



Intragovernmental Other Asset for Strategic Petroleum Reserve

During FY 2006, as part of the trading partner reconciliation process, the Department recognized that it had erroneously expensed funds provided to the Department of Energy (DoE) in FY 1993 for the acquisition of a strategic petroleum reserve for national defense purposes. Legislation enacted in November 1992 Public Law 102-396, Sec. 9149 provided appropriations to DoD and established the requirement that they be transferred to DoE to acquire and maintain the reserve for national defense purposes on behalf of DoD. By law, the reserve cannot be drawn down or released to DoD without the President (with the advice of the Secretary of Defense) making findings under Section 161(d) of the Energy Policy and Conservation Act (42 USC 6241(d)). According to the law, proceeds of any sales of this reserve will be deposited to the accounts of, and remain available to DoD until expended. Due to the unusual nature of this asset and the specifics of the law that enacted the requirement the Department considered it qualitatively material and chose to recognize the asset with restatement.

In 4th quarter, FY 2006 DoD increased the value of Other Assets for FY 2005 and FY 2006 in the Balance Sheet by \$124.9 million to recognize the right to the approximately 6.4 million barrels of crude oil. The DoE reports this crude oil as a non-entity asset in its financial statements, with an offsetting custodial liability to DoD. To date none of the reserve has been drawn upon, thus the full inventory remains on hand with DoE.

Required Supplementary Stewardship Information

Nonfederal Physical Property

Department Of Defense Consolidated Nonfederal Physical Property Annual Investments In State And Local Governments For Fiscal Years 2002 Through 2006 (In Millions Of Dollars)					
Categories	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Transferred Assets:					
National Defense Mission Related	\$7	\$85	\$54	\$71	\$1,295
Funded Assets:					
National Defense Mission Related	\$21	\$11	\$18	\$8	\$9
Total	\$28	\$96	\$72	\$79	\$1,304

The Department incurs investments in Nonfederal Physical Property for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements, the purchase of major equipment, and the purchase or improvement of other physical assets. In addition, Nonfederal Physical Property Investments include federally-owned physical property transferred to state and local governments. The significant increase in assets from FY 2005 to FY 2006 is a result of assets now reported by the U.S. Army Corps of Engineers.

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Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current Department accounting systems are unable to capture and summarize costs in accordance with federal accounting standards.

Investments in Research and Development

Department Of Defense Consolidated Investments In Research And Development Annual Investments In Research And Development For Fiscal Years 2002 Through 2006 (In Millions Of Dollars)					
Categories	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Basic Research	\$1,356	\$1,444	\$1,554	\$1,404	\$1,342
Applied Research	4,311	4,388	4,639	4,527	4,433
Development					
Advanced Technology Development	4,604	5,080	6,178	7,045	5,904
Demonstration and Validation	10,525	11,928	14,779	15,971	13,581
Engineering and Manufacturing Development	9,500	11,234	14,633	16,190	17,454
Research, Development, Test & Evaluation Management Support	3,351	3,210	4,188	4,431	4,719
Operational Systems Development	11,804	12,289	14,906	16,324	15,060
Total	\$45,451	\$49,573	\$60,877	\$65,892	\$62,493

Investment values included in this report are based on Research and Development outlays (expenditures). Outlays are used because current Department accounting systems are unable to capture and summarize costs in accordance with the federal accounting standards.

Research and Development programs are classified in the following categories: Basic Research, Applied Research, and Development. The following table presents representative program examples for each of the major Research and Development categories and highlights outcomes.



Section 3: Financial Information

Department of Defense Investments in Research and Development	
Basic Research Systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind.	
Major Program Areas	Outcomes
Defense Research Sciences	Provides new technologies for the Army's Future Force, and fosters innovation in niche areas where investment is lacking due to limited markets.
University and Industry Research Centers	Leverages research in the private sector through Collaborative Technology Alliances, Centers of Excellence, and the University Affiliated Research Centers. Partners with academia, entertainment and gaming industries to leverage innovation research and concepts for training and design.
Radar Resonant Enhanced Multi-Photo Ionization	Designing more efficient high-speed vehicles by better understanding hypersonic flows.
Applied Research Systematic study to understand the means to meet a recognized specific national security requirement. Systematic application of knowledge to develop useful materials, devices, and system or methods.	
Major Program Areas	Outcomes
Materials Technology	Matures materials technology for armor and armaments lethality and survivability capabilities to be fielded in the Future Combat Systems and Future Force systems. Provides the technology base required for solving materials-related problems in individual Soldier support equipment, armor, armaments, aircraft, ground and combat vehicles and combat support.
Combat Vehicle and Automotive Technology	Improves survivability, mobility, sustainability, and maintainability of Army ground vehicles. Supports transformation goals by reducing reliance on heavy passive armor using a layered approach, substituting long-rang situational awareness, multi-spectral signature reduction, active protection systems and advanced lightweight armor.
Nanorobot Fabrication Makes Ultrasmall Sensors Possible	Leverages nano technology to enhance surveillance capabilities using infrared cameras small enough to fit into mini-unmanned aerial vehicles.
Free-Electron Laser Being Developed For Shipboard Defense	Provides shipboard defense against enemy threats from missiles to small fishing boats. The strength of the laser may also be useful for penetrating the ground to aid in detecting improvised explosive devices and land mines.
Commander's Predictive Environment	Create capabilities that will enable commanders to anticipate and shape battlespace. Anticipate the strengths, capabilities and vulnerabilities of adversaries.
Hard Target Defeat	Develop tunnel and hard target attack technologies, including testing advanced energetic materials, using new explosive mixtures in penetrating warheads.

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Department of Defense Investments in Research and Development	
<p>Development Takes what has been discovered or learned from basic and applied research and uses it to establish: technological feasibility, assessment of operability, and production capability. Development is comprised of five stages: advanced technology, development, advanced component development and prototypes, system development and demonstration; management support, and operational systems development.</p>	
Major Program Areas	Outcomes
Test Ranges and Facilities and Research, Development, Test and Evaluation Management Support	<p>Sustains the Department's required developmental test and evaluation capability and operates the developmental test activities required by weapons systems developers.</p> <p>Operates White Sands Missile Range (NM), Aberdeen Test Center (MD), Yuma Proving Ground (AZ), Aviation Technical Test Center (AL), Redstone Arsenal (AL), and Electronic Proving Ground (AZ)</p> <p>Supports research and development efforts and includes test ranges, military construction, maintenance support of laboratories, and operations and maintenance of test aircraft and ships.</p> <p>Funds the planning, improvements and modernization for three national asset test centers.</p> <p>Two efforts utilizing these unique test capabilities are the Propulsion Wind Tunnel Upgrade at Arnold Engineering Development Center and the Threat Simulator Development/Low Radar Cross Section threat modeling and simulation</p> <p>Provides resources for test planning and safety verification and confirmation.</p> <p>Achieved successful launches of military satellites, utilizing Titan, and Atlas and Delta.</p> <p>Develops the Family of Advanced Beyond Line of Sight Terminals to provide robust, secure, strategic and tactical global communications for nuclear and conventional forces.</p>
Electronic Warfare Advanced Technology	<p>Provides technologies for a secure, mobile, wireless network that operates in diverse and complex terrain.</p> <p>Also matures: Protection technologies for tactical wireless networks Smart communication technologies to enable network and control of unmanned systems shortening the sensor-decider-engagement time to defeat critical targets.</p>
Advanced Tank Armament System	<p>Improves the deploy ability and operational effectiveness of rapid response/early entry forces.</p> <p>Leverages common platform/common chassis design which reduces requirements for repair parts and logistics support in the area of operations.</p>
Multiple Launch Rocket System Product Improvement Program	<p>Supports improvements to High Mobility Artillery Rocket System, Guided Multiple Launch Rocket System and Unitary munition which provide precision strike capability.</p>
Plumbing the Chemistry of Iraq Improvised Explosive Devices	<p>Analyzing molecular interaction of explosive materials to study the physics and chemistry of improvised explosive devices and to find techniques to detonate or short circuit the devices before causing harm.</p>
Assured Fuel Initiative	<p>Developing new fuel alternatives based on mixtures of conventional fuel, natural gas and coal to power jets.</p>
Air Defense Command, Control and Intelligence -- Engineering Development	<p>Integrates Air and Missile Defense operations.</p> <p>Provides continuously tailored situational awareness and situational understanding of the battle space.</p>