Department of Defense

Agency Financial Report for Fiscal Year 2009

Addendum A

Financial Information

November 16, 2009

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202–4704

November 12, 2009

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

SUBJECT: Independent Auditor's Report on the DOD Agency-Wide FY 2009 and FY 2008 Basic Financial Statements (Report No. D-2010-016)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying DOD Agency-Wide Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of DOD management. DOD is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the DOD Agency-Wide FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations (Report). The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer acknowledged to us that the DOD Agency-Wide FY 2009 and FY 2008 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that DOD financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended[1] to determine whether material amounts on the financial statements were presented fairly.

[1] OMB Memorandum M-09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Prior audits have identified, and DOD has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

As discussed in Note 26, DOD restated its financial statements as of September 30, 2008 to correct errors in assets, liabilities, gross costs, and net position. We did not withdraw our auditor's report on the FY 2008 financial statements because we issued a disclaimer of opinion on those statements.

Also discussed in Note 26, DOD made a $1.7 billion adjustment that did not result in restatement for a change in accounting principle to revalue a portion of its inventory to moving average cost.

Summary of Internal Control

In planning our work, we considered DOD internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas:

- Financial Management Systems
- Fund Balance With Treasury
- Accounts Receivable
- Inventory
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Government-Furnished Material and Contractor-Acquired Material

[2] The annual financial statements include the Basic Financial Statements, Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.

- Accounts Payable
- Environmental Liabilities
- Statement of Net Cost
- Intragovernmental Eliminations
- Other Accounting Entries
- Reconciliation of Net Cost of Operations to Budget

A material weakness is a significant deficiency or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[3]

A significant deficiency is a control deficiency,[4] or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected. We determined that Contingent Legal Liabilities continues to be a significant deficiency.

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, most of which we consider to be material internal control weaknesses.

The DOD reported the above material weaknesses in its FY 2009 Statement of Assurance.

Summary of Compliance With Laws and Regulations

We limited our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer acknowledged to us that DOD financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether DOD complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

[3] The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

[4] A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer who provided technical comments that we have incorporated as appropriate. DOD officials expressed their continuing commitment to address the problems this report outlines.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated

Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses and significant deficiency that could adversely affect the DOD financial management operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

Financial Management Systems

Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires financial management system controls that are adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and recorded in accordance with Federal accounting standards. Statement of Federal Financial Accounting Concepts No. 1 also requires that financial management system controls ensure assets are properly safeguarded to deter fraud, waste, and abuse and that performance measurement information is adequately supported. The Under Secretary of Defense (Comptroller)/Chief Financial Officer acknowledged that DOD financial management and feeder systems do not substantially comply with Federal financial management system requirements. DOD financial management and feeder systems were not designed to adequately support various material amounts on the financial statements. These systemic deficiencies in financial management and feeder systems, and inadequate DOD business processes prevent DOD from collecting and reporting financial and performance information that is accurate, reliable, and timely.

Fund Balance With Treasury

Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," the U.S. Treasury Manual, and DOD Financial Management Regulation 7000.14-R require DOD to resolve financial and accounting inconsistencies to accurately report Fund Balance with Treasury. However, inconsistencies continue to exist related to in-transit disbursements, unmatched disbursements, negative unliquidated obligations, and unreconciled differences between U.S. Treasury records and DOD accounting records. For example, the Air Force General Fund does not receive transaction level data from other Components processing collection and disbursement data on its behalf. Therefore, there is no assurance that the Air

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Force can reconcile its reported balance of Fund Balance with Treasury to the balance the Treasury maintains.

Accounts Receivable

According to Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," a receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities, based on either legal provisions or goods and services provided. DOD acknowledged that it is unable to accurately record, report, collect, and reconcile intragovernmental accounts receivable as well as accounts receivable due from the public.

Inventory

Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," requires DOD to use historical cost, the latest acquisition cost (adjusted for holding gains and losses), or moving average cost for valuing inventory. However, DOD acknowledged that the existing inventory value for most activities is not reported in accordance with U.S. GAAP, and the Department's legacy systems do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3. Additionally, DOD does not distinguish between Inventory Held for Sale and Inventory Held in Reserve for Future Sale, as required by Statement of Federal Financial Accounting Standards No. 3.

Operating Materials and Supplies

Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," states that Operating Materials and Supplies must be expensed when the items are consumed. DOD has acknowledged that significant amounts of Operating Materials and Supplies were expensed when purchased instead of when consumed. In addition, DOD cannot accurately report the value of operating materials and supplies, which causes the potential for a misstatement in financial reporting.

General Property, Plant, and Equipment

Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires DOD to record General Property, Plant, and Equipment at acquisition cost; capitalize improvement costs; and recognize depreciation expense. However, the cost and depreciation of the DOD General Property, Plant, and Equipment is not reliably reported because of: (1) an accounting requirement that classified military equipment as General Property, Plant, and Equipment (such costs were previously expensed); (2) a lack of supporting documentation for aged General Property, Plant, and Equipment items; and (3) a failure to integrate most legacy property and logistics systems with acquisition and financial systems. Also, DOD property and logistics systems were not designed to capture acquisition cost and the cost of modifications and upgrades, or to calculate depreciation. DOD has acknowledged that it does not currently meet U.S. GAAP for the financial reporting of personal property, and documentation for personal property is neither accurate nor reliable. In addition, DOD does not have adequate internal controls in place to provide reasonable assurance that real property assets are identified and properly reported in its financial reports. DOD has also acknowledged its inability to accurately report the value of military equipment increases the risk that the financial statements are materially misstated.

Government-Furnished Material and Contractor-Acquired Material

Statement of Federal Financial Accounting Standards No. 11, "Amendments to Accounting for Property, Plant, and Equipment," requires that property and equipment in the possession of a contractor for use in accomplishing a contract be considered Government property. Such property should be accounted for based on the nature of the item, regardless of who has possession. DOD has acknowledged that it is unable to comply with these requirements for Government-Furnished Material and Contractor-Acquired Material. As a result, the value of DOD property and material in the possession of contractors is not reliably reported.

Accounts Payable

According to Statement of Federal Financial Accounting Standards No. 5, "Accounting for Liabilities of the Federal Government," a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future. DOD acknowledged that it does not meet accounting standards for the financial reporting of public accounts payable. DOD cannot support its accounts payable balances because it lacks standard procedures for recording, reporting, and reconciling the amounts between the financial, accounting, and reporting systems.

Environmental Liabilities

DOD acknowledged that its internal controls for reporting environmental liabilities do not provide reasonable assurance that clean-up costs for all of its ongoing, inactive, closed, and disposal operations are identified, consistently estimated, and appropriately reported. In addition, guidance and audit trails for estimating environmental liabilities are insufficient, and the inventory of ranges and operational activities is incomplete. DOD has also acknowledged uncertainty regarding the accounting estimates used to calculate the reported Environmental Liabilities.

Statement of Net Cost

Statement of Federal Financial Accounting Standards Concepts No. 2, "Entity and Display," requires the Statement of Net Cost to provide an understanding of the net costs of each organization and each program. In addition, the Statement of Net Cost should provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and organization. DOD acknowledged the following deficiencies related to the Statement of Net Cost:

- The amounts presented for General Funds may not report actual accrued costs.

- Although the funds are generally recorded on an accrual basis for Working Capital Funds, as required by U.S. GAAP, the systems do not always capture actual costs in a timely manner.
- The Statement of Net Cost is not presented by programs that align with major goals and outputs described in DOD's strategic and performance plans required by the Government Performance and Results Act.
- Revenues and expenses are reported by appropriation categories because financial processes and systems do not collect costs in line with performance measures.

Intragovernmental Eliminations

DOD disclosed that it cannot accurately identify most of its intragovernmental transactions by customer because the Department's systems do not track buyer and seller data needed to match related transactions. In addition, the Department is unable to fully reconcile intragovernmental transactions with all Federal partners. DOD acknowledged that its inability to reconcile most intragovernmental transactions results in adjustments that cannot be fully supported.

Other Accounting Entries

DOD acknowledged that it continues to enter material amounts of unsupported accounting entries. For example, Defense Finance and Accounting Service (DFAS) Indianapolis did not adequately support over $311 billion in journal voucher adjustments used to prepare the Army General Fund financial statements.

Reconciliation of Net Cost of Operations to Budget

Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship between the net cost of operations and the budgetary resources obligated by the entity during the period. DOD acknowledged that it is unable to reconcile budgetary obligations to net costs without making unsupported adjustments. Specifically, budgetary data do not agree with proprietary expenses and capitalized assets. DOD made unsupported adjustments of about $4.4 billion (absolute value) to reconcile obligations to the Statement of Net Cost.

Previously Identified Significant Deficiencies

As part of our financial-related audits, we noted the following significant deficiency that continued to exist.

Contingent Legal Liabilities

Statement of Federal Financial Accounting Standards No. 5, "Accounting for Liabilities of the Federal Government," as amended by Statement of Federal Financial Accounting Standards No. 12, "Recognition of Contingent Liabilities Arising from Litigation," requires contingent legal liabilities to be disclosed if there is at least a reasonable possibility that a loss may be incurred. We noted that significant deficiencies continued to exist relating to the DOD process for reporting contingent legal liabilities. For example:

- DOD excluded from its legal representation letters at least 77 pending cases, with a total claim amount of $3.1 billion, that individually did not exceed the DOD Agency-Wide individual reporting threshold, but in aggregate exceeded this threshold.

- The legal representation letters from the DOD Office of General Counsel showed that DOD General Counsel was unable to express an opinion on the likely outcome of 39 of the 49 pending legal actions, totaling $2.3 trillion.

These financial management deficiencies may cause inaccurate management information. As a result, DOD management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether DOD was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, DOD did not fully comply with FFMIA. DOD acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009.

Government Performance and Results Act

Congress enacted the Government Performance and Results Act of 1993 (GPRA) to establish strategic planning and performance measurement in the Federal Government. Strategic plans, annual performance plans, and annual program performance reports comprise the main elements of GPRA. DOD did not fully comply with the requirements of GPRA and subsequent implementation guidance in OMB Circular A-11, "Preparation, Submission, and Execution of the Budget." Specifically, DOD did not have a compliant strategic plan for FY 2009 because DOD designated the Quadrennial Defense Review report, (which was prepared to fulfill the specific legislative requirements for a Quadrennial Defense Review) as its strategic plan without

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consideration of other requirements specified in GPRA. As a result, the DOD performance budget and performance report for FY 2009 did not comply with the requirements of GPRA and OMB Circular A-11.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341) limits the DOD and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the DOD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. § 1517, the DOD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351, if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2009, DOD reported 5 violations of the ADA. Therefore, DOD did not comply with 31 U.S.C. § 1341, 31 U.S.C. § 1517, and 31 U.S.C. § 1351.

DOD internal guidance limits the time from identification to reporting of ADA violations to 12 months. Our review of DOD ADA violations reported in FY 2009, showed that DOD did not process 4 of the 5 within 12 months. Additionally, 25 investigations of potential ADA violations have been open for more than 12 months.

Prompt Payment Act

According to the Prompt Payment Act (PPA), the payment date for an invoice is the date payment is due under the contract or 30 days after receiving a proper invoice if a specific payment date is not established by the contract. PPA also states that an agency must make payments no earlier than 7 days before the payment due date unless the agency head or designee has determined, on a case-by-case basis, that earlier payment is necessary. The PPA also requires DOD to maintain an internal control environment in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004. In prior audit reports, we identified internal control weaknesses within the Army and DFAS. These internal control weaknesses resulted in incorrect payments of interest and potentially premature payments to contractors. If controls governing compliance with the Prompt Payment Act are not corrected, the Army and DFAS could continue to pay a significant number of interest payments incorrectly and violate the provisions of the Prompt Payment Act.

Improper Payments Information Act

DOD does not fully comply with the requirements of Public Law 107-300, "Improper Payments Information Act of 2002," and subsequent OMB guidance. Specifically, DOD was still in the process of developing procedures to implement OMB's August 2006 guidance that requires additional documentation related to the identification of improper payments. The OMB guidance requires that when an agency is unable to discern whether a payment was proper because of insufficient documentation, the payment must be considered an error. DOD does not comply with the requirements of the National Defense Authorization Act for Fiscal Year 2002, Section 831, "Recovery Auditing." DOD continues to experience difficulties in identifying and recovering overpayments due to its reliance on processes that are ineffective. DOD has been unable to ensure the accuracy and completeness of the recovery audit information it reports. DOD currently has inadequate controls for the identification of overpayments, which prevents achieving compliance with the Recovery Auditing Act.

Audit Disclosures

The Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer acknowledged to us on April 14, 2009, that the DOD financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, and the Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act of 1996).

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because audit projects currently in progress will include appropriate recommendations.

PRINCIPAL FINANCIAL STATEMENTS AND NOTES

The financial statements of the Department include four principal statements listed in Figure 2-1.

The financial statements reflect the aggregate financial posture of the Department and include both the proprietary (federal accounting standards) and budgetary resources of the Department. The Department is large and complex with an asset base of $1.8 trillion, and more than 3 million military and civilian employees on installations in every state and around the world.

Figure 2-1. Four Principal Financial Statements

Statement	What Information It Provides
Balance Sheet	Reflects the Department's financial position as of the statement date (September 30, 2009). The assets are the amount of future economic benefits owned or managed by the Department. The liabilities are amounts owed by the Department. The net position is the difference between the assets and liabilities.
Statement of Net Cost	Shows separately the components of the net cost of the Department's operations for the period. Net cost is equal to the gross cost incurred by the Department less any exchange revenue earned from its activities.
Statement of Changes in Net Position	Presents the sum of the cumulative results of operations since inception and unexpended appropriations provided to the Department that remain unused at the end of the fiscal year. The statement focuses on how the net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.
Statement of Budgetary Resources	Provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the Department's budgetary general ledger in accordance with budgetary accounting rules.

Department of Defense Consolidated Balance Sheet
Agency Wide

Dollars in Millions

	2009 Consolidated	Restated 2008 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 502,754.3	$ 468,396.9
Investments (Note 4)	434,884.0	394,508.5
Accounts Receivable (Note 5)	1,219.6	1,326.2
Other Assets (Note 6)	2,594.7	1,282.9
Total Intragovernmental Assets	**$ 941,452.6**	**$ 865,514.5**
Cash and Other Monetary Assets (Note 7)	2,316.8	2,804.8
Accounts Receivable, Net (Note 5)	8,234.1	7,825.3
Loans Receivable (Note 8)	398.5	236.0
Inventory and Related Property, Net (Note 9)	228,796.6	233,586.6
General Property, Plant and Equipment, Net (Note 10)	559,614.3	506,953.6
Investments (Note 4)	2,017.1	1,861.5
Other Assets (Note 6)	56,637.5	55,829.4
Stewardship Property, Plant & Equipment (Note 10)		
TOTAL ASSETS	**$ 1,799,467.5**	**$ 1,674,611.7**
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 2,207.8	$ 1,687.4
Debt (Note 13)	391.7	262.6
Other Liabilities (Note 15)	11,485.7	12,047.0
Total Intragovernmental Liabilities	**$ 14,085.2**	**$ 13,997.0**
Accounts Payable (Note 12)	35,519.8	32,622.8
Military Retirement and Other Federal Employment Benefits (Note 17)	2,012,166.1	1,984,605.4
Environmental and Disposal Liabilities (Note 14)	66,230.0	70,505.9
Loan Guarantee Liability (Note 8)	21.1	24.5
Other Liabilities (Note 15)	33,839.9	34,107.6
Commitments & Contingencies (Note 16)		
TOTAL LIABILITIES	**$ 2,161,862.1**	**$ 2,135,863.2**
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 23)	$ 5.6	$ 4.9
Unexpended Appropriations - Other Funds	504,339.3	472,983.4
Cumulative Results of Operations - Earmarked Funds	(1,342,858.4)	(1,345,925.0)
Cumulative Results of Operations - Other Funds	476,118.9	411,685.2
TOTAL NET POSITION	**$ (362,394.6)**	**$ (461,251.5)**
TOTAL LIABILITIES AND NET POSITION	**$ 1,799,467.5**	**$ 1,674,611.7**

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

Department of Defense Consolidated Statement of Net Cost Agency Wide		Dollars in Millions
	2009 Consolidated	Restated 2008 Consolidated
Program Costs		
Gross Costs	**$ 697,813.3**	**$ 726,427.3**
Military Retirement Benefits	87,880.4	160,282.8
Civil Works	11,712.0	8,849.4
Military Pay & Benefits	144,750.6	137,701.7
Family Housing & Facilities	11,639.6	9,326.0
Operations, Readiness & Support	268,007.0	251,313.0
Strategic Modernization	173,823.7	158,954.4
(Less: Earned Revenue)	**(46,167.9)**	**(56,272.5)**
Military Retirement Benefits	(4,313.9)	(24,099.5)
Civil Works	(1,657.1)	(1,339.0)
Military Pay & Benefits	(1,019.4)	(976.3)
Family Housing & Facilities	(7,465.5)	(5,919.4)
Operations, Readiness & Support	(18,349.5)	(11,503.1)
Strategic Modernization	(13,362.5)	(12,435.2)
Net Cost of Operations	**$ 651,645.4**	**$ 670,154.8**

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

Department of Defense Consolidated Statement of Changes in Net Position
Agency Wide

Dollars in Millions

	2009 Earmarked Funds	2009 All Other Funds	2009 Eliminations	2009 Consolidated	2008 Earmarked Funds	Restated 2008 All Other Funds	2008 Eliminations	Restated 2008 Consolidated
Cumulative Results Of Operations								
Beginning Balances	$ (1,259,693.0)	$ 335,935.7	$ 0.0	$ (923,757.3)	$ (1,211,821.2)	$ 285,681.6	$ 0.0	$ (926,139.6)
Prior Period Adjustments:								
Changes in accounting principles	0.0	1,689.6	0.0	1,689.6	0.0	0.0	0.0	0
Corrections of errors	0.0	(10,482.5)	0.0	(10,482.5)	0.0	(9,284.3)	0.0	(9,284.3)
Beginning balances, as adjusted	**$ (1,259,693.0)**	**$ 327,142.8**	**$ 0.0**	**$ (932,550.2)**	**$ (1,211,821.2)**	**$ 276,397.3**	**$ 0.0**	**$ (935,423.9)**
Budgetary Financing Sources:								
Appropriations used	3.8	708,653.2	0.0	708,657.0	3.2	656,324.9	0.0	656,328.1
Nonexchange revenue	2,767.7	(13.7)	0.0	2,754.0	3,634.8	84.6	0.0	3,719.4
Donations and forfeitures of cash and cash equivalents	38.0	0.2	0.0	38.2	34.1	0.0	0.0	34.1
Transfers(in/out without reimbursement)	(836.7)	930.9	0.0	94.2	(718.6)	877.6	0.0	159.0
Other	0.0	(4.2)	0.0	(4.2)	0.0	(1.0)	0.0	(1.0)
Other Financing Sources (Non-Exchange)								
Donations and forfeitures of property	0.7	1.5	0.0	2.2	0.0	1.5	0.0	1.5
Transfers(in/out without reimbursement)	(88.2)	45.4	0.0	(42.8)	(436.1)	384.9	0.0	(51.2)
Imputed financing	0.0	17,017.3	12,313.5	4,703.8	0.0	16,098.1	11,923.2	4,174.9
Other	(19.4)	1,273.1	0.0	1,253.7	(12.1)	6,986.2	0.0	6,974.1
Total Financing Sources	**$ 1,865.9**	**$ 727,903.7**	**$ 12,313.5**	**$ 717,456.1**	**$ 2,505.3**	**$ 680,756.8**	**$ 11,923.2**	**$ 671,338.9**
Net Cost of Operations	(5,561.6)	669,520.5	12,313.5	651,645.4	50,377.1	631,700.9	11,923.2	670,154.8
Net Change	**$ 7,427.5**	**$ 58,383.2**	**$ 0.0**	**$ 65,810.7**	**$ (47,871.8)**	**$ 49,055.9**	**$ 0.0**	**$ 1,184.1**
Cumulative Results of Operations	**$ (1,252,265.5)**	**$ 385,526.0**	**$ 0.0**	**$ (866,739.5)**	**$ (1,259,693.0)**	**$ 325,453.2**	**$ 0.0**	**$ (934,239.8)**
Unexpended Appropriations								
Beginning Balances	4.9	446,864.3	0.0	446,869.2	8.1	378,190.7	0.0	378,198.8
Prior Period Adjustments:								
Correction of Error	0.0	26,119.1	0.0	26,119.1	0.0	20,021.9	0.0	20,021.9
Beginning balances, as adjusted	**$ 4.9**	**$ 472,983.4**	**$ 0.0**	**$ 472,988.3**	**$ 8.1**	**$ 398,212.6**	**$ 0.0**	**$ 398,220.7**
Budgetary Financing Sources:								
Appropriations received	4.5	754,440.5	0.0	754,445.0	0.0	742,587.3	0.0	742,587.3
Appropriations transferred (in/out)	0.0	(188.4)	0.0	(188.4)	0.0	(434.4)	0.0	(434.4)
Other adjustments	0.0	(14,243.0)	0.0	(14,243.0)	0.0	(11,057.2)	0.0	(11,057.3)
Appropriations used	(3.8)	(708,653.2)	0.0	(708,657.0)	(3.2)	(656,324.9)	0.0	(656,328.1)
Total Budgetary Financing Sources	**$ 0.7**	**$ 31,355.9**	**$ 0.0**	**$ 31,356.6**	**$ (3.2)**	**$ 74,770.8**	**$ 0.0**	**$ 74,767.6**
Unexpended Appropriations	**$ 5.6**	**$ 504,339.3**	**$ 0.0**	**$ 504,344.9**	**$ 4.9**	**$ 472,983.4**	**$ 0.0**	**$ 472,988.3**
Net Position	**$ (1,252,259.9)**	**$ 889,865.3**	**$ 0.0**	**$ (362,394.6)**	**$ (1,259,688.1)**	**$ 798,436.6**	**$ 0.0**	**$ (461,251.5)**

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

Department of Defense Combined Statement Of Budgetary Resources Agency Wide *Dollars in Millions*	Budgetary Financing Accounts		Nonbudgetary Financing Accounts	
	2009 Combined	Restated 2008 Combined	2009 Combined	Restated 2008 Combined
Budgetary Resources				
Unobligated balance, brought forward, October 1	$ 135,669.8	$ 111,980.6	$ 26.3	$ 25.5
Recoveries of prior year unpaid obligations	63,272.9	49,744.1	47.5	0.0
Budget authority				
Appropriation	855,564.3	859,403.8	0.0	0.0
Borrowing authority	0.0	0.0	58.4	130.0
Contract authority	67,626.3	78,927.8	0.0	0.0
Spending authority from offsetting collections				
Earned:				
Collected	178,143.5	174,493.0	45.1	53.9
Change in receivables from federal sources	1,188.4	791.8	0.0	0.0
Change in unfilled customer orders:				
Advance received	1,031.0	753.2	0.0	0.0
Without advance from federal sources	(88.3)	5,679.1	(10.8)	12.6
Expenditure transfers from trust funds	862.5	766.0	0.0	0.0
Subtotal	**$ 1,104,327.7**	**$ 1,120,814.7**	**$ 92.7**	**$ 196.5**
Nonexpenditure transfers, net, anticipated and actual	(15.7)	(264.1)	0.0	0.0
Temporarily not available pursuant to Public Law	(39,190.4)	(59,949.4)	0.0	0.0
Permanently not available	(85,969.3)	(85,156.8)	(0.1)	(27.6)
Total Budgetary Resources	**$ 1,178,095.0**	**$ 1,137,169.1**	**$ 166.4**	**$ 194.4**
Status of Budgetary Resources				
Obligations incurred:				
Direct	848,896.2	811,662.0	142.7	168.1
Reimbursable	183,271.6	189,837.4	0.0	0.0
Subtotal	**$ 1,032,167.8**	**$ 1,001,499.4**	**$ 142.7**	**$ 168.1**
Unobligated balance:				
Apportioned	128,048.6	120,047.8	0.3	0.3
Exempt from apportionment	3,373.5	1,060.7	0.0	0.0
Subtotal	**$ 131,422.1**	**$ 121,108.5**	**$ 0.3**	**$ 0.3**
Unobligated balance not available	14,505.1	14,561.2	23.4	26.0
Total status of budgetary resources	**$ 1,178,095.0**	**$ 1,137,169.1**	**$ 166.4**	**$ 194.4**

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

Department of Defense Combined Statement of Budgetary Resources Agency Wide *Dollars in Millions*	Budgetary Financing Accounts		Nonbudgetary Financing Accounts	
	2009 Combined	Restated 2008 Combined	2009 Combined	Restated 2008 Combined
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	432,118.5	372,558.6	872.9	768.0
Less: Uncollected customer payments from federal sources, brought forward, October 1	(66,602.2)	(60,131.3)	(143.0)	(130.4)
Total unpaid obligated balance	**$ 365,516.3**	**$ 312,427.3**	**$ 729.9**	**$ 637.6**
Obligations incurred net	1,032,167.8	1,001,499.4	142.7	168.1
Less: Gross outlays	(946,940.6)	(892,195.4)	(197.7)	(63.2)
Less: Recoveries of prior year unpaid obligations, actual	(63,272.9)	(49,744.1)	(47.5)	0.0
Change in uncollected customer payments from federal sources	(1,100.0)	(6,470.9)	10.8	(12.6)
Obligated balance, net, end of period				
Unpaid obligations	454,072.8	432,118.5	770.4	872.9
Less: Uncollected customer payments from federal sources	(67,702.2)	(66,602.2)	(132.2)	(143.0)
Total, unpaid obligated balance, net, end of period	**$ 386,370.6**	**$ 365,516.3**	**$ 638.2**	**$ 729.9**
Net Outlays				
Net Outlays:				
Gross outlays	946,940.6	892,195.4	197.7	63.2
Less: Offsetting collections	(180,037.1)	(176,012.2)	(45.1)	(53.9)
Less: Distributed offsetting receipts	(65,912.1)	(70,247.6)	0.0	0.0
Net Outlays	**$ 700,991.4**	**$ 645,935.6**	**$ 152.6**	**$ 9.3**

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

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Department in accordance with and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board, the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements, and the DoD Financial Management Regulation. The accompanying financial statements account for all resources for which the Department is responsible unless otherwise noted. Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernable.

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

The OMB requires financial statements of the following Department reporting activities to undergo audits: Army General Fund, Army Working Capital Fund, Navy General Fund, Navy Working Capital Fund, Air Force General Fund, Air Force Working Capital Fund, Military Retirement Fund, and U.S. Army Corps of Engineers (Civil Works).

In addition, the Department requires the Medicare-Eligible Retiree Health Care Fund, Marine Corps General and Working Capital Funds, and the following Defense Agencies to prepare internal stand-alone auditable financial statements: Defense Logistics Agency, Defense Finance and Accounting Service, Defense Information Systems Agency, Defense Contract Audit Agency, Defense Commissary Agency, Defense Security Service, Defense Threat Reduction Agency, Defense Advanced Research Projects Agency, Chemical and Biological Defense Program, Missile Defense Agency, Services Medical Activity, TRICARE Management Activity, and U.S. Special Operations Command.

The Department has 13 auditor-identified material weaknesses: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounts Receivable; (4) Inventory; (5) Operating Materiel and Supplies; (6) General Property, Plant, and Equipment; (7) Government-Furnished Materiel and Contractor-Acquired Materiel; (8) Accounts Payable; (9) Environmental Liabilities; (10) Statement of Net Cost; (11) Intragovernmental Eliminations; (12) Other Accounting Entries; and (13) Reconciliation of Net Cost of Operations to Budget.

1.B. Mission of the Reporting Entity

The Department of Defense was established by the National Security Act of 1947. The Department provides the military forces needed to deter war and protect the security of our country. Since the creation of America's first army in 1775, the Department of Defense and predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States by deterring and defeating aggression and coercion in critical regions.

The Department of Defense includes the Military Departments and the Defense Agencies. The Military Departments consist of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. The Defense Agencies provide support services commonly used throughout the Department.

1.C. Appropriations and Funds

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

General Funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction. These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available on-line at http://www.defenselink.mil/recovery.

Working Capital Funds (WCF) received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. The Department is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for earmarked funds.

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

The Department is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity’s legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB. Based on an agreement with OMB, funds for Security Assistance programs are reported separately from the Department's financial statements and notes.

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

Additionally, the Department receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Department's financial statements. The exceptions reported by the Department include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways and Harbor Maintenance, and the EOP other than funds executed by Defense Security Cooperation Agency for Security Assistance.

As the parent, the Department allocates funds to the Departments of Transportation and Agriculture, and reports all related activity in these financial statements.

1.D. Basis of Accounting

The Department's financial management systems are unable to meet all full accrual accounting requirements. Many of the Department's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of the Department's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Military Services and Defense Agencies and their sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Military Service and Defense Agency level these abnormal balances may not be evident. These abnormal balances are disclosed in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The Department is determining the actions required to bring financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all of the Department's financial and nonfinancial feeder systems and processes are able to collect and report financial information as required by USGAAP, the Department's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The Department receives congressional appropriations as financing sources for general funds that expire annually, on a multiyear basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Department recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is the Department's standard policy for services provided, as required by OMB Circular No. A-25, User Charges. The Department recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

The Department does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, the Department's policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be expensed when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The Department continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the Department cannot accurately identify intragovernmental transactions by customer because the Department's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the Department provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal Department accounting offices. In most cases, the buyer-side records are adjusted to agree with the Department's seller-side balances and are then eliminated. The Department is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

The U.S. Treasury's Federal Intragovernmental Transactions Accounting Policies Guide and Treasury Financial Manual Part 2 – Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government, provide guidance for reporting and reconciling intragovernmental balances. While the Department is unable to fully reconcile intragovernmental transactions with all federal agencies, the Department is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

The Department's proportionate share of public debt and related expenses of the Federal government is not included. The Federal government does not apportion debt and related costs to federal agencies. The Department's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues. Generally, financing for the construction of the Department's facilities is obtained through 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 U.S. Treasury does not allocate such costs to the Department.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the Department sells defense articles and services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976. Under the provisions of this Act, the Department has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

1.I. Funds with the U.S. Treasury

The Department's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the Department's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, the Department's FBWT is adjusted to agree with the U.S. Treasury's accounts.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Department, which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

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

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

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon an analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

1.L. Direct Loans and Loan Guarantees

The Department operates a direct loan and loan guarantee program authorized by the National Defense Authorization Act for FY 1996 (Public Law (PL) 104-106, Section 2801). The Act includes a series of 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 the American taxpayers.

The Act also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. The Department uses these authorities 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), and direct loans.

The National Defense Authorization Act for FY 2005 (PL 108-375, Section 2805) provided permanent authorities to the Military Housing Privatization Initiative (MHPI).

The Department operates the Armament Retooling and Manufacturing Support Initiative under Title 10 United States Code 4551-4555. This loan guarantee program is designed to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities.

The Department administers the Foreign Military Financing program on behalf of the EOP. This program is authorized by sections 23 and 24 of the Arms Export Control Act of 1976, as amended, PL 90-629, as amended, and section 503(a). This program provides loans to help countries purchase U.S. produced weapons, defense equipment, services, or military training. The direct loans and loan guarantees related to Foreign Military Sales are not included in these financial statements, per the Department's agreement with OMB; this information is provided separately as other accompanying information.

The Federal Credit Reform Act of 1990 governs all amended direct loan obligations and loan guarantee commitments made after FY 1991.

1.M. Inventories and Related Property

The Department values approximately 68 percent of resale inventory using the moving average cost method. An additional 6 percent (fuel inventory) is reported using the first-in-first-out method. The Department reports the remaining 26 percent of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property. Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (PL 104-208). The Department is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3.

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies. The Department is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale," with a completion date of year-end FY 2010 reporting.

Related property includes OM&S and stockpile materiel. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Department uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2009 and FY 2008, the Department expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the Department and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

The Department determined that the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than military equipment.

The Department recognizes condemned materiel as "Excess, Obsolete, and Unserviceable." The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero.

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

1.N. Investments in U.S. Treasury Securities

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

The Department invests in nonmarketable, market-based U.S. Treasury securities, which are issued to federal agencies by the U. S. Treasury's Bureau of the Public Debt. They are not traded on any securities exchange but mirror the prices of particular U.S. Treasury securities traded in the government securities market.

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

Other investments represent joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of the MHPI, authorized by PL 104-106, Section 2801. These investments do not require market value disclosure. The Department's potential losses on these ventures are limited to the amounts invested.

1.O. General Property, Plant and Equipment

The Department uses the estimated historical cost for valuing military equipment. The Department identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposal information.

The Department's General Property, Plant, and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The Department has not fully implemented the threshold for real property; therefore, the Department is primarily using the capitalization threshold of $100 thousand for General PP&E, and most real property.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Department's capitalization threshold. The Department also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Department depreciates all General PP&E, other than land, on a straight-line basis.

The WCFs capitalize all PP&E used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

The USACE Civil Works General PP&E is capitalized at acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost exceeds $25 thousand. The exception is buildings and structures related to hydropower projects, which are capitalized regardless of cost.

When it is in the best interest of the government, the Department provides government property to contractors to complete contract work. The Department either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the Department's capitalization threshold, federal accounting standards require that it be reported on the Department's Balance Sheet.

The Department developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The Department requires that entities maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The Department has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the Department's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The Department's policy is to expense and/or properly classify assets when the related goods and services are received. The Department has not fully implemented this policy primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities 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 capitalization threshold, the Department records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Department records the asset and liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risks of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by the Department are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on the Department's Balance Sheet.

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 may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulation, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost reimbursement contracts. It is the Department's policy to record certain contract financing payments as other assets. The Department has not fully implemented this policy primarily due to system limitations.

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

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, Accounting for Liabilities of the Federal Government, as amended by SFFAS No. 12, Recognition of Contingent Liabilities Arising from Litigation, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Department recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount 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 of incurring a loss or additional losses. The Department's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments 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. Consistent with SFFAS No. 6, Accounting for Property, Plant, and Equipment, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on the Department's policy, which is consistent with SFFAS No. 5, Accounting for Liabilities of the Federal Government, nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset. The Department recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

1.T. Accrued Leave

The Department reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed when taken. The liabilities are based on current pay rates.

1.U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

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

1.W. Unexpended Obligations

The Department obligates funds to provide goods and services for outstanding orders not yet delivered. Unless title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations includes both obligations for which goods and services have been delivered (title passed) and a liability recognized, and obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources, and is referred to as "Total, unpaid obligated balances, net, end of period."

1.X. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

The Department's policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported, undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported, undistributed collections are recorded in nonfederal other liabilities.

1.Y. Fiduciary Activities

Fiduciary cash and other assets are not assets of the Department and are not recognized on the balance sheet. Fiduciary activities are reported on the financial statement note schedules.

Note 2. Nonentity Assets

Nonentity Assets *As of September 30*	*Dollars in Millions* **2009**	**Restated 2008**
Intragovernmental Assets		
Fund Balance with Treasury	$ 823.2	$ 1,170.2
Accounts Receivable	0.0	0.1
Total Intragovernmental Assets	**$ 823.2**	**$ 1,170.3**
Nonfederal Assets		
Cash and Other Monetary Assets	$ 2,239.4	$ 2,681.8
Accounts Receivable	4,583.5	5,079.9
Other Assets	186.2	183.4
Total Nonfederal Assets	**$ 7,009.1**	**$ 7,945.1**
Total Nonentity Assets	**$ 7,832.3**	**$ 9,115.4**
Total Entity Assets	**$ 1,791,635.2**	**$ 1,665,496.3**
Total Assets	**$ 1,799,467.5**	**$ 1,674,611.7**

Nonentity assets are assets for which the Department maintains stewardship, accountability, and reporting responsibility, but are not available for the Department's normal operations.

The Department identified a prior period adjustment to assets, resulting in a net $25.3 million increase to nonentity, nonfederal accounts receivable. Refer to Note 26, Restatements, for further information.

Intragovernmental Fund Balance with Treasury (FBWT) consists of deposit funds, seized Iraqi cash, and the Development Fund for Iraq (DFI). Deposit funds are generally used to record amounts held temporarily until paid to the appropriate party. Humanitarian relief and reconstruction deposit funds are funds held for expenditures on behalf of the Iraqi people. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces and restricted for support of the Iraqi people. The DFI consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food proceeds. DFI funds are restricted for Iraqi infrastructure and other Iraqi support needs.

Nonfederal Cash and Other Monetary Assets primarily consists of cash held by Disbursing Officers to carry out payment, collection, and foreign currency accommodation exchange missions.

Nonfederal Accounts Receivable consists of certain amounts due related to canceled year appropriations and interest, fines, and penalties due on debt. Generally, the Department cannot use the collections and must distribute them to the U.S. Treasury. In those cases where the Department has specific statutory authority to retain collections from certain canceled year accounts, the receivables are reported as entity assets.

Nonfederal Other Assets consists of an Advance Payment Pool Agreement with a nonprofit educational institution to finance research and development projects.

Note 3. Fund Balance with Treasury

Fund Balance with Treasury		*Dollars in Millions*
As of September 30	**2009**	**2008**
Fund Balance		
Appropriated Funds	$ 491,763.4	$ 455,876.7
Revolving Funds	7,804.2	8,978.8
Trust Funds	1,874.0	1,818.5
Special Funds	395.8	436.4
Other Fund Types	916.9	1,286.5
Total Fund Balance	**$ 502,754.3**	**$ 468,396.9**
Fund Balance Per Treasury Versus Agency		
Fund Balance per Treasury	$ 509,703.2	$ 473,736.8
Fund Balance per Agency	502,754.3	468,396.9
Reconciling Amount	**$ 6,948.9**	**$ 5,339.9**

Other Fund Types primarily consists of deposit funds, receipt accounts, and DFI.

The Department shows a reconciling net difference of $6.9 billion with the U.S. Treasury. This primarily includes $6.3 billion in canceled appropriations, $545.7 million in unavailable receipts accounts, $187.4 million in fiduciary activities, and ($80.4) million in allocation transfers.

Status of Fund Balance with Treasury		*Dollars in Millions*
As of September 30	**2009**	**2008**
Unobligated Balances		
Available	$ 131,353.4	$ 121,096.4
Unavailable	440,684.0	401,136.6
Obligated Balance not yet Disbursed	454,389.6	432,553.3
Nonbudgetary FBWT	899.8	1,060.8
NonFBWT Budgetary Accounts	(524,572.5)	(487,450.2)
Total Fund Balance	**$ 502,754.3**	**$ 468,396.9**

The Status of FBWT reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

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

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received and those received, but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and nonentity FBWT.

NonFBWT Budgetary Accounts reduces the Status of FBWT and consists of investments in U.S. Treasury securities, unfilled customer orders without advance, contract and borrowing authority, and receivables.

Note 4. Investments and Related Interest

Investments and Related Interest					Dollars in Millions
	2009				
As of September 30	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based					
Military Retirement Fund	$ 281,250.3	See Below	$ (5,774.0)	$ 275,476.3	$ 283,292.6
Medicare-Eligible Retiree Health Care Fund	150,184.3	See Below	(3,345.5)	146,838.8	150,820.6
US Army Corps of Engineers	5,239.5	See Below	(41.7)	5,197.8	5,363.2
Other Funds	2,915.6	See Below	(28.8)	2,886.8	2,618.8
Total Nonmarketable, Market-Based	**$ 439,589.7**		**$ (9,190.0)**	**$ 430,399.7**	**$ 442,095.2**
Accrued Interest	4,484.3			4,484.3	4,484.3
Total Intragovernmental Securities	**$ 444,074.0**		**$ (9,190.0)**	**$ 434,884.0**	**$ 446,579.5**
Other Investments					
Total Other Investments	**$ 2,017.1**		**$ 0.0**	**$ 2,017.1**	**N/A**
Amortization Method Used: Effective Interest					

Investments and Related Interest					Dollars in Millions
	2008				
As of September 30	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based					
Military Retirement Fund	$ 255,722.1	See Below	$ (5,423.8)	$ 250,298.3	$ 240,912.7
Medicare-Eligible Retiree Health Care Fund	135,483.4	See Below	(2,683.7)	132,799.7	127,002.4
US Army Corps of Engineers	4,790.4	See Below	(26.0)	4,764.4	4,909.9
Other Funds	2,382.0	See Below	(19.6)	2,362.4	2,391.2
Total Nonmarketable, Market-Based	**$ 398,377.9**		**$ (8,153.1)**	**$ 390,224.8**	**$ 375,216.2**
Accrued Interest	4,283.7			4,283.7	4,283.7
Total Intragovernmental Securities	**$ 402,661.6**		**$ (8,153.1)**	**$ 394,508.5**	**$ 379,499.9**
Other Investments					
Total Other Investments	**$ 1,861.5**		**$ 0.0**	**$ 1,861.5**	**N/A**
Amortization Method Used: Effective Interest					

The Department's earmarked funds invest primarily in non-marketable, market-based securities that fluctuate in tandem with the current selling price of the equivalent marketable security on the open market. These securities are purchased with the intent to hold until maturity, thus balances are not adjusted to market value.

The U.S. Treasury securities are issued to the earmarked funds as evidence of its receipts and are an asset to the Department and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash generated from earmarked funds are deposited in the U.S. Treasury, which uses the cash for general government purposes. Since the Department and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements.

The U.S. Treasury securities provide the Department with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Department must redeem these securities, the government will finance them from accumulated cash balances by raising taxes or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all other expenditures.

Other Funds primarily consists of $1.9 billion in investments of the DoD Education Benefits Trust Fund and $459.5 million in investments of the Voluntary Separation Incentive Trust Fund.

Note 5. Accounts Receivable

Accounts Receivable *Dollars in Millions*

	2009		
As of September 30	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 1,219.6	N/A	$ 1,219.6
Nonfederal Receivables (From the Public)	8,804.4	(570.3)	8,234.1
Total Accounts Receivable	**$ 10,024.0**	**$ (570.3)**	**$ 9,453.7**

Accounts Receivable *Dollars in Millions*

	2008		
As of September 30	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 1,326.2	N/A	$ 1,326.2
Nonfederal Receivables (From the Public)	8,211.6	(386.3)	7,825.3
Total Accounts Receivable	**$ 9,537.8**	**$ (386.3)**	**$ 9,151.5**

While migrating from a manual to an automated interface between budget execution and financial statement reporting systems, the Department corrected errors resulting in an increase to nonfederal receivables of $40.8 million in FY 2008. Refer to Note 26, Restatements, for further information.

Accounts receivable represent the Department's claim for payment from other entities. The Department only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

Note 6. Other Assets

Other Assets				Dollars in Millions
As of September 30		2009		Restated 2008
Intragovernmental Other Assets				
Advances and Prepayments	$	2,469.8	$	1,158.0
Other Assets		124.9		124.9
Total Intragovernmental Other Assets	**$**	**2,594.7**	**$**	**1,282.9**
Nonfederal Other Assets				
Outstanding Contract Financing Payments	$	55,047.2	$	54,136.1
Advances and Prepayments		1,234.1		1,282.8
Other Assets (With the Public)		356.2		410.1
Total Nonfederal Other Assets	**$**	**56,637.5**	**$**	**55,829.4**
Total Other Assets	**$**	**59,232.2**	**$**	**57,112.3**

The Department restated the FY 2008 balance in Nonfederal Other Assets by $26.9 billion. The Department incorrectly reported contract financing payments for shipbuilding as expenses rather than assets. Refer to Note 26, Restatements, for further information.

Intragovernmental Other Assets represents the Department's right to approximately 6 million barrels of crude oil held by the Department of Energy.

The balance of Outstanding Contract Financing Payments includes $53.2 billion in contract financing payments and an additional $1.5 billion in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

Contract terms and conditions for certain types of contract financing payments convey rights to the Department that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Federal Government. The Federal Government does not have the right to take the work, except as provided for in contract clauses related to termination or acceptance, and the Department is not obligated to make payment to the contractor until delivery and acceptance.

The balance in Other Assets (With the Public) includes $186.2 million for an Advance Payment Pool Agreement with nonprofit institutions and $143.9 million for inventory returned to vendors pending credit.

Note 7. Cash and Other Monetary Assets

Cash and Other Monetary Assets		Dollars in Millions
As of September 30	**2009**	**2008**
Cash	$ 810.8	$ 1,421.3
Foreign Currency	1,506.0	1,383.5
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 2,316.8**	**$ 2,804.8**

Cash (except for $76.4 million in undeposited collections and $1.0 million in imprest funds) and Foreign Currency represent nonentity assets and are restricted and unavailable to fund the Department's mission.

Note 8. Direct Loan and Loan Guarantees

Direct Loan and Loan Guarantee Programs

The Department operates the following direct loan and/or loan guarantee programs:

- Military Housing Privatization Initiative (MHPI) and
- Armament Retooling and Manufacturing Support Initiative (ARMS)

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

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

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

Loan guarantee liabilities are reported at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows:

- Payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments; offset by
- Payments to the Department including origination and other fees, penalties, and recoveries.

Military Housing Privatization Initiative

The MHPI includes both direct loan and loan guarantee programs. The loan guarantee program is authorized by the National Defense Authorization Act for FY 1996 (Public Law 104-106, Section 2801) and includes a series of authorities that allow the Department to work with the private sector to renovate and build military family housing. The MHPI accelerates the construction of new housing built to market standards and leverages private sector capital. The Department provides protection to the private sector partner against specific risks, such as base closure or member deployment. One of the goals of the Department is to obtain private sector capital to leverage government dollars. The Department provides protection to the private sector partner against specific risks, such as base closure or member deployment.

Armament Retooling and Manufacturing Support Initiative

The ARMS Initiative, Title 10 U.S. Code 4551-4555, is a loan guarantee program designed to encourage commercial use of the Army's inactive ammunition plants through incentives for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than current military requirements, however, this capacity may be needed by the military in the future. Revenues from property rentals are used to help offset the overhead costs for the operation, maintenance and environmental cleanup at the facilities.

In an effort to preclude any additional loan liability, the Army instituted an ARMS loan guarantee moratorium in FY 2004. The Army continues to operate under the moratorium and does not anticipate new loans.

Summary of Direct Loans and Loan Guarantees				*Dollars in Millions*
As of September 30, 2009 and 2008		2009		2008
Loans Receivable				
Direct Loans:				
Military Housing Privatization Initiative	$	398.4	$	236.0
Total Direct Loans	**$**	**398.4**	**$**	**236.0**
Defaulted Loan Guarantees:				
Armament Retooling & Manufacturing Support Initiative		0.1		0.0
Total Default Loan Guarantees	**$**	**0.1**	**$**	**0.0**
Total Loans Receivable	**$**	**398.5**	**$**	**236.0**
Loan Guarantee Liability				
Military Housing Privatization Initiative	$	18.7	$	22.2
Armament Retooling & Manufacturing Support Initiative		2.4		2.3
Total Loan Guarantee Liability	**$**	**21.1**	**$**	**24.5**

Direct Loans Obligated				*Dollars in Millions*
As of September 30, 2009 and 2008		2009		2008
Direct Loans Obligated After FY 1991 (Present Value Method):				
Military Housing Privatization Initiative				
Loans Receivable Gross	$	510.9	$	339.6
Allowance for Subsidy Cost (Present Value)		(112.5)		(103.6)
Value of Assets Related to Direct Loans		398.4		236.0
Total Direct Loans Receivable	**$**	**398.4**	**$**	**236.0**

Loans receivable, net, or value of assets related to loans, is not the same as the proceeds the Department would expect to receive from selling the loans.

Interest receivable is calculated using the interest earned method.

Total Amount of Direct Loans Disbursed		Dollars in Millions
As of September 30, 2009 and 2008	**2009**	**2008**
Direct Loan Programs		
Military Housing Privatization Initiative	$ 171.7	$ 31.7
Total Direct Loans Disbursed	**$ 171.7**	**$ 31.7**

Subsidy Expense for Direct Loan by Program *As of September 30, 2009 and 2008*					*Dollars in Millions*
2009	Interest Differential	Defaults	Fees	Other	Total
New Direct Loans Disbursed:					
Military Housing Privatization Initiative	$ 16.0	$ 16.4	$ 0.0	$ 0.0	$ 32.4
2008	Interest Differential	Defaults	Fees	Other	Total
New Direct Loans Disbursed:					
Military Housing Privatization Initiative	$ 12.6	$ 3.0	$ 0.0	$ 0.0	$ 15.6
2009	Modifica-tions	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.0	$ (3.4)	$ (12.5)	$ (15.9)	$ (15.9)
2008	Modifica-tions	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.0	$ (0.8)	$ (2.2)	$ (3.0)	$ (3.0)
	2009	**2008**			
Total Direct Loan Subsidy Expense:					
Military Housing Privatization Initiative	$ 16.5	$ 12.6			

Subsidy Rate for Direct Loans by Program					*Dollars in Millions*
As of September 30, 2009 and 2008	Interest Differential	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Direct Loans					
Military Housing Privatization Initiative	19.46%	11.85%	0.00%	0.00%	31.31%

Subsidy rates pertain to the loan agreements contracted during the current fiscal year. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans disbursed in the current year results from disbursements of loans from current and prior year loan agreements. The subsidy expense reported in the current year also includes reestimates.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY1991 Direct Loans		Dollars in Millions
As of September 30, 2009 and 2008	**2009**	**2008**
Beginning Balance, Changes, and Ending Balance:		
Beginning Balance of the Subsidy Cost Allowance	**$ 103.6**	**$ 95.9**
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Interest Rate Differential Costs	16.0	12.6
Default Costs (Net of Recoveries)	16.4	3.0
Total of the above Subsidy Expense Components	**$ 32.4**	**$ 15.6**
Adjustments		
Subsidy Allowance Amortization	(7.6)	(4.9)
Total of the above Adjustment Components	**$ (7.6)**	**$ (4.9)**
Ending Balance of the Subsidy Cost Allowance before Reestimate	**$ 128.4**	**$ 106.6**
Add or Subtract Subsidy Reestimate by Component		
Interest Rate Reestimate	(3.4)	(0.8)
Technical/Default Reestimate	(12.5)	(2.2)
Total of the above Reestimate Components	**(15.9)**	**(3.0)**
Ending Balance of the Subsidy Cost Allowance	**$ 112.5**	**$ 103.6**

Defaulted Guaranteed Loans		Dollars in Millions
As of September 30, 2009	**2009**	**2008**
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):		
Armament Retooling & Manufacturing Support Initiative		
Defaulted Guaranteed Loans Receivable, Gross	$ 0.7	$ 15.1
Allowance for Subsidy Cost (Present Value)	(0.6)	(15.1)
Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	**$ 0.1**	**$ 0.0**

Guaranteed Loans Outstanding		Dollars in Millions
As of September 30, 2009	**Outstanding Principal of Guaranteed Loans, Face Value**	**Amount of Outstanding Principal Guaranteed**
Guaranteed Loans Outstanding		
Military Housing Privatization Initiative	$ 467.2	$ 467.2
Armament Retooling & Manufacturing Support Initiative	3.0	2.4
Total Guaranteed Loans Outstanding	**$ 470.2**	**$ 469.6**

Guaranteed Loans Outstanding		Dollars in Millions
As of September 30, 2008	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
Military Housing Privatization Initiative	$ 499.1	$ 499.1
Armament Retooling & Manufacturing Support Initiative	3.1	2.6
Total Guaranteed Loans Outstanding	**$ 502.2**	**$ 501.7**

Liabilities for Loan Guarantees		Dollars in Millions
As of September 30, 2009 and 2008	2009	2008
Liabilities for Loan Guarantee from Post FY 1991 (Present Value):		
Military Housing Privatization Initiative	$ 18.7	$ 22.2
Armament Retooling & Manufacturing Support Initiative	2.4	2.3
Total Loan Guarantee Liability	**$ 21.1**	**$ 24.5**

Subsidy Expense for Loan Guarantees by Program

As of September 30, 2009 and 2008 — *Dollars in Millions*

2009	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
Modifications and Reestimate:					
Military Housing Privatization Initiative	$ 0.0	$ (1.6)	$ (3.0)	$ (4.6)	$ (4.6)
Armament Retooling & Manufacturing Support Initiative	0.0	0.1	0.0	0.1	0.1
Total	**$ 0.0**	**$ (1.5)**	**$ (3.0)**	**$ (4.5)**	**$ (4.5)**
2008	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
Modifications and Reestimate:					
Military Housing Privatization Initiative	$ 0.0	$ (0.9)	$ (2.9)	$ (3.8)	$ (3.8)
Armament Retooling & Manufacturing Support Initiative	0.0	0.4	1.7	2.1	2.1
Total	**$ 0.0**	**$ (0.5)**	**$ (1.2)**	**$ (1.7)**	**$ (1.7)**

	2009	2008
Total Loan Guarantee Subsidy Expense:		
Military Housing Privatization Initiative	$ (4.6)	$ (3.8)
Armament Retooling & Manufacturing Support Initiative	0.1	2.1
Total	**$ (4.5)**	**$ (1.7)**

There are no new loan guarantees in FY 2009.

Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees		Dollars in Millions
As of September 30, 2009	**2009**	**2008**
Beginning Balance, Changes, and Ending Balance:		
Beginning Balance of the Loan Guarantee Liability	**$ 24.5**	**$ 25.0**
Adjustments		
Foreclosed Property and Loans Acquired	0.0	0.7
Claim Payments to Lenders	0.0	(0.8)
Interest Accumulation on the Liability Balance	1.1	1.3
Other	0.0	0.0
Total of the above Adjustments	**$ 1.1**	**$ 1.2**
Ending Balance of the Loan Guarantee Liability before Reestimates	**$ 25.6**	**$ 26.2**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	(1.5)	(0.5)
Technical/Default Reestimate	(3.0)	(1.2)
Total of the above Reestimate Components	**$ (4.5)**	**$ (1.7)**
Ending Balance of the Loan Guarantee Liability	**$ 21.1**	**$ 24.5**

Administrative Expenses

Administrative Expenses are limited to separately identified expenses for administering pre FY 1992 and post FY 1991 Direct Loans and Loan Guarantee Programs. The Department does not maintain a separate program to capture the expenses related to direct loans and loan guarantees for MHPI. Administrative expenses for the ARMS Initiative represent a fee paid to the U.S. Department of Agriculture, Rural Business Cooperative Service for servicing the loan guarantee program.

Note 9. Inventory and Related Property

Inventory and Related Property		Dollars in Millions
As of September 30	**2009**	**Restated 2008**
Inventory, Net	$ 82,814.6	$ 84,159.0
Operating Materiel & Supplies, Net	145,258.4	148,663.6
Stockpile Materiel, Net	723.6	764.0
Total Inventory and Related Property	**$ 228,796.6**	**$ 233,586.6**

Inventory, Net				Dollars in Millions
	2009			Valuation Method
As of September 30	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
Inventory Categories				
Available and Purchased for Resale	$ 87,742.2	$ (24,422.8)	$ 63,319.4	LAC,MAC
Held for Repair	28,055.7	(9,578.0)	18,477.7	LAC,MAC
Excess, Obsolete, and Unserviceable	7,833.8	(7,833.8)	0.0	NRV
Raw Materiel	490.3	0.0	490.3	MAC,SP,LAC
Work in Process	527.2	0.0	527.2	AC
Total Inventory, Net	**$ 124.649.2**	**$ (41,834.6)**	**$ 82,814.6**	

Legend for Valuation Methods:

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

Inventory, Net				Dollars in Millions
	Restated 2008			Valuation Method
As of September 30	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
Inventory Categories				
Available and Purchased for Resale	$ 97,701.0	$ (29,755.9)	$ 67,945.1	LAC,MAC
Held for Repair	25,684.0	(10,195.2)	15,488.8	LAC,MAC
Excess, Obsolete, and Unserviceable	7,761.3	(7,761.3)	0.0	NRV
Raw Materiel	103.5	0.0	103.5	MAC,SP,LAC
Work in Process	621.6	0.0	621.6	AC
Total Inventory, Net	**$ 131,871.4**	**$ (47,712.4)**	**$ 84,159.0**	

Legend for Valuation Methods:

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

Current Year Adjustments from Implementation of Changes in Accounting Principles

During the 3rd Quarter, FY 2009 a DoD Component implemented an Enterprise Resource Planning (ERP) system. This ERP provided the means to revalue inventory from latest acquisition cost (LAC) to moving average cost (MAC), which is the Department's current policy for reporting inventory. Both methods are intended to value inventory at historic cost, but LAC valued inventory approximates historic cost by using an allowance account, while MAC averages the price paid for the inventory and does not use an allowance account. Without the allowance account, inventory valued at LAC will generally overstate the historic cost because current prices used to value the inventory exceed the actual prices paid in earlier periods. As a result of this implementation, FY 2009 Inventory Available and Purchased for Resale increased by a net of $2.7 billion. Revaluing the inventory at MAC decreased the inventory value by $2.8 billion. However this decrease was offset by an increase caused by writing off the $5.5 billion allowance account that had been used to offset the higher reported amount of the LAC valued.

Comparative Year Restatements from Correction of Errors

The Department identified $3.9 billion in Inventory and Related Property, Net overstatements from the incorrect posting of inventory in transit, resulting in a decrease to Inventory Available and Purchased for Resale. In addition, while preparing for another ERP migration, the Department identified a $1.5 billion gain that was incorrectly reported as inventory allowance in the legacy system. This change increased FY 2008 Inventory Available and Purchased for Resale. Refer to Note 26, Restatements, for further information.

Restrictions

The following are restrictions on the use, sale, or disposition of inventory.

- War reserve materiel valued at $1.3 billion;
- Commissary items valued at $400.1 million held for purchase by authorized patrons; and
- Dispositions pending litigation or negotiation valued at $3.8 million.

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

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. Inventory is tangible personal property that is:

- Held for sale, or held for repair and eventual sale;
- In the process of production for sale; or
- To be consumed in the production of goods for sale or in the provision of service for a fee.

The Department assigns inventory items to a category based upon the type and condition of the asset.

Operating Materiel and Supplies, Net				*Dollars in Millions*
	2009			**Valuation Method**
As of September 30	**OM&S, Gross Value**	**Revaluation Allowance**	**OM&S, Net**	
OM&S Categories				
Held for Use	$ 128,932.9	$ (0.0)	$ 128,932.9	SP, LAC, MAC
Held for Repair	17,984.2	(1,658.7)	16,635.5	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	3,386.2	(3,386.2)	0.0	NRV
Total OM&S	**$ 150,303.3**	**$ (5,044.9)**	**$ 145,258.4**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
NRV = Net Realizable Value
MAC = Moving Average Cost

Operating Materiel and Supplies, Net				*Dollars in Millions*
	Restated 2008			Valuation Method
As of September 30	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	
OM&S Categories				
Held for Use	$ 131,648.7	$ (0.0)	$ 131,648.7	SP, LAC, MAC
Held for Repair	18,374.0	(1,359.1)	17,014.9	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	3,598.6	(3,598.6)	0.0	NRV
Total OM&S	**$ 153,621.3**	**$ (4,957.7)**	**$ 148,663.6**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
NRV = Net Realizable Value
MAC = Moving Average Cost

Restrictions

Some munitions included in Operating Materiel and Supplies (OM&S) are restricted due to condition. Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements. However, obsolete and unserviceable OM&S may be used in emergency combat situations in which no other suitable munitions are immediately available.

General Composition of OM&S

OM&S includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally-managed aircraft engines held for consumption. The Department assigns OM&S items into a category based upon the type and condition of the asset.

Stockpile Materiel, Net				*Dollars in Millions*
	2009			Valuation Method
As of September 30	Stockpile, Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	
Stockpile Material Categories				
Held for Sale	$ 694.3	$ 0.0	$ 694.3	AC, LCM
Held in Reserve for Future Sale	29.3	0.0	29.3	AC, LCM
Total Stockpile Material	**$ 723.6**	**$ 0.0**	**$ 723.6**	

Legend for Valuation Methods:

AC = Actual Cost
LCM = Lower of Cost or Market

Stockpile Materiel, Net				Dollars in Millions
	Restated 2008			Valuation Method
As of September 30	Stockpile, Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	
Stockpile Material Categories				
Held for Sale	$ 734.6	$ 0.0	$ 734.6	AC, LCM
Held in Reserve for Future Sale	29.4	0.0	29.4	AC, LCM
Total Stockpile Material	**$ 764.0**	**$ 0.0**	**$ 764.0**	
Legend for Valuation Methods:				
AC = Actual Cost		*LCM = Lower of Cost or Market*		

Restrictions

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

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, NDS removes the materiel from Materiel Held in Reserve and reclassifies these items as Materiel Held for Sale. The estimated market price of the stockpile materiel held for sale as of 4th Quarter, FY 2009, is $1.3 billion

General Composition of Stockpile Materiel

The Department holds strategic and critical stockpile materiel due to statutory requirements for use in national defense, conservation, or national emergencies.

Note 10. General PP&E, Net

General PP&E, Net *As of September 30, 2009*	Depreciation/ Amortization Method	Service Life	2009 Acquisition Value	(Accumulated Depreciation/ Amortization)	*Dollars in Millions* Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 10,501.3	N/A	$ 10,501.3
Buildings, Structures, and Facilities	S/L	20 or 40	191,643.9	(107,987.4)	83,656.5
Leasehold Improvements	S/L	Lease term	703.1	(548.0)	155.1
Software	S/L	2-5 or 10	9,022.9	(5,610.1)	3,412.8
General Equipment	S/L	5 or 10	80,690.7	(56,528.7)	24,162.0
Military Equipment	S/L	Various	796,842.6	(390,333.2)	406,509.4
Assets Under Capital Lease[1]	S/L	Lease term	956.3	(601.2)	355.1
Construction-in-Progress	N/A	N/A	30,809.5	N/A	30,809.5
Other			53.9	(1.3)	52.6
Total General PP&E			**$ 1,121,224.2**	**$ (561,609.9)**	**$ 559,614.3**

[1] *Note 15 for additional information on Capital Leases*
Legend for Valuation Methods: S/L = Straight Line N/A = Not Applicable

General PP&E, Net *As of September 30, 2008*	Depreciation/ Amortization Method	Service Life	Restated 2008 Acquisition Value	(Accumulated Depreciation/ Amortization)	*Dollars in Millions* Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 10,522.3	N/A	$ 10,522.3
Buildings, Structures, and Facilities	S/L	20 or 40	180,196.7	(105,262.3)	74,934.4
Leasehold Improvements	S/L	Lease term	587.1	(391.5)	195.6
Software	S/L	2-5 or 10	8,894.9	(5,529.0)	3,365.9
General Equipment	S/L	5 or 10	75,324.1	(52,811.2)	22,512.9
Military Equipment	S/L	Various	751,010.9	(379,727.4)	371,283.5
Assets Under Capital Lease[1]	S/L	Lease term	953.5	(536.0)	417.5
Construction-in-Progress	N/A	N/A	22,665.0	N/A	23,665.0
Other			57.7	(1.2)	56.5
Total General PP&E			**$ 1,051,212.2**	**$ (544,258.6)**	**$ 506,953.6**

[1] *Note 15 for additional information on Capital Leases*
Legend for Valuation Methods: S/L = Straight Line N/A = Not Applicable

The Department reduced the September 30, 2008, PP&E by $8.0 billion to correct errors discovered as a result of data cleansing. During the migration to another capital asset system, the Department restated $9.1 billion in military equipment overvalued in a legacy system. In addition, the Department recognized $1.1 billion in Construction-in-Progress expensed, instead of capitalized, through September 30, 2008. Also, the Department identified $23.9 million in upward adjustments when migrating from a manual to an automated interface between budget execution and financial statement reporting systems. Refer to Note 26, Restatements, for further information.

Heritage Assets and Stewardship Land

The SFFAS No. 29, Heritage Assets and Stewardship Land, requires note disclosures for these types of assets. The Department's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. The Department defines these as follows:

- Buildings and Structures. Buildings and structures that are listed, or eligible for listing, on the National Register of Historic Places, including Multi-Use Heritage Assets.
- Archeological Sites. Sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places in accordance with Section 110 National Historic Preservation Act.
- Museum Collection Items. Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

The Department revised heritage assets reported as of September 30, 2008, to correct errors discovered as a result of data cleansing.

The Department holds the following quantities of heritage assets at September 30, 2009.

Categories	Measure Quantity	As of 9/30/08	Additions	Deletions	As of 9/30/09
Buildings and Structures	Each	18,810	24,783	570	43,023
Archeological Sites	Each	11,095	1,090	89	12,096
Museum Collection Items (Objects, not including fine art)	Each	1,818,948	38,126	596,547	1,260,527
Museum Collection Items (Objects, fine art)	Each	41,730	798	2,729	39,799

In FY 2009, the Department acquired 24,783 buildings and structures, 1,090 archeological sites, 154 fine art objects, and 16,865 other museum collection items through donation.

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

The Department's stewardship land consists mainly of mission essential land acquired by donation or devise. Fiscal Year Ended September 30, 2009, stewardship land data is not yet available due to limitations of the Department's financial and nonfinancial management processes and systems that feed into the financial statements. The Department held the following acres of land as of September 30, 2008.

Facility Code	Predominant Land Use Categories	As of 9/30/07 *(Acres in Thousands)*	Additions	Deletions	As of 9/30/08
9110	Government Owned Land	8,067	9	97	7,979
9111	State Owned Land	142	0	140	2
9120	Withdrawn Public Land	16,137	0	80	16,057
9130	Licensed and Permitted Land	2,819	0	815	2,004
9140	Public Land	706	0	0	706
9210	Land Easement	496	0	59	437
9220	In-leased Land	519	0	39	780
9230	Foreign Land	613	0	25	588
	Grand Total				**28,553**
	Total – All Other Lands				**11,788**
	Total – Stewardship Lands				**16,765**

The mission of the Department is to provide the military forces necessary to deter war and protect the security of the United States. In that mission, the Department, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets (capitalized and depreciated).

Other Disclosures

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

The Department does not have the acquisition value for all General PP&E and uses several cost methodologies to provide General PP&E values for financial statement reporting purposes.

Other consists of assets awaiting disposal.

Assets Under Capital Lease *As of September 30*	*Dollars in Millions* 2009	2008
Entity as Lessee, Assets Under Capital Lease		
Land and Buildings	$ 759.8	$ 654.9
Equipment	196.5	298.6
Accumulated Amortization	(601.2)	(536.0)
Total Capital Leases	**$ 355.1**	**$ 417.5**

Note 11. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources *As of September 30*		2009		Restated 2008 *Dollars in Millions*
Intragovernmental Liabilities				
Accounts Payable	$	4.3	$	0.7
Debt		8.1		12.1
Other		1,873.5		10,088.4
Total Intragovernmental Liabilities	**$**	**1,885.9**	**$**	**10,101.2**
Nonfederal Liabilities				
Accounts Payable	$	628.2	$	670.4
Military Retirement and Other Federal Employment Benefits		1,587,744.7		1,599,400.6
Environmental Liabilities		62,565.3		66,870.0
Other Liabilities		14,829.0		17,253.7
Total Nonfederal Liabilities	**$**	**1,665,767.2**	**$**	**1,684,194.7**
Total Liabilities Not Covered by Budgetary Resources	**$**	**1,667,653.1**	**$**	**1,694,295.9**
Total Liabilities Covered by Budgetary Resources	**$**	**494,209.0**	**$**	**441,567.3**
Total Liabilities	**$**	**2,161,862.1**	**$**	**2,135,863.2**

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided.

Intragovernmental Accounts Payable and Nonfederal Accounts Payable primarily represent liabilities in cancelled appropriations that, if paid, will be disbursed using funds current in the year of disbursement.

Debt consists primarily of borrowing from the U.S. Treasury for capital improvements to the Washington Aqueduct Project. Arlington County and Falls Church, Virginia, will complete reimbursement to the Department by 2023.

Intragovernmental Liabilities Other primarily consists of $1.4 billion in unfunded Federal Employees Compensation Act liabilities, $313.6 million in unfunded unemployment liabilities, and $172.0 million in unfunded Judgment Fund liabilities not due during FY 2009.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of $901.7 billion in pension liabilities and $677.6 billion in health benefit liabilities. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Environmental Liabilities represents the Department's liability for existing and anticipated environmental clean up and disposal.

Nonfederal Liabilities, Other primarily consists of $9.7 billion in unfunded annual leave, $2.1 billion in expected expenditures for disposal of conventional munitions, and $2.0 billion in contingent liabilities.

Note 12. Accounts Payable

Accounts Payable As of September 30	2009 Accounts Payable	Interest, Penalties, and Administrative Fees	Total *Dollars in Millions*
Intragovernmental Payables	$ 2,207.8	N/A	$ 2,207.8
Nonfederal Payables (To the Public)	35,513.5	6.3	35,519.8
Total Accounts Payable	**$ 37,721.3**	**$ 6.3**	**$ 37,727.6**

Accounts Payable As of September 30	Restated 2008 Accounts Payable	Interest, Penalties, and Administrative Fees	Total *Dollars in Millions*
Intragovernmental Payables	$ 1,687.4	N/A	$ 1,687.4
Nonfederal Payables (To the Public)	32,621.6	1.2	32,622.8
Total Accounts Payable	**$ 34,309.0**	**$ 1.2**	**$ 34,310.2**

The Department recognized a $1.1 billion prior period adjustment to correct understated Accounts Payable (Nonfederal) and related expenses for FY 2008. The Department also corrected the methodology for reporting accruals for undistributed disbursements to prevent the understatement beginning in FY 2009. Additionally, while migrating from a manual to an automated interface between budget execution and financial statement reporting systems, the Department identified a FY 2008 prior period adjustment to liabilities, resulting in $538.3 million decrease to nonfederal payables. Refer to Note 26, Restatements, for additional details.

Accounts Payable includes amounts owed to federal and nonfederal entities for goods and services received by the Department. The Department's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller-side accounts receivable. Accounts Payable was adjusted by reclassifying amounts between federal and nonfederal entities.

Note 13. Debt

Debt As of September 30	2009 Beginning Balance	2009 Net Borrowing	2009 Ending Balance
			Dollars in Millions
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 245.7	$ 146.0	$ 391.7
Debt to the Federal Financing Bank	16.9	(16.9)	0.0
Total Debt	**$ 262.6**	**$ 129.1**	**$ 391.7**

Debt As of September 30	2008 Beginning Balance	2008 Net Borrowing	2008 Ending Balance
			Dollars in Millions
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 236.3	$ 9.4	$ 245.7
Debt to the Federal Financing Bank	70.7	(53.8)	16.9
Total Debt	**$ 307.0**	**$ (44.4)**	**$ 262.6**

The Department's debt consists of interest and principal payments due to the U.S. Treasury and the Federal Financing Bank. The Department borrows funds for the Washington Aqueduct Project, the Military Housing Privatization Initiative, and the Armament Retooling and Manufacturing Support Program.

The Department must pay the debt on direct loans if borrowers (e.g. county or city governments, ship owners, or housing builders) default. For loan guarantees, the Department must pay the amount of outstanding principal guaranteed.

Note 14. Environmental Liabilities and Disposal Liabilities

Environmental Liabilities and Disposal Liabilities *As of September 30*	2009	2008
		Dollars in Millions
Environmental Liabilities–Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 7,957.4	$ 8,873.5
Active Installations—Military Munitions Response Program (MMRP)	5,223.5	5,035.1
Formerly Used Defense Sites-IRP & BD/DR	3,452.9	3,233.2
Formerly Used Defense Sites--MMRP	13,545.9	14,859.0
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action	772.8	812.8
Environmental Closure Requirements	2,193.7	1,868.1
Environmental Response at Operational Ranges	164.0	204.7
Asbestos	1,183.3	428.6
Non-Military Equipment	114.4	89.2
Other	1,222.8	1,118.2
Base Realignment and Closure Installations (BRAC)		
Installation Restoration Program	3,684.7	3,772.6
Military Munitions Response Program	1,063.6	1,075.0
Environmental Corrective Action / Closure Requirements	344.0	372.8
Environmental Disposal for Military Equipment / Weapons Programs		
Nuclear Powered Military Equipment / Spent Nuclear Fuel	12,672.4	12,255.7
Non-Nuclear Powered Military Equipment	36.4	39.1
Other National Defense Weapons Systems	194.4	197.4
Chemical Weapons Disposal Program		
Chemical Agents and Munitions Destruction (CAMD)	6,956.0	10,636.7
CAMD Assembled Chemical Weapons Assessment (ACWA)	5,447.8	5,634.2
Total Environmental Liabilities	**$ 66,230.0**	**$ 70,505.9**

Other Accrued Environmental Liabilities, Non-BRAC, Other primarily consists of remediation related to Formerly Utilized Sites Remedial Action Program (FUSRAP). The Department is responsible for FUSRAP, which remediates radiological contamination from the Department of Energy's U.S. Atomic Energy and Weapons Program.

The unrecognized portion of the estimated total cleanup costs associated with General PP&E is $2.1 billion for FY 2009. Not all Components of the Department are able to compile the necessary information for this disclosure, thus the amount reported may not accurately reflect the Department's total unrecognized costs associated with General PP&E. The Department is implementing procedures to address these deficiencies.

Other Disclosures

Types of Environmental Liabilities and Disposal Liabilities Identified

The Department has cleanup requirements for Defense Environmental Restoration Program (DERP) sites at active installations, BRAC installations, Formerly Used Defense Sites, sites at active installations that are not covered by DERP, weapons systems programs, and chemical weapons disposal programs. The weapons systems programs consist of chemical weapons disposal, nuclear-powered aircraft carriers, nuclear-powered submarines, and other nuclear ships. All cleanup is done in coordination with regulatory agencies, other responsible parties, and current property owners.

Applicable Laws and Regulations for Cleanup Requirements

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

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

The cleanup requirements for nuclear-powered aircraft carriers, submarines, and other nuclear ships are based on laws that affect the Department's conduct of environmental policy and regulations. The Atomic Energy Act of 1954, as amended, assures the proper management of source, special nuclear, and byproduct materiel. As in all cases with nuclear power, the Department coordinates actions with the Department of Energy. The Nuclear Waste Policy Act of 1982 requires all owners and generators of high-level nuclear waste and spent nuclear fuel to pay their respective shares of the full cost of the program. Finally, the Low-Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on FY 1986 National Defense Authorization Act (PL 99-145, as amended) that directed the Department to destroy the unitary chemical stockpile in accordance with the requirements of the Chemical Weapons Convention Treaty. The Army, as Executive Agent within the Department, provides policy, direction, and oversight for both the Chemical Stockpile Program and the Nonstockpile Chemical Materiel Project. As such, the Army is responsible for the safe and economical disposal of the U.S. stockpile of lethal and incapacitating chemical warfare agents and munitions.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

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

Once the environmental cost estimates are complete, the Department complies with accounting standards to assign costs to current operating periods. The Department has already expensed the costs for cleanup associated with General PP&E placed into service before October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are to be recovered through user charges, the Department expenses cleanup costs associated with that portion of the asset life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the remaining life of the asset.

For General PP&E placed into service after September 30, 1997, the Department expenses associated environmental costs systematically over the life of the asset using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

The Department had changes in estimates resulting from overlooked or previously unknown contaminants, reestimation based on different assumptions, and other changes in project scope. Environmental liabilities may change in the future due to changes in laws and regulation, changes in agreements with regulatory agencies, and advances in technology.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities

The environmental liabilities for the Department are based on accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters.

The Department has a liability to take environmental restoration and corrective action for buried chemical munitions and agents; however, it is unable to estimate at this time because the extent of the buried chemical munitions and agents is unknown. The Department is also unable to provide a complete estimate for FUSRAP. The Department has ongoing studies and will update its estimate as additional liabilities are identified. In addition, not all Components of the Department recognize environmental liabilities associated with General PP&E due to process and system limitations.

The Department has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department is unable to provide a reasonable estimate at this time because the extent of required restoration is unknown.

Note 15. Other Liabilities

Other Liabilities As of September 30	2009 Current Liability	2009 Noncurrent Liability	2009 Total
Dollars in Millions			
Intragovernmental			
Advances from Others	$ 1,619.9	$ 0.0	$ 1,619.9
Deposit Funds and Suspense Account Liabilities	471.4	0.0	471.4
Disbursing Officer Cash	2,419.6	0.0	2,419.6
Judgment Fund Liabilities	171.9	0.0	171.9
FECA Reimbursement to the Department of Labor	589.9	804.0	1,393.9
Custodial Liabilities	3,676.0	908.8	4,584.8
Employer Contribution and Payroll Taxes Payable	454.8	0.0	454.8
Other Liabilities	369.4	0.0	369.4
Total Intragovernmental Other Liabilities	**$ 9,772.9**	**$ 1,712.8**	**$ 11,485.7**
Nonfederal			
Accrued Funded Payroll and Benefits	$ 9,799.7	$ 0.0	$ 9,799.7
Advances from Others	4,472.2	0.0	4,472.2
Deferred Credits	(0.3)	0.0	(0.3)
Deposit Funds and Suspense Accounts	216.4	0.0	216.4
Nonenvironmental Disposal Liabilities			
Military Equipment (Nonnuclear)	3.5	262.4	265.9
Excess/Obsolete Structures	105.6	599.0	704.6
Conventional Munitions Disposal	0.0	2,072.3	2,072.3
Accrued Unfunded Annual Leave	9,807.6	0.0	9,807.6
Capital Lease Liability	11.4	100.0	111.4
Contract Holdbacks	659.9	0.4	660.3
Employer Contribution and Payroll Taxes Payable	741.7	0.0	741.7
Contingent Liabilities	1,237.3	2,913.2	4,150.5
Other Liabilities	836.5	1.1	837.6
Total Nonfederal Other Liabilities	**$ 27,891.5**	**$ 5,948.4**	**$ 33,839.9**
Total Other Liabilities	**$ 37,664.4**	**$ 7,661.2**	**$ 45,325.6**

Other Liabilities			Dollars in Millions
	Restated 2008		
As of September 30	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Advances from Others	$ 736.9	$ 0.0	$ 736.9
Deposit Funds and Suspense Account Liabilities	829.2	0.0	829.2
Disbursing Officer Cash	2,856.0	0.0	2,856.0
Judgment Fund Liabilities	167.7	0.1	167.8
FECA Reimbursement to the Department of Labor	548.0	847.1	1,395.1
Custodial Liabilities	3,851.0	1,619.4	5,470.4
Employer Contribution and Payroll Taxes Payable	377.7	0.0	377.7
Other Liabilities	213.9	0.0	213.9
Total Intragovernmental Other Liabilities	**$ 9,580.4**	**$ 2,466.6**	**$ 12,047.0**
Nonfederal			
Accrued Funded Payroll and Benefits	$ 8,143.1	$ 0.0	$ 8,143.1
Advances from Others	3,144.4	0.0	3,144.4
Deposit Funds and Suspense Accounts	325.2	0.0	325.2
Nonenvironmental Disposal Liabilities			
Military Equipment (Nonnuclear)	7.7	244.5	252.2
Excess/Obsolete Structures	116.2	616.6	732.8
Conventional Munitions Disposal	0.0	2,043.0	2,043.0
Accrued Unfunded Annual Leave	9,025.9	0.0	9,025.9
Capital Lease Liability	3.8	142.5	146.3
Contract Holdbacks	558.9	11.3	570.2
Employer Contribution and Payroll Taxes Payable	1,844.1	0.0	1,844.1
Contingent Liabilities	1,216.5	5,968.0	7,184.5
Other Liabilities	695.4	0.5	695.9
Total Nonfederal Other Liabilities	**$ 25,081.2**	**$ 9,026.4**	**$ 34,107.6**
Total Other Liabilities	**$ 34,661.6**	**$ 11,493.0**	**$ 46,154.6**

As a result of ongoing audit readiness efforts, the Department identified adjustments to FY 2008 Custodial Liabilities, resulting in a $337.2 million increase in Total Intragovernmental Other Liabilities. Refer to Note 26, Restatements, for further information.

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

Contingent Liabilities includes $1.5 billion related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Department has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

Nonfederal Other Liabilities primarily consists of accrued estimates for repairs and cargo expenses.

Capital Lease Liability				*Dollars in Millions*
	2009 — Asset Category			
As of September 30	**Land and Buildings**	**Equipment**	**Other**	**Total**
Future Payments Due				
2010	$ 43.9	0.0	0.0	43.9
2011	41.3	0.0	0.0	41.3
2012	15.5	0.0	0.0	15.5
2013	11.1	0.0	0.0	11.1
2014	8.8	0.0	0.0	8.8
After 5 Years	8.7	0.0	0.0	8.7
Total Future Lease Payments Due	**$ 129.3**	**$ 0.0**	**$ 0.0**	**$ 129.3**
Less: Imputed Interest Executory Costs	17.9	0.0	0.0	17.9
Net Capital Lease Liability	**$ 111.4**	**$ 0.0**	**$ 0.0**	**$ 111.4**
Capital Lease Liabilities Covered by Budgetary Resources				**98.4**
Capital Lease Liabilities Not Covered by Budgetary Resources				**13.0**

Capital Lease Liability				*Dollars in Millions*
	2008 — Asset Category			
As of September 30	**Land and Buildings**	**Equipment**	**Other**	**Total**
Future Payments Due				
2009	$ 43.9	$ 1.5	0.0	45.4
2010	43.9	0.0	0.0	43.9
2011	41.3	0.0	0.0	41.3
2012	15.5	0.0	0.0	15.5
2013	11.1	0.0	0.0	11.1
After 5 Years	17.3	0.0	0.0	17.3
Total Future Lease Payments Due	**$ 173.0**	**$ 1.5**	**$ 0.0**	**$ 174.5**
Less: Imputed Interest Executory Costs	28.2	0.0	0.0	28.2
Net Capital Lease Liability	**$ 144.8**	**$ 1.5**	**$ 0.0**	**$ 146.3**
Capital Lease Liabilities Covered by Budgetary Resources				**123.9**
Capital Lease Liabilities Not Covered by Budgetary Resources				**22.4**

Note 16. Commitments and Contingencies

Legal Contingencies

The Department is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The Department has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Department records Judgment Fund liabilities in Note 12, Accounts Payable, and in Note 15, Other Liabilities.

In FY 2009, the Department reported 49 legal actions with individual claims greater than the Department's FY 2009 materiality threshold of $118.9 million. The total of the 49 actions is approximately $2.4 trillion. Of this amount, the OGC determined that claims totaling approximately $7.7 billion are classified "reasonably possible," $39.5 billion are classified "remote," and $2.3 trillion are classified "unable to determine the probability of loss." The Department also had a number of potential claims that individually did not meet the Department's materiality threshold but did meet the individual Components' thresholds. These claims are disclosed in the Components' financial statements.

Other Commitments and Contingencies

Undelivered orders for open (unfilled or unreconciled) contracts citing cancelled appropriations, for which the Department may incur a contractual commitment for payment, total $803.7 million.

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, the Department has limited automated system processes by which it captures or assesses these potential contingent liabilities, therefore, the amounts reported may not fairly present the Department’s contingent liabilities.

Contingencies considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further details.

Note 17. Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits				*Dollars in Millions*
	2009			
As of September 30	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Actuarial Benefits				
Military Retirement Pensions	$ 1,173,456.3	5.75	$ (271,798.1)	$ 901,658.2
Military Retirement Health Benefits	313,959.2	5.75	0.0	313,959.2
Military Medicare-Eligible Retiree Benefits	509,466.4	5.75	(145,850.2)	363,616.2
Total Pension and Health Actuarial Benefits	**$ 1,996,881.9**		**$ (417,648.3)**	**$ 1,579,233.6**

Military Retirement and Other Federal Employment Benefits				*Dollars in Millions*
	2009			
As of September 30	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Other Actuarial Benefits				
FECA	$ 6,318.2	4.2	$ 0.0	$ 6,318.2
Voluntary Separation Incentive Programs	1,042.1	4.5	(450.4)	591.7
DoD Education Benefits Fund	1,797.2	4.5	(1,797.2)	0.0
Total Other Actuarial Benefits	**$ 9,157.5**		**$ (2,247.6)**	**$ 6,909.9**
Other Federal Employment Benefits	**$ 6,126.7**		**$ (4,525.3)**	**$ 1,601.4**
Total Military Retirement and Other Federal Employment Benefits	**$ 2,012,166.1**		**$ (424,421.2)**	**$ 1,587,744.9**

Actuarial Cost Method Used: Aggregate Entry-Age Method
Assumptions: Effective Interest
Market Value of Investments in Market-based and Marketable Securities: $441.2 billion

Military Retirement and Other Federal Employment Benefits				*Dollars in Millions*
	2008			
As of September 30	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Actuarial Benefits				
Military Retirement Pensions	$ 1,150,748.8	5.75	$ (246,956.7)	$ 903,792.1
Military Retirement Health Benefits	317,967.9	5.75	0.0	317,967.9
Military Medicare-Eligible Retiree Benefits	500,195.7	5.75	(131,941.1)	368,254.6
Total Pension and Health Actuarial Benefits	**$ 1,968,912.4**		**$ (378,897.8)**	**$ 1,590,014.6**

Military Retirement and Other Federal Employment Benefits				*Dollars in Millions*
	2008			
As of September 30	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Other Actuarial Benefits				
FECA	$ 6,862.2	4.4	$ 0.0	$ 6,862.2
Voluntary Separation Incentive Programs	1,146.0	4.5	(501.5)	644.5
DoD Education Benefits Fund	1,959.2	4.5	(1,817.3)	141.9
Total Other Actuarial Benefits	**$ 9,967.4**		**$ (2,318.8)**	**$ 7,648.6**
Other Federal Employment Benefits	**$ 5,725.6**		**$ (3,988.2)**	**$ 1,737.4**
Total Military Retirement and Other Federal Employment Benefits	**$ 1,984,605.4**		**$ (385,204.8)**	**$ 1,599,400.6**

Actuarial Cost Method Used: Aggregate Entry-Age Method
Assumptions: Effective Interest
Market Value of Investments in Market-based and Marketable Securities: $374.5 billion

Military Retirement Pensions

The Military Retirement Fund (MRF) is a defined benefit plan authorized by PL 98-94 to provide funds used to pay annuities and pensions to retired military personnel and their survivors. The DoD Retirement Board of Actuaries approves the long-term economic assumptions for inflation, salary, and interest. The actuaries calculate the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). Due to reporting deadlines, the current year actuarial present value of projected plan benefits rolls forward from the prior year's valuation results. The actuaries used the following assumptions to calculate the FY 2009 roll-forward amount:

Military Retirement Pensions	Inflation	Salary	Interest
Fiscal Year 2009	5.8% (actual)	3.9% (actual)	5.75%
Fiscal Year 2010	0.0% (estimated)	3.4% (estimated)	5.75%
Long Term	3.0%	3.75%	5.75%

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

Change in MRF Actuarial Liability	*Dollars in Billions*
Actuarial Liability as of September 30, 2008	$ 1,150.7
Expected Normal Cost for FY 2009	22.5
Plan Amendment Liability	.3
Assumption Change Liability	7.8
Expected Benefit Payments for FY 2009	(50.5)
Interest Cost for FY 2009	65.6
Actuarial (gains)/losses due to changes in trend assumptions	(23.0)
Actuarial Liability as of September 30, 2009	**1,173.4**
Change in Actuarial Liability	**$ 22.7**
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method *Market Value of Investments in Market-Based and Marketable Securities: $286.2* *Assumed Interest Rate: 5.75%*	

Military Retirement Health Benefits

The Military Retirement Health Benefits (MRHB) are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. The actuaries calculate the actuarial liabilities annually using assumptions and actual experience. For the FY 2009 actuarial liability calculation, the actuaries used the following assumptions:

MRHB Medical Trend	FY 2008 – FY 2009	Ultimate Rate FY 2033
Medicare Inpatient (Direct Care)	5.13%	6.25%
Medicare Outpatient (Direct Care)	4.13%	6.25%
Medicare Prescriptions (Direct Care)	3.00%	6.25%
Non-Medicare Inpatient (Direct Care)	4.00%	6.25%
Non-Medicare Outpatient (Direct Care)	3.00%	6.25%
Non-Medicare Prescriptions (Direct Care)	3.00%	6.25%
Non-Medicare Inpatient (Purchased Care)	7.32%	6.25%
Non-Medicare Outpatient (Purchased Care)	9.95%	6.25%
Non-Medicare Prescriptions (Purchased Care)	7.96%	6.25%
U.S. Family Health Plan (USFHP) (Purchased Care)	9.00%	6.25%

Change in MHRB Actuarial Liability		*Dollars in Billions*
Actuarial Liability as of September 30, 2008 (Department preMedicare + all Uniformed Services Medicare cost-benefit effect)	$	318.0
Expected Normal Cost for FY 2009		10.9
Expected Benefit Payments for FY 2009		(10.6)
Interest Cost for FY 2009		18.6
Actuarial (gains)/losses due to other factors		(25.1)
Actuarial (gains)/losses due to changes in trend assumptions		2.2
Actuarial Liability as of September 30, 2009 (Department preMedicare + all Uniformed Services Medicare cost-benefit effect)	**$**	**314.0**
Change in Actuarial Liability	**$**	**(4.0)**
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method *Assumed Interest Rate: 5.75%*		

Medicare-Eligible Retiree Health Care Fund Benefits

In accordance with PL 106-398, Medicare-Eligible Retiree Health Care Fund (MERHCF) accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD MERHCF Board of Actuaries approves the long-term assumptions for medical trends and interest. The actuaries calculate the actuarial liabilities annually using actual experience (e.g., mortality and retirement rates, direct care costs, purchased care). Due to reporting deadlines, the current year actuarial present value of projected plan benefits rolls forward from the prior year's results. The actuaries used the following assumptions to calculate the FY 2009 roll-forward amount:

MERHCF Benefits — Medical Trend	FY 2008 – FY 2009	Ultimate Rate FY 2033
Medicare Inpatient (Direct Care)	5.13%	6.25%
Medicare Inpatient (Purchased Care)	6.13%	6.25%
Medicare Outpatient (Direct Care)	4.13%	6.25%
Medicare Outpatient (Purchased Care)	5.13%	6.25%
Medicare Prescriptions (Direct Care)	3.00%	6.25%
Medicare Prescriptions (Purchased Care)	8.44%	6.25%
USFHP (Purchased Care)	9.00%	6.25%

Change in MERHCF Actuarial Liability		Dollars in Billions
Actuarial Liability as of September 30, 2008 (all Uniformed Services Medicare)	$	500.2
Expected Normal Cost for FY 2009		10.4
Expected Benefit Payments for FY 2009		(8.4)
Interest Cost for FY 2009		29.1
Actuarial (gains)/losses due to other factors		(18.6)
Actuarial (gains)/losses due to changes in trend assumptions		(3.2)
Actuarial Liability as of September 30, 2009 (all Uniformed Services Medicare)	**$**	**509.5**
Change in Actuarial Liability	**$**	**9.3**
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method *Market Value of Investments in Market-Based and Marketable Securities: $152.4 Million* *Assumed Interest Rate: 5.75%*		

The MERHCF liability includes Medicare liabilities for all Uniformed Services. The $509.5 billion liability includes $498.1 billion for the Department, $10.2 billion for the Coast Guard, $1.1 billion for the Public Health Service, and $72.3 million for National Oceanic and Atmospheric Administration (NOAA). The FY 2009 contributions from each of the Uniformed Services were $10.4 billion from the Department, $257.3 million from the Coast Guard, $34.8 million from the Public Health Service, and $1.7 million from NOAA.

Federal Employees Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits, which 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 historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. A 4.22% interest rate was assumed for year one and 4.71% was assumed for year two and thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2009 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years were as follows:

Federal Employees — Compensation Act (FECA)		
CBY	**COLA**	**CPIM**
2010	.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014+	2.00%	3.71%

The model's resulting projections were analyzed by DOL to ensure the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model of economic assumptions, (2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2009 to the average pattern observed during the prior three charge back years, and (4) a comparison of the estimated liability per case in the 2009 projection to the average pattern for the projections for the most recent three years.

Voluntary Separation Incentive Program

PL 102-190 established the Voluntary Separation Incentive (VSI) Program to reduce the number of military personnel on active duty. The VSI Board of Actuaries approved the assumed annual interest rate of 4.5% used to calculate the actuarial liability. Since the VSI Program is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest cost.

Market Value of Investments in Market-based and Marketable Securities: $481.6 million

DoD Education Benefits Fund

PL 98-525 established the Education Benefits Fund (EBF) program to recruit and retain military members and aid in the readjustment of military members to civilian life. The actuaries calculate the actuarial liability annually based on the assumed interest rate of 4.5% that was approved by the EBF Board of Actuaries.

Market Value of Investments in Market-based and Marketable Securities: $2.1 billion

Other Federal Employment Benefits

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

Note 18. General Disclosures Related to the Statement of Net Cost

General Disclosures Related to the Statement of Net Cost				*Dollars in Millions*
As of September 30		2009		Restated 2008
Intragovernmental Costs	$	33,891.6	$	26,771.0
Public Costs		663,921.7		699,656.3
Total Costs	**$**	**697,813.3**	**$**	**726,427.3**
Intragovernmental Earned Revenue		(10,577.0)		(29,652.6)
Public Earned Revenue		(35,590.9)		(26,619.9)
Total Earned Revenue	**$**	**(46,167.9)**	**$**	**(56,272.5)**
Net Cost of Operations	**$**	**651,645.4**	**$**	**670,154.8**

The Department restated FY 2008 gross costs by $8.1 billion. As a result of ongoing audit readiness efforts, the Department identified $7.2 billion in contract financing payments classified as expenses rather than assets due to legacy system deficiencies. The Department also recognized a $1.1 billion prior period adjustment to correct understated Accounts Payable (Nonfederal) and related expenses for FY 2008. The Department corrected the methodology for reporting accruals for undistributed disbursements to prevent the understatement beginning in FY 2009. These reductions were offset by a $233 million increase in expenses related to inventory accounting. Refer to Note 26, Restatements, for further information.

Abnormal Balance

Contra Revenue for Services Provided (USSGL 5209) has an abnormal balance of $9.2 million. When the Department provides service to a public customer, an additional surcharge is added to the billing and posted to this account. The surcharge is reclassified to the Revenue from Services Provided account when collected. The Department is researching the issue.

Other Disclosures

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The Department is in the process of reviewing available data and developing a cost reporting methodology as required by the SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, as amended by SFFAS No. 30, Inter-entity Cost Implementation.

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The Department's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses. Intradepartmental reciprocal balances are then eliminated.

The SNC presents information based on budgetary obligation, disbursement, and collection transactions, as well as data from nonfinancial feeder systems. Amounts are adjusted for accruals such as payroll expenses, accounts payable, and environmental liabilities. The General Fund data is primarily derived from budgetary transactions (obligations, disbursements, and collections), data from nonfinancial feeder systems, and accruals made for major items. While Working Capital Funds primarily record transactions on an accrual basis, the systems do not always capture actual costs in a timely manner.

The Department's accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations.

Note 19. Disclosures Related to the Statement of Changes in Net Position

Contra Revenue for Services Provided (USSGL 5209) has an abnormal balance of $9.2 million. Refer to Note 18, General Disclosures Related to the Statement of Net Cost, for additional information.

The Department recognized prior period adjustments decreasing the beginning balances of Cumulative Results of Operations by $8.8 billion and $10.5 billion for FY 2009 and FY 2008, respectively. Unexpended Appropriations beginning balances increased $26.1 billion and $20.0 billion for FY 2009 and FY 2008, respectively, due to the correction of errors from prior years. Refer to Note 26, Restatements, for additional information on all prior period adjustments.

Other Financing Sources, Other consists primarily of adjustments to reconcile budgetary and proprietary trial balances. Due to financial system limitations, the Department adjusts for these unreconciled differences.

Earmarked Cumulative Results of Operations ending balance on the Statement of Changes in Net Position (SCNP) does not agree with the Earmarked Cumulative Results reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations. In the SCNP, offsetting balances for intradepartmental activity between Earmarked Funds and All Other Funds are reported on the same lines. The Eliminations column contains all appropriate elimination entries, which net to zero within each respective line, except for intraentity imputed financing costs.

Appropriations Received on the SCNP do not match the Appropriations on the Statement of Budgetary Resources (SBR) due to trust fund appropriations and special fund receipts. The difference of $101.1 billion is primarily related to the MRF and MERHCF appropriations. In order to preserve visibility with the President's Budget, these appropriations are effectively reported twice on the SBR; they are reported once by the Military Departments and Defense Agencies as appropriated and once by the individual trust funds as receipts. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources, for further details.

Note 20. Disclosures Related to the Statement of Budgetary Resources

Disclosures Related to the Statement of Budgetary Resources		*Dollars in Millions*
As of September 30, 2009	2009	Restated 2008
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period.	$ 451,881.1	$ 433,190.8

Reconciliation Differences

Appropriations Received on the Statement of Budgetary Resources (SBR) exceeds Appropriations Received on the Statement of Changes in Net Position by $101.1 billion. This difference represents trust and special fund receipts reported as exchange revenue on the SNC and included in appropriations on the SBR. In accordance with Office of Management and Budget guidance, $94.1 billion of General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds. The difference is primarily due to duplicate reporting in the SBR of the Military Services' contributions and U.S. Treasury's payments to the MRF and the MERHCF.

The SBR comparative column (FY 2008) includes $90.1 billion more in budget authority than reported in the 2008 actual column of the President's FY 2010 Budget. The difference is primarily due to the duplicate reporting discussed above and advances the U.S. Army Corps of Engineers (USACE) received from the District of Columbia. USACE reports the advances (account 96X6094) in its SBR. However, this account is not included in the budget.

The SBR FY 2008 column includes $808.8 million more in obligations than reported in the 2008 actual column of the President's FY 2010 Budget. The difference is primarily due to FY 2007 obligations that were not included in the SBR until FY 2008. These obligations were reported correctly in the 2007 column of the President's Budget.

The SBR FY 2008 column includes $70.2 billion less in net outlays than reported in the 2008 actual column of the President's FY 2010 Budget. The SBR reduces net outlays by the distributed offsetting receipts. The President's Budget does not reduce the Department's outlays by the distributed offsetting receipts.

Permanent Indefinite Appropriations

The Department of Defense (DoD) received the following permanent indefinite appropriations:

- Department of the Army General Gift Fund (10 USC 2601(b)(1))
- Department of the Navy General Gift Fund (10 USC 2601(b)(2))
- Department of the Air Force General Gift Fund (10 USC 2601 (b)(3))
- Department of Defense General Gift Fund (10 USC 2601)
- Disposal of Department of Defense Real Property (40 USC 485(h)(2)(A)(B))
- Lease of Department of Defense Real Property (40 USC 485(h)(2)(A)(B))
- Foreign National Employees Separation Pay Account, Defense (10 USC 1581)
- United States Naval Academy Gift and Museum Fund (10 USC 6973-4)
- Ship Stores Profits, Navy (10 USC 7220, 31 USC 1321)
- Midshipmen's Store (10 USC 6971B)
- Burdensharing Contributions Account (10 USC 2350j)

- Forest Program (10 USC 2665)
- DoD Base Closure Account (10 USC 2687)
- Medicare Eligible Retiree Health Care Fund (MERHCF) (10 USC 1111)
- Military Retirement Fund (MRF) (10 USC 1461)
- Education Benefits Fund (10 USC 2006)
- Host Nation Support for U.S. Relocation Activities (10 USC 2350k)
- National Defense Sealift Fund (10 USC 2218)
- Environmental Restoration, Navy (10 USC 2702)
- Hydraulic Mining Debris Reservoir (33 USC 683)
- Maintenance and Operation of Dams and Other Improvements of Navigable Waters (16 USC 810(a))
- Payments to States (33 USC 701c-3)
- Wildlife Conservation (16 USC 670-670(f))
- Ainsworth Bequest (31 USC 1321)
- DoD Family Housing Improvement Fund (10 USC 2883 (a))
- DoD Military Unaccompanied Housing Improvement Fund (10 USC 2883 (a))
- Voluntary Separation Incentive Fund (10 USC 1175(h))
- Rivers & Harbors Contributed Funds (33 USC 560, 701h)

The above permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes include: (1) military retirees health care benefits, retirement and survivor pay, and education benefits for veterans; (2) environmental, coastal, and wildlife habitat restoration, and water resources maintenance; (3) costs associated with the closure or realignment of military installations; (4) relocation of armed forces to a host nation; (5) separation payments for foreign nationals; (6) the construction, purchase, alteration, and conversion of sealift vessels; and (7) upkeep of libraries and museums.

Apportionment Categories for Obligations incurred

The Department reported the following amounts of direct obligations: (1) $560.9 billion in category A; (2) $287.8 billion in category B; and (3) $306.6 million in exempt from apportionment. The Department reported reimbursable obligations of $22.0 billion in category A and $161.3 billion in category B. Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation).

Legal Arrangements Affecting the Use of Unobligated Balances

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

Other Disclosures

The President's budget for FY 2011 has not yet been published. The budget is expected to be published in February 2010, and available at: http://www.defenselink.mil/comptroller/defbudget.

The SBR includes intraentity transactions because the statements are presented as combined.

The Department utilizes borrowing authority for the Military Housing Privatization Initiative and the Armament Retooling and Manufacturing Support Initiative. Borrowing authority is used in accordance with OMB Circular No. A-129, Policies for Federal Credit Programs and Non-Tax Receivables.

The Department received additional funding of $152.4 billion (net of rescissions) to cover obligations incurred above baseline operations, primarily in support of the Overseas Contingency Operations and disaster relief. In addition, the Department received $12.0 billion of funding from the American Recovery and Reinvestment Act of 2009.

Note 21. Reconciliation of Net Cost of Operations to Budget

Reconciliation of Net Cost of Operations to Budget	*Dollars in Millions*	
As of September 30, 2009 and 2008	**2009**	**Restated 2008**
Resources Used to Finance Activities		
Budgetary Resources Obligated:		
Obligations incurred	$ 1,032,310.5	$ 1,001,667.5
Less: Spending authority from offsetting collections and recoveries (-)	(244,491.8)	(232,293.7)
Obligations net of offsetting collections and recoveries	**$ 787,818.7**	**$ 769,373.8**
Less: Offsetting receipts (-)	(65,912.1)	(70,247.6)
Net Budgetary Resources Obligated	**$ 721,906.6**	**$ 699,126.2**
Other Resources:		
Donations and forfeitures of property	$ 2.2	$ 1.5
Transfers in/out without reimbursement (+/-)	(42.8)	(51.2)
Imputed financing from costs absorbed by others	4,703.8	4,174.9
Other (+/-)	1,253.7	6,974.1
Net other resources used to finance activities	**$ 5,916.9**	**$ 11,099.3**
Total resources used to finance activities	**$ 727,823.5**	**$ 710,225.5**
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders (-)	$ (44,519.1)	$ (83,404.5)
Unfilled Customer Orders	931.8	6,444.9
Resources that fund expenses recognized in prior Periods (-)	(13,878.5)	(29,958.6)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	1,928.6	2,562.6
Resources that finance the acquisition of assets (-)	$ (145,039.9)	$ (139,518.3)

Reconciliation of Net Cost of Operations to Budget *As of September 30, 2009 and 2008*	*Dollars in Millions*			
		2009		Restated 2008
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	$	(10.0)	$	(10.0)
Other (+/-)		24,615.8		14,112.7
Total resources used to finance items not part of the Net Cost of Operations	**$**	**(175,971.3)**	**$**	**(229,771.2)**
Total resources used to finance the Net Cost of Operations	**$**	**551,852.2**	**$**	**480,454.3**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period				
Components Requiring or Generating Resources in Future Period:				
Increase in annual leave liability	$	819.9	$	646.0
Increase in environmental and disposal liability		929.2		1,813.2
Upward/Downward reestimates of credit subsidy expense (+/-)		0.4		(1.7)
Increase in exchange revenue receivable from the public (-)		815.5		(24.7)
Other (+/-)		32,691.5		139,220.3
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	**$**	**35,256.5**	**$**	**141,653.1**
Components not Requiring or Generating Resources:				
Depreciation and amortization	$	41,355.9	$	37,690.3
Revaluation of assets or liabilities (+/-)		5,969.1		8,387.5
Other (+/-)				
Trust Fund Exchange Revenue		(34,909.0)		(46,429.9)
Cost of Goods Sold		73,037.1		64,716.5
Operating Material and Supplies Used		30,868.3		25,695.8
Other		(51,784.7)		(42,012.9)
Total Components of Net Cost of Operations that will not Require or Generate Resources	**$**	**64,536.7**	**$**	**48,047.4**
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	**$**	**99,793.2**	**$**	**189,700.5**
Net Cost of Operations	**$**	**651,645.4**	**$**	**670,154.8**

Due to the Department's financial system limitations, budgetary data do not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data is a previously identified deficiency. The following adjustments (absolute value) were made to balance the Reconciliation of Net Cost of Operations to the Statement of Net Cost:

	(Amounts in millions)
Resources that Finance the Acquisition of Assets	$4,383.8
Other Components not Requiring or Generating Resources	26.2
Total Amount	**$4,410.0**

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined, instead of consolidated, due to intraagency budgetary transactions not being eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Other Resources, Other, primarily consists of $1.2 billion in transfers in or out of fixed assets without reimbursement and various nonexchange gains and losses that have no budgetary impact.

Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations, Other, primarily consists of $26.9 billion in prior period adjustments to properly recognize payments related to shipbuilding procurement costs as contract financing payments. Refer to Note 26, Restatements, for further details. This adjustment is partially offset by the $1.2 billion in transfers and nonexchange gains and losses referenced above.

Components Requiring or Generating Resources in Future Period, Other, primarily consists of future funded expenses for the current year change in actuarial liabilities of $22.7 billion and the increase in contingent liabilities. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional disclosures on the change in actuarial liabilities.

Components not Requiring or Generating Resources, Other, primarily consists of cost capitalization offsets and other expenses not requiring budgetary resources.

Note 22. Disclosures Related to Incidental Custodial Collections

The Department collected $1.2 million of incidental custodial revenues generated primarily from the collection of fines, penalties, and forfeitures. These funds are not available for use by the Department. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

Note 23. Earmarked Funds

Earmarked Funds As of September 30	2009 Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
					Dollars in Millions
Balance Sheet					
Assets					
Fund balance with Treasury	$ 20.5	$ 5.0	$ 2,246.2	$ 0.0	$ 2,271.7
Investments	278,347.0	148,403.4	8,133.7	0.0	434,884.1
Accounts and Interest Receivable	31.9	424.7	988.3	(6.0)	1,438.9
Other Assets	0.0	0.0	2,136.9	0.0	2,136.9
Total Assets	**$ 278,399.4**	**$ 148,833.1**	**$ 13,505.1**	**$ (6.0)**	**$ 440,731.6**
Liabilities and Net Position					
Military Retirement Benefits and Other Federal Employment Benefits	$ 1,177,154.9	$ 510,286.8	$ 2,839.4	$ 0.0	$1,690,281.1
Other Liabilities	1.9	122.9	2,591.6	(72.0)	2,644.4
Total Liabilities	**$ 1,177,156.8**	**$ 510,409.7**	**$ 5,431.0**	**$ (72.0)**	**$1,692,925.5**
Unexpended Appropriations	$ 0.0	$ 0.0	$ 5.6	$ 0.0	$ 5.6
Cumulative Results of Operations	(898,757.4)	(361,576.6)	8,068.5	(90,592.9)	(1,342,858.4)
Total Liabilities and Net Position	**$ 278,399.4**	**$ 148,833.1**	**$ 13,505.1**	**$ (90,664.9)**	**$ 350,072.7**
Statement of Net Cost					
Program Costs	$ 73,004.0	$ 17,336.1	$ 2,510.2	$ (2,567.2)	$ 90,283.1
Less Earned Revenue	(75,267.8)	(22,469.4)	(674.6)	94,121.9	(4,289.9)
Net Program Costs	(2,263.8)	(5,133.3)	1,835.6	91,554.7	85,993.2
Net Cost of Operations	**$ (2,263.8)**	**$ (5,133.3)**	**$ 1,835.6**	**$ 91,554.7**	**$ 85,993.2**
Statement of Changes in Net Position					
Net Position Beginning of the Period	$ (901,021.2)	$ (366,709.9)	$ 8,043.0	$ 0.0	$(1,259,688.1)
Net Cost of Operations	(2,263.8)	(5,133.3)	1,835.6	91,554.7	85,993.2
Budgetary Financing Sources	0.0	0.0	1,973.7	943.6	2,917.3
Other Financing Sources	0.0	0.0	(107.0)	18.2	(88.8)
Change in Net Position	**$ 2,263.8**	**$ 5,133.3**	**$ 31.1**	**$ (90,592.9)**	**$ (83,164.7)**
Net Position End of Period	**$ (898,757.4)**	**$ (361,576.6)**	**$ 8,074.1**	**$ (90,592.9)**	**$(1,342,852.8)**

Earmarked Funds As of September 30	2008 Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total *Dollars in Millions*
Balance Sheet					
Assets					
Fund balance with Treasury	$ 17.5	$ 5.0	$ 2,237.7	$ 0.0	$ 2,260.2
Investments	253,046.7	134,291.6	7,170.2	0.0	394,508.5
Accounts and Interest Receivable	24.5	12.5	551.2	(5.8)	582.4
Other Assets	0.0	0.0	1,999.5	0.0	1,999.5
Total Assets	**$ 253,088.7**	**$ 134,309.1**	**$ 11,958.6**	**$ (5.8)**	**$ 399,350.6**
Liabilities and Net Position					
Military Retirement Benefits and Other Federal Employment Benefits	$ 1,154,108.1	$ 500,819.2	$ 3,105.3	$ 0.0	$1,658,032.6
Other Liabilities	1.8	199.8	810.3	(85.7)	926.2
Total Liabilities	**$1,154,109.9**	**$ 501,019.0**	**$ 3,915.6**	**$ (85.7)**	**$1,658,958.8**
Unexpended Appropriations	$ 0.0	$ 0.0	$ 4.9	$ 0.0	$ 4.9
Cumulative Results of Operations	(901,021.2)	(366,709.9)	8,038.1	(86,232.0)	$(1,345,925.0)
Total Liabilities and Net Position	**$ 253,088.7**	**$ 134,309.1**	**$ 11,958.6**	**$ (86,317.7)**	**$ 313,038.7**
Statement of Net Cost					
Program Costs	$ 171,077.5	$ (8,429.7)	$ 2,252.9	$ (2,524.3)	$ 162,376.4
Less Earned Revenue	(80,659.5)	(32,657.2)	(1,206.9)	89,991.0	(24,532.6)
Net Program Costs	90,418.0	(41,086.9)	1,046.0	87,466.7	137,843.8
Net Cost of Operations	**$ 90,418.0**	**$ (41,086.9)**	**$ 1,046.0**	**$ 87,466.7**	**$ 137,843.8**
Statement of Changes in Net Position					
Net Position Beginning of the Period	$ (810,603.2)	$ (407,796.8)	$ 6,586.9	$ 0.0	$(1,211,813.1)
Net Cost of Operations	90,418.0	(41,086.9)	1,046.0	87,466.7	137,843.8
Budgetary Financing Sources	0.0	0.0	2,950.3	1,229.6	4,179.9
Other Financing Sources	0.0	0.0	(448.2)	5.1	(443.1)
Change in Net Position	**$ (90,418.0)**	**$ 41,086.9**	**$ 1,456.1**	**$ (86,232.0)**	**$ (134,107.0)**
Net Position End of Period	**$ (901,021.2)**	**$ (366,709.9)**	**$ 8,043.0**	**$ (86,232.0)**	**$(1,345,920.1)**

Other Disclosures

The SFFAS No. 27, Identifying and Reporting Earmarked Funds, requires the disclosure of Earmarked Funds separate from All Other Funds on the SCNP and Balance Sheet. Funds must meet three criteria to be classified as earmarked: (1) a statute committing use of specifically-identified revenues for designated purposes, (2) explicit authority to retain the revenues, and (3) a requirement to account and report on the revenues. The Department's earmarked funds are either special or trust funds and use both receipt and expenditure accounts to report activity to the U.S. Treasury. There have been no changes in legislation that significantly changed the purposes of the funds.

The Total column is shown as consolidated and relates only to Earmarked Funds. The Eliminations column includes eliminations associated with Earmarked Funds and excludes the offsetting eliminations from All Other Funds. This exclusion causes assets to not equal liabilities and net position in the note. However, the amounts in the Total column equal the amounts reported for Earmarked Funds on the Balance Sheet.

The SFFAS No. 27 requires the presentation of gross amounts of Earmarked Funds separate from All Other (nonearmarked) Funds. Cumulative Results of Operations ending balances for Earmarked Funds on the SCNP do not agree with the Cumulative Results of Operations for Earmarked Funds reported on the Balance Sheet because the Cumulative Results of Operations on the Balance Sheet are presented net of eliminations, whereas the SCNP presents Cumulative Results of Operations gross.

Military Retirement Fund, 10 United States Code (USC) 1461. The MRF accumulates funds in order to finance, on an actuarially sound basis, the liabilities of the Department's military retirement and survivor benefit programs. Financing sources for the MRF are interest earnings on Fund assets, monthly Department contributions, and annual contributions from the U.S. Treasury. The monthly Department contributions are calculated as a percentage of basic pay. The contribution from the U.S. Treasury represents the amortization of the unfunded liability for service performed prior to October 1, 1984, plus the amortization of actuarial gains and losses that have arisen since then. The U.S. Treasury annual contribution also includes the normal cost amount for the concurrent receipt provisions of the FY 2004 National Defense Authorization Act.

Medicare-Eligible Retiree Health Care Fund, 10 USC 1111. The MERHCF accumulates funds to finance, on an actuarially sound basis, liabilities of the Department and the uniformed services health care programs for qualified Medicare-eligible beneficiaries. Financing sources for MERHCF are provided primarily through an annual actuarial liability payment from the U.S. Treasury, annual contributions from each Uniformed Service (Army, Navy, Air Force, Marine Corps, U.S. Coast Guard, National Oceanic and Atmospheric Administration, and U.S. Public Health Service) and interest earned from the Fund's investments.

Other Earmarked Funds

Special Recreation Use Fees, 16 USC 4061-6a note. The USACE is granted the authority to charge and collect fair and equitable Special Recreation Use Fees at campgrounds located at lakes or reservoirs that are under the jurisdiction of USACE. Types of allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The receipts are used for the operation and maintenance of the recreational sites.

Hydraulic Mining in California, Debris, 33 USC 683. Operators of hydraulic mines through which debris flows in part or in whole to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. Taxes imposed under this code are collected and expended under the supervision of USACE and the direction of the Department of the Army. The funds are used for repayment of funds advanced by the Federal government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954, 33 USC 701c-3. Seventy-five percent of all funds received and deposited from the leasing of lands acquired by the United States for flood control, navigation, and allied purposes (including the development of hydroelectric power) are returned to the state in which the property is located. USACE collects lease receipts into a receipt account. Funds are appropriated for the amount of receipts the following fiscal year. The funds may be expended by the states for the benefit of public schools and public roads of the counties in which such property is situated, or for defraying any of the expenses of county government.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters, 16 USC 803(f) and 810. When a reservoir or other improvement is constructed by the U.S., the Federal Energy Regulatory Commission (FERC) assesses charges against licensees directly benefited. The statute requires all proceeds from any Indian reservation be placed to the credit of the Indians of the reservation. All other charges arising from licenses, except those charges established by the FERC for administrative reimbursement, are paid to the U.S. Treasury and allocated for specific uses. The Army is allocated 50 percent of charges from all licenses, except licenses for the occupancy and use of public lands and national forests. These funds are deposited in a special fund and used for maintenance, operation, and improvement of dams and other navigation structures that are owned by the United States, or in construction, maintenance, or operation of headwater, or other improvements to navigable waters of the United States.

Fund for NonFederal Use of Disposal Facilities (for dredged material), 33 USC 2326. Any dredged material disposal facility under the jurisdiction of, or managed by, the Secretary of the Army may be used by a nonfederal interest if the Secretary determines that such use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs associated with such use. Any monies received through collection of fees under this law shall be available to, and used by, the Secretary of the Army for the operation and maintenance of the disposal facility from which the fees were collected.

South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund, Public Law 106-53 Sec. 603. Yearly transfers are made from the General Fund of the U.S. Treasury to the Trust Fund for investment purposes. Investment activity is managed by the Bureau of the Public Debt (BPD). The BPD purchases and redeems nonmarketable market-based securities. Investments include one-day certificates, bonds, and notes. When the fund reaches the aggregate amount of $108 million, withdrawals may be made by USACE for payment to the State of South Dakota. The state uses the payments to fund annually-scheduled work for wildlife habitat restoration.

Costal Wetlands Restoration Trust Fund and Costal Wetlands Planning, Protection, and Restoration Act, 16 USC 3951-3956. USACE (along with the Environmental Protection Agency, and the Fish and Wildlife Service) is granted the authority to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds among the named task force members. Federal contributions are established at 75 percent of project costs or 85 percent if the state has an approved Coastal Wetlands Conservation Plan.

Rivers and Harbors Contributed and Advance Funds, 33 USC 701h, 702f, and 703. Whenever any state or political subdivision offers to advance funds for a flood control project duly adopted and authorized by law, the Secretary of the Army may, in his discretion, receive such funds and expend them in the immediate prosecution of such work. The funding may be used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc. in the course of flood control and river and harbor maintenance.

Inland Waterways Trust Fund, 26 USC 9506. This law made the Inland Waterways Trust Fund available for USACE expenditures for navigation, construction, and rehabilitation projects on inland waterways. Collections for excise taxes from the public are made into the Trust Fund. The collections are invested and investment activity is managed by the BPD. The BPD purchases and redeems nonmarketable market-based securities. Investments include one-day certificates, bonds, and notes.

Harbor Maintenance Trust Fund, 26 USC 9505. The USACE Civil Works mission is funded by the Energy and Water Development Appropriations Act. The Water Resources Development Act of 1986 covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of all expenses of administration incurred by the U.S. Treasury, USACE, and the Department of Commerce. Collections are made into the Trust Fund from taxes collected from imports, domestics, passengers, and foreign trade. The collections are invested and investment activity is managed by the BPD.

Foreign National Employees Separation Pay Account Trust Fund, 10 USC 1581. This fund makes payments from amounts obligated by the Secretary of Defense that remain unexpended for separation pay for foreign national employees of the Department. The foreign national employees' separation pay funded by Foreign Military Sales administrative funds is maintained as a separate fund.

Defense Commissary Agency Surcharge Trust Fund, 10 USC 2685. This fund was established as the repository for the surcharge on sales of commissary goods paid for by authorized patrons to finance certain operating expenses and capital purchases of the Commissary System, which are precluded by law from being paid with appropriated funds. Most surcharge revenue is generated by the 5 percent surcharge applied to each sale. These funds may be used to pay for commissary store-related information technology investments, to purchase commissary equipment, to finance advance design modifications to prior year projects, for both minor and major construction projects, and to maintain and repair commissary facilities and equipment.

Education Benefit Fund, 10 USC 2006. This fund was established to finance, on an actuarially sound basis, the liabilities of the Department's education benefit programs for current and former active duty, guard, and reserve members of the armed forces, and members of the Coast Guard. Financing sources for the Education Benefit Fund are interest earnings on Fund assets and monthly Department contributions.

Voluntary Separation Incentive Fund, 10 USC 1175. This fund was established to finance, on an actuarially sound basis, the liabilities of the Department's incentive program for early separation from military service. Financing sources for the Voluntary Separation Incentive Fund are interest earnings on Fund assets and annual Department contributions

Military Housing Privatization Initiative, Public Law 104-106, Section 2801. The MHPI includes both direct loan and loan guarantee programs, is authorized by the National Defense Authorization Act for FY 1996, and includes a series of authorities that allow the Department to work with the private sector to renovate and build military family housing. The MHPI accelerates the construction of new housing built to market standard and leverages private sector capital with government dollars. The Department provides protection to the private sector partner against specific risks, such as base closure or member deployment.

Armament Retooling and Manufacturing Support Initiative, 10 USC 4551-4555. The Armament Retooling and Manufacturing Support Initiative is a loan guarantee program designed to incentivize commercial use of the Army's inactive ammunition plants for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than current military requirements, however, this capacity may be needed in the future. Revenue from property rentals are used to pay for the operation, maintenance and environmental cleanup at the facilities.

Note 24. Fiduciary Activities

Schedule of Fiduciary Activity		Dollars in Millions
As of September 30	2009	
Fiduciary net assets, beginning of year	$	166.4
Contributions		264.6
Investment earnings		17.0
Distributions to and on behalf of beneficiaries		**(260.6)**
Increase/(Decrease) in fiduciary net assets	**$**	**21.0**
Fiduciary net assets, end of period	**$**	**187.4**

Schedule of Fiduciary Net Assets		Dollars in Millions
As of September 30	2009	
Fiduciary Assets		
Cash and cash equivalents	$	187.4
Total Fiduciary Net Assets	**$**	**187.4**

Fiduciary activities exist when the Department has collected, received, held, or made disposition of assets on behalf of an individual or nonfederal entity. Fiduciary assets are not recognized on the Balance Sheet.

Public Law 89-538 authorized the Department, through the Savings Deposit Program, to collect voluntary contributions from members of the Armed Forces serving outside the United States or its possessions in designated areas. These contributions and earned interest are deposited in the U.S. Treasury on behalf of the members.

Note 25. Other Disclosures

Other Disclosures								*Dollars in Millions*
	2009— Asset Category							
As of September 30	Land and Buildings		Equipment		Other		Total	
Entity as Lessee – Operating Leases								
Future Payments Due								
Fiscal Year 2010	$	386.4	$	64.6	$	110.0	$	561.0
Fiscal Year 2011		359.2		66.1		114.3		539.6
Fiscal Year 2012		337.3		23.4		118.8		479.5
Fiscal Year 2013		321.2		5.2		119.1		445.5
Fiscal Year 2014		319.8		1.0		123.5		444.3
After 5 Years		770.8		1.0		0.0		771.8
Total Future Lease Payments Due	**$**	**2,494.7**	**$**	**161.3**	**$**	**585.7**	**$**	**3,241.7**

Operating leases are leases that do not transfer all the benefits and risk of ownership of capital leases. Payments are charged as expenses over the lease term. Office space is the largest component of land and building leases. Other leases are generally one-year leases that are not building or equipment leases. Future year cost projections use the Consumer Price Index.

Note 26. Restatements

The Department restated its financial statements as of September 30, 2008 to correct errors in assets, liabilities, gross costs, and net position identified during ongoing audit readiness efforts. Most errors were discovered as a result of data cleansing and reconciliation efforts during preparation for migration to new accounting and logistics systems and during data reconciliation following FY 2009 and FY 2008 migration to Enterprise Resource Planning (ERP) systems. The most material errors related to recognition of payments for shipbuilding procurement costs. A $1.7 billion adjustment not resulting in restatement was also made for a change in accounting principle to revalue a portion of the Department's inventory to moving average cost with the ongoing implementation of the Logistics Modernization Program ERP system.

Adjustment #1: The Department made corrections to recognize $26.9 billion in assets for contract financing payments of shipbuilding procurement during the period October 1, 2005 through September 30, 2008. During this period shipbuilding payments meeting the definition of contract financing payments were incorrectly expensed due to limitations within the Department's legacy accounting and reporting systems. The errors resulted in the understatement of Other Assets (Nonfederal), Unexpended Appropriations, and Undelivered Orders – Obligations, Prepaid/Advanced; and the overstatement of Net Cost, Expended Appropriations, and Delivered Orders – Obligations, Paid in the periods the payments were made. The corrections resulted in the restatement of the FY 2008 beginning balance of Cumulative Results of Operations and Unexpended Appropriation for shipbuilding payments prior to FY 2008 of $19.7 billion and the restatement to reduce FY 2008 net cost by $7.2 billion for payments that had been expensed in FY 2008. This restatement corrected Other Assets, Nonfederal on the Balance Sheet; Gross Costs on the Statement of Net Cost; Undelivered Orders – Obligations, Prepaid/Advanced and Delivered Orders – Obligations, Paid on the Statement of Budgetary Resources; and Cumulative Results of Operation and Unexpended Appropriations on the Statement of Changes in Net Position. Related notes restated were: Note 6, Other Assets and Note 18, General Disclosures Related to the Statement of Net Cost.

Adjustment #2: During the migration to another capital asset system, the Department identified and restated $9.1 billion in military equipment valued incorrectly in the legacy system. This restatement decreased General PP&E on the Balance Sheet and Cumulative Results of Operations on the SCNP. Note 10, General PP&E was also restated.

Adjustment #3: The Department identified $3.4 billion in Inventory and Related Property, Net overstatements resulting from the incorrect posting of inventory in transit which also understated net cost of operations. The corrections restated the FY 2008 beginning balance of Cumulative Results of Operations for incorrect postings prior to FY 2008 of $3.2 billion and the FY 2008 net cost by $233.0 million for incorrect postings in FY 2008. The Department restated Inventory and Related Property, Net on the Balance Sheet and Cumulative Results of Operations on the Statement of Changes in Net Position. The related notes restated were: Note 9, Inventory and Related Property, Net and Note 18, General Disclosures Related to the Statement of Net Cost.

Adjustment #4: During the migration to another ERP system, the Department identified and restated $1.5 billion in gains that were incorrectly recorded as inventory allowances due to legacy system deficiencies. This restatement corrected Inventory on the Balance Sheet and Other Financing Sources and Cumulative Results of Operations on the Statement of Changes in Net Position. Note 9, Inventory and Related Property was also restated.

Adjustment #5: The Department made corrections to recognize $1.1 billion in Construction-in-Progress payments made for the Pentagon Reservation Maintenance Fund through September 30, 2008. During this period payments were expensed in error. The errors resulted in the understatement of PP&E and the overstatement of Net Cost in the periods the payments were made. The corrections restated the FY 2008 beginning balance of Cumulative Results of Operations for payments prior to FY 2008 of $1.1 billion and the FY 2008 net cost by $27.9 million for payments expensed in FY 2008. This corrected General PP&E on the Balance Sheet; Gross Costs on the Statement of Net Cost; and Cumulative Results of Operation on the Statement of Changes in Net Position. Related notes restated were: Note 10, General Property, Plant and Equipment and Note 18, General Disclosures Related to the Statement of Net Cost.

Adjustment #6: While migrating from a manual to an automated interface between budget execution and financial statement reporting systems, the Department identified $697.7 million in errors in ending FY 2008 account balances. To correct the errors, the Department restated Accounts Receivable, General PP&E, Other Assets, Accounts Payable and Other Liabilities (Nonfederal and Intragovernmental) on the Balance Sheet; and Unexpended Appropriations and Cumulative Results of Operation on the Statement of Changes in Net Position. Related notes restated were: Note 2, Nonentity Assets; Note 5, Accounts Receivable; Note 6, Other Assets; Note 10, General Property, Plant, and Equipment; Note 12, Accounts Payable; and Note 15, Other Liabilities.

Adjustment #7: The Department identified $494.7 million overstatement in Inventory and Related Property, Net resulting from the incorrect posting of inventory in transit. The Department restated Inventory and Related Property, Net on the Balance Sheet and Cumulative Results of Operations on the Statement of Changes in Net Position. Note 9, Inventory and Related Property was also restated.

Adjustment #8: The Department recognized a $1.1 billion prior period adjustment to correct understated Accounts Payable (Nonfederal) and related expenses for FY 2008. The Department also corrected the methodology for reporting accruals for undistributed disbursements to prevent the understatement, beginning in FY 2009. This adjustment increased Accounts Payable, (Nonfederal), Net Cost, Expended Appropriations, and Delivered Orders - Obligations, Unpaid; and decreased Unexpended Appropriations, and Undelivered Orders - Obligations, Unpaid. Related notes restated were: Note 12, Accounts Payable and Note 18, General Disclosures Related to the Statement of Net Cost.

Effect on Comparative Balances

FY 2009 Statement of Changes in Net Position		*Dollars in Billions*
Cumulative Results of Operations		**FY 2009**
Changes in Accounting Principles (No restatement)	$	1.7
Correction of Errors (+/-) Adjustment #2		(9.1)
Correction of Errors (+/-) Adjustment #3		(3.4)
Correction of Errors (+/-) Adjustment #4		1.5
Correction of Errors (+/-) Adjustment #5		1.1
Correction of Errors (+/-) Adjustment #6		(0.1)
Correction of Errors (+/-) Adjustment #7		(0.5)
Beginning balance adjustments	**$**	**(8.8)**

FY 2009 Statement of Changes in Net Position		*Dollars in Billions*
Unexpended Appropriations		
Correction of Errors – Adjustment #1	$	27.2
Correction of Errors – Adjustment #8		(1.1)
Beginning balance adjustments	**$**	**26.1**

Effect on Comparative Balances

FY 2008 Balance Sheet		*Dollars in Billions*
Inventory – Adjustment #3	$	(3.4)
Inventory – Adjustment #4		1.5
Inventory – Adjustment #7		(0.5)
General PP&E Net – Adjustment #2		(9.1)
General PP&E Net – Adjustment #5		1.1
Other Assets (Nonfederal) – Adjustment #1		26.9
Total Assets	**$**	**16.5**
Other Liabilities (Intergovernmental) – Adjustment #6	$	0.3
Accounts Payable (Nonfederal) – Adjustment #6		(0.5)
Accounts Payable (Nonfederal) – Adjustment #8		1.1
Total Liabilities	**$**	**0.9**
Net Position	**$**	**15.6**
FY 2008 Statement of Net Cost		*Dollars in Billions*
Gross Costs – Adjustment #1	$	(7.2)
Gross Costs – Adjustment #3		0.2
Gross Costs – Adjustment #8		1.1
Net Cost of Operations	**$**	**(5.9)**
FY 2008 Statement of Changes in Net Position		*Dollars in Billions*
Cumulative Results of Operations		
Correction of Errors (+/-) Adjustment #2	$	(9.1)
Correction of Errors (+/-) Adjustment #3		(3.2)
Correction of Errors (+/-) Adjustment #4		0.7
Correction of Errors (+/-) Adjustment #5		1.1
Correction of Errors (+/-) Adjustment #6		(0.1)
Budgetary Financing Sources:		
Appropriations used – Adjustment #1	$	(7.2)
Appropriations used – Adjustment #8		1.1

FY 2008 Balance Sheet		*Dollars in Billions*
Other Financing Sources:		
Other (+/-) – Adjustment #4		0.8
Other (+/-) – Adjustment #7		(0.5)
Total Financing Sources	**$**	**(5.8)**
Net Cost of Operations Adjustment #1	$	(7.2)
Net Cost of Operations Adjustment #3		0.2
Net Cost of Operations Adjustment #8		1.1
Net Change	**$**	**0.1**
Cumulative Results	**$**	**(10.5)**
Unexpended Appropriations		
Correction of Errors – Adjustment #1	$	19.7
Correction of Errors – Adjustment #6		0.3
Budgetary Financing Sources:		
Appropriations Used – Adjustment #1		7.2
Appropriations Used – Adjustment #8		(1.1)
Total Budgetary Financing Sources	**$**	**6.1**
Unexpended Appropriations	$	26.1
Net Position	**$**	**15.6**

Required Supplementary Stewardship Information

Federal financial reporting requires DoD to report on its stewardship over certain resources that cannot be measured in traditional financial reports. These resources do not meet the criteria for assets and liabilities required to be reported in the financial statements, but are important to understand the operations and financial condition of DoD at the date of the financial statements and in subsequent periods.

The Department's stewardship investments are comprised of, and are measured in terms of, expenses incurred for: 1) federally-financed, but not federally-owned, physical property (Nonfederal Physical Property); and 2) federally-financed research and development (Research and Development (R&D)). Information on additional reporting requirements for Nonfederal Physical Property and R&D follows.

NONFEDERAL PHYSICAL PROPERTY

The Nonfederal Physical Property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. In addition, Nonfederal Physical Property investments include federally-owned physical property transferred to state and local governments.

Nonfederal Physical Property
Department of Defense Consolidated — Nonfederal Physical Property

Yearly Investments in State and Local Governments
For Fiscal Years 2009 through 2005
Dollars in Millions

Categories	2009	2008	2007	FY 2006	FY 2005
Transferred Assets:					
National Defense Mission Related	$ 1224.7	$ 1,169.2	$ 1,051.0	$ 1,295.5	$ 1,394.7
Funded Assets:					
National Defense Mission Related	26.7	19.6	2.8	8.5	8.3
Total	**$ 1,251.4**	**$ 1,188.8**	**$ 1,053.8**	**$ 1,304.0**	**$ 1,403.0**

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Investment values included in this report are based on R&D expenses. The R&D programs are classified in the following categories: Basic Research, Applied Research, and Development. The amounts reported in the Investments in R&D table show outlays from FY 2005 – FY 2009 for all DoD Components. The definition for each type of R&D Category and Subcategories are explained below.

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

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

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development consists of the five stages defined in the Investments in R&D table.

Advanced Technology Development is the systematic use of the knowledge or understanding gained from research and directed toward proof of technological feasibility and assessment of producibility rather than directed toward the development of hardware for service use. It employs demonstration activities intended to prove or test a technology or method.

Advanced Component Development and Prototypes evaluates integrated technologies in an operating environment as realistic as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components and complete weapon systems ready for operational and developmental testing and field use.

System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

Research, Development, Test, and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the Research and Development program.

Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development stages which have received approval for production and production funds have been budgeted in subsequent fiscal years.

Investments in Research and Development (R&D)
Department of Defense Consolidated

Yearly Investments in Research and Development
For the Current and Four Preceding Fiscal Years
Dollars in Millions

Categories	2009	2008	2007	FY 2006	FY 2005
Basic Research	$ 821.0	$ 1,346.4	$ 1,445.7	$ 1,408.5	$ 1,447.3
Applied Research	1,944.0	3,812.3	4,647.1	4,756.9	4,569.9
Development					
Advanced Technology Development	2,263.2	5,977.9	6,019.7	5,737.4	5,795.2
Advanced Component Development and Prototypes	12,148.3	15,410.6	14,109.6	11,906.9	12,793.3
System Development and Demonstration	21,501.9	18,052.9	16,737.8	13,209.8	12,253.1
Research, Development, Test and Evaluation Management Support	5,141.3	5,471.0	4,705.4	3,736.0	3,590.6
Operational Systems Development	42,450.6	20,246.7	13,525.1	5,509.8	5,334.6
Totals:	**$86,270.3**	**$70,317.8**	**$61,200.4**	**$46,265.3**	**$45,784.0**

Required Supplementary Information

REAL PROPERTY DEFERRED MAINTENANCE

This section includes the deferred maintenance information and Statement of Disaggregated Budgetary Resources.

Real Property Deferred Maintenance and Repair *For Fiscal Year Ended September 30, 2009*			*Dollars in Millions*
Property Type	**Current Fiscal Year (CFY)**		
	1. Plant Replacement Value	**2. Required Work (Deferred Maintenance & Repair)**	**3. Percentage**
1. Category 1	**$557,465**	**$68,048**	**12%**
2. Category 2	**$47,238**	**$7,859**	**17%**
3. Category 3	**$43,871**	**$9,249**	**21%**

The deferred maintenance amount is based on facility Q-ratings found in the Department's real property inventory. Q-ratings represent work needed to bring a facility to a fully serviceable condition with no repair needs. The reported deferred maintenance is the difference between the facility Q-rating and the target Q-rating that represents the acceptable operating condition established by each Component within the Department. The percentage column reflects the percent of total plant replacement value for each category represented by deferred maintenance.

Facility Categories are as follows:

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

MILITARY EQUIPMENT DEFERRED MAINTENANCE

Depot maintenance requirements for military equipment are developed during the annual budget process. The table below shows the deferred unfunded requirements for the depot maintenance program.

Military Equipment Deferred Maintenance *For Fiscal Year Ended September 30, 2009*	*Dollars in Million*
Major Categories	**Amounts**
1. Aircraft	$1,180.3
2. Automotive Equipment	$102.3
3. Combat Vehicles	$504.3
4. Construction Equipment	$49.6
5. Electronics and Communications Systems	$433.3
6. Missiles	$116.8
7. Ships	$187.1
8. Ordnance Weapons and Munitions	$65.5
9. General Purpose Equipment	$446.7
10. All Other Items Not Identified to above Categories	$83.7
Total	**$3,169.6**

Statement Of Disaggregated Budgetary Resources *For the Years Ended September 30, 2009 and 2008* *Dollars in Millions*	2009											
	Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund	Research, Development, Test and Evaluation	Civil Works	Operation and Maintenance	Procurement	Military Personnel	Military Construction/ Family Housing	Working Capital Funds	Other	2009 Combined	2008 Combined
Budgetary Financing Account												
Budgetary Resources												
Unobligated balance, brought forward, October 1	$ 0.0	$ 0.0	$ 16,505.0	$ 11,692.7	$ 10,628.8	$ 65,031.0	$ 819.5	$ 11,379.1	$ 7,419.1	$ 12,194.6	$ 135,669.8	$ 111,980.6
Recoveries of prior year unpaid obligations	0.0	0.0	3,871.7	689.4	22,711.1	11,566.7	15,712.1	3,541.4	3,406.8	1,773.7	63,272.9	49,744.1
Budget authority												
Appropriation	75,145.3	22,396.7	78,227.3	17,012.8	268,820.3	127,678.6	144,786.6	18,268.4	2,351.0	100,877.3	855,564.3	859,403.8
Contract authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	67,626.3	0.0	67,626.3	78,927.8
Spending authority from offsetting collections												
Earned												
Collected	0.0	0.0	9,602.2	11,886.1	26,850.3	3,496.6	1,019.7	7,480.3	116,807.2	1,001.1	178,143.5	174,493.0
Change in receivables from Federal sources	0.0	0.0	420.8	(83.8)	1,023.6	60.7	22.1	(12.4)	(147.8)	(94.8)	1,188.4	791.8
Change in unfilled customer orders												
Advance received	0.0	0.0	246.5	259.2	7.7	(44.3)	0.0	282.3	104.3	175.3	1,031.0	753.2
Without advance from Federal sources	0.0	0.0	(749.9)	(2,080.9)	183.4	316.2	7.4	418.8	1,749.6	67.1	(88.3)	5,679.1
Expenditure transfers from trust funds	0.0	0.0	0.0	862.5	0.0	0.0	0.0	0.0	0.0	0.0	862.5	766.0
Subtotal	75,145.3	22,396.7	87,746.9	27,855.9	296,885.3	131,507.8	145,835.8	26,437.4	188,490.6	102,026.0	1,104,327.7	1,120,814.7
Nonexpenditure transfers, net, anticipated and actual	0.0	0.0	(120.8)	170.5	4,463.3	4,957.3	1,212.3	(325.9)	(1,274.3)	(9,098.1)	(15.7)	(264.1)
Temporarily not available pursuant to Public Law	(24,841.3)	(14,106.1)	0.0	(10.0)	0.0	0.0	0.0	0.0	0.0	(233.0)	(39,190.4)	(59,949.4)
Permanently not available	0.0	0.0	(2,269.2)	(4.1)	(7,708.5)	(2,378.7)	(628.8)	(229.5)	(71,664.7)	(1,085.8)	(85,969.3)	(85,156.8)
Total Budgetary Resources	$ 50,304.0	$ 8,290.6	$ 105,733.6	$ 40,394.4	$ 326,980.0	$ 210,684.1	$ 162,950.9	$ 40,802.5	$ 126,377.5	$ 105,577.4	$ 1,178,095.0	$ 1,137,169.1

Status Of Budgetary Resources *For the Years Ended September 30, 2009 and 2008* *Dollars in Millions*	2009											
	Military Retirement Fund	**Medicare-Eligible Retiree Health Care Fund**	**Research, Development, Test and Evaluation**	**Civil Works**	**Operation and Maintenance**	**Procurement**	**Military Personnel**	**Military Construction/ Family Housing**	**Working Capital Funds**	Other	**2009 Combined**	**2008 Combined**
Obligations incurred:												
Direct	$ 50,304.0	$ 8,290.6	$ 80,445.6	$ 12,428.7	$ 285,501.9	$ 142,182.7	$ 160,105.4	$ 15,229.1	$ 1,573.1	$ 92,835.1	$ 848,896.2	$ 811,662.0
Reimbursable	0.0	0.0	10,480.0	10,621.2	28,343.5	3,379.9	1,052.2	10,361.4	117,792.6	1,240.8	183,271.6	189,837.4
Subtotal	50,304.0	8,290.6	90,925.6	23,049.9	313,845.4	145,562.6	161,157.6	25,590.5	119,365.7	94,075.9	1,032,167.8	1,001,499.4
Unobligated balance:												
Apportioned	0.0	0.0	13,450.4	16,266.7	4,692.3	63,530.4	523.7	14,788.5	5,149.2	9,647.4	128,048.6	120,047.8
Exempt from apportionment	0.0	0.0	0.0	1,077.7	0.0	0.0	0.0	0.0	1,886.0	409.8	3,373.5	1,060.7
Subtotal	0.0	0.0	13,450.4	17,344.4	4,692.3	63,530.4	523.7	14,788.5	7,035.2	10,057.2	131,422.1	121,108.5
Unobligated balance not available	0.0	0.0	1,357.6	0.1	8,442.3	1,591.1	1,269.6	423.5	(23.4)	1,444.3	14,505.1	14,561.2
Total status of budgetary resources	50,304.0	$ 8,290.6	$ 105,733.6	$ 40,394.4	$ 326,980.0	$ 210,684.1	$ 162,950.9	$ 40,802.5	$ 126,377.5	$ 105,577.4	$1,178,095.0	$1,137,169.1
Change in Obligated Balance:												
Obligated balance, net												
Unpaid obligations, brought forward, October 1	$ 3,359.2	$ 240.1	$ 40,306.8	$ 9,392.9	$ 122,107.1	$ 148,367.0	$ 8,658.8	$ 21,547.8	$ 58,421.2	$ 19,717.6	$ 432,118.5	$ 372,558.6
Less: Uncollected customer payments from Federal sources, brought forward, October 1	0.0	0.0	(5,473.0)	(5,418.0)	(13,021.2)	(3,603.1)	38.6	(9,005.4)	(29,997.5)	(122.6)	(66,602.2)	(60,131.3)
Total unpaid obligated balance	$ 3,359.2	$ 240.1	$ 34,833.8	$ 3,974.9	$ 109,085.9	$ 144,763.9	$ 8,697.4	$ 12,542.4	$ 28,423.7	$ 19,595.0	$ 365,516.3	$ 312,427.3
Obligations incurred net	50,304.0	8,290.6	90,925.6	23,049.9	313,845.4	145,562.6	161,157.6	25,590.5	119,365.7	94,075.9	1,032,167.8	1,001,499.4
Less: Gross outlays	(49,964.5)	(8,357.6)	(84,681.5)	(20,453.8)	(281,916.2)	(128,776.9)	(144,622.1)	(17,339.0)	(118,287.4)	(92,541.6)	(946,940.6)	(892,195.4)
Obligated balance transferred, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: Recoveries of prior year unpaid obligations, actual	0.0	0.0	(3,871.7)	(689.4)	(22,711.1)	(11,566.7)	(15,712.1)	(3,541.4)	(3,406.8)	(1,773.7)	(63,272.9)	(49,744.1)
Change in uncollected customer payments from Federal sources	0.0	0.0	329.1	(2,164.7)	(1,207.1)	(376.9)	(29.5)	(406.5)	(1,601.8)	28.0	(1,100.0)	(6,470.9)
Obligated balance, net, end of period												
Unpaid obligations	3,698.7	173.1	42,679.2	11,299.6	131,325.2	153,586.0	9,482.2	26,257.9	56,092.7	19,478.2	454,072.8	432,118.5
Less: Uncollected customer payments (+/-) from Federal sources	0.0	0.0	(5,143.9)	(3,253.3)	(14,228.3)	(3,980.0)	9.1	(9,411.9)	(31,599.3)	(94.6)	(67,702.2)	(66,602.2)
Total, unpaid obligated balance, net, end of period	$ 3,698.7	$ 173.1	$ 37,535.3	$ 8,046.3	$ 117,096.9	$ 149,606.0	$ 9,491.3	$ 16,846.0	$ 24,493.4	$ 19,383.6	$ 386,370.6	$ 365,516.3
Net												
Net Outlays:												
Gross outlays	$ 49,964.5	$ 8,357.6	$ 84,681.5	$ 20,453.8	$ 281,916.2	$ 128,776.9	$ 144,622.1	$ 17,339.0	$ 118,287.4	$ 92,541.6	$ 946,940.6	$ 892,195.4
Less: Offsetting collections	0.0	0.0	(9,848.7)	(13,007.8)	(26,858.0)	(3,452.3)	(1,019.7)	(7,762.6)	(116,911.5)	(1,176.5)	(180,037.1)	(176,012.2)
Less: Distributed Offsetting receipts	(51,125.0)	(11,752.4)	0.0	(583.2)	0.0	0.0	0.0	0.0	0.0	(2,451.5)	(65,912.1)	(70,247.6)
Net Outlays	$ (1,160.5)	$ (3,394.8)	$ 74,832.8	$ 6,862.8	$ 255,058.2	$ 125,324.6	$ 143,602.4	$ 9,576.4	$ 1,375.9	$ 88,913.6	$ 700,991.4	$ 645,935.6

Combined Statement Of Budgetary Resources *For the Years Ended September 30, 2009 and 2008* *Dollars in Millions*	Non Budgetary		
	Other	2009 Combined	2008 Combined
Non Budgetary Financing Accounts			
Budgetary Resources			
Unobligated balance, brought forward, October 1	$ 26.3	$ 26.3	$ 25.5
Recoveries of prior year unpaid obligations	47.5	47.5	0.0
Budget authority			
Borrowing authority	58.4	58.4	130.0
Spending authority from offsetting collections			
Earned			
Collected	45.1	45.1	53.9
Change in unfilled customer orders			
Without advance from Federal sources	(10.8)	(10.8)	12.6
Subtotal	92.7	92.7	196.5
Permanently not available	(0.1)	(0.1)	(27.6)
Total Budgetary Resources	$ 166.4	$ 166.4	$ 194.4

Statement of Disaggregated Budgetary Resources *For the Years Ended September 30, 2009 and 2008* *Dollars in Millions*	**Non Budgetary**		
	Other	**2009 Combined**	**2008 Combined**
Non Budgetary Financing Accounts			
Obligations incurred:			
Direct	$ 142.7	$ 142.7	$ 168.1
Subtotal	**$ 142.7**	**$ 142.7**	**$ 168.1**
Unobligated balance:			
Apportioned	0.3	0.3	0.3
Subtotal	**0.3**	**0.3**	**0.3**
Unobligated balance not available	23.4	23.4	26.0
Total status of budgetary resources	**$ 166.4**	**$ 166.4**	**$ 194.4**
Change in Obligated Balance:			
Obligated balance, net			
Unpaid obligations, brought forward, October 1	$ 872.9	$ 872.9	$ 768.0
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(143.0)	(143.0)	(130.4)
Total unpaid obligated balance	**$ 729.9**	**$ 729.9**	**$ 637.6**
Obligations incurred net	142.7	142.7	168.1
Less: Gross outlays	(197.7)	(197.7)	(63.2)
Less: Recoveries of prior year unpaid obligations, actual	(47.5)	(47.5)	0.0
Change in uncollected customer payments from Federal sources	10.8	10.8	(12.6)
Obligated balance, net, end of period			
Unpaid obligations	770.4	770.4	872.9
Less: Uncollected customer payments (+/-) from Federal sources	(132.2)	(132.2)	(143.0)
Total, unpaid obligated balance, net, end of period	**$ 638.2**	**$ 638.2**	**$ 729.9**
Net			
Net Outlays:			
Gross outlays	$ 197.7	$ 197.7	$ 63.2
Less: Offsetting collections	(45.1)	(45.1)	(53.9)
Net Outlays	**$ 152.6**	**$ 152.6**	**$ 9.3**

WELCOME TO THE DEPARTMENT OF DEFENSE

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