	3.5		4,391.1		4,394.6	Other expenses (w/o reciprocals) (RC 29)
Total Federal Gross Costs	$ 52,224.0					$ 52,224.0	Total Federal Gross Costs
Total Gross Costs	$975,157.8					$ 975,157.8	Total Gross Costs
Earned Revenue							**Earned Revenue**
(Less: Earned Revenue)	(44,020.4)	(2,422.3)		(41,598.1)		(44,020.4)	Non-federal earned revenue
Federal Earned Revenue							**Federal Earned Revenue**
(Less: Earned Revenue)	(246.3)	(21.4)		(246.3)	21.4	(246.3)	Benefit program revenue (exchange) (RC 26)
(Less: Earned Revenue)	(37,226.9)			(37,454.5)	227.6	(37,226.9)	Buy/sell revenue (exchange) (RC 24)
Gross Costs	(226.3)	(19.5)		(226.3)	19.5	(226.3)	Purchase of assets offset (RC 24)
(Less: Earned Revenue)	(74,360.0)	(27.7)		(74,332.3)		(74,360.0)	Federal securities interest revenue including associated gains and losses (exchange) (RC 03)
(Less: Earned Revenue)	(3.9)			(3.9)		(3.9)	Borrowing and other interest revenue (exchange) (RC 05)
(Less: Earned Revenue)	(65.2)	(65.2)				(65.2)	Collections Transferred in to a TAS Other Than the GF - Exchange (RC 13)
Total Federal Earned Revenue	$ (112,128.6)					$ (112,128.6)	Total Federal Earned Revenue
Department Total Earned Revenue	$ (156,149.0)					$ (156,149.0)	Department Total Earned Revenue
Net Cost of Operations	$ 819,008.8					$ 819,008.8	**Net Cost of Operations**

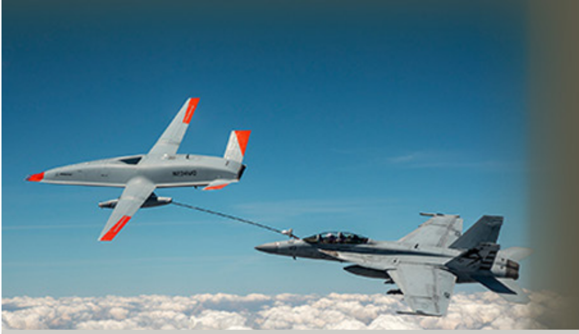
1 The subtotals and totals above are not presented on the DoD's Statement of Net Cost, but are reflective of their classification on the reclassified statements.
However, the repeated line descriptions (i.e., "Gross Costs") may be summed to trace to the face of the DoD's Statement of Net Cost:

Gross Cost	$892,062.0
Less: Earned Revenue	(155,922.7)
Losses/(Gains) from Actuarial Assumption Changes	82,869.5
	$ 819,008.8

FY 2021 DoD Statement of Changes in Net Position		**Line Items Used to Prepare FY 2021 Government-wide Statement of Changes in Net Position**					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined2**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
Beginning Balances (Includes Funds from Dedicated Collections)	$ 241,066.3	14,720.3		226,346.0		$ 241,066.3	Net Position, Beginning of Period
Non-Federal Prior-Period Adjustments							**Non-Federal Prior-Period Adjustments**
Changes in accounting principles (+/-)	789.5			789.5		789.5	Changes in accounting principles
Corrections of errors (+/-)	(818.8)			(818.8)		(818.8)	Corrections of errors - non-federal
Federal Prior-Period Adjustments							**Federal Prior-Period Adjustments**
Corrections of errors	(125.9)			(125.9)		(125.9)	Corrections of errors - federal (RC 29)
Net Position, Beginning of Period - Adjusted	$ 240,911.1					$ 240,911.1	**Net Position, Beginning of Period - Adjusted**
Non-Federal Non-Exchange Revenue							**Non-Federal Non-Exchange Revenue**
Non-exchange revenue (Note 20)	6,672.2	182.3		6,489.9		6,672.2	Other taxes and receipts
Total Non-Federal Non-Exchange Revenue	$ 6,672.2					$ 6,672.2	Total Non-Federal Non-Exchange Revenue
Federal Non-Exchange Revenue							**Federal Non-Exchange Revenue**
Non-exchange revenue (Note 20)	43.1	41.0		2.1		43.1	Federal securities interest revenue including associated gains and losses (non-exchange) (RC 03)
Non-exchange revenue (Note 20)	127.7	127.7				127.7	Other Taxes and Receipts (RC 45)
Non-exchange revenue (Note 20)	1,568.6	1,568.6				1,568.6	Collections Transferred to a TAS Other than the General Fund of the U.S. Government (RC 15)
Other	(9.6)			(9.6)		(9.6)	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 16)
Total federal non-exchange revenue	$ 1,729.8					$ 1,729.8	Total Federal Non-Exchange Revenue
Financing sources							**Financing sources**
Appropriations received	814,815.2			814,815.2		814,815.2	Appropriations received as adjusted (rescissions and other adjustments) (RC 41)
Appropriations used	(831,824.6)			(831,824.6)		(831,824.6)	Appropriations used (RC 39)
Appropriations used	831,824.6			831,824.6		831,824.6	Appropriations expended (RC 38)
Transfers-in/out without reimbursement	-	67.1	(67.1)			-	Appropriation of unavailable special or trust fund receipts transfers-in (RC 07)
Transfers-in/out without reimbursement	-	(67.1)	67.1			-	Appropriation of unavailable special or trust fund receipts transfers-out (RC 07)
Transfers-in/out without reimbursement	652.5	1,767.6	(1,673.3)	600.3	(42.1)	652.5	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	(223.3)	(1,756.6)	1,673.3	(182.1)	42.1	(223.3)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	17.0	81.4		1,608.4	(1,672.8)	17.0	Expenditure transfers-in of financing sources (RC 09)
Transfers-in/out without reimbursement	(154.6)	(1,591.4)		(236.0)	1,672.8	(154.6)	Expenditure transfers-out of financing sources (RC 09)
Other adjustments (+/-)	(86.0)			(86.0)		(86.0)	Revenue and other financing sources - cancellations (RC 36)
Other	(51.0)			(51.0)		(51.0)	Other financing sources with budgetary impact (RC 29)

FY 2021 DoD Statement of Changes in Net Position		Line Items Used to Prepare FY 2021 Government-wide Statement of Changes in Net Position					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined** [2]	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
Transfers in/out without reimbursement	170.1	14.4	(12.8)	347.2	(178.7)	170.1	Transfers-in without reimbursement (RC 18)
Transfers in/out without reimbursement	(33.7)	(189.8)	12.8	(35.4)	178.7	(33.7)	Transfers-out without reimbursement (RC 18)
Imputed financing	5,174.8	34.9	(27.5)	5,167.4		5,174.8	Imputed financing sources (RC 25)
Other	(1,112.9)			(1,112.9)		(1,112.9)	Non-entity collections transferred to the GF of the USG (RC 44)
Other	(62.3)			(62.3)		(62.3)	Accrual for non-entity amounts to be collected and transferred to the GF of the USG (RC 48)
Other	51.0			51.0		51.0	Other non-budgetary financing sources (RC29)
Total Financing Sources	$ 819,156.8					$ 819,156.8	Total Financing Sources
Net Cost of Operations (+/-)	$ (819,008.8)					$ (819,008.8)	Net Cost of Operations (+/-)
Net Position, End of Period	$ 249,461.1					$ 249,461.1	**Net Position, End of Period**

2. Basis of presentation - Note 31 and Note 18, *Funds from Dedicated Collections*: The compilation underlying the presentation of Note 31 is based on each program being designated either as dedicated collection or non-dedicated collection. If a program is designated as a dedicated collection, all of the program's activity is treated as such, and vice versa. However, Note 18 is presented on a combined basis without any eliminations, even eliminations that are within the same program. In addition, Note 18 uses the trial balance data where the fund code attribute is 9*, a system-designation for dedicated collection amounts. Note 18 does not use the designation of a program as dedicated or non-dedicated as its foundation.



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.

Real Property Deferred Maintenance and Repairs (continued)

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

		2021		
As of September 30 (dollar in millions)		**Plant Replacement Value**	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Property Type				
	Category 1	$ 1,072,317.1	$ 94,074.5	9%
	Category 2	101,365.3	11,051.0	11%
	Category 3	51,988.4	10,267.0	20%
Total		$ 1,225,670.8	$ 115,392.5	9%

		2020		
As of September 30 (dollar in millions)		**Plant Replacement Value**	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Property Type				
	Category 1	$ 1,285,781.2	$ 106,459.4	8%
	Category 2	103,444.5	14,794.1	14%
	Category 3	54,141.5	9,789.0	18%
Total		$ 1,443,367.2	$ 131,042.5	9%

Table RSI-2: Real Property Deferred Maintenance and Repairs (Military Family Housing Only)

		2021		
As of September 30 (dollar in millions)		**Plant Replacement Value**	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Property Type				
	Category 1	$ 32,665.0	$ 5,101.0	16%
	Category 2	945.0	252.0	27%
	Category 3	1,069.0	383.0	36%
Total		$ 34,679.0	$ 5,736.0	17%

		2020		
As of September 30 (dollar in millions)		**Plant Replacement Value**	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Property Type				
	Category 1	$ 25,472.0	$ 5,257.0	21%
	Category 2	711.0	195.0	27%
	Category 3	665.0	289.0	43%
Total		$ 26,848.0	$ 5,741.0	21%

Real Property Deferred Maintenance and Repairs (continued)

As of the end of FY 2021, the Department estimates facility maintenance cost of more than $121.1 billion for facilities with replacement cost of $1.3 trillion.

Maintenance and Repair Policies

The Department continues 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.

Table RSI-3. Equipment Deferred Maintenance and Repairs

As of September 30 (dollar in millions)	2021	2020
Major Categories		
Aircraft	$ 1,123.4	$ 832.8
Automotive Equipment	134.2	303.4
Combat Vehicles	467.3	91.1
Construction Equipment	0.4	76.4
Electronics and Communications Systems	325.7	252.1
Missiles	181.8	118.9
Ships	190.4	137.1
Ordnance Weapons and Munitions	432.2	385.4
Other Items Not Identified Above	109.8	113.9
Total	$ 2,965.2	$ 2,311.1

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 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 $654.1 million during FY 2021. 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.

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

As of September 30 (dollar in millions)	2021							
	Military Personnel	**Procurement**	**Research, Development, Test & Evaluation**	**Family Housing & Military Construction**	**Military Retirement Benefits**	**Civil Works**	**Operations, Readiness & Support**	**Combined**
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	$ 5,797.8	$ 60,960.7	$ 27,554.6	$ 24,710.8	$ -	$ 33,444.6	$ 58,701.0	$ 211,169.5
Appropriations (Discretionary and Mandatory)	163,025.0	140,389.6	108,511.2	6,806.0	74,192.5	8,654.6	403,564.7	905,143.6
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	74,016.8	74,016.8
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	4,585.9	5,502.5	50,811.5	5,206.9	-	10,939.6	76,661.1	153,707.5
Total Budgetary Resources	173,408.7	206,852.8	186,877.3	36,723.7	74,192.5	53,038.8	612,943.6	1,344,037.4
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	171,207.5	$147,259.2	$ 162,149.9	$ 15,473.9	$74,192.5	$ 24,461.2	$ 573,884.4	$ 1,168,628.6
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	252.8	56,626.0	22,565.8	20,001.9	-	28,536.5	22,500.4	150,483.4
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	36.3	3,736.6	3,772.9
Unapportioned, Unexpired Accounts	-	(310.2)	178.6	-	-	0.2	458.7	327.3
Unexpired Unobligated Balance, End of Year	252.8	56,315.8	22,744.4	20,001.9	-	28,573.0	26,695.7	154,583.6
Expired Unobligated Balance, End of Year	1,948.4	3,277.8	1,983.0	1,247.9	-	4.6	12,363.5	20,825.2
Unobligated Balance, End of Year (Total)	2,201.2	59,593.6	24,727.4	21,249.8	-	28,577.6	39,059.2	175,408.8
Total Budgetary Resources	173,408.7	$ 206,852.8	$ 186,877.3	$ 36,723.7	$ 74,192.5	$ 53,038.8	$ 612,943.6	$ 1,344,037.4
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	162,735.0	$ 140,703.3	$ 107,998.0	$ 8,859.6	$ 74,250.5	$ 9,295.0	$ 404,836.4	$ 908,677.8
Distributed Offsetting Receipts (-)	-	-	-	-	(121,668.8)	(1,368.5)	(2,160.6)	(125,197.9)
Agency Outlays, Net (Discretionary and Mandatory)	$ 162,735.0	$ 140,703.3	$ 107,998.0	$ 8,859.6	$ (47,418.3)	$ 7,926.5	$ 402,675.8	$ 783,479.9

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

	Restated 2020							
For the year ended September 30 (dollar in millions)	**Military Personnel**	**Procurement**	**Research, Development, Test & Evaluation**	**Family Housing & Military Construction**	**Military Retirement Benefits**	**Civil Works**	**Operations, Readiness & Support**	**Combined**
Budgetary Resources								
Unobligated Balance from Prior Year Budget								
Authority, Net (Discretionary and Mandatory)	$ 6,409.6	$ 79,526.6	$ 22,460.9	$ 20,100.2	$ -	$ 33,330.4	$ 51,453.4	$ 213,281.1
Appropriations (Discretionary and Mandatory)	154,840.0	139,917.1	108,892.1	16,470.4	72,983.6	8,449.7	412,698.6	914,251.5
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	78,672.5	78,672.5
Spending Authority from Offsetting Collections								-
(Discretionary and Mandatory)	2,451.4	3,309.9	23,674.0	6,128.6	-	16,088.4	78,637.3	130,289.6
Total Budgetary Resources	$163,701.0	$ 222,753.6	$ 155,027.0	$ 42,699.2	$ 72,983.6	$ 57,868.5	$ 621,461.8	$ 1,336,494.7
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	160,284.6	$ 169,069.4	$ 130,604.9	$ 19,467.5	$ 72,983.6	$ 25,612.4	$ 579,309.9	$ 1,157,332.3
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	613.4	50,474.9	22,572.3	22,021.8	-	32,217.2	23,914.4	151,814.0
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	30.6	4,179.7	4,210.3
Unapportioned, Unexpired Accounts	-	281.3	52.6	22.2	-	4.3	1,622.5	1,982.9
Unexpired Unobligated Balance, End of Year	613.4	50,756.2	22,624.9	22,044.0	-	32,252.1	29,716.6	158,007.2
Expired Unobligated Balance, End of Year	2,803.0	2,928.0	1,797.2	1,187.7	-	4.0	12,435.3	21,155.2
Unobligated Balance, End of Year (Total)	3,416.4	53,684.2	24,422.1	23,231.7	-	32,256.1	42,151.9	179,162.4
Total Budgetary Resources	$163,701.0	$ 222,753.6	$ 155,027.0	$ 42,699.2	$ 72,983.6	$ 57,868.5	$ 621,461.8	$1 ,336,494.7
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	152,908.6	$ 138,127.9	$ 101,638.7	$ 8,638.8	$ 72,856.2	$ 8,438.8	$ 389,539.6	$ 872,148.6
Distributed Offsetting Receipts (-)	-	-	3.1	-	(106,351.4)	(805.9)	(1,775.0)	(108,929.2)
Agency Outlays, Net (Discretionary and Mandatory)	$152,908.6	$ 138,127.9	$ 101,641.8	$ 8,638.8	$(33,495.2)	$ 7,632.9	$ 387,764.6	$ 763,219.4

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

As of September 30 *(dollar in millions)*	2021 Operations, Readiness & Support	2021 Combined	2020 Operations, Readiness & Support	2020 Combined
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 52.0	$ 52.0	$ 59.9	$ 59.9
Borrowing Authority (Discretionary and Mandatory)	624.0	624.0	69.9	69.9
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	53.1	53.1	54.4	54.4
Total Budgetary Resources	729.1	729.1	184.2	184.2
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	683.9	683.9	132.2	132.2
Unobligated Balance, End of Year:				
Unapportioned, Unexpired Accounts	45.2	45.2	52.0	52.0
Unexpired Unobligated Balance, End of Year	45.2	45.2	52.0	52.0
Unobligated Balance, End of Year (Total)	45.2	45.2	52.0	52.0
Total Budgetary Resources	729.1	729.1	184.2	184.2
Disbursements, Net				
Disbursements, Net (Discretionary and Mandatory)	(55.3)	(55.3)	(46.9)	(46.9)
Disbursements, Net (Discretionary and Mandatory)	$ (55.3)	$ (55.3)	$ (46.9)	$ (46.9)