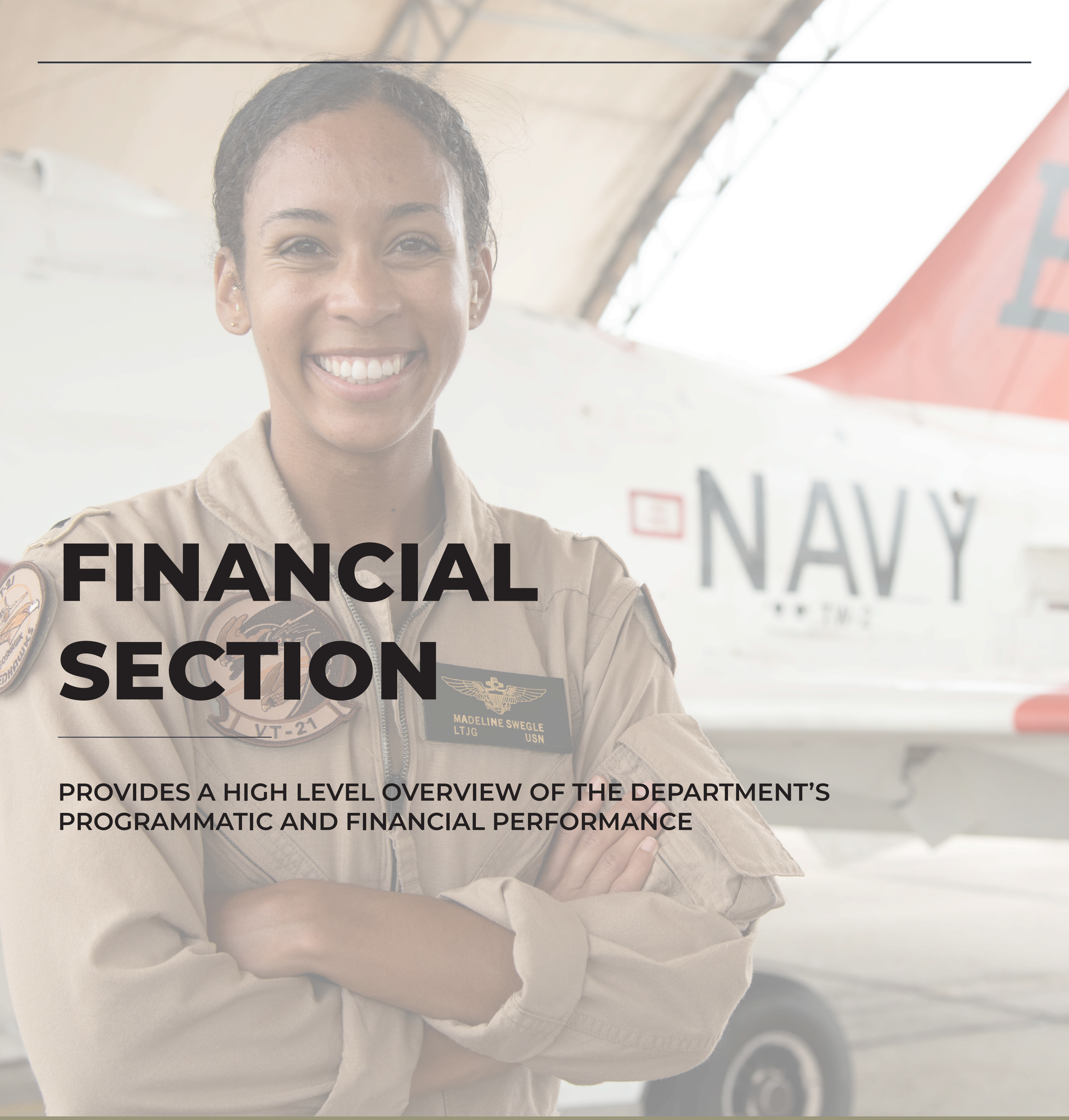
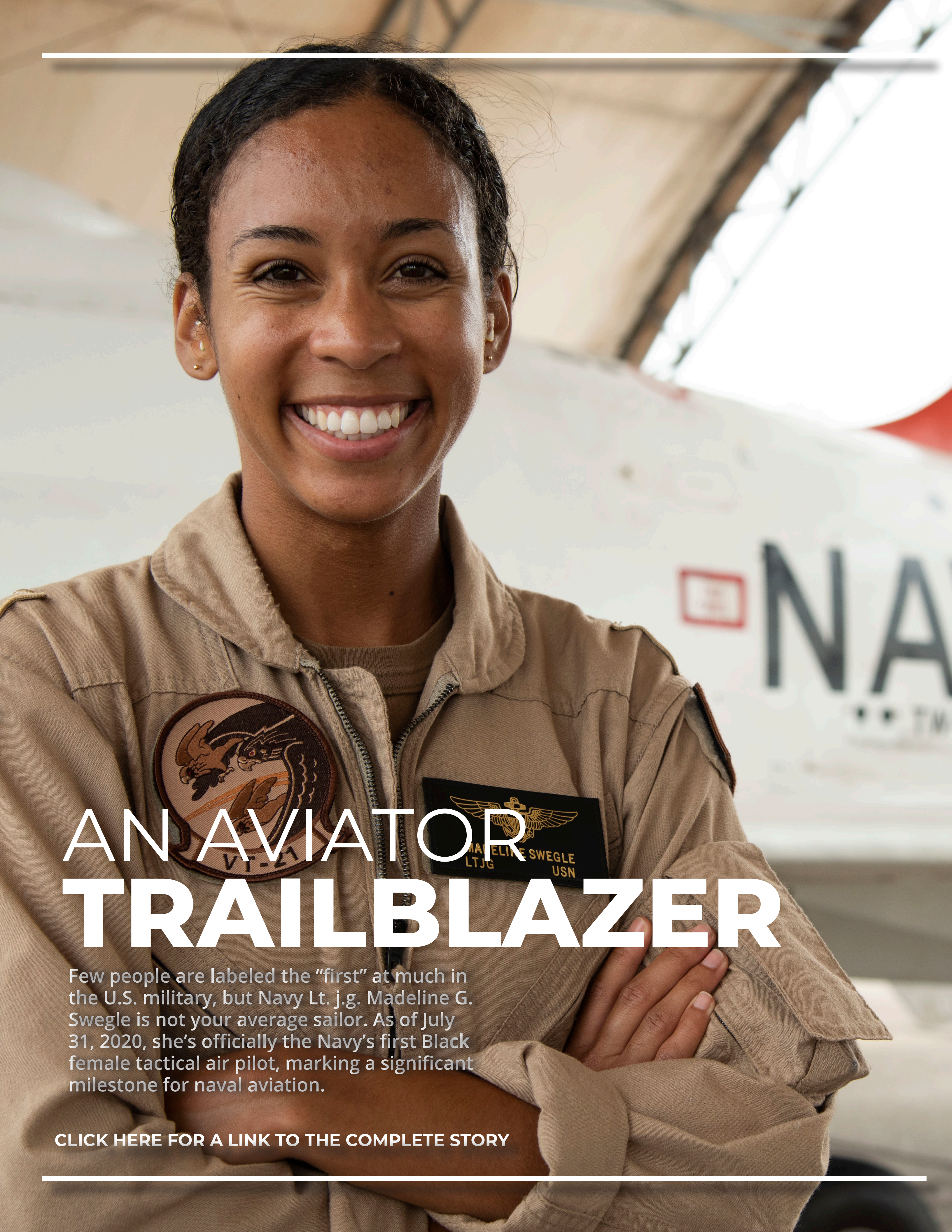


FINANCIAL SECTION

PROVIDES A HIGH LEVEL OVERVIEW OF THE DEPARTMENT'S PROGRAMMATIC AND FINANCIAL PERFORMANCE



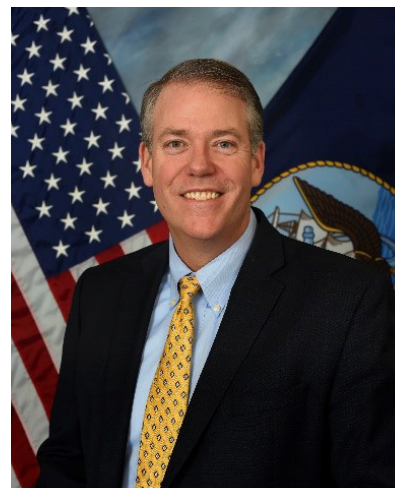
AN AVIATOR TRAILBLAZER

Few people are labeled the “first” at much in the U.S. military, but Navy Lt. j.g. Madeline G. Swegle is not your average sailor. As of July 31, 2020, she’s officially the Navy’s first Black female tactical air pilot, marking a significant milestone for naval aviation.

CLICK HERE FOR A LINK TO THE COMPLETE STORY

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

November 16, 2020



It is my privilege to join the Secretary of Defense in presenting the Department of Defense (DoD) financial statements for Fiscal Year (FY) 2020. The objective of the financial statements and accompanying information is to provide a comprehensive view of the activities undertaken in support of the Department's mission to deter war and protect national security. Further, these statements support our commitment to demonstrating transparency and accountability to Congress and the American public. This is the third consecutive year the Department underwent a financial statement audit performed by various independent public accounting firms and the DoD Office of Inspector General. These audits have provided great value to the Department by identifying multiple opportunities for improvement in how we execute our budget and invest the resources that Congress and the American taxpayers entrusted to us.

Our approach to obtaining an agency-wide unmodified audit opinion is to make steady progress towards increasing the number of DoD components with unmodified audit opinions, and to reduce the number and impact of the material weaknesses. This year, I am pleased to report that we successfully downgraded two agency-wide material weaknesses, Legal Contingencies and Reconciliation of Net Cost of Operations to Outlays, as a result of corrective actions implemented. In addition, in December 2020 we are hopeful that the Defense Information Systems Agency Working Capital Fund will obtain its first unmodified audit opinion, and we are hopeful the Navy General Fund and Working Capital Fund will downgrade following component-level material weaknesses: Environmental Disposal Liabilities, Contingent Legal Liabilities, and Contract Authority. Although not every Service or agency was able to accomplish these goals, the entire Department made progress in correcting audit findings through the execution of approximately 800 corrective action plans and successful remediation of more than 400 audit findings from the FY 2019 audit. Completing corrective actions helps provide operational value and support to DoD personnel in carrying out their important missions by addressing issues such as those that threaten the security of our financial management systems and hamper our ability to capture, record, and report financial activity.

In addition to the bottom up effort described above, we must replace the antiquated and stove-piped business practices and systems that led to many of our agency-wide material weaknesses. This requires the Department to evolve from the existing consensus-based incremental change paradigm, to one that drives transformation and modernization. We are currently working to embody the "Financial Management (FM) of the Future" vision, which articulates the future of DoD FM as a world class leader in business transformation and reform. The size and complexity of the Department's business operations require this vision to embrace an enterprise mindset that understands the importance of producing accurate and complete financial information in timely manner to empower data-driven decision-making. As such, many of the audit corrective action plans that we develop focus on the implementation of enterprise solutions, rather than quick fixes for a single DoD component, system, or issue.

Like many other organizations, our work this year was complicated by the significant challenges related to the Coronavirus Disease 2019 (COVID-19) pandemic. The challenges necessitated adjustments to our normal audit process, such as facilitating virtual, rather than in-person, auditor site visits, to safeguard the health and well-being of DoD personnel while maintaining our audit responsibility.

Additionally, we continue to face impediments in addressing material weaknesses identified by the auditors, such as system limitations and process constraints that prevent our ability to provide transaction-level data and supporting documentation that complies with accounting and auditing standards. We continue to address these challenges through a variety of mitigation strategies including retiring outdated financial systems in favor of modern Enterprise Resource Planning systems, revising DoD financial management policies to align with authoritative guidance, and implementing emerging technologies (such as artificial intelligence, machine learning, and data analytics platforms) across the Department.

I give my thanks to the continued support received from Congress and the American public for entrusting us with the resources necessary to protect our great Nation. Additionally, I thank the civilian employees and Military Service members of our financial and functional communities for their hard work and dedication in providing accountability for our resources, addressing audit findings, seeking opportunities for greater efficiency, and improving our business processes. The progress that the Department continues to make in all of these challenging areas would not be possible without their efforts. I look forward to working through future audits as we improve the quality and reliability of our financial information, as well as the efficiency and effectiveness of our operations.

Thomas W. Harker
Performing the Duties of the Under Secretary
of Defense (Comptroller)/Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

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

December 18, 2020

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

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2020 and FY 2019 Basic Financial Statements (Project No. D2020-D000FE-0050.000, Report No. DODIG-2021-028)

We are providing the subject report to be published in the FY 2020 Agency Financial Report in conjunction with the FY 2020 and FY 2019 basic financial statements. On December 11, 2020, DoD management notified us that they would need to restate the FY 2020 basic financial statements that were published in the FY 2020 Agency Financial Report on November 16, 2020. On December 16, 2020, DoD management provided an updated "preliminary final" version of the FY 2020 Agency Financial Report which included the restated basic financial statements. The "preliminary final" version was used to re-perform our reviews of financial statements and disclosures impacted by the restatement. The impacted statements and disclosures included:

- the Statement of Net Cost,
- the Statement of Changes in Net Position,
- Note 19,
- Note 20,
- Note 24,
- Note 28,
- Note 30, and
- Note 31.

We have amended our Independent Auditor's report to include a dual date and to indicate that a supplementary review was performed.[1] Our review did not change any of the conclusions previously reached or used in forming our opinion on the basic

[1] The auditor should dual date the audit report when subsequently discovered facts become known to the auditor after the report date to indicate that the auditor's procedures subsequent to the original report date is limited solely to the revision of the basic financial statements.

financial statements that were published on November 16, 2020. As a result, the audit report includes our disclaimer of opinion on the basic financial statements and our required Reports on Internal Control Over Financial Reporting and Compliance With Provisions of Applicable Laws and Regulations, Contracts, and Grant Agreements. We are issuing our disclaimer of opinion to accompany the DoD FY 2020 and FY 2019 basic financial statements; therefore, this audit report should not be disseminated separately from those statements.

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

Lorin T. Venable

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

Attachment
Page **2** of **2**

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

November 16, 2020, except for restatements,
as to which the date is December 18, 2020[1]

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

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2020 and FY 2019 Basic Financial Statements (Project No. D2020-D000FE-0050.000, Report No. DODIG-2021-028)

Report on the Basic Financial Statements

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the DoD Agency-Wide consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of September 30, 2020, and September 30, 2019.[2] These statements are referred to as the basic financial statements in this report. The basic financial statements are included in the Agency Financial Report.

Management's Responsibility for the Agency Financial Report

DoD management is responsible for the Agency Financial Report. Specifically, management is responsible for: (1) preparing basic financial statements that conform with accounting principles generally accepted in the United States (GAAP); (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that the controls met the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); (3) ensuring that financial management systems substantially comply with Federal Financial Management Improvement Act

[1] DoD management restated the Statement of Net Cost, the Statement of Changes in Net Position, Note 19, Note 20, Note 24, Note 28, Note 30, and Note 31 as a result of an adjustment processed on December 11, 2020. We performed reviews of these restatements, and these reviews did not impact the conclusions previously presented in this report.

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

of 1996 (FFMIA) requirements; and (4) complying with provisions of applicable laws and regulations.[3]

Auditor's Responsibility

The DoD Office of Inspector General is responsible for auditing and expressing an opinion on the basic financial statements. We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) and Office of Management and Budget (OMB) Bulletin No. 19-03.[4] However, because of the matters described in the "Basis for Disclaimer of Opinion" section of this report, we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

OMB Bulletin No. 19-03 identifies DoD components that are required to undergo financial statement audits. Auditors issued disclaimers of opinion on the following components' financial statements that were required to undergo audit.

- Department of the Army General Fund
- U.S. Marine Corps General Fund
- U.S. Navy General Fund
- Department of the Air Force General Fund
- Department of the Army Working Capital Fund
- Department of the Navy Working Capital Fund
- Department of the Air Force Working Capital Fund

In addition to these required components, auditors issued disclaimers of opinion on the following component financial statements.

- Defense Health Program General Fund
- Defense Information Systems Agency General Fund

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[3] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982 and Public Law 104-208, "Federal Financial Management Improvement Act of 1996," September 1996.

[4] U.S. Government Accountability Office, GAO-18-568G, "Government Auditing Standards," July 2018 and OMB Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," August 2019.

- Defense Logistics Agency General Fund, Working Capital Fund, and Transaction Fund
- U.S. Special Operations Command General Fund
- U.S. Transportation Command Transportation Working Capital Fund

When combined, the components which received disclaimers of opinion on their financial statements, to include the required reporting components and the additional components listed above, are material to the basic financial statements. As a result, we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on the basic financial statements.

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

We considered the disclaimers of opinion on the component financial statements a scope limitation in forming our conclusions on the basic financial statements. Accordingly, we did not perform all the auditing procedures required by GAGAS and OMB Bulletin No. 19-03 to determine whether material amounts on the basic financial statements were presented fairly. Therefore, our work may not have identified all issues that could affect the basic financial statements.

Disclaimer of Opinion

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

Emphasis of Matter

The Security Assistance Accounts (SAAs) include balances from the security assistance programs for which the DoD has responsibility, including Foreign Military Sales, the Special Defense Acquisition Fund, Foreign Military Financing, and International Military Education and Training. The Defense Security Cooperation Agency is responsible for issuing the SAA basic financial statements, which are consolidated into the

Government-wide Financial Statements. DoD management included the SAA basic financial statements in an appendix to the Agency Financial Report and included disclosures within the DoD Agency-Wide Basic Financial Statements to describe the relationship between the DoD and the SAAs. However, DoD management did not represent that the SAA information was complete and accurate. In addition, the SAA financial statements are not scheduled to undergo a full financial statement audit until FY 2022. Therefore, we did not perform audit procedures to determine if the disclosures were appropriate or review the SAA basic financial statements included in the Agency Financial Report. As a result, we did not consider this information when forming our audit opinion.

In addition, DoD management provided a "preliminary final" Agency Financial Report on November 16, 2020. Previous versions of the Agency Financial Report were substantially incomplete. The timing of receiving the preliminary final Agency Financial Report limited our ability to complete its thorough review. However, during our review of the basic financial statements included in the preliminary final Agency Financial Report, we noted instances of non-compliances between the basic financial statements and applicable sections of OMB Circular No. A-136.[5] Specifically, Note 9, Note 13, Note 15, Note 19, Note 25, Note 26, and Note 29 did not contain required disclosures in accordance with OMB Circular No. A-136.[6]

In Note 28, DoD management restated the FY 2019 basic financial statements to correct errors in General Property, Plant and Equipment (net), Operating Materials and Supplies, Accounts Payable, Unexpended Appropriations, Cumulative Results of Operations – Other Funds, and Budgetary Resources. We considered these restatements during our audit; however, the restatements did not affect the overall disclaimer of opinion on the FY 2020 or FY 2019 basic financial statements. As a result, we did not modify our audit opinion.

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

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[5] OMB Circular No. A-136, "Financial Reporting Requirements," August 27, 2020.

[6] Note 9, "Property, Plant and Equipment, net;" Note 13, "Military Retirement and Other Federal Employment Benefits;" Note 15, "Other Liabilities;" Note 19, "Disclosures Related to the Statement of Net Cost;" Note 25, "Public-Private Partnerships;" Note 26, "Disclosure Entities and Related Parties;" and Note 29, "COVID-19 Activity."

Other Information in the Agency Financial Report

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

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

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements and compliance with OMB regulations and audit requirements for financial reporting. We compiled the results from the audits of the components to determine whether the DoD complied with provisions of applicable laws and regulations, contracts, and grant agreements.

However, it was not our objective to provide an opinion on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

See the Attachment for additional details on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements.

Agency Comments and Our Evaluation

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

This report will be made publicly available under section 8M, paragraph (b)(1)(A), of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the Government Accountability Office; the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer; DoD management; and the DoD Office of Inspector General. This report is not intended for, and should not be used by, any other audience.

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

Lorin T. Venable

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

Attachment:
As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the internal control over financial reporting to determine appropriate auditing procedures for expressing an opinion on the basic financial statements, but not for expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the internal control over financial reporting.

Management Responsibilities

DoD management is responsible for implementing and maintaining effective internal control, including providing reasonable assurance that DoD personnel recorded, processed, and summarized accounting data properly; met the requirements of provisions of applicable laws and regulations, contracts, and grant agreements; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

The purpose of our audit was not to express an opinion on internal control over financial reporting, and we do not express such an opinion. However, we identified 26 material weaknesses and four significant deficiencies by performing audit procedures at the agency-wide level, reviewing auditor-issued Notices of Finding and Recommendation, and considering component audit results. These material weaknesses and significant deficiencies could adversely affect DoD financial operations.

Identified Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the basic financial statements in a timely manner. The following is a description of each of the 26 material weaknesses we identified.

Legacy Systems. DoD management defines legacy systems as systems that are scheduled for retirement within 36 months. The FFMIA requires that the DoD implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transactional

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level. The DoD owns and utilizes over 250 systems that DoD management defines as audit-relevant, which include over 30 legacy systems. However, multiple components identified systems as legacy systems that were not categorized as such by DoD management; therefore, DoD management and components did not identify legacy systems consistently. In addition, multiple components used legacy systems during FY 2020 that did not comply with the FFMIA. For example, components used multiple systems that did not capture transaction-level detail. In an effort to mitigate the risk of using legacy systems, DoD management stated that it had implemented a plan to aggressively retire and replace the legacy systems. However, during FY 2020, DoD management extended the retirement date for five systems. Additionally, some systems used did not comply with the FFMIA, and these systems will not be retired until at least FY 2030. The continued use of FFMIA non-compliant systems inhibits the DoD's ability to produce auditable basic financial statements.

Configuration Management and Security Management. National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, and the Government Accountability Office Green Book, hereinafter referred to as "Green Book," require the DoD to design and implement configuration management and security management controls.[7] These controls focus on establishing and maintaining the integrity of information systems, and require the development, documentation, and implementation of configuration management and security management policies, procedures, and plans. However, multiple components lacked effective configuration management and security management controls for key financial systems. In addition, multiple components did not have formalized and comprehensive policies and procedures for configuration management and security management. The lack of effective controls and formalized policies and procedures increases the risk of unauthorized usage, modification, or disclosure of DoD information systems, which could result in inaccurate financial data within the basic financial statements. As a result, there is an increased risk that balances presented in the basic financial statements may be materially misstated.

Access Controls. NIST SP 800-53 and the Green Book require the DoD to design and implement access controls. Access controls provide reasonable assurance that only authorized individuals have access to computer resources such as data, equipment, and facilities. Access controls also ensure that roles for authorized users are reasonable.

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[7] National Institute of Standards and Technology, Special Publication 800-53, Revision 4, "Security and Privacy Controls for Federal Information Systems and Organization," April 2013 and the Government Accountability Office Green Book, "Standards for Internal Control in the Federal Government," September 2014.

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However, multiple components did not design and implement effective access controls for various key financial systems, and they did not identify all relevant risks or have documented procedures to ensure proper access controls. Additionally, DoD management did not develop an overarching policy or an authoritative list to identify and remove terminated or transferred users. Without proper access controls over key financial systems, the DoD could compromise the confidentiality, integrity, or availability of financially relevant data, which increases the risk that amounts presented in the basic financial statements may be materially misstated.

Segregation of Duties. NIST SP 800-53 and the Green Book require the DoD to design and implement controls to provide reasonable assurance that incompatible duties are segregated. However, multiple components did not design and implement effective segregation of duties controls for various key financial applications. Specifically, the components did not develop a process to properly identify conflicting roles or segregate key function roles. Additionally, the components either identified segregation of duties controls as low risk or did not collaborate with all stakeholders to ensure effective segregation of duties controls were implemented. The lack of effective segregation of duties controls could increase the risk of inappropriate access to systems to process transactions, which could result in inaccurate financial data, expose the systems to security risks, or allow for fraudulent activity. The inability to effectively implement segregation of duties controls increased the risk that line item balances in the basic financial statements may be materially misstated.

Universe of Transactions. OMB Bulletin No. 19-03 states that internal control over financial reporting includes ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements. However, multiple components were unable to provide transaction-level populations supporting material financial statement line items. Additionally, the Defense Finance and Accounting Service (DFAS) and the components were unable to reconcile the information presented within the trial balances to underlying transaction-level detail. Specifically, multiple components performed reconciliations at a summary level, rather than the transaction-level, and did not always perform these reconciliations in a timely manner. Without a complete universe of transactions, the DoD and its components could not verify the completeness and accuracy of data reported on their respective basic financial statements.

Fund Balance With Treasury. For FY 2020, the DoD reported a Fund Balance With Treasury balance of $637.2 billion. Statement of Federal Financial Accounting Standards (SFFAS) No. 1 requires the DoD to record Fund Balance With Treasury as the aggregate amount of funds in the DoD's accounts with Treasury for which the DoD is authorized to make expenditures and pay liabilities.[8] SFFAS No. 1 and the Treasury Financial Manual (TFM) require the DoD to reconcile its Fund Balance With Treasury and explain any discrepancies between balances reported by the DoD and the U.S. Treasury to ensure the integrity and accuracy of the DoD and Government-wide Financial Statements.[9] However, the DoD and its components did not have effective processes and controls for reconciling their Fund Balance With Treasury. As a result, the DoD was unable to ensure the completeness and accuracy of its Fund Balance With Treasury. The lack of effective controls over Fund Balance With Treasury increased the risk that balances in the basic financial statements may be materially misstated.

Suspense Accounts. The TFM defines suspense accounts as accounts used to temporarily hold transactions that belong to the Government while waiting for information that will allow the transactions to be matched to a specific receipt or expenditure account.[10] The DoD Financial Management Regulation (FMR), volume 12, chapter 1, states that suspense accounts may be used in accordance with Treasury guidance if transactions are reclassified to the correct line of accounting and properly reported in the accounting system within 60 days of the transaction entering a suspense account.[11] The DoD FMR, volume 3, chapter 11 also states that agencies may request to discontinue transaction research if certain criteria are met and properly approved by the funds holder, Military Department Assistant Secretaries Financial Management and Comptroller, or Defense Agency Comptroller.[12] However, DFAS and the components lacked the controls necessary to sufficiently monitor funds in suspense accounts and to research these transactions to clear account variances in accordance with the 60-day requirement. In addition, DFAS was unable to properly attribute suspense account transactions to the appropriate component because multiple components shared the

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

[9] Treasury Financial Manual, volume 1, part 2, chapter 5100, "FBWT."

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

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

[12] DoD FMR, volume 3, chapter 11, ""Unmatched Disbursements, Negative Unliquidated Obligations, and In-transit Disbursements."

same suspense accounts. DFAS lacked the appropriate authorizing regulation or guidance to approve the discontinuation of research and write offs of suspense transactions. These control deficiencies could result in an increased risk that the balance of the DoD's suspense accounts in the basic financial statements may be materially misstated.

Inventory and Related Property. For FY 2020, the DoD reported an Inventory and Related Property balance of $310.2 billion. SFFAS No. 3 requires the DoD to value its inventory on the basis of historical cost or on a basis that reasonably approximates historical cost.[13] SFFAS No. 48 amends SFFAS No. 3, and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of Inventory and Related Property.[14] However, multiple components did not account for Inventory and Related Property according to SFFAS No. 3, or the alternative valuation methods allowed by SFFAS No. 48, and components could not produce documentation supporting the valuation of their inventory. In addition, multiple components were unable to substantiate the existence and completeness of Inventory and Related Property reported on their basic financial statements. Specifically, they did not have controls and procedures for inventory counts, movement of inventory, or in-transit inventory. As a result, the DoD was unable to support a material portion of its Inventory and Related Property balance, and there is an increased risk that the balances presented in the basic financial statements may be materially misstated.

Operating Materials and Supplies (OM&S). For FY 2020, the DoD reported an OM&S balance of $200.5 billion. SFFAS No. 3 requires the DoD to value its OM&S on the basis of historical cost or on a basis that reasonably approximates historical cost. SFFAS No. 48 amends SFFAS No. 3, and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. However, multiple components did not account for OM&S according to SFFAS No. 3, or the alternative valuation methods allowed by SFFAS No. 48. In addition, SFFAS No. 3 requires that OM&S be categorized as (1) OM&S held for use, (2) OM&S held in reserve for future use, or (3) excess, obsolete, and unserviceable. However, multiple components did not have procedures to accurately identify and value the excess, obsolete, and unserviceable material reported on their basic financial statements. Overall, the components did not design, document, or implement policies and procedures to identify and properly value

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

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

OM&S inventory, including excess, obsolete, and unserviceable material, in accordance with SFFAS standards. In addition, multiple components were unable to substantiate the existence and completeness of OM&S reported on their basic financial statements. As a result, there is an increased risk that the OM&S balances in the basic financial statements may be materially misstated.

General Property, Plant, and Equipment (PP&E). For FY 2020, the DoD reported a General PP&E balance of $790.5 billion. SFFAS No. 6 requires the DoD to value its General PP&E on the basis of historical cost or on a basis that reasonably approximates historical cost.[15] SFFAS No. 50 amends SFFAS No. 6, and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of General PP&E in the same reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented in accordance with GAAP.[16] However, as of September 30, 2020, the DoD had not completed its implementation of SFFAS No. 50 to establish opening balances of its General PP&E, and did not have sufficient procedures to account for its General PP&E in accordance with SFFAS No. 6. In addition, multiple components were unable to substantiate the existence and completeness of General PP&E reported on their basic financial statements. Because the DoD and its components cannot accurately value or account for its General PP&E, there is an increased risk that the General PP&E balances in the basic financial statements may be materially misstated.

Real Property. The DoD FMR, volume 4, chapter 24, requires that components properly recognize, account for, and report their real property and accumulated depreciation on the appropriate financial statements.[17] In FY 2020, DoD management required that all real property be reported on the basic financial statements of the military department or Washington Headquarters Services (installation host) that owns or operates the installation where a real property asset is located. However, not all components were able to fully transfer financial responsibility for their real property assets to the installation hosts by September 30, 2020, as required. In addition, multiple components made transfers without resolving outstanding audit findings that directly related to unsupported valuations and incomplete listings of real property assets. As a result, there is a risk that the real property balances transferred to

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

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

[17] DoD FMR, volume 4, chapter 24, "Real Property."

installation hosts were unsupported, incomplete, or incorrectly valued. These unresolved audit findings impact the ability of the installation hosts to properly account for these assets. Unsupported real property balances increased the risk that the real property balance in the basic financial statements may be materially misstated.

Government Property in the Possession of Contractors. SFFAS No. 6 requires that property and equipment in the possession of contractors, or acquired on behalf of the Government for use in accomplishing a contract, be considered Government property. The DoD must account for this property, regardless of who has possession. However, the DoD lacked policies, procedures, and supporting documentation for the acquisition, disposal, and inventory processes related to Government property in the possession of contractors. For example, not all DoD contract terms and conditions incorporated standard inventory management policies, procedures, and metrics. In addition, multiple components were unable to substantiate the existence and completeness of Government property in possession of contractors reported on their basic financial statements. As a result, there is an increased risk that the balances of Government property in the possession of contractors in the basic financial statements may be materially misstated.

Joint Strike Fighter Program. The Joint Strike Fighter is a multiservice and multinational acquisition to develop and field next-generation strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners. However, the DoD did not account for and manage Joint Strike Fighter Program Government property, or record the property in an accountable property system of record. As a result, the DoD did not report Joint Strike Fighter Program assets on its basic financial statements. The omission of the Joint Strike Fighter program from the basic financial statements and inability to provide documentation supporting the value of the program indicate that there are material failures within internal control for recording joint programs within the DoD. As a result, there is an increased risk that the balances in the basic financial statements may be materially misstated.

Military Housing Privatization Initiative (MHPI). In FY 2020, the DoD reported an MHPI-related Other Investments balance of $3.5 billion in cash invested. The Financial Accounting Standards Board requires the DoD to report real property ownership transfers to MHPI private entities as increases to Other Investments, and private entity profits and losses allocated to the DoD as changes to Other Investments.[18] However,

[18] Accounting Standards Board, Accounting Standards Codification 323, as updated through November 2020.

the DoD did not report an estimated $8.8 billion of real property transferred to MHPI private entities as increases to Other Investments, or reduce Other Investments by cumulative annual profits and losses allocated to the DoD based on its ownership interest. Additionally, SFFAS No. 47 requires the DoD to determine whether each MHPI private entity should be reported as a consolidated entity, disclosure entity, or related party, and SFFAS No. 49 requires certain disclosures for MHPI private entities.[19] However, the DoD has not completed its analysis to determine the appropriate reporting of MHPI under SFFAS No. 47 and did not provide complete and accurate information as required under SFFAS No. 49. Overall, the DoD lacked GAAP-compliant policies and procedures to account for and report the MHPI program. Ineffective controls over MHPI increase the risk that balances in the basic financial statements may be materially misstated.

Accounts Payable. For FY 2020, the DoD reported a non-Federal Accounts Payable balance of $36.1 billion. SFFAS No. 1 states that accounts payable are amounts the DoD owes to other entities for receipt of goods and services, progress in contract performance, or rent. However, components did not have sufficient documentation to support the existence and completeness of their Accounts Payable balances. These components did not have sufficient policies, procedures, and control over their methodology for accruing payables, which increases the risk of unsupported transactions. As a result, there is an increased risk that the Accounts Payable balance in the basic financial statements may be materially misstated.

Environmental and Disposal Liabilities. For FY 2020, the DoD reported an Environmental and Disposal Liabilities balance of $75.0 billion. SFFAS No. 5 defines "liability" as a probable future outflow or other sacrifice of resources as a result of past transactions or events.[20] Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs.[21] However, the DoD lacked formal policies, procedures, and supporting documentation to substantiate the completeness and accuracy of its Environmental and Disposal Liabilities. As a result, there is an increased risk that the Environmental and Disposal Liabilities balances in the basic financial statements may be materially misstated.

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[19] FASAB Handbook, SFFAS No. 47, "Reporting Entity," December 2014 and FASAB Handbook, SFFAS No. 49, "Public-Private Partnerships: Disclosure Requirements," April 2016.

[20] FASAB Handbook, SFFAS No. 5, "Accounting for Liabilities of The Federal Government," December 1995.

[21] FASAB Handbook, Federal Financial Accounting and Auditing Technical Release 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government," March 1998.

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

Unsupported Accounting Adjustments. The Green Book requires that transactions are promptly and accurately recorded. Additionally, the DoD FMR, volume 4, chapter 2, states that DoD components must ensure that all adjustments are researched and traceable to supporting documents as instructed in the TFM, 2-5100. Supporting documentation is necessary to provide an audit trail. However, the DoD did not have effective controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems. For example, in the last two quarters of FY 2020, the DoD recorded more than 1,900 accounting adjustments totaling over $293 billion that lacked supporting documentation. In addition, components recorded manual and system-generated accounting adjustments that lacked appropriate approvals. Without effective controls over the recording of accounting adjustments, the DoD could not provide reasonable assurance that material misstatements were prevented, or detected and corrected, in the basic financial statements in a timely manner. As a result, there is an increased risk that balances in the basic financial statements may be materially misstated.

Intradepartmental Eliminations and Intragovernmental Transactions. According to the TFM, intragovernmental transactions result from business activities conducted between two Federal government entities, such as the DoD and Department of State.[22] The entities conducting business are called trading partners. The TFM further defines intradepartmental transactions as those occurring between two trading partners within the same entity; for example, the Army and Defense Logistics Agency are both DoD components. In order to properly present the balances on the basic financial statements, intradepartmental and intragovernmental transactions must be eliminated

[22] TFM, volume 1, part 2, chapter 4700, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," June 2020.

during the financial statement preparation process. For proper eliminations to occur, it is essential that accurate DoD trading partner data is captured for intradepartmental and intragovernmental activity and balances. Specifically, the DoD must report its three-digit agency identifier and its trading partners' three-digit agency identifier on all intradepartmental and intragovernmental transactions. However, multiple DoD accounting systems were unable to capture the trading partner data required to eliminate intradepartmental and intragovernmental transactions. Without the proper elimination of trading partner transactions in the basic financial statements, there is a risk that the basic financial statements may be materially misstated.

Gross Costs. For FY 2020, the DoD reported a Gross Costs balance of $817.2 billion. SFFAS No. 4 states that the DoD should report the full costs of outputs in general purpose financial reports and reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations.[23] Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 provides guidance regarding the reporting of gross and net cost information on the Statement of Net Cost.[24] Specifically, it advises that the statement should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities by programs or organizations. However, multiple components had material deficiencies related to the Gross Costs line item. These deficiencies included, but were not limited to, noncompliance with GAAP, inaccurate reporting of transactions, and inadequate controls for recording Gross Costs. Therefore, DoD management did not have reliable financial information to effectively manage and understand gross costs. As a result, there is an increased risk that the Gross Costs balance in the basic financial statements may be materially misstated.

Earned Revenue. For FY 2020, the DoD reported an Earned Revenue balance of $81.2 billion. SFFAS No. 7 states that earned revenues arise when the DoD provides goods and services to the public or to another Federal entity for a price.[25] However, multiple components had material deficiencies related to the Earned Revenue line item. These deficiencies included, but were not limited to, noncompliance with GAAP,

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

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

[25] FASAB Handbook, SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 1996, as amended.

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inability to substantiate revenue-related transactions, and inadequate controls for recording Earned Revenue. As a result, there is an increased risk that Earned Revenue balance in the basic financial statements may be materially misstated.

Budgetary Resources. SFFAS No. 7 requires the DoD to present material budgetary information that comes wholly or in part from the budget in its Statement of Budgetary Resources. The material budgetary information includes total budgetary resources available to the DoD during the period, status of those resources, and outlays of those resources. The balances presented on the DoD components' Statement of Budgetary Resources may not be complete, accurate, or supported. Therefore, the DoD components, and the DoD as a whole, may not have been able to accurately determine and monitor the total budgetary resources available during the reporting period, or the status of those resources. The inability to monitor the status of budgetary resources created the potential for violations of the Antideficiency Act (ADA) and increased the risk that Statement of Budgetary Resources balances in the basic financial statements may be materially misstated.

Service Providers. A service provider is a third party that performs activities for many agencies. OMB Circular No. A-123 states that service providers are responsible for providing assurance to their customers and assisting those customers in understanding the relationship between the service provider's controls and the customer's user controls.[26] DoD service providers perform critical activities across the DoD such as managing inventory and preparing financial statements. However, many of the service providers had not designed or implemented reliable controls to provide the required assurance to their customers. While component management retains responsibility for the performance of processes assigned to service providers, service provider control deficiencies decrease the reliability and accuracy of the basic financial statements. As a result, there is an increased risk that balances in the basic financial statements may be materially misstated.

Entity-Level Controls. The FMFIA requires the DoD to establish internal control and the Green Book defines the standards for internal control in the Government. Green Book principle 10, "Design Control Activities," states that entity-level controls are controls that have a pervasive effect on an entity's internal control system and may pertain to multiple components. This principle also states that management should design entity-level control activities depending on the level of precision needed for

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

the entity to meet its objectives and addresses related risks. However, multiple components did not design, document, and implement effective entity-level controls. Specifically, these components lacked sufficient internal control to achieve the objectives of reliable financial reporting, operating efficiency and effectiveness, and GAAP compliance. A lack of effective entity-level controls increased the risk that the balances in the basic financial statements may be materially misstated.

DoD-Wide Oversight and Monitoring. OMB Circular No. A-123 defines management's responsibility for internal control. Specifically, it requires that the DoD establish and integrate internal control into the entity's operations in a risk-based and cost-beneficial manner, which helps to provide reasonable assurance that the DoD's internal control over operations, reporting, and compliance is operating effectively. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer [OUSD(C)] and DFAS are responsible for consolidating component-level information to produce documents such as the Agency Financial Report. However, this component-level information is incomplete, inaccurate, and not GAAP compliant. OUSD(C) did not perform effective oversight and monitoring over this consolidation or have adequate time to perform verification of the component-level information prior to publishing agency wide information. For example, OUSD(C) failed to issue a policy to record Defense Working Capital Fund appropriations received from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) until October 2020, this resulted in components improperly recording these appropriations within their accounting systems.[27] Additionally, at the conclusion of the audit there were some corrective action plans for DoD-wide audit findings that had not been developed. Without proper controls over the consolidation of agency-wide information, OUSD(C) is unable to ensure that component information is presented consistently, or that appropriate adjustments can be made at the agency-wide level. As a result, there is an increased risk that information presented in-the basic financial statements is not complete or accurate.

Component-Level Oversight and Monitoring. OMB Circular No. A-123 requires component management to continuously monitor, assess, and improve the effectiveness of internal control as part of their risk profile. In addition, it requires component management to evaluate and document internal control deficiencies and determine appropriate corrective actions for those deficiencies on a timely basis. However, components did not implement oversight and monitoring activities in sufficient time to identify and resolve deficiencies that could impact their basic financial statement

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

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balances and related disclosures. In addition, multiple components were unable to sign Management Representation Letters on time, and therefore, audit opinions could not be issued by the required date. Consequently, the components could not provide reasonable assurance that internal controls over financial reporting are effective. As a result, there is an increased risk that the basic financial statements may be misstated.

Identified Significant Deficiencies

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, that is less severe than a material weakness yet important enough to merit the attention of those charged with governance. The following is a description of each of the four significant deficiencies we identified.

Transition to Risk Management Framework (RMF). The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk of not having those controls in place.[28] NIST SP 800-37 provides standards and guidance for the transition to the RMF in an effort to comply with FISMA.[29] Additionally, DoD Instruction 8510.01, "RMF for DoD Information Technology," requires that the RMF satisfy the requirements of the FISMA.[30] The DoD Chief Information Officer (CIO) oversees implementation of DoD Instruction 8510.01, which directs the cybersecurity risk management of DoD information technology, distributes RMF information standards and sharing requirements, and manages the transition from the DoD Information Assurance Certification and Accreditation Process (DIACAP) to the RMF. However, multiple components have not fully completed their transition from the DIACAP to the RMF for various key financial systems. For example, some components' financial systems do not have authority to operate in compliance with the RMF. In addition, the DoD CIO has not effectively monitored the components to ensure they have fully transitioned financially significant systems to the RMF. Components that have not transitioned financially significant systems to the RMF could expose the DoD's financial data to unidentified security risks. Additionally, the completeness, accuracy, confidentiality, integrity, and availability of financial data are negatively impacted by continuing to use systems that have not transitioned to the RMF, increasing the risk that balances in the basic financial statements may be misstated.

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

[29] National Institute of Standards and Technology, Special Publication 800-37, Revision 2, "Risk Management Framework for Information Systems and Organizations," December 2018.

[30] DoD Instruction 8510.01, "Risk Management Framework for DoD Information Technology," July 2017.

Accounts Receivable. For FY 2020, the DoD reported a non-Federal Accounts Receivable balance of $5.1 billion. SFFAS No. 1 requires that the DoD recognize a receivable when it establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. However, the components do not have sufficient documentation to ensure the completeness and accuracy of non-Federal Accounts Receivable transactions. For example, one component did not reduce receivables in the accounting records when cash was collected in prior accounting periods. Additionally, the components had not developed or implemented effective controls to prevent or detect misstatements of non-Federal accounts receivable balances. As a result, there is an increased risk that balances in the basic financial statements may be misstated.

Legal Contingencies. The TFM requires that an entity's General Counsel prepare a Legal Representation Letter, which summarizes legal actions against the entity. The Legal Representation Letter must be accompanied by a Management Schedule that summarizes the content of the Legal Representation Letter. The Management Schedule is used to support disclosures in the basic financial statements. Components prepare Legal Representation Letters and Management Schedules for consolidation and presentation at the agency-wide level. However, there were control failures that affected the presentation and calculation of total legal contingencies at the agency-wide level. Specifically, DoD Management updated the interim agency-wide Management Schedule because of auditor-identified errors. Additionally, components did not record their legal contingencies using a consistent methodology and as a result, the components posted adjustments to reconcile their basic financial statement balances to their Management Schedule. Lack of controls over the process for preparing the Management Schedules, and the lack of consistent methodology for reporting component legal contingencies increased the risk that balances in the basic financial statements may be misstated.

Reconciliation of Net Cost of Operations to Outlays. SFFAS No. 7 requires the DoD to perform a reconciliation of its budgetary and proprietary data. OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the basic financial statements. However, components were unable to support adjustments made to reconcile budgetary and proprietary data on their basic financial statements, and as a result, the DoD reported a $4.5 billion reconciling difference between the budgetary and proprietary accounts. This occurred because the components did not design

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and implement controls to research and resolve variances between budgetary and proprietary data throughout the reporting period. Therefore, the basic financial statements do not accurately reflect the financial position of the DoD, and as a result, there is an increased risk of that balances in the basic financial statements may be misstated.

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

GAGAS and OMB guidance require auditors to report on an entity's compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. We determined that the DoD was not compliant with certain provisions of applicable laws and regulations, contracts, and grant agreements that could have a direct and material effect on the basic financial statements. Specifically, the DoD did not comply with certain provisions of the ADA; FFMIA; FMFIA; FISMA, Debt Collection Improvement Act; Prompt Payment Act; and CARES Act. However, our objective was not to express, and we do not express, an opinion on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Additionally, because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our Independent Auditor's Report, we performed limited audit procedures and therefore we may not have identified all instances of noncompliance.

Compliance With the Antideficiency Act

The ADA limits the DoD and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds.[31] Additionally, it states that the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. Additionally, it states that the DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations and specifies that if an officer or employee of an executive agency violates the ADA, the head of the

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

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agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2020, the DoD reported multiple ADA violations within one completed case.

DoD FMR, volume 14, chapter 3 establishes timeframes for identifying and reporting ADA violations.[32] The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. As of September 30, 2020, the DoD had seven on-going investigations related to potential ADA violations. One of the ongoing investigations had been open for more than 15 months.

Compliance With the Federal Financial Management Improvement Act

The FFMIA requires DoD management to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction-level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA within its Agency Financial Report.

For FY 2020, the DoD did not substantially comply with the FFMIA. DoD management represented that its financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, or the USSGL at the transaction-level as of September 30, 2020. In addition, we identified instances of non-compliance with the USSGL and identified that the components did not substantially comply with the FFMIA.

Compliance With the Federal Managers' Financial Integrity Act

The FMFIA requires DoD management to perform ongoing evaluations and report on the adequacy of DoD systems of internal accounting and administrative control. OMB Circular No. A-123, which implemented the FMFIA, requires DoD management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with provisions of applicable laws and regulations.

[32] DoD FMR, volume 14, chapter 3, "Antideficiency Act Violation Process."

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For FY 2020, the DoD did not substantially comply with the FMFIA. DoD management represented that the internal control over financial reporting was not effective because of the material weaknesses reported in the FY 2020 Agency Financial Report. In addition, we identified that components did not substantially comply with the FMFIA.

Compliance With the Federal Information Security Modernization Act

The FISMA requires agencies to provide information security controls commensurate with the risk of not having those controls in place. NIST publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from these standards and guidelines represent departures from FISMA requirements. We identified that the components did not comply with certain aspects of the FISMA standards and guidelines.

Compliance With the Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires that any non-tax debts or claims owed to the U.S. Government that are over 120 days delinquent be reported to the Treasury for the purpose of administrative offset.[33] We identified that a component did not transfer all outstanding eligible debt in accordance with these requirements and therefore, did not comply with Debt Collection Improvement Act requirements.

Compliance with the Prompt Payment Act

The Prompt Payment Act states that the head of an agency acquiring property or services who does not pay for each complete delivered item of property or service by the required payment date will pay an interest penalty on the amount of the payment due.[34] It also states that the head of an agency will pay this interest penalty out of amounts made available to carry out the program for which the penalty occurred. We identified that a component did not pay interest from the appropriate Treasury Account Symbol and therefore, did not comply with the Prompt Payment Act.

[33] Public Law 104-134, "Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014," April 1996.

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

Compliance with the Coronavirus Aid, Relief, and Economic Security Act

Congress enacted the CARES Act in response to the societal and economic impacts of coronavirus disease–2019. The CARES Act appropriated funds for the fiscal year ending September 30, 2020, to the DoD for multiple purposes. In addition, the CARES Act requires the DoD to report certain obligations and expenditures to the OMB, Treasury, and Congress. DoD management represented that they did not have the mechanisms within their financial reporting systems to track CARES Act related transactions and separately report the impact on the DoD's assets, liabilities, costs, revenues, and net position. As a result, the DoD did not comply with the related provisions of the CARES Act.

Recommendations

This report does not include recommendations to correct the material weaknesses; significant deficiencies; or instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Auditors provided Notices of Finding and Recommendation to DoD and component management to address reported material weaknesses, significant deficiencies, and instances of noncompliance with certain or specific provisions of applicable laws and regulations, contracts, and grant agreements, when appropriate. In addition, auditors of the components financial statements included recommendations within their Independent Auditor's Report on Internal Control over Financial Reporting.

PRINCIPAL FINANCIAL STATEMENTS AND NOTES

The principal financial statements are prepared to report the financial position and results of operations of the Department of Defense (DoD or the Department), pursuant to the requirements of title 31, United States Code, section 3515(b) (**31 U.S.C. § 3515(b)**).

The statements are prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget (**OMB**) **Circular No. A-136** and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (**FASAB**). The statements, in addition to supporting financial reports, are used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government.

The principal financial statements of the Department include the four financial statements described in Table 1.

4 PRINCIPAL FINANCIAL STATEMENTS

01 Balance Sheet

Reflects the Department's financial position as of the statement date (September 30, 2020). The assets reflect the current and future economic benefits owned or managed by the Department. The liabilities reflect amounts owed by the Department. The net position is the difference between the assets and liabilities.

02 Statement of Net Cost

Shows, by major program, 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.

03 Statement of Changes in Net Position

Presents the sum of the unexpended appropriations provided to the Department that remain unused at the end of the fiscal year and the cumulative results of the Department's operations since inception. The statement focuses on how the Department's net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.

04 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. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are included in the balances reported on the statement.

DEPARTMENT OF DEFENSE
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	2020 (UNAUDITED)	RESTATED 2019 (UNAUDITED)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$637,175.8	$607,555.3
Investments (Note 5)	1,281,767.1	1,187,609.0
Accounts Receivable (Note 6)	2,091.4	2,025.2
Other Assets (Note 10)	1,003.0	1,106.5
Total Intragovernmental Assets	1,922,037.3	1,798,296.0
Cash and Other Monetary Assets (Note 4)	966.3	918.3
Accounts Receivable, Net (Note 6)	5,149.9	5,894.5
Loans Receivable (Note 7)	1,602.6	1,738.7
Inventory and Related Property, Net (Note 8)	310,210.5	292,605.6
General Property, Plant and Equipment, Net (Note 9)	790,505.2	766,194.7
Investments (Note 5)	3,511.6	3,511.6
Other Assets (Note 10)	20,733.2	19,543.1
Total Assets	3,054,716.6	2,888,702.5
Stewardship Property, Plant and Equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	2,573.8	1,544.2
Debt (Note 12)	1,662.6	1,714.1
Other Liabilities (Notes 15 and 17)	10,776.8	7,777.0
Total Intragovernmental Liabilities	15,013.2	11,035.3
Accounts Payable	36,121.2	39,793.6
Military Retirement and Other Federal Employment Benefits (Note 13)	2,654,064.2	2,596,371.8
Environmental and Disposal Liabilities (Note 14)	75,041.9	76,124.9
Loan Guarantee Liability (Note 7)	44.1	50.7
Other Liabilities (Notes 15 and 17)	39,325.8	36,758.2
Total Liabilities	2,819,610.4	2,760,134.5
Commitments and Contingencies (Note 17)		
Net Position		
Unexpended Appropriations - Other Funds	569,725.2	543,945.8
Cumulative Results of Operations - Dedicated Collections (Note 18)	32,557.9	30,331.1
Cumulative Results of Operations - Other Funds	(367,176.9)	(445,708.9)
Total Net Position	235,106.2	128,568.0
Total Liabilities and Net Position	$3,054,716.6	$2,888,702.5

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
CONSOLIDATED STATEMENT OF NET COST
FOR YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	RESTATED 2020 (UNAUDITED)	2019 (UNAUDITED)
Gross Program Costs:		
Military Retirement Benefit	$139,257.2	$106,422.7
Civil Works	12,978.8	11,594.9
Military Personnel	157,010.7	150,995.7
Operations, Readiness & Support	284,482.2	297,033.2
Procurement	103,044.1	126,512.6
Research, Development, Test & Evaluation	110,644.6	104,654.5
Family Housing & Military Construction	9,747.7	25,123.1
Total Gross Program Costs	817,165.3	822,336.7
Less: Earned Revenue	(81,244.8)	(90,502.2)
Net Program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	735,920.5	731,834.5
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(17,375.3)	138,808.5
Net Cost of Operations	$718,545.2	$870,643.0

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	RESTATED 2020 (UNAUDITED)	RESTATED 2019 (UNAUDITED)
Unexpended Appropriations		
Beginning Balance (Includes Funds from Dedicated Collections - See Note 18)	$543,945.8	$529,803.7
Prior Period Adjustments:		
Corrections of Errors	(14.7)	(1,222.4)
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $0.0 in FY 2020 and $0.0 in FY 2019 - See Note 18)	543,931.1	528,581.3
Budgetary Financing Sources:		
Appropriations Received	842,566.6	802,827.9
Appropriations Transferred In/Out	197.4	59.2
Other Adjustments	(18,619.8)	(22,533.9)
Appropriations Used	(798,350.1)	(764,988.7)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections of $0.00 in FY 2020 and $0.0 in FY 2019 - See Note 18)	25,794.1	15,364.5
Total Unexpended Appropriations (Includes Funds from Dedicated Collections of $0.00 in FY 2020 and $0.0 in FY 2019 - See Note 18)	569,725.2	543,945.8
Cumulative Results of Operations		
Beginning Balance	(415,377.8)	(344,220.1)
Prior Period Adjustments:		
Changes in Accounting Principles (+/-)	1,858.8	4,277.8
Corrections of Errors (+/-)	(1.7)	7,114.0
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $30,331.1 in FY 2020 and $27,734.0 in FY 2019 - See Note 18)	(413,520.7)	(332,828.3)
Budgetary Financing Sources:		
Other Adjustments (+/-)	(265.7)	(210.8)
Appropriations Used	798,350.1	764,988.7
Nonexchange Revenue	2,421.8	3,997.6
Donations and Forfeitures of Cash and Cash Equivalents	62.4	137.5
Transfers In/Out Without Reimbursement	116.2	137.5
Other budgetary financing sources	(2,741.2)	(2,521.5)

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	RESTATED 2020 (UNAUDITED)	RESTATED 2019 (UNAUDITED)
Other Financing Sources (Nonexchange):		
Donations and Forfeitures of Property	8.2	-
Transfers In/Out Without Reimbursement (+/-)	(397.4)	46.4
Imputed Financing	4,608.2	5,609.8
Other (+/-)	(4,715.7)	15,908.3
Total Financing Sources (Includes Funds from Dedicated Collections of $2,134.6 in FY 2020 and $3,649.9 in FY 2019 - See Note 18)	797,446.9	788,093.5
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of $(92.2) in FY 2020 and $1,052.8 in FY 2019 - See Note 18)	718,545.2	870,643.0
Net Change	78,901.7	(82,549.5)
Cumulative Results of Operations (Includes Funds from Dedicated Collections of $32,557.9 in FY 2020 and $30,331.1 in FY 2019 - See Note 18)	(334,619.0)	(415,377.8)
Net Position	$235,106.2	$128,568.0

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	2020 (UNAUDITED)		RESTATED 2019 (UNAUDITED)	
Budgetary Resources	Budgetary	Non-Budgetary Credit Reform Financial Account	Budgetary	Non-Budgetary Credit Reform Financial Account
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) Note 21	$213,281.1	$59.9	$226,768.1	$69.0
Appropriations (Discretionary and Mandatory)	914,251.5	-	874,378.1	-
Borrowing Authority (Discretionary and Mandatory)	-	69.9	-	63.3
Contract Authority (Discretionary and Mandatory)	78,672.5	-	86,854.4	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	130,289.6	54.4	112,965.6	56.8
Total Budgetary Resources	1,336,494.7	184.2	1,300,966.2	189.1
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	1,157,332.3	132.2	1,115,956.2	129.2
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	151,814.0	-	157,138.3	-
Exempt from Apportionment, Unexpired Accounts	4,210.3	-	4,040.4	-
Unapportioned, Unexpired Accounts	1,982.9	52.0	1,128.2	59.9
Unexpired Unobligated Balance, End of Year	158,007.2	52.0	162,306.9	59.9
Expired Unobligated Balance, End of Year	21,155.2	-	22,703.1	-
Unobligated Balance, End of Year (Total)	179,162.4	52.0	185,010.0	59.9
Total Budgetary Resources	1,336,494.7	184.2	1,300,966.2	189.1
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	872,148.6	-	828,633.3	-
Distributed Offsetting Receipts (-)	(108,929.2)	-	(107,410.1)	-
Agency Outlays, Net (Discretionary and Mandatory)	$763,219.4	-	$721,223.2	-
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	-	$(46.9)	-	$37.6

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

CLICK EACH NOTE FOR QUICK ACCESS

NOTE DISCLOSURES RELATED TO THE BALANCE SHEET

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

CLICK EACH NOTE FOR QUICK ACCESS

OTHER STATEMENTS

NOTE DISCLOSURES NOT PERTAINING TO A SPECIFIC STATEMENT

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Department of Defense (Department or DoD) includes the Office of the Secretary of Defense (**OSD**), Joint Chiefs of Staff (**JCS**), DoD Office of the Inspector General (**DoD OIG**), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the **Army**, the **Navy** (of which the **Marine Corps** is a component), and the **Air Force** (of which the **Space Force** is a component). Appendix A provides a list of the components which comprise the Department's reporting entity for the purposes of these consolidated/combined financial statements.

B. MISSION OF THE REPORTING ENTITY

The Department was established by the **National Security Act of 1947**. Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States (U.S.) by deterring and defeating aggression and coercion in critical regions.

C. BASIS OF PRESENTATION

The financial statements have been prepared to report the financial position and results of DoD operations, as required by the **Chief Financial Officers Act of 1990**, as amended and expanded by the **Government Management Reform Act of 1994** and other applicable legislation. To the extent possible, the financial statements have been prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget (**OMB**) **Circular No. A-136**, Financial Reporting Requirements, and in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (**FASAB**). The financial statements account for all resources for which the Department is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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

In accordance with FASAB Statement of Federal Financial Accounting Standards **(SFFAS) 47**, Reporting Entity, in Note 26, Disclosure Entities and Related Parties, the Department is disclosing its relationships with Department-sponsored Federally Funded Research and Development Centers and DoD Nonappropriated Fund Instrumentalities.

D. BASIS OF ACCOUNTING

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DoD Components and their sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections) from non-financial feeder systems and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The Department presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the DoD Components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the DoD Components; therefore, intradepartmental activity has not been eliminated. DoD financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The Department is continuing to evaluate the effects that will

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BASIS OF ACCOUNTING (CONTINUED)

result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. The pronouncements listed below are expected to have an impact on the Department's financial statements; however, the Department is currently unable to determine the full impact.

01 **SFFAS 48**, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*: Issued on January 27, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for inventory and related property (I&RP), as permitted by SFFAS 48. The Department has valued some of its I&RP using deemed cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with **SFFAS 3**, *Accounting for Inventory and Related Property*, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

02 **SFFAS 49**, *Public-Private Partnerships*: Issued on April 27, 2016; Effective for periods after September 30, 2018. Early implementation is not permitted.

The Department identified Military Housing Privatization Initiative (MHPI) agreements as public-private partnerships requiring disclosure. Accordingly, in concurrence with the considerations of **SFFAS 47**, *Reporting Entity*, and due to the complexity of the MHPI agreements, the Department is performing research and analysis to evaluate each individual operating agreement in accordance with the qualifications for ownership interest, and the conditions of the control inclusion principles. This assessment will support the determination of appropriate reporting requirements, and the materiality of any potential financial adjustments.

03 **SFFAS 50**, *Establishing Opening Balances for General Property, Plant, and Equipment*: *Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued August 4, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for general property, plant and equipment (GPP&E), as permitted by SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with **SFFAS 6**, *Accounting for Property*, Plant and Equipment, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

04 **SFFAS 53**, *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.

05 **SFFAS 54**, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*: Issued April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under **SFFAS 58**, *Deferral of the Effective Date of SFFAS 54*, Leases: Issued June 19, 2020. Early adoption is not permitted.

06 **SFFAS 55**, *Omnibus Amendments*: Issued September 27, 2019; Effective dates vary based on the paragraph number. Early adoption is not permitted.

07 **Interpretation 9**, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019.

08 **Technical Bulletin 2020-1**, *Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.

The Department has not recorded all transactions consistent with GAAP. The Department continues to transition to systems that can produce GAAP compliant financial statements. The following known transactions were not recorded consistent with GAAP and are believed to be materially misstated in the financial statements (note: the below is not an exhaustive list):

1. Accounting errors recorded in prior years and impacting the current year financial statements have not been recorded and corrected in accordance with GAAP.
2. Transactions that should have been recorded in prior years, were recorded in the current year.

The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ACCOUNTING FOR INTRAGOVERNMENTAL AND INTERGOVERNMENTAL ACTIVITIES

Treasury Financial Manual (**Treasury**), Volume I, Part 2, **Chapter 4700**, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The Department is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of the Department by another federal entity. In accordance with **SFFAS 55**, *Amending Inter-entity Cost Provisions,* the Department recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the Federal Employees' Compensation Act (**FECA**); and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the Department's financial statements.

For additional information, see Note 19, *Disclosures Related to the Statement of Net Cost*.

F. NON-ENTITY ASSETS

Non-entity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for non-entity assets. An example of a non-entity asset is the portion of Fund Balance with Treasury (FBwT) that consists of deposit and receipt funds.

For additional information, see Note 2, *Non-Entity Assets*.

G. FUND BALANCE WITH TREASURY

The FBwT represents the aggregate amount of the Department's available budget spending authority available to pay current liabilities and finance future authorized purchases. The Department's monetary resources of collections and disbursements are maintained in Department of the Treasury (**Treasury**) accounts. The disbursing offices of the Defense Finance and Accounting Service (**DFAS**), the Military Departments, the U.S. Army Corps of Engineers (**USACE**), and the Department of State's financial service centers process the majority of the Department of Defense's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

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

When the reporting entity seeks to use FBwT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit (and to use current receipts if there is a budget surplus).

In addition, DFAS and the USACE Finance Center report to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBwT account.

For additional information, see Note 3, *Fund Balance with Treasury*.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. CASH AND OTHER MONETARY ASSETS

Cash is the total of cash resources under the control of the Department, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the Treasury prevailing rate of exchange. The TFM Volume I, Part 2, **Chapter 3200** , provides guidance for accounting and reporting foreign currency.

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

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

For additional information, see Note 4, *Cash and Other Monetary Assets.*

I. INVESTMENTS AND RELATED INTEREST

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

The Department invests in non-marketable, market-based Treasury securities issued to federal agencies by Treasury's **Bureau of the Fiscal Service**. These securities are not traded on any financial exchange but are priced consistently with publicly traded Treasury securities.

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; Support for U.S. Relocation to Guam Activities; donations (gift funds); and Treasury managed trust funds reported by USACE including the South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Fund accounts.

Other investments represent joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of Military Housing Privatization Initiative (**MHPI**), authorized by the National Defense Authorization Act **(NDAA) for FY 2005**.

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

J. ACCOUNTS RECEIVABLE

Accounts receivable from other federal entities or the public include reimbursement receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history.

The Department has fuel exchange agreements with foreign countries. These agreements allow the Department to periodically offset the accounts receivable by the amount the Department owes to the same foreign country. The accounts receivable for fuel exchange agreements are not included in the accounts receivable balance.

For additional information, see Note 6, *Accounts Receivable.*

K. DIRECT LOANS AND LOAN GUARANTEES

The Department operates a direct loan and loan guarantee program authorized by the **NDAA for FY 1996**, which provides the Department with the authorities to work with the private sector to obtain private lending, expertise, innovation, and

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. DIRECT LOANS AND LOAN GUARANTEES (CONTINUED)

provide housing more efficiently. The Department uses these authorities to operate guarantees (both loan and rental), conveyance/leasing of existing property and facilities, differential lease payments, investments (both limited partnerships and stock/bond ownership), and direct loans to the extent of the sanctions which are defined in the Federal Credit Reform Act of 1990 (**FCRA**). FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

The **NDAA for FY 2005** provided permanent authorities to the MHPI.

The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers, to attract private lending, expertise, and innovation, and provide housing more efficiently.

As required by **SFFAS 2**, *Accounting for Direct Loans and Loan Guarantees*, the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

OMB **Circular No. A-11**, *Preparation, Submission, and Execution of the Budget*, Part 5 and OMB Circular No. A-136, specify disclosure requirements for government direct loans and loan guarantees.

For additional information, see Note 7, *Direct Loans and Loan Guarantees*.

L. INVENTORIES AND RELATED PROPERTY

The Department values substantially all of its inventory available and purchased for resale using the moving average cost method. 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 requiring repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Department often relies on weapon systems and machinery no longer in production. As a result, the Department supports a process encouraging the repair and rebuilding of certain items. This repair cycle is essential to maintaining readiness for a lethal joint force. Inventory Work-in-Process balances include (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term relating to military force management, and includes items such as ships; tanks; self-propelled weapons; aircraft; and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies.

Related property includes Operating Material and Supplies (OM&S) and stockpile materiel. OM&S, including munitions not held for sale, are valued using various methods including moving average cost, standard price, historical cost, replacement price, and direct method. The Department uses both the consumption method and the purchase method of accounting for OM&S. Centrally managed and stored items, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. Under this method, materiel and supplies are expensed when consumed. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than General Equipment. The Department determined the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

OM&S are recognized at net realizable value through the use of an allowance account. For excess, obsolete, and unserviceable (EOU) inventory transferred to the Defense Logistics Agency (**DLA**) **Disposition Services**, the net realizable value will generally be zero. The net realizable value of EOU disposed of through a **Qualified Recycling Program** or by other means other than a transfer to DLA is estimated based on prior disposal proceeds for comparable EOU, buyer quotes, or other

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. INVENTORIES AND RELATED PROPERTY (CONTINUED)

reasonable means.

For all types of inventory and related property, the Department, when applicable, will continue to adopt SFFAS 48, which permits alternative methods in establishing opening balances. The FASAB issued **SFFAS 48**, permitting alternative methods in establishing opening balances, effective for periods beginning after September 30, 2016. Some DoD Components used the deemed cost measures from this standard for FY 2016; additional DoD Components used the deemed cost measures from SFFAS 48 in FY 2018 using a combination of standard price (selling price), latest acquisition cost, estimated historical cost, and actual historical cost as the basis for valuation.

For additional information, see Note 8 *Inventory and Related Property*.

M. GENERAL PROPERTY, PLANT, AND EQUIPMENT

The Department generally records General GPP&E at the estimated historical cost. When applicable, the Department will continue to adopt SFFAS 50, which permits alternative methods in establishing opening balances effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods from SFFAS 50 based on historical records such as expenditure data, contracts, budget information, and engineering documentation. See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 50.

General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold. The costs of modifications/improvements to existing General PP&E assets are capitalized if they (1) extends the asset's useful life by two or more years, or increases the assets capability, or increases its capacity or size, and (2) equals or exceeds the relevant capitalization threshold. The capitalization threshold for General PP&E assets is $250 thousand with the following exceptions:

DoD Entity	Capitalization Threshold
Department of the Navy General Fund (General Equipment and Real Property)	$1 million
Department of the Air Force General Fund (General Equipment)	$1 million
Office of the Director of National Intelligence (**ODNI**) DoD Members only	$1 million
USACE Civil Works General PP&E assets, other than buildings and structures related to hydropower projects	$25 thousand
USACE Civil Works buildings and structures related to hydropower projects	Capitalized regardless of cost

Except for those related to USACE Civil Works, ODNI, and Department of Navy General Fund (Real Property), these capitalization thresholds apply to General PP&E asset acquisitions and modifications/improvements placed into service after September 30, 2013; General PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds ($100 thousand for general equipment and $20 thousand for real property). However, in the years leading up to the DoD entities making unreserved assertions under SFFAS 50, each DoD Entity may apply the applicable capitalization threshold to its entire population of General PP&E retroactively, irrespective of the capitalization thresholds in effect for the years prior to October 1, 2013. The Department depreciates all General PP&E assets, other than land, on a straight-line basis.

The Department provides government-owned or leased General PP&E (Government-Furnished Property (GFP)) to contractors for performing a contract, for which the Department must recognize the GFP for accountability and financial reporting purposes.

Contactor-Acquired Property (CAP) is General PP&E acquired by a contractor on behalf of the Department for performing a contract, where the government will ultimately hold the title to the General PP&E. If the CAP has a useful life of at least two years and the value of the CAP meets or exceeds the relevant capitalization threshold, GAAP requires the CAP to be reported on the Department's Balance Sheet when title passes to the Department or when the General PP&E is delivered to the Department.

For additional information, see Note 9, *General Property, Plant and Equipment*.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. OTHER ASSETS

Other Assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the Department's Balance Sheet. For advance payments recorded as assets, the Department properly expenses or capitalizes assets when the related goods and services are received.

The Department conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. The Department may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulation (**FAR**), **Part 32**, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

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

For additional information, see Note 10, *Other Assets*.

O. LEASES

Lease payments for the rental of equipment, internal use software, and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to the Department (a capital lease) and the value equals or exceeds the relevant capitalization threshold, the Department records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The Department records the asset and liability at the lesser of the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.

An operating lease does not substantially transfer all the benefits and risks of ownership to the Department. Payments for operating leases are expensed over the lease term. Office space leases entered into by the Department are the largest component of operating leases.

For additional information, see Note 16 *Leases*.

P. LIABILITIES

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the Department absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources, for example future environmental cleanup liability, represent amounts owed in excess of available appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 11, *Liabilities Not Covered by Budgetary Resources*.

Q. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with **SFFAS 5**, non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, the Department recognizes non-environmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

not easily distinguishable and are developed in conjunction with environmental disposal costs.

For additional information, see Note 14, *Environmental and Disposal Liabilities*.

R. OTHER LIABILITIES

Other Liabilities includes:

Advances from Others which represent amounts received in advance for goods or services that have not been fully rendered by the Department.

Deposit Funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity, or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

For information on Judgement Fund Liabilities, see Note 17, *Commitments and Contingencies*.

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

Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

The Federal Employees Compensation Act (**FECA**) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (**DOL**), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

SFFAS 51, *Insurance Programs*, established accounting and financial reporting standards for insurance programs. Office of Personnel Management (**OPM**) administers insurance benefit programs available for coverage to the Department's civilian employees. The programs are available to Civilian employees but employees do not have to participate. These programs include life, health, and long term care insurance.

The life insurance program, Federal Employee Group Life Insurance (**FEGLI**) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (**FEHB**) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (**FEDVIP**). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

The Federal Long Term Care Insurance Program (**FLTCIP**) provides long term care insurance to help pay for costs of care when enrollees need help with activities they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB. However, employees are not required to be enrolled in FEHB.

OPM, as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. The Department has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. OTHER LIABILITIES (CONTINUED)

TRICARE is a worldwide health care program that provides coverage for Active and Reserve Component Military Service members and their families, survivors, retirees, and certain former spouses. TRICARE brings together the military hospitals and clinics worldwide with a network and non-network TRICARE authorized civilian health care professionals, institutions, pharmacies, and suppliers to provide access to health care services. TRICARE offers multiple health care plans. The Defense Health Program serves as the program manager for TRICARE, providing oversight, payment, and management of private sector care administered by contracted claims processors.

Custodial Liabilities represents liabilities for collections reported as nonexchange revenues where the Department is acting on behalf of another federal entity.

Other Liabilities primarily consists of unemployment compensation liabilities.

For additional information, see Note 15, *Other Liabilities*

S. COMMITMENTS AND CONTINGENCIES

The Department recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 17, *Commitments and Contingencies*. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

The Department executes project agreements pursuant to the framework cooperative agreement with foreign governments. All of these agreements give rise to obligations fully reported in the DoD financial statements, pursuant to legal authority, appropriated funds, and none are contingent. The Department does not enter into treaties and other international agreements that create contingent liabilities.

The Department does not have environmental contingencies. The legal environmental cases are recorded as legal contingencies.

For additional information, see Note 17, *Commitments and Contingencies*.

T. MILITARY AND CIVILIAN RETIREMENT BENEFITS

The Department applies **SFFAS 33**, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits* and Note 19, *Disclosures Related to the Statement of Net Cost*, for additional information.

As an employer entity, the Department recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other postemployment benefit plans (plans) including health and life insurance plans. However, as the administering entity, OPM is responsible for executing the benefit plans including accounting for plan assets, liabilities and associated gains and losses. Accordingly, the Department does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

The majority of DoD employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), while the majority of DoD employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. A primary feature of FERS is that it also offers a defined contribution plan (Thrift Savings Plan) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes to the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department reports both the full annual cost of providing these Other Retirement Benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for Other Post-employment Benefits (OPEB), including all

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. MILITARY AND CIVILIAN RETIREMENT BENEFITS (CONTINUED)

types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

U. REVENUES AND OTHER FINANCING SOURCES

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

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

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

General funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DoD appropriations funding covers costs including personnel, operations and maintenance, research and development, procurement, and military construction.

Working capital funds (WCF) conduct business-like activities and receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions flowing through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus. Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose and the expenditure of these receipts. Certain trust and special funds may be designated as Funds from Dedicated Collections. Funds from Dedicated Collections are financed by specifically identified revenues; are required by statute to be used for designated activities, benefits, or purposes; and remain available over time. In accordance with **SFFAS 27**, *Identifying and Reporting Funds from Dedicated Collections*, as amended by **SFFAS 43**, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Department separately accounts for and reports on the receipt, use, and retention of revenues and other financing sources for Funds from Dedicated Collections in Note 18, Funds from Dedicated Collections.

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

In accordance with **SFFAS 7**, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Department recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

Deferred revenue is recorded when the Department receives

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. REVENUES AND OTHER FINANCING SOURCES (CONTINUED)

payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned.

The Department does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost. The U.S. has cost sharing agreements with countries, through mutual or reciprocal defense agreements, where U.S. troops are stationed or where the U.S. Fleet is in a port.

V. RECOGNITION OF EXPENSES

For financial reporting purposes, the Department's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

In the case of OM&S, operating expenses are generally recognized when the items are purchased. The Department has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method if certain operational and other criteria, as applicable, are met, as set forth under GAAP. Under the consumption method, OM&S would be expensed when consumed.

W. TREATIES FOR USE OF FOREIGN BASES

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

X. USE OF ESTIMATES

The Department's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as environmental liabilities, year-end accruals of accounts payable, and actuarial liabilities related to workers' compensation.

Y. PARENT-CHILD REPORTING

The Department is a party to allocation transfers with other federal agencies as a transferring (parent) entity 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.

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 also receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Department's financial statements. These funds include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance.

As a parent, the Department reports in these financial statements certain funds allocated to the Departments of Transportation and Agriculture.

Z. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

The Department is implementing the administration's foreign policy objectives under the provisions of the **Arms Export Control Act of 1976** by facilitating the sale of U.S. Government-

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Z. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS (CONTINUED)

approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

AA. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Department of cash and other assets in which non-federal individuals or entities have an ownership interest that the Department must uphold. Fiduciary cash and other assets are not assets of the Department and are not recognized on the Balance Sheet. For additional information, see Note 23, *Fiduciary Activities*.

BB. TAX EXEMPT STATUS

As an agency of the federal government, the Department is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

NOTE 2: NON-ENTITY ASSETS

Non-entity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for non-entity assets.

TABLE 2: NON-ENTITY ASSETS

As of September 30 ($ in millions)	2020	Restated 2019
Intragovernmental Assets		
Fund Balance with Treasury	$2,533.0	$3,135.3
Accounts Receivable	1.2	4.5
Total Intragovernmental Assets	2,534.2	3,139.8
Non-Federal Assets		
Cash and Other Monetary Assets	865.4	827.1
Accounts Receivable	2,146.8	2,194.6
Other Assets	0.2	-
Total Non-Federal Assets	3,012.4	3,021.7
Total Non-Entity Assets	5,546.6	6,161.5
Total Entity Assets	3,049,170.0	2,882,541.0
Total Assets	$3,054,716.6	$2,888,702.5

RESTATEMENT

The Department corrected a $2.4 billion overstatement of the net book value of General PP&E and $1.1 billion understatement of operating materials and supplies which affect Total Entity Assets in Table 2. See Note 9, *General PP&E*, Note 8, *Inventory and Related Property* and Note 28, *Restatements* for further information.

INTRAGOVERNMENTAL ASSETS

Fund Balance with Treasury (FBWT) consists primarily of deposit funds and receipt accounts. Deposit funds represent amounts held temporarily until paid to the appropriate party. Receipt accounts represent amounts collected on behalf of the Treasury General Fund.

Accounts Receivable are primarily amounts necessary to cover surcharge liabilities to be collected on behalf of others.

NON-FEDERAL ASSETS

Cash and Other Monetary Assets consist primarily of cash held by disbursing officers to carry out payment, collection, and foreign currency exchanges. See Note 1.H., *Significant Accounting Policies, Cash and Other Monetary Assets* for further information.

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

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

NOTE 3: FUND BALANCE WITH TREASURY

The Treasury records cash receipts and disbursements on the Department's behalf; funds are available only for the purposes for which they were appropriated. The Department's Fund Balances with Treasury consist of appropriation accounts, revolving funds, trust accounts, special funds and other fund types.

RESTATEMENT

The Department corrected a $16.0 million overstatement in Unobligated Balance, Available and an offsetting understatement in Obligated Balance not yet Disbursed. The Total FBWT balance did not change. See Note 28, *Restatements* for further information.

TABLE 3: STATUS OF FUND BALANCE WITH TREASURY

As of September 30 ($ in millions)	2020	*Restated* 2019
Unobligated Balance		
Available	$156,024.3	$161,178.7
Unavailable	1,190,467.0	1,099,882.1
Total Unobligated Balance	1,346,491.3	1,261,060.8
Obligated Balance Not Yet Disbursed	594,286.6	544,742.4
Non-Budgetary FBWT		
Clearing accounts	(1.4)	16.5
Deposit funds	2,591.9	3,183.4
Non-entity and other	158.9	281.2
Total Non-Budgetary FBWT	2,749.4	3,481.1
Non-FBWT Budgetary Accounts		
Investments - Treasury Securities	(1,174,266.2)	(1,082,792.7)
Unfilled Customer Orders without Advance	(89,155.6)	(73,853.7)
Contract Authority	(27,869.2)	(30,956.3)
Borrowing Authority	(79.9)	(79.9)
Receivables and Other	(14,980.6)	(14,046.4)
Total Non-FBWT Budgetary Accounts	(1,306,351.5)	(1,201,729.0)
Total FBWT	$637,175.8	$607,555.3

The Status of FBWT, as presented in Table 3, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

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

NOTE 3: FUND BALANCE WITH TREASURY (CONTINUED)

Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

Non-Budgetary FBWT includes accounts without budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and Non-Entity FBWT.

Non-FBWT Budgetary Accounts line reduces budgetary resources to account for investments in Treasury securities, unfilled customer orders without advance, contract and borrowing authority, and receivables.

Treasury securities provide the Department with budgetary authority and enables the Department to access funds to make future benefit payments or other expenditures. The Department must redeem these securities before they become part of the FBWT.

Contract Authority and Reimbursable Authority (Spending Authority from Anticipated Collections) does not increase the FBWT when initially posted, but does provide budgetary resources. FBWT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBWT upon receipt of the budget authority.

Unfilled Customer Orders Without Advance and Reimbursements and Other Income Earned - Receivable provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies and fiduciary activities. The Department received allocation transfers from other federal agencies for execution on their behalf in the amount of $494.7 million in FY 2020 and $357.3 million in FY 2019. In addition, the Department held cash and cash equivalents for fiduciary activities in the amount of $972.8 million in FY 2020 and $67.0 million in FY 2019; these amounts are not reported in FBWT in accordance with **SFFAS 31**. The FY 2020 fiduciary activities increase is attributable to the Foreign Cooperative Project of $909.4 million. For additional information, see Note 23. *Fiduciary Activities*.

The FBWT reported in the financial statements has been adjusted to reflect the Department's balance as reported by Treasury. The difference between FBWT in the Department's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DoD Components' general ledgers as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DoD Components' general ledger accounts.

NOTE 4: CASH AND OTHER MONETARY ASSETS

TABLE 4: CASH AND OTHER MONETARY ASSETS

As of September 30 ($ in millions)	2020	2019
Cash	$488.8	$428.2
Foreign Currency	477.5	490.1
Total Cash and Other Monetary Assets	$966.3	$918.3

The majority of cash and all foreign currency is classified as non-entity and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. These amounts are held outside of Treasury, in local deposit accounts, or cash, under the custodial responsibility of the disbursing officer and are not directly associated with an appropriation. An offsetting liability to Treasury is reported on Note 15, *Other Liabilities*.

In FY 2020 and FY 2019, cash includes unrestricted entity assets of $100.9 million and $90.1 million, respectively, comprised of undeposited collections and other cash.

NOTE 5: INVESTMENTS AND RELATED INTEREST

TABLE 5: INVESTMENTS AND RELATED INTEREST

As of September 30 ($ in millions)	2020				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$1,013,708.9	Eff. Int.	$(40,106.4)	$973,602.5	$1,218,732.9
Medicare Eligible Retiree					
Health Care Fund	305,586.8	Eff. Int.	(17,785.7)	287,801.1	363,974.1
U.S. Army Corps of Engineers	9,280.8	Eff. Int.	20.5	9,301.3	9,341.5
Other Funds	2,993.8	Eff. Int.	(23.0)	2,970.8	3,052.1
Total Non-Marketable, Market-Based	1,331,570.3		(57,894.6)	1,273,675.7	1,595,100.6
Accrued Interest	8,091.4	Eff. Int.	N/A	8,091.4	8,091.4
Total Intragovernmental Securities	1,339,661.7		(57,894.6)	1,281,767.1	1,603,192.0
Other Investments	$3,511.6		$-	$3,511.6	N/A

Legend for Amortization Methods:
Eff. Int. = Effective Interest Method

	2019				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$928,306.9	Eff. Int.	$(37,141.7)	$891,165.2	$997,841.3
Medicare Eligible Retiree					
Health Care Fund	292,451.8	Eff. Int.	(16,436.8)	276,015.0	318,751.7
U.S. Army Corps of Engineers	9,375.6	Eff. Int.	41.9	9,417.5	9,444.7
Other Funds	2,973.8	Eff. Int.	(43.1)	2,930.7	2,971.4
Total Non-Marketable, Market-Based	1,233,108.1		(53,579.7)	1,179,528.4	1,329,009.1
Accrued Interest	8,080.6	Eff. Int.	N/A	8,080.6	8,080.6
Total Intragovernmental Securities	1,241,188.7		(53,579.7)	1,187,609.0	1,337,089.7
Other Investments	$3,511.6		$-	$3,511.6	N/A

Legend for Amortization Methods:
Eff. Int. = Effective Interest Method

The Department invests primarily in non-marketable, market-based Treasury securities (See Note 1.I *Significant Accounting Policies*). The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value.

The Treasury securities were issued to trust and special funds legally authorized to invest funds with Treasury and are an asset to the Department and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated (e.g., from bond dividends, proceeds from bond sales, and proceeds

NOTE 5: INVESTMENTS AND RELATED INTEREST (CONTINUED)

from sureties reaching maturity) is deposited in the Treasury and used for general Government purposes. Since the Department and the Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The Treasury securities provide the Department with authority to access funds to make future benefit payments or other expenditures. When the Department requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all of its other expenditures.

In FY 2020, the U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of $9.2 billion and $9.3 billion in FY 2019, and $9.1 billion in Harbor Maintenance and Related Funds for FY 2020 and FY 2019 respectively.

In FY 2020, Other Funds consists primarily of $1.6 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.0 billion in investments of the DoD Education Benefits Trust Fund. In FY 2019, Other Funds consists primarily of $1.6 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.1 billion in investments of the DoD Education Benefits Trust Fund.

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

NOTE 6: ACCOUNT RECEIVABLE, NET

TABLE 6: ACCOUNTS RECEIVABLE, NET

As of September 30 ($ in millions)	2020		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$2,123.3	$(31.9)	$2,091.4
Non-Federal Receivables (From the Public)	6,051.9	(902.0)	5,149.9
Total Accounts Receivable	$8,175.2	$(933.9)	$7,241.3
	2019		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$2,025.2	N/A	$2,025.2
Non-Federal Receivables (From the Public)	6,677.8	(783.3)	5,894.5
Total Accounts Receivable	$8,703.0	$(783.3)	$7,919.7

Accounts receivable represent the Department's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, **Chapter 4700**. Allowances for uncollectible accounts due from the public are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances.

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

The gross amount due for Non-Federal Receivables (From the Public) for FY 2020 includes criminal restitution orders of $370.1 million monitored by the Department, of which $18.3 million is determined to be collectible. Restitution receivables and associated payments are pursued by the courts handling those cases. The Department establishes the receivables based on the court documents received and posts payments received through the courts. At two years, delinquent, criminal restitution receivables are considered 100 percent uncollectible; however, the Department is only authorized to write off or close accounts with approval from the Department of Justice. For FY 2019, the criminal restitution orders were $1.1 billion of which $0.5 billion is determined to be collectible.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

MILITARY HOUSING PRIVATIZATION INITIATIVE (MHPI)

The Department operates loan guarantee programs for MHPI. The MHPI includes both direct loan and loan guarantee programs. The programs are authorized by the **NDAA for FY 1996**, which includes a series of authorities allowing the Department to work with the private sector to renovate and build military family housing, and the **NDAA for FY 2005**, which provides the permanent authority. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage government funds. The Department provides protection to private sector partners against specific risks, such as base closure or member deployment.

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

MHPI LOAN MODIFICATION

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

The sustainment review for the three-base BLB Group project consisting of Barksdale Air Force Base (AFB), Langley AFB, and Joint Base Anacostia Bolling identified an estimated $100 million shortfall in sustainment funding over the next 10 years, which would have potentially impacted the overall viability of the project. These sustainment funding shortfalls would likely have led to a debt service issue if occupancy was impacted by the deteriorating housing product at the project. Therefore, on December 5, 2019, the Office of Management and Budget (OMB) approved a restructure of the project. The modification was completed on May 8, 2020 and was not the result of short-term debt service funding issues. It included a modification of the government direct loan. The modification cost, using Air Force budgetary authority, was $56.0 million. The subsidy cost allowance portion of the modification is $52.4 million and referenced in Table 7D and 7F. The $52.4 million is used to decrease the principal balance of the $31.0 billion debt to the Treasury, while $3.6 million is the modification adjustment transfer that was initiated by MHPI and remitted to Treasury's special receipt account. As a condition of the restructure, the Air Force also obtained a commensurate concession from the project owner.

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

OTHER MHPI PROJECTS UNDER REVIEW

Currently the following projects are under review and subject to possible modification:

- Two Air Force projects, Air Education and Training Command (AETC I) and Robins AFB, had debt coverage ratios of less than 1.05, requiring the application of additional risk of repayment factors during the FY 2020 subsidy reestimates for the FY 2021 President's Budget. The Air Force is monitoring the Robins AFB project closely and reviewing restructure options for long-term financial viability. See below for additional detail on AETC I due to the catastrophic impact of Hurricane Michael at Tyndall AFB in October 2018.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

OTHER MHPI PROJECTS UNDER REVIEW (CONTINUED)

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

The Air Force and project owner have adopted a two-phased approach, working closely with the senior lender in establishing a plan to restore and rebuild homes at Tyndall AFB with a central focus on achieving the stated mission of the project. The Phase I Tyndall restoration was approved by OMB on October 4, 2019. The Phase I plan uses funds from the Non-Debt Sized Units (separate units under the same project, but which have a separate cash flow waterfall) at the Northern Group and Western Group MHPI projects as a loan to the AETC Group I project through a credit facility to address a funding shortfall in the proposed restoration plan in Phase I. The loan is non-recourse, no interest, and payable at the end of the AETC I lease term. Phase II will include a restructure of the AETC I project to ensure long-term sustainment and is anticipated to include adjustments to the Government Direct Loan (GDL). While the insurance coverages for the AETC I project are comparable to those required by commercial lenders and investors for natural catastrophic events, the insurance payout will not provide all funding required to restore and rebuild the proposed housing end-state (593 homes). Some factors leading to a reduced end state for Tyndall include the following:

- The AETC I project is responsible for funding the 5.0% policy deductible ($11.0 million);
- The complex calculation formula for the policy payout is affected by depreciation offsets and planned restoration activities;
- The senior lender required payment on the senior loan in the amount of $33.0 million to compensate for the loss of income attributable to the 274 homes that will not be rebuilt; and
- The reduced end state supports the number of military tenants previously housed at Tyndall AFB as well as the returning mission.

At the end of the first quarter of FY 2020, the Air Force became aware that the project was experiencing delays in receiving the next major tranche of insurance proceeds ($100.0 to $200.0 million layer of funding). Two of the four insurers that owe the next $100.0 million of insurance proceeds are disputing the validity of the remaining claim. The project owner is working the dispute with its insurance broker and legal counsel, and requested the use of the Reinvestment Account funds to pay current and future litigation costs. Ongoing delays affect the delivery schedule of the units and may place repayment of the government direct loan at risk.

CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY (CARES) ACT

In response to the Coronavirus Disease 2019 (COVID-19) outbreak, **Executive Order (EO) 13922** issued on May 14, 2020, authorizes the Chief Executive Officer of the International Development Finance Corporation (DFC) to originate and monitor loans on the Department's behalf while the Department maintains responsibility to commit, obligate, invoice and the financial reporting of the government direct loans. The delegation of authority through the 2-year period during which the requirements described in section 302(c)(1) of the Defense Production Act (DPA) (**50 U.S.C. 4532(c)(1)**) are waived pursuant to Title III of Division B of the Coronavirus Aid, Relief, and Economic Security Act, ending March 27, 2022. The EO delegates DPA loan authority for purchases and commitments to purchase, and takes additional actions to create, maintain, protect, and expand the domestic industrial base capabilities, including supply chains within the United States and its territories, needed to respond to the COVID-19 outbreak.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7A: SUMMARY OF DIRECT LOANS AND LOAN GUARANTEES

As of September 30 ($ in millions)	2020	2019
Direct Loans:		
Military Housing Privatization Initiative	$1,602.6	$1,738.7
Total Direct Loans	1,602.6	1,738.7
Total Defaulted Loan Guarantees	$-	$-
Total Loans Receivable	$1,602.6	$1,738.7
Loan Guarantee Liability:		
Military Housing Privatization Initiative	$44.1	$50.7
Total Loan Guarantee Liability	$44.1	$50.7

LOANS RECEIVABLE

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

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

TABLE 7B: DIRECT LOANS OBLIGATED AFTER FY 1991

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative		
Loans Receivable Gross	$1,755.2	$1,780.9
Allowance for Subsidy Cost (Present Value)	(152.6)	(42.2)
Value of Assets Related to Direct Loans, Net	1,602.6	1,738.7
Direct Loans, Net	$1,602.6	$1,738.7

Total Loans Receivable does not represent proceeds the Department would expect to receive from selling the loans. Interest is calculated using the interest earned method.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7C: TOTAL AMOUNT OF DIRECT LOANS DISBURSED

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative	$-	$46.4

TABLE 7D: SUBSIDY EXPENSE FOR DIRECT LOAN BY PROGRAM

TABLE 7D.1: SUBSIDY EXPENSE FOR NEW DIRECT LOANS DISBURSED

As of September 30 ($ in millions)	2020				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$-	$-	$-	$-	$-
	2019				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$3.7	$5.6	$-	$-	$9.3

TABLE 7D.2: DIRECT LOAN MODIFICATIONS AND REESTIMATES

As of September 30 ($ in millions)	2020			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$52.4	$17.5	$42.5	$60.0
	2019			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$-	$(5.6)	$(19.3)	$(24.9)

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7D.3: TOTAL DIRECT LOAN SUBSIDY EXPENSE

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative	$112.4	$(15.6)

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

TABLE 7E: BUDGET SUBSIDY RATES FOR DIRECT LOANS FOR THE CURRENT YEAR

As of September 30 ($ in millions)	2020				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2020 and FY 2019; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

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

The rates in Table 7E cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from the current year (when applicable) and prior-year loan guarantees. Subsidy expense reported in the current year also includes re-estimates.

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

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7F: SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES FOR POST FY 1991 DIRECT LOANS

As of September 30 ($ in millions)	2020	2019
Beginning Balance of the Subsidy Cost Allowance	$42.2	$62.2
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
Interest Rate Differential Costs	-	3.7
Default Costs (Net of Recoveries)	-	5.6
Total of the Above Subsidy Expense Components	-	9.3
Adjustments:		
Loan Modifications	52.4	-
Subsidy Allowance Amortization	(2.0)	(4.1)
Other	-	(0.3)
Ending Balance of the Subsidy Cost Allowance Before Reestimates		
Add or Subtract Subsidy Reestimates by Component:	92.6	67.1
Interest Rate Reestimates	17.5	(5.6)
Technical/Default Reestimates	42.5	(19.3)
Total of the Above Reestimates Components	60.0	(24.9)
Ending Balance of the Subsidy Cost Allowance	$152.6	$42.2

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

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

See the MHPI Modification section at the beginning of this Note for an explanation of the $52.4 million Loan Modification Adjustment on the table above and on Table 7D.2.

TABLE 7G: DEFAULTED GUARANTEED LOANS

There were no defaulted loan guarantees in FY 2020 or FY 2019.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

LOAN GUARANTEE LIABILITY

Loan guarantee liabilities are reported at the NPV. The cost of the loan guarantee is the NPV of the estimated projected cash flows of payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Department including origination and other fees, penalties, and recoveries.

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

TABLE 7H.1: GUARANTEED LOANS OUTSTANDING

As of September 30 ($ in millions)	2020		2019	
	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$943.2	$943.2	$960.4	$960.4

TABLE 7I: LIABILITY FOR LOAN GUARANTEES

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative	$44.1	$50.7
Total Loan Guarantee Liability	$44.1	$50.7

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7J: SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM

TABLE 7J.1: SUBSIDY EXPENSE FOR NEW LOAN GUARANTEES

As of September 30 ($ in millions)	2020				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ -	$ -	$ -	$ -	$ -
	2019				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ -	$ -	$ -	$ -	$ -

TABLE 7J.2: MODIFICATIONS AND REESTIMATES

As of September 30 ($ in millions)	2020				
		Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$	-	$(1.8)	$(6.1)	$(7.9)
	2019				
		Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$	-	$(1.9)	$(7.3)	$(9.2)

TABLE 7J.3: TOTAL LOAN GUARANTEE SUBSIDY EXPENSE

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative	$(7.9)	$(9.2)

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7K: BUDGET SUBSIDY RATES FOR LOAN GUARANTEES FOR THE CURRENT YEAR

As of September 30	2020				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2020 and FY 2019; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

These rates cannot be applied to loan guarantees disbursed during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes re-estimates. The subsidy expense for new loan guarantees reported in the current year results from both current year (when applicable) and prior-year agreements.

TABLE 7L: SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES FOR POST-FY 1991 LOAN GUARANTEES

As of September 30 ($ in millions)	2020	2019
Beginning Balance of the Loan Guarantee Liability	$50.7	$58.4
Adjustments:		
Interest Accumulation on the Liability Balance	1.3	1.5
Ending Balance of the Loan Guarantee Liability		
Before Reestimates	52.0	59.9
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	(1.8)	(1.9)
Technical/Default Reestimates	(6.1)	(7.3)
Total of the Above Reestimate Components	(7.9)	(9.2)
Ending Balance of the Loan Guarantee Liability	$44.1	$50.7

ADMINISTRATIVE EXPENSES

Administrative Expenses are limited to separately identified expenses in support of the direct loan program and the loan guarantee program.

NOTE 8: INVENTORY AND RELATED PROPERTY, NET

TABLE 8A: INVENTORY AND RELATED PROPERTY

As of September 30 ($ in millions)	2020	Restated 2019
Inventory, Net	$108,748.3	$105,832.5
Operating Materials & Supplies, Net	200,486.8	185,993.9
Stockpile Materiel, Net	975.4	779.2
Total Inventory and Related Property, Net	$310,210.5	$292,605.6

RESTATEMENT

The Department corrected a $1.1 billion understatement (net) of operating materials and supplies. See Table 8C. *OM&S Categories* and Note 28, *Restatements* for further information.

INVENTORY, NET

TABLE 8B: INVENTORY CATEGORIES

As of September 30 ($ in millions)	2020			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$68,627.4	$(413.4)	$68,214.0	LAC, MAC
Held in Reserve for Future Sale	991.3	-	991.3	LAC, MAC
Held for Repair	41,485.7	(5,465.1)	36,020.6	LAC, MAC
Raw Material	1,415.6	-	1,415.6	LAC, MAC
Work-in-Process	2,106.8	-	2,106.8	MAC
Excess, Obsolete and Unserviceable	591.7	(591.7)	-	NRV
Total	$115,218.5	$(6,470.2)	$108,748.3	
	2019			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$67,274.1	$(1.0)	$67,273.1	LAC, MAC
Held in Reserve for Future Sale	1,169.2	-	1,169.2	LAC, MAC
Held for Repair	40,518.8	(5,660.5)	34,858.3	LAC, MAC
Raw Material	1,234.1	-	1,234.1	LAC, MAC
Work-in-Process	995.2	-	995.2	LAC, MAC
Excess, Obsolete and Unserviceable	804.3	(501.7)	302.6	NRV
Total	$111,995.7	$(6,163.2)	$105,832.5	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost, adjusted for holding gains and losses *MAC = Moving Average Cost* *NRV = Net Realizable Value*

NOTE 8: INVENTORY AND RELATED PROPERTY, NET (CONTINUED)

GENERAL COMPOSITION OF INVENTORY

Inventory is tangible personal property that is held for sale, such as raw materials to be consumed in the production of goods for sale or in the provision of service for a fee, the value of inventory used in the production process, finished goods held for sale, and goods held for repair and eventual sale. Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. The Department assigns inventory items to a category based on asset type and condition.

INVENTORY RESTRICTIONS

The following types of inventory are subject to restrictions on use, sale, or disposition:

- Inventories maintained as war reserve materiel in accordance with **DoD Instruction 3110.06** with a recorded value of $2.6 billion in FY 2020 ($2.6 billion in FY 2019), consisting of stocks such as bulk petroleum, subsistence items, and other goods managed and positioned to reduce reaction time in response to contingencies and to sustain military forces;
- Defense Commissary Agency (DeCA) inventory with a recorded value of $313.6 million in FY 2020 ($315.5 million***** in FY 2019), consisting of grocery, meat, and produce items, limited for resale to authorized commissary patrons; and
- Dispositions pending litigation or negotiation (related to issues including inventory condition, pricing disputes, and product specifications) with a recorded value of $111.5 million in FY 2020 ($115.5 million in FY 2019).

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

***** DeCa's FY 2019 restricted inventory disclosed above is $315.5 million; however, it was inadvertently displayed in the FY 2019 DoD AFR narrative as $384.7 million. This error did not affect the Balance Sheet or the table amounts in the FY 2019 AFR, only the narrative disclosure.

NOTE 8: INVENTORY AND RELATED PROPERTY, NET (CONTINUED)

OPERATING MATERIALS & SUPPLIES, NET

TABLE 8C: OM&S CATEGORIES

As of September 30 ($ in millions)	2020			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	$143,021.4	$-	$143,021.4	Note 1
Held in Reserve for Future Use	38,460.4	-	38,460.4	Note 1
Held for Repair	14,700.4	-	14,700.4	Note 1
In Development	4,304.6	-	4,304.6	Note 1
Excess, Obsolete and Unserviceable	3,165.2	(3,165.2)	-	NRV
Total	$203,652.0	$(3,165.2)	$200,486.8	

	Restated 2019			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	$127,097.8	$-	$127,097.8	Note 1
Held in Reserve for Future Use	24,615.9	-	24,615.9	Note 1
Held for Repair	31,234.4	-	31,234.4	Note 1
In Development	3,045.8	-	3,045.8	Note 1
Excess, Obsolete and Unserviceable	3,050.0	(3,050.0)	-	NRV
Total	$189,043.9	$(3,050.0)	$185,993.9	

Legend for Valuation Methods:

Note 1: Direct Method, Historical Cost, Moving Average Cost, Replacement Price and Standard Price *NRV = Net Realizable Value*

GENERAL COMPOSITION OF OM&S

OM&S include spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns OM&S items to a category based on asset type and condition.

During FY 2020, the Department restated FY 2019 OM&S. The restatement corrected an understatement of $1.1 billion (net), primarily for the Department of the Army's War Reserve Stocks for Allies (WRSA) and Army retail stockpile. By category, the correction was for an understatement of $1.1 billion for Held in Reserve for Future Use; an overstatement of $10.8 million for Held for Use; and an overstatement of $2.9 million for Held for Repair.

NOTE 8: INVENTORY AND RELATED PROPERTY, NET (CONTINUED)

OM&S RESTRICTIONS

Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements based on condition. However, obsolete and unserviceable OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

OTHER DISCLOSURES

The FASAB issued **SFFAS 48**, permitting alternative methods in establishing opening balances, effective for periods beginning after September 30, 2016 with early implementation allowed. Some DoD Components used the deemed cost measures from this standard for FY 2016; additional DoD Components used the deemed cost measures from the standard in FY 2017 using a combination of standard price (selling price), latest acquisition cost, estimated historical cost, and actual historical cost as the basis for valuation.

STOCKPILE MATERIAL, NET

TABLE 8D: STOCKPILE MATERIAL CATEGORIES

As of September 30 ($ in millions)	2020			
	Stockpiles Materiel Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
Held for Sale	$17.4	$-	$17.4	MAC
Held in Reserve for Future Sale	958.0	-	958.0	MAC
Total	$975.4	$-	$975.4	

	2019			
	Stockpiles Materiel Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
Held for Sale	$28.5	$-	$28.5	MAC
Held in Reserve for Future Sale	750.7	-	750.7	MAC
Total	$779.2	$-	$779.2	

Legend for Valuation Methods:

MAC = Moving Average Cost

NOTE 8: INVENTORY AND RELATED PROPERTY, NET (CONTINUED)

GENERAL COMPOSITION OF STOCKPILE MATERIEL

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies. The Defense Logistics Agency (DLA) National Defense Stockpile Transaction Fund reported stockpile materials for FY 2020 with a net value of $746.4 million and an estimated market value of $869.2 million.

Beginning in FY 2020, the Defense Health Programs (DHP) reported stockpile materials with a net value $229.0 million. The estimated market value is unknown at this time.

STOCKPILE MATERIEL RESTRICTIONS

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

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, the National Defense Stockpile reclassifies the materiel from Held in Reserve to Held for Sale. Stockpile materials held for sale includes ores, metals, and alloys authorized for sale. For additional information on Defense Logistics Agency's mission related to the National Defense Stockpile and materials of interest, please see: **DLA Strategic Materials**.

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

NOTE 9: GENERAL PP&E, NET

TABLE 9A: MAJOR GENERAL PP&E ASSET CLASSES

As of September 30 ($ in millions)	2020				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Land	N/A	N/A	$9,106.1	N/A	$9,106.2
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	470,179.1	(302,640.9)	167,538.2
Leasehold Improvements	S/L	Lease Term	705.5	(375.7)	329.8
Software	S/L	2 - 5 or 10	11,450.6	(5,113.3)	6,337.3
General Equipment	S/L	Various	1,152,554.5	(677,430.3)	475,124.2
Assets Under Capital Lease	S/L	Lease Term	367.1	(294.9)	72.2
Construction in Progress	N/A	N/A	131,531.7	N/A	131,531.7
Other	N/A	N/A	10,059.0	(9,593.3)	465.7
Total General PP&E			$1,785,953.6	$(995,448.4)	$790,505.2
	Restated 2019				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Land	N/A	N/A	$9,094.2	N/A	$9,094.2
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	460,981.6	(290,783.6)	170,198.0
Leasehold Improvements	S/L	Lease Term	546.3	(318.0)	228.3
Software	S/L	2 - 5 or 10	9,909.1	(4,868.3)	5,040.8
General Equipment	S/L	Various	1,154,130.0	(681,256.4)	472,873.6
Assets Under Capital Lease	S/L	Lease Term	366.2	(283.8)	82.4
Construction in Progress	N/A	N/A	108,179.7	N/A	108,179.7
Other	N/A	N/A	10,541.5	(10,043.8)	497.7
Total General PP&E			$1,753,748.6	$(987,553.9)	$766,194.7

* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings

Legend for Depreciation/Amortization Methods:
S/L = Straight Line Method

The Department's General PP&E consists primarily of buildings and structures, furniture and fixtures, equipment, vehicles, internal use software, and land.

RESTATEMENT

The Department corrected a $2.4 billion overstatement of the net book value of Buildings, Structures, and Facilities, primarily related to the net value of real property transfers that the Department of the Army had previously capitalized and reported within its financial statements in error. See Note 28, *Restatements* for further information.

NOTE 9: GENERAL PP&E, NET (CONTINUED)

OTHER DISCLOSURES

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

The Department uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The FASAB issued **SFFAS 50**, permitting alternative methods in establishing opening balances for General PP&E, effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. Land and land rights recognized in the prior year for certain DoD Components are excluded from General PP&E opening balances in FY 2020, as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 23,521,368 in FY 2020 and 20,926,485 in FY 2019.

Other General PP&E includes Real Property held in Caretaker Status. Caretaker Status is defined as property under the legal jurisdiction of the Department, such as Base Realignment and Closure assets, awaiting further disposition, sale, or transfer to another entity.

HERITAGE ASSETS AND STEWARDSHIP LAND

SFFAS 29 provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. The Department's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

As the Department's mission to provide the military forces needed to deter war and protect the security of our country has been executed, the Department has become a large scale owner of historic buildings, structures, historical artifacts, art, stewardship land, and other cultural resources. Protection of these elements of the nation's heritage assets and stewardship land is an essential part of the Department's mission.

The Department, with minor exceptions, uses the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets. Multi-use heritage assets are recognized and presented with General PP&E in the basic financial statements, and additional information for the multi-use heritage assets is included with the heritage assets information below and in the Required Supplementary Information section.

The Department is unable to identify quantities of heritage assets and stewardship land added through donation or devise (e.g., a clause in a will leaving real estate to the Department) due to limitations of financial and non-financial management processes and systems. However, the Department continues to progress towards this goal. The Department is also working towards disclosing transfers of heritage assets and stewardship land. Differences in heritage asset quantities between the FY 2019 ending unit counts and the FY 2020 beginning unit counts resulted from periodic reviews.

Heritage assets receive such designation, and have such designation withdrawn, through the accessioning and deaccessioning procedures for collections or through evaluation in compliance with the **National Historic Preservation Act**. Designation is in accordance with the standards articulated with the collection scopes and collecting plans, or by application of the criteria of the National Register of Historic Places.

Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. The Department defines these as follows in accordance with the National Historic Preservation Act

- Buildings and Structures listed, or eligible for listing, on the National Register of Historic Places, including multi-use heritage assets;
- Archeological Sites listed, or eligible for listing, on the National Register of Historic Places; and
- Museum Collection Items considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

NOTE 9: GENERAL PP&E, NET (CONTINUED)

TABLE 9B: HERITAGE ASSETS

For the year ended September 30, 2020 (physical unit count) Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	47,339	316	(15,834)	31,821
Archeological Sites	10,768	4,597	(1,278)	14,087
Museum Collection Items (Objects, Not Including Fine Art)	1,300,515	3,929	(24,040)	1,280,404
Museum Collection Items (Objects, Fine Art)	60,078	901	(273)	60,706

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

The Department uses Stewardship Land for military bases, installations, training ranges, or other military mission related functions.

Stewardship land is categorized and reported in acres based on the predominant use of the land.

TABLE 9C: STEWARDSHIP LAND

For the year ended September 30, 2020
(acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	1,592	-	(52)	1,540
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	8,274	5	(7)	8,272
9140	Public Land	5	-	-	5
Total Stewardship Lands		9,871	5	(59)	9,817
9130	Licensed and Permitted Land	729	-	(1)	728
9210	Land Easement	20	-	(10)	10
9220	In-leased Land	102	-	-	102
9230	Foreign Land	297	-	-	297
Total All Other Lands		1,148	-	(11)	1,137
Grand Total		11,019	5	(70)	10,954

The four categories of Stewardship land – Government Owned Land; State Owned Land; Withdrawn Public Land (not available for settlement, sale, location, or entry); and Public Land (held by local governments) – are held in public trust.

The balance for All Other Lands consists of Licensed and Permitted Land, Land Easement, In-Leased Land, and Foreign Land. These categories are not included in the total amount of Stewardship Land.

The Department's methods of acquisition and withdrawal of stewardship land are as follows:

- Acquiring additional land through donation or withdrawals from public domain,
- Identifying missing land records,
- Disposing of Base Realignment and Closure (BRAC) sites or transferring land to another DoD Component,
- Identifying cemeteries and historical facilities,
- Disposing of BRAC property or excess installations, and
- Privatizing residential community initiatives programs.

NOTE 9: GENERAL PP&E, NET (CONTINUED)

SUMMARY OF ACTIVITY

To support the Financial Report of the United States Government compilation process for General PP&E, Net, estimated capitalized acquisitions, dispositions, revaluations, depreciation expense, net transfers without reimbursement and other activity for the current year are provided in Table 9D. Other(+/-) is the net amount of activity that could not otherwise be isolated into one of the other categories to arrive at the General PP&E, Net balance at the end of the year.

Per **OMB Circular A-136**, in the initial year of implementation, the disclosure requirements that were applicable in prior reporting periods are not required for comparative presentations.

TABLE 9D: GENERAL PP&E, NET - SUMMARY OF ACTIVITY

For the period ended September 30 ($ in millions)	2020
General PP&E, Net beginning of year	$766,194.7
Capitalized acquisitions	28,361.3
Dispositions	(849.0)
Revaluations(+/-)	51,373.5
Depreciation expense	(54,759.7)
Transfers in/(out) without reimbursement	222.2
Other (+/-)	(37.8)
General PP&E, Net end of year	$790,505.2

NOTE 10: OTHER ASSETS

TABLE 10: OTHER ASSETS

As of September 30 ($ in millions)	2020	2019
Intragovernmental Other Assets		
Advances and Prepayments	$879.6	$983.1
Other Assets	123.4	123.4
Total Intragovernmental Other Assets	1,003.0	1,106.5
Non-Federal Other Assets		
Outstanding Contract Financing Payments	19,655.1	18,241.1
Advances and Prepayments	845.5	1,107.6
Other Assets (With the Public)	232.6	194.4
Total Non-Federal Other Assets	20,733.2	19,543.1
Total Other Assets	$21,736.2	$20,649.6

INTRAGOVERNMENTAL OTHER ASSETS

Advances and Prepayments are amounts advanced or prepaid to other federal agencies.

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of $123.3 million in FY 2020 and FY 2019), held by the Department of Energy. In accordance with the **Department of Defense Appropriations Act of 1993**, these assets are maintained as a **Strategic Petroleum Reserve** for national defense purposes.

NON-FEDERAL OTHER ASSETS

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, includes $25.9 billion in FY 2020 in contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets. In comparison, FY 2019 Outstanding Contract Financing Payments included $18.2 billion in contract financing payments made to future performance of services, receipt of goods, expenditures or receipt of other assets.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as Outstanding Contract Financing Payments.

In FY 2020, Other Assets (With the Public) consist primarily of General PP&E permanently removed but awaiting disposal. FY 2019, Other Assets (With the Public) consisted primarily of inventory returns pending credit from vendors; however, $147.5 million was later determined to be in-transit inventory. The remaining FY 2019 balance ($46.9 million) consisted primarily of General PP&E permanently removed but awaiting disposal.

NOTE 11: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

TABLE 11: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30 ($ in millions)	2020	Restated 2019
Intragovernmental Liabilities		
Accounts Payable	$76.1	$40.1
Debt	0.1	0.3
Other	2,220.6	1,913.3
Total Intragovernmental Liabilities	2,296.8	1,953.7
Non-Federal Liabilities		
Accounts Payable	2,143.0	2,318.2
Military Retirement and Other Federal Employee Benefits	1,492,289.8	1,525,256.1
Environmental and Disposal Liabilities	72,307.7	73,097.0
Other Liabilities	15,533.6	14,227.1
Total Non-Federal Liabilities	1,582,274.1	1,614,898.4
Total Liabilities Not Covered by Budgetary Resources	1,584,570.9	1,616,852.1
Total Liabilities Covered by Budgetary Resources	1,235,039.5	1,143,282.4
Total Liabilities Not Requiring Budgetary Resources	-	-
Total Liabilities	$2,819,610.4	$2,760,134.5

RESTATEMENT

The Department corrected a $111.0 million understatement of Total Liabilities Covered by Budgetary Resources. See Note 28, *Restatements* for further information.

INTRAGOVERNMENTAL LIABILITIES

Accounts payable consists primarily of amounts due to Treasury for subsidy payables for direct loans under MHPI. See Note 7. *Direct Loan and Loan Guarantees, Non-Federal Borrowers* for more information on MHPI.

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

NON-FEDERAL LIABILITIES

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

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2020, these liabilities primarily consist of $901.7 billion in pension liabilities and $583.5 billion in

NOTE 11: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (CONTINUED)

NON-FEDERAL LIABILITIES (CONTINUED)

health benefit liabilities. In FY 2019, these liabilities primarily consist of $940.8 billion in pension liabilities and $576.9 billion in health benefit liabilities. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details.

Environmental and Disposal Liabilities represents the Department's liability for existing and anticipated environmental clean-up and disposal. Refer to Note 14, *Environmental and Disposal Liabilities,* for additional details.

Other Liabilities consists primarily of unfunded annual leave and contingent liabilities.

TOTAL LIABILITIES

Budgetary resources include (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections, and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without contingency having to be met first.

Liabilities Not Covered by Budgetary Resources require future congressional action before budgetary resources can be provided; whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

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

NOTE 12: DEBT

TABLE 12: DEBT

As of September 30 ($ in millions)	2020		
	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$1,714.1	$(51.5)	$1,662.6
Total Agency Debt	1,714.1	(51.5)	1,662.6
Total Debt	$1,714.1	$(51.5)	$1,662.6
	2019		
	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$1,685.7	$28.4	$1,714.1
Total Agency Debt	1,685.7	28.4	1,714.1
Total Debt	$1,685.7	$28.4	$1,714.1

The Department's debt consists of principal amounts due to the Treasury. The Department borrows funds from the Treasury for the Military Housing Privatization Initiative and the Washington Aqueduct Capital Improvements Project. See Note 7, *Direct Loan and Loan Guarantees*, for more information pertaining to MHPI.

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

The Department complies with the requirements of **SFFAS 33**, which directs that the long-term interest/discount rate, underlying inflation (cost of living adjustment, or COLA) rate and other economic assumptions be consistent with one another. A change in the interest/discount rate may cause other assumptions to change as well. SFFAS 33 also requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and postemployment benefits. SFFAS 33 provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

TABLE 13A: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30 ($ in millions)	2020		
Pension and Health Benefits	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Military Retirement Pensions	$1,794,054.2	$(892,379.0)	$901,675.2
Military Pre Medicare-Eligible Retiree Health Benefits	270,264.7	-	270,264.7
Military Medicare-Eligible Retiree Health Benefits	576,131.0	(262,934.3)	313,196.7
Total Pension and Health Benefits	2,640,449.9	(1,155,313.3)	1,485,136.6
Other Benefits			
FECA	5,337.6	-	5,337.6
Voluntary Separation Incentive Programs	174.1	(76.0)	98.1
DoD Education Benefits Fund	675.6	(675.6)	-
Other	7,427.0	(5,709.5)	1,717.5
Total Other Benefits	13,614.3	(6,461.1)	7,153.2
Total Military Retirement and Other Federal Employment Benefits	$2,654,064.2	$(1,161,774.4)	$1,492,289.8

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.6 trillion

	2019		
Pension and Health Benefits	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Military Retirement Pensions	$1,754,187.0	$(813,431.8)	$940,755.2
Military Pre Medicare-Eligible Retiree Health Benefits	254,832.8	-	254,832.8
Military Medicare-Eligible Retiree Health Benefits	573,219.1	(251,137.6)	322,081.5
Total Pension and Health Benefits	2,582,238.9	(1,064,569.4)	1,517,669.5
Other Benefits			
FECA	5,786.9	-	5,786.9
Voluntary Separation Incentive Programs	219.5	(93.5)	126.0
DoD Education Benefits Fund	786.7	(786.7)	-
Other	7,339.8	(5,666.1)	1,673.7
Total Other Benefits	14,132.9	(6,546.3)	7,586.6
Total Military Retirement and Other Federal Employment Benefits	$2,596,371.8	$(1,071,115.7)	$1,525,256.1

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.3 trillion

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

TABLE 13B: RECONCILIATION OF BEGINNING AND ENDING LIABILITY BALANCES FOR MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30 ($ in millions)	2020				
	Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	$1,754,187.0	$254,832.8	$573,219.1	$1,006.2	$2,583,245.1
Expense:					
Normal Cost	37,145.7	10,746.9	12,250.2	187.9	60,330.7
Interest on the Liability Balance	59,245.7	9,103.9	20,301.6	28.9	88,680.1
Plan Amendments	15,537.8	-	-	-	15,537.8
Experience Losses (Gains)	3,811.8	(3,977.1)	(5,899.1)	(132.1)	(6,196.5)
Expenses Before Losses (Gains) from Actuarial Assumption Changes	115,741.0	15,873.7	26,652.7	84.7	158,352.1
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	5,390.7	(39,577.5)	-	(34,186.8)
Changes in Assumptions Other Than Trend	(15,200.0)	5,198.1	26,775.5	37.9	16,811.5
Losses (Gains) from Actuarial Assumption Changes	(15,200.0)	10,588.8	(12,802.0)	37.9	(17,375.3)
Total Expenses	100,541.0	26,462.5	13,850.7	122.6	140,976.8
Less: Benefit Outlays	60,673.8	11,030.6	10,938.8	279.1	82,922.3
Total Changes in Actuarial Liability	39,897.2	15,431.9	2,911.9	(156.5)	58,054.5
Ending Actuarial Liability	$1,794,054.2	$270,264.7	$576,131.0	$849.7	$2,641,299.6

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

TABLE 13B: RECONCILIATION OF BEGINNING AND ENDING LIABILITY BALANCES FOR MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

As of September 30 ($ in millions)	2019				
	Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	$1,616,398.1	$249,694.0	$535,318.1	$1,192.6	$2,402,602.8
Expense:					
Normal Cost	32,110.3	10,357.8	10,936.5	131.4	53,536.0
Interest on the Liability Balance	56,083.8	9,166.8	19,473.2	33.7	84,757.5
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	1,091.7	(6,049.4)	(9,261.9)	83.0	(14,136.6)
Expenses Before Losses (Gains) from Actuarial Assumption Changes	89,285.8	13,475.2	21,147.8	248.1	124,156.9
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(232.0)	14,926.6	-	14,694.6
Changes in Assumptions Other Than Trend	108,863.6	2,826.7	12,587.3	(163.7)	124,113.9
Losses (Gains) from Actuarial Assumption Changes	108,863.6	2,594.7	27,513.9	(163.7)	138,808.5
Total Expenses	198,149.4	16,069.9	48,661.7	84.4	262,965.4
Less: Benefit Outlays	60,360.5	10,931.1	10,760.7	270.8	82,323.1
Total Changes in Actuarial Liability	137,788.9	5,138.8	37,901.0	(186.4)	180,642.3
Ending Actuarial Liability	$1,754,187.0	$254,832.8	$573,219.1	$1,006.2	$2,583,245.1

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

PENSION AND HEALTH BENEFITS

MILITARY RETIREMENT PENSIONS

The Military Retirement Fund (MRF) is a nonrevolving trust fund. Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

The Military Retirement Fund is authorized by the **NDAA for FY 1984** to accumulate funds to pay pensions to retired military personnel and annuities to their survivors. The Military Retirement System is a single-employer, defined benefit plan. The DoD Board of Actuaries approves the methods and non-economic assumptions for use in the valuation of benefits. Long-term economic assumptions for inflation, salary, and interest are set per SFFAS 33 guidance. The DoD Office of the Actuary (OACT) calculates the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

MILITARY RETIREMENT PENSIONS (CONTINUED)

Retirement System (**BRS**) is a new retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the Thrift Savings Plan (**TSP**). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria were able to opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution.

INFORMATION RELATED TO MILITARY RETIREMENT FUND BENEFIT LIABILITIES

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

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

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

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

INFORMATION RELATED TO MRF’S ACTUARIAL COST METHOD

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

OACT used the assumptions listed in Table 13C to calculate the FY 2020 actuarial liability.

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

TABLE 13C: ACTUARIAL ASSUMPTIONS FOR MILITARY RETIREMENT PENSION LIABILITY

Projection Year	Inflation (COLA)		Salary		Interest
FY 2020	1.6%	(actual)	3.1%	(actual)	3.2%
FY 2021	2.0%	(estimated)	3.0%	(estimated)	3.2%
Long Term	1.6%		1.8%		3.2%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method

Market Value of Investments in Market-Based and Marketable Securities: $1,218.7 billion

Assumed Interest Rate: 3.2%

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

INFORMATION RELATED TO MRF'S REVENUES

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

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

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

MILITARY RETIREMENT HEALTH BENEFITS (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. OACT calculates actuarial liabilities annually using assumptions and actual experience.

For the FY 2020 actuarial liability calculation, OACT used the assumptions listed in Table 13D.

TABLE 13D: ACTUARIAL ASSUMPTIONS FOR MRHB LIABILITY

MRHB Medical Trend	FY 2019 - FY 2020	Ultimate Rate FY 2044
Non-Medicare Inpatient (Direct Care)	1.43%	3.60%
Non-Medicare Outpatient (Direct Care)	1.66%	3.60%
Non-Medicare Prescriptions (Direct Care)	3.60%	3.60%
Non-Medicare Inpatient (Purchased Care)	0.27%	3.60%
Non-Medicare Outpatient (Purchased Care)	0.16%	3.60%
Non-Medicare Prescriptions (Purchased Care)	4.63%	3.60%
U.S. Family Health Plan (USFHP) (Purchased Care)	1.28%	3.60%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Assumed Interest Rate: 3.3%

For the FY 2020 financial statement valuation, a single equivalent medical cost trend rate of 4.06% was used to calculate the total retiree health benefits liability which includes MRHB and Medicare- Eligible Retiree Health Care Fund liabilities.

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND (MERHCF) BENEFITS

In accordance with **NDAA for FY 2001**, MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Medicare-Eligible Retiree Health Care Board of Actuaries approves assumptions and methods used in actuarial valuations of the MERHCF to calculate normal cost contributions. OACT calculates the actuarial liabilities annually using assumptions and actual experience per SFFAS 33 guidance.

OACT used the assumptions listed in Table 13E to calculate the FY 2020 actuarial liability.

TABLE 13E: ACTUARIAL ASSUMPTIONS FOR MERHCF LIABILITY

MRHB Medical Trend	FY 2019 - FY 2020	Ultimate Rate FY 2044
Medicare Inpatient (Direct Care)	1.19%	3.60%
Medicare Outpatient (Direct Care)	1.42%	3.60%
Medicare Prescriptions (Direct Care)	4.75%	3.60%
Medicare Inpatient (Purchased Care)	0.20%	3.60%
Medicare Outpatient (Purchased Care)	0.93%	3.60%
Medicare Prescriptions (Purchased Care)	4.84%	3.60%
Medicare USFHP (Purchased Care)	1.15%	3.60%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method

Market Value of Investments in Market-Based and Marketable Securities: $364.0 billion

Assumed Interest Rate: 3.3%

The FY 2020 MERHCF liability includes Medicare liabilities for all Uniformed Services. The $576.1 billion liability includes $562.1 billion for the Department, $12.4 billion for the Coast Guard, $1.5 billion for the Public Health Service, and $0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2019 $573.2 billion liability included $559.4 billion for the Department, $12.3 billion for the Coast Guard, $1.4 billion for the Public Health Service, and $0.1 billion for NOAA.

The FY 2020 normal cost contributions from each of the Uniformed Services were $7.8 billion from the Department, $202.9 million from the Coast Guard, $29.1 million from the Public Health Service, and $1.4 million from NOAA. The FY 2019 contributions from each of the Uniformed Services were $7.5 billion from the Department, $199.4 million from the Coast Guard, $28.9 million from the Public Health Service, and $1.4 million from NOAA.

For the FY 2020 financial statement valuation, a single equivalent medical cost trend rate of 4.06% was used to calculate the total retiree health benefits liability which includes MRHB and MERHCF liabilities.

FEDERAL EMPLOYEES' COMPENSATION ACT (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

FEDERAL EMPLOYEES' COMPENSATION ACT (FECA) (CONTINUED)

(**TNC Yield Curve**) to reflect the average duration of income payments and medical payments. An interest rate for wage benefits of 2.72% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.38% was assumed for year one and years thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2019 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years are provided in Table 13F.

TABLE 13F: ACTUARIAL ASSUMPTIONS FOR FECA LIABILITY

CBY	COLA	CPIM
2021	1.87%	3.21%
2022	2.14%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025+	2.30%	3.94%

To test the reliability of the model discussed, DOL made comparisons between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. DOL concluded that the model has been stable and has accurately projected the actual payments by agency.

VOLUNTARY SEPARATION INCENTIVE (VSI) PROGRAM

The **VSI Program** was established by **NDAA for FYs 1992 and 1993** to reduce the number of military personnel on active duty. The DoD Board of Actuaries approved the methods and non-economic assumptions for use in valuing the benefits. The assumed annual interest rate of 1.7% used to calculate the actuarial liability was determined in accordance with SFFAS 33 guidance. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest cost.

The Market Value of Investments in Market-based and Marketable Securities is $83.8 million for FY 2020 and $95.7 million for FY 2019.

DOD EDUCATION BENEFITS FUND (EBF)

The EBF was established by **NDAA for FY 1985** to recruit and retain military members and aid in the readjustment of military members to civilian life. The OACT calculates the actuarial liability annually based on the assumed interest rate of 2.75% as approved by the DoD Board of Actuaries.

The Market Value of Investments in Market-based and Marketable Securities is $1.1 billion for both FY 2020 and FY 2019.

OTHER FEDERAL EMPLOYMENT BENEFITS

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

NOTE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES

TABLE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30 ($ in millions)	2020	2019
Environmental Liabilities—Non-Federal		
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$13,651.1	$13,915.9
Active Installations - Military Munitions Response Program (MMRP)	3,203.9	3,498.3
Formerly Used Defense Sites - IRP and BD/DR	3,032.2	2,736.6
Formerly Used Defense Sites - MMRP	7,748.5	7,735.4
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	1,756.1	2,197.7
Environmental Closure Requirements	8,373.0	8,619.8
Asbestos	5,047.9	3,763.2
Non-Military Equipment	86.8	27.1
Other	2,129.6	2,064.0
Base Realignment and Closure Installations		
IRP	5,075.4	4,880.9
MMRP	900.7	778.9
Environmental Corrective Action/Closure Requirements	368.1	334.1
Asbestos	9.6	9.4
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	16,530.9	17,046.1
Non-Nuclear Powered Military Equipment	741.6	767.4
Other Weapon Systems	380.5	377.9
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency	2,314.1	2,442.1
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	3,691.9	4,930.1
Total Environmental and Disposal Liabilities	$75,041.9	$76,124.9

The Department has cleanup requirements for the Defense Environmental Restoration Program (**DERP**) for active installations, BRAC installations, and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not covered by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable.

Other Accrued Environmental Liabilities, Non-BRAC, Other consists primarily of Formerly Utilized Sites Remedial Action Program (**FUSRAP**) remediation of radiological contamination. The FUSRAP is a shared program between the Department and the Department of Energy's U.S. Atomic Energy and Weapons Program.

NOTE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES (CONTINUED)

ENVIRONMENTAL AND DISPOSAL LIABILITIES INVOLVING MULTIPLE COMPONENT ENTITIES

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

SOURCES FOR CLEANUP REQUIREMENTS

The Department is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. 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 weapon systems, and environmental costs related to BRAC actions.

The Department follows the Comprehensive Environmental Response, Compensation, and Liability Act (**CERCLA**), Superfund Amendments and Reauthorization Act of 1986 (**SARA**), Resource Conservation and Recovery Act (**RCRA**) or other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department's environmental policy and regulations for these vessels. The **Atomic Energy Act of 1954**, as amended, assures the proper management of source, special nuclear, and byproduct materiel. The Department coordinates nuclear power actions with the Department of Energy. The **Nuclear Waste Policy Act of 1982**, as amended, requires owners and generators of high-level nuclear waste and spent nuclear fuel to pay their share of the cost of the program. The **Low Level Radioactive Waste Policy Amendments Act of 1985**, as amended, provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on the **NDAA for FY 1986**, directing the Department to destroy the unitary chemical stockpile in accordance with the Chemical Weapons Convention Treaty.

NOTE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES (CONTINUED)

METHODS FOR ASSIGNING TOTAL CLEANUP COSTS TO CURRENT OPERATING PERIODS

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

Once the environmental cost estimates are complete, the Department complies with accounting standards to charge costs to current and/or future operating periods. The Department expensed cleanup costs for General PP&E placed into service prior to October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, the Department expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses associated environmental costs using two methods – (1) physical capacity for operating landfills and (2) life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for Heritage Assets and Stewardship Land and certain other General PP&E when the asset is placed into service.

The unrecognized portion of the estimated total cleanup costs associated with disposal of General PP&E was $4.3 billion as of September 30, 2020, and $4.3 billion as of September 30, 2019.

NATURE AND POSSIBLE CHANGES IN ESTIMATED CLEANUP COSTS

Environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. The Department is unaware of pending changes affecting its estimated cleanup costs.

The Department revised estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

UNCERTAINTY REGARDING ACCOUNTING ESTIMATES

The accounting estimates used to calculate the reported environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown.

The Department has ongoing studies for FUSRAP and will update its estimate as additional information is identified.

The Department may incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department continues its efforts to reasonably estimate required restoration costs.

ASBESTOS-RELATED CLEANUP COSTS

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. At this time, the Department is working towards assessing a reasonable estimate for the total cleanup costs related to friable and non-friable asbestos.

NOTE 15: OTHER LIABILITIES

TABLE 15: OTHER LIABILITIES

As of September 30 ($ in millions)	2020		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Advances from Others	$4,638.4	$-	$4,638.4
Deposit Funds and Suspense Account Liabilities	50.9	-	50.9
Disbursing Officer Cash	860.0	-	860.0
Judgment Fund Liabilities	1,047.5	-	1,047.5
FECA Reimbursement to the Department of Labor	454.4	543.7	998.1
Liabilities for Non-entity Assets	170.5	1,999.9	2,170.4
Employer Contributions and Payroll Taxes Payable	828.8	-	828.8
Other Liabilities	182.7	-	182.7
Total Intragovernmental Other Liabilities	8,233.2	2,543.6	10,776.8
Non-Federal			
Accrued Funded Payroll and Benefits	11,954.2	-	11,954.2
Advances from Others	5,235.9	(1.2)	5,234.7
Deferred Credits	198.2	-	198.2
Deposit Funds and Suspense Accounts	2,699.1	-	2,699.1
Non-Environmental Disposal Liabilities			-
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	13,024.0	-	13,024.0
Contract Holdbacks	1,654.3	16.1	1,670.4
Employer Contribution and Payroll Taxes Payable	975.3	-	975.3
Contingent Liabilities	429.0	820.4	1,249.4
Other Liabilities	1,658.9	655.6	2,314.5
Total Non-Federal Other Liabilities	37,828.9	1,496.9	39,325.8
Total Other Liabilities	$46,062.1	$4,040.5	$50,102.6

NOTE 15: OTHER LIABILITIES (CONTINUED)

TABLE 15: OTHER LIABILITIES (CONTINUED)

As of September 30 ($ in millions)	2019		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Advances from Others	$2,032.3	$-	$2,032.3
Deposit Funds and Suspense Account Liabilities	115.5	-	115.5
Disbursing Officer Cash	828.5	-	828.5
Judgment Fund Liabilities	800.2	-	800.2
FECA Reimbursement to the Department of Labor	471.8	578.3	1,050.1
Liabilities for Non-entity Assets	216.1	2,052.4	2,268.5
Employer Contributions and Payroll Taxes Payable	608.4	-	608.4
Other Liabilities	72.8	0.7	73.5
Total Intragovernmental Other Liabilities	5,145.6	2,631.4	7,777.0
Non-Federal			
Accrued Funded Payroll and Benefits	10,297.9	-	10,297.9
Advances from Others	5,303.0	(8.2)	5,294.8
Deferred Credits	-	-	-
Deposit Funds and Suspense Accounts	3,298.2	-	3,298.2
Non-Environmental Disposal Liabilities			
Military Equipment (Non-Nuclear)	1,179.2	65.9	1,245.1
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	10,721.3	-	10,721.3
Contract Holdbacks	2,752.4	15.6	2,768.0
Employer Contribution and Payroll Taxes Payable	732.3	-	732.3
Contingent Liabilities	493.6	1,055.8	1,549.4
Other Liabilities	226.8	618.4	845.2
Total Non-Federal Other Liabilities	35,004.7	1,753.5	36,758.2
Total Other Liabilities	$40,150.3	$4,384.9	$44,535.2

INTRAGOVERNMENTAL OTHER LIABILITIES

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

Deposit Funds and Suspense Accounts represents liabilities that offset receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner and liabilities that offset undistributed disbursements. The net amount of these may present as an overall positive or negative balance.

NOTE 15: OTHER LIABILITIES (CONTINUED)

INTRAGOVERNMENTAL OTHER LIABILITIES (CONTINUED)

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

For information on Judgement Fund Liabilities, see Note 17, *Commitments and Contingencies*.

Federal Employees' Compensation Act (**FECA**) Reimbursement to the Department of Labor represents liabilities for billed amounts payable in FY 2021 and unbilled amounts, including both incurred and an estimated accrual. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

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

Employer Contributions and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Other Liabilities consists of unemployment compensation liabilities.

NON-FEDERAL OTHER LIABILITIES

Advances from Others includes an abnormal balance for the non-current portion of the liability in FY 2020 and FY 2019; the Department will make the remaining corrective action effective FY 2021.

For FY 2019, Military Equipment (Non-Nuclear) is a part of the Non-Environmental Disposal liability related to the final disposition of equipment, munitions, and other national defense weapon systems that are considered non-nuclear. Disposal measurements involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item. In FY 2020, this liability was reclassified as an environmental liability and is reported on Note 14, *Environmental Disposals and Liabilities*.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2020 and FY 2019 contract holdbacks include $1.3 billion and $1.8 billion for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation (**FAR**).

Contingent Liabilities for FY 2020 and 2019 include legal contingent liabilities. See Note 17, *Commitments and Contingencies*.

Other Liabilities consist primarily of estimated costs for services provided; accrued liabilities which offset inventory owned and managed on behalf of foreign governments; and undistributed international tariff receipts.

LIFE INSURANCE LIABILITIES AND OTHER CIVILIAN INSURANCE PROGRAMS

The Department's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (**OPM**). The Department does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.

NOTE 15: OTHER LIABILITIES (CONTINUED)

OTHER MILITARY INSURANCE PROGRAMS

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

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

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

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

The total amount of Insurance Premium collections in FY 2020 was $755.6 million and $754.7 million for FY 2019. The benefit cost for FY 2020 and FY 2019 correlate to the premium collections reported.

For CY 2020 Monthly Premium Rates are established on an annual basis in accordance with **Title 10, U.S.C. Sections 1076d**, **1076e**, **1078a**, and **1110b** along with **Title 32, Code of Federal Regulations, part 199.24, 25 and 26, as enacted by FY 2017 Section 701 of NDAA; Public Law 114-328**. The enrollment fee and or premium collections are credited to the DHP appropriation available under Treasury Account Symbol 0130 for the fiscal year collected. Renewal in a specific plan is generally automatic unless declined; however, upper age limitations do exist for certain plans. More detailed information is found in the DHP’s Annual Financial Report at the link previously noted.

Actuarial liabilities and the estimated liability for incurred-but-not-reported medical claims ($1.7 billion in both FY 2020 and FY 2019) related to MHS are reported on Note 13, *Military Retirement and Other Federal Employment Benefits*, where it is referred to as Military Pre Medicare-Eligible Retiree Health Benefits.

NOTE 16: LEASES

ENTITY AS LESSEE

CAPITAL LEASES

The Department is reporting capital lease equipment and related amortization related to an arrangement for Indefeasible Right of Use agreements, allowing the Department access to portions of fiber optic, undersea cables. The Department has other leased assets recorded as equipment for which no future lease payments are due.

TABLE 16A: ENTITY AS LESSEE - ASSETS UNDER CAPITAL LEASE

As of September 30 ($ in millions)	2020	2019
Equipment	$367.1	$366.2
Accumulated Amortization	(294.9)	(283.8)
Total Assets Under Capital Leases	$72.2	$82.4

DESCRIPTION OF LEASE ARRANGEMENTS

Lease arrangements provide information that describes the nature of leases, such as major asset categories and/or the number of locations where building space is leased, the range of dates when lease terms expire, and, if applicable, the accounting treatment of rent holidays and leasehold improvements.

FUTURE PAYMENTS DUE FOR FEDERAL AND NON-FEDERAL CAPITAL LEASES

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

NOTE 16: LEASES (CONTINUED)

OPERATING LEASES

The future lease payments due presented in Table 16B are for non-cancelable operating leases only. Unlike capital leases, operating leases do not transfer the benefits and risk of ownership; rather, payments for operating leases are expensed over the life of the lease. Future year cost projections use the Consumer Price Index (CPI). Office space is the largest component of land and building leases. Other leases are primarily commercial leases with the general public and include automobile leases.

TABLE 16B: FUTURE PAYMENTS DUE FOR NON-CANCELABLE OPERATING LEASES

As of September 30 ($ in millions)	2020			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
Federal				
Fiscal Year				
2021	$717.1	$3.8	$93.7	$814.6
2022	496.5	2.5	90.9	589.9
2023	494.5	2.4	92.6	589.5
2024	498.4	2.0	94.2	594.6
2025	505.0	1.8	94.3	601.1
After 5 Years	1,206.3	1.7	21.9	1,229.9
Total Federal Future Lease Payments	3,917.8	14.2	487.6	4,419.6
Non-Federal				
Fiscal Year				
2021	177.9	0.7	31.3	209.9
2022	141.6	0.1	31.2	172.9
2023	107.1	0.1	31.7	138.9
2024	69.3	0.1	32.1	101.5
2025	31.2	0.1	32.4	63.7
After 5 Years	43.4	-	32.9	76.3
Total Non-Federal Future Lease Payments	570.5	1.1	191.6	763.2
Total Future Lease Payments	$4,488.3	$15.3	$679.2	$5,182.8

NOTE 16: LEASES (CONTINUED)

ENTITY AS LESSOR

CAPITAL LEASES

The Department is not aware of any capital lease agreements in which the Department is the lessor.

OPERATING LEASES

The future lease payments due presented in Table 16C are for non-cancelable operating leases in which the Department is the lessor. The United States Army Corps of Engineers (USACE) and Army General Fund (GF) have a small volume of operating leases as the lessor for easements. Private companies and individuals lease easements are managed by USACE to operate marinas, restaurants, cell towers, and other businesses on USACE lands and Army GF installations. USACE also permits a small number of federal entities to use its office spaces on a break-even basis.

TABLE 16C: ENTITY AS LESSOR - FUTURE PROJECTED RECEIPTS FOR NON-CANCELABLE OPERATING LEASES

As of September 30 ($ in millions)	2020
	Land and Buildings
Federal	
Fiscal Year	
2021	$0.1
2022	0.1
2023	0.1
2024	0.1
2025	0.1
After 5 Years	-
Total Federal Future Projected Receipts	0.5
Non-Federal	
Fiscal Year	
2021	21.3
2022	17.3
2023	13.8
2024	10.3
2025	8.0
After 5 Years	36.3
Total Non-Federal Future Projected Receipts	107.0
Total Future Projected Receipts	$107.5

NOTE 17: COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

The Department is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the **Treasury Judgment Fund**. In most cases, the Department does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the **Contracts Disputes Act** or the **No FEAR Act**.

In accordance with **SFFAS 5**, *Accounting for Liabilities of the Federal Government*, as amended by **SFFAS 12**, *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The Department has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

TABLE 17: SUMMARY OF LEGAL CONTINGENT LIABILITIES

As of September 30 ($ in millions)	2020		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$1,000.0	$421.8	$978.8
Reasonably Possible	-	$1,356.5	$15,769.4
	2019		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$1,363.2	$606.5	$1,115.8
Reasonably Possible	-	$1,335.2	$15,910.6

As of September 30, 2020, legal claims exist for which the estimated loss amount or the range of loss cannot be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect the Department's financial position or results of operation.

NOTE 17: COMMITMENTS AND CONTINGENCIES (CONTINUED)

ENVIRONMENTAL CONTINGENCIES

The Department continues to review possible environmental contingent liabilities to include friable and non-friable asbestos cleanup costs.

OTHER CONTINGENCIES

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, which may potentially result in a future outflow of budgetary resources. Contingencies considered both measurable and probable in the amount of $249.4 million and $186.2 million have been accrued for FY 2020 and FY 2019, respectively. These liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

It is the Department's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The Department executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in Department's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

COMMITMENTS

The Department has following obligations as of FY 2020 and FY 2019: obligations related to canceled appropriations for which it has a contractual commitment for payment ($2.1 billion and $2.3 billion, respectively); for contractual arrangements related to loan guarantees ($899.1 million and $909.7 million, respectively), and amounts related to non-cancelable operating leases which may require future financial obligations ($5.2 billion and $4.2 billion, respectively). See Note 7, *Direct Loan and Loan Guarantees*, and Note 16, *Leases*, for additional information.

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS

The Department's Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources provided by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Department's general revenues. There has been no legislation in FY 2020 or FY 2019 which has significantly altered the purposes of the Department's Funds from Dedicated Collections.

The disclosures in this note are made in accordance with **SFFAS 27**, as amended by **SFFAS 43**.

TABLE 18A: COMBINED BALANCE SHEET – FUNDS FROM DEDICATED COLLECTIONS

As of September 30 ($ in millions)	2020			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Intragovernmental Assets				
Fund Balance with Treasury	$148.1	$1,912.9	$2,749.1	$4,810.1
Investments	9,206.3	-	1,822.8	11,029.1
Accounts Receivable, Net	532.1	-	1.4	533.5
Total Intragovernmental Assets	9,886.5	1,912.9	4,573.3	16,372.7
Cash and Other Monetary Assets	-	-	3.5	3.5
Accounts Receivable, Net	-	6.1	3.9	10.0
General Property, Plant, and Equipment, Net	126.9	290.2	106.5	523.6
Other Assets	-	-	0.2	0.2
Total Assets	10,013.4	2,209.2	4,687.4	16,910.0
Intragovernmental Liabilities				
Accounts Payable	-	0.1	13.9	14.0
Other Liabilities	6.0	12.9	2.3	21.2
Total Intragovernmental Liabilities	6.0	13.0	16.2	35.2
Accounts Payable	0.1	59.4	68.2	127.7
Environmental and Disposal	-	-	30.7	30.7
Other Liabilities	-	1,891.0	-	1,891.0
Total Liabilities	6.1	1,963.4	115.1	2,084.6
Cumulative Results of Operations	10,007.3	245.8	4,572.3	14,825.4
Total Liabilities and Net Position	$10,013.4	$2,209.2	$4,687.4	$16,910.0

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

TABLE 18A: COMBINED BALANCE SHEET – FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

As of September 30 ($ in millions)	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Intragovernmental Assets				
Fund Balance with Treasury	$127.4	$1,859.8	$2,296.1	$4,283.3
Investments	9,319.2	-	1,747.5	11,066.7
Accounts Receivable, Net	543.7	-	4.6	548.3
Total Intragovernmental Assets	9,990.3	1,859.8	4,048.2	15,898.3
Cash and Other Monetary Assets	-	-	$3.7	$3.7
Accounts Receivable, Net	-	2.2	1.0	3.2
General Property, Plant, and Equipment, Net	130.9	283.9	710.0	1,124.8
Other Assets	-	-	0.2	0.2
Total Assets	10,121.2	2,145.9	4,763.1	17,030.2
Intragovernmental Liabilities				
Accounts Payable	-	0.1	23.1	23.2
Other Liabilities	6.0	13.4	-	19.4
Total Intragovernmental Liabilities	6.0	13.5	23.1	42.6
Accounts Payable	0.2	39.4	50.3	89.9
Environmental and Disposal	-	-	29.6	29.6
Other Liabilities	-	1,847.1	-	1,847.1
Total Liabilities	6.2	1,900.0	103.0	2,009.2
Cumulative Results of Operations	10,115.0	245.9	4,660.1	15,021.0
Total Liabilities and Net Position	$10,121.2	$2,145.9	$4,763.1	$17,030.2

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

TABLE 18B: COMBINED STATEMENT OF NET COST – FUNDS FROM DEDICATED COLLECTIONS

For the period ended September 30 ($ in millions)	2020			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	$96.3	$452.8	$1,473.8	$2,022.9
Less: Earned Revenues	-	(569.4)	(1,359.3)	(1,928.7)
Net Program Costs	96.3	(116.6)	114.5	94.2
Net Cost of Operations	$96.3	$(116.6)	$114.5	$94.2
	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	$49.9	$291.2	$1,583.3	$1,924.4
Less: Earned Revenues	-	(386.7)	(324.2)	(710.9)
Net Program Costs	49.9	(95.5)	1,259.1	1,213.5
Net Cost of Operations	$49.9	$(95.5)	$1,259.1	$1,213.5

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

TABLE 18C: COMBINED STATEMENT OF CHANGES IN NET POSITION – FUNDS FROM DEDICATED COLLECTIONS

For the period ended September 30 ($ in millions)	2020			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	$10,115.0	$245.9	$4,660.1	$15,021.0
Budgetary Financing Sources:				
Nonexchange revenue	1,565.1	-	524.8	2,089.9
Donations and forfeitures of cash and cash equivalents	-	-	55.6	55.6
Transfers-in/out without reimbursement (+/-)	(1,576.5)	-	(44.5)	(1,621.0)
Other Financing Sources (nonexchange):				
Transfers-in/out without reimbursement (+/-)	-	(123.6)	(592.4)	(716.0)
Imputed financing costs absorbed by others (+/-)	-	6.9	-	6.9
Other financing sources, other (+/-)	-	-	83.2	83.2
Less: Net Cost of Operations	96.3	(116.6)	114.5	94.2
Change in Net Position	(107.7)	(0.1)	(87.8)	(195.6)
Net Position, End of Period	$10,007.3	$245.8	$4,572.3	$14,825.4

	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	$10,140.4	$256.0	$4,218.2	$14,614.6
Budgetary Financing Sources:				
Nonexchange revenue	1,901.4	-	1,653.0	3,554.4
Donations and forfeitures of cash and cash equivalents	-	-	52.6	52.6
Transfers-in/out without reimbursement (+/-)	(1,876.1)	-	(55.5)	(1,931.6)
Other Financing Sources (nonexchange):				
Transfers-in/out without reimbursement (+/-)	(0.8)	(111.3)	-	(112.1)
Imputed financing costs absorbed by others (+/-)	-	5.7	-	5.7
Other financing sources, other (+/-)	-	-	50.9	50.9
Less: Net Cost of Operations	49.9	(95.5)	1,259.1	1,213.5
Change in Net Position	(25.4)	(10.1)	441.9	406.4
Net Position, End of Period	$10,115.0	$245.9	$4,660.1	$15,021.0

Tables 18A, 18B, and 18C are presented on a combined basis and relate solely to Funds from Dedicated Collections. The Net Position amounts related to Funds from Dedicated Collections reflected on Tables 18A and 18C will not equal those reflected on the DoD Agency-wide Balance Sheet and Statement of Changes in Net Position, as those statements are presented on a consolidated basis. Refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts.

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

PURPOSE, SOURCE OF REVENUE, AND AUTHORITY FOR FUNDS FROM DEDICATED COLLECTIONS

HARBOR MAINTENANCE AND RELATED FUNDS

Harbor Maintenance Trust Fund (**26 U.S.C. §9505**) – The United States Army Corps of Engineers **(USACE) Civil Works** mission is funded by the Energy and Water Development Appropriations Acts. The **Water Resources Development Act of 1986** covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of all administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Taxes collected from imports, domestics, passengers, and foreign trade are deposited into the Trust Fund. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection, and Restoration Act (**16 U.S.C. §§3951-3956**) – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds. Federal contributions are 75 percent of project costs, or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This Trust Fund receives funding from the Sport Fish Restoration and Boating Trust Fund.

Inland Waterways Trust Fund (**26 U.S.C. §9506**) – Excise taxes from the public are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

RIVERS AND HARBORS CONTRIBUTED AND ADVANCE FUNDS

Rivers and Harbors Contributed and Advance Funds (**33 U.S.C. §§701h**, **702f**, and **703**) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, enlargement of river channels, and similar work, in the course of flood control and river and harbor maintenance.

OTHER FUNDS FROM DEDICATED COLLECTIONS

Other funds from dedicated collection have been aggregated in accordance with **SFFAS 43**.

Special Recreation Use Fees (**16 U.S.C. §§460l 6a** and **6812(e)(1)**) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. Receipts cover operation and maintenance of recreational sites.

Hydraulic Mining in California, Debris (**33 U.S.C. §683**) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. USACE collects taxes and expends funds under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954 **(33 U.S.C. §701c 3)** – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the counties where the property is located, or for defraying county government expenses.

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

OTHER FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (**16 U.S.C. §§803(f)** and **810**) – The Federal Energy Regulatory Commission (**FERC**) assesses charges against licensees when a reservoir or other improvement is constructed by the U.S. All proceeds from Indian reservations are credited to the Indians of the reservations. All other proceeds arising from licenses, except those established by the FERC for administrative reimbursement, are paid to the Treasury and allocated for specific uses. The Department of 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 owned by the U.S., or in construction, maintenance, or operation of headwater, or other improvements to navigable waters of the U.S.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) (**33 U.S.C. §2326**) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund (**10 U.S.C. §2685**) – Surcharge on sales of commissary goods finance the Commissary System operating expenses and capital purchases, precluded by law from being paid with appropriated funds. Revenue is generated through a five percent surcharge applied to each sale. These funds finance commissary-related information technology investments, equipment, advance design modifications to prior year construction projects, and maintenance and repair of facilities and equipment.

NOTE 19: DISCLOSURES RELATED TO THE STATEMENT OF NET COST

TABLE 19: COSTS AND EXCHANGE REVENUE BY MAJOR PROGRAM

For the years ended September 30 ($ in millions)	Restated 2020	2019
Military Retirement Benefits		
Gross Cost	$139,257.2	$106,422.7
Less: Earned Revenue	(30,482.5)	(36,784.1)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(28,002.0)	136,377.5
Net Program Costs	80,772.7	206,016.1
Civil Works		
Gross Cost	12,978.8	11,594.9
Less: Earned Revenue	(3,401.3)	(3,201.8)
Net Program Costs	9,577.5	8,393.1
Military Personnel		
Gross Cost	157,010.7	150,995.7
Less: Earned Revenue	(2,231.6)	(1,030.1)
Net Program Costs	154,779.1	149,965.6
Operations, Readiness & Support		
Gross Cost	284,482.2	297,033.2
Less: Earned Revenue	(21,871.7)	(25,104.4)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	10,626.7	2,431.0
Net Program Costs	273,237.2	274,359.8
Procurement		
Gross Cost	103,044.1	126,512.6
Less: Earned Revenue	(8,040.4)	(11,209.0)
Net Program Costs	95,003.7	115,303.6
Research, Development, Test & Evaluation		
Gross Cost	110,644.6	104,654.5
Less: Earned Revenue	(13,307.9)	(12,114.1)
Net Program Costs	97,336.7	92,540.4
Family Housing & Military Construction		
Gross Cost	9,747.7	25,123.1
Less: Earned Revenue	(1,909.4)	(1,058.7)
Net Program Costs	7,838.3	24,064.4
Consolidated		
Gross Cost	817,165.3	822,336.7
Less: Earned Revenue	(81,244.8)	(90,502.2)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(17,375.3)	138,808.5
Total Net Cost	$718,545.2	$870,643.0

NOTE 19: DISCLOSURES RELATED TO THE STATEMENT OF NET COST
(CONTINUED)

RESTATEMENTS

The Department restated its financial statements as of September 30, 2020 to correct changes in accounting principles in cost capitalization offset at the end of FY2020. See Note 28, *Restatements* for further information.

OTHER DISCLOSURES

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Department supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The Department continues to review available data and developing a cost reporting methodology required by **SFFAS 4**, "*Managerial Cost Accounting Concepts and Standards for the Federal Government*," as amended by **SFFAS 55**, "*Amending Inter-Entity Cost Provisions*."

The Department's military retirement and postemployment costs are reported in accordance with **SFFAS 33**, "*Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*." The standard requires the separate presentation of gains and losses from changes in long term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the SNC.

NOTE 20: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

UNEXPENDED APPROPRIATIONS – PRIOR PERIOD ADJUSTMENTS

The Department recorded a prior period adjustment under **SFFAS 21** that decreased the 2020 beginning balance $14.7 million. The Department identified the FY 2019 Operating Materiel and Supplies balances were incorrectly valued in the accounting system of record. To correct these balances, the Cumulative Unexpended Appropriation were also adjusted. In addition, in FY2020, the Department corrected errors which decreased the FY 2019 beginning balance for Unexpended Appropriations by $1.2 billion. See the Restatements section below.

CUMULATIVE RESULTS OF OPERATIONS – PRIOR PERIOD ADJUSTMENTS

The Department recorded prior period adjustments under **SFFAS 21**, **SFFAS 48**, and **SFFAS 50**, that increased the FY 2020 beginning balance $1.9 billion from ($415.4) billion to ($413.5) billion. In FY 2019, the Department recorded prior period adjustments that increased the 2019 beginning balance $11.4 billion from ($344.2) billion to ($332.8) billion. These prior period adjustments are attributable to the Corrections of Errors and Changes in Accounting Principles.

The Department corrected an error in its financial statements for assets and net position under SFFAS 21. SFFAS 21 requires that reporting entities restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period. During FY 2020, the Department corrected a reporting error for operating materials and decreased the beginning Cumulative Results of Operations by $1.7 million. During FY 2019, the Department corrected a reporting error discovered in the value of vessels and increased the beginning Cumulative Results of Operations by $7.1 billion.

Various components with the Department elected to implement new accounting principles in FY 2020 and FY 2019. FASAB issued SFFAS 48 and SFFAS 50 which permitted alternative methods in establishing opening balances and are effective for periods beginning after September 30, 2016 with early implementation allowed. In FY 2020, these changes in accounting principles increased the beginning Cumulative Results of Operations by $1.9 billion as the components established opening balances for General PP&E (specifically, vessels, software, and real property). In FY 2019, these changes in accounting principles increased the beginning Cumulative Results of Operations by $4.3 billion as the components established opening balances for General PP&E (specifically, equipment and software). In addition in FY2020, the Department corrected additional errors which decreased the FY 2019 beginning balance for Cumulative Results of Operations by $136.4 million. See the Restatements section below.

RESTATEMENTS

The Department restated its financial statements as of September 30, 2020 to correct changes in accounting principles in cost capitalization offset at the end of FY 2020. See Note 28, *Restatements* for further information.

The Department restated its financial statements as of September 30, 2019 to correct errors in:

- General Property Plant & Equipment, net (was overstated by $2,363.7 million);
- Inventory and Related Property (was understated by of $1,115.9 million);
- Accounts Payable (was understated by $111.0 million);
- Unexpended Appropriations – Other Funds (overstated by $1,222.4 million); and
- Cumulative Results of Operations – Other Funds (was overstated by $136.4 million)

The restatement correctly states Real Property Transfers, Operating Materiels and Supplies, and Accounts Payable. See Note 28, *Restatements*, and other Notes cited there for further information.

NOTE 20: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

OTHER FINANCING - OTHER

The Department recorded ($4.7) billion in FY 2020 as Other Financing – Other resulting from the revaluation of General PP&E. This amount was $15.9 billion in FY 2019, also due to the revaluation of General PP&E.

RECONCILIATION DIFFERENCES

STATEMENT OF BUDGETARY RESOURCES TO THE STATEMENT OF CHANGES IN NET POSITION

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by $71.7 billion in FY 2020 and $71.6 billion in FY 2019. A reconciliation of these amounts is presented in Table 20A.

TABLE 20A: RECONCILIATION OF APPROPRIATIONS ON THE STATEMENT OF BUDGETARY RESOURCES TO APPROPRIATIONS RECEIVED ON THE STATEMENT OF CHANGES IN NET POSITION

As of September 30 ($ in billions)	2020	2019
Appropriations, Statement of Budgetary Resources	$914.3	$874.4
Permanent and Temporary Reductions	97.6	101.6
Trust and Special Fund Receipt	(168.5)	(172.5)
Miscellaneous items	(0.8)	(0.7)
Total Reconciling Difference	(71.7)	(71.6)
Appropriations Received, Statement of Changes in Net Position	$842.6	$802.8

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority permanently or temporarily reduced by enacted legislation.

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

Miscellaneous Items primarily includes the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

FUNDS FROM DEDICATED COLLECTIONS INFORMATION TO THE BALANCE SHEET AND STATEMENT OF CHANGES IN NET POSITION

Funds from Dedicated Collections information is presented on a combined basis in Note 18, Funds from Dedicated Collections. Table 20B summarizes the elimination of intradepartmental activity between Funds from Dedicated Collections and all Other Fund types to arrive at the consolidated Net Position amounts presented on the DoD Agency-wide Balance Sheet and Statement of Changes in Net Position.

NOTE 20: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

TABLE 20B: RECONCILIATION OF COMBINED DEDICATED COLLECTIONS AND OTHER FUNDS TO CONSOLIDATED DEDICATED COLLECTIONS AND OTHER FUNDS

As of September 30 ($ in millions)	2020		
	Combined	Reconciling Differences	Consolidated
Unexpended Appropriations - Other funds	569,725.2	-	569,725.2
Cumulative Results of Operations - Dedicated	14,825.4	(17,732.5)	32,557.9
Cumulative Results of Operations - Other Funds	(349,444.4)	17,732.5	(367,176.9)
Total Net Position	$235,106.2	$-	$235,106.2

	2019		
	Combined	Reconciling Differences	Consolidated
Unexpended Appropriations - Other funds	543,945.8	-	543,945.8
Cumulative Results of Operations - Dedicated	15,021.0	(15,310.1)	30,331.1
Cumulative Results of Operations - Other Funds	(430,398.8)	15,310.1	(445,708.9)
Total Net Position	$128,568.0	$-	$128,568.0

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources is presented on a combined basis in accordance with OMB **Circular No. A-136**; thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other principal financial statements, which are presented on a consolidated basis.

RESTATEMENT

The Department corrected an understatement of $16.0 million of New Obligations and Upward Adjustments (Total) and an overstatement of $16.0 million of Apportioned, Unexpired Accounts. In addition, see Table 21A for the effect of a restatement related to Accounts Payable. See Note 28, *Restatements* for further information.

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

There were no material adjustments during FY 2020 to the budgetary resources available at the beginning of the year.

TERMS OF BORROWING AUTHORITY USED

The Department utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB **Circular No. A-129**. See Note 7, *Direct Loans and Loan Guarantees, Non-Federal Borrower*, for additional information related to MHPI.

AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

No available borrowing authority remained at the end of the period for FY 2020 or 2019.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

TABLE 21A: BUDGETARY RESOURCES OBLIGATED FOR UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30 ($ in millions)	2020	Restated 2019
Intragovernmental		
Unpaid	$129,191.9	$92,795.2
Prepaid / Advanced	4,029.3	3,523.4
Total Intragovernmental	133,221.2	96,318.6
Non-Federal		
Unpaid	395,015.9	381,647.4
Prepaid / Advanced	21,385.9	20,370.1
Total Non-Federal	416,401.8	402,017.5
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$549,623.0	$498,336.1

The FY 2019 Total Budgetary Resources Obligated Undelivered Orders at the End of the Period was restated, related to the restatement of Non-Federal Accounts Payable. Non-Federal, Unpaid was previously understated by $94.9 million.

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES (CONTINUED)

LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

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

EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

Table 21B presents a reconciliation between the budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays in the FY 2019 column on the Combined Statement of Budgetary Resources (SBR) to the actual amounts for FY 2019 from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2021 President's Budget.

TABLE 21B: EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

For the year ended September 30 ($ in millions)	FISCAL YEAR 2019 ACTUAL			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	$1,301.1	$1,116.1	$107.4	$828.7
Expired accounts that are excluded from the Budget of the U.S. Government	(46.5)	(23.8)	-	-
Closed Accounts included in the Budget	0.1	0.1	-	0.1
Permanent Reporting Differences*	(0.1)	(0.1)	-	-
Other	0.2	0.1	(0.1)	-
Budget of the U.S. Government	$1,254.8	$1,092.4	$107.3	$828.8

* The difference reported above for Budgetary Resources and New Obligations and Upward Adjustments is due to different reporting requirements on the SBR versus the Budget.

The FY 2022 Budget will display the FY 2020 actual values and will be available at a later date at **https://www.whitehouse.gov/omb/budget**.

CONTRIBUTED CAPITAL

There was no infusion of capital received in FY 2020.

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES (CONTINUED)

OTHER DISCLOSURES

In compliance with OMB guidance, $136.8 billion of FY 2020 and $129.9 billion of FY 2019 General Fund appropriations received by the Department are also recognized on the SBR, Line 1290 Appropriations (discretionary and mandatory) as appropriations received for trust and special funds. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received additional funding of $71.3 billion in FY 2020 and $68.8 billion in FY 2019 to cover obligations incurred above baseline operations in support of contingency operations.

The SBR reflects an unobligated expired appropriations in the amount of $21.2 billion, (2 percent of total budget authority). The Department strives to obligate as close as prudently possible to the total available budget authority before it expires. Its internal controls and systems for administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the **Antideficiency Act**. The enormous number of contracts, projects, and activities (for example, construction projects, complex acquisitions, cutting edge/high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by **31.U.S.C. §1553**.

PERMANENT INDEFINITE APPROPRIATIONS

The following permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

The Department received the following permanent indefinite appropriations in FY 2020 and FY 2019:

Department of the Army General Gift Fund (**10 U.S.C. §2601(c)(1)**)

Department of the Navy General Gift Fund (**10 U.S.C. §2601(c)(2)**)

Department of the Air Force General Gift Fund (**10 U.S.C. §2601(c)(3)**)

Department of Defense General Gift Fund (**10 U.S.C. §2601**)

Disposal of Department of Defense Real Property (**40 U.S.C. §572(b)(5)(A)**)

Lease of Department of Defense Real Property (**40 U.S.C. §485(h)**)

Foreign National Employees Separation Pay Account, Defense (**10 U.S.C. §1581**)

United States Naval Academy Gift and Museum Fund (**10 U.S.C. §8474**)

Ship Stores Profits, Navy (**10 U.S.C. §8620, 31 U.S.C. §1321**)

Burdensharing Contributions (**10 U.S.C. §2350j**)

Forest Program (**10 U.S.C. §2665**)

Medicare-Eligible Retiree Health Care Fund (**10 U.S.C. §1111**)

Military Retirement Fund (**10 U.S.C. §1461**)

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES (CONTINUED)

PERMANENT INDEFINITE APPROPRIATIONS (CONTINUED)

Education Benefits Fund (**10 U.S.C. §2006**)

Host Nation Support for U.S. Relocation Activities (**10 U.S.C. §2350k**)

Hydraulic Mining Debris Reservoir (**33 U.S.C. §683**)

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (**16 U.S.C. §810(a)**)

Payments to States (**33 U.S.C. §701c 3**)

Wildlife Conservation (**16 U.S.C. §§670 670f**)

Ainsworth Bequest (**31 U.S.C. §1321**)

DoD Family Housing Improvement Fund (**10 U.S.C. §2883(a)**)

DoD Military Unaccompanied Housing Improvement Fund (**10 U.S.C. §2883(a)**)

Voluntary Separation Incentive Fund (**10 U.S.C. §1175(h)**)

Rivers & Harbors Contributed Funds (**33 U.S.C. §§560, 701h**)

Concurrent Receipt Accrual Payments to the Military Retirement Fund (**10 U.S.C. §1466(b)(1)**)

Rocky Mountain Arsenal, Restoration (United States Statutes at Large, Volume 100, page 4003, section 1367 (**100 Stat. 4003 §1367**))

Homeowners Assistance Fund (**42 U.S.C. §3374(d), Public Law 111-5**)

Payments to Military Retirement Fund, Defense (**10 U.S.C. §1466**)

Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund (**10 U.S.C. §1116(a)**)

Medicare-Eligible Retiree Health Fund Contribution, Navy (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Marine Corps (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Army (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Air Force (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (**10 U.S.C. §1116**)

Department of Defense Vietnam War Commemoration Fund, Defense (**Public Law 110-181, 122 Stat. 141 §598**)

NOTE 22: DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

In FY 2020 and FY 2019, the Department collected $29.2 million and $4.9 million, respectively, of incidental custodial revenues generated primarily from fines, penalties, and forfeitures of unclaimed money and property. These funds are not available for use by the Department; the accounts are closed and relinquished to the U.S. Treasury at the end of the fiscal year.

NOTE 23: FIDUCIARY ACTIVITIES

TABLE 23A: SCHEDULE OF FIDUCIARY ACTIVITY

For the years ended September 30 ($ in millions)	2020	2019
Fiduciary Net Assets, Beginning of Year	$893.8	$77.9
Contributions	496.4	98.6
Investment Earnings	0.2	0.3
Distributions To and On Behalf Of Beneficiaries	(417.6)	(109.8)
Increase / (Decrease) in Fiduciary Net Assets	79.0	(10.9)
Fiduciary Net Assets, End of Year	$972.8	$67.0

TABLE 23B: SCHEDULE OF FIDUCIARY NET ASSETS

As of September 30 ($ in millions)	2020	2019
Fiduciary Assets		
Fund Balance with Treasury	$972.8	$67.0
Fiduciary Liabilities	-	-
Total Fiduciary Net Assets	$972.8	$67.0

Fiduciary activities exist when the Department has collected, received, held, or made disposition of assets on behalf of an individual or non-Federal entity. Fiduciary assets are not recognized on the Balance Sheet. The Department is not aware of any non-valued fiduciary assets for which it has management responsibility.

Prior to FY 2020, the Foreign Cooperative Projects funds were accepted into the annual Operation and Maintenance, Navy appropriation reimbursable account and managed as Advance Sales Orders. Beginning in FY 2020, the Navy established a deposit fund and recognized these as fiduciary to continue providing support to foreign governments without utilizing or encumbering any reimbursable authority. Prior to FY 2020, the Foreign Cooperative Projects was not categorized as a fiduciary activity and was previously included as Fund Balance with Treasury (Note 3). For FY 2020, Table 23A includes the following for the Foreign Cooperative Projects: Fiduciary Net Assets, Beginning of Year, $821.6 million; Contributions, $403.8 million; Distributions, ($316.0) million; and Fiduciary Net Assets, End of Period, $909.4 million. Table 23B, FY 2020, Fund Balance with Treasury also includes $909.4 million for the Foreign Cooperative Project.

The FY 2020 Fiduciary Net Assets, Beginning of Year on Table 23A exceeds the FY 2019 Fiduciary Net Assets, End of Period by an additional adjustment of $5.2 million related to the Savings Deposit Program (**SDP**). The Department of the Army's data in Treasury's Central Accounting Reporting System (CARS) at September 30, 2019 indicated abnormally large and unexpected balances for collections and disbursements, at which time Army performed an independent analysis to record its fiduciary activity. In FY 2020 after further research, Army recorded a $5.2 million adjustment to bring its beginning fiduciary balances into agreement with CARS.

NOTE 23: FIDUCIARY ACTIVITIES (CONTINUED)

Public Law 89-538 authorized the Department, through SDP, to collect voluntary contributions from members of the Armed Forces serving in designated areas, up to $10,000 per deployment per member. These contributions and earned interest (10% per year, paid quarterly) are deposited in the Treasury on behalf of the members and kept as a separate fund. Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, at 120 days if a request is not made, the funds are returned to the member via direct deposit by the Department. Funds in excess of $10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations. Fiduciary Net Assets, End of Period for SDP as of FY 2020 and FY 2019 were $63.4 million and $67.0 million respectively.

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS

TABLE 24: RECONCILIATION OF THE NET COST OF OPERATIONS TO NET OUTLAYS

For the year ended September 30 ($ in millions)	Restated 2020		
	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	$7,484.7	$711,060.5	$718,545.2
Components of Net Cost That are Not Part of Net Outlays			
Property, plant, and equipment depreciation	-	(54,759.7)	(54,759.7)
Property, plant, and equipment disposal & revaluation	-	(6,614.3)	(6,614.3)
Year-end credit reform subsidy re-estimates	-	149.2	149.2
Other	(0.2)	(67,210.1)	(67,210.3)
Increase/(decrease) in assets			
Accounts Receivable	1,043.7	(795.1)	248.6
Investments	(1.7)	-	(1.7)
Other Assets	988.8	1,051.4	2,040.2
Increase/(decrease) in liabilities			
Accounts Payable	(5,887.9)	4,584.7	(1,303.2)
Salaries and benefits	(222.3)	(1,981.1)	(2,203.4)
Insurance guarantee program liabilities	-	6.6	6.6
Environmental and disposal liabilities	-	1,082.9	1,082.9
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(33.5)	(59,778.4)	(59,811.9)
Other financing sources			
Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(4,355.7)	-	(4,355.7)
Transfers out (in) without reimbursement	1,324.2	-	1,324.2
Other imputed financing	(252.4)	-	(252.4)
Total Components of Net Cost That Are Not Part of Net Outlays	(7,397.0)	(184,263.9)	(191,660.9)
Components of Net Outlays That Are Not Part of Net Cost			
Acquisition of capital assets	30.4	111,084.0	111,114.4
Acquisition of inventory	205.8	68,619.9	68,825.7
Other	61,351.5	(450.8)	60,900.7
Total Components of Net Outlays That Are Not Part of Net Cost	61,587.7	179,253.1	240,840.8
Net Outlays	$61,675.4	$706,049.7	$767,725.1
Agencies Outlays, Net, Statement of Budgetary Resources			$763,219.4
Reconciling Difference			$4,505.7

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS (CONTINUED)

TABLE 24: RECONCILIATION OF THE NET COST OF OPERATIONS TO NET OUTLAYS (CONTINUED)

For the year ended September 30 ($ in millions)	Restated 2019		
	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	$(4,377.9)	$875,020.9	$870,643.0
Components of Net Cost That are Not Part of Net Outlays			
Property, plant, and equipment depreciation	-	(67,691.6)	(67,691.6)
Property, plant, and equipment disposal & revaluation	-	(9,029.7)	(9,029.7)
Year-end credit reform subsidy re-estimates	-	107.3	107.3
Other	-	(60,774.3)	(60,774.3)
Increase/(decrease) in assets			
Accounts Receivable	(2,466.7)	206.3	(2,260.4)
Investments	37.0		37.0
Other Assets	79.3	(8,884.9)	(8,805.6)
Increase/(decrease) in liabilities			
Accounts Payable	2,481.2	(11,036.1)	(8,554.9)
Salaries and benefits	97.1	(517.2)	(420.1)
Insurance guarantee program liabilities	-	7.7	7.7
Environmental and disposal liabilities	-	(5,713.5)	(5,713.5)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(200.2)	(178,061.6)	(178,261.8)
Other financing sources			
Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(5,237.4)		(5,237.4)
Transfers out (in) without reimbursement	73.0		73.0
Other imputed financing	(372.4)		(372.4)
Total Components of Net Cost That Are Not Part of Net Outlays	(5,509.1)	(341,387.6)	(346,896.7)
Components of Net Outlays That Are Not Part of Net Cost			
Acquisition of capital assets	16.1	84,775.3	84,791.4
Acquisition of inventory	246.8	63,456.5	63,703.3
Other	61,075.8	(1,841.5)	59,234.3
Total Components of Net Outlays That Are Not Part of Net Cost	61,338.7	146,390.3	207,729.0
Net Outlays	$51,451.7	$680,023.6	$731,475.3
Agencies Outlays, Net, Statement of Budgetary Resources			$721,223.2
Reconciling Difference			$10,252.1

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS (CONTINUED)

RESTATEMENT

The Department restated its financial statements as of September 30, 2020 to correct changes in accounting principles in cost capitalization offset at the end of FY 2020. See Note 28, *Restatements* for further information.

The Department corrected a $111.0 million understatement of Accounts Payable which results in a larger decrease on the Accounts Payable line above by the same amount. See Note 28, *Restatements* for further information.

OTHER DISCLOSURES

In accordance with **OMB Circular A-136**, the Department conformed the FY 2019 reconciliation to the changes related to loans receivable under Federal Credit Reform Act in the FY 2020 guidance. As such, the prior year presentation changed for the following lines: Loans Receivable and Agency Outlays, Net, Statement of Budgetary Resources.

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the Department's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Department's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the Department. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

Components of Net Cost That are Not Part of Net Outlays includes non-cash charges consisting of $58.2 billion change in actuarial pension and health insurance liabilities, $57.3 billion in cost of goods sold, and $54.8 billion in depreciation, revaluation and disposal of property, plant and equipment. The Other line includes $23.1 billion in expenses that do not require budgetary resources.

Components of Net Outlays That are Not Part of Net Cost includes $95.9 billion was paid during the acquisition of capital assets and inventory that is not included in Net Cost. Additionally, $84.0 billion in costs transferred to an in-progress or completed asset account that were originally recorded into an expense account. The Other line includes $60.6 billion recognized as outlays in pass-through entities for Military Services contributions and Treasury payments to certain trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources* for additional information.

The Reconciling Difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the Statement of Net Cost and Statement of Budgetary Resources. Additionally, the Department's diverse business events may be recorded using different, but equally valid, transaction scenarios. Research is on-going to resolve the remaining difference.

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS

Public-Private Partnerships (P3s) are risk-sharing agreements between public and private sector entities with expected lives greater than five years. P3s can be extremely complex agreements which transfer or share various forms of risk among the P3 partners, some of which involve government assets. Disclosure of P3s foster accountability and improve understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. **SFFAS 49** Public-Private Partnerships, requires the disclosure of the nature of the Government's relationship with the private entities and helps achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts (**SFFAC**) 1, Objectives of Federal Financial Reporting, by making P3s more understandable.

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

OVERVIEW

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

FUNDING AND CONTRIBUTIONS

The Department provides funding to the LLC or LP through:

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

See Note 7, *Direct Loan and Loan Guarantees, Non-Federal Borrowers*.

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS (CONTINUED)

FUNDING AND CONTRIBUTIONS (CONTINUED)

Cash contribution from the Department's Family Housing Improvement Fund (FHIF) or the Department's Military Unaccompanied Housing Improvement Fund (MUHIF) requires Congressional notification, per **10 USC 2883**, to provide a justification for the transfer of appropriated amounts to a fund from amounts authorized and appropriated to the Department for the acquisition, improvement, or construction of military family housing. The expected life of each MHPI agreement corresponds to the length of the ground lease. The agreement is established through negotiations between the Military Department and the Private Partner based on the duration of the project to establish housing, which determines the amount of contributions at the inception of the agreement. The Military Departments are not required to contribute resources to the MHPI P3 beyond the initial contribution to the FHIF or MUHIF. However, the enactment of **Pub L. 115-91 § 603**, required the Military Departments to make direct payments to the MHPI entities (lessors) of 1% of the BAH amount for the period January 1, 2018 through December 31, 2018. The amount of BAH was calculated under the military pay statute in **37 U.S.C. § 403(b)(3)(A)(i)** for the area in which the covered housing existed. From September 1, 2018 through December 2019, **Pub L. 115-232 § 606** required the Military Departments to make monthly direct payments to the MHPI entities of 5% of the BAH. From January 1, 2020 forward, **Pub. L.116-92 §§ 3036 and 3037** require the Military Departments to make monthly direct payments to the MHPI entities of 2.5% of BAH and "underfunded" projects may receive up to an additional 2.5% of BAH monthly at the determination of the Chief Housing Officer of the Department of Defense and Secretaries of the Military Departments until Congress modifies or rescinds this direction. Upon termination of the leasehold interest, all assets revert back to the Department at no-cost to either party. Upon dissolution of the LLC or LP and, after the contractual terms have been met, excess funds will be returned to the FHIF.

TABLE 25: CUMULATIVE CONTRIBUTIONS

Cumulative as of September 30 ($ in millions)	2020
Military Department Contributions to the DoD MHPI Program*	
Funding Contributions to DoD MHPI Program	$3,081.8
Real Property Contributions to the LLCs & LPs (value of Real Property Assets (RPA) Conveyed, per OMB Scoring Documents)	7,617.5
DoD Direct Payments as Required by Pub. L. 115-91 § 603 (1% BAH through August 2018), and 15-232 § 606 (5% BAH through December 2019), and 116-92 §§ 3036 and 3037 (2.5% BAH and 2.5% for underfunded projects)	176.2
Basic allowance for housing (BAH) under § 403 of Title 37 to members living in privatized housing	3,140.3
DoD Contributions from the MHPI Program to the LLCs/LPs*	
Direct Cash Contributions	1,607.2
Differential Lease Payments	16.5
Direct Loans Disbursed	1,891.9
Contributions by Private Partners to the MHPI Partnership	
Direct Cash Contributions	606.2
Bonds/Loans Contributed	11,259.0
Real Property and Land Contributions	1.6
Contributions by the LLCs/LPs	
Bonds/Loans Contributed	51.7

*The disclosures above are currently presented in the DoD's consolidated financial statements and are not presented within the Military Department's financial statements.

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS (CONTINUED)

RISK

The Private Partner's potential risks are (1) inability to recover initial cash contributions, (2) inability to repay bonds and/or loans, and (3) loss of a long-term revenue source. The Private Partner is not entitled to the return of its capital contribution, or to be paid interest on its capital contribution. The Department's potential risks are (1) loss of the initial cash contribution to the program, (2) default by the Private Partner on a government direct loan, (3) guarantee threshold event, such as the need to request additional funds above the initial threshold amount, triggered under a loan guarantee agreement, (4) need to provide direct management support and financial contribution to the project until its completion if the Private Partner fails to comply with contractual terms, and (5) failure to deliver quality housing services to Military Personnel. Likewise, when unpredicted events occur, such as natural disasters and severe weather events, the Military Departments are required to provide direct intervention by restoring and rebuilding military housing.

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

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

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

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS (CONTINUED)

INVESTMENT RECOGNITION

Beginning in FY2020, the Department adopted **FASB ASC 323** Investments – Equity Method and Joint Ventures to account for its investments in LPs and LLCs engaged in MHPI projects. This treatment was chosen in the absence of specific FASAB accounting standards for the MHPI financial arrangement. The Department subsequently rescinded the policy requiring FASB ASC 323 and, instead, required Military Departments to provide details of the MHPI agreements and associated financial activity in the footnote disclosures.

OMB A-136 SIGNIFICANT ENTITY DISCLOSURE REQUIREMENT

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

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

NOTE 26: DISCLOSURE ENTITIES AND RELATED PARTIES

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). In accordance with **SFFAS 47 "Reporting Entity"**, the financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements. NAFIs and FFRDCs are, in aggregate, not quantitatively material to the DoD consolidated financial statement; however, both are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents.

NONAPPROPRIATED FUND INSTRUMENTALITIES

The Department has a relationship with NAFIs, entities supported in whole or in part by nonappropriated funds (NAFs) that are intended to enhance the quality of life of DoD personnel, retired Military Service members, and dependents of such members, and to support military readiness, recruitment, and retention. The NAFs that support these entities are generated primarily by sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by sections of **Title 10, U.S.C.** The Department does not have any ownership interest in the NAFIs; however, the Department establishes them and requires DoD components to assign organizational responsibility for NAFI administration, management, and control. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. There are currently approximately 460 DoD NAFIs, classified into six program groups to ensure uniformity in the establishment, management, allocation, and control or resource support:

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

(2) Armed Services Exchange Programs,

(3) Civilian MWR Programs,

(4) Lodging Program Supplemental Mission Funds,

(5) Supplemental Mission Funds, and

(6) Special Purpose Central Funds.

The Under Secretary of Defense for Personnel and Readiness (**USD(P&R)**) exercises overall policy direction for and oversight of DoD NAFI activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (**USD(C)/CFO**) and the Defense Finance and Accounting Service (**DFAS**), in coordination with the USD(P&R), provide guidance on accounting policies to the NAFI for use in the preparation of financial statements for their annual audit. DoD Components appoint advisory groups to ensure that each NAFI is meeting the objectives for which they were created. Additionally, the NAFIs are subject to annual financial audits conducted by independent public accounting firms.

NAFIs present very limited financial and non-financial risks to the Department. NAFIs are separate legal entities apart from the DoD, and they are operated and accounted for in financial systems separate from DoD. Historically, appropriated funding in support of the NAFIs is less than one percent of the sponsor's budgetary resources. Together, these factors limit the Federal Government's financial exposure.

NOTE 26: DISCLOSURE ENTITIES AND RELATED PARTIES (CONTINUED)

FEDERALLY FUNDED RESEARCH AND DEVELOPMENT CENTERS

The Department maintains contractual relationships with the parent organizations of ten DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing government or contractor resources. The work performed by the FFRDCs provide benefits to the Department, which support national security. FFRDCs that provide support to the Department are classified into three categories:

(1) Research and Development Laboratories,

(2) Systems Engineering and Integration Centers, and

(3) Study and Analysis Centers.

FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest.

The Department does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets annual limits on the amount of staff-years of technical effort that may be funded for FFRDC s. Historically, funding placed on contract to the FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional controls on staff-years of effort and funding, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

RELATED PARTIES

Related Parties Organizations are considered related parties if: (1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions and (2) the organizations do not meet the inclusion principles of SFFAS 47. The Department has identified Public Private Partnerships which have been reported as related parties. However, the Department continues to perform assessments to determine if instead they meet the criteria for consolidation or disclosure entities, in accordance with SFFAS 47. See Note 25, *Public Private Partnerships*, for additional disclosures.

NOTE 27: SECURITY ASSISTANCE ACCOUNTS

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

Due to DoD's considerable activities executing **Foreign Military Sales**, the SAA financial statements and associated notes have been included in Appendix D of the DoD Agency Financial Report. In FY 2020 and FY 2019, SAA reported approximately $244.5 billion and $64.3 billion, respectively, in budgetary resources; $86.0 billion and $123.3 billion, respectively, in assets; and $139.3 billion and $110.5 billion, respectively, in liabilities, mostly attributable to the Foreign Military Sales Trust Fund. Of these amounts, in FY 2020 and FY 2019, approximately 97% and 86%, respectively, of budget authority; 87% and 90%, respectively, of assets; and 98% and 96%, respectively, of liabilities are financed primarily by foreign countries and deposits to acquire military weapons for those countries.

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

NOTE 28: RESTATEMENTS

The Department restated its financial statements as of September 30, 2020 to correct changes in accounting principles in cost capitalization offset at the end of FY 2020.

The following notes are restated: Note 19, *Disclosures Related to the Statement of Net Cost*, Note 20 *Disclosures Related to the Statement of Changes in Net Position*, Note 24, *Reconciliation of Net Cost to Net Outlays*, Note 30, *Subsequent Events*, and Note 31, *Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Compilation in the U.S. Government-wide Financial Report*.

TABLE 28A. EFFECT ON FY 2020 COMPARATIVE BALANCES

($ in millions)

FY 2020 STATEMENT OF NET COST	
Gross Program Costs: Procurement	$9,289.5
Total Gross Program Costs	9,289.5
Net program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	9,289.5
Net Cost of Operations	**$9,289.5**

FY 2020 STATEMENT OF CHANGES IN NET POSITION	
Cumulative Results of Operations - Prior Period Adjustments: Change in Accounting Principles	$9,289.6
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections)	9,289.6
Other Financing Sources (Nonexchange): Other	(.1)
Total Financing Sources (Includes Funds from Dedicated Collections)	(.1)
Net Cost of Operations (Includes Funds from Dedicated Collections)	9,289.5
Net Change	**($9,289.6)**

NOTE 28: RESTATEMENTS (CONTINUED)

The Department restated its financial statements as of September 30, 2019 to correct errors in General PP&E (net), Operating Materiel & Supplies, Accounts Payable, Unexpended Appropriations, Cumulative Results of Operations – Other Funds and budgetary resources at the end of FY 2019.

The following notes were restated: Note 2, *Non-Entity Assets*; Note 3, *Fund Balance with Treasury*; Note 8, *Inventory and Related Property*, Net; Note 9, *General PP&E, Net*; Note 11, *Liabilities Not Covered by Budgetary Resources*; Note 20, *Disclosures Related to the Statement of Changes in Net Position* and Note 21; *Disclosures Related to the Statement of Budgetary Resources* and Note 24, *Reconciliation of Net Cost to Net Outlays*.

TABLE 28B. EFFECT ON FY 2020 BEGINNING CUMULATIVE RESULTS OF OPERATIONS AND UNEXPENDED APPROPRIATIONS

($ in millions)

FY 2020 NET POSITION	
Unexpended Appropriations – Other Funds	$(1,222.4)
Cumulative Results of Operations – Other Funds	(136.4)
Total Net Position	**$(1,358.8)**

TABLE 28C. EFFECT ON FY 2019 COMPARATIVE BALANCES

($ in millions)

FY 2019 BALANCE SHEET		
Inventory and Related Property, Net	*(net effect of restatements)*	$1,115.9
General PP&E, Net		(2,363.7)
Total Assets		**$(1,247.8)**
Accounts Payable - Intragovernmental		(0.1)
Accounts Payable - Non-Federal		111.1
Total Liabilities		**111.0**
Unexpended Appropriations – Other Funds		(1,222.4)
Cumulative Results of Operations – Other Funds		(136.4)
Total Net Position		**$(1,358.8)**
FY 2019 STATEMENT OF CHANGES IN NET POSITION		
Unexpended Appropriations - Prior Period Adjustments: Corrections of errors		$(1,222.4)
Total Unexpended Appropriations (Includes Funds from Dedicated Collections)		**(1,222.4)**
Cumulative Results of Operations - Prior Period Adjustments: Corrections of errors		(136.4)
Beginning Balances, as adjusted (Includes Funds from Dedicated Collections)		**(136.4)**
Cumulative Results of Operations (Includes Funds from Dedicated Collections)		**(136.4)**
Net Position		**$(1,358.8)**
FY 2019 STATEMENT OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)		$16.0
Apportioned, unexpired accounts		(16.0)
Unexpired unobligated balance, end of year		**(16.0)**
Unobligated balance, end of year (total)		**$(16.0)**

NOTE 29: COVID-19 ACTIVITY

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to soften the impact of this pandemic on individuals, businesses, and federal, state and local government operations. Two of these public laws have a direct impact on the Department through the provision of $10.6 billion in supplemental appropriations.

FAMILIES FIRST CORONAVIRUS RESPONSE ACT

The Families First Coronavirus Response Act (**FFCRA**) (Public Law 116-127) was signed into law on March 18, 2020. FFCRA responds to the COVID-19 outbreak by providing paid sick leave, tax credits, free COVID-19 testing; expanding food assistance and unemployment benefits; and increasing Medicaid funding. Included in the FFCRA was $82.0 million in supplemental funding for the DoD Defense Health Program to provide expanded family and medical leave to covered employees up to an additional 10 weeks of paid leave at two-thirds rate of pay, up to 80 hours of emergency paid sick leave to all Federal civilian employees in specified circumstances related to COVID-19.

TABLE 29A: DOD APPROPRIATIONS IN THE FFCRA (P.L. 116-127)

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

CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY ACT

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (**CARES Act**) (Public Law 116-136) was signed into law, which provides FY2020 supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations are designated as emergency spending, which is exempt from discretionary spending limits. Within the DoD budget, the CARES Act provided the Department with $10.6 billion in supplemental funding for National Guard personnel, operation and maintenance, Defense Production Act (**50 U.S.C. 4532(c)(1)**) purchases, the Defense Working Capital Funds, the Defense Health Agency, and the Office of the Inspector General.

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

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

NOTE 29: COVID-19 ACTIVITY (CONTINUED)

TABLE 29B: DOD APPROPRIATIONS IN THE CARES ACT (P.L. 116-136)

($ in millions)	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
Appropriation			
Military Personnel, Army	$-	$89.4	$89.4
National Guard Personnel, Army	746.6	(677.0)	69.6
Operations & Maintenance (O&M), Army	160.3	728.1	888.4
O&M, Army Reserve	48.0	(12.0)	36.0
O&M, Army National Guard	186.7	(122.1)	64.6
Other Procurement, Army	-	61.4	61.4
Research, Development, Test & Evaluation (RDT&E), Army	-	65.3	65.3
Department of the Army Total	**1,141.6**	**133.1**	**1,274.7**
Military Personnel, Navy	-	3.0	3.0
Military Personnel, Marine Corps	-	5.4	5.4
Reserve Personnel, Marine Corps	-	0.2	0.2
O&M, Navy	360.3	545.9	906.2
O&M, Marine Corps	90.0	100.5	190.5
O&M, Navy Reserve	-	6.3	6.3
Other Procurement, Navy	-	10.8	10.8
Working Capital Fund, Navy**	475.0	-	475.0
Department of the Navy Total	**925.3**	**672.1**	**1,597.4**
Military Personnel, Air Force	-	106.1	106.1
Reserve Personnel, Air Force	-	16.7	16.7
National Guard Personnel, Air Force	482.1	(424.7)	57.4
O&M, Air Force	155.0	783.4	938.4
O&M, Air Force Reserve	-	19.6	19.6
O&M, Air National Guard	75.8	(58.8)	17.0
Other Procurement, Air Force	-	32.1	32.1
RDT&E, Air Force	-	60.0	60.0
Working Capital Fund, Air Force **	475.0	2.8	477.8
Department of the Air Force Total	**1,187.9**	**537.2**	**1,725.1**

NOTE 29: COVID-19 ACTIVITY (CONTINUED)

TABLE 29B: DOD APPROPRIATIONS IN THE CARES ACT (P.L. 116-136) (CONTINUED)

	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
O&M, Defense-Wide	827.8	(540.0)	287.8
Procurement, Defense-Wide	-	2.1	2.1
Defense Production Act Purchases	1,000.0	(100.0)	900.0
Defense Production Act Program Account	-	100.0	100.0
RDT&E, Defense-Wide	-	298.1	298.1
Working Capital Fund, DW (DeCA)	-	34.7	34.7
Working Capital Fund, DW (DLA) **	500.0	30.2	530.2
Overseas Humanitarian, Disaster, and Civic Aid (OHDACA)	-	120.3	120.3
Defense Health Program	3,806.1	(1,302.7)	2,503.4
Defense Health Program (Non-COVID)*	1,095.0	-	1,095.0
Chemical Agents & Munitions Destruction	-	14.9	14.9
Office of Inspector General	20.0	-	20.0
Defense-Wide Total	**7,248.9**	**(1,342.4)**	**5,906.5**
TOTAL DoD Appropriations	**10,503.7**	**-**	**10,503.7**
O&M, U.S. Army Corps of Engineers (USACE)	50.0	-	50.0
General Expenses, USACE	20.0	-	20.0
U.S Army Corps of Engineers Total	**70.0**	**-**	**70.0**
TOTAL DoD and USACE Appropriations	**$10,573.7**	**$-**	**$10,573.7**

* Additional Appropriations non-COVID-19 related, per section 13002

** To position funds to address an anticipated impact on cash liquidity that may result from expected increases in customer transactions with WCFs related to the prevention of, preparation for, and response to coronavirus.

OTHER INFORMATION

As of September 30, 2020, obligations and outlays related to the supplemental funding ($10,655.7 million) were $8.1 billion and $2.7 billion, respectively. Remaining available funding for future obligations is $1.0 billion.

NOTE 29: COVID-19 ACTIVITY (CONTINUED)

OTHER INFORMATION (CONTINUED)

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

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

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

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

Additionally, the Department is performing reimbursable work on behalf of other Federal agencies who received supplemental funding related COVID-19. Reimbursable work includes funding authority of $1.3 billion received from Federal Emergency Management Agency (FEMA) for assessments and construction of Alternate Care Facilities (ACF). These facilities were set up across the nation in order to supplement hospital capacity during the onset of COVID-19. These ACF's were to either supplement a regular hospital bed shortage or Intensive Care Units (ICU) as needed. In addition, the Department received cash advances from Department of Health and Human Services ($1.6 million) and Federal Emergency Management Agency ($289.0 million) to deliver ventilators, Battelle sterilization units, personal protective equipment, and food and medical supplies in support the national COVID-19 efforts.

See Note 7, *Direct Loan and Loan Guarantees, Non-Federal Borrowers*, for information related to federal loans to create, maintain, protect, expand or restore domestic industrial base capabilities to support national COVID-19 response. As of September 30, 2020, no loans have been approved or disbursed under **Executive Order 13922**, which authorizes the activity.

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

NOTE 30: SUBSEQUENT EVENTS

As of the date of this report, there is one subsequent discovery of fact to report, which warranted a revision to the financial statements. The Department of the Navy General Fund recorded an adjustment to changes in accounting principles for $9.3 billion. The adjustment was for the cost capitalization offset with revalued aircraft. See Note 28, *Restatements* for further information.

The below DoD Component's FY 2020 financial statements and related notes were not yet finalized. As a result, these DoD consolidated/combined financial statements were prepared using current draft financial statements of the outstanding DoD Component. If changes that are material to the DoD Agency-wide consolidated/combined financial statements are identified upon the finalization of the outstanding DoD Component's financial statements, the Department would restate the DoD Agency-wide financial statements.

Office of the Inspector General

NOTE 31: RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR COMPILATION IN THE U.S. GOVERNMENT-WIDE FINANCIAL REPORT

RESTATEMENT

The Department reevaluated the treatment of an equipment revaluation resulting in a $9.3 billion understatement to the cost capitalization offset for the revaluation of aircraft. See Note 28, *Restatements* for further information.

OTHER DISCLOSURES

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government (**FR**). The FY 2020 FR will be published by **The Bureau of Fiscal Service** upon its release.

To prepare the FR, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances, which represent activity between agencies, from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The following tables display the relationship between the Department's financial statements (on the left side) and the Department's corresponding reclassified statements (on the right side) prior to elimination of intragovernmental balances. Certain financial statement lines are presented prior to aggregation of repeated items. The table also displays the details of Dedicated Collections and All Other Funds (funds that are non-dedicated Collections). The following four columns sum across to the Total amount and may be defined as follows:

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

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

BALANCE SHEET

FY 2020 Department of Defense Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
ASSETS							**ASSETS**
Intragovernmental Assets							**Intragovernmental Assets**
Fund Balance with Treasury (Note 3)	$637,175.8	4,810.1		632,365.7		$637,175.8	FBWT
Investments (Note 5)	1,273,675.6	10,998.3		1,262,677.3		1,273,675.6	Federal investments
Investments (Note 5)	8,091.4	30.8		8,060.6		8,091.4	Interest receivable - investments
Total Investments	$1,918,942.8					$1,918,942.8	Total Reclassified Investments
Accounts Receivable (Note 6)	1,667.8	1.4		1667.8	(1.4)	1,667.8	Accounts receivable, net
Accounts Receivable (Note 6)	547.1	532.1		15.0		547.1	Transfers receivable
Total Accounts Receivable	$2,214.9					$2,214.9	Total Reclassified A/R
Other Assets (Note 10)	879.6			879.6		879.6	Advances to others and prepayments
Total Other Assets	$879.6					$879.6	Total Reclassified Other Assets
Total Intragovernmental Assets	$1,922,037.3					$1,922,037.3	Total Intragovernmental Assets
With the public							**With the public**
Cash and Other Monetary Assets (Note 4)	966.3	3.5		962.8		966.3	Cash and other monetary assets
Accounts Receivable, Net (Note 6)	5,149.9	10.0		5,139.9		5,149.9	Accounts receivable, net
Loans Receivable (Note 7)	1,602.6			1,602.6		1,602.6	Direct loan and loan guarantees receivable, net
Inventory and Related Property, Net (Note 8)	310,210.5			310,210.5		310,210.5	Inventory and related property, net
General Property, Plant and Equipment, Net (Note 9)	790,505.2	523.6		789,981.6		790,505.2	General PP&E, net
Investments (Note 5)	3,511.6			3,511.6		3,511.6	Securities and investments
Other Assets (Note 10)	20,733.2	0.2		20,733.0		20,733.2	Other assets
Total with public	$1,132,679.3					$1,132,679.3	Total with public
Total assets	$3,054,716.6					$3,054,716.6	**Total assets**

BALANCE SHEET (CONTINUED)

FY 2020 Department of Defense Balance Sheet (Continued)		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
LIABILITIES							**LIABILITIES**
Intragovernmental Liabilities							**Intragovernmental Liabilities**
Other Liabilities (Notes 15 and 17)	1,994.8			1,994.8		1,994.8	Benefit program contributions payable
Accounts Payable	3,620.7	32.9		3,601.3	(13.5)	3,620.7	Accounts payable
Accounts Payable	0.7			0.7		0.7	Transfers payable
Total Accounts Payable	$5,616.2					$5,616.2	Total Reclassified A/P
Debt (Note 12)	1,662.6			1,662.6		1,662.6	Loans payable
Total Debt Associated with Loans	$1,662.6					$1,662.6	Total Reclassified Debt Associated with Loans
Other Liabilities (Notes 15 and 17)	4,638.5			4,638.5		4,638.5	Advances from others and deferred credits
Other Liabilities (Notes 15 and 17)	63.2			63.2		63.2	Other liabilities (w/o reciprocals)
Other Liabilities (Notes 15 and 17)	3,030.4	2.3		3,028.1		3,030.4	Liability to the GF of the USG for custodial and other non-entity assets
Other Liabilities (Notes 15 and 17)	2.3			2.3		2.3	Liability to agency other than GF for custodial and other non-entity assets
Total Other Liabilities	$7,734.4					$7,734.4	Total Reclassified Other Liabilities
Total Intragovernmental Liabilities	$15,013.2					$15,013.2	Total Intragovernmental Liabilities

Table continues on next page

BALANCE SHEET: (CONTINUED)

FY 2020 Department of Defense Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
With the public							**With the public**
Accounts Payable	36,121.2	127.7		35,993.5		36,121.2	Accounts payable
Military Retirement and Other Federal	2,668,096.4			2,668,096.4		2,668,096.4	Federal employee and veteran benefits payable
Environmental and Disposal Liabilities (Note 14)	75,041.9	30.7		75,011.2		75,041.9	Environmental and disposal liabilities
Other Liabilities (Notes 15 and 17)	2.3			2.3		2.3	Benefits due and payable
Loan Guarantee Liability (Note 7)	44.1			44.1		44.1	Loan guarantee liability
Other Liabilities (Notes 15 and 17)	25,291.3	1,891.0		23,400.3		25,291.3	Other liabilities
Total with public	$2,804,597.2					$2,804,597.2	Total with public
Total liabilities	$2,819,610.4					$2,819,610.4	**Total liabilities**
NET POSITION							**NET POSITION**
Cumulative Results of Operations - Dedicated Collections	32,557.9	14,825.4		17,732.5		32,557.9	Cumulative results of operations - Funds from Dedicated Collections
Unexpended Appropriations - Other Funds	569,725.2			569,725.2		569,725.2	Unexpended appropriations - All Other Funds
Cumulative Results of Operations - Other Funds	(367,176.9)			(366,480.0)	(696.9)	(367,176.9)	Cumulative results of operations - All Other Funds
Total Net Position	$235,106.2					$235,106.2	Total Net Position
Total Liabilities and Net Position	$3,054,716.6					$3,054,716.6	**Total Liabilities and Net Position**

STATEMENT OF NET COST

FY 2020 Department of Defense Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost					
($ in millions) Financial Statement Line[1]	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Gross Costs							**Gross Cost**
Gross Costs	$768,698.8	1,701.0		766,997.8		$768,698.8	Non-federal gross cost
Losses/(Gains) from Actuarial Assumption Changes	(17,375.3)			(17,375.3)		(17,375.3)	Gains/losses from changes in actuarial assumptions non-federal
Total non-federal gross cost	$751,323.5					$751,323.5	Total non-federal gross cost
Intragovernmental Costs							**Intragovernmental Costs**
Gross Costs	17,122.0	13.7		17,108.3		17,122.0	Benefit program costs (RC 26) - Footnote 2
Gross Costs	4,608.2	6.9		4,601.3		4,608.2	Imputed costs (RC 25) - Footnote 2
Gross Costs	22,278.3	297.1	(51.5)	22,165.9	(133.2)	22,278.3	Buy/sell cost (RC24) - Footnote 2
Gross Costs	236.2			236.2		236.2	Purchase of assets (RC 24) - Footnote 2
Gross Costs	64.8			64.8		64.8	Borrowing and other interest expense (RC05) - Footnote 2
Gross Costs	4,393.3	4.2		4,389.1		4,393.3	Other expenses (w/o reciprocals) (RC 29)
Total Intragovernmental Costs	$48,702.8					$48,702.8	Total Intragovernmental Costs
Total Gross Costs	$800,026.3					$800,026.3	Total Reclassified Gross Costs
Earned Revenue							**Earned Revenue**
(Less: Earned Revenue)	(40,262.9)	(1,892.5)		(38,370.4)		(40,262.9)	Non-federal earned revenue

Table continues on next page

STATEMENT OF NET COST (CONTINUED)

FY 2020 Department of Defense Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost					
($ in millions) Financial Statement Line[1]	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Intragovernmental Earned Revenue							**Intragovernmental Earned Revenue**
(Less: Earned Revenue)	(233.6)			(233.6)		(233.6)	Benefit program revenue (exchange) (RC 26) - Footnote 2
(Less: Earned Revenue)	(10,436.6)		51.5	(10,461.6)	(26.5)	(10,436.6)	Buy/sell revenue (exchange) (RC 24) - Footnote 2
Gross Costs	(236.2)			(236.2)		(236.2)	Purchase of assets offset (RC 24) / 2
(Less: Earned Revenue)	(30,307.3)	(36.2)		(30,271.1)		(30,307.3)	Federal securities interest revenue including associated gains and losses (exchange) (RC 03) - Footnote 2
(Less: Earned Revenue)	(4.5)			(4.5)		(4.5)	Borrowing and other interest revenue (exchange) (RC 05) - Footnote 2
Total Intragovernmental earned revenue	$(41,218.2)					$(41,218.2)	Total Intragovernmental earned revenue
Total Earned Revenue	$(81,481.1)					$(81,481.1)	Total Reclassified Earned Revenue
Net Cost of Operations	$718,545.2					$718,545.2	**Net Cost of Operations**

1. The subtotals and totals above are not presented on the DoD's Statement of Net Cost, but are reflective of their classification on the reclassified statements.

However, the repeated line descriptions (i.e., "Gross Costs") may be summed to trace to the face of the DoD's Statement of Net Cost:

Gross Cost	$817,165.4
Gross Cost Rounding	(0.1)
Less: Earned Revenue	(81,244.9)
Less: Earned Revenue Rounding	0.1
Losses/(Gains) from Actuarial Assumption Changes	(17,375.3)
	$718,545.2

STATEMENT OF CHANGES IN NET POSITION

FY 2020 Department of Defense Statement of Changes in Net Position		Line Items Used to Prepare FY 2020 Government-wide Statement of Changes in Net Position					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined[2]	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Beginning Balances (Includes Funds from Dedicated Collections)	$128,568.0	15,021.0		113,547.0		$128,568.0	Net position, beginning of period
Non-Federal Prior-Period Adjustments:							**Non-Federal Prior-Period Adjustments:**
Changes in accounting principles (+/-)	1,858.7			1,858.7		1,858.7	Changes in accounting principles
Corrections of errors (+/-)	(16.4)			(16.4)		(16.4)	Corrections of errors - non-federal
Federal Prior-Period Adjustments							**Federal Prior-Period Adjustments**
Corrections of errors	(14.7)			(14.7)		(14.7)	Prior period adjustment to unexpended appropriations - federal (RC 31)
Corrections of errors (+/-)	14.7			14.7		14.7	Prior period adjustment to expended appropriations - federal (RC 32)
Net Position, Beginning of Period - Adjusted	$130,410.3					$130,410.3	**Net Position, Beginning of Period - Adjusted**
Non-Federal Non-exchange Revenue:							**Non-Federal Non-exchange Revenue:**
Nonexchange revenue	(5,843.0)	625.9		(6,468.9)		(5,843.0)	Other taxes and receipts
Total non-federal non-exchange revenue	$(5,843.0)					$(5,843.0)	Total non-federal non-exchange revenue
Federal Non-Exchange Revenue:							**Federal Non-Exchange Revenue:**
Nonexchange revenue	146.0	143.6		2.4		146.0	Federal securities interest revenue including associated gains and losses (non-exchange) (RC 03) /1
Nonexchange revenue	111.7	111.7				111.7	Other taxes and receipts (RC 45) /1
Nonexchange revenue	1,321.0	1,321.0				1,321.0	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 15)

Table continues on next page

STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

FY 2020 Department of Defense Statement of Changes in Net Position		Line Items Used to Prepare FY 2020 Government-wide Statement of Changes in Net Position					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined[2]	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Other (+/-)	(8.6)			(8.6)		(8.6)	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 16)
Total federal non-exchange revenue	$1,570.1					$1,570.1	Total federal non-exchange revenue
Budgetary Financing Sources:							**Budgetary Financing Sources:**
Appropriations received	823,946.7			823,946.7		823,946.7	Appropriations received as adjusted (rescissions and other adjustments) (RC 41) /1
Appropriations used	(798,350.1)			(798,350.1)		(798,350.1)	Appropriations used (RC 39)
Appropriations used	798,350.1			798,350.1		798,350.1	Appropriations expended (RC 38) /1
Transfers-in/out without reimbursement		82.0	(82.0)				Appropriation of unavailable special or trust fund receipts transfers-in (RC 07) /1
Transfers-in/out without reimbursement		(82.0)	82.0				Appropriation of unavailable special or trust fund receipts transfers-out (RC 07) /1
Transfers-in/out without reimbursement	1,971.9	1,702.2	(1,665.4)	1,935.1		1,971.9	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08) /1
Transfers-in/out without reimbursement	(210.5)	(1,706.7)	1,665.4	(169.2)		(210.5)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08) /1
Transfers-in/out without reimbursement	-	2.2	(1,618.7)	1,618.7	(2.2)	-	Expenditure transfers-in of financing sources (RC 09) /1
Transfers-in/out without reimbursement	(1,447.7)	(1,618.7)	1,618.7	(1,447.7)		(1,447.7)	Expenditure transfers-out of financing sources (RC 09) /1
Other adjustments (+/-)	(265.7)			(265.7)		(265.7)	Revenue and Other Financing Sources - Cancellations (RC 36)
Total budgetary financing sources	$823,994.7					$823,994.7	Total budgetary financing sources
Other Financing Sources:							**Other Financing Sources:**

Table continues on next page

STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

FY 2020 Department of Defense Statement of Changes in Net Position		Line Items Used to Prepare FY 2020 Government-wide Statement of Changes in Net Position					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined[2]	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Transfers-in/out without reimbursement (+/-)	(220.9)	15.2	(141.4)	(94.7)		(220.9)	Transfers-in without reimbursement (RC 18)/1
Transfers-in/out without reimbursement (+/-)	(176.5)	(731.2)	141.4	(179.1)	592.4	(176.5)	Transfers-out without reimbursement (RC 18) /1
Imputed financing from costs absorbed by others	4,608.2	6.9		4,601.3		4,608.2	Imputed financing sources (RC 25) /1
Other (+/-)	(697.6)			(697.6)		(697.6)	Non-entity collections transferred to the General Fund of the U.S. Government (RC 44)
Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government (RC 48)	6.2			6.2		6.2	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government (RC 48)
Total other financing sources	$3,519.4					$3,519.4	Total other financing sources
Net cost of operations (+/-)	$(718,545.2)					$(718,545.2)	Net cost of operations (+/-)
Net Position, End of Period	$235,106.3					$235,106.3	**Net Position, End of Period**

2. Reconciliation of Note 31 Dedicated Collections Combined to Note 18

	Note 18	Note 31 Dedicated Collections Combined	
Net position beginning of period	15,021.0	15,021.0	
			Non-Federal Nonexchange Revenue:
Nonexchange revenue	2,089.9	513.6	Non-Federal Nonexchange Revenue
Donations and forfeitures of cash and cash equivalents	55.6	55.6	Non-Federal Donations
Non-Federal Other financing sources, other (+/-) (1 of 2)	56.7	56.7	Non-Federal Other Taxes and Receipts
		1,576.3	Federal Nonexchange Revenue
Transfers-in/out without reimbursement (+/-)	(1,621.0)	(1,621.0)	Budgetary Financing Sources: Transfers-in/out without reimbursement (+/-)
Transfers-in/out without reimbursement (+/-)	(716.0)	(716.0)	Other Financing Sources: Transfers-in/out without reimbursement (+/-)
Imputed financing costs absorbed by others (+/-)	6.9	6.9	Imputed financing from costs absorbed by others
	14,893.1	14,893.1	
Reporting Differences: Items not included in the Reclassified Statement of Net Position (Expenses, Exchange Revenue, and Exchange Gains and Losses)			
Federal Other financing sources, other (+/-) (2 of 2)	26.5		
Less: Net cost of operations	(94.2)		
Net Position End of Period - Dedicated Collections	14,825.4	14,893.1	

REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs disclosures, required in accordance with SFFAS 42, and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, **Standardizing Facility Condition Assessments.** The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

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

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS (CONTINUED)

TABLE RSI-1: REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS (EXCLUDING MILITARY FAMILY HOUSING)

As of September 30 ($ in millions)	2020		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$1,285,781.2	$106,459.4	8%
Category 2	103,444.5	14,794.1	14%
Category 3	54,141.5	9,789.0	18%
Total	$1,443,367.2	$131,042.5	9%
	2019		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$1,153,937.2	$101,584.8	9%
Category 2	81,209.7	11,332.8	14%
Category 3	38,216.2	6,074.0	16%
Total	$1,273,363.1	$118,991.6	9%

TABLE RSI-2: REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS (MILITARY FAMILY HOUSING ONLY)

As of September 30 ($ in millions)	2020		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$25,472.0	$5,257.0	21%
Category 2	711.0	195.0	27%
Category 3	665.0	289.0	43%
Total	$26,848.0	$5,741.0	21%
	2019		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$24,285.0	$3,197.0	13%
Category 2	595.0	162.0	27%
Category 3	410.0	105.0	26%
Total	$25,290.0	$3,464.0	14%

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS (CONTINUED)

As of the end of FY 2020, the Department estimates facility maintenance cost of more than $131.0 billion for facilities with replacement cost of $1.4 trillion. The totals include $4.6 billion in civil works related maintenance needs under the USACE with replacement cost of more than $267.1 billion.

MAINTENANCE AND REPAIR POLICIES

The Department is migrating to the Sustainment Management System (SMS), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

MAINTENANCE AND REPAIR PRIORITIZATION AND ACCEPTABLE CONDITION STANDARDS

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

DEFERRED MAINTENANCE AND REPAIR EXCLUSIONS

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIRS

TABLE RSI-3: EQUIPMENT DEFERRED MAINTENANCE AND REPAIRS

As of September 30 ($ in millions)	2020	2019
Major Categories		
Aircraft	$832.8	$986.3
Automotive Equipment	303.4	19.3
Combat Vehicles	91.1	284.6
Construction Equipment	76.4	11.5
Electronics and Communications Systems	252.1	122.9
Missiles	118.9	52.1
Ships	137.1	525.6
Ordnance Weapons and Munitions	385.4	88.2
Other Items Not Identified Above	113.9	75.3
Total	$2,311.1	$2,165.8

MAINTENANCE AND REPAIR POLICIES

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution (PPBE) process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIRS (CONTINUED)

MAINTENANCE AND REPAIR POLICIES (CONTINUED)

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from cancelled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance.

MAINTENANCE AND REPAIR PRIORITIZATION AND ACCEPTABLE CONDITION STANDARDS

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

DEFERRED MAINTENANCE AND REPAIR EXCLUSIONS

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

SIGNIFICANT CHANGES IN DEFERRED MAINTENANCE AND REPAIR

The Department's deferred maintenance and repair work for equipment, platforms, and weapon systems increased by $145.3 million during FY 2020. The increase was primarily driven by parts constraints, unplanned in-service repair, and increased unit costs related to aircraft as well as workload growth related to ships.

TABLE RSI-4: COMBINING STATEMENT OF BUDGETARY RESOURCES (BUDGETARY)

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

TABLE RSI-4: COMBINING STATEMENT OF BUDGETARY RESOURCES (BUDGETARY)

As of September 30 ($ in millions)	Restated 2019							
	Military Personnel	**Procurement**	**Research, Development, Test & Evaluation**	**Family Housing & Military Construction**	**Military Retirement Benefits**	**Civil Works**	**Operations, Readiness & Support**	**Combined**
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$8,045.2	$82,446.8	$26,936.2	$18,375.1	$-	$31,327.1	$59,637.7	$226,768.1
Appropriations (Discretionary and Mandatory)	149,383.7	146,873.0	97,348.1	11,354.1	71,409.9	10,954.2	387,055.1	874,378.1
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	86,854.4	86,854.4
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,604.0	2,859.9	12,491.8	6,463.2	-	14,792.1	74,754.6	112,965.6
Total Budgetary Resources	$159,032.9	$232,179.7	$136,776.1	$36,192.4	$71,409.9	$57,073.4	$608,301.8	$1,300,966.2
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	155,371.6	159,675.6	117,159.1	17,043.3	71,409.9	24,400.7	570,896.0	$1,115,956.2
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	428.8	69,888.6	17,815.5	18,108.2	-	32,687.8	18,209.4	157,138.3
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	43.0	3,997.4	4,040.4
Unapportioned, Unexpired Accounts	-	0.4	1.9	0.4	-	(64.6)	1,190.1	1,128.2
Unexpired Unobligated Balance, End of Year	428.8	69,889.0	17,817.4	18,108.6	-	32,666.2	23,396.9	162,306.9
Expired Unobligated Balance, End of Year	3,232.5	2,615.1	1,799.6	1,040.5	-	6.5	14,008.9	22,703.1
Unobligated Balance, End of Year (Total)	3,661.3	72,504.1	19,617.0	19,149.1	-	32,672.7	37,405.8	185,010.0
Total Budgetary Resources	$159,032.9	$232,179.7	$136,776.1	$36,192.4	$71,409.9	$57,073.4	$608,301.8	$1,300,966.2
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	$148,360.5	$124,324.4	$90,659.1	$7,024.7	$71,160.1	$7,259.3	$379,845.2	$828,633.3
Distributed Offsetting Receipts (-)	-	-	-	-	(104,217.7)	(815.0)	(2,377.4)	(107,410.1)
Agency Outlays, Net (Discretionary and Mandatory)	$148,360.5	$124,324.4	$90,659.1	$7,024.7	$(33,057.6)	$6,444.3	$377,467.8	$721,223.2

TABLE RSI-5: COMBINING STATEMENT OF BUDGETARY RESOURCES (NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNT)

As of September 30 ($ in millions)	2020		2019	
	Operations, Readiness & Support	Combined	Operations, Readiness & Support	Combined
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$59.9	$59.9	$69.0	$69.0
Borrowing Authority (Discretionary and Mandatory)	69.9	69.9	63.3	63.3
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	54.4	54.4	56.8	56.8
Total Budgetary Resources	184.2	184.2	189.1	189.1
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	132.2	132.2	129.2	129.2
Unobligated Balance, End of Year:				
Unapportioned, Unexpired Accounts	52.0	52.0	59.9	59.9
Unexpired Unobligated Balance, End of Year	52.0	52.0	59.9	59.9
Unobligated Balance, End of Year (Total)	52.0	52.0	59.9	59.9
Total Budgetary Resources	184.2	184.2	189.1	189.1
Disbursements, Net				
Disbursements, Net (Total) (Discretionary and Mandatory)	(46.9)	(46.9)	37.6	37.6
Disbursements, Net (Discretionary and Mandatory)	$(46.9)	$(46.9)	$37.6	$37.6