DEPARTMENT OF DEFENSE

FOOTNOTES TO THE PRINCIPAL STATEMENTS

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Note 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and the records of the DoD in accordance with "Department of Defense Financial Management Regulation" ("DoDFMR") as adapted from the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements" and to the extent possible the Statements of Federal Financial Accounting Standards (SFFASs). The DoD's financial statements are in addition to the financial reports also prepared by the Department pursuant to OMB directives that are used to monitor and control DoD's use of budgetary resources.

The Department is unable to fully implement every aspect of the SFFASs due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the DoD's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting on the status of federal appropriations rather than applying the current emphasis of business-like financial statements. As a result, the DoD cannot currently implement every aspect of every SFFAS. The DoD continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems.

There are other instances where the DoD has reviewed the intent of the standard and applied it in a manner consistent with the intent of the standard but the auditors interpret the standard differently. Financial statement elements impacted include financing payments under firm fixed price contracts, operating materials and supplies (OM&S), and disposal liabilities.

A more detailed explanation of these financial statement elements is discussed in the applicable footnote.

B. Reporting Entity:

The DoD was created on September 18, 1947, by the National Security Act of 1947. The overall mission of the DoD is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal year (FY) 1999 represents the fourth year that the DoD has prepared audited DoD Agency-wide financial statements as required by the CFO Act and the GMRA. The reporting entities within the DoD have been changed to facilitate this new reporting requirement. Auditors will be issuing opinions on the financial statements of the following stand-alone reporting entities: 1) Army General Funds; 2) Navy General Funds; 3) Air Force General Funds; 4) Army Working Capital Fund; 5) Navy Working Capital Fund; 6) Air Force Working Capital Fund; 7) Military Retirement Fund; and 8) U.S. Army Corps of Engineers (Civil Works).

In addition to the eight stand-alone reporting entities, the remaining DoD Components are reported in two columns of the DoD Agency-wide financial statements. The columns are identified as "Other Defense Organizations General Funds" and "Other Defense Organizations Working Capital Funds." Beginning in FY 1999, Defense Logistics Agency (DLA) and Defense Finance and Accounting Service (DFAS) are included as part of the Other Defense Organizations Working Capital Fund column, instead of being stand-alone reporting entities. Also beginning in FY 1999, United States Transportation Command (USTRANSCOM) will be included as part of the Other Defense Organizations Working Capital Fund instead of being included in the Air Force Working Capital Fund. See the discussion of the transfer of USTRANSCOM's beginning of the period net position at Note 17.

The Office of the Inspector General will not issue separate audit opinions on the statements of the Other Defense Organizations; instead the financial statements and records of those organizations will be included in the audit performed to support the opinion issued on the DoD Agency-wide financial statements.

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

The accompanying financial statements account for all resources for which the DoD is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified.

When possible, the financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. For FY 1999, the DoD's financial management systems are unable to meet all of the requirements for full accrual accounting. Efforts are underway to bring the DoD's systems into compliance with all elements of the SFFASs.

C. Budgets and Budgetary Accounting:

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

- **General funds** represent financial transactions arising under Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

- **Revolving funds** receive their initial working capital through an appropriation or a transfer of resources from existing appropriations of funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The Defense Working Capital Fund ("the Fund") operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Fund builds on revolving fund principles previously used for industrial and commercial type activities. The DoD's working capital fund includes industrial and commercial type transactions, such as supply management and distribution and maintenance depots and is administered by the Departments of the Army, the Navy, the Air Force and the Defense Agencies. These activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

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

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

- **Deposit funds** generally are used to (1) hold assets for which the DoD acts as agent or custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

D. Basis of Accounting:

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

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

E. Revenues and Other Financing Sources:

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

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

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

F. Accounting for Intragovernmental Activities:

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

The DoD's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related interest costs are not apportioned to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues. Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of Treasury does not allocate such interest costs to the benefiting agencies.

The DoD's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while the military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The DoD funds a portion of the civilian and military pensions. Reporting civilian pension benefits under CSRS and FERS retirement systems is the responsibility of the Office of

Personnel Management (OPM). The DoD recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost, and recognizes corresponding imputed revenue for the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

The DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The DoD recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Funds column of the DoD Agency-wide statements.

Each year, the DoD Components sell assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, the DoD has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to a trust fund maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales.

To prepare reliable financial statements, transactions occurring between entities within the DoD or between two or more federal agencies must be eliminated. However, the DoD, as well as the rest of the federal government, cannot accurately summarize all intragovernmental transactions by customer. For FY 1999, the DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Internal DoD intragovernmental balances were then eliminated. In addition, the DoD implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Fiduciary Transactions Accounting Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities issued by the Treasury Bureau of the Public Debt, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and civilian benefit program transactions with the OPM.

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

The DoD's financial resources are maintained in U.S. Treasury accounts. Cash collections, disbursements, and adjustments are processed worldwide at Defense Finance and Accounting Service (DFAS), Military Service, and U.S. Army Corps of Engineers (USACE) disbursing stations, as well as Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits. In addition, the DFAS centers and the USACE Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Department's recorded balance in the FBWT account and Treasury's FBWT often result and are reconciled. Material disclosures are provided at Note 2.

H. Foreign Currency:

The DoD conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified. Material disclosures are provided at Note 7.

I. Accounts Receivable:

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Code of Federal Regulations (4 CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables. Material disclosures are provided at Note 4.

J. Loans Receivable:

Not Applicable

K. Inventories and Related Property:

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

The related property portion of the amount reported on the Inventory and Related Property line includes OM&S, and stockpile materials. The OM&S are valued at standard purchase price. Ammunition and munitions that are not held for sale are treated as OM&S. The DoD uses both the purchase and the consumption method of accounting for OM&S, as defined in the SFFAS No. 3.

Material disclosures related to inventory and related property are provided at Note 8.

L. Investments in U.S. Treasury Securities:

Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The Department's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities. Material disclosures are provided at Note 3.

M. General Property, Plant and Equipment (PP&E):

General Property, Plant and Equipment (PP&E) assets are capitalized when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. The DoD contracted with two certified public accounting (CPA) firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. At the conclusion of the studies, both CPA firms recommended that the DoD retain the current capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

When it is in the best interest of the government, the Department provides to contractors government property necessary to complete contract work. This property is either owned or leased by the Department, or purchased directly by the contractor based on contract terms, and in most instances should be included in the value of General PP&E reported on the Department's Balance Sheet. However, the DoD's system for capturing and maintaining data on property in the possession of contractors was designed to aid in maintaining property accountability and not for reporting the value of the property on annual financial statements. As such, the Department currently reports only government property in the possession of contractors that is maintained in DoD property systems. Preliminary reviews of such equipment indicate that any amounts not included in property amounts reported by the Department may be immaterial. Therefore, this may immaterially understate the value of property in the possession of contractors.

To bring the Department into fuller compliance with federal accounting standards, the DoD is developing new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards. Material disclosures are provided at Note 9.

N. Advances and Prepayments:

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

O. Leases:

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

P. Other Assets:

The Department conducts business with commercial contractors under two primary types of contracts--fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that these long-term contracts can cause, the Department provides financing payments. One type of financing payment that the Department makes is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in progress and are reported on the General Property, Plant and Equipment line and in Note 9, General Property Plant and Equipment, Net. In addition, based on the provision of the Federal Acquisition Regulations, the Department makes financing payments under fixed price contracts that are not based on a percentage of completion. The Department reports these financing payments as advances or prepayments in the "Other Assets" line item. The Department treats these payments as advances or prepayments because the Department becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Department is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Department for the full amount of the advance. The DoD does not believe that the SFFAS No. 1 addresses this type of financing payment. The auditors disagree with the DoD's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

Q. Contingencies and Other Liabilities:

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

Other liabilities arise as a result of the anticipated disposal of Departmental assets. This type of liability has two components--nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon the DoD's policies and consistent with SFFAS No. 5, a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The DoD's auditors disagree with this application of the standard for nonenvironmental disposal liabilities based on their interpretation that disposal liability recognition should commence at the time an asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all federal agencies. Until the issue is resolved on a government-wide basis, the DoD will adhere to the explicit literal provisions of the SFFAS No. 5. The Department has agreed to recognition of nonenvironmental disposal liability for National Defense PP&E nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with and not easily separately identifiable from environmental disposal costs. Material disclosures are provided at Notes 12 and 13.

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

R. Accrued Leave:

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

S. Net Position:

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

Cumulative results of operations represents the difference, since inception of an activity, between expenses and losses, and financing sources including appropriations, revenue, and gains. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, cumulative amounts are no longer segregated into investments in capitalized assets (such as PP&E) or future funding requirements.

Cumulative results of operations for working capital funds (WCF) represent the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

T. Treaties for Use of Foreign Bases:

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

U. Comparative Financial Statements:

Comparative financial statements are not required by OMB 97-01, "Form and Content of Agency Financial Statements" until FY 2000 annual financial statements. Comparative data will be presented starting in FY 2000.

V. Undelivered Orders:

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

Note 2. Fund Balances with Treasury:
($ In Millions)

Fund Balances: Fund Type	Entity Assets	Nonentity Assets	Total
Appropriated Funds	$ 166,049.8	$ 63.2	$ 166,113.0
Revolving Funds	7,211.0	92.0	7,303.0
Trust Funds	657.7	-	657.7
Other Fund Types	1,027.5	558.5	1,586.0
Total	$ 174,946.0	$ 713.7	$ 175,659.7

Fund Balance Per Treasury Versus Agency:

	Entity Assets	Nonentity Assets
Fund Balance Per Treasury	$ 178,053.0	$ 788.0
Fund Balance Per Consolidated	174,946.0	713.7
Reconciling Amount	$ (3,106.7)	$ 74.3

Explanation of Reconciliation Amount:

Entity Assets

The reconciling amount for entity assets is explained by the following differences.

- The Other Defense Organizations General Funds reported a cumulative difference of $3,061.8 million between FY 1999 Fund Balance With Treasury (FBWT) accounts and the Department of the Treasury's FBWT account. The cumulative difference reflects timing differences, posting errors, and undetermined differences.

- The Navy Working Capital Fund reported a $58.5 million difference between Centralized Expenditures/Reimbursement Processing System (CERPS) and the Treasury Fiscal Service (TFS) 6653.

- The U.S. Army Corps of Engineers (USACE) entity balance includes $(14.6) million in transfer appropriations that were not reported on the FMS 2108 and immaterial trust fund balances reported by Treasury. The transfer appropriations are reported by the parent agency on the FMS 2108 and included in the financial statements of the receiving entity. The USACE entity fund balance also excludes $2.6 million of spending authority for the Coastal Wetlands Restoration Trust Fund account. This amount is included in the Financial Statements of the Department of Transportation (DoT). Coastal Wetlands is financed by transfers from the Aquatic Resources Trust Fund. Treasury has identified the DoT as the lead agency for reporting the Aquatic Resources account.

- Army General Fund reported a reconciling amount of $(1.4) million due to (1) timing delays in receiving disbursement and collection reports from activities external to DoD, and (2) posting errors. The differences have been researched and are supportable. DFAS will post the correct adjusting entries in FY 2000.

Nonentity Assets

The reconciling amount for non-entity is explained by $66.9 million reported by the Other Defense Organizations General Funds and $7.4 million reported by USACE

The Department is working with the General Accounting Office (GAO) and the Department of the Treasury regarding how to handle the unexplained or unreconcilable differences. The difference between Treasury and DoD FBWT is a complex and long standing problem. DoD is reviewing the accounts to determine the supportable balances and post the correct adjusting entries. This effort is expected to be completed during FY 2000.

Other Information Related to Fund Balance with Treasury

As of September 30, 1999, the amount of funds obligated but not yet disbursed is $147.6 billion and the amount of funds unobligated is $195.4 billion. These amounts are comprised of the available and unavailable funds reported on the Statement of Budgetary Resources.

The National Defense Stockpile Transaction Fund is responsible for sales to the public for the purpose of generating revenue as directed in Public Laws 104-201 and 105-261. As funds are collected, a liability is established for the excess amount over the annual transfer to the receipt account. Currently, $92.0 million is being held for future disbursement to the receipt account.

On Line Payment and Collection (OPAC) Differences: The OPAC differences represent amounts reported by an organization but not reported by its trading partner. A majority of the differences represent internal Department of Defense (DoD) transactions and therefore do not affect FBWT at the DoD consolidated level. The DoD is working with the Defense Finance and Accounting Service (DFAS) Centers, Treasury, and Treasury's contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers have established metrics and will be implementing monthly reporting requirements for FY 2000. These actions will aid the Department in clearing balances and establishing better internal controls over the OPAC process.

Check Issue Discrepancy: The Department is in the process of collecting information for all check issue discrepancy data that is unsupportable because: (1) records have been lost during deactivation of disbursing offices; (2) the Treasury will not assist in research efforts for transactions over one year old; or (3) corrections were processed for transactions that Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations, will be provided to the Treasury with a request to remove them from the Treasury Check Comparison Report.

Note 3. Investments, Net:
($ In Millions)

	Cost	Amortization Method	Amortized (Premium) /Discount	Investments, Net	Other Adjustment	Market Value Disclosure
Intragovernmental Securities:						
Marketable	$ 1,975.9	Interest	$ (2.4)	$ 1,973.5	$ -	$ 1,973.5
Non-Marketable, Par Value	-		-	-	-	-
Non-Marketable, Market-Based	162,687.5		(9,176.2)	153,511.3	-	153,511.3
Subtotal	$ 164,663.4		$ (9,178.6)	$ 155,484.8	$ 0	$ 155,484.8
Accrued Interest	4,196.3			4,196.3	-	4,196.3
Total	$ 168,859.7		$ (9,178.6)	$ 159,681.1	$ 0	$ 159,681.1

Other Information:

It is the intent of the entities to hold their trust fund investments to maturity unless they need to finance claims or otherwise sustain operations. Provisions are not made for unrealized gains or losses on these securities. The Trust Funds use the same method that conforms to the prevailing practice in the financial community to determine the amortized book value of investments currently held and the related effective interest yield on investments. These calculated yields match up with yields published in the security tables of U.S. Treasury securities. These types of investments are recorded at cost, and if applicable, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment.

The Military Retirement Fund (MRF) holds the majority of the net investment securities, $156.0 billion. The $1.9 billion of marketable securities is attributable to U.S. Army Corps of Engineers. The remaining investment amount of $1.8 billion includes items which individually are less than 10 percent and not separately identified within this note.

Note 4. Accounts Receivable:

($ In Millions)	Gross Amount Due	[Allowance for Estimated Uncollectibles]	Net Amount Due
Entity Receivables:			
Intragovernmental	$ 1,835.6	N/A	$ 1,835.6
With the Public	$ 3,595.0	$ (207.2)	$ 3,387.8
Nonentity Receivables:			
Intragovernmental			
Cancelled appropriations	$ 5.4	N/A	$ 5.4
Other	$ -	N/A	$ -
With the Public			
Cancelled appropriations	$ 495.5	$ (207.1)	$ 288.4
Other	$ 187.6	$ (62.4)	$ 125.2

Allowance Method Used:

The method of calculating the allowance for estimated uncollectibles varies for each DoD component. For example, the allowance for uncollectible accounts, in some instances, is based on an analysis of collection experience by fund type for current and non-current receivables. In other cases, the DoD allowance for entity public receivable is computed each year, based on the average percentage of write-offs to outstanding public accounts receivable for the last five years.

Other Information:

Accounts Receivable represents all receivables due from federal and non-federal sources; net of allowance for estimated uncollectible accounts. The accounts receivable value includes reimbursables and refund receivables such as out of service debts from former service members, contractor debt, and unused travel tickets. It also includes net interest receivable. Variances identified as undistributed collections are prorated between intragovernmental and public receivables on the Balance Sheet.

The Other Nonentity Receivables with the Public represent: (1) the U.S. Army Corps of Engineers' $1.3 million in taxes receivable for quarterly excise taxes owed to the Inland Waterways Trust Fund, $2.9 million in claims receivables, $30 million in current receivables due from state and local municipalities for water storage contracts, and $6.0 million in accrued interest receivable associated with the water storage contracts, and $0.8 million due from the leasing of land acquired for flood control purposes; (2) Army's $38.0 million of receivables due to out-of-service debt, bankruptcies and related interest that will be due to Treasury when received; (3) Other Defense Organizations' $0.2 million receipt account receivables; and (4) the National Defense Stockpile Transaction Fund's reported amount of $45.4 million.

Included in the Accounts Receivable with the Public are Refunds Receivable of overpayments of benefits on the $156.0 billion of investment securities held by the MRF. Fiscal Year 1999 represents the first year in which the MRF presents information pertaining to the Allowance for Estimated Uncollectibles, the total of which is $(1.5) million.

Note 5. Other Assets:
($ In Millions)

Other Entity Assets:		
Intragovernmental		
Assets Returned for Credit	$	-
Advances and Prepayment		-
Other		508.8
Total Intragovernmental	$	508.8
Other		
Outstanding Contract Financing Payments	$	6,538.6
Prepayments and Material Returns		1,866.7
Total Other	$	8,405.3

Other Information related to entity assets:

The Department has reported outstanding financing payments for fixed price contracts as an advance and prepayment because under the terms of the Department's fixed price contracts, the Department becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Department is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Department for the full amount of any advance. The DoD does not believe that the Statement of Federal Financial Accounting Standard (SFFAS) No. 1 "Accounting for Selected Assets and Liabilities" addresses this type of financing payment. The auditors disagree with the DoD's application of the accounting standard pertaining to advances and prepayments.

For Supply Management Activity Group (SMAG), the majority of intragovernmental other assets are reported by five Air Logistics Centers as sales of Materiel Support Division (MSD) assets to foreign governments. These deliveries cannot be billed until each delivery is matched to a proof of shipment within Security Assistance Management Information System (SAMIS). The amount for Other Intragovernmental Entity Assets consists of the following reported by the Air Force Working Capital Fund: (1) sales to foreign military entities, $424.4 million; (2) Air Force Assets Other DoD FMS (Depot), $2.1 million; (3) uncollectible federal excise taxes, $1.1 million; (4) returns to vendors pending credit, $61.6 million; and (5) miscellaneous other assets, $19.6 million.

Other Entity Assets – Prepayments and Material Returns includes the following:

(1) Army General Fund consists largely of military pay advances of $206.6 million. Also included in this category are travel advances of $65.5 million and advances to contractors and suppliers of $6.5 million.

(2) Army Working Capital Fund (WCF) consists of $292.6 million for materials awaiting return to the supplier, $78.6 million for equipment not in use, $20.5 million for advances to contractors and suppliers, and $0.1 million for travel advances. Material returns to other governmental entities that could be identified were eliminated. This was composed of returns from retail to wholesale supply entities within the Army WCF.

(3) Air Force General Fund represents advances to contractors and suppliers of $9.1 million, travel advances of $21.4 million, outstanding progress payments made to contractors of $79.3 million and property held but not in use of $15.7 million.

(4) Air Force WCF represents $197 million in travel advances and advances to contractors and suppliers.

(5) Prepayments and Material Returns were also reported by the Department of the Navy, $373.4 million; the US Army Corps of Engineers, $48.0 million; DLA, $265.3 million; the DFAS, $17.3 million; USTRANSCOM, $128.4 million; and Other Defense Organizations, $20.7 million.

(6) The remaining balance of $20.7 million includes items which individually are less than 10 percent of the total.

Other Nonentity Assets:

Intragovernmental		
Intragovernmental	$	-
Total Intragovernmental	$	0
Other		
Prepayments	$	119.7
Long Term Receivables		913.5
Total Other	$	1,033.2

Other Information related to nonentity assets:

The Air Force's General Fund reported $119.6 million in Other Non-Entity Assets representing payments as part of the advance-payment pool agreement made with the Massachusetts Institute of Technology and non-profit institutions. Advance-payment pool agreements are used for the financing of cost-type contracts with non-profit educational or research institutions for experimental, or research and development work, when several contracts or a series of contracts requiring financing by advance payments. The remaining $0.1 million reported in Other Non-Entity Assets represents the Marine Corps' Advances and Prepayments.

The U.S. Army Corps of Engineers reported $913.5 million of Long-term receivables, Other Non-Entity Assets, representing principal amounts due from state and local municipalities in accordance with long-term revenue agreements for water storage.

Note 6. Loans Receivable and Related Foreclosed Property: Not Applicable

Note 7. Cash and Other Monetary Assets:
($ In Millions)

	Entity Assets	Nonentity Assets
Cash	$ 5.4	$ 439.6
Foreign Currency	-	56.8
Other Monetary Assets	-	-
Total Cash, Foreign Currency, and Other Monetary Assets	$ 5.4	$ 496.4

Other Information:

The entity cash of $5.4 million largely represents National Defense Stockpile Trust Fund deposits received but not reported to the U.S. Treasury by the close of business on September 30, 1999.

The nonentity cash of $439.6 million made up of $155.8 reported by the Department of the Navy, $144.3 million reported by the Department of the Army, $139.1 million reported by the Department of the Air Force, and $0.4 million reported by the U.S. Army Corps of Engineers. The $144.3 million reported by the Army consists of $123.1 million of Disbursing Officers' Cash included in nonentity cash, $0.5 million of undistributed collections, and $20.7 million of imprest funds. The $139.1 million reported by the Air Force represents $25.1 million in undeposited collections and $114 million of Disbursing Officers' Cash.

Utilizing the Department of the Treasury Prevailing Rate of Exchange, the entities translate foreign currency to U.S. dollars. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

Note 8. Summary of Inventory and Other Related Property, Net:
($ In Millions)

	Amount
Inventory, Net (Note 8.A.)	$ 54,688.7
Operating Materials and Supplies, Net (Note 8.B.)	70,712.8
Stockpile Materials, Net (Note 8.C.)	2,809.2
Total	$ 128,210.7

Note 8.A. Inventory, Net:
($ In Millions)

	Inventory Amount	Allowance for Gains (Losses)	Inventory, Net	Valuation Method
Inventory Categories:				
Available and Purchased for Resale	$ 53,414.1	$ (22,451.8)	$ 30,962.3	LAC; AC; O
Held in Reserve for Future Sale	2,795.8	(265.1)	2,530.7	LAC
Held for Repair	21,839.5	(3,793.9)	18,045.6	LAC; O
Excess, Obsolete, and Unserviceable	523.9	-	523.9	NRV; LAC; O
Raw Materials	20.8	-	20.8	NRV
Work in Process	2,605.4		2,605.4	SP; AC
Total	$ 81,199.5	$ (26,510.8)	$ 54,688.7	

Legend: Valuation Methods

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realized Value
O = Other

Restrictions on Inventory Use, Sale, or Disposition:

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

Other Information:

Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. Material categorized "Available and Purchased for Resale" is in an issuable condition or is inventory in transit from commercial to government suppliers. The Department maintains "Inventory Held in Reserve for Future Sale" either because the material is not readily available in the market or because there is more than a remote chance that it eventually will be needed. "Inventory Held for Repair" consists primarily of Depot Level Reparables that need repair before they can be resold. "Excess, Obsolete, and Unserviceable" material variously exceeds the demand expected in the normal course of operations and does not meet management’s criteria to be held in reserve for future sale, is no longer needed due to changes in technology, laws, or operations, or is damaged beyond economical repair.

The Latest Acquisition Cost (LAC) valuation method incorporates an allowance for unrealized gains or losses that results in an approximation of historical cost. Inventory Held for Repair is valued at LAC further reduced by additional allowance accounts to its unrepaired carcass value. Excess, obsolete, and unserviceable items are reduced to their estimated net realizable value, which is approximately 2.8 percent of the acquisition costs.

The inventory data reported on the financial statements is derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to fully comply with the Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," without further adjustment. While these logistics systems provide management information on the accountability and visibility over inventory items, the timeliness at which this information is provided creates issues regarding the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

Note 8.B. Operating Materials and Supplies (OM&S), Net:
($ In Millions)

	OM&S Amount	Allowance for Gains (Losses)	Valuation OM&S	Method
OM&S Categories:				
Held for Use	$ 48,501.8	$ (2.3)	$ 48499.5	SP; AC; O
Held in Reserve for Future Use	21,522.4	-	21,522.4	SP
Excess, Unserviceable, and Obsolete	690.9	-	690.9	NRV; SP; O
Total	$ 70,715.1	$ (2.3)	$ 70,712.8	

Legend: Valuation Methods

SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

Restrictions on operating materials and supplies: None.

Other Information:

Excess OM&S are those that exceed the amount expected to be used in normal operations because the amount on hand is more than can be used in the foreseeable future, and that do not meet management's criteria to be held in reserve for future use. Obsolete OM&S are those that are no longer needed due to changes in technology, laws, customs, or operations. Unserviceable OM&S are those that are physically damaged and cannot be consumed in operations. Due to identified logistics and accounting systems deficiencies, these statements may not reflect accurately the value of the Department's operating materials and supplies. Excess, Obsolete, and Unserviceable OM&S have been revalued from standard price to their net realizable value (NRV). These materials were reduced to an average estimated NRV of 2.9 percent of their acquisition costs.

OM&S data reported on the financial statements is derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to fully comply with the valuation requirements of the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, the timeliness at which this information is provided creates issues regarding the completeness and existence of the OM&S quantities used to derive the values reported in the financial statements.

Many agencies within the DoD including the Departments of the Army, the Navy, and the Air Force attempt to use the consumption method of accounting for OM&S. Current financial and logistics systems cannot fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is costbeneficial to expense OM&S when purchased (purchase method). The Department, in consultation with its auditors, plans to (1) develop specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method; (2) develop functional requirements for feeder systems to support the consumption method; and (3) identify feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method. However, for fiscal year (FY) 1999, significant portions of the agencies' OM&S were reported under the purchase method. In some instances, the auditors disagree with DoD on what constitutes an item being in the hands of an end user.

Note 8.C. Stockpile Materials, Net:
($ In Millions)

	Stockpile Materials Amount	Allowance for (Losses)	Stockpile Materials, Net	Valuation Method
Stockpile Materials:				
Held for Sale*	$ 1,852.9	$ -	$ 18,528.9	O
Held in Reserve for Future Sale	956.3	-	956.3	O
Total	$ 2,809.2	$ 0	$ 2,809.2	

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

* Stockpile materials are not held for sale in the normal course of business.

Restrictions on stockpile materials and supplies:

Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. The stockpile quantities are required to be sufficient to sustain the U.S. for a period of not less than three years during a national emergency, including a conventional global war of indefinite duration. Currently, there is a moratorium on the sale of Mercury, Asbestos, and Thorium Nitrate. The required stockpile levels can only be changed by law through a Presidential proposal in the Annual Material Plan submitted to Congress.

Except for disposals made under the following situations, disposals cannot be made from the stockpile: (1) necessary upgrading, refining or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess and of potential financial loss if not disposed; and (4) by order of the President and/or authorized by law.

Other Information:

National Defense Stockpile reported $2.8 billion in stockpile materials with an estimated market value of $3.5 billion.

Note 9. General (PP&E), Net:
($ In Millions)

Major Asset Classes	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	$ 8,885.7	$ N/A	$ 8,885.7
Buildings, Structures, and Facilities	S/L	20 and 40	141,778.0	(71,920.7)	69,857.3
Leasehold Improvements	S/L	Lease Term or 20 Years, whichever is less	3.4	(1.0)	2.4
ADP Software	S/L	2-5 and 10	2,599.132	(1,518.6)	1,080.6,579
Equipment	S/L	5 and 10	32,862.9	(15,610.5)	17,252.4
Assets Under Capital Lease	S/L	Lease Term or 20 Years, whichever is less	496.3	(195.0)	301.2
Construction-In-Progress	N/A	N/A	21,933.4	N/A	21,933.4
Other	S/L		25.2	(.4)	24.8
Total			$ 208,584.1	$ (89,246.2)	$ 119,337.8

S/L = Straight line

Other Information:

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

Additionally, the Department has contracted with two certified public accounting (CPA) firms to assist in resolving General PP&E real and personal property data and systems problems. PricewaterhouseCoopers (PwC) conducted a comprehensive accuracy test of the recorded costs of real property in the Military Departments' real property databases. In accordance with the favorable results of the test, PwC recommended that the Department report the recorded costs of real property from the Military Departments' real property databases without adjustment. KPMG is assisting the Department to improve the reliability of its personal property accountability, management and logistics systems, and data. This effort includes conducting existence, completeness and valuation testing, as well as developing solutions to any identified problems; updating property accountability regulations and policy; improving internal controls and procedures; and delivering improved training for property accountability officers. These efforts are expected to be completed by the end of FY 2000.

The value of DoD General PP&E real property in the possession of contractors is included in the values reported above. However, the value of General PP&E personal property (Major Asset Classes of ADP Software and Equipment) in the possession of contractors generally is not included in the values reported above. The Department is presently working to develop and implement a method of annually collecting this information from DoD contractors. Based on preliminary visits with several large DoD contractors, the Department has determined that most General PP&E personal property in the possession of contractors is below the DoD capitalization threshold and beyond its depreciable useful life.

The Other Major Classes of General PP&E of $24.8 million include $19.2 million for Natural Resources and $1 million for Equipment in transit.

Note 9.A. Assets Under Capital Lease:
($ In Millions)

Entity as Lessee - Capital Leases:

Summary of Assets Under Capital Lease:		
Land and Buildings	$	495.2
Machinery and Equipment	$	1.0
Other	$	0
Accumulated Amortization	$	(195.0)

Description of Lease Arrangements:

The $495.2 million of Land and Buildings pertains to Capital Leases for Section 801 family housing leases (privately owned housing leased by the DoD). A 20 year average has been used to compute most of the asset value, liability for lease payments, and depreciation. For a portion of the Section 801 leases, no adjustment has been made for imputed executory costs and interest expense. Therefore, asset value of property under capital leases and related depreciation is overstated and current expenses are understated by the amount of current interest for the portion of the liability that is related to the nonadjusted leases.

The $1.0 million in Machinery and Equipment leases relates to a supercomputer reported under Other Defense Organizations General Funds. The lease began in FY 1999 and will end in FY 2004 at a salvage value of $0.2 million.

Note 10.: Reserve For Future Use

Note 11. Debt:
($ In Millions)

	Beginning Balance	Net Borrowing	Ending Balance
Public Debt:			
Held by Government	$ -	$ -	$ -
Held by the Public	-	-	-
Total Public Debt	$ 0	$ 0	$ 0
Other Debt:			
Debt to the Treasury	$ 22.9		$ 22.9
Debt to the Federal Financing	1,155.0	-	$ 1,155.0
Debt to Other Federal	-	-	-
Held by the Public	-	-	-
Total Other Debt	$ 1,177.9	0	$ 1,177.9
Other Debt	$ 1,177.9	$ 0	$ 1,177.9
Classification of Debt:			
Intragovernmental Debt			$ 1,177.9
Governmental Debt			-
Total Debt			$ 1,177.9
Funding of Debt:			
Covered by Budgetary Resources			$ 1,026.2
Not Covered by Budgetary Resources			151.7
Total Debt			$ 1,177.9

Other Information:

The Navy Working Capital Fund reported $1.0 billion of debt. This debt represents the Transportation activity group outstanding principal balance on the Afloat Pre-Positioning Force-Navy (APF-N) ships. The APF-N program, approved by Congress, provides ships for Time Charter to Military Sealift Command (MSC) to meet requirements not available in the marketplace. The ships are built/converted by private Interim Vessel Owners; using private, non-government financing obtained from various banking institutions. During the building/conversion phase, the government does not make payment. Upon delivery of each vessel to MSC for use under the lease agreement, the interim financing is replaced by permanent financing. The ships are financed with approximately 30 percent equity investments and 70 percent debt. The debt is in the form of loans, from the Federal Financing Bank (FFB), to the permanent vessel owners. The lease agreement requires MSC to make semi-annual payments to cover repayment of principal and interest on the FFB loans, and any equity payments due to the vessel owners.

United States Transportation Command (USTRANSCOM) reported a principal balance of $.1 billion on the MSC's T-5 program. Interest paid per the FFB amortization schedule was $8.8 million. This program also provides ships for time charter to MSC to meet requirements not available in the marketplace.

Note 12.A. Environmental Liabilities Covered by Budgetary Resources:
($ In Millions)

	Current Liability		Noncurrent Liability		Total
With the Public:					
Accrued Restoration Costs					
Active Installations	$ 787.8	$	-	$	787.8
Base Realignment and Closure (BRAC) Installations	1,817.7		-		1,817.7
Formerly Used Defense Sites (FUDS)	358.5		-		358.5
Other Environmental Liabilities					
Nuclear Powered Aircraft Carriers	-		-		-
Nuclear Powered Submarines	-		-		-
Other Nuclear Powered Ships	-		-		-
Other National Defense Weapons Systems	-		41.3		41.3
Chemical Weapons Disposal	1,310.3		-		1,310.3
Conventional Munitions Disposal	-		-		-
Training Ranges	-		3.9		3.9
Other	-		-		-
Total	$ 4,274.3	$	45.2	$	4,319.5

Other Information:

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

For FY 1999, the DoD has estimated and reported its known environmental liabilities. In those instances when the DoD's financial systems could not be used to estimate the liability, the DoD based the reported amount on estimates prepared for other purposes.

Environmental Liabilities Covered by Budgetary
($ In Millions)

Component	Amount	Percentage
Army	$ 2,198.6	51%
Navy	496.2	11%
Air Force	-	0%
Other	1,624.7	38%
Total	$ 4,319.5	100%

Environmental liabilities incurred by the Working Capital Funds will be paid out of appropriated funds. Current policy requires that all environmental liabilities be reported by the entity making the payments. Therefore, during FY 1999, balances reported as environmental liabilities by Working Capital Funds were reduced to zero and balances were transferred to the appropriate General Funds.

Note 12.B. Environmental Liabilities Not Covered by Budgetary Resources:
($ In Millions)

	Current Liability	Noncurrent Liability	Total
With the Public:			
Accrued Restoration Costs			
Active Installations	$ 681.1	$ 13,925,8	$ 14,606.9
Base Realignment and Closure (BRAC) Installations	263.7	2,695.2	2,958.9
Formerly Used Defense Sites (FUDS)	-	3,039.9	3,039.9
Other Environmental Liabilities			
Nuclear Powered Aircraft Carriers	-	5,250.0	5,250.0
Nuclear Powered Submarines	-	5,556.0	5,556.0
Other Nuclear Powered Ships	-	644.0	644.0
Other National Defense Weapons Systems	-	331.0	331.0
Chemical Weapons Disposal	-	7,582.5	7,582.5
Conventional Munitions Disposal	-	-	-
Training Ranges	25.0	33,946.7	33,971.7
Other	-	1,460.0	1,460.0
Total	$ 969.8	$ 74,431.1	$ 75,400.9

Other Information:

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

For FY 1999, the DoD has estimated and reported its known environmental liabilities. In those instances when the DoD's financial systems could not be used to estimate the liability, the DoD based the reported amount on estimates prepared for other purposes.

Environmental liabilities incurred by the Working Capital Funds will be paid out of appropriated funds. Current policy requires that all environmental liabilities will be reported by the entity making the payment. Therefore, during FY 1999, balances reported as environmental liabilities by Working Capital Funds were reduced to zero and balances were transferred to the appropriate General Funds.

Environmental Liabilities Not Covered by Budgetary
($ In Millions)

Component	Amount	Percentage
Army	$ 20,574.3	27%
Navy	47,140.9	63%
Air Force	6,338.5	8%
Other	1,347.2	2%
Total	$ 75,400.9	100%

The Department of the Army

For the Department of the Army, Formerly Used Defense Sites (FUDS) Program, restoration costs, training ranges, and other environmental liabilities are $5.4 billion. In addition to the $3.4 billion in public restoration costs covered and not covered by budgetary resources, $1.2 billion training range cleanup costs not covered by budgetary resources related to FUDS, as well as $0.8 billion which represents other liabilities not covered by budgetary resources.

In addition to the probable liabilities estimated and reported in the schedule above, the FUDS Program estimates reasonably possible liabilities for restoration costs and training ranges of $2.3 billion. This cost includes program growth, which includes additional cleanup projects estimated to be added to the current program inventory. These estimates are derived based on the information contained within the published FUDS Program Business Plan. It is assumed that the FUDS program would have a total of 610 new projects over 12 years at a total cost of $1.8 billion. It was also assumed the FUDS program would have costed 145 projects that are currently uncosted. There are currently a little over 300 uncosted projects in inventory. Several of these projects should become “No DoD Action Indicated” (NDAI) and will not require any work.

Probable costs estimated by active installations, restoration, training ranges, and other environmental liabilities reported are $8.4 billion. Of this amount, $0.5 billion represents public costs covered by budgetary resources and $6.2 billion represents public costs not covered by budgetary resources. These costs also include $1.1 billion for training ranges which is a preliminary estimate for cleaning up closed ranges at active installations based on the FUDS Ordnance and Explosives Business Plan. It was assumed that there is one closed range on every active installation. The estimate took into consideration the size of the ranges categorized as either a small arms range or a range for major weapon systems of which there were 179 and 72, respectively. This amount also includes $0.1 billion programmed to conduct an inventory of closed ranges at active installations.

Included in other environmental liabilities for active installations is also $0.4 billion for environmental compliance Class I and II-High projects in certain environmental categories and $0.1 billion of requirements for unexploded ordnance liabilities for the closure of ten excess ammunitions plants that are projected to close in the FY 2000 to 2005 timeframe.

In addition to the probable liabilities estimated and reported in the schedule above, the active installations estimate possible liabilities of $0.7 billion. This estimate is for ordnance and explosives disposal sites at 72 major range complexes.

It was estimated that $1.3 billion in costs covered by budgetary resources and $7.6 billion in costs not covered by budgetary resources would be reported as a liability for the Chemical Weapons Disposal program. This program was formally established to oversee the mission of disposing of chemical weapons that, due to aging, present a storage risk for the communities and for the depot workers who help keep the weapons secure.

Of the $1.3 billion for Other liabilities, $0.4 billion represents environmental compliance Class I and II-High projects in certain environmental categories and $0.1 billion represents requirements for unexploded ordnance liabilities as described under active installations. Also, $0.8 billion represents amounts allocated to training ranges as described under the FUDS Program.

The Department of the Navy (DoN)

Navy installations. The environmental estimate includes environmental restoration efforts and environmental costs at the Base Realignment and Closure (BRAC) sites and other environmental restoration costs. The possible FY 1999 cost to completion for these efforts which was covered by budgetary resources is $0.5 billion and not covered by budgetary resources is $4.7 billion.

Nuclear Powered Aircraft Carriers. For the nine active multi-purpose aircraft carriers, nuclear (CVNs) and one CVN under construction, the estimated cost for inactivation, reactor compartment (RC) disposal and hull recycling is $5.2 billion.

Nuclear Powered Submarines. The estimated cost of inactivation, RC disposal and hull recycling is $5.6 billion. This includes estimated inactivation, RC disposal and hull recycling costs for 57 submarines, nuclear (SSNs); 18 fleet ballistic missile submarines, nuclear (SSBNs); 2 moored training ships, nuclear, NR-1 (a research vessel); and three SSNs under construction, as well as the cost to dispose of submarines previously inactivated but with RC disposal/hull recycling availability after FY 1999.

Other Nuclear Powered Ships. There are currently no active nuclear powered cruisers. The estimated cost for RC disposal and hull recycling of the remaining five inactivated guided missile cruisers, nuclear (CGNs) is $0.4 billion.

Other National Defense Weapon Systems. The amount anticipated to be paid for the disposal of rocket motors at Hill Air Force Base and Sierra Army Depot is covered by budgetary resources. The $0.3 billion not covered by budgetary resources is attributable to fixed wing and rotary wing aircraft. Based on a FY 1997 General Accounting Office (GAO) report, the cost to demilitarize and remove hazardous material was used to determine the cost to dispose of aircraft. On average, at time of disposal, 82 percent of aircraft are designated for storage at the Aerospace Maintenance and Regeneration Center (AMARC), Davis-Monthan Air Force Base. Some of the disposal costs associated with these assets include weapon removal, hazardous material disposal, disposal of short shelf life items, and destroying the aircraft carcass. For aircraft that are not designated for storage at AMARC, disposal cost estimates include weapon removal, delivery to final resting place, removal of hazardous materials and short shelf life items, and destruction of the remaining fuselage.

Training Ranges. The methodology used by the DoN for estimating environmental liabilities associated with Training Ranges in the amount of $30.7 billion did not include 1) ranges used by the DoN, but owned/managed by another service; 2) ranges which may be located outside the 50 United States and its territories; 3) water ranges; or 4) ranges on BRAC/FUDS sites. The liability figure presented is intended to represent the lowest estimable liability cost. This figure is arrived at based upon the following documents and assumptions: 1) acreage figures for the Navy are derived from the DoD Draft Final Report, "Information Related to the Munitions Rule Economic Assessment Collected in Response to a Request from the United States Environmental Protection Agency", dated April 1995; 2) acreage figures for the Marine Corps are derived from the report, "Impact Analysis for the Environmental Protection Agency Military Munitions Rule and the Department of Defense Range Rule Implementation", dated April 1997; 3) cost factors are derived from the DoD Final Report Range Rule Regulatory Impact Analysis dated July 3, 1996 and do not include evaluation and documentation costs of approximately $4.0 million per site; 4) cost factors applied assume cleanup/remediation to return properties to Limited Public Access criteria and that the site contamination levels are considered to be low or light, which is the least financially burdensome option and results in an estimated minimum liability of $10 thousand/acre.

The Department of the Air Force

For FY 1999, the Air Force has estimated and reported its environmental liabilities. FY 1999 is also the first year that the liability for training ranges has been presented separate from active installations.

The Air Force Office of Civil Engineering Environmental Division (AF/ILEVR) estimates a $5.6 billion environmental cleanup liability as of September 30, 1999 for active installations and training ranges. Included in this amount is an additional estimated liability of $0.2 billion that represents Air Force Resource Conservation and Recovery Act (RCRA) corrective action program costs. These costs are to close 1,189 solid waste management units identified by the Environmental Protection Agency (EPA).

The BRAC Commission estimate of $0.8 billion is based on the BRAC Environmental Requirements Estimates Report as of September 30, 1999. Future government liabilities for Air Force BRAC cleanup continue well beyond FY 2006.

There are future liabilities at Onizula to cleanup the contaminant trichloroethylene (TCE). However, responsibility for cleanup of the TCE has not been resolved between the Air Force and Navy, and therefore, the restoration responsibilities have not been determined.

Other Defense Organizations

The Army's environmental program is responsible for cleaning up contaminated sites at active installations of $0.1 billion. BRAC sites of $2.7 billion, and FUDS. In December 1999, OUSD (C) determined that environmental liabilities associated with Army BRAC sites should be reported on Other Defense Organizations General Fund financial statements.

The items that compose the amount in Other Environmental Liabilities – Other, With the Public not covered by budgetary resources are classified.

Note 13. Other Liabilities:
($ In Millions)
Other Liabilities Covered by Budgetary Resources:

	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Advances from Others	$ 235.1	$ 33.9	$ 269.0
Deferred Credits	-	-	-
Deposit Funds and Suspense Account Liabilities	431.9	-	431.9
Liability for Borrowings to be Received	-	-	-
Liability for Subsidy Related to Undisbursed Loans	-	-	-
Resources Payable to Treasury	402.2	43.8	446.0
Disbursing Officer Cash	587.1	-	587.1
Nonenvironmental Disposal Liabilities	-	-	-
Other Liabilities	3,282.9	4.1	3,287.0
Total	$ 4,939.0	$ 81.8	$ 5,021.0
With the Public			
Accrued Funded Payroll and Benefits	$ 6,488.0	$ -	$ 6,488.0
Advances from Others	842.8	-	842.8
Deferred Credits	6.8	-	6.8
Deposit Funds and Suspense Accounts	44.6	-	44.6
Temporary Early Retirement Authority	124.3	408.5	532.8
Nonenvironmental Disposal Liabilities	-	-	-
Other Liabilities	5,298.8	51.4	5,350.2
Total	$ 12,805.3	$ 459.9	$ 13,265.2

Other Information:

Intragovernmental Other Liabilities of $3.3 billion consist largely of $2.7 billion recorded by the Department of the Air Force, Working Capital Fund. Also contributing to the total amount was the United States Transportation Command (USTRANSCOM), which reported $0.4 billion in Intragovernmental Other Liabilities. The remaining $0.2 billion is comprised of other liabilities that represent less than 10 percent of the total Intragovernmental Other Liabilities. Of the $2.7 billion reported by the Department of the Air Force, Working Capital Fund, $2.3 billion was reported by the Depot Maintenance Activity Group as Other Accrued Liabilities and Progress Billings to Others -- Federal. The remaining $0.4 billion was reported by the Supply Management Activity Group as contingent liabilities and property furnished by others.

Consistent with the Department's policy and Statement of Federal Financial Accounting Standard (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," a nonenvironmental disposal liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Department's auditors disagree with this application of the standard for nonenvironmental disposal liabilities based on their interpretation that nonenvironmental liability recognition should begin at the time an asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all agencies. Until the issue is resolved on a government-wide basis, the DoD will adhere to the explicit literal provisions of the SFFAS No. 5.

The Department has agreed to recognize the nonenvironmental disposal liability for National Defense PP&E nuclear powered assets when the asset is placed in service. The nonenvironmental costs are included with the environmental disposal costs and reported in Note 12.

Other Liabilities with the Public of $5.4 billion consists of $2.8 billion recorded by the Military Retirement Fund, $1.4 billion recorded by the Department of the Navy, and $0.8 billion recorded by the Defense Security Cooperation Agency. The remaining $0.4 billion is made up of other liabilities that individually represent less than 10 percent of total Other Liabilities. The $2.8 billion recorded by the Military Retirement Fund represents Accrued Entitlement Benefits for Military Retirees and Survivors. The $1.4 billion recorded by the Navy consists of the following programs: $0.2 billion from Depot Maintenance -- Aviation, $0.4 billion from Transportation, $1.2 billion from research and development, $0.4 was allocated to Supply Management, ($1.1) billion was allocated to the Navy Component, and the other $0.3 billion is related to other miscellaneous entities that are individually less than 10 percent of the total and are not material. The amounts identified for each of these Department of Navy business areas are related to Accrued Expenses -- Other which includes activities such as fuel expenses, port charges, training expenses, etc. The $0.8 billion allocated to Defense Security Cooperation Agency is attributed to the Entity Liability portion of the FMS Trust Fund.

Other Liabilities Not Covered by Budgetary Resources:

	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Accounts Payable - Cancelled Appropriations	$ .5	$ -	$ .5
Custodial Liability	-		-
Deferred Credits	-	913.5	913.5
Liability for Borrowings to be Received	-	-	-
Other Actuarial Liabilities	-	-	-
Judgment Fund Liabilities	95.0	594.5	689.5
Workmen's Compensation Reimbursement to DOL	623.4	762.9	1,386.3
Nonenvironmental Disposal Liabilities	-	-	-
Other Liabilities	35.4	1.2	36.6
Total	$ 754.3	$ 2,272.1	$ 3,026.4
With the Public			
Accounts Payable Cancelled	$ 222.1	$ 68.5	$ 290.6
Accrued Unfunded Liabilities	-	-	-
Accrued Unfunded Annual Leave	4,634.9	48.5	4,683.4
Deferred Credits	-	-	-
Nonenvironmental Disposal Liabilities	-	-	-
Other Liabilities	10,765.7	303.7	11,069.4
Total	$ 15,622.7	$ 420.7	$ 16,043.4

Other Information:

Intragovernmental Other Liabilities of $36.6 million consists largely of $31.5 million recorded by the Department of the Air Force for unemployment benefits. In addition, the Defense Finance and Accounting Service (DFAS) recorded $3.7 million in Intragovernmental Other Liabilities for delinquent workers' compensation payable to the Department of Labor for FY 1997 and prior years. The remaining $1.4 million in Intragovernmental Other Liabilities was reported by the Defense Commissary Agency (DeCA) and the Defense Security Cooperation Agency (DSCA).

Of the $10.8 billion Other Liabilities with the Public – Current, $10.2 billion is attributable to the benefits payable portion of the Military Retirement Health Liability.

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

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

As of September 30, 1999, the Air Force was a party to 2,620 claims and litigation actions. The total dollar amount demanded for these claims and litigation actions was $63.4 billion. The total estimated contingent liability for civil law and litigation claims against the Air Force as of September 30, 1999 were valued at $0.4 billion. This liability dollar amount recorded in the financial statements is an estimate based on the lowest payout rate for the previous three years. Neither past payments nor the current contingent liability estimate can be used appropriately to project the results of any individual claim. The total recorded estimated probable liability amount of $0.4 billion has been included in the accompanying financial statements as an other unfunded expense and as an unfunded liability.

As of September 30, 1999, the Air Force was a party to 260 contract appeals before the Armed Services Board of Contract Appeals (ASBCA). The total dollar value of these claims was approximately $0.8 billion which included $0.7 billion in contractor claims. Such claims are funded primarily from Air Force appropriations. The contractor claims involve unique circumstances that are considered by the ASBCA in formulating decisions on the cases. The estimated amount of loss from contractor claims of $0.2 billion has been reflected in the financial statements.

As of September 30, 1999, the remaining defense agencies have no legal contingencies which meet the criteria for disclosure as outlined in the “DoDFMR”, Volume 6B, paragraph 101402.

Based upon the DoD’s interpretation of the SFFAS Nos. 5 and 6, a nonenvironmental disposal liability is recognized for all assets when management makes a decision to dispose of the assets. The Department’s auditors disagree with this application of the standards based on their interpretation that the nonenvironmental liability should be recognized at the time the asset is placed in service. The issue raised by the auditors is one that has government-wide implications for assets of all federal agencies. The Office of the Under Secretary of Defense Comptroller (OUSD(C)) prepared and issued policy and procedures on how and when to estimate expected disposal costs for excess and obsolete structures and National Defense PP&E scheduled for disposition.

The Department of the Army has various other estimated contingent liabilities totaling $15.0 billion which have been deemed possible liabilities. Appropriately, they have not been accrued as liabilities in the financial statements. These contingent liabilities consist of $0.6 million for German Tax Liability, $8.6 billion for the Non-Stockpile Chemical Material Program (NSCMP), and $5.8 billion for environmental restoration.

Not included in the reported nonenvironmental disposal liability is $974.0 million, the preliminary cost estimate for completing the disposal or demolition of excess and or obsolete real property structures at active installations. Of the total estimated cost, the approximate percentages by Military Service are 41 percent Army, 28 percent Navy, and 32 percent Air Force. The expected completion date is 2005.

Not included in the reported nonenvironmental disposal liability is $510.0 million, a preliminary cost estimate for the disposal of 134 conventionally-powered ships in the DoN Inactive Fleet. These ships have an approximate displacement of 1,020,000 tons. The majority of these (93) are currently designated for scrapping while others are designated for foreign military transfer, donation to non-profit organizations, or sinking exercises. It is estimated that an average cost of $500 per ton will be required to scrap ships. This estimate is based in part on the cost of recently awarded ship scrapping contracts less expected scrap sale proceeds. Although ships held for foreign military sales and donations can be disposed of at a lower cost to the DoN, experience has shown that some ships in these categories will not transfer and will again become a DoN disposal liability. Sinking exercises, which may result in a lower overall disposal cost to the DON, are driven by fleet requirements for training.

Leases:
($ In Millions)

Entity as Lessee - Capital Leases
Future Payments Due:

Fiscal Year	
2000	$ 79.7
2001	80.6
2002	45.9
2003	45.9
2004	45.9
After 5 Years	116.3
Total Future Lease Payments	$ 414.3
Less: Imputed Interest	
Executory Costs (e.g. taxes)	(85.8)
Net Capital Lease Liability	$ 328.5
Liabilities Covered by Budgetary Resources	$ -
Liabilities Not Covered by Budgetary Resources	$ 328.5

The capital leases represented in the financial statements were entered into prior to FY 1992. Capital leases prior to FY 1992 and lease purchases prior to FY 1991 were funded on a FY basis. Capital leases and lease purchases entered into during FY 1992 and FY 1991, respectively, and thereafter must be fully funded in the first year of the lease.

Note 14. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:
($ In Millions)

Major Program Activities	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liabilities
Pension and Health Benefits:				
Military Retirement Pensions	$ 661,740.2	6.25%	$ (149,058.6)	$ 512,681.6
Military Retirement Health Benefits	196,177.1	6.50%	-	196,177.2
Total	$ 857,917.3		$ (149,058.6)	$ 708,858.7
Other:				
Workmen's Compensation (FECA)	$ 5,820.9	5.50%	$ -	$ 5,820.9
Voluntary Separation Incentive Program	1,766.0	6%	(886.9)	879.1
DoD Education Benefits Fund	878.4	5.40%	(676.7)	201.7
Total	$ 8,465.3		$ (1,563.6)	$ 6,901.7
Grand Total	$ 866,582.6		$ (150,622.2)	$ 715,760.4

Other Information:

Military Retirement Pensions

The aggregate entry-age normal actuarial cost method was used.

Assumptions. The Military Retirement System is a single-employer, defined benefit plan. Administrative costs are not borne by the Trust Fund. Projected revenues, authorized by Public Law 98-94, will be paid into the Fund at the beginning of each fiscal year by the Secretary of the Treasury as certified by the Secretary of Defense. This permanent, indefinite appropriation, determined by the Board of Actuaries, represents the amortization of the unfunded liability for service performed prior to October 1, 1984. Along with the 6.25 percent assumed annual interest rate, the long-term annual Consumer Price Index is assumed to be 3.0 percent. The long-term annual salary increase is assumed to be 3.5 percent. For fiscal years 1999 and 2000, the actual inflation rates of 1.3 percent and 2.4 percent, and the actual salary increases of 3.6 percent and 4.8 percent were used.

The current year's actuarial present value of projected plan benefits is rolled forward from the prior year's actual valuation results. The September 30, 1999, liability of $661.7 billion was rolled forward from an actual September 30, 1998, actuarial accrued liability of $649.4 billion.

Because of reporting deadlines, the current year's actuarial present value of projected plan benefits is rolled forward using accepted actuarial methods from the prior year's valuation results as reported in the valuation report. For purposes of this financial statement, this rolling forward will be done every year.

Although, assets available to pay military retirement pension benefits for FY 1999 does not include accounts receivable or earned accrued interest receivable, they are included in the amount for FY 1998. Prior to FY 1999, accounts receivable was reported on all relevant reports as a budget resource. This practice was changed during FY 1999. Accounts receivable are no longer reported as a Budget Resource. Accrued interest receivable is included in Actuarial Status Information as an Asset and it effects the unfunded accrued liability. Accrued interest receivable is not a budget resource and therefore cannot be part of the Fund assets used to cover liabilities.

Change in Military Retirement Health Benefits Liability:

Reported Military Retirement Health Benefits Present Value of Projected Plan Benefits as of 9/30/98	$223,411.0 [1]
Actual Military Retirement Health Benefits Present Value of Projected Plan Benefits as of 9/30/98	$185,936.0 [2]
Normal Cost for FY99	$4,652.6
Interest Cost for FY99	$12,028.7
Actuarial (Gains)/Losses Due to Plan Amendments	-
Actuarial (Gains)/Losses Due to Changes in Medical Trend Assumption	-
Other Actuarial (Gains)/Losses	-
Total Military Retirement Health Benefits Liability Expense (normal cost + interest cost + gains/losses)	$16,681.3
Benefit Payments for FY99	$6,440.1
Military Retirement Health Benefits Present Value of Projected Plan Benefits as of 9/30/99	$196,177.1

[1] Reported in the FY98 statements, and based on an actuarial roll-forward of the 9/30/97 liability of $218.0 billion.

[2] Based on a valuation using data obtained subsequent to the publication of the FY98 statements, and used in the above roll-forward calculation of the 9/30/99 present value of projected plan benefits. As of 9/30/98, the difference between the actual present value of projected plan benefits of $185.9 billion and the reported value of $223.4 billion is comprised of a $15.8 billion gain due to different medical trend assumptions in the 9/30/98 valuation from the 9/30/97 valuation, and a net $21.7 billion gain from other actuarial sources.

Actuarial Cost Method Used for Military Retirement Health Benefits Present Value of Projected Plan Benefits: Aggregate Entry-Age Normal
Assumptions in Calculation of Military Retirement Health Benefits Present Value of Projected Plan Benefits:

Interest Rate: 6.50%
Medical Trend: Military Treatment Facility (MTF) inpatient: 4.50%;
MTF outpatient: starts at 10.42% and grades down to 4.50% ultimate;
Purchased Care: starts at 8.00% and grades down to 4.50% ultimate

Net Pension Expense:
($ In Millions)

The Military Retirement Fund net pension expense for the actuarial accrued liability is developed in the table below.

Normal Cost Liability	10,416.9	10,420.7
Plan Amendment Liability	4,090.2	-
Assumption Change Liability	1,607.5	-
Benefit Outlays	(31,960.4)	(31,233.5)
Interest on Pension Liability	41,191.9	41,045.7
Actuarial Loss (Gain)	(7,929.6)	(17,624.3)
End-of-Year Accrued Liability	$ 661,740.2	$ 644,323.7
Net Change in Actuarial Liabilities	17,416.5	2,608.60
Prior Year Rounding Adjustment	-	-
Total	$ 17,416.5	$ 2,608.6

Assumption Change Liability was not reported separately on previous financial statements, but was included in the Actuarial Loss/(Gain). The Interest on the Pension Liability is calculated as a full year of interest on the Beginning of Year Accrued Liability and one-half year of interest on the Normal Cost Liability and the Benefit Outlays. The Plan Amendment Liability which is identical to Prior (or Past) Service Cost in Note 16C. represents a change in retirement benefits for those who entered the military on or after August 1, 1986. There were no changes in retirement benefits for FY 1998, which accounts for the difference between FY 1998 and FY 1999. The Actuarial Loss (Gain) which is identical to Period Actuarial Gains or Losses in Note 16C, represents a 'catch-all' for all changes from FY 1998 to FY 1999 which are not reflected in Plan Amendment Liability or Assumption Change Liability and can be expected to fluctuate significantly from year to year.

Note 15. Net Position:
($ In Millions)

Unexpended Appropriations:		
Unobligated		
Available	$	31,558.8
Unavailable		5,488.8
Undelivered Orders		119,981.7
Total Unexpended Appropriations	$	157,029.3

Other Information:

Unexpended appropriations are the amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are classified as available or unavailable. Certain unobligated balances are restricted for future use and are not available for current use. Undelivered Orders represent those goods and services that have not yet been received or performed. Undelivered Orders includes both Unexpended Obligations - Unpaid (Account 4801) and Unexpended Obligations - Paid (Account 4802) for Direct Appropriated funds. Multi-year appropriations remain available to the Department for obligation in future periods. However, unobligated balances associated with appropriations expiring at fiscal year-end remain available only for obligation adjustments until the account is closed.

Note 16. Disclosures Related to the Statement of Net Cost:

Note 16.A. Cost of National Defense PP&E:
The cost of National Defense PP&E is provided in the Required Supplemental Stewardship Information Section.

Note 16.B. Amounts for Foreign Military Sales (FMS) Program Procurements From Contractors:
Revenue and Expense amounts pertaining to FMS items provided by DoD contractors are not reported in the Statement of Net Costs. In FY 1999, we estimate the amount of those Revenue and Expenses to be $9.3 billion. A Statement of Custodial Activity is provided which reports the amounts of cash receipts and disbursements of the FMS Trust Fund during FY 1999.

Note 16.C. Benefit Program Expense:
For the Year Ended September 30, 1999
($ In Millions)

Service Cost	$	15,069.5
Period Interest on the Benefit Liability		53,220.5
Prior (or Past) Service Cost		4,090.2
Period Actuarial Gains or Losses		(7,929.6)
Gains/Losses Due to Changes in Medical Inflation Rate		-
Total	$	64,450.6

Footnote 16.D. Gross Cost and Earned Revenue by Budget Function Classification:
($ in Millions)

	Gross Cost	(Less Earned Revenues)	Net Cost
Department of Defense Military	$ 355,673.9	$ (19,339.6)	$ 336,334.3
Water Resources by US Army Corps of Engineers	4,880.1	(674.4)	4,205.7
Pollution Control and Abatement by US Army Corps of Engineers	150.0	-	150.0
Federal Employee Retirement and Disability by DoD Military Retirement Fund	49,376.8	(12,352.2)	37,024.6
Veterans Education, Training and Rehabilitation by DoD Education Benefits Trust Fund	262.5	(112.5)	150.0
Total	$ 410,343.2	$ (32,478.6)	$ 377,864.6

Note 16.E. Imputed Expenses:
($ In Millions)

CSRS/FERS Retirement	$ 1,332.0
Health	1,421.2
Judgment Fund/Litigation	234.9
Life Insurance	4.8
Total	$ 2,992.9

Note 16.F. Other Disclosures:

The amounts presented in this statement are, for the most part, based on obligations and disbursements, rather than actual accrued cost. The Department's financial and feeder systems were not designed to comply with the accrual accounting requirements of the Statements of Federal Financial Accounting Standards (SFFASs). Therefore, the systems do not accurately capture accrued costs. The Department has undertaken initiatives to bring its financial and feeder systems into compliance with SFFASs. These statements do include amounts for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

Approximately $2 billion of the costs reported on the Program Costs With the Public line of the Statement of Nets Costs do not represent actual costs from the public, but amounts posted to bring Net Position as reported on the Statement of Changes in Net Position into agreement with Net Position as reported on the Balance Sheet. Discrepancies between the two Net Positions occurred due to changes in the data calls that support General Plant, Property, and Equipment amounts reported on the Balance Sheet and to deficiencies in the general ledger.

Note 17. Disclosures Related to the Statement of Changes in Net Position:
($ In Millions)

Prior Period Adjustments – Increase (Decrease) to Net Position Beginning Balance:	
Changes in Accounting Standards	$ -
Correction of Errors in Prior Year Accounting	39,519.3
Other	(5,729.6)
Total	$ 33,789.7
Imputed Financing:	
CSRS/FERS Retirement	$ 1,332.0
Health	1,421.2
Judgment Fund/Litigation	234.9
Life Insurance	4.8
Total	$ 2,992.9

Other Disclosures to the Statement of Changes in Net Position:

DoD recognizes imputed costs for the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employee Health Benefits Program (FEHB), and the Federal Employee Group Life Insurance (FEGLI). Imputed costs are offset by the amount reported on the Imputed Financing line of the Statement of Changes in Net Position.

The United States Transportation Command (USTRANSCOM) was transferred from Air Force Working Capital Fund to Other Defense Organizations in FY 99. The beginning of period net position for USTRANSCOM is reflected in the Other Defense Organizations financial statements as a transfer-in. The transfer out of beginning of period net position is reflected in the Air Force Working Capital Fund's financial statements.

The Statement of Changes in Net Position – Transfers-out contains $186 million of transfers out. Of this amount, National Defense Stockpile has $150 million to Treasury for foreign military sales (FMS). The remaining $36 million consists of items which are individually less than 10 percent of the transfers out.

Other Information:

The prior period adjustment for Errors and Omissions which totals $39.5 billion is made up of $37.9 billion reported by the Other Defense Organizations (ODO) General Fund, $4.1 billion reported by the Department of the Air Force, $(2.3) billion reported by the Department of the Navy, and $(0.2) billion reported by various entities which individually comprise less than 10 percent of the total $39.5 billion adjustment.

The ODO General Fund recorded an adjustment of $37.5 billion for a change in the FY 1998 actuarial liability for Military Retirement Health Benefits. The remaining $0.4 billion of the ODO General Fund adjustment was for the prior three years of expenses for the Pentagon Reservation Maintenance Revolving Fund.

The Department of the Air Force adjustment reflects a correction of accumulated depreciation of $5.8 billion as a result of system changes and revaluations. Offsetting this adjustment is the removal of PP&E of $1.7 billion and other miscellaneous adjustments which are individually less than 10 percent of the $4.1 billion prior period adjustment.

The Department of the Navy has recorded the adjustment of $(2.3) billion largely to account for the reduction of $5.9 billion of personal property in the possession of contractors. The value of this property was included in the FY 1998 general PP&E balances. These assets are held in the possession of contractors. The value of these assets were removed from the financial statements for FY 1999 because based on preliminary visits with several large DoD contractors, the Department determined that most General PP&E personal property in the possession of contractors is below the DoD capitalization threshold and beyond its depreciable useful life. The Department is presently working to develop and implement a method of annually collecting this information from DoD contractors. In addition, this adjustment was offset by a $1.9 billion increase for revaluation of general PP&E. Also, other significant adjustments include $(0.3) billion for delinquent workers' compensation not recorded in prior years, $0.7 billion adjustments to Cost of Goods Sold, $0.7 billion for an adjustment to Capital Investments, and $0.6 billion for removal of residual balances for activities that were Base Realignment and Closure (BRAC), Partnered with a Fleet and Industrial Supply Center (FISC), or converted to a Transaction Item Reporting (TIR) activity in the Material Financial Control System (MFCS). The remaining adjustments are individually less than 10 percent of the $(2.3) billion total prior period adjustment.

Other Prior Period Adjustments which totals $(5.7) billion is largely made up of $(5.5) billion reported by the Department of the Air Force. The Department of the Air Force has recorded $(5.8) billion of this adjustment to reflect the removal of special tools or special test equipment included in general PP&E in FY 1998. These assets are held in the possession of contractors. The value of these assets were removed from the financial statements for FY 1999 because based on preliminary visits with several large

DoD contractors, the Department determined that most General PP&E personal property in the possession of contractors is below the DoD capitalization threshold and beyond its depreciable useful life. The Department is presently working to develop and implement a method of annually collecting this information from DoD contractors. Also, the offsetting $0.3 billion is made up of two adjustments. An adjustment was recorded for $0.1 billion to increase equipment in the MEDLOG System Transfer and $0.2 billion was recorded to remove the Judgement Fund liability. In addition to the other prior period adjustments recorded by the Department of the Air Force, various adjustments were recorded by other entities totaling $(0.2) which individually and in total were less than 10 percent of the total other prior period adjustments.

Note 18. Disclosures Related to the Statement of Budgetary Resources:
($ In Millions)

Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	$	166,830.5
Available Borrowing and Contract Authority at the End of Period	$	12,274.0

Other Information:

The following entities reported available borrowing and contract authority: Army Working Capital Fund $1.2 billion; Air Force Working Capital Fund $1.5 billion; Navy Working Capital Fund $3.7 billion; Defense Logistics Agency $3.4 billion; Defense Finance and Accounting Service $0.9 billion; Joint Logistics System Center $1.3 billion; and United States Transportation Command (USTRANSCOM) $177.7 million. Other miscellaneous available borrowing and contract authority of $0.1 billion was comprised of amounts from the U.S. Army Corps of Engineers, the Defense Security Services, and the Defense Information Systems Agency.

The DoD reported $2.5 billion of problem disbursements that represent disbursements of DoD funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursement. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursement arises when the Department of Defense contracting, disbursing, and accounting systems fail to match the data necessary to properly record the transactions in all applicable systems. The Department has efforts underway to improve the systems and to resolve all previous problem disbursements. As of September 1999, these efforts resulted in a significant decrease in reported problem disbursements since June 1995.

Suspense/Budget Clearing Accounts:
On September 30 of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero, as required by Treasury. DoD transfers the balances to appropriation accounts using a logical methodology, such as prorating the amounts on a percentage basis derived by comparing the disbursements in the suspense/clearing account to total disbursements. On October 1 of the following fiscal year, the uncleared suspense/budget clearing account balances are reestablished.

The DoD has made a concerted effort to reduce balances in the suspense and budget clearing accounts and to establish an accurate and consistent use of these accounts. Since February 1997, DFAS has issued 27 memorandums providing guidance and establishing policy in this area. Below is a table that indicates the significant reductions the DoD has achieved in various suspense/budget clearing accounts.

Absolute Value In Millions

Account	**Sep-98**	**Sep-99**	**Reduction/ (Increase)**
F3875	$ 756.4	$1,269.4	$ (513.0)
F3878	39.1	1.5	37.6
F3879	49.7	-	49.7
F3880	111.0	48.4	62.6
F3885	2,051.7	771.2	1,280.5
F3886	(1.4)	(1.4)	-
Totals	$3,006.5	$2,089.1	$ 917.4

Note 19. Disclosures Related to the Statement of Financing:

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

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. This causes a difference in Net Cost between the Statement of Net Cost and the Statement of Financing. Statement of Financing, Costs Capitalized on the Balance Sheet, has been adjusted by a net decrease in costs capitalized of $8.1 billion to make the two statements match. Similarly, Financing Sources That Fund Costs of Prior Periods, has been adjusted by a net decrease in financing sources by $4.1 billion. As stated elsewhere, the Department’s financial systems were not designed to accommodate the full set of budgetary and proprietary accounts that are currently required. The Department does; however, have efforts underway to correct these deficiencies.

Note 20. Disclosures Related to the Statement of Custodial Activity:

The Defense Security Cooperation Agency (DSCA) reported disbursements of $11.6 billion and collections of $11.1 billion to and from foreign customers as recorded in the trial balance of the Foreign Military Sales (FMS) Trust Fund for FY 1999. Advances not collected by the FMS billing date are $2.4 billion.

Amounts for FMS Program Procurements From Contractors provided by DoD contractors for FY 1999 are estimated to be $9.3 billion and for FY 1999 the DoD received reimbursements estimated at $2.3 billion for assets and services sold under the FMS program

Note 21.A. Other Disclosures; Leases:

Entity as Lessee - Operating Leases:

Future Payments Due:
($ In Millions)

Fiscal Year	Air Force	DFAS	NWCF	Total
FY 2000	$ 58.3	$ 18.5	$ 1.3	$ 78.1
FY 2001	54.8	19.0	1.3	75.1
FY 2002	-	19.6	1.3	20.9
FY 2003	-	20.1	-	20.1
FY 2004	-	20.7	-	20.7
After 5 Years	-	21.4	-	21.4
Total Future Lease Payments	$ 113.1	$ 119.3	$ 3.9	$ 236.3

Description of Lease Arrangements:

The figures in the first column above represent operating leased facilities in the U.S and overseas applicable to the Air Force. The asset category representing operating leases are for Military Family Housing Units. The value of future operating lease payments is only available for FY 2000 and 2001. The amount of payment for FY 2002 and beyond is unknown.

The dollar value of Defense Finance and Accounting Service (DFAS) operating leases for future years is disclosed in the second column above. These costs were gathered from General Services Administration (GSA) bills (since GSA does not issue leases to their tenants) and InterService Support Agreements. The future year calculation was based on a 3 percent inflation rate.

The Navy Working Capital Fund (NWCF) Transportation activity group has ADP equipment with a 3 year lease for $1.3 million per year as shown in the third column above and the proper amount has been expensed and is reflected in the financial statements.

Note 21.B. Other Disclosures:

Problem Disbursements:
The elimination of Problem Disbursements is one of the highest financial management priorities of the Under Secretary of Defense (Comptroller). The disbursements represent payments, made by one activity for another which have been recorded in the accountable activity's records but have not been precisely matched against the specific source obligation. Problem disbursements represent a significant financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the age of the problem disbursements increases.

Canceled Balances:
All unliquidated balances associated with closed accounts have been canceled in accordance with Public Law 101-510. Canceled accrued expenditures unpaid are reflected in the financial statements as unfunded liabilities. Although, canceled undelivered orders outstanding are not included in the financial statements, these orders may result in future expenditures, in accordance with the provisions of Public Law 101-510.

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