

Department of Defense

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**Part III**

**Financial Statements**

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Fiscal Year 2002 Performance and Accountability Report



# Message from the Chief Financial Officer

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January 31, 2003

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

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

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

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

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



Dov S. Zakheim

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**Principal Statements**

**Fiscal Year 2002**

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**Department of Defense Agency-wide  
CONSOLIDATED BALANCE SHEET<sup>1</sup>  
(\$ in millions)**

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

<sup>1</sup> The accompanying notes are an integral part of these statements. See Notes 1 - 18.

**Department of Defense Agency-wide  
CONSOLIDATED STATEMENT OF NET COST<sup>1</sup>  
(\$ in millions)**

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

<sup>1</sup> The accompanying notes are an integral part of these statements. See Notes 1 and 19.



**Department of Defense Agency-wide  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION<sup>1</sup>  
(\$ in millions)**

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

<sup>1</sup> The accompanying notes are an integral part of these statements. See Notes 1 and 20.

**Department of Defense Agency-wide  
COMBINED STATEMENT OF BUDGETARY RESOURCES<sup>1</sup>  
(\$ in millions)**

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

<sup>1</sup> The accompanying notes are an integral part of these statements. See Notes 1 and 21.

**Department of Defense Agency-wide  
COMBINED STATEMENT OF BUDGETARY RESOURCES<sup>4</sup>**  
(\$ in millions)

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

<sup>4</sup> The accompanying notes are an integral part of these statements. See Notes 1 and 21.

**Department of Defense Agency-wide  
COMBINED STATEMENT OF FINANCING<sup>1</sup>  
(\$ in millions)**

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

<sup>1</sup> The accompanying notes are an integral part of these statements. See Note 22.

**Department of Defense Agency-wide  
 COMBINED STATEMENT OF FINANCING (Continued)<sup>1</sup>  
 (\$ in millions)**

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

<sup>1</sup> The accompanying notes are an integral part of these statements. See Note 22.

**Department of Defense Agency-wide  
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY<sup>1</sup>  
(\$ in millions)**

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

<sup>1</sup> The accompanying notes are an integral part of these statements. See Note 23.