DEPARTMENT OF DEFENSE

FY 2001

AGENCY-WIDE FINANCIAL STATEMENTS

NOTES 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 relevant legislation. The financial statements have been prepared from the books and records of the Department in accordance with the "DoD Financial Management Regulation" ("DoDFMR"), the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and to the extent possible, Federal generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Department is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The DoD's financial statements are in addition to the financial reports also prepared by the Department pursuant to OMB directives that are used to monitor and control the DoD's use of budgetary resources.

The Department is unable to fully implement all elements of Federal GAAP and the OMB Bulletin No. 01-09 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 the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the Department cannot currently implement every aspect of Federal GAAP and the OMB Bulletin No. 01-09. The Department continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems.

More detailed explanations of individual financial statement elements are provided in the applicable notes.

B. Mission of the Department of Defense.

The Department was created on September 18, 1947, by the National Security Act of 1947. The overall mission of the Department is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal year (FY) 2001 represents the sixth year that the Department has prepared audited DoD Agency-wide financial statements as required by the CFO Act and the GMRA. The reporting entities within the Department have been changed to facilitate this reporting requirement. Auditors will be issuing opinions on the financial statements of the following stand-alone reporting entities: (1) Navy General Funds, (2) Air Force General Funds, (3) Navy Working Capital Fund, (4) Air Force Working Capital Fund, (5) Military Retirement Fund, and (6) U.S. Army Corps of Engineers (Civil Works). Due to the tragedy at the Pentagon in September 2001, the Army was granted a waiver from publishing financial statements and having the Army General Funds and Working Capital Funds financial statements audited.

In addition to the six stand-alone reporting entities, separate columns in the combining/consolidating statements are included with the financial information of the Army General Fund, Army Working Capital Fund, and the remaining DoD Components are reported in "Other Defense Organizations General Funds" or "Other Defense Organizations Working Capital Funds" columns as applicable. The Office of the Inspector General will not issue separate audit opinions on the statements of the Other Defense

Organizations; instead the financial statements and records of those organizations will be included in the audit performed to support the opinion issued on the DoD Agency-wide financial statements. Also, the Department is requiring that the following Defense Agencies prepare internal stand-alone annual financial statements to be audited by certified public accounting firms: (1) Defense Logistics Agency, (2) Defense Finance and Accounting Service, (3) Defense Information Systems Agency, (4) Defense Contract Audit Agency, (5) Defense Commissary Agency, (6) Defense Security Service, and (7) Defense Threat Reduction Agency.

C. Appropriations and Funds.

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

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

- Revolving fund accounts are funds authorized by specific provisions of law to finance a continuing cycle of operations in which expenditures generate receipts and the receipts are available for expenditure without further action by Congress.

- 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 DoD, 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 is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

D. Basis of Accounting.

The Department generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2001, the Department's financial management systems are unable to meet all the requirements for full accrual accounting. Many of the Department's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as is required by Federal GAAP. The Department has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. New systems are required to implement the United States Government Standard General Ledger (USSGL) at the transaction level. Until such time as all of the Department's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the DoD's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement on 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 Department is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

E. Revenues and Other Financing Sources.

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

Revenue is recognized according to the percentage of completion method for depot maintenance and ordinance working capital fund (WCF) activities. Revenue for supply management WCF activities is recognized when an inventory item is dropped from inventory for sale.

F. Recognition of Expenses.

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

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

Operating expenses were adjusted as a result of the elimination of balances between DoD Components. See Note 19.I, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

G. Accounting for Intragovernmental Activities.

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

The Department'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 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 the Treasury does not allocate such interest costs to the benefiting agencies.

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

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

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. However, the Department, as well as the rest of the federal government cannot accurately identify all intragovernmental transactions by customer. For intra-DoD transactions in FYs 2000 and 2001, the Department provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices and required the adjustment of the buyer-side records to recognized unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

On September 28, 2001, the Department of the Treasury, Financial Management Service issued the "Federal Intragovernmental Transactions Accounting Policies Guide." The Department was not able to fully implement the policies in the guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. However, the Department was able to implement the policies and procedures in this guide related to reconciling intragovernmental fiduciary transactions. These transactions include investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

H. <u>Transactions with Foreign Governments and International Organizations</u>.

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

I. <u>Funds with the U.S. Treasury</u>.

The Department's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS), the Military Services and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the 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 may result and are reconciled. Material disclosures are provided at Note 3.

J. Foreign Currency.

The Department conducts a significant portion of its operations overseas. Foreign currency is the amount of foreign currency, e.g. English Pounds, Japanese Yen, Italian Lire, etc., that a disbursing officer representing the Department of the Treasury has in cash at overseas locations or foreign bank accounts to pay bills. Typical examples are disbursing officers in isolated areas that hold minimal amounts in foreign currency cash to pay vendors for goods and services where the common method of exchange is cash; or has a small foreign currency account in a local bank to pay bills when contracts require payment in a foreign currency. Foreign Currency is reported for disclosure purposes as non-entity funds.

K. Accounts Receivable.

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

L. Loans Receivable. Not Applicable.

M. Inventories and Related Property.

Inventory and related property systems provide management information on the accountability and visibility over inventory items, but do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly support the requirement of the Federal Financial Management Improvement Act of 1996 (P.L. 104-208) to produce financial transactions using the United States Government Standard General Ledger (USSGL), which distinguishes between Inventory held for sale and Inventory held in reserve for future sale.

The Department does not attempt to account separately for items held for "current" or " future" sale. The DoD manages only military or government specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Further, unlike the commercial sector, the Department's operational cycles, based on national need, are irregular. In addition, the military risks associated with stock-out positions (e.g., weapon systems that are not mission-capable due to lack of supplies) are totally different from a commercial activity's risk. Material held for sale also includes material held due to a managerial determination that it should be retained to support contingencies. Further, there is no management or valuation difference between the two USSGL categories.

In addition, past audit results have led to uncertainties about the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

Inventories are reported at approximate historical cost using the Latest Acquisition Cost (LAC) adjusted for holding gains and losses. The 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 Operating Materials and Supplies (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. For the most part, the Department is using the consumption method of accounting for OM&S, which is defined in the SFFAS No. 3, "Accounting for Inventory and Related Property," as material that has not yet been issued to the end user. The material is expensed when issued. Current financial and logistics systems can not 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 cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, (3) identifying feeder systems that are used to manage OM&S items, and (4) developing plans to revise those systems to support the consumption method. For FY 2001, significant amounts of OM&S were reported under the purchase method – that is, expensed when purchased - either because the systems could not support the consumption method of accounting or because management believes the item to be in the hands of the end user.

Material disclosures related to inventory and related property are provided at Note 9.

N. <u>Investments in U.S. Treasury Securities</u>.

Investments in U.S. Treasury securities are reported at cost, net of amortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The 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 4.

O. <u>General Property, Plant and Equipment</u>.

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. Also, improvement costs over the DoD capitalization threshold of $100,000 for General PP&E are capitalized. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of 2 or more years was capitalized. These assets remain capitalized and reported on WCF financial statements. The book value of General PP&E previously capitalized at amounts below $100,000 were fully expended on General Fund financial statements in FY 1998.

When it is in the best interest of the government, the Department provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the Department or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E should be included in the value of General PP&E reported on the Department's Balance Sheet. The

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

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

Material disclosures are provided at Note 10.

P. Advances and Prepayments.

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

Q. Leases.

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) 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 are classified as operating leases and recorded as expenses as payments are made over the lease terms.

R. Other Assets.

The Department conducts business with commercial contractors under two primary types of contracts—fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Department provides financing payments. One type of financing payment that the Department makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulation, 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 for the goods only after the contractor delivers 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 financial payments. The Department has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The Department has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

S. Contingencies and Other Liabilities.

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Department. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable 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 will be 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 anticipated disposal costs for the Department's 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 Department's policies and consistent with SFFAS No. 5 "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The Department has agreed to the 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 separately identifiable easily from, environmental disposal costs. Material disclosures are provided at Notes 14 and 15.

T. Accrued Leave.

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. Accrued leave to be paid by direct appropriations is recorded as not funded for General Funds when accrued. 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.

U. Net Position.

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, 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.

V. 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. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. 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 Department. 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 U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

W. Comparative Data.

Beginning in FY 2001, the Department presents the current and previous year's financial data for comparative purposes. This data will be presented in the financial statements, as well as in the notes to the principal statements.

X. Unexpended Obligations.

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. Nonentity and Entity Assets

As of September 30,	2001			2000
	Nonentity	Entity	Total	
(Amounts in millions)				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 1,191.4	$ 188,937.7	$ 190,129.1	$ 177,531.3
Investments	0.0	173,288.2	173,288.2	166,522.4
Accounts Receivable	2.9	1,061.3	1,064.2	821.4
Other Assets	0.0	4.2	4.2	0.0
Total Intragovernmental Nonentity Assets	$ 1,194.3	$ 363,291.4	$ 364,485.7	$ 344,875.1
Nonfederal Assets:				
Cash and Other Monetary Assets	$ 819.2	$ 194.9	$ 1,014.1	$ 420.9
Accounts Receivable	2,566.5	2,047.3	4,613.8	4,714.2
Inventory & Related Property	0.0	205,406.2	205,406.2	139,067.5
General PP&E	0.0	113,826.8	113,826.8	112,520.4
Other Assets	131.4	17,703.0	17,834.4	15,136.7
Total Non-Federal Nonentity Assets	$ 3,517.1	$ 339,178.2	$ 342,695.3	$ 271,859.7
Total Assets:	$ 4,711.4	$ 702,469.6	$ 707,181.0	$ 616,734.8

Other Information:

Asset accounts are either categorized as 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 the operations of the entity. The purpose of this note is to disclose the $4.7 billion nonentity assets not available for use by the Department in its day-to-day operations –but for which the Department maintains stewardship accountability and responsibility to report.

There are three categories of significant nonentity assets held by the Department: (1) the Nonentity Intragovernmental Fund Balance with Treasury, (2) the Nonentity Nonfederal Accounts Receivable and (3) Cash and Other Monetary Assets. These assets are held by the following Components:

Nonentity Fund Balance with Treasury: The balance of $1,191.4 million in Intragovernmental Nonentity Fund Balance with Treasury represents $915.4 million reported by the Other Defense Organizations (ODO) General Funds (GF), $178.9 million reported by the Navy GF, and the remaining $97.1 million is attributable to DoD activities that individually reported less than 10% of the total.

Nonentity Nonfederal Accounts Receivable: The balance of $2,566.5 million in Nonfederal Nonentity Accounts Receivable represents $1,268.9 million reported by the Navy GF, $933.4 reported by U.S. Army Corps of Engineers (USACE), $321.8 million reported by the Air Force GF, and the remaining $42.4 million is attributable to DoD activities that individually reported less than 10% of the total.

Cash and Other Monetary Assets: The balance of $819.2 million of nonentity cash primarily represents the Department's Disbursing Officers cash required to carryout the their paying, collecting and foreign currency accommodation exchange mission. The Disbursing Officer's are agents to the Treasury.

Note 3. Fund Balance with Treasury

As of September 30,	2001	2000
(Amounts in millions)		
Fund Balances:		
Appropriated Funds	$ 182,437.9	$ 168,306.9
Revolving Funds	5,327.0	7,243.1
Trust Funds	556.3	471.0
Other Fund Types	1,807.9	1,510.3
Total Fund Balances	$ 190,129.1	$ 177,531.3
Fund Balances Per Treasury Versus Agency:		
Fund Balance per Treasury	$ 187,673.7	$ 175,953.7
Fund Balance per The Department of Defense	190,129.1	177,531.3
Reconciling Amount	$ (2,455.4)	$ (1,577.6)

Explanation of Reconciliation Amount:

Reporting Entity	Fund Balance with Treasury	Fund Balance per Entity Books	Reconciling Amount
(Amounts in millions)			
Navy GF	$ 66,339.0	$ 66,339.0	$ 0.0
AF GF	44,259.8	44,259.8	0.0
Army GF	37,351.0	37,351.0	0.0
ODO GF	33,390.1	36,201.9	(2,811.8)
USACE	2,532.5	2,538.0	(5.5)
ODO WCF	1,334.5	1,334.5	0.0
Navy WCF	1,204.4	1,204.4	0.0
AF WCF	918.5	556.6	361.9
Army WCF	325.7	325.7	0.0
MRF	18.2	18.2	0.0
Total	$ 187,673.7	$ 190,129.1	$ (2,455.4)

Amounts shown above are in million of dollars. Therefore, a reconciling amount of $0.0 does not necessarily indicate that there was no difference, just that the difference was under $50,000.00. In addition, installation level funds reported are adjusted to agree with the official DoD cash figures shown in each entity's expenditure system (Data Element Management/Accounting Reporting System (DELMAR) for Army, Centralized Expenditure and Reimbursement Processing System (CERPS) for Navy, and Merged Accounting and Fund Reporting System (MAFRS) for Air Force).

The ODO GF reported a reconciling amount of ($2,811.8) million, consisting of undistributed disbursements and collections reported to Treasury but not yet recorded by the applicable agency.
The $361.9 million reconciling amount reported by Air Force Working Capital Funds (WCF) is due to a cash transfer of $361.9 million transferred to ODO WCF for United States Transportation Command for financial statement reporting only.

USACE reported a reconciling amount of ($5.5) million. The Fund Balance per USACE consists primarily of cash reported by Treasury for Inland Waterways and Harbor Maintenance Trust Funds, for which the USACE is identified as the lead agency for reporting

Receipts in the amount of $140.3 million that were returned to Treasury during FY 2001 are not reflected in the USACE portion of the financial statements.

Other Information Related to Fund Balance with Treasury:

The Online Paying and Collecting (OPAC) differences are reconcilable differences that represent amounts reported by an organization but not reported by its trading partner. As of September 30, 2001, and September 30, 2000, there were $1.1 million and $14.3 million, respectively, of OPAC differences greater than 180 days old reported by the Services (Army, Air Force, and Navy). Army GF reported $6.0 thousand as of September 30, 2001 and $6.2 million as of September 30, 2000, which includes amounts for Army WCF that cannot be broken out. Navy GF reported $1.1 million as of September 30, 2001 and $8.1 million as of September 30, 2000. In addition, there were no OPAC differences greater than 180-days old for Air Force GF, Air Force WCF, USACE, MRF, ODO WCF, Defense Finance and Accounting Service (DFAS), Defense Logistics Agency (DLA), and Defense Commissary Agency (DeCA) WCF. A majority of the differences represent internal DoD transactions and therefore do not affect the FBWT at the DoD consolidated level. However, for individual entity level statements these differences would affect the amount reported for the FBWT. The Department is working with the DFAS Centers, the Department of the 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 established metrics and implemented monthly reporting requirements for FY 2001. These actions will aid the DoD in clearing many of the old balances and establishing better internal controls over the OPAC process.

Check Issue Discrepancy

The DoD is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices, (2) the Department of the Treasury will not assist in research efforts for transactions over 1-year old, or (3) corrections were processed for transactions that the Department of the Treasury had removed from the check comparison report. The Army GF has discrepancies over 180-days old of ($2.0) million, and the Navy GF has discrepancies over 180-days old of ($8.0) million. Transactions that have no supporting documentation due to one of the preceding situations, shall be provided to the Department of the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the DoD and the Department of the Treasury for processing checks.

Note 4. Investments

As of September 30,	2001					2000
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure	Investments, Net
(Amounts in millions)						
Intragovernmental Securities:						
Marketable	$ 0.0	Interest	$ 0.0	$ 0.0	$ 0.0	$ 2,070.9
Nonmarketable, Par Value	0.0		0.0	0.0	0.0	0.0
Nonmarketable, Market-Based	178,435.5	Effective Interest	(9,984.6)	168,450.9	188,358.5	159,616.8
Subtotal	$ 178,435.5		$ (9,984.6)	$ 168,450.9	$ 188,358.5	$ 161,687.7
Accrued Interest	$ 4,820.8		$ 0.0	$ 4,820.8	$ 4,820.8	$ 4,834.7
Total Intragovernmental Securities	$ 183,256.3		$ (9,984.6)	$ 173,271.7	$ 193,179.3	$ 166,522.4
Other Investments	$ 16.5		$ 0.0	$ 16.5	$	$ 0.0
Total Investment, Net	$ 183,272.8		$ (9,984.6)	$ 173,288.2	$ 193,179.3	$ 166,522.4

Other Information:

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

The Market Value Disclosure column securities are based upon the "bid" price shown in the Wall Street Journal on September 28, 2001 (the last trading day of the Department's FY).

The $168.4 billion in Non-Marketable, Market-Based Intragovernmental Securities is comprised mainly from the Military Retirement Fund (MRF) with $164.4 billion. The remaining $4 billion in Non-Marketable, Market-Based securities are held by other DoD activities that individually reported less than 10% of the total.

The Accrued Interest of $4.8 billion is comprised mainly from the MRF. The remaining $33 million being attributable to other DoD activities.

The $16.5 million in Other Investments is attributable to Other Defense Organizations General Fund. This amount represents investments for limited partnerships which have been entered into on behalf of the U.S. Government by the Air Force in support of the Military Housing Privatization Initiative as signed into Public Law 104 -106 Stat 186 on February 10, 1996. The limited partnerships support military housing at Naval Air Station (NAS) Everett Washington and NAS Kingsville in Texas.

Note 5. Accounts Receivable

As of September 30,	2001			2000
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in millions)				
Intragovernmental Receivables:	$ 1,064.2	N/A	$ 1,064.2	$ 821.4
Nonfederal Receivables (From the Public):	$ 5,204.8	$ (591.0)	$ 4,613.8	$ 4,714.2
Total Accounts Receivable:	$ 6,269.0	$ (591.0)	$ 5,678.0	$ 5,535.6

Allowance Method:

The Department used a variety of methods in calculating the Allowance for Estimated Uncollectibles (From the Public), which are described as follows:

The Army General Fund (GF) estimated the uncollectible accounts by calculating the average actual write off amounts for the three-year period FY 1999 to FY 2001.

The Navy GF applied to FY 2001 an allowance rate of 2.93% to the Nonfederal Receivables (From the Public) balances.

The Air Force GF total allowance was derived as follows:

- an allowance for current and expired year receivables was computed based on the average percent of write-offs (for current and expired year receivables) for the last five years;
- an allowance rate of 50% was used for closed years receivables; and
- an interest receivable allowance was calculated using the average percent of write-offs to outstanding public accounts receivable over a five-year period.

Other information:

With the exception of the U.S. Army Corps of Engineers (USACE), none of the DoD Components' accounting systems capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, none of the reporting entities were able to reconcile intragovernmental accounts receivable balances with their trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished with the existing or foreseeable resources.

The major components of Intragovernmental Receivables and Nonfederal Receivables (From the Public) are depicted in the following chart:

Component	($ in Millions) Intragovernmental Receivables	($ in Millions) Nonfederal Receivables (From the Public)
USACE	$ 466.6	$ 1,018.3
Other Defense Organizations WCF	198.9	
Army GF	136.8	
Navy GF		1,656.0
Air Force GF		800.5
Other DoD Components that individually reported less than 10% of total	261.9	1,139.0
Total	$ 1,064.2	$ 4,613.8

The amount of receivables reported as over 180 days old is depicted in the following chart:

Component	($ in Millions) Intragovernmental Receivables (before eliminations)	($ in Millions) Nonfederal Receivables (From the Public)
Army GF	Not Reported	Not Reported
Navy GF	Not Reported	Not Reported
Air Force GF	Not Reported	$ 644.7
Army WCF	Not Reported	Not Reported
Navy WCF	$ 78.1	$ 41.1
Air Force WCF	$ 11.4	$ (102.4)*
Other Defense Organizations GF	Not Reported	Not Reported
Other Defense Organizations WCF	Not Reported	Not Reported
USACE	$ 18.1	$ 129.1
Military Retirement Fund	Not Reported	Not Reported

* The abnormal balance in Air Force WCF Accounts Receivable over 180 days old is due to the inclusion of $116.9 million in undistributed collections over 180 days old.

The FY 2001 increase in Intragovernmental Receivables and decrease in Nonfederal Receivables (From the Public) over FY 2000 receivables was due to reclassification of accounts receivable from public to intragovernmental in order to properly report eliminations.

Note 6. Other Assets

As of September 30,		2001		2000
(Amounts in millions)				
Intragovernmental Other Assets:				
Advances and Prepayments	$	4.2	$	0.0
Other Assets		0.0		0.0
Total Intragovernmental Other Assets	$	4.2	$	0.0
Non-Federal Other Assets:				
Outstanding Contract Financing Payments	$	14,757.3	$	11,247.2
Other Assets (With the Public)		3,077.1		3,889.5
Total Non-Federal Other Assets	$	17,834.4	$	15,136.7
Total Other Assets:	$	17,838.6	$	15,136.7

Other Information Related to Other Assets:

The DoD has reported outstanding financing payments for fixed price contracts as other assets, because under the terms of the 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 the outstanding contract financing payments. The Department has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 48, and 52; and the OMB guidance in 5 CFR Part 1315, “Prompt Payment.” The Department has concluded that the Statement of Federal Financial Accounting Standard No. 1, “Accounting for Selected Assets and Liabilities,” does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

Intragovernmental Other Assets:

Advances and Prepayments:
Navy General Fund (GF) reported $4.2 million.

Non-Federal Other Assets:

Outstanding Contract Financing Payments (OCFP):
The $14.7 billion in OCFP primarily consists of Navy General Fund (GF) reported $5.9 billion, Air Force GF reported $5.4 billion, and Army GF reported $3.3 billion.

For the Navy GF, the trend analysis from FY 2001 to FY 2001 reflected a 44% increase in Other Assets, on the Balance Sheet. The major contribution of this increase was related to the increase in OCFP for Aircraft Procurement and Shipbuilding and Conversion assets.

Other Assets (With the Public):
There is $3,077.1 million reported, which consists of the following:

Advances to Others ($978.7 million) - Army GF reported $407.9 million, Navy GF reported $176.6 million, Air Force WCF reported $153.3 million, Air Force GF reported $151.3 million, and the remaining $89.6 million is attributable to DoD activities that individually reported less than 10% of the total.

Prepayments ($504.2 million) - ODO WCF reported $229.1 million, Navy WCF reported $170.5 million, ODO GF reported $97.6 million, and the remaining $7.0 million is attributable to DoD activities that individually reported less than 10% of the total.

Other Assets ($1,594.2 million) - Navy WCF reported $1,182.1 million, Air Force WCF reported $315.1 million, and the remaining $97.0 million is attributable to DoD activities that individually reported less than 10% of the total. Of the $1,182.1 million reported by Navy WCF, $874.8 million is for outstanding debt principal owed to the Federal Financing Bank relating to the Military Sealift Command's use of the ships. Of the $315.1 million in Other Assets reported by Air Force WCF $259.3 million represent assets returned to vendors pending credit.

Note 7. Cash and Other Monetary Assets

As of September 30,	2001	2000
(Amounts in millions)		
Cash	$ 924.3	$ 354.3
Foreign Currency	68.9	66.6
Other Monetary Assets	20.9	0.0
Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,014.1	$ 420.9

Other Information Pertaining to Entity Cash & Other Monetary Assets:

Cash and foreign currency reported consists primarily of cash held by Disbursing Officers to carry out their paying, collecting and foreign currency accommodation exchange mission. The primary source of the amounts reported is the Standard Form 1219, Statements of Accountability reported by DoD Disbursing Officers.

The FY 2001 Cash of $924.3 million includes $463.6 million reported by disbursing officers supporting the Air Force, $160.3 million reported by disbursing officers supporting the Navy, $142.0 million reported by disbursing officers supporting the Other Defense Organizations, $125.8 million reported by disbursing officers supporting the Army, and $32.6 million reported by other DoD components that individually reported less than 10 percent of the total.

The $570.0 million variance between FY 2001 and FY 2000 Cash is due to a $407.0 million increase in amounts reported by the Air Force (a deposit of $182 million was erroneously classified and will be corrected in FY 2002 statements) and a $138.4 million increase reported by Other Defense Agencies. The remaining $24.6 million variance is made up of DoD components that individually represent less than 10 percent of the variance total.

The Department of Defense translates foreign currency to U.S. dollars utilizing the Department of Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government’s acquisition of foreign currency for its official disbursements and accommodation of exchange transactions.

Note 8.A. Direct Loan and/or Loan Guarantee Programs

Direct Loan and/or Loan Guarantee Programs: The Department of Defense operates the following loan guarantee program:
Military Housing Privatization Initiative:

Other Information:

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

The National Defense Authorization Act for Fiscal Year (FY) 1996, Public Law 104-106 Stat 186 Section 2801, includes a series of powerful authorities that allow the Department to work with the private sector to renovate military housing. The Department's goals are to:

- obtain private capital to leverage government dollars,
- make efficient use of limited resources, and
- use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

The Act also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. These authorities can be used individually, or in combination. They include:

- guarantees, both loan and rental
- conveyance/leasing of existing property and facilities
- differential lease payments
- investments, both limited partnerships and stock/bond ownership
- direct loans

The Military Housing Privatization Initiative (MHPI) helps to promote a mutually beneficial relationship between the DoD and the private sector. For the DoD, the MHPI results in the construction of more housing built to market standards, at a lower cost than through the military construction process. Commercial construction is not only faster and less costly than military construction, but private sector funds significantly stretch and leverage the DoD's limited housing funds. The MHPI can also provide protection against specific risks, such as base closure or member deployment, for the private sector partner.

Direct loan obligations and loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the "Federal Credit Reform Act of 1990," as amended. The Act provides that the present value of the subsidy costs (which arise from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year that the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy at present value, and loan guarantee liabilities are reported at present value.

Note 8.B. Guaranteed Loans Outstanding

As of September 30, (Amounts in millions) Loan Guarantee Program Title	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
2001		
Military Housing Privatization Initiative	$ 45.6	$ 45.6
Total	$ 45.6	$ 45.6
2000		
Military Housing Privatization Initiative	$ 29.6	$ 29.6
Total	$ 29.6	$ 29.6

Other Information:

The Loan Guarantee reflected here is for the Fort Carson, Colorado Privatization Project.

Note 8.C. Liability for Post-1991 Loan Guarantees, Present Value

As of September 30,	2001	2000
(Amounts in millions)		
Loan Guarantee Program Title		
Military Housing Privatization Initiative	$ 3.3	$ 2.1
Total	$ 3.3	$ 2.1

Other Information:

This is a new Note disclosure, in accordance with the provisions of Statement of Federal Financial Accounting Standards No. 18, effective FY 2001.

Note 8.D. Subsidy Expense for Post- FY 1991 Loan Guarantees

As of September 30,
(Amounts in millions)

2001	Defaults	Fees	Interest	Other	Total
Subsidy Expense for New Loan Guarantees Disbursed					
Military Housing Privatization Initiative	$ 1.1	$ 0	$ 0	$ 0	$ 1.1
Total	$ 1.1	$ 0	$ 0	$ 0	$ 1.1
2000	**Defaults**	**Fees**	**Interest**	**Other**	**Total**
Subsidy Expense for New Loan Guarantees Disbursed					
Military Housing Privatization Initiative	$ 2.1	$ 0	$ 0	$ 0	$ 2.1
Total	$ 2.1	$ 0	$ 0	$ 0	$ 2.1

2001	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
Loan Guarantee Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Total	$ 0	$ 0	$ 0	$ 0	$ 0
2000	**Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
Loan Guarantee Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

	2001	2000
Total Loan Guarantee Subsidy Expense:		
Military Housing Privatization Initiative	$ 1.1	$ 2.1
Total	$ 1.1	$ 2.1

Other Information:

The total subsidy expense reported in FY 2000 erroneously included interest differential of $61 thousand. The interest was not an interest subsidy for the borrower, but was interest to be collected from the U.S. Treasury for the cash balance in the financing account.

Note 8.E. Subsidy Rate for Loan Guarantees

As of September 30,	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantees:					
Military Housing Privatization Initiative	0%	5.72%	0%	0%	5.72%

Other Information:

This is a new Note disclosure, in accordance with the provisions of Statement of Federal Financial Accounting Standards No. 18, effective FY 2001. The subsidy rate for the current year's budget is published in the Credit Supplement of the President's Budget for FY 2002.

Note 8.F. Schedule for Reconciling Loan Guarantee Liability Balances for Post-1991 Loan Guarantees

Beginning Balance, Changes, and Ending Balance	2001
Beginning balance of the loan guarantee liability	$ 2.1
Add subsidy expense for guaranteed loans disbursed during the reporting years by component:	
Interest supplement costs	$ 0.0
Default costs (net of recoveries)	1.1
Fees and other collections	0.0
Total of the above subsidy expense components	$ 1.1
Adjustments:	
Interest accumulation on the liability balance	0.1
Total of the above adjustments	$ 0.1
Ending balance of the loan guarantee liability before reestimates	$ 3.3
Add or subtract subsidy reestimates by component:	
Interest rate reestimate	0.0
Technical/default reestimate	0.0
Total of the above reestimate components	$ 0.0
Ending balance of the loan guarantee liability	$ 3.3

Other Information:

This is a new Note disclosure, in accordance with the provisions of Statement of Federal Financial Accounting Standards No. 18, effective FY 2001.

Note 9. Inventory and Other Related Property

As of September 30,	2001	2000
(Amounts in millions)		
Inventory, Net (Note 9.A)	$ 48,376.1	$ 52,851.8
Operating Materials & Supplies, Net (Note 9.B)	154,636.7	83,766.1
Stockpile Materials, Net (Note 9.C)	2,393.4	2,449.6
Total	$ 205,406.2	$ 139,067.5

Note 9.A. Inventory, Net

As of September 30,	2001			2000	
	Inventory, Gross Value	Revaluation Allowance	Inventory Net	Inventory, Net	Valuation Method
(Amounts in millions)					
Inventory Categories:					
Available and Purchased for Resale	$ 58,351.1	$ (27,144.8)	$ 31,206.3	$ 31,508.1	LAC; AC; NRV
Held for Repair	25,095.9	(10,649.4)	14,446.5	18,346.6	LAC; O
Excess, Obsolete, and Unserviceable	11,781.7	(11,437.1)	344.6	407.2	LAC; AC; NRV; O
Raw Materials	0.0	0.0	0.0	0.0	
Work in Process	2,378.7	0.0	2,378.7	2,589.9	LAC; SP
Total	$ 97,607.4	$ (49,231.3)	$ 48,376.1	$ 52,851.8	

Legend for Valuation Methods:

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

NRV = Net Realizable Value

SP = Standard Price

O = Other

AC = Actual Cost

Restrictions of Inventory Use, Sale or Disposition:

There are no restrictions on the use, sale, or disposition of inventory except for the following situations; (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.

Definition:

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.

Other Information:

Inventory consists of items held for sale including spare and repair parts, clothing and textiles, fuels, and ammunition.

"Inventory Held for Repair" is damaged inventory that requires repair to make it suitable for sale. "Excess Inventory" exceeds the demand expected in the normal course of operations and does not meet management's retention criteria. "Obsolete Inventory" no longer is needed due to changes in technology, laws, customs or operations. "Unserviceable Inventory" is damaged beyond economical repair. The latter three categories are valued at 1.9% of latest acquisition cost (LAC), which is their current estimated net realizable value (NRV). Beginning in FY 2001, the Department displays the gross LAC value and the revaluation allowance, as well as the NRV, for this material.

Work in Process at depot maintenance activities, approximately $2.1 billion, is included as Inventory Work In Process because the U.S. Standard General Ledger (USSGL) does not include an account for work in process that is not inventory. This amount represents labor, applied overhead, and supplies used in the delivery of maintenance services. The remaining amount in Work in Process, approximately $263.9 million, represents munitions in production.

Note 9.B. Operating Materials and Supplies, Net

As of September 30,	2001			2000	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S Net	Valuation Method
(Amounts in millions)					
OM&S Categories:					
Held for Use	$ 141,469.2	$ 0.0	$ 141,469.2	$ 83,104.8	LAC;SP;AC;NRV;O
Held for Repair	12,509.4	(1,075.0)	11,434.4	0.0	LAC;SP;O
Excess, Obsolete, and Unserviceable	4,597.8	(2,864.7)	1,733.1	661.3	AC;NRV;SP;O
Total	$ 158,576.4	$ (3,939.7)	$ 154,636.7	$ 83,766.1	

Legend for Valuation Methods:

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

Restrictions on Operating Materials and Supplies: None.

Definitions of Titles:

The Operating Materials and Supplies (OM&S) is tangible personal property to be consumed in normal operations. “OM&S Held for Use” is the stock of secondary supply items held to meet the approved acquisition objective and munitions in stock to satisfy training needs. “OM&S Held for Repair” is damaged material that requires repair to make it suitable for use. “Excess OM&S” exceeds the demand expected in the normal course of operations and does not meet management’s retention criteria. “Obsolete OM&S” no longer is needed due to changes in technology, laws, customs or operations. “Unserviceable OM&S” is damaged beyond economical repair. The latter three categories are revalued to 1.9% of latest acquisition cost (LAC), which is their current estimated net realizable value (NRV). Beginning in FY 2001, the Department displays the gross LAC value and the revaluation allowance, as well as the NRV, for this material.

Other Information:

OM&S consists of spare and repair parts, ammunition, materials (such as lubricants) consumed in operations, and end items that require central management but that do not meet the capitalization criteria.

The FY 2001 value of OM&S includes an increase of $70 billion that resulted primarily from reclassification of material formerly classified as National Defense, Property, Plant and Equipment (not represented on the balance sheet in prior years). This increase is comprised of:

Army General Fund	$7,114.2 million	Tactical missiles
Navy General Fund	$24,765.8 million	Tactical missiles
Air Force General Fund	$37,561.5 million	Tactical and cruise missiles, missile motors, aircraft configuration pods, and uninstalled aircraft engines
Total	69,441.5 million	

For FY 2001, the USSGL does not include an account for OM&S Held for Repair and the Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements" does not provide for specific footnote disclosure of the OM&S Held for Repair. Recognizing that the Department holds OM&S in need of repair, the USSGL Board approved for use, beginning in FY 2002, USSGL 1514, OM&S Held for Repair. The Air Force early-implemented this account in FY 2001; the rest of the Department will implement next year. Therefore, FY 2001 OM&S Held for Repair represents only Air Force items; items in need of repair in the rest of the Department are included in OM&S Held for Use in the amount of $33.2 billion.

The Excess, Obsolete, and Unserviceable OM&S variance of $1 billion between FY 2000 and FY 2001 is due primarily to the $1 billion increase in Navy GF. The Navy does not devalue Ammunitions and Munitions, citing the DoD Material Management Regulation. The remaining items that compromise the variance are immaterial amounts.

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

Note 9.C. Stockpile Materials, Net

As of September 30,	2001			2000	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
(Amounts in millions)					
Stockpile Materials Categories:					
Held for Sale	$ 2,117.2	$ 0.0	$ 2,117.2	$ 1,789.8	AC
Held in Reserve for Future Sale	276.2	0.0	276.2	659.8	AC
Total	$ 2,393.4	$ 0.0	$ 2,393.4	$ 2,449.6	

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

Restrictions on Stockpile Materials:

Stockpile materials are strategic and critical materials, held due to statutory requirements, for use in national defense, conservation or national emergencies. Required stockpile levels may only be changed by law through a Presidential proposal in the Annual Material Plan submitted to Congress. There are several restrictions on the use of the stockpile materials. Strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence upon foreign sources of supply in times of a national emergency. Due to environmental considerations, there is a moratorium on the sale of mercury and thorium nitrate. Materials for which Congress has not authorized sale are classified as Materials Held in Reserve for Future Sale. The balance of the stockpile is available for sale on the open market.

Disposals cannot be made from the stockpile except under the following situations: (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; and (4) as authorized by law.

Other Information:

The financial statements report the recorded historical cost in accordance with the lower of cost or market principle.

Note 10. General PP&E, Net

As of September 30,	(1)	(2)	(3)	(4)	(5)	(6)
	2001					2000
	Depreciation /Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
(Amounts in millions)						
Major Asset Classes:						
Land	N/A	N/A	$ 9,359.9	N/A	$ 9,359.9	$ 9,224.5
Buildings, Structures and Facilities	S/L	20 or 40	146,462.6	$ (76,271.8)	70,190.8	69,616.2
Leasehold Improvements	S/L	Lease Term	154.3	(76.2)	78.1	3.6
Software	S/L	2-5 or 10	3,586.5	(2,211.1)	1,375.4	1,221.3
Equipment	S/L	5 or 10	28,304.4	(20,406.9)	7,897.5	10,015.4
Assets Under Capital Lease[1]	S/L	Lease Term	583.6	(270.9)	312.7	270.0
Construction-in-Progress	N/A	N/A	24,349.3	N/A	24,349.3	22,088.5
Other			263.1	0. 0	263.1	80.9
Total General PP&E			$ 213,063.7	$ (99,236.9)	$ 113,826.8	$ 112,520.4

[1]Note 15.B for additional information on Capital Leases

Legend for Depreciation/Amortization Methods:

S/L = Straight Line N/A = Not Applicable

Other Information:

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

The increase in Net Book Value in Land was reported by Air Force General Fund (GF) (increase of $61.6 million) and U.S. Army Corps of Engineers (USACE) (increase of $67.8 million). The increase reported by the Air Force GF is due to the reporting of land at overseas locations. USACE reported assets previously classified as intangible assets but now reclassified as land. These assets are comprised of historical costs associated with the acquisition of land in conjunction with power projects. Costs were originally classified as intangible assets in order to comply with Federal Energy Regulatory Commission guidelines on cost recovery. However, the decision was made that these costs were improperly classified in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment," as they were part of the initial acquisitions cost of the land and should have been classified as such. USACE has also made a reversing entry for current year amortization in their FY 2001 statements to properly reflect the effect of the transfer into land (category 00) where accumulated amortization is inappropriate.

The value of the DoD's General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the Office of Management and Budget, the General Accounting Office and the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with generally accepted accounting standards.

No Accumulated Depreciation/Amortization is shown for Major Asset Class "Other" because current systems and related crosswalks do not provide for recording and presenting the acquisition cost, accumulated depreciation, and net book value of such items in accordance with DoDFMR, Volume 6B requirements. This limitation will be addressed as part of future DFAS efforts to record and report all General PP&E according to relevant standards and requirements. Other Defense Organizations (ODO) Working Capital Funds (WCF) reported $197.9 million in Other Assets. USACE reported $23.9 million in Other Assets representing property awaiting disposition or sale. Army WCF reported $19.0 million. Army GF reported $18.6 million Natural Resources (Value of Timber Reserves). Air Force GF reported $3.1 million of Other Assets, representing the year-end estimated timber value on Air Force properties. The balance of $0.5 million is attributable to other DoD activities that individually reported under 10% of the total $263.1 million Other Assets.

SFFAS No. 10, "Accounting for Internal Use Software," requires a framework for identifying software development phases and processes to help isolate the capitalization period for internal use software that the federal entity is developing. This is effective for all projects beginning or in development during FY 2001. Software costs are capitalized if they exceed the DoD Capitalization threshold of $100,000.00. Depending on the nature of the software, it may be depreciated over a period of 2 to 5 years, 5 years, or 10 years. The determining factor is the actual estimated useful life of the software consistent with that used for planning the software's acquisition. Software is depreciated using the straight-line method. The following chart gives a breakdown by entity of software, above:

ENTITY		ACQUISITION COST (in millions)		ACCUMULATED DEPRECIATION (in millions)		NET BOOK VALUE (in millions)
Other Defense Organizations (ODO) Working Capital Fund (WCF)	$	2,807.6	$	1,911.4	$	896.2
Air Force WCF		350.4		125.1		225.3
Navy WCF		212.9		130.9		82.0
ODO GF		72.1		10.9		61.2
Army WCF		57.2		12.7		44.5
USACE		54.6		18.8		35.8

Note 10.A. Assets Under Capital Lease

As of September 30,		2001		2000
(Amounts in millions)				
Entity as Lessee, Assets Under Capital Lease:				
Land and Buildings	$	555.7	$	472.5
Equipment		28.0		30.5
Other		0.0		0.0
Accumulated Amortization		(270.9)		(233.0)
Total Capital Leases	$	312.8	$	270.0

Description of Lease Arrangements:

Land and Buildings were reported by Air Force GF at $387.9 million less $154.5 million amortization, for a net book value of $233.4 million. Army GF also reported Land and Buildings, at $166.1 million less $102.2 million amortization, for a net book value of $63.9 million. The balance of $1.6 million was attributable to other DoD activities that individually reported less than 10% of the total. The use of estimates for these costs has been deemed adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases. The balance of $2.1 million less $2.0 million amortization, for a net book value of $0.1 million was attributable to other DoD activities that individually reported less than 10% of the total.

Navy GF reported Equipment at $16.9 million less $9.8 million amortization, for a net book value of $7.1 million. ODO WCF reported Equipment at $8.0 million less $2.6 million amortization, for a net book value of $5.4 million. An additional $3.1 million less $1.8 million depreciation was attributable to ODO GF.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30,	2001			2000
	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	Total
(Amounts in millions)				
Intragovernmental Liabilities:				
Accounts Payable	$ 37.7	$ 86.7	$ 124.4	$ 89.7
Debt	890.0	96.2	986.2	1,080.4
Environmental Liabilities	0.0	0.0	0.0	0.0
Other	2,943.2	3,149.7	6,092.9	5,493.8
Total Intragovernmental Liabilities	$ 3,870.9	$ 3,332.6	$ 7,203.5	$ 6,663.9
Nonfederal Liabilities:				
Accounts Payable	$ 22,707.5	$ 0.0	$ 22,707.5	$ 19,575.4
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	163,149.1	1,133,061.6	1,296,210.7	889,439.1
Environmental Liabilities	1.7	63,292.1	63,293.8	63,213.6
Loan Guarantee Liability	0.0	3.3	3.3	2.1
Other Liabilities	17,792.0	10,829.2	28,621.2	23,858.3
Total Non-Federal Liabilities	$ 203,650.3	$ 1,207,186.2	$ 1,410,836.5	$ 996,088.5
Total Liabilities	$ 207,521.2	$ 1,210,518.8	$ 1,418,040.0	$ 1,002,752.4

Other Information:

The Intragovernmental, "Not Covered By Budgetary Resources," Other Liabilities of $3,149.7 million is largely attributable to the Worker's Compensation reimbursement to the Department of Labor (DoL) for $1,389.4 million. This amount includes $558.6 million for Navy General Fund (GF), $299.3 million for Air Force GF, $260.8 million for Army GF, $96.1 million for Other Defense Organizations (ODO) Working Capital Fund

(WCF), $85.4 million for ODO GF, $49.0 million for Army WCF, and $40.2 million for the U.S. Army Corps of Engineers (USACE). In addition, the USACE reported $991.3 million in Deferred Credits which represents future revenue from long term receivables recorded for water storage contracts and hydraulic mining. Another component of Intragovernmental Other Liabilities is the Judgment Fund liability for $729.9 million that includes $417.3 million for Air Force GF, $135.7 million for Navy GF, $103.6 million for USACE, $70.9 million for Army GF, $2.3 million for ODO WCF, and $0.1 million for ODO GF. The Department of the Treasury must be reimbursed for payments made from the Judgment Fund on behalf of the Department. Military Unemployment Compensation of $31.3 million was reported by Air Force GF. The remaining $7.8 million of Intragovernmental Other Liabilities is attributable to other DoD Components that individually reported less than 10% of the total Intragovernmental Other Liabilities.

The Nonfederal, “Not Covered by Budgetary Resources,” Other Liabilities of $10,829.2 million is primarily made up of Accrued Annual Leave of $6,618.2 million. Army GF accounts for $2,435.6 million, Navy GF for $1,768.2 million, Air Force GF for $1,745.6 million, ODO GF for $413.0 million, ODO WCF for $184.6 million, and Army WCF for $71.2 million. Contingent Liabilities of $2,203.0 million consists of $1,565.7 million for Army GF, $637.1 million for Air Force GF, and $0.2 million for Military Retirement Fund. The remaining $2,008.0 million consists of $798.9 million of Nonenvironmental Disposal Liabilities, $560.6 million of Canceled Accounts Payable, $462.2 million of Capital Leases, $90.7 million of Custodial Liabilities (obligation to transfer nonentity assets to the Department of the Treasury, i.e., fines, penalties, etc.), Other Liabilities of $67.5 million, and $28.1 million of Other Unfunded Employment-related Liabilities.

Note 12. Accounts Payable

As of September 30,	2001			2000
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
(Amounts in millions)				
Intragovernmental Payables:	$ 124.4	N/A	$ 124.4	$ 89.7
Non-Federal Payables (to the Public):	$ 22,707.2	$ 0.3	$ 22,707.5	$ 19,575.4
Total	$ 22,831.6	$ 0.3	$ 22,831.9	$ 19,665.1

Other Information:

Intragovernmental Accounts Payable. Intragovernmental accounts payable are amounts owed to other federal entities for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. For the majority of buyer-side transactions (DoD buys goods and services), the DoD accounting systems do not capture trading partner data (identifies who the buyer and seller are) at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DoD was unable to reconcile intragovernmental accounts payable balances with its trading partners. This is important in order to prevent duplicate reporting as financial statements are combined or aggregated up the reporting chain. For example, If Army sells to Navy, there should not be an accounts payable in the DoD consolidated financial statements. The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

The DoD summary level seller accounts receivables were compared to DoD accounts payable. An adjustment was posted to the DoD accounts payable based on the comparison with the accounts receivable to the DoD Components providing goods and services to the DoD. Positive differences were treated as unrecognized accounts payable and in the case of the DoD, accounts payable were adjusted upwards in the amount of $4,495.8 million. This amount is not representative of all DoD entities, as some entities did not report the amount of their accounts payable adjustment on their financial statements.

Note 13. Debt

As of September 30,	2001			2000
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
(Amounts in millions)				
Agency Debt:				
Debt to the Treasury	$ 18.2	$ 12.3	$ 30.5	$ 18.2
Debt to the Federal Financing Bank	1,062.2	(106.5)	955.7	1,062.2
Debt to Other Federal Agencies	0.0	(0.0)	0.0	0.0
Total Agency Debt	$ 1,080.4	$ (94.2)	$ 986.2	$ 1,080.4
Total Debt:	$ 1,080.4	$ (94.2)	$ 986.2	$ 1,080.4
Classification of Debt:				
Intragovernmental Debt			$ 986.2	$ 1,080.4
Non-Federal Debt			N/A	N/A
Total Debt			$ 986.2	$ 1,080.4

Other Information:

Debt to the Treasury of $30.5 million was reported by the U.S. Army Corps of Engineers. Funds provided were used for capital improvements to the Washington Aqueduct.

Debt to the Federal Financing Bank (FFB) of $955.7 million consists primarily of the $888.3 million reported by the Navy Working Capital Fund (WCF). This debt represents the transportation activity group's outstanding principal balance of $874.8 million and accrued interest payable of $13.5 million for FY 2001 on the Afloat Pre-Positioning Force-Navy (APF-N) ships. The APF-N program, approved by Congress, provides ships for time charter to the Military Sealift Command (MSC) to meet requirements not available in the marketplace. Private interim vessel owners use private, non-government financing obtained from various banking institutions to build/convert these ships. The government makes no payments during the building/conversion phase. The interim financing is replaced by permanent financing after each vessel is delivered to MSC for use under the time charter agreement. The financing for the ships is approximately 30 percent equity investments and 70 percent debt borrowings from the FFB to the vessel owners. The Time Charter Party requires MSC to make semi-annual payments to cover the repayment of the principal and interest on the FFB loans and any equity payments due the vessel owners.

The remaining $67.4 million in Debt to the Federal Financing Bank is attributable to other DoD Components that individually reported less than 10% of the total.

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

As of September 30,	2001			2000
(Amounts in millions)	Current Liability	Noncurrent Liability	Total	Total
Environmental Liabilities:				
Non-Federal:				
Accrued Environmental Restoration (To be funded by the Defense Environmental Restoration Program (DERP)) Costs:				
Active Installations--Environmental Restoration (ER)	$ 1,335.9	$ 11,735.2	$ 13,071.1	$ 13,845.4
Active Installation--ER for Closed Ranges	21.3	1,879.2	1,900.5	13,984.1
Formerly Used Defense Sites (FUDS)--ER	216.2	2,957.4	3,173.6	4,155.2
FUDS--ER for Transferred Ranges	85.8	14,387.6	14,473.4	0.0
Other Accrued Environmental Costs (Non-DERP funds)				
Active Installations--Environmental Corrective Action	69.1	543.6	612.7	0.0
Active Installations--Environmental Closure Requirements	11.9	102.7	114.6	0.0
Active Installations--Environ. Response at Active Ranges	35.9	241.8	277.7	0.0
Other	1.7	13.0	14.7	1,539.0
BRAC				
BRAC Installations--Environmental Restoration (ER)	288.1	3,255.1	3,543.2	1,209.5
BRAC Installations--ER for Transferring Ranges	20.2	378.4	398.6	0.0
BRAC Installations--Environmental Corrective Action	14.4	56.7	71.1	0.0
Other	394.1	316.3	710.4	2,678.7
Environmental Disposal for Weapons Systems Programs				
Nuclear Powered Aircraft Carriers	0.0	4,890.0	4,890.0	4,890.0
Nuclear Powered Submarines	155.2	4,967.2	5,122.4	5,270.7
Other Nuclear Powered Ships	0.0	269.1	269.1	269.1
Other National Defense Weapon Systems	0.0	286.6	286.6	386.1
Chemical Weapons Disposal Programs	608.7	13,643.8	14,252.5	14,874.8
Other	111.5	0.0	111.5	111.0
Total Non-Federal Environmental Liabilities:	$ 3,370.0	$ 59,923.8	$ 63,293.8	$ 63,213.6
Total Environmental Liabilities:	$ 3,370.0	$ 59,923.8	$ 63,293.8	$ 63,213.6

Other Information Related to Environmental Liabilities:

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

Limitation of Feeder Systems: For FY 2000 and 2001, the Department has estimated and reported its environmental liabilities. In those instances when the DoD Components' financial systems could not be used to estimate the liability, the DoD Components based the reported amount on estimates prepared for other purposes.

The Department of the Army

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Superfund Amendment and Reauthorization Act (SARA) require the DoD to clean up contamination resulting from past waste disposal practices, leaks, spills, and other activities, which have created a risk to public health and/or the environment. The Department of the Army enters into negotiations with the Environmental Protection Agency and state regulatory agencies to reach agreement on standards and methods for cleanup and to establish performance schedules. Failure to comply with these agreements puts the Army at risk of fines and penalties.

The estimated Active Installations--Environmental Restoration liability is $18,112.6 million and $6,019.5 million for FYs 2000 and 2001 respectively. The current estimate is an increase from the liability reported in the most recent prior fiscal year. Major factors contributing to the change is the addition of Unexploded Ordnance (UXO) Cost to Complete (CTC) for 205 ranges identified in the Army's Advanced Range Survey (ARS). The CTC was estimated utilizing the latest version of Remedial Action Cost Engineering and Requirements (RACER). *The $1,790.0 million estimate is the low (most probable) cost. A high-cost estimate was also calculated at $2,260.0 million.

The Army BRAC Environmental Liability is based on the fall 2001 Defense Site Environmental Restoration Tracking System (DSERTS) data submission, which will be used to develop the Annual Report to Congress. Liabilities are reported consistent with respective DSERTS categories: Restoration and Program Management are reported as Environmental Restoration liabilities; UXO is reported as Environmental Restoration for Transferring Ranges; and Compliance is reported as Environmental Corrective Action. All liabilities identified are categorized as "Probable." Reported unliquidated balances in Current Liability (column 1) reflect existing liabilities covered by budgetary resources. Prior year totals are not reported due to inability to verify data.

Definition of what should be included as an environmental liability was changed from prior fiscal year. Asbestos, lead in drinking water, polychlorinated biphenyls, and radon are no longer included. Also, corrective actions and closure requirements were reported as part of the total number shown for the previous fiscal year. MMR Impact Area Groundwater Study is shown as part of Corrective Actions, not Environmental Response at Active Ranges.

The estimated FUDS-Environmental Restoration Liability is $4,155.1 million and $17,643.7 million for FYs 2000 and 2001 respectively. The current estimate is a significant increase from the liability reported in the most recent prior fiscal year. Major factors contributing to the change include: a major effort to survey ranges and a recalculation of all UXO CTCs utilizing of the latest version of RACER.

The range for the Military Munitions Response Program (MMRP) is $1,790.0 million to $2,260.0 million.

BRAC total contingent liability of $1.5 million is categorized as "Probable" and includes $380.8 million current unliquidated balance against firm environmental requirements and remaining $1,077.2 million Cost-to-complete the BRAC environmental restoration program.

FUDS – Management and support (M&S) costs and inflation are assumed to be zero for calculation of Probable cost. The Remote cost presented is a rough estimate based on cleanup of 15 million acres of ranges at a cost of $20 thousand per acre. The Reasonable Possible cost is based on a rough estimate of possible reductions from use of improved technology and possible increases due to increased requirements for cleanup and increased number of sites for cleanup.

For the Department of the Army, Accrued Environmental Restoration (DERP funded) Costs; Other Accrued Environmental Costs (Non-DERP funds); Base Realignment and Closure (BRAC); and Environmental Disposal for Weapons Systems Programs total $62,783.9 million.

Accrued Environmental Restoration (DERP funded) Costs:

Active Installations—Environmental Restoration (ER). The Department of the Army reported $4,207.3 million.

Active Installations—ER for Closed Ranges. The Department of the Army reported $1,812.3 million.

Formerly Used Defense Sites (FUDS)—ER. The Department of the Army reported $3,170.3 million.

FUDS—ER for Transferred Ranges. The Department of the Army reported $14,473.4 million.

Other Accrued Environmental Costs (Non-DERP funds):

Active Installations—Environmental Corrective Action. The Department of the Army reported $366.5 million.

Active Installations—Environmental Closure Requirements. The Department of the Army reported $53.1 million.

Active Installations—Environmental Response at Active Ranges. The Department of the Army reported $277.7 million.

Base Realignment and Closure (BRAC):

BRAC Installations—Environmental Restoration (ER). The Department of the Army reported $607.5 million.

BRAC Installations—ER for Transferring Ranges. The Department of the Army reported $398.6 million.

BRAC Installations—Environmental Corrective Action. The Department of the Army GF reported $71.1 million.

Other. The Department of the Army reported $380.8 million.

Environmental Disposal for Weapons Systems Programs:

Chemical Weapons Disposal Program. The Department of the Army reported $14,252.5 million.

The Department of the Navy

Accrued Environmental Restoration (DERP Funded) Costs. For FY2001, the Department of the Navy estimated and reported $3,749.4 million for environmental restoration liabilities as of 30 September 2001. This is comprised of $3,661.2 million in Active Installations--Environmental Restoration (ER) liabilities and $88.2 million in Active Installations—ER for Closed Ranges liabilities which represents Unexploded Ordnance Cost (UXO) related to twelve sites. Prior to FY 2001, UXO was not segregated and reported as part of the total amount disbursed. The DoDFMR, Volume 6B, Chapter 10 requires that "any estimate produced must be based on site specific information and use cost models validated in accordance with DoD instruction 5000.61". The Department of the Navy plans to support this requirement and continue validating its range inventory and pursuing the process of obtaining valid cost estimates for each range. Once this process is complete, the Department of the Navy will begin to report the liability for sites that have been processed.

Other Accrued Environmental Costs (Non-DERP Funds). The Department of the Navy is participating in the DoD Environmental Quality Liabilities Working Group. The purpose of the working group is to define the scope of ongoing operations at DoD installations that have potential associated environmental cleanup costs (Non-DERP) and the potential magnitude of the cleanup costs associated with those operations. During FY 2001, the Department of the Navy began a preliminary review of 16 program areas such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retrofill, and/or disposal of PCB transformers, underground storage tank remedial investigation and closure, that identified an estimated total potential long term liability of $17.3 million. In addition to cleanup costs associated with ongoing operations, the Kaho'Olawe Island Trust Fund provides for cleanup of Kaho'Olawe Island. Congress initially set a funding limit of $400.0 million with annual execution of $25.0 million. Further investigation is needed prior to recognizing an estimate on the financial statements for cleanup of Kaho'Olawe Island.

Environmental Disposal for Weapon Systems Programs. The Department of the Navy reported an environmental disposal liability for Weapons Systems Programs of $10,518.8 million in FY 2001. The Department of the Navy reported Weapons Systems, which includes Nuclear Powered Aircraft Carriers, Nuclear Powered Submarines, Other Nuclear Powered Ships, and Other National Defense Weapons Systems. The liability for Other National Defense Weapons Systems of $237.3 million includes scrapping of inactive conventionally powered warships of $195.4 million and $41.9 million for the environmental disposal of strategic missiles.

For the Department of the Navy, Accrued Environmental Restoration (DERP funded) Costs; Other Accrued Environmental Costs (Non-DERP funds); Base Realignment and Closure (BRAC); and Environmental Disposal for Weapons Systems Programs total $15,584.5 million.

Accrued Environmental Restoration (DERP funded) Costs:

Active Installations—Environmental Restoration (ER). The Department of the Navy reported $3,661.2 million.

Active Installations—ER for Closed Ranges. The Department of the Navy reported $88.2 million.

Base Realignment and Closure (BRAC):

BRAC Installations—Environmental Restoration (ER). The Department of the Navy reported $1,316.3 million.

Environmental Disposal for Weapons Systems Programs:

Nuclear Powered Aircraft Carriers. The Department of the Navy reported $4,890.0 million.

Nuclear Powered Submarines. The Department of the Navy reported $5,122.4 million.

Other Nuclear Powered Ships. The Department of the Navy reported $269.1 million.

Other National Defense Weapons Systems. The Department of the Navy reported $237.3 million.

The Department of the Air Force

The relatively small change of just over 4% in the Defense Environmental Restoration Program (DERP) restoration liability between September 30, 2000 and September 30, 2001 results largely from the addition of almost 100 new sites that resulted in a $421 million increase in estimated cost. Also, the addition of two installations to the Environmental Protection Agency's National Priority Listing, and new information on the characterization of existing sites resulted in an upward revision of the cost estimates for prior year sites.

Environmental range liabilities are reversed to zero. Restoration cost for ordnance and their chemical contamination on closed ranges is estimated at approximately $595 million as of September 30, 2001. The estimate does not reflect the total potential restoration liability associated with ranges.

Non-DERP, Non-BRAC restoration liabilities increased by slightly more than $70 million during FY 2001. The increase is accounted for by the addition of just over $112 million for new reported liabilities during the year. The reported liability is expected to increase during FY 2002 as the Air Force expands reporting of these restoration activities. Reporting has expanded to include sites not reported previously and to reflect application of validated cost estimating tools. Likewise, accounting for the obligation and expenditure of funds on these restoration actions was established during FY 2001. Current liabilities for Non-DERP, Non-BRAC restoration liabilities cannot be determined because of lack of data concerning expenditures in this category.

This is the first statement that reports the Active Installations—Environmental Closure Requirements for the future closure of Air Force facilities. These disposal liabilities are for landfills of $12.2 million, underground storage tanks (USTs) of $7.5 million, and hazardous waste treatment, storage and disposal facilities (TSDFs) of $41.8 million. The liability for landfills and USTs are on an incremental basis using percentage of capacity to determine landfill liabilities and a twenty-year life to determine UST liabilities. If landfill and UST liabilities had been recognized on a total basis at September 30, 2001, it would have been $80.1 million and $41.8 million, respectively. TSDF disposal liabilities represent the one time closure cost estimate for each facility plus thirty years of monitoring following closure, as required by regulation. UST disposal liability is based on a twenty-year amortization of the one-time closure costs. Additionally, two years of annual monitoring costs are recognized in the year of closure. Landfill disposal liability is recognized on the basis of percentage of capacity used during the year. Percentage of usage during the year is multiplied by the one time closure cost estimate, and the liability is accrued annually based on usage. Once the landfill is closed, there is thirty years of annual monitoring cost added to the liability and recognized. The monitoring cost estimate is re-evaluated each year following closure. The accounting system currently does not track amounts obligated or expensed for these individual areas. Therefore, every year the initial liability will be reversed and the new liability established based on estimates made that year. The Air Force expects the disposal liability to increase during FY 2002 with improved reporting. The basis for the cost estimates used to establish the September 30, 2001 disposal liabilities were as follows:

TSDFs	58% used a validated process or an actual contract bid
	36% used historical cost as the basis
	6% used some other method
USTs	92% used a validated process or an actual contract bid
	8% used some other method
Landfills	99% used a validated process or an actual contract bid
	1% used some other method

The other methods generally listed engineering estimates based on generally accepted engineering techniques but not specifically validated by the Air Force. Current liabilities cannot be determined due to lack of expenditure data in these categories.

The Air Force Base Conversion Agency (AFBCA) estimates a $1,917.0 million liability as of September 30, 2001. This amount includes all cleanup to meet regulatory requirements and to transfer property. However, this amount does not include potential future cost associated with long-term landfill management for which the Air Force may never be absolved of responsibility due to State laws. Pending implementation of DoD and Air Force guidance, an Air Force validated; verified and accredited method of calculating future costs will be available for the September 30, 2002 report.

The September 30, 2001 environmental disposal liability of $49.4 million in Other National Defense Weapon Systems includes strategic, tactical, active, inactive missiles and missile motors. The Air Force identified $48 million in environmental liability for the disposal of Minuteman III and Peacekeeper strategic, inactive missile motors. The estimated environmental disposal liability for tactical, active, inactive missiles and missile motors is $1.4 million.

For the Department of the Air Force, Accrued Environmental Restoration (DERP funded) Costs; Other Accrued Environmental Costs (Non-DERP funds); Base Realignment and Closure (BRAC); and Environmental Disposal for Weapons Systems Programs total $7,312.9 million.

Accrued Environmental Restoration (DERP funded) Costs:

Active Installations—Environmental Restoration (ER). The Department of the Air Force reported $5,038.8 million.

<u>Other Accrued Environmental Costs (Non-DERP funds):</u>
Active Installations—Environmental Corrective Action. The Department of the Air Force reported $246.2 million.

Active Installations—Environmental Closure Requirements. The Department of the Air Force reported $61.5 million.

<u>Base Realignment and Closure (BRAC):</u>

BRAC Installations—Environmental Restoration (ER). The Department of the Air Force reported $1,587.5 million.

Other. The Department of the Air Force reported $329.6 million.

<u>Environmental Disposal for Weapons Systems Programs:</u>

Other National Defense Weapons Systems. The Department of the Air Force reported $49.3 million

<u>Other Defense Organizations</u>

For FYs 00 and 01, the Other Defense Organizations General Funds have estimated and reported its environmental liabilities. In those instances when the Other Defense Organizations General Funds financial systems could not be used to estimate the liability, the Other Defense Organizations General Funds based the reported amount on estimates prepared for other purposes.

The Defense Logistics Agency reported the Nonfederal Environmental Liabilities, Active Installation—Environmental Restoration (ER), for $163.8 million; Formerly Used Defense Sites—ER, for $3.3 million; and BRAC Installations—ER, for $31.9 million.

Of the $14.7 million reported for the Nonfederal Environmental Liabilities, Other Accrued Environmental Costs (Non-DERP funds), Other, Defense Threat Reduction Agency reported $1.7 million and Defense Commissary Agency reported $13.0 million.

National Defense Stockpile Transaction Fund reported $111.4 million for the Nonfederal Environmental Liabilities, Environmental Disposal for Weapons Systems Programs, Other. A reserve liability of $111.0 million is maintained for estimated cleanup and environmental cost yet to be incurred for Mercury, Thorium Nitrate, and other Non-DERA cleanup as required. These costs are shown below (in millions):

Thorium Nitrate disposal or upgrade	$60.0
Long term storage or repackaging of Mercury	$20.0
Cleanup Cost	$25.0
Badalite Ore disposal	$ 6.0
Other Agencies	$ 0.4

For Other Defense Organizations, Accrued Environmental Restoration (DERP funded) Costs; Other Accrued Environmental Costs (Non-DERP funds); Base Realignment and Closure (BRAC); and Environmental Disposal for Weapons Systems Programs total $325.3 million.

Accrued Environmental Restoration (DERP funded) Costs:

Active Installations—Environmental Restoration (ER). Other Defense Organizations reported $163.8 million.

Formerly Used Defense Sites (FUDS)—ER. Other Defense Organizations reported $3.3 million.

Other Accrued Environmental Costs (Non-DERP funds):

Other. Other Defense Organizations reported $14.7 million.

Base Realignment and Closure (BRAC):

BRAC Installations—Environmental Restoration (ER). Other Defense Organizations reported $31.9 million.

Environmental Disposal for Weapons Systems Programs:

Other: Other Defense Organizations reported $111.4 million in current liabilities.

Note 15.A Other Liabilities

As of September 30,	2001			2000
	Current Liability	Noncurrent Liability	Total	Total
(Amounts in millions)				
Intragovernmental:				
Advances from Others	$ 214.1	$ 0.0	$ 214.1	$ 116.9
Deferred Credits	0.0	991.3	991.3	1,015.8
Deposit Funds and Suspense Account Liabilities	243.6	0.0	243.6	622.8
Resources Payable to Treasury	647.6	0.0	647.6	679.5
Disbursing Officer Cash	944.6	0.0	944.6	530.0
Accounts Payable—Cancelled Appropriations	0.0	7.2	7.2	0.0
Judgment Fund Liabilities	378.0	351.9	729.9	700.2
FECA Reimbursement to the DoL	586.8	802.7	1,389.5	1,363.2
Other Liabilities	925.1	0.0	925.1	465.4
Total Intragovernmental Other Liabilities	$ 3,939.8	$ 2,153.1	$ 6,092.9	$ 5,493.8

Note 15.A Other Liabilities (Continued)

As of September 30,	2001			2000
	Current Liability	Noncurrent Liability	Total	Total
Nonfederal:				
Accrued Funded Payroll and Benefits	$ 8,106.8	$ 31.6	$ 8,138.4	$ 5,969.8
Advances from Others	939.4	0.0	939.4	945.7
Deferred Credits	1.9	0.0	1.9	4.4
Deposit Funds and Suspense Accounts	34.0	0.0	34.0	44.3
Temporary Early Retirement Authority	46.2	21.8	68.0	121.6
Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	586.3	1.7	588.0	0.0
(2) Excess/Obsolete Structures	80.0	130.0	210.0	233.5
(3) Other	0.5	0.0	0.5	(1.0)
Accounts Payable—Cancelled Appropriations	61.7	498.9	560.6	240.6
Accrued Unfunded Annual Leave	6,618.2	0.0	6,618.2	6,197.5
Capital Lease Liability	383.2	189.1	572.3	348.3
Other Liabilities	10,201.5	688.4	10,889.9	9,753.6
Total Non-Federal Other Liabilities	$ 27,059.7	$ 1,561.5	$ 28,621.2	$ 23,858.3
Total Other Liabilities:	$ 30,999.5	$ 3,714.6	$ 34,714.1	$ 29,352.1

Other Information Pertaining to Other Liabilities:

Intragovernmental, Other Liabilities:

Deferred Credits: The U.S. Army Corps of Engineers (USACE) reported $991.3 million of Deferred Credits representing future revenue from long term receivables recorded for water storage contracts and hydraulic mining.

Deposit Funds and Suspense Accounts: The decrease of $379.2 million in Deposit Funds and Suspense Account balances is largely comprised of a $369.1 million decrease for Navy General Funds (GF) from FY 2000 to FY 2001. Factors contributing to the changes were decreases in receipt account collections, recoveries of Foreign Military Sales, and a decrease in other suspense accounts. The remaining $10.1 million decrease is comprised of other DoD Components that collectively comprise less than 10% of the total.

Judgment Fund Liabilities: The Department of the Treasury must be reimbursed for payments made from the Judgement Fund on behalf of the Department. These payments are a result of claims being resolved under the Contracts Dispute Act. Judgment Fund amounts owed to the Treasury consists of $378.0 million for current liabilities and $351.9 million for noncurrent liabilities. The Department resolved and/or closed claims totaling $288 million during the past year.

Worker's Compensation Reimbursement to the Department of Labor (DoL): The DoD Components collectively have liabilities to the DoL for Worker's Compensation of $1,389.5 million.

Intragovernmental, Other Liabilities: The $925.1 million in Intragovernmental Other Liabilities is comprised of $527.7 million in Other Liabilities reported by National Defense Stockpile Transaction Fund, $226.6 million in Employer Contributions and Payroll Taxes Payable, $138.6 million in Liability for Subsidy Related Undisbursed Loans reported by Other Defense Organizations (ODO) GF, $31.3 million in Military Unemployment Compensation reported by Air Force GF, and $0.9 million for Custodial Liability. The $527.7 million in Other Liabilities reported by the National Defense Stockpile Transaction Fund is monies collected for sale of material authorized for sale by Public Laws enacted by Congress from 1996 through 2001 not yet authorized for transfer to the Treasury. The $226.6 million in Employer Contribution and Payroll Taxes Payable was reported by the following (amounts in millions):

Army GF	$ 41.4
Navy Working Capital Fund (WCF)	37.7
Air Force GF	32.2
Navy GF	31.9
ODO GF	28.9
Army WCF	23.5
DoD Components that individually comprise less than 10% of the total	31.0
Total	$ 226.6

Nonfederal, Other Liabilities:

Nonfederal, Accrued Funded Payroll and Benefits: The $8,138.4 million in Nonfederal Accrued Funded Payroll and Benefits consists of $3,006.8 million reported by MRF, $1,501.0 million reported by Army GF, $994.5 million reported by Air Force GF, $986.2 million reported by Navy GF, $712.1 million reported by

Navy WCF, $353.7 million reported by USACE, $212.1 million reported by ODO WCF, and the remaining $372.0 million is attributable to other DoD Components that collectively comprise less than 10% of this category. Accrued Funded Payroll and Benefits increased from FY 2000 to FY 2001 due to the September 2001 month end Military payroll being paid in October 2001.

Deferred Credits: The $1.9 million in Deferred Credits is reported by the Army WCF.

Nonfederal, Nonenvironmental Disposal Liabilities: Based upon the DoD interpretation of the Standard Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," a Nonenvironmental Disposal Liability is recognized for all assets when management makes a decision to dispose of the assets. The DoD has agreed to recognize the Nonenvironmental Disposal Liability for National Defense (ND) Property Plant and Equipment (PP&E) Nuclear Powered Assets when the asset is initially placed in service. The Nonevironmental Costs for ND PP&E Nuclear Powered Assets are included with the Environmental Disposal Cost and reported in Note 14.

Nonfederal, Accrued Unfunded Annual Leave: The $6,618.2 million reported consists of $2,435.6 million for Army GF, $1,768.2 million for the Navy GF, $1,745.6 million for Air Force GF, $413.0 million for the ODO GF, and the remaining $255.8 million for the DoD Components that collectively comprise less than 10% of this category.

Nonfederal, Other Liabilities: The $10,889.9 million in Nonfederal Other Liabilities consists of $4,386.0 million in Other Accrued Liabilities, $3,772.9 million in Contingent Liabilities, $1,604.2 million in Other Liabilities, $623.5 million in Contract Holdbacks, $412.6 million in Employer Contributions and Payroll Taxes Payable, and $90.7 million in Custodial Liability.

The $4,386.0 million in Other Accrued Liabilities consists of $2,144.6 million for Accrued Contractual Services reported by Navy WCF, $2,041.1 million reported by Air Force WCF, and $200.3 million reported by ODO WCF. The $1,604.1 million in Other Liabilities consists of $918.4 million reported by Air Force WCF, $644.4 million reported by ODO GF, and the remaining $41.3 million is comprised of DoD Components that collectively comprise less than 10% of the total. The $623.5 million in Contract Holdbacks is comprised of $339.6 million reported by Army GF, $149.1 million reported by ODO GF, $65.6 million reported by Navy GF, and the remaining $69.2 million is comprised of DoD Components that individually comprise less than 10% of the total.

The $3,772.9 million in Contingent Liabilities consists of $2,016 million reported by the Army GF, $1,072.4 million reported by the Navy WCF, $637.1 million reported by the Air Force GF, and the remaining 47.4 million reported by of DoD Components that individually comprise less than 10% of the total.

Note 15.B. Capital Lease Liability

As of September 30,	2001				2000
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
(Amounts in millions)					
Future Payments Due:					
Fiscal Year 2002	$ 66.4	$ 11.5	$ 0.0	$ 77.9	$ 43.2
Fiscal Year 2003	66.4	4.4	0.0	70.8	36.5
Fiscal Year 2004	66.4	1.6	0.0	68.0	37.3
Fiscal Year 2005	66.4	0.1	0.0	66.5	38.0
Fiscal Year 2006	66.1	0.1	0.0	66.2	39.5
After 5 Years	281.5	0.0	0.0	281.5	222.3
Total Future Lease Payments Due	$ 613.2	$ 17.7	$ 0.0	$ 630.9	$ 416.8
Less: Imputed Interest Executory Costs	222.5	0.1	0.0	222.6	(69.0)
Net Capital Lease Liability	$ 390.7	$ 17.6	$ 0.0	$ 408.3	$ 347.8
Capital Lease Liabilities Covered by Budgetary Resources:				$ 377.4	$ 188.9
Capital Lease Liabilities Not Covered by Budgetary Resources:				$ 191.6	$ 158.9

Other Information:

The Army and Air Force General Fund (GF) land and building capital leases entered into prior to FY 1992 and lease purchases prior to FY 1991 were funded on a fiscal year basis. Capital leases and lease purchases entered into during FY 1991 and FY 1992, respectively, and thereafter must be fully funded in the first year of the lease. Future payments due in FY 2002 for land and buildings are made up of Army GF for $20.8 million, Air Force GF for $45.4 million, and Other Defense Organizations (ODO) GF for $0.2 million.

Future payments due in FY 2002 for equipment are made up of Navy GF for $7.3 million, ODO Working Capital Funds for $2.8 million, ODO GF for $1.2 million, and Air Force GF for $0.2 million.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

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 $40 million, the DoD was party to numerous other contractor claims in amounts less than $40 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 DoD.

The Departments of the Army, Navy and Air Force reported contingencies as “reasonably possible.” “Reasonably possible,” is defined in Federal Accounting Standards as; “The chance of the future confirming event or events occurring is more than remote but less than probable.” “Reasonably possible” events require disclosure only in the footnotes. The Army reported estimated “possible” contingent liabilities of $8.7 billion for Chemical Demilitarization Stockpile Disposal and various other contingent liabilities of an estimated $78.5 million. The Department of the Navy reported an estimated $207 million resulting from contractual actions; an estimated $66 million for tax related issues; an estimated $5 million for damage to personal effects; and an estimated $5 million for employee related actions. The Department of the Air Force reported an estimated $.4 million for open contractor claims; an estimated $1.1 billion for claims and litigation handled by the Civil Law and Litigation Directorate; and an estimated $7.7 million for contract appeals before the Armed Services Board of Contract Appeals.

For FY 2001, contractual commitments for payments related to cancelled appropriations in the estimated amount of $ .9 million were reported by DoD entities that may require the use of current year funds when liquidated. This is a new reporting requirement for FY 2001 and the Department is working to improve the process for collecting this information.

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

As of September 30,	2001				2000
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
(Amounts in millions)					
Pension and Health Benefits:					
Military Retirement Pensions	$ 705,248.9	6.25	$ (161,409.6)	$ 543,839.3	$ 532,631.2
Military Retirement Health Benefits	580,881.0	6.25	0.0	580,881.0	192,391.9
Total Pension and Health Benefits	$ 1,286,129.9		$ (161,409.6)	$ 1,124,720.3	$ 725,023.1
Other:					
Federal Employees Compensation Act	$ 7,407.7	5.21	$ 0.0	$ 7,407.7	$ 6,815.8
Voluntary Separation Incentive Programs	1,607.0	6.00	(825.5)	781.5	808.4
DoD Education Benefits Fund	1,066.1	5.60	(914.0)	152.1	160.3
Total Other	$ 10,080.8		$ (1,739.5)	$ 8,341.3	$ 7,784.5
Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities	$ 1,296,210.7		$ (163,149.1)	$ 1,133,061.6	$ 732,807.6

Other Information Pertaining to Military Retirement Benefits and Other Employment Related Actuarial Liabilities:

Actuarial Cost Method Used: Aggregate entry-age normal method.

Assumptions:

The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of the Fund are not ascertainable. Projected revenues into the Fund, authorized by PL 98-94, come from three sources: interest earnings on Fund assets, monthly DoD contributions, and annual contributions from the Treasury Department. The monthly DoD contributions are determined as a percentage (approved by the DoD

Retirement Board of Actuaries) of basic pay. The contribution from Treasury is paid into the Fund at the beginning of each fiscal year, and represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. The Board determines Treasury's contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The same long-term economic assumptions were used in both the FY 2001 and FY 2000 valuations. Along with the 6.25 percent assumed annual interest rate, the long-term annual increase in the Consumer Price Index is assumed to be 3.0 percent. The long-term annual salary increase is assumed to be 3.5 percent. For FYs 2001 and 2002, the actual inflation rates of 3.5 percent and 2.6 percent, and the actual salary increases of 3.7 percent and 4.6 percent were used. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience.

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

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget (OMB) economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2001
5.21% in year 1
5.21% in year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for FWC benefits, wage inflation factors such as cost of living adjustments (COLA) and medical inflation factors such as the consumer price index medical (CPIM) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLA and CPIM used in the projections for various chargeback years (CBY) were as follows:

CBY	COLA	CPIM
2001	3.33%	4.44%
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

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

In the current year, there was a change in the accounting method concerning the calculation of the actuarial Federal Employees Compensation Act (FECA) balance. In previous years, the actuarial FECA balance was derived from the 1-year chargeback amount for the specific DoD entity in question. In the current year, a weighted average method was established to allocate the FECA liability. It must be noted that this change in policy has no material impact on the FECA liability balance, in comparison to previous years. Any fluctuation in entity balances is solely based upon a true variance in the account.

The Military Retirement Health Benefits liability is itemized below:

Change in Military Retirement Health Benefits Liability:		**(Amount in millions)**
1. Reported Military Retirement Health Benefits Actuarial Liability as of 9/30/00	$	192,391.9
2. Actuarial (Gains)/Losses Due to Changes in Population and Population Projections		(18,136.9)
3. Actuarial (Gains)/Losses Due to Changes in Claims and Expenses		12,669.0
4. Actuarial Liability as of 9/30/00 (line 1+line 2+line 3)		186,924.0
5. Normal Cost for FY01		4,732.0
6. Benefit Payments for FY01[1]		7,167.0
7. Interest Cost for FY01		11,608.0
8. Projected Actuarial Liability as of 9/30/01 (line 4+line 5-line 6+line 7)		196,097.0
9. Actuarial (Gains)/Losses Due to Change in Medical Trend Assumption		91,265.0
10. Actuarial (Gains)/Losses Due to Change in Funding Method [2]		517.0
11. Actuarial (Gains)/Losses Due to Plan Amendments.[3]		293,002.0
12. Net Change in Actuarial Liability (line 2+line 3+line 5-line 6+line 7+line 9+line 10+line 11)		388,489.1
13. Military Retirement Health Benefits Actuarial Liability as of 9/30/01 (line 1+line 12)	$	580,881.0

[1] Does not include any new benefits mandated by Public Law No. 106-398 (the FY 2001 National Defense Authorization Act).

[2] Change in funding method is to assume normal costs increase annually at the same rate as ultimate medical inflation; previously normal costs were not assumed to increase.

[3] The Military Retirement Health Benefits liability as of September 30, 2001 includes the effect of Public Law No. 106-398 (the FY 2001 National Defense Authorization Act) which was signed into law on October 30, 2000. Under this legislation, TRICARE benefits are extended to military retirees and their beneficiaries who are eligible for Medicare, and a fund is established to pay these benefits. The Act also included a number of other enhanced medical benefits in addition to the specific Medicare eligible benefits.

Actuarial Cost Method Used for Military Retirement Health Benefits Actuarial Liability: Aggregate Entry-Age Normal

Assumptions in Calculation of Military Retirement Health Benefits Actuarial Liability:

Interest Rate:	6.25%	
Medical Trend:	Medicare Inpatient:	4.8% from FY 01 to FY 02, ultimate rate of 6.25% in 2025.
	Medicare Outpatient:	9.0% from FY 01 to FY 02, ultimate rate of 6.25% in 2025.
	Medicare Prescriptions:	13.0% from FY 01 to FY 02, ultimate rate of 6.25% in 2025.
	Non-Medicare Inpatient:	2.8% from FY 01 to FY 02, ultimate rate of 6.25% in 2025.
	Non-Medicare Outpatient:	9.0% from FY 01 to FY 02, ultimate rate of 6.25% in 2025.
	Non-Medicare Prescriptions:	13.0% from FY 01 to FY 02, ultimate rate of 6.25% in 2025.

The amount of the Military Retirement Health Benefits Actuarial Liability as of September 30, 2001, shown in the table above includes the effect of Public Law No. 106-398, the National Defense Authorization Act, which was signed into law on October 30, 2000. Under this legislation, TRICARE benefits are extended to military retirees and their beneficiaries who are eligible for Medicare, and a fund is established to pay these benefits. The Act also included a number of other enhanced medical benefits in addition to the specific Medicare eligible benefits. Some of the Act's provisions include:

- On April 1, 2001, Medicare eligible military retirees and their beneficiaries become eligible for a worldwide pharmacy benefit, including MTF, National Mail order Pharmacy (NMOP), and retail pharmacy benefit.
- On October 1, 2001, TRICARE becomes the 2nd payer to Medicare for Medicare eligible military retirees and their beneficiaries.
- The catastrophic cap was reduced from $7500 to $3000 for retiree families and other active duty family benefits.

The Voluntary Separation Incentive (VSI) Program was established by Public Law 102-190 to reduce the number of active duty military personnel by offering incentive payments throughout the Department.

The Education Benefits Fund, established by Public Law 98-525, was designed to accumulate funds to attract members for the All-Volunteer Forces program and the Total Force Concept of the Armed Forces.

In the Military Retirement Fund, the Market Value of Investments in Market-based Nonmarketable Securities is $184.2 million.

Note 18 Unexpended Appropriations

As of September 30,		2001		2000
(Amounts in millions)				
Unexpended Appropriations:				
Unobligated, Available	$	32,532.5	$	30,750.4
Unobligated, Unavailable		4,793.7		11,295.5
Unexpended Obligations		125,864.4		113,712.5
Total Unexpended Appropriations	$	163,190.6	$	155,758.4

Other Information Pertaining to Unexpended Appropriations:

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

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

Disclosures Related to the Statement of Net Cost:

The amounts presented in the Statement of Net Cost are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. DoD generally records transactions on a cash basis and not an accrual basis as is required by generally accepted accounting principles. Therefore, DoD's systems do not capture all actual costs. As such, information presented in the Statement of Net Cost is based on budgetary obligations, disbursements, and collection transactions, as well as data provided by nonfinancial feeder systems; and is adjusted to known accruals for major items such as payroll expenses, accounts payable and environmental liabilities.

While DoD's Working Capital Funds generally record transactions on an accrual basis as is required by generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the Statement of Net Cost is primarily based on budgetary obligations, disbursements, or collection transactions, as well as data provided by nonfinancial feeder systems.

Earned Revenue for Program Costs for the Military Retirement Fund		
As of September 30,	**2001**	**2000**
(Amounts in millions)		
Service Contributions as a Percentage of Base Pay	$ 11,370.9	$ 11,402.4
Annual Unfunded Liability Payment	16,089.0	15,302.0
Interest on Investments	13,182.9	12,746.6
Total	$ 40,642.8	$ 39,451.0

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

As of September 30,	2001			2000
(Amounts in millions)				
Budget Functional Classification	Gross Cost	(Less: Earned Revenue)	Net Cost	Net Cost
Department of Defense Military (051)	$ 730,916.9	$ (16,276.8)	$ 714,640.1	$ 297,600.9
Water Resources by U.S. Army Corps of Engineers (301)	4,449.2	(465.7)	3,983.5	3,536.8
Pollution Control and Abatement by US. Army Corps of Engineers (304)	152.3	0.0	152.3	112.2
Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	51,872.1	(13,182.9)	38,689.2	46,013.1
Veterans Education, Training, and Rehabilitation by the Department of Defense Education Benefits Trust Fund (702)	315.0	(52.0)	263.0	210.5
Total	$ 787,705.5	$ (29,977.4)	$ 757,728.1	$ 347,473.5

The large increase in DoD's Net Cost is due to gains/losses associated with Actuarial Liabilities relating to the Military Retirement Fund. The effect of the increase resulted in $384 billion increase in Net Cost for the Other Defense Organizations General Fund and therefore for DoD.

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

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

Note 19.D. Imputed Expenses

As of September 30,	2001	2000
(Amounts in millions)		
Civilian (e.g., CSRS/FERS) Retirement	$ 1,312.5	$ 1,339.9
Civilian Health	1,928.6	1,795.4
Civilian Life Insurance	6.4	6.8
Judgment Fund	174.0	172.9
Military Retirement Pension	0.0	0.0
Military Retirement Health	0.0	0.0
Total Imputed Expenses	$ 3,421.5	$ 3,315.0

Note 19.E. Benefit Program Expenses

As of September 30,	2001	2000
(Amounts in millions)		
Service Cost	$ 16,102.9	$ 11,407.1
Period Interest on the Benefit Liability	53,879.2	40,709.4
Prior (or past) Service Cost	296,060.2	0.0
Period Actuarial Gains or (Losses)	(9,780.0)	(2,207.8)
Gains/Losses Due to Changes in Medical Inflation Rate Assumption	91,265.0	(15.7)
Total Benefit Program Expense	$ 447,527.3	$ 49,893.0

The Department of Defense is the administrating entity for the Military Retirement Fund and the Military Post Retirement Health Benefits Program. Employee benefits of military personnel include pensions and other post-employment and retirement benefits. The administrating entity is responsible for recognizing the benefit program expense. This expense is comprised of five elements identified above.

The Office of Personnel Management is the administrating entity for programs related to civilian personnel and is responsible for reporting the associated benefit expense.

Note 19. F. Exchange Revenue

Disclosures Related to Exchange Revenue:

Goods and services provided through reimbursable programs to the public or another U.S. Government entity (intra-Air Force, intra-DoD or other federal government entity) is provided at cost. Such reimbursable sales are reported as earned revenues. Costs are equal to the amount reported as earned. In FY 2001 sales to the Foreign Military Trust Fund and related cost of sales have been classified as non-federal, transactions with the public, rather than intragovernmental transactions.

Note 19.G. Amounts for FMS Program Procurements from Contractors

Disclosures Related to Amounts for FMS Program Procurements from Contractors:

The cost of items purchased by foreign governments under the Foreign Military Sales Program and provided directly to the foreign governments by contractors are not reported in the Statement of Net Cost.

Note 19.H. Stewardship Assets

Disclosures Related to Stewardship Assets:

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

Note 19.I. Reconciliation of Intragovernmental Revenue

Disclosures Related to Intragovernmental Revenue and Expense:

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

Note 19.J. Suborganization Program Costs

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

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

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

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

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

As of September 30,		2001		2000
(Amounts in millions)				
Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:				
Changes in Accounting Standards	$	55,632.1	$	2,059.2
Errors and Omissions in Prior Year Accounting Reports		10,106.6		40,182.4
Other Prior Period Adjustments		(4,804.3)		(959.6)
Total Prior Period Adjustments	$	60,934.4	$	41,282.0
Imputed Financing:				
Civilian CSRS/FERS Retirement	$	1,312.5	$	1,339.9
Civilian Health		1,928.6		1,795.4
Civilian Life Insurance		6.4		6.8
Judgment Fund		174.0		172.9
Military Retirement Pension		0.0		0.0
Military Retirement Health		0.0		0.0
Total Imputed Financing	$	3,421.5	$	3,315.0

Other Information:

The Changes in Accounting Standards of $55,632.1 million is primarily due to the implementation of the DoD policy regarding National Defense Property, Plant, and Equipment. This entails reclassification of National Defense Property, Plant and Equipment, tactical missiles, (which was not included on the Balance Sheet) to Operating Materials and Supplies (OM&S) (which is included on the Balance Sheet). The amount reported by activity is depicted in the following chart:

Changes in Accounting Standards		**(Amount in millions)**
Air Force General Fund (GF)	$	37,561.5
Navy GF		24,765.8
Army GF		(6,740.2)
Other		45.0
Total	$	55,632.1

The majority of Errors and Omissions in Prior Year Accounting Reports for Navy GF is due to correction of progress payments, travel advances, and Accounts Receivable. For the remaining entities, the types of adjustments include prior year reestablishment and correction of FECA balances.

Errors and Omissions in Prior Year Accounting Reports		**(Amount in millions)**
Navy GF	$	8,693.9
Army Working Capital Fund (WCF)		1,463.9
Air Force General Fund (GF)		1,443.8
Other Defense Organizations GF		513.2
Army GF		180.4
Other Defense Organizations WCF		(173.4)
USACE		(846.2)
Navy WCF		(1,169.0)
Total	$	10,106.6

Air Force WCF Other Prior Period Adjustments includes adjustments for the Accounting Report 1307 presentation, Foreign Military Sales Receivables, and purchases made at cost. Navy GF Other Prior Period Adjustments contains adjustments to Environmental Cleanup, Property, Plant and Equipment, and Operating Materials and Supplies.

Other Prior Period Adjustments		**(Amount in millions)**
Air Force Working Capital Fund (WCF)	$	(3,462.5)
Navy GF	$	(1,618.0)
Other Defense Organizations	$	276.2
Total	$	(4,804.3)

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

As of September 30,	2001	2000
(Amount in millions)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 155,604.5	$ 147,709.2
Available Borrowing and Contract Authority at the End of the Period	$ 18,288.5	$ 13,728.2

Other Information:

Undelivered Orders Presented in Statement of Budgetary Resources:

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both Direct and Reimbursable funds. The Department has not fully implemented the U.S. Standard General Ledger (USSGL) in all operational accounting systems.

Spending Authority from Offsetting Collections:

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

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

As of September 30,	1998	1999	2000	2001	(Decrease)/ Increase from FY 2000 to FY 2001
(Amounts in millions)					
Problem Disbursements, Absolute					
Unmatched Disbursements, Absolute	$ 7,718	$ 4,674	$ 1,593	$ 1,041	$ (552)
Negative Unliquidated Obligations, Absolute	$ 3,007	$ 2,597	$ 1,179	$ 205	$ (974)
In-transit Disbursements, Absolute	$ 11,832	$ 7,336	$ 6,171	$ 6,240	$ 69

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

For financial statements purposes the reporting method has been changed in the Department's FY 2001 financial statements. The Department reported, in its FY 2000 financial statements, the net total of problem disbursements. For FY 2001 the Department is reporting the absolute value of Unmatched Disbursements (UMD) and Negative Unliquidated Obligations (NULO).

For FY 2001 the DoD reports $1,041 million in UMD and $205 million in NULO. An UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. A NULO occurs when a payment is made against a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These Problem Disbursements represent the absolute value of disbursements of DoD funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. These payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts.

The In-Transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity that has not been posted to the accounting system.

As of September 30,		1999		2000		2001		Cumulative (Decrease)/ Increase
Suspense/Budget Clearing Accounts								
Account								
F3875	$	136.8	$	338.0	$	247.7	$	110.9
F3880		(4.7)		1.6		2.2		6.9
F3885		60.9		1,072.5		1,332.9		1,272.0
F3886		(1.4)		(10.5)		5.2		6.6
Total	$	191.6	$	1,401.6	$	1,588.0	$	1,396.4

Other Information Related to Suspense/Budget Clearing Accounts:

The Department has made a concerted effort to reduce balances in the suspense and budget clearing accounts. The information presented above indicates the significant reductions that the Department has achieved in the various accounts. Additionally, the Department is establishing policies and procedures to ensure accurate and consistent use of these accounts.

On September 30 of each FY, all of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to proper appropriation accounts. On October 1, the uncleared suspense/clearing account balances are reestablished. A further breakout of the FY 2001 amounts is depicted in the following chart:

(Amounts in millions)		F3875		F3880		F3885		F3886
Army Corps of Engineers	$	17.4	$		$		$	
Army General Funds (GF)				2.0				
Air Force GF		9.6		(1.5)		494.2		5.2
Navy GF		219.8		1.7		812.2		
Other Defense Organizations GF		0.9				26.5		
Army Working Capital Funds (WCF)								
Air Force WCF								
Navy WCF								
Other Defense Organizations WCF								
Total	$	247.7	$	2.2	$	1,332.9	$	5.2

The $17.4 million reported by the U.S. Army Corps of Engineers in suspense account F3875 includes a portion of receipts from leases of land to the public for flood control, navigation and allied purposes. The portion of lease receipts when the term of the lease extends into fiscal year 2002 is collected into F3875. The collections are transferred out in the year following collection. The $9.6 million reported by Air Force GF in suspense account F3875 reflects a decrease of $51.1 million from their September 30, 2000 balance. The $219.8 million reported by Navy GF in suspense account F3875 represent collections or disbursements from Disbursing Officers' transactions being temporarily held in this suspense account until they can be assigned or identified to a valid appropriation. DFAS-Cleveland has implemented several initiatives to improve the suspense clearing process and works with Disbursing Officers to reduce suspense.

The $1.7 million reported in F3880 by Navy GF is caused by Treasury checks that were either (1) lost by the payee and need to be reissued (recertification) or (2) were never cashed by the payee and need to be cancelled by Treasury and transferred to the original appropriation (limited payability) in accordance with the DoD FMR, Volume 5, Chapter 8. The Air Force balance of ($1.5) million represents collections.

The $494.2 million reported by Air Force GF in suspense account F3885 is a $25.5 million increase from the September 30, 2000 balance. The large increase is due to numerous On Line Payment and Collection (OPAC) transactions received during the last business day of September 2001. By established procedure, these are placed in this suspense account until they can be assigned to a valid appropriation. The $812.2 million reported by Navy GF in suspense account F3885 represents collections or disbursements from Interfund/OPAC transactions being temporarily held in this suspense account until they can be assigned or identified to a valid appropriation. DFAS-Cleveland is currently developing matching criteria that will automate the manual process now used to clear Interfund transactions from suspense, which will result in reduced suspense balances at year-end.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

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. The Statement of Financing's "Costs Capitalized on the Balance Sheet" has been adjusted by a net increase of $6,189.0 million, and "Other" has been adjusted by a net increase of $917.8 million. Differences between budgetary and proprietary data for the DoD is a previously identified deficiency.

Note 23. Disclosures Related to the Statement of Custodial Activity

Disclosures Related to the Statement of Custodial Activity:

The Statement of Custodial Activity discloses the sources and disposition of the Disbursements ($9.7 billion) and Collections ($9.7 billion) of the Foreign Customers as recorded in the Trial Balance of the FMS Trust Fund for FY 2001. Advances not collected by the Foreign Military Sales program billing date are $526 million.

Depending on the volume of contracts completed, new FMS cases implemented, and various cyclical changes, the amount of disbursements and collections from year to year can fluctuate greatly. Therefore, the variances of over 10% represent normal fluctuations from one year to the next, based upon performance. The amounts simply reflect the total disbursements and collections during the current fiscal year.

Note 24. Other Disclosures

ENTITY AS LESSEE-Operating Leases

Description of lease arrangements:

Category 1: Equipment and facilities - The FY 2001 $49.6 million of operating lease assets represents $34.3 million in the Defense Finance and Accounting Services (DFAS) Working Capital Fund (WCF), $11.1 million in the Navy General Fund (GF), $2.4 million in the Defense Advanced Research Project Agency, and $1.8 million in the Air Force GF. The DFAS WCF operating leases represent General Services Administration bills and Interservice Support Agreements; the FY 2002 rent projection includes a reduction of space requirements at various operating locations and the addition of a child care center at DFAS Indianapolis. The Air Force Medical Equipment-Operating leases are one-year leases with four option years. Each year, facility leases must be specifically exercised to continue the lease option. The operating leases that contain an option to purchase allow the government to purchase the equipment at fair market value at the end of the lease period.

Category 2: Military Family Housing – The FY 2002 $13.7 million of Category 2 operating lease assets is attributable to Army.

Category 3: Motor Vehicles- Not Applicable.

As of September 30,	2001				2000
(Amounts in millions)					
Future Payments Due:	Equipment and Facilities	Military Family Housing	Motor Vehicles	Total	Total
Fiscal Year 2002	$ 49.6	$ 13.7	$ 0.0	$ 63.3	$ 55.4
Fiscal Year 2003	51.3	11.3	0.0	62.6	49.3
Fiscal Year 2004	54.8	9.0	0.0	63.8	47.8
Fiscal Year 2005	52.4	7.6	0.0	60.0	47.2
Fiscal Year 2006	48.3	6.7	0.0	55.0	53.0
After 5 Years	37.3	37.5	0.0	74.8	82.7
Total Future Lease Payments Due	$ 293.7	$ 85.8	$ 0.0	$ 379.5	$ 335.4