



# **DEPARTMENT OF DEFENSE AGENCY FINANCIAL REPORT FISCAL YEAR 2012**

## **ADDENDUM B**

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Department of Defense Agency Financial Report for FY 2012

The following Defense Security Cooperation Agency (DSCA) financial statements include programs executed on behalf of Executive Office of the President (EOP). The Department continues to report activity resulting from EOP allocation transfers within the Department of Defense (DoD) financial statements.

Consolidated Balance Sheet Security Assistance	Dollars in Thousands	
	2012 Consolidated	2011 Consolidated
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 22,811,082	\$ 21,093,874
<b>Total Intragovernmental Assets</b>	<b>\$ 22,811,082</b>	<b>\$ 21,093,874</b>
Cash and Other Monetary Assets (Note 7)	\$ 20,124,963	\$ 18,160,143
Accounts Receivable, Net (Note 5)	50,338	51,430
Loans Receivable (Note 8)	836,068	983,831
Other Assets (Note 6)	26,737,655	25,231,799
<b>TOTAL ASSETS</b>	<b>\$ 70,560,106</b>	<b>\$ 65,521,077</b>
<b>LIABILITIES (Note 11)</b>		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 252,698	\$ 334,081
Debt (Note 13)	224,158	340,909
Other Liabilities (Note 15 and 16)	657,368	661,264
<b>Total Intragovernmental Liabilities</b>	<b>\$ 1,134,224</b>	<b>\$ 1,336,254</b>
Accounts Payable (Note 12)	\$ 270,627	\$ 285,823
Employment Benefits (Note 17)	523	487
Other Liabilities (Note 15 and 16)	61,826,221	58,607,803
<b>TOTAL LIABILITIES</b>	<b>\$ 63,231,595</b>	<b>\$ 60,230,367</b>
<b>NET POSITION</b>		
Unexpended Appropriations – Other Funds	\$ 3,800,488	\$ 2,615,107
Cumulative Results of Operations – Other Funds	3,528,023	2,675,603
<b>TOTAL NET POSITION</b>	<b>\$ 7,328,511</b>	<b>\$ 5,290,710</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 70,560,106</b>	<b>\$ 65,521,077</b>

<b>Consolidated Statement of Net Cost Security Assistance</b>	<i>Dollars in Thousands</i>	
	<b>2012 Consolidated</b>	<b>2011 Consolidated</b>
<b>Program Costs</b>		
Gross Costs	\$ 30,711,596	\$ 24,687,441
(Less: Earned Revenue)	(24,405)	(34,341)
Net Cost before Losses (Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 30,687,191	\$ 24,653,100
<b>Net Cost of Operations</b>	<b>\$ 30,687,191</b>	<b>\$ 24,653,100</b>

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Consolidated Statement of Changes in Net Position Security Assistance								
								<i>Dollars in Thousands</i>
	2012 Earmarked Funds	2012 All Other Funds	2012 Eliminations	2012 Consolidated	2011 Earmarked Funds	2011 All Other Funds	2011 Eliminations	2011 Consolidated
<b>Cumulative Results Of Operations</b>								
<b>Beginning Balances</b>	\$ 0	\$ 2,675,603	\$ 0	\$ 2,675,603	\$ 0	\$ 2,338,200	\$ 0	\$ 2,338,200
<b>Beginning balances, as adjusted</b>	\$ 0	\$ 2,675,603	\$ 0	\$ 2,675,603	\$ 0	\$ 2,338,200	\$ 0	\$ 2,338,200
<b>Budgetary Financing Sources:</b>								
Appropriations used	\$ 0	\$ 5,229,397	\$ 0	\$ 5,229,397	\$ 0	\$ 5,391,067	\$ 0	\$ 5,391,067
Nonexchange revenue	0	26,310,214	0	26,310,214	0	19,599,436	0	19,599,436
<b>Other Financing Sources:</b>								
Other	0	0	0	0	0	0	0	0
<b>Total Financing Sources</b>	\$ 0	\$ 31,539,611	\$ 0	\$ 31,539,611	\$ 0	\$ 24,990,503	\$ 0	\$ 24,990,503
Net Cost of Operations (+/-)	0	30,687,191	0	30,687,191	0	24,653,100		24,653,100
<b>Net Change</b>	\$ 0	\$ 852,420	\$ 0	\$ 852,420	\$ 0	\$ 337,403	\$ 0	\$ 337,403
<b>Cumulative Results of Operations</b>	\$ 0	\$ 3,528,023	\$ 0	\$ 3,528,023	\$ 0	\$ 2,675,603	\$ 0	\$ 2,675,603
<b>Unexpended Appropriations</b>								
<b>Beginning Balances</b>	\$ 0	\$ 2,615,107	\$ 0	\$ 2,615,107	\$ 0	\$ 2,524,190	\$ 0	\$ 2,524,190
<b>Beginning balances, as adjusted</b>	\$ 0	\$ 2,615,107	\$ 0	\$ 2,615,107	\$ 0	\$ 2,524,190	\$ 0	\$ 2,524,190
<b>Budgetary Financing Sources:</b>								
Appropriations received	\$ 0	\$ 6,420,180	\$ 0	\$ 6,420,180	\$ 0	\$ 5,485,905	\$ 0	\$ 5,485,905
Appropriations transferred (in/out)	0	(33)	0	(33)	0	0	0	0
Other adjustments (rescissions, etc.)	0	(5,369)	0	(5,369)	0	(3,921)	0	(3,921)
Appropriations used	0	(5,229,397)	0	(5,229,397)	0	(5,391,067)	0	(5,391,067)
<b>Total Budgetary Financing Sources</b>	\$ 0	\$ 1,185,381	\$ 0	\$ 1,185,381	\$ 0	\$ 90,917	\$ 0	\$ 90,917
<b>Unexpended Appropriations</b>	\$ 0	\$ 3,800,488	\$ 0	\$ 3,800,488	\$ 0	\$ 2,615,107	\$ 0	\$ 2,615,107
<b>Net Position</b>	\$ 0	\$ 7,328,511	\$ 0	\$ 7,328,511	\$ 0	\$ 5,290,710	\$ 0	\$ 5,290,710



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Consolidated Budgetary Resources Security Assistance	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2012 Combined	Restated 2011 Combined	2012 Combined	Restated 2011 Combined
<i>Dollars in Thousands</i>				
<b>Budgetary Resources</b>				
Unobligated balance, brought forward, October 1	\$ 26,792	\$ 128,339	\$ 28	\$ 7,110
Unobligated balance brought forward, October 1, as adjusted	26,792	128,339	28	7,110
Recoveries of prior year unpaid obligations	1,824,623	21,967	0	0
Other changes in unobligated balance	(1,749,780)	(30,090)	0	(3,986)
Unobligated balance from prior year budget authority, net	101,635	120,216	28	3,124
Appropriation (discretionary and mandatory)	8,164,557	29,458,905	0	0
Borrowing Authority (discretionary and mandatory)	0	0	1,627	(939)
Contract authority (discretionary and mandatory)	66,473,232	28,163,552	0	0
Spending authority from offsetting collections (discretionary and mandatory)	123,730	(23,946,735)	27,437	129
<b>Total Budgetary Resources</b>	<b>\$ 74,863,154</b>	<b>\$ 33,795,938</b>	<b>\$ 29,092</b>	<b>\$ 2,314</b>
<b>Status of Budgetary Resources</b>				
Obligations incurred	\$ 74,719,974	\$ 33,769,145	\$ 1,953	\$ 2,287
Unobligated balance, end of year:				
Apportioned	12,011	4,828	27,111	0
Exempt from Apportionment	22,690	0	0	0
Unapportioned	108,479	21,965	28	27
<b>Unobligated balance brought forward, end of year</b>	<b>\$ 143,180</b>	<b>\$ 26,793</b>	<b>\$ 27,139</b>	<b>\$ 27</b>
<b>Total Budgetary Resources</b>	<b>\$ 74,863,154</b>	<b>\$ 33,795,938</b>	<b>\$ 29,092</b>	<b>\$ 2,314</b>
<b>Change in Obligated Balance</b>				
Unpaid obligations, brought forward, October 1 (gross)	\$ 96,993,018	\$ 91,701,933	\$ 2,462,224	\$ 2,462,224
Obligated balance start of year (net), before adjustments	96,993,018	91,701,933	2,462,224	2,462,224
Obligated balance, start of year (net), as adjusted	96,993,018	91,701,933	2,462,224	2,462,224
Obligations incurred	74,719,974	33,769,145	1,953	2,287
Outlays (Gross)	(31,158,623)	(28,456,093)	(1,953)	(2,287)
Recoveries of prior year unpaid obligations	(1,824,622)	(21,967)	0	0
Obligated balances, end of year				
Unpaid Obligations, end of year (gross)	138,729,747	96,993,018	2,462,224	2,462,224
<b>Obligated balance, end of year (net)</b>	<b>\$ 138,729,747</b>	<b>\$ 96,993,018</b>	<b>\$ 2,462,224</b>	<b>\$ 2,462,224</b>
<b>Budgetary Authority and Outlays, Net:</b>				
Budget Authority, gross (discretionary and mandatory)	\$ 74,761,519	\$ 33,675,722	\$ 29,064	\$ (810)
Actual offsetting collections (discretionary and mandatory)	(123,730)	(96)	(179,092)	(158,740)
<b>Budget Authority, net (discretionary and mandatory)</b>	<b>\$ 74,637,789</b>	<b>\$ 33,675,626</b>	<b>\$ (150,028)</b>	<b>\$ (159,550)</b>
Outlays, gross (discretionary and mandatory)	31,158,623	28,456,093	1,953	2,287
Actual offsetting collections (discretionary and mandatory)	(123,730)	(96)	(179,092)	(158,740)
Outlays, net (discretionary and mandatory)	31,034,893	28,455,997	(177,139)	(156,453)
Distributed offsetting receipts	(26,310,214)	(23,946,831)	(177,139)	(156,453)
<b>Agency Outlays, net (discretionary and mandatory)</b>	<b>\$ 4,724,679</b>	<b>\$ 4,509,166</b>	<b>\$ (177,139)</b>	<b>\$ (156,453)</b>

## **NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

### **1.A. Basis of Presentation**

These financial statements have been prepared, in accordance with [Chief Financial Officers Act of 1990](#) (CFO), to report the financial position and results of operations of the Foreign Military Sales (FMS) Trust Fund and its accounts, as identified in the President's Budget Request, the Foreign Operations (International Affairs) appropriated accounts. The FMS Trust Fund has accounts for U.S. government funds appropriated for security assistance and for funds deposited by foreign countries and international organizations, or by others for their use. The FMS Trust Fund and other accounts for funds appropriated for security assistance are managed by the Defense Security Cooperation Agency (DSCA) on behalf of the DoD, in accordance with the authority of the Executive Office of the President (EOP), and the requirements of the [CFO Act of 1990](#), as expanded by the [Government Management Reform Act of 1994](#), and other applicable laws and regulations.

The financial statements were prepared from accounting records that are maintained by the Military Departments (MILDEPs), Other Defense Organizations (ODO), and the Defense Finance and Accounting Service (DFAS) in accordance with, and to the extent possible, U.S. Generally Accepted Accounting Principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the [Office of Management and Budget \(OMB\) Circular No. A-136](#), Financial Reporting Requirements; and the [DoD Financial Management Regulation](#).

The accompanying financial statement information accounts for all FMS Trust Fund resources and the accounts for funds appropriated for security assistance unless otherwise noted. Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The FMS Trust Fund accounting systems, including its sub accounts, and the accounts for funds appropriated for security assistance, are unable to fully implement all elements of USGAAP and the [OMB Circular No. A-136](#), due to limitations of financial management processes, financial systems, and nonfinancial systems and processes that support the financial statements. Many of the accounts derive their reported values and other data and information for major asset and liability categories largely from nonfinancial systems, such as MILDEPs' inventory and logistic systems. Such legacy systems were designed to support reporting requirements for maintaining asset accountability and reporting the status of Federal appropriations rather than preparing financial statements consistent with USGAAP. There are ongoing efforts to implement process and system improvements addressing these limitations.

The DoD currently has 13 auditor identified material weaknesses. Of these, the FMS Trust Fund and the accounts for funds appropriated for security assistance may include: (1) Financial Management Systems; (2) Intergovernmental Eliminations; (3) Fund Balance with Treasury; (4) Statement of Net Cost; (5) Other Accounting Entries; (6) Reconciliation of Net Cost of Operations to Budget; (7) Accounts Payable; and (8) Accounts Receivable.

## 1.B. Mission of the Reporting Entity

The DSCA mission is to lead, direct and manage security cooperation programs and resources to support the U.S. national security objectives. Such programs build relationships with foreign countries and international organizations that promote the U.S. interests, develop allied and partner capacities for self-defense and coalition participation in overseas contingency operations, and promote peacetime and contingency access for U.S. forces. The DSCA accomplishes its responsibilities for security cooperation in concert with the Department of State (DOS), MILDEPs, other U.S. Government organizations, U.S. industry, and non-governmental organizations. Together we provide financial and technical assistance, Foreign Military Financing (FMF) for defense articles and services, including training, provided through the FMS program, as well as training provided and funded under International Military Education and Training authorities.

## 1.C. Appropriations and Funds

The FMS Trust Fund is a U.S. Treasury account (Treasury Account Symbol (TAS) 8242) which contains deposits from FMS foreign country and international organization customers, as well as funds transferred into the account from U.S. Government appropriations, for use in carrying out specific purposes or programs in accordance with the [Arms Export Control Act](#), as amended (AECA) (22 U.S.C. § 2751 et seq.); [the Foreign Assistance Act of 1961](#), as amended (FAA), (22 U.S.C. § 2151 et seq.); and other legal authorities. The monies in the FMS Trust Fund are subject to U.S. Treasury account system controls from the date of receipt to the date of expenditure or refund. At the country or customer level, there are separate sub accounts used by DoD through DSCA and DFAS to separately and individually account for each FMS customer's deposits, other collections or deposits, payments of bills, refunds, and adjustments. At the U.S. Treasury level, the corpus of the FMS Trust Fund represents the total aggregation of balances (receipts minus disbursements) for all activities and programs.

The DoD utilizes separate U.S. Treasury Accounts for the general fund Foreign Operations (International Affairs) appropriations. These accounts are:

- International Military Education and Training (TAS 1081)
- Foreign Military Financing Program Account (TAS 1082)
- Foreign Military Loan Liquidating Account (TAS 4121)
- Foreign Military Financing Direct Loan Financing Account (TAS 4122)
- Military Debt Reduction Financing Account (TAS 4174)
- Special Defense Acquisition Fund (TAS 4116)

The DSCA receives funds for the FMS Trust Fund and the accounts for funds appropriated for security assistance as general, special, and trust funds. The DSCA uses these appropriations and funds to execute its missions and subsequently reports on resource usage.

General and special appropriations transferred into the FMS Trust Fund are used for financial transactions, including personnel, operations and maintenance of security assistance



functions, and financing of FMS, which may include sales of defense articles and services from stock or through procurement, and the sale of foreign military construction.

The FMS Trust Fund accounts for receipts and expenditures of funds held in trust by the U.S. government for use in carrying out specific purposes or programs in accordance with applicable laws, regulations, and agreements.

The DSCA is a party to allocation transfers with other Federal agencies as a 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 are reported in the financial statements of the parent entity. Exceptions to this general rule will apply to specific funds for which OMB has directed that all activity will be reported in the financial statements of the child entity. Exceptions include all U.S. Treasury-Managed Trust Funds, EOP, and all other funds specifically designated by OMB. The DSCA's appropriations are allocation transfers from the EOP that meet the OMB exception and all related activity are included in DSCA financial statements, which are reported as a separate section of the DoD financial statements.

### **1.D. Basis of Accounting**

The legacy financial management systems utilized for the FMS Trust Fund and the accounts for funds appropriated for security assistance are unable to meet full accrual accounting. Many of the DSCA, MILDEP, and ODO financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP guidance. These legacy systems were not designed to collect and record financial information on a full accrual accounting basis as required by USGAAP. Most of DSCA, MILDEP, and ODO financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The FMS Trust Fund and the accounts for funds appropriated for security assistance financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the MILDEPs, ODOs, and their sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections) from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, and accounts payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated DSCA level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DSCA, with MILDEPs and ODOs, is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all DSCA, MILDEP, and ODO systems and related processes have been updated to collect and report financial information as required by USGAAP, reported financial data is based on budgetary transactions data from nonfinancial feeder systems, and accruals.

### **1.E. Revenues and Other Financing Sources**

As authorized by legislation, payments for the sales of defense articles and services are deposited into the FMS Trust Fund. Appropriations provided on an annual or multiyear basis for security assistance are a financing source and are transferred into the FMS Trust Fund or deposited into the accounts for funds appropriated for security assistance. Pricing for defense articles and services, including training, is established to recover costs as required by the [AECA](#), the [FAA](#), and [OMB Circular A-25](#), User Charges. The FMS Trust Fund and the accounts for funds appropriated for security assistance recognize revenue when earned within the constraints of current system capabilities.

The DSCA does not include nonmonetary support provided by friendly foreign countries and international organizations in amounts reported in the Statement of Net Cost and Note 21, Reconciliation of Net Cost of Operations to Budget.

The DSCA participates in assistance-in-kind agreements in its overseas presence. The assistance in kind provided in support of security cooperation programs includes the use of facilities and personnel (guards and drivers) at a small number of Security Cooperation Offices worldwide.

### **1.F. Recognition of Expenses**

The DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems for the FMS Trust Fund and the accounts for funds appropriated for security assistance were not designed to collect and record transactions on an accrual accounting basis. Estimates are made for major items, such as payroll expenses, accounts payable, and unbilled revenue. The DSCA continues to implement process and system improvements to address these limitations.

### **1.G. Accounting for Intragovernmental Activities**

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, DSCA cannot accurately identify most of its intragovernmental transactions because MILDEP systems do not track buyer and seller data needed to match related transactions. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The [Treasury Financial Manual Part 2 – Chapter 4700](#), “Agency Reporting Requirements for the Financial Report of the United States Government,” provide guidance for reporting and reconciling intragovernmental balances. The FMS Trust Fund and the accounts for funds appropriated for security assistance are unable to fully reconcile intragovernmental transactions with all Federal agencies; however, the FMS Trust Fund is able to reconcile balances pertaining to borrowing from the U.S. Treasury and the Federal Financing Bank, [Federal Employees’ Compensation Act](#) (FECA) transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

The DoD's proportionate share of public debt and related expenses to the Federal Government is not included. The Federal Government does not apportion debt and its related costs to Federal agencies. The DoD's financial statements do not report any public debt, interest, or source of public financing whether from issuance of debt or tax revenues.

## **1.H. Transactions with Foreign Governments and International Organizations**

Each year, the FMS Trust Fund and the accounts for funds appropriated for security assistance sells defense articles and services to foreign governments and international organizations under the provisions of the [AECA](#). Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

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

The FMS Trust Fund monies are held in U.S. Treasury accounts and the Federal Reserve Bank in individual accounts established by the U.S. for foreign countries. Funds held in the Federal Reserve Bank are transferred to the FMS Trust Fund account to be disbursed for FMS purposes.

For monetary financial resources maintained in U.S. Treasury accounts, the disbursing offices of DFAS, the MILDEPs, the U.S. Army Corps of Engineers (USACE), and the DOS's financial service centers process the majority of the FMS Trust Fund and the accounts for funds appropriated for security assistance cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, FMS Trust Fund and the accounts for funds appropriated for security assistance FBWT is adjusted to agree with the U.S. Treasury accounts.

### **1.J. Cash and Other Monetary Assets**

Cash is the total of cash resources under the control of DoD which includes coin, paper currency, negotiable instruments, which are held for deposit in banks or other financial institutions and is classified as "nonentity" and is restricted.

The FMS Trust Fund only accepts U.S. dollars for payment of defense articles and services per [DoD 5015.38M Security Assistance Management Manual; Chapter 5; Foreign Military Sales Case Development](#). All payments and collections are in U.S. dollars.

### **1.K. Accounts Receivable**

The FMS Trust Fund and the accounts for funds appropriated for security assistance accounts receivable from other Federal entities or the public include: accounts receivable,

claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize all allowance for estimated uncollectible amounts from other Federal agencies. Claims against other Federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the [Treasury Financial Manual](#).

### **1.L. Direct Loans and Loan Guarantees**

The DSCA administers the FMF program on behalf of the EOP. Direct loans and loan guarantees are authorized by sections 23 and 24 of the [AECA](#) of 1976, as amended, Public Law (P.L.) 90-269, as amended, and section 503(a) and other specific legislation. These loans and guarantees assist friendly foreign countries and international organizations in purchasing U.S. defense articles and services.

### **1.M. Inventories and Related Property**

The FMS Trust Fund and the accounts for funds appropriated for security assistance do not maintain inventory. The defense articles are provided to the FMS customer from the U.S. Government or the contractor pursuant to a contract with the U.S. Government. Defense articles sold from the DoD or the U.S. Coast Guard are assets of the providing component until title is transferred to foreign customer.

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

Not applicable

### **1.O. General Property, Plant and Equipment**

Not applicable

### **1.P. Advances and Prepayments**

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances and prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. Not all military services who execute on behalf of DSCA have implemented this policy primarily due to system limitations.

### **1.Q. Leases**

Lease payments for the rental of DSCA operating facilities are contracted for and classified as operating leases. The DSCA, as the lessee, receives the use and possession of leased property, for example real estate, from a lessor in exchange for payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expenses over the lease terms as it becomes payable.

Office space and leases are funded by the FMS Trust Fund. These costs were gathered from existing operating leases and General Services Administration bills, and interservice support

agreements. Future year projections use the Consumer Price Index. The FMS Trust Fund and the accounts for funds appropriated for security assistance do not have capital leases.

### **1.R. Other Assets**

Other assets includes civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on the FMS Trust Fund and the accounts for funds appropriated for security assistance Balance Sheet.

The FMS Trust Fund and the accounts for funds appropriated for security assistance conduct business with commercial contractors using two primary types of contracts: fixed price and cost reimbursable. Contract financing payments are defined in the [Federal Acquisition Regulations \(FAR\), Part 32](#), as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing on certain long-term contracts and facilitate competition for defense contracts. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets.

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

### **1.S. Contingencies and Other Liabilities**

The [SFFAS No. 5](#), Accounting for Liabilities of the Federal Government, as amended by [SFFAS No. 12](#), "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The FMS Trust Fund and the accounts for funds appropriated for security assistance recognize contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The FMS Trust Fund and the accounts for funds appropriated for security assistance risk of loss due to contingencies arise as a result of pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.



### **1.T. Accrued Leave**

The FMS Trust Fund reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

### **1.U. Net Position**

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include donations and transfer in and out of assets that were not reimbursed.

### **1.V. Treaties for Use of Foreign Bases**

Not applicable

### **1.W. Undistributed Disbursements and Collections**

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections may be evidenced by the availability of corroborating documentation generally support the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the DSCA Accounts Payable and Receivable trial balances prior to validating underlying transactions required to establish the Accounts Payable/Receivable were previously made. As a result, misstatements of reported Accounts Payable and Receivables are likely present in the DSCA financial statements.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD is generally unable to determine whether undistributed disbursements and collections should be applied to Federal or non-Federal accounts payables/receivable at the time accounting reports are prepared. Accordingly, the FMS Trust Fund and accounts for funds appropriated for security assistance follow the DoD policy, which is to allocate supported undistributed disbursements and collections between Federal and non-Federal categories based on the percentage of distributed Federal and non-Federal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

### **1.X. Fiduciary Activities**

Not applicable

## 1.Y. Military Retirement and Other Federal Employment Benefits

Not applicable

## 1.Z. Significant Events

Not applicable

## NOTE 2. NONENTITY ASSETS

Nonentity Assets <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2012	2011
<b>Intragovernmental Assets</b>		
Fund Balance with Treasury	\$ 14,872,317	\$ 15,121,753
<b>Total Intragovernmental Assets</b>	<b>\$ 14,872,317</b>	<b>\$ 15,121,753</b>
<b>Non-Federal Assets</b>		
Cash and Other Monetary Assets	\$ 20,124,963	\$ 18,160,143
Accounts Receivable	707,589	712,582
Other Assets	26,733,628	25,223,804
<b>Total Non-Federal Assets</b>	<b>\$ 47,566,180</b>	<b>\$ 44,096,529</b>
<b>Total Nonentity Assets</b>	<b>\$ 62,438,497</b>	<b>\$ 59,218,282</b>
<b>Total Entity Assets</b>	<b>\$ 8,121,609</b>	<b>\$ 6,302,795</b>
<b>Total Assets</b>	<b>\$ 70,560,106</b>	<b>\$ 65,521,077</b>

Nonentity Assets are assets for which the FMS Trust Fund and the accounts for funds appropriated for security assistance maintains stewardship accountability and reporting responsibility, but are not available for the agency's operations.

Fund Balance with Treasury and Cash and Other Monetary Assets consist of advance deposits from friendly countries and international organizations to facilitate the purchase of U.S. defense articles and services based on future requirement forecasts.

Accounts Receivable consist of amounts for interest, fines, and penalties due on debt from loans and non-Federal funds owed to the FMS Trust Fund country accounts that are in litigation at Department of Justice or collection status at DFAS. Some portion of these uncollected funds may be payable to the FMS Administrative Surcharge account, but are not discernible prior to collection.

Non-Federal Other Assets consist primarily of advances paid for undelivered defense articles and services intended for future delivery to the FMS customer.

**NOTE 3. FUND BALANCE WITH TREASURY**

<b>Fund Balance with Treasury</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Fund Balance</b>			
Appropriated Funds	\$	3,837,638	\$ 2,632,921
Trust Funds		14,872,317	15,121,753
Other Fund Types		4,101,127	3,339,200
<b>Total Fund Balance</b>	<b>\$</b>	<b>22,811,082</b>	<b>\$ 21,093,874</b>
<b>Fund Balance Per Treasury Versus Agency</b>			
Fund Balance per Treasury	\$	22,811,082	\$ 21,093,874
Fund Balance per Agency		22,811,082	21,093,874
<b>Reconciling Amount</b>	<b>\$</b>	<b>0</b>	<b>\$ 0</b>

The \$4.1 billion reported as Fund Balances, Other Fund Types, consists of funds on deposit for the management of FMS Administration, Contract Administrative Services, Transportation, Attrition and General Services Administration Packing, Crating and Handling.

<b>Status of Fund Balance with Treasury</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Unobligated Balances</b>			
Available	\$	61,812	\$ 4,829
Unavailable		108,507	21,992
<b>Obligated Balance not yet Disbursed</b>		<b>141,191,970</b>	<b>99,455,241</b>
<b>Non-Budgetary FBWT</b>		<b>26,310,220</b>	<b>23,946,837</b>
<b>Non-FBWT Budgetary Accounts</b>		<b>(144,861,427)</b>	<b>(102,335,025)</b>
<b>Total Fund Balance</b>	<b>\$</b>	<b>22,811,082</b>	<b>\$ 21,093,874</b>

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

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

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

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT. The Nonbudgetary FBWT consists of Contingency Operations provided to DoD in supplemental appropriations, and Contingency Operations funding transferred from Department of State (DOS), which DOS received in supplemental appropriations. Obligations are incurred using contract authority and liquidated with these appropriations.

NonFBWT Budgetary Accounts reduces the Status of FBWT. The NonFBWT Budgetary Accounts primarily consists of nonentity cash deposited in the Federal Reserve Bank and contract authority.

## NOTE 5. ACCOUNTS RECEIVABLE

Accounts Receivable <i>As of September 30</i>	Dollars in Thousands		
	2012		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 0	N/A	\$ 0
Non-Federal Receivables (From the Public)	50,377	(39)	50,338
<b>Total Accounts Receivable</b>	<b>\$ 50,377</b>	<b>\$ (39)</b>	<b>\$ 50,388</b>

Accounts Receivable <i>As of September 30</i>	Dollars in Thousands		
	2011		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 0	N/A	\$ 0
Non-Federal Receivables (From the Public)	51,436	(6)	51,430
<b>Total Accounts Receivable</b>	<b>\$ 51,436</b>	<b>\$ (6)</b>	<b>\$ 51,430</b>

The accounts receivable represent the FMS Trust Fund claim for payment from other entities. The FMS Trust Fund only recognizes an allowance for uncollectible amounts from the public. Claims with other Federal agencies are resolved in accordance with the Intragovernmental Business Rules.

## NOTE 6. OTHER ASSETS

Other Assets <i>As of September 30</i>	Dollars in Thousands	
	2012	2011
<b>Nonfederal Other Assets</b>		
Outstanding Contract Financing Payments	\$ 2,985,170	\$ 2,657,874
Advances and Prepayments	23,752,485	22,573,925
Total Non-Federal Other Assets	\$ 26,737,655	\$ 25,231,799
<b>Total Other Assets</b>	<b>\$ 26,737,655</b>	<b>\$ 25,231,799</b>

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

The balance of Outstanding Contract Financing Payments includes \$2.1 billion in contract financing payments and an additional \$877 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

## NOTE 7. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2012	2011
Cash	\$ 20,124,963	\$ 18,160,143
<b>Total Cash, Foreign Currency, and Other Monetary Assets</b>	<b>\$ 20,124,963</b>	<b>\$ 18,160,143</b>

Restricted Cash of \$20.1 billion includes advance deposits from foreign nations in the Federal Reserve Bank which have not been transferred to the FMS Trust Fund and are not available for agency use (nonentity cash).

## NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

### Direct Loan and Loan Guarantee Programs

The DSCA operates the following direct loans and/or loan guarantee Programs:

The [\*Arms Export Control Act\*](#), as amended, authorizes funds to be appropriated to the President for financing the sales of defense articles and defense services to eligible foreign countries. Each loan is reviewed in the light of the purchasing country's financial condition, its need for credit, U.S. economic or military assistance programs in the country and region, and other proposed arms purchases by the country. The President delegates to the Secretary of Defense the authority to issue and guaranty loans through the designated administering agency, DSCA. The loans are issued to friendly, less economically developed countries. Pursuant to the authority contained in the Act, DSCA operates the four funds, known as: For pre-1992 loans (1) Foreign Military Loan Liquidating Account (FMLLA). For post-1991 loans (2 & 3) the Foreign Military Direct Loan Program and Financing Accounts for post-1991 loans, and (4) the Military Debt Reduction Financing Account (MDRFA) for reducing loan receivables for eligible countries.

The FMLLA is a liquidating account that includes all assets, liabilities, and equities for loan balances recorded prior to FY 1992. No new loan disbursements are made from this account. Certain collections made into this account are made available for default claim payments. The Federal Credit Reform Act (FCRA) provides permanent indefinite authority to cover obligations for default payments in the event the funds in the liquidating account are otherwise insufficient.

Foreign Military Financing Direct Loan Program Account (FMFDLPA) is a program account that was established pursuant to the FCRA to provide the funds necessary for the subsidy element of loans. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the Foreign Military Financing Direct Loan Financing Account (FMFDLFA) to make required loan disbursements for approved Foreign Military Sales or commercial sales.



The FMFDLFA is a financing account that is used to make disbursements of Foreign Military Loan funds for approved procurements and for subsequent collections for the loans after September 30, 1991. The account uses permanent borrowing authority from the U.S. Treasury combined with transfers of appropriated funds from FMFDLPA to make the required disbursements to loan recipient country borrowers for approved procurements. Receipts of debt service collections from borrowers are used to repay borrowings from U.S. Treasury.

MDRFA is a financing account that was established for the debt relief of certain countries as established by Public Law 103-87. The MDRFA buys the portfolio of loans from the FMLLA, thus transferring the loans from the FMLLA account to the MDRFA account. The Paris Club negotiates the debt forgiveness with Highly Indebted Poor Countries (HIPC).

The Paris Club has nineteen member countries that negotiate rescheduling or refinancing of debt for HIPC. The Paris Club provides debt reduction initially on payments coming due over a specific period that correspond to the length of an International Monetary Fund (IMF) supported economic reform program. Reduction then is staged, with each successive stage contingent upon debtor country compliance with its IMF-support program. Under Naples Terms, stock of debt reduction is provided after three years of good performance with respect to IMF reform programs and payments to Paris Club creditors. The United States incurs the budget cost of the eventual stock of debt reduction when it agrees to the initial "maturities" reduction of payments coming due, since bilateral agreements commit us to stock reduction once the Paris Club agrees to provide them.

The FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

Direct loans are reported at the net present value of the following projected cash flows: (1) loan disbursements, (2) repayments of principal, and (3) payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries

<b>Summary of Direct Loans and Loan Guarantees</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>	<b>2012</b>	<b>2011</b>	
<b>Loans Receivable</b>			
<b>Direct Loans:</b>			
Foreign Military Loan Liquidating Account	\$ 847,442	\$	958,461
Foreign Military Financing Account	(27,111)		11,260
Military Debt Reduction Financing Account	15,737		14,110
<b>Total Loans Receivable</b>	<b>\$ 836,068</b>	<b>\$</b>	<b>983,831</b>

<b>Direct Loans Obligated</b>	<i>Dollars in Thousands</i>	
<i>As of September 30</i>	<b>2012</b>	<b>2011</b>
<b>Direct Loans Obligated After FY 1992 (Allowance for Loss Method):</b>		
Foreign Military Loan Liquidating Account:		
Loans Receivable Gross	\$ 610,482	\$ 735,510
Interest Receivable	1,659,237	1,573,671
Allowance for Loan Losses	(1,422,277)	(1,350,720)
Value of Assets Related to Direct Loans	\$ 847,442	\$ 958,461
<b>Direct Loans Obligated After FY 1991 (Present Value Method):</b>		
Foreign Military Financing Account:		
Allowance for Subsidy Cost (Present Value)	\$ (27,111)	\$ 11,260
Value of Assets Related to Direct Loans	\$ (27,111)	\$ 11,260
Military Debt Reduction Financing Account:		
Loans Receivable Gross	\$ 0	\$ 190,745
Interest Receivable	0	70,182
Allowance for Subsidy Cost (Present Value)	15,737	(246,817)
Value of Assets Related to Direct Loans, Net	\$ 15,737	\$ 14,110
<b>Total Direct Loans Receivable</b>	<b>\$ 836,068</b>	<b>\$ 983,831</b>

## OTHER DISCLOSURES:

The DSCA bills the countries every six months for loan repayments. Applying terms of the loans with the countries, accrued interest receivable is calculated using the simple interest method. Interest accrued on unpaid balances use the same interest rate plus 4 percent for loans owed to the Federal Financing Bank.

The allowance for credit subsidy account for the FMFDLFA account is calculated taking into consideration three transactions: (1) transfers of subsidy from the program account to the financing account; (the subsidy is the difference between the expected cash outlays from the U.S. Government and the present value of the expected collections); (2) interest payments from the U.S. Treasury to the financing fund; and (3) upward adjustments due to reestimates as U.S. Treasury borrowing rates change over time from the loan repayment rate and an increase in estimated defaults on the loan.

The abnormal debit balance for allowance of \$15.7 million in the MDRFA is the unamortized portion of the subsidy that results from a debit balance reflects the cost of the loan to the U.S. Government. A debit balance results from: (1) interest expense paid on U.S. Treasury borrowings and (2) downward adjustments due to reestimates when the loan repayment rate exceeds the U.S. Treasury borrowing rate, and a decrease in estimated defaults. The loans in the MDRFA account were originally FMFDLFA loans and were categorized as moderate to medium risk and were expected to have an increasing amount of defaults over the years, but since have defaulted. This was built into the original subsidy amount. As the loan matured, and then eventually defaulted, along with the U.S. Treasury borrowing rates falling below the loan interest rates. This resulted in downward reestimates and a negative subsidy rate for the loans, which resulted in a debit balance in the allowance for subsidy.

<b>Total Amount of Direct Loans Disbursed</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Direct Loan Programs</b>			
Foreign Military Financing Account		\$ 0	\$ 0
<b>Total</b>		<b>\$ 0</b>	<b>\$ 0</b>

<b>Schedule for Reconciling Subsidy Cost Allowance Balances For Post FY 1991 Direct Loans</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Beginning Balance, Changes, and Ending Balance:</b>			
<b>Beginning Balance of the Subsidy Cost Allowance</b>		<b>\$ 235,558</b>	<b>\$ 224,271</b>
<b>Adjustments</b>			
Loans Written Off		0	0
Subsidy Allowance Amortization		(224,184)	11,286
<b>Total of the above Adjustment Components</b>		<b>\$ (224,184)</b>	<b>\$ 11,286</b>
<b>Ending Balance of the Subsidy Cost Allowance before Reestimate</b>		<b>\$ 11,374</b>	<b>\$ 235,557</b>
<b>Add or Subtract Subsidy Reestimate by Component</b>			
Interest Rate Reestimate		0	0
<b>Total of the above Reestimate Components</b>		<b>0</b>	<b>0</b>
<b>Ending Balance of the Subsidy Cost Allowance</b>		<b>\$ 11,374</b>	<b>\$ 235,557</b>

## Administrative Expenses

Administrative expenses for loans are not funded in the loan program account. The OMB funds administration of loans in the Foreign Military Financing Program Account (11\*1082) since the dollar amount is so low.

## NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

<b>Liabilities Not Covered by Budgetary Resources</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Intragovernmental Liabilities:</b>			
Accounts Payable		\$ 0	\$ 1
Other		118	111
<b>Total Intragovernmental Liabilities</b>		<b>\$ 118</b>	<b>\$ 112</b>
<b>Non-Federal Liabilities:</b>			
Military Retirement and Other Federal Employment Benefits		523	487
<b>Total Non-Federal Liabilities</b>		<b>523</b>	<b>487</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>		<b>641</b>	<b>599</b>
<b>Total Liabilities Covered by Budgetary Resources</b>		<b>\$ 63,230,954</b>	<b>\$ 60,229,768</b>
<b>Total Liabilities</b>		<b>\$ 63,231,595</b>	<b>\$ 60,230,367</b>

The Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided. These liabilities are categorized as not covered because there is no current or immediate appropriation available for liquidation.

Military Retirement and Other Federal Employment Benefits consists of Federal Employee Compensation Act (FECA) actuarial liabilities of \$523.5 thousand that is not due and payable during the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Intragovernmental Liabilities Other, represents the amount payable to Department of Labor for FECA liabilities.

**NOTE 12. ACCOUNTS PAYABLE**

Accounts Payable	Dollars in Thousands		
	2012		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
<i>As of September 30</i>			
Intragovernmental Payables	\$ 252,698	N/A	\$ 252,698
Non-Federal Payables (To the Public)	270,627	0	270,627
<b>Total Accounts Payable</b>	<b>\$ 523,325</b>	<b>\$ 0</b>	<b>\$ 523,325</b>

Accounts Payable	Dollars in Thousands		
	2011		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
<i>As of September 30</i>			
Intragovernmental Payables	\$ 334,081	N/A	\$ 334,081
Non-Federal Payables (To the Public)	285,823	0	285,823
<b>Total Accounts Payable</b>	<b>\$ 619,904</b>	<b>\$ 0</b>	<b>\$ 619,904</b>

Accounts Payable includes amounts owed to Federal and non-Federal entities for goods and services received by FMS Trust Fund and the accounts for funds appropriated for security assistance.

The systems utilized by the FMS Trust Fund and the accounts for funds appropriated for security assistance do not track intragovernmental transactions by customer at the transaction level. The FMS therefore cannot reconcile accounts payable with other Federal entities. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable.

**NOTE 13. DEBT**

Debt <i>As of September 30</i>	Dollars in Thousands		
	2012		
	Beginning Balance	Net Borrowing	Ending Balance
<b>Agency Debt (Intragovernmental)</b>			
Debt to the Treasury	\$ 43,600	\$ (9,633)	\$ 33,967
Debt to the Federal Financing Bank	297,309	(107,118)	190,191
<b>Total Debt</b>	<b>\$ 340,909</b>	<b>\$ (116,751)</b>	<b>\$ 224,158</b>

Debt <i>As of September 30</i>	Dollars in Thousands		
	2011		
	Beginning Balance	Net Borrowing	Ending Balance
<b>Agency Debt (Intragovernmental)</b>			
Debt to the Treasury	\$ 41,442	\$ 2,158	\$ 43,600
Debt to the Federal Financing Bank	421,547	(124,238)	297,309
<b>Total Debt</b>	<b>\$ 462,989</b>	<b>\$ (122,080)</b>	<b>\$ 340,909</b>

The [FCRA](#) of 1990 provides financing accounts with indefinite authority to borrow from the U.S. Treasury to fund disbursements of loans made to sovereign nations for security assistance. This debt to the U.S. Treasury is reflected in the Foreign Military Financing Direct Loan Financing account and the Military Debt Reduction account.

Beginning in January 1975, the DSCA and the Federal Financing Bank (FFB), acting under section 24 of the AECA, as amended, entered into an agreement whereby the FFB would make loan agreements with friendly nations and acquire promissory notes guaranteed by DSCA. The promissory notes are considered DSCA borrowings from the FFB. The promissory notes still owed to the FFB are reflected in the Foreign Military Loan Liquidating account.

The majority of the debt represents direct and guaranteed loans to foreign countries for pre-1992 and post-1991 loans. The [FCRA](#) governs all direct loan obligations and loan guarantee commitments made after FY 1991. Before 1992, funds were borrowed from the FFB to either directly loan the funds to foreign countries or to reimburse guaranteed loans defaulted. Beginning in 1992, based on the [FCRA](#), the security assistance program began borrowing the funds from the U.S. Treasury.

The DSCA must pay the debt if the foreign country borrower defaults. For loan defaults, DSCA must pay the outstanding principle amounts guaranteed.



**NOTE 15. OTHER LIABILITIES**

Other Liabilities <i>As of September 30</i>	Dollars in Thousands		
	2012		
	Current Liability	Noncurrent Liability	Total
<b>Intragovernmental</b>			
FECA Reimbursement to the Department of Labor	\$ 45	\$ 72	\$ 117
Custodial Liabilities	0	657,251	657,251
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 45</b>	<b>\$ 657,323</b>	<b>\$ 657,368</b>
<b>Non-Federal</b>			
Accrued Funded Payroll and Benefits	\$ 118	\$ 0	\$ 118
Advances from Others	58,796,076	2,985,170	61,781,246
Contract Holdbacks	44,857	0	44,857
<b>Total Non-Federal Other Liabilities</b>	<b>\$ 58,841,051</b>	<b>\$ 2,985,170</b>	<b>\$ 61,826,221</b>
<b>Total Other Liabilities</b>	<b>\$ 58,841,096</b>	<b>\$ 3,642,493</b>	<b>\$ 62,483,589</b>

Other Liabilities <i>As of September 30</i>	Dollars in Thousands		
	2011		
	Current Liability	Noncurrent Liability	Total
<b>Intragovernmental</b>			
FECA Reimbursement to the Department of Labor	\$ 52	\$ 59	\$ 111
Custodial Liabilities	0	661,153	661,153
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 52</b>	<b>\$ 661,212</b>	<b>\$ 661,264</b>
<b>Non-Federal</b>			
Accrued Funded Payroll and Benefits	\$ 157	\$ 0	\$ 157
Advances from Others	55,899,255	2,657,874	58,557,129
Contract Holdbacks	50,517	0	50,517
Contingent Liabilities	0	0	0
<b>Total Non-Federal Other Liabilities</b>	<b>\$ 55,949,929</b>	<b>\$ 2,657,874</b>	<b>\$ 58,607,803</b>
<b>Total Other Liabilities</b>	<b>\$ 55,949,981</b>	<b>\$ 3,319,086</b>	<b>\$ 59,269,067</b>

**Other Liabilities**

Contingent Liabilities includes \$3.0 billion related to contracts authorizing progress payments based on cost as defined in the [FAR](#). In accordance with contract terms, specific rights to the contractors' work vest with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors for amounts greater than the

amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Department has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

### NOTE 16. COMMITMENTS AND CONTINGENCIES

Claims may be presented and/or the U.S. Government may be a party in various administrative proceedings or court litigations, but it is highly unlikely that any can implicate the FMS Trust Fund. The U.S. funds appropriated for security assistance generally are not legally available for paying claims.

### NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

Military Retirement and Other Federal Employment Benefits <span style="float: right;"><i>Dollars in Thousands</i></span>				
<i>As of September 30</i>	2012			
	Liabilities	Assured Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
<b>Pension and Health Actuarial Benefits</b>				
FECA	\$ 523	0.0	\$ 0	\$ 523
<b>Total Military Retirement and Other Federal Employment Benefits</b>	<b>\$ 523</b>	<b>0.0</b>	<b>\$ 0</b>	<b>\$ 523</b>

Military Retirement and Other Federal Employment Benefits <span style="float: right;"><i>Dollars in Thousands</i></span>				
<i>As of September 30</i>	2011			
	Liabilities	Assured Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
<b>Pension and Health Actuarial Benefits</b>				
FECA	\$ 487	0.0	\$ 0	\$ 487
<b>Total Military Retirement and Other Federal Employment Benefits</b>	<b>\$ 487</b>	<b>0.0</b>	<b>\$ 0</b>	<b>\$ 487</b>

## FEDERAL EMPLOYEES' COMPENSATION ACT (FECA)

### Actuarial Cost Method Used and Assumptions:

The DSCA FMS Trust Fund actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the FMS Trust Fund at the end of each fiscal year. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Discount Rates

2.3% in Year 1

3.1% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments, or COLAs) and medical inflation factors (consumer price index medical, or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2012 were also used to adjust the methodology's historical payments to current year constant dollars.

Federal Employees – Compensation Act (FECA)		
CBY	COLA	CPIM
2013	2.83%	3.65%
2014	2.03%	3.66%
2015	1.93%	3.72%
2016	2.00%	3.73%
2017+	2.03%	3.80%

## NOTE 18. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

<b>Costs and Exchange Revenue</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Operations, Readiness &amp; Support</b>			
1. Gross Cost			
A. Intragovernmental Cost		\$ 7,596,317	\$ 3,416,436
B. Non-Federal Cost		\$ 23,115,279	\$ 21,271,005
C. Total Cost		\$ 30,711,596	\$ 24,687,441
2. Earned Revenue			
A. Intragovernmental Revenue		\$ (327)	\$ (738)
B. Non-Federal Revenue		\$ (24,078)	\$ (33,603)
C. Total Revenue		\$ (24,405)	\$ (34,341)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		\$ 0	\$ 0
<b>Total Net Cost</b>		<b>\$ 30,687,191</b>	<b>\$ 24,653,100</b>

<b>Costs and Exchange Revenue</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		<b>2012</b>	<b>2011</b>
<b>Consolidated</b>			
1. Gross Cost			
A. Intragovernmental Cost		\$ 7,596,317	\$ 3,416,436
B. Non-Federal Cost		\$ 23,115,279	\$ 21,271,005
C. Total Cost		\$ 30,711,596	\$ 24,687,441
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<b>Total Net Cost</b>		<b>\$ 30,687,191</b>	<b>\$ 24,653,100</b>

Intragovernmental Costs and Revenues represent transactions made between two reporting entities within the Federal Government.

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

Public costs and revenues are exchange transactions made between the reporting entity and a non-Federal entity.

The systems utilized by the DSCA for the FMS Trust Fund and the accounts for funds appropriated for security assistance do not track intragovernmental transactions by a customer at the transaction level. In Quarter 3 of FY 2010, the FMS Trust Fund incorporated the DoD trading partner process. The FMS Trust Fund adjusted expenses by reclassifying amounts between Federal and non-Federal expenses and accruing additional payables and expenses. Intradepartment revenues and expenses are then eliminated.

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government.

The DSCA does not meet accounting standards. Information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items such as payroll expenses and accounts payable.

### **NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION**

The Appropriations Received on the Statement of Changes in Net Position does not agree with the Appropriations on the Statement of Budgetary Resources. The difference of \$1.7 billion is due to the FMS Trust Fund receipts from foreign governments that liquidate contract authority, but are not recorded as appropriations on the Statement of Changes in Net Position. These receipts are transferred from the receipt account to cover disbursements as they occur, similar to the receipt of appropriations.

### **NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES**

<b>Disclosures Related to the Statement of Budgetary Resources</b>	<i>Dollars in Thousands</i>	
<i>As of September 30</i>	<b>2012</b>	<b>2011</b>
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period.	\$ 163,493,527	\$ 121,409,053

On the Statement of Budgetary Resources (SBR), obligations incurred of \$74.7 billion are direct and exempt from apportionment.

The SBR includes intraentity transactions, because the statements presented are combined, not consolidated.

Borrowings from the U.S. Treasury are required to be repaid once a year at the end of the fiscal year. The financing sources for the repayments on borrowings are loan repayments from the countries or permanent indefinite appropriations through subsidy reestimates.

The portions of the FMS Trust Fund receipts collected in the current fiscal year that exceed current outlays are temporarily precluded from obligation by law. These receipts, however, are available for obligation as needed in the future.

The [FCRA](#) provides permanent indefinite appropriations to fund upward subsidy reestimates that fund repayments of principal and interest of U.S. Treasury borrowings with the Foreign Military Financing Direct Loan Program and the Military Debt Reduction Financing Account.

The [FCRA](#) also provides permanent indefinite appropriations to fund loan defaults with the Federal Financing Bank in the Foreign Military Loan Liquidating Account.

The Appropriations on the SBR does not agree with the Appropriations Received on the Statement of Changes in Net Position. The difference of \$1.7 billion is due to the FMS Trust Fund contract authority not being reported as Appropriations Received on the Statement of Changes in Net Position.

Legal limitations and time restriction on the use of unobligated appropriation balances are provided under Public Law.

The Status of Budgetary Resources Apportioned line of the Budgetary SBR includes an abnormal balance that is the result of a trial balance submitted from the Military service. United States Standard General Ledger (USSGL) 4510 has a large abnormal that is offset by the same amount in USSGL 4610. The Service's system systemically make this posting to reverse funding to keep the trial balance and reconciliation in line.

The Fiscal Year (FY) 2011 Borrowing Authority (discretionary and mandatory) on the NonBudgetary SBR contains an abnormal balance due to an adjustment in Borrowing Authority and Undelivered Orders to Military Debt Reduction Financing Account and Foreign Military Financing Direct Loan Financing Account as required by the Office of Management and Budget.

## NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Reconciliation of Net Cost of Operations to Budget		<i>Dollars in Thousands</i>	
<i>As of September 30</i>	2012	2011	
<b>Resources Used to Finance Activities:</b>			
<b>Budgetary Resources Obligated:</b>			
Obligations incurred	\$ 74,721,927	\$	33,771,432
Less: Spending authority from offsetting collections and recoveries (-)	(2,127,443)		(180,802)
<b>Obligations net of offsetting collections and recoveries</b>	<b>\$ 72,594,484</b>	<b>\$</b>	<b>33,590,630</b>
Less: Offsetting receipts (-)	(26,310,214)		(23,946,831)
<b>Net Budgetary Resources Obligated</b>	<b>\$ 46,284,270</b>	<b>\$</b>	<b>9,643,799</b>
<b>Total resources used to finance activities</b>	<b>\$ 46,284,270</b>	<b>\$</b>	<b>9,643,799</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>			
<b>Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:</b>			
Undelivered Orders (-)	\$ (42,084,474)	\$	(9,093,975)
Resources that fund expenses recognized in prior Periods	0		(8)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	26,489,306		24,105,570
Resources that finance the acquisition of assets (-)	(1,953)		(2,287)
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$ (15,597,121)</b>	<b>\$</b>	<b>15,009,300</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 30,687,149</b>	<b>\$</b>	<b>24,653,099</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>			
<b>Components Requiring or Generating Resources in Future Period:</b>			
Other (+/-)	\$ 42	\$	1



<b>Reconciliation of Net Cost of Operations to Budget</b>		<i>Dollars in Thousands</i>	
<i>As of September 30</i>	<b>2012</b>	<b>2011</b>	
<b>Total components of Net Cost of Operations that will Require or Generate Resources in future periods</b>	\$ 42	\$	1
<b>Components not Requiring or Generating Resources:</b>			
Revaluation of assets or liabilities	\$ 0	\$	0
<b>Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	\$ 42	\$	1
<b>Net Cost of Operations</b>	<b>\$ 30,687,191</b>	<b>\$</b>	<b>24,653,100</b>

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

Obligations Incurred

Less: Spending Authority from Offsetting Collections and Recoveries

Obligations Net of Offsetting Collections and Recoveries

Less: Offsetting Receipts

Net Obligations

Undelivered Orders

Unfilled Customer Orders

Due to the FMS Trust Fund system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency.

Components Requiring or Generating Resources in Future Period. Other, is attributable to FECA actuarial expense.