



UNITED STATES DEPARTMENT OF DEFENSE

AGENCY FINANCIAL REPORT

FISCAL YEAR 2016

APPENDICES

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APPENDIX A: DEFENSE SECURITY COOPERATION AGENCY– SECURITY ASSISTANCE ACCOUNTS

The Defense Security Cooperation Agency (DSCA) is the Department of Defense (DoD) lead agency for the execution of security assistance functions, under [Executive Order 11958](#). The financial statements and explanatory notes in this appendix pertain to the following accounts, generally referred to as “security assistance” provided by the Department of State: Foreign Military Sales (FMS) Trust Fund; the International Military Education and Training Account; Foreign Military Financing Program Account; Foreign Military Loan Liquidating Account; FMF Direct Loan Financing Account; Military Debt Reduction Financing Account; and the [Special Defense Acquisition Fund](#), granted to the Executive Office of the President (EOP) pursuant to the [Arms Export Control Act](#) (AECA), as amended. The DSCA receives separate funding for the administration of the DoD Regional Centers for Security Studies reported in the DoD consolidated financial statements and separate from the security assistance functions, not reported in these financial statements.

Balance Sheet		
Defense Security Cooperation Agency – Security Assistance Accounts <i>Dollars in Thousands</i>		
As of September 30, 2016 and 2015	2016	2015
	Consolidated	Consolidated
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 38,071,762	\$ 30,334,836
Total Intragovernmental Assets	\$ 38,071,762	\$ 30,334,836
Cash and Other Monetary Assets (Note 6)	\$ 20,675,249	\$ 23,881,227
Accounts Receivable, Net (Note 4)	33,692	1,788
Loans Receivable (Note 7)	602,885	646,632
Other Assets (Note 5)	36,865,603	33,811,386
TOTAL ASSETS	\$ 96,249,190	\$ 88,675,869
LIABILITIES (Note 8)		
Intragovernmental		
Accounts Payable (Note 9)	\$ 425,854	\$ 405,228
Debt (Note 10)	2,498,711	39,354
Other Liabilities (Note 11 and 12)	964,018	641,292
Total Intragovernmental Liabilities	\$ 3,888,583	\$ 1,085,874
Accounts Payable (Note 9)	\$ 436,809	\$ 300,379
Federal Employment Benefits (Note 13)	626	634
Other Liabilities (Note 11 and 12)	81,536,600	78,600,258
TOTAL LIABILITIES	\$ 85,862,618	\$ 79,987,145
Commitments & Contingencies (Note 12)		
NET POSITION		
Unexpended Appropriations – Other Funds	\$ 5,579,779	\$ 4,374,115
Cumulative Results of Operations – Other Funds	4,806,793	
TOTAL NET POSITION	\$ 10,386,572	\$ 8,688,724
TOTAL LIABILITIES AND NET POSITION	\$ 96,249,190	\$ 88,675,869

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

Statement of Net Cost		
Defense Security Cooperation Agency – Security Assistance Accounts		
<i>Dollars in Thousands</i>		
For the Years Ended September 30, 2016 and 2015	2016 Consolidated	2015 Consolidated
Program Costs		
Gross Costs	\$ 36,259,031	\$ 38,858,023
(Less: Earned Revenue)	(162,286)	(35,913)
Net Cost of Operations	\$ 36,096,745	\$ 38,822,110

Statement of Changes in Net Position		
Defense Security Cooperation Agency – Security Assistance Accounts		
<i>Dollars in Thousands</i>		
For the Years Ended September 30, 2016 and 2015	2016 Consolidated	2015 Consolidated
Cumulative Results Of Operations		
Beginning balances	\$ 4,314,609	\$ 3,903,024
Budgetary Financing Sources		
Appropriations used	\$ 4,531,603	\$ 6,809,314
Nonexchange revenue	32,051,703	32,424,381
Other Financing sources		
Other (+/-)	5,623	0
Total Financing Sources	\$ 36,588,929	\$ 39,233,695
Net Cost of Operations (+/-)	36,096,745	(38,822,110)
Net Change	\$ 492,184	\$ 411,585
Cumulative Results of Operations	\$ 4,806,793	\$ 4,314,609

Unexpended Appropriations		
Beginning Balances	\$ 4,374,115	\$ 5,325,422
Budgetary Financing Sources		
Appropriations received	\$ 6,133,813	\$ 5,986,603
Appropriations transferred (in/out)	(386,909)	(120,686)
Other adjustments (rescissions, etc.)	(9,637)	(7,910)
Appropriations used	(4,531,603)	(6,809,314)
Total Budgetary Financing Sources	\$ 1,205,664	\$ (951,307)
Unexpended Appropriations	\$ 5,579,779	\$ 4,374,115
Net Position	\$ 10,386,572	\$ 8,688,724

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

Statement of Budgetary Resources Defense Security Cooperation Agency – Security Assistance Accounts For the Years Ended September 30, 2016 and 2015 (Page 1 of 2)	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2016 Combined	2015 Combined	2016 Combined	2015 Combined
<i>Dollars in Thousands</i>				
Budgetary Resources				
Unobligated balance, brought forward, October 1	\$ 781,197	\$ 144,457	\$ 15,659	\$ 27,139
Recoveries of prior year unpaid obligations	31,740	1,403,726	1,966,472	0
Other changes in unobligated balance	(183,228)	(111,846)	0	0
Unobligated balance from prior year budget authority, net	629,709	1,436,337	1,982,131	27,139
Appropriation (discretionary and mandatory)	8,220,054	2,371,714	0	0
Borrowing Authority (discretionary and mandatory)	0	0	492,885	1,885
Contract authority (discretionary and mandatory)	28,924,655	43,541,802	0	0
Spending authority from offsetting collections (discretionary and mandatory)	243,549	116,941	409,006	11,351
Total Budgetary Resources	\$ 38,017,967	\$ 47,466,794	\$ 2,884,022	\$ 40,375
Status of Budgetary Resources				
New obligations and upward adjustments (total)	\$ 34,428,653	\$ 46,685,597	\$ 342,275	\$ 24,716
Unobligated balance, end of year:				
Apportioned unexpired accounts	1,662,923	159,359	13	(22,749)
Unapportioned, unexpired accounts	1,893,368	604,711	2,541,734	38,408
Unexpired unobligated balance, end of year	3,556,291	764,070	2,541,747	15,659
Expired unobligated balance, end of year	33,113	17,128	0	0
Unobligated balance, end of year (total)	\$ 3,589,404	\$ 781,197	\$ 2,541,747	\$ 15,659
Total Budgetary Resources	\$ 38,017,967	\$ 47,466,794	\$ 2,884,022	\$ 40,375

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

Statement of Budgetary Resources Defense Security Cooperation Agency – Security Assistance Accounts For the Years Ended September 30, 2016 and 2015 (Page 2 of 2)	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2016 Combined	2015 Combined	2016 Combined	2015 Combined
<i>Dollars in Thousands</i>				
Change in Obligated Balance				
Unpaid obligations, brought forward, October 1	\$ 147,685,828	\$ 137,707,793	\$ 2,033,076	\$ 2,462,224
New obligations and upward adjustments (total)	34,428,563	46,685,597	342,275	24,716
Outlays (Gross)	(32,822,449)	(35,303,836)	(408,879)	(453,864)
Recoveries of prior year unpaid obligations	(31,740)	(1,403,726)	(1,966,472)	0
Unpaid Obligations, end of year	149,260,202	147,685,828	0	2,033,076
Uncollected payments				
Uncollected pymts, Fed sources, brought forward Oct 1 (-)	\$ 12	\$ 0	\$ 0	\$ 0
Change in uncollected payments, Federal sources	(7)	12	0	0
Uncollected payments, Federal sources, end of year	5	12	0	0
Memorandum (non-add) entries				
Obligated balance, start of year	\$ 147,685,840	\$ 137,707,793	\$ 2,033,076	\$ 2,462,224
Obligated balance, end of year	\$ 149,260,207	\$ 147,685,840	\$ 0	\$ 2,033,076
Budgetary Authority and Outlays, Net				
Budget Authority, gross (discretionary and mandatory)	\$ 37,388,258	\$ 46,030,455	\$ 901,891	\$ 13,236
Actual offsetting collections (discretionary and mandatory)	(244,314)	(117,087)	(493,805)	(471,042)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(7)	12	0	0
Recoveries of prior year paid obligations (discretionary and mandatory)	772	137	0	0
Budget Authority, net (discretionary and mandatory)	\$ 37,144,709	\$ 45,913,520	\$ 408,086	\$ (457,806)
Outlays, gross (discretionary and mandatory)	\$ 32,822,449	\$ 35,303,836	408,879	453,864
Actual offsetting collections (discretionary and mandatory)	(244,314)	(117,087)	(493,805)	(471,042)
Outlays, net (discretionary and mandatory)	32,578,135	35,186,749	(84,926)	(17,178)
Distributed offsetting receipts	32,051,703	(32,424,380)	0	0
Agency Outlays, net (discretionary and mandatory)	\$ 526,432	\$ 2,762,369	\$ (84,926)	\$ (17,178)

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

TABLE OF CONTENTS FOR NOTES TO THE FINANCIAL STATEMENTS

DSCA-Security Assistance Accounts (SAA) Financial Statements

	Page
Note 1 Significant Accounting Policies	A-6
 Note Disclosures Related to the DSCA-SAA Balance Sheets	
Note 2 Nonentity Assets.....	A-14
Note 3 Fund Balance with Treasury.....	A-15
Note 4 Accounts Receivable	A-16
Note 5 Other Assets	A-16
Note 6 Cash and Other Monetary Assets	A-17
Note 7 Direct Loan and Loan Guarantee Programs	A-17
Note 8 Liabilities Not Covered by Budgetary Resources	A-21
Note 9 Accounts Payable	A-22
Note 10 Debt	A-23
Note 11 Other Liabilities.....	A-24
Note 12 Commitments and Contingencies.....	A-25
Note 13 Federal Employment Benefits	A-26
 Note 14 General Disclosures Related to the Statement of Net Cost.....	 A-27
Note 15 Disclosures Related to the Statement of Changes in Net Position	A-28
Note 16 Disclosures Related to the Statement of Budgetary Resources	A-29
 Note Disclosures Not Pertaining to a Specific Statement	
Note 17 Reconciliation of Net Cost of Operations to Budget.....	A-30

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of DSCA, consisting of FMS Trust Fund and several other accounts, identified in the President's Budget Request, as the Foreign Operations (International Affairs) appropriated accounts. The FMS Trust Fund includes accounts for U.S. government funds appropriated for security assistance and funds deposited by foreign countries and international organizations, or by others for their use. Refer to paragraph 1.C, Appropriations and Funds, for a list of these accounts.

The FMS Trust Fund and other accounts for funds appropriated for security assistance are managed by DSCA on behalf of DoD, in accordance with the authority of EOP, the requirements of the [*Chief Financial Officers Act of 1990*](#), as expanded by the Government Management Reform Act of 1994 ([*GMRA*](#)), and other applicable laws and regulations. The FMS Trust Fund and the accounts for funds appropriated for security assistance hereafter will be referred to as the DSCA Security Assistance Accounts.

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 (GAAP) 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 \(FMR\)*](#).

The accompanying financial statement information accounts for all DSCA Security Assistance Accounts 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 to not be discernible.

The accounting systems used by DSCA Security Assistance Accounts are unable to fully implement all elements of U.S. GAAP and OMB Circular No. A-136, due to limitations of financial management processes, financial systems, and nonfinancial systems and processes supporting the financial statements. Many of the accounts derive their reported values and other information for major asset and liability categories largely from nonfinancial systems, such as the 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 U.S. GAAP. There are ongoing efforts to implement process and system improvements addressing these limitations.

The DSCA Security Assistance Accounts contribute to several of the Department's 13 auditor-identified material weaknesses: (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 promoting 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, 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 (IMET) authorities.

1.C. Appropriations and Funds

The FMS Trust Fund is a U.S. Treasury account (Treasury Account Symbol (TAS) 8242) containing 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 AECA, as amended (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 subsidiary accounts used by the Department 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 aggregations of balances (receipts minus disbursements) for all activities and programs.

The Department uses 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 (FMLLA) (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 related to security assistance are allocation transfers from the EOP meeting the OMB exception and all related activity is reported separately from the consolidated DoD financial statements.

1.D. Basis of Accounting

The legacy financial management systems used by DSCA Security Assistance Accounts are unable to meet full accrual accounting requirements. Many of the DSCA, MILDEP, and ODO financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of U.S. GAAP guidance. These legacy systems were not designed to collect and record financial information on a full accrual accounting basis as required by U.S. GAAP. Most of DSCA, MILDEP, and ODO financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The DSCA Security Assistance Accounts 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 the abnormal balances are evident at the consolidated level.

The DSCA, with MILDEPs and ODOs, is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. One

such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger. Until all DSCA, MILDEP, and ODO systems and related processes are able to collect and report financial information as required by U.S. GAAP, reported financial data is based on budgetary transactions, data from nonfinancial feeder systems.

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 DSCA Security Assistance Accounts 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 (SNC) and Note 17, 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.

The DSCA collects payments from foreign customers in advance of delivery of goods or services and records unearned revenue accordingly. All FMS Trust Fund revenue is reclassified as nonexchange once customers confirm the receipt of goods and services, since the FMS Trust Fund does not provide any of the goods or services directly, but serves as an intermediary for the U.S. military services and contractors.

1.F. Recognition of Expenses

Department policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems used by DSCA Security Assistance Accounts 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 an entity eliminates intra-entity 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 the Department's 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 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.

The [*Treasury Financial Manual Part 2 – Chapter 4700*](#), Agency Reporting Requirements for the Financial Report of the U.S. Government, provides 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.

Imputed financing represents the costs paid on behalf of the FMS Trust Fund by the Office of Personnel Management for employee pension, post-retirement health, and life insurance benefits; and the Department of Labor post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees’ Compensation Act.

The Department’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 Department’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, DSCA Security Assistance Accounts administers the sale of defense articles and services to foreign governments and international organizations under the provisions of the AECA. Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

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

The 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, MILDEPs, the U.S. Army Corps of Engineers (USACE), and the DOS’s financial service centers process the majority of DSCA Security Assistance Accounts cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports providing 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, the FBWT for the DSCA Security Assistance Accounts 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 the Department including coin, paper currency, negotiable instruments 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 DSCA Manual 5105.38-M, 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 DSCA Security Assistance Accounts’ 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 Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the [Treasury Financial Manual](#).

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, 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 DSCA Security Assistance Accounts do not maintain inventory. The defense articles are provided to FMS customers from the U.S. Government or the contractor pursuant to a contract with the U.S. Government. Defense articles sold from the Department or the U.S. Coast Guard are assets of the providing component until title is transferred to the foreign customer.

1.N. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the Department’s policy is to record advances and prepayments in accordance with U.S. GAAP. As

such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The Department's policy is to expense and/or properly classify assets when the related goods and services are received. Not all military services executing on behalf of DSCA have implemented this policy primarily due to system limitations.

1.O. Leases

The FMS Trust Fund and the accounts for funds appropriated for security assistance do not have capital leases and currently are not able to reliably estimate the value of operating leases.

1.P. Other Assets

Other assets include civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the DSCA Security Assistance Accounts Balance Sheet.

The DSCA Security Assistance Accounts 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, 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 payment 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.Q. Contingencies and Other Liabilities

Statement of Federal Financial Accounting Standard ([SFFAS](#)) 5, Accounting for Liabilities of the Federal Government as amended by SFFAS No. 12, [SFFAS 12](#), Recognition of Contingent Liabilities Arising from Litigation defines a contingency as an existing condition, situation, or set of circumstances involving 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 DSCA Security Assistance Accounts 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 DSCA Security Assistance Accounts' 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.R. Accrued Leave

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

1.S. 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.T. 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. As a result, misstatements of reported Accounts Payable and Receivables are likely included in the DSCA financial statements.

Due to noted material weaknesses in current accounting and financial feeder systems, the Department is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable/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 to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported

undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

NOTE 2. NONENTITY ASSETS

Nonentity Assets <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2016	2015
Intragovernmental Assets		
Fund Balance with Treasury	\$ 14,338,784	\$ 9,974,511
Total Intragovernmental Assets	\$ 14,338,784	\$ 9,974,511
Nonfederal Assets		
Cash and Other Monetary Assets	\$ 20,675,249	\$ 23,881,227
Accounts Receivable	679,617	642,939
Other Assets	36,863,633	33,808,506
Total Nonfederal Assets	\$ 58,218,499	\$ 58,332,672
Total Nonentity Assets	\$ 72,557,283	\$ 68,307,183
Total Entity Assets	\$ 23,691,907	\$ 20,368,686
Total Assets	\$ 96,249,190	\$ 88,675,869

Nonentity Assets are assets for which the DSCA Security Assistance Accounts maintain stewardship accountability and reporting responsibility, but are not available for the agency's operations.

FBWT 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 nonfederal funds owed to the FMS Trust Fund country accounts in litigation at Department of Justice or collection status at Defense Finance and Accounting Service. Some portion of these uncollected funds may be payable to the FMS Administrative Surcharge account, but are not discernible prior to collection.

Nonfederal 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

Fund Balance with Treasury <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2016	2015
Fund Balance		
Appropriated Funds	\$ 8,521,871	\$ 4,599,767
Trust Funds	29,549,891	25,735,069
Total Fund Balance	\$ 38,071,762	\$ 30,334,836
Fund Balance Per Treasury Versus Agency		
Fund Balance per Treasury	\$ 38,071,762	\$ 30,344,836
Fund Balance per Agency	38,071,762	30,334,836
Reconciling Amount	\$ 0	\$ 0

Status of Fund Balance with Treasury <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2016	2015
Unobligated Balances		
Available	\$ 1,662,936	\$ 136,610
Unavailable	8,267,271	4,258,521
Total Unobligated Balance	9,930,207	4,395,131
Obligated Balance not yet Disbursed	149,260,201	149,718,904
Non-FBWT Budgetary Accounts	(121,118,646)	(123,779,199)
Total Fund Balance	\$ 38,071,762	\$ 30,334,836

The Status of 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 not set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities 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 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.

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

NOTE 4. ACCOUNTS RECEIVABLE

Accounts Receivable		<i>Dollars in Thousands</i>		
<i>As of September 30</i>		2016		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net	
Nonfederal Receivables (From the Public)	\$ 33,700	\$ (8)	\$ 33,692	
Total Accounts Receivable	\$ 33,700	\$ (8)	\$ 33,692	

Accounts Receivable		<i>Dollars in Thousands</i>		
<i>As of September 30</i>		2015		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net	
Nonfederal Receivables (From the Public)	\$ 1,793	\$ (5)	\$ 1,788	
Total Accounts Receivable	\$ 1,793	\$ (5)	\$ 1,788	

The accounts receivable represent the FMS Trust Fund claim for payment from contractors and individuals for refunds and overpayments. The FMS Trust Fund only recognizes an allowance for uncollectible amounts from the public.

NOTE 5. OTHER ASSETS

Other Assets		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2016	2015
Nonfederal Other Assets			
Outstanding Contract Financing Payments		\$ 4,977,786	\$ 4,318,500
Advances and Prepayments		31,887,817	29,492,886
Total Nonfederal Other Assets		\$ 36,865,603	\$ 33,811,386
Total Other Assets		\$ 36,865,603	\$ 33,811,386

Contract terms and conditions for certain types of contract financing payments convey certain rights to the FMS Trust Fund protecting 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 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 \$2.7 billion in contract financing payments and an additional \$2.3 billion in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 11, Other Liabilities.

NOTE 6. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2016	2015
Cash	\$ 20,675,249	\$ 23,881,227
Total Cash, Foreign Currency, and Other Monetary Assets	\$ 20,675,249	\$ 23,881,227

Restricted cash of \$20.7 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 7. DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

Direct Loan and Loan Guarantee Programs

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:

- Foreign Military Loan Liquidating Account (FMLLA)), for pre-1992 loans
- FMF Direct Loan Program Account (FMFDLPA), for post-1991 loans
- FMF Direct Loan Financing Accounts (FMFDLFA), for post-1991 loans
- Military Debt Reduction Financing Account (MDRFA) for reducing loan receivables for eligible countries.

The FMLLA is a liquidating account including 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.

The FMFDLPA is a program account 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 FMFDLFA to make required loan disbursements for approved FMS or commercial sales.

The FMFDLPA is still active with one outstanding loan. The loan works as a line of credit where the country can borrow from it at any time. The country initiated a loan during the fourth quarter for the first time since FY 2010. The country normally borrows one day and immediately repays it the next day, which occurred in FY 2016.

The FMFDLFA is a financing account 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.

The MDRFA is a financing account 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 corresponding 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.

Summary of Direct Loans and Loan Guarantees		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2016	2015
Loans Receivable			
Direct Loans			
Foreign Military Loan Liquidating Account	\$	645,920	\$ 641,139
Foreign Military Financing Account		(252,601)	(15,631)
Military Debt Reduction Financing Account		209,566	21,124
Total Loans Receivable	\$	602,885	\$ 646,632

Abnormal Balances

The abnormal balances in the FMF Account are due to one day loans initiated by one country. To cover these loans, the DSCA borrowed the funds for the loan from the Treasury. The interest calculations provided by Treasury required DSCA to record an allowance for the loans even though the loans had been repaid.

Direct Loans Obligated		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2016	2015
Direct Loans Obligated After FY 1992 (Allowance for Loss Method)			
Foreign Military Loan Liquidating Account			
Loans Receivable Gross	\$	342,629	\$ 354,529
Interest Receivable		2,007,609	1,921,079
Allowance for Loan Losses		(1,704,318)	(1,634,469)
Value of Assets Related to Direct Loans, Net	\$	645,920	\$ 641,139
Direct Loans Obligated After FY 1991 (Present Value Method)			
Foreign Military Financing Account			
Allowance for Subsidy Cost (Present Value)	\$	(252,601)	\$ (15,631)
Value of Assets Related to Direct Loans	\$	(252,601)	\$ (15,631)
Military Debt Reduction Financing Account			
Loans Receivable Gross	\$	180,000	\$ 0
Allowance for Subsidy Cost (Present Value)		29,566	21,124
Value of Assets Related to Direct Loans, Net	\$	209,566	\$ 21,124
Total Direct Loans Receivable	\$	602,885	\$ 646,632

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.

Abnormal Balances

Direct Loans Obligated” to read “The abnormal balance of \$29.6 million for MDRFA, Allowance for Subsidy Cost (Present Value) is the DSCA requires from U.S. Treasury to close DSCA’s outstanding loan.

Total Amount of Direct Loans Disbursed		<i>Dollars in Thousands</i>	
<i>As of September 30</i>		2016	2015
Direct Loan Program			
Foreign Military Financing Account	\$	246,604	\$ 429,147
Total	\$	246,604	\$ 429,147

Schedule for Reconciling Subsidy Cost Allowance Balances		<i>Dollars in Thousands</i>	
For Post-FY 1991 Direct Loans			
<i>As of September 30</i>		2016	2015
Beginning Balance, Changes, and Ending Balance			
Beginning Balance of the Subsidy Cost Allowance	\$	(5,493)	\$ 7,871
Adjustments			
Subsidy Allowance Amortization		228,528	(13,364)
Total of the above Adjustment Components	\$	228,528	\$ (13,364)
Ending Balance of the Subsidy Cost Allowance before Reestimate	\$	223,035	\$ (5,493)
Ending Balance of the Subsidy Cost Allowance	\$	223,035	\$ (5,493)

Administrative Expenses

Administrative expenses for loans are not funded in the loan program account. OMB directed the administration of loans be funded by the FMF Program (11*1082).

NOTE 8. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2016	2015
Intragovernmental Liabilities		
Other	\$ 139	\$ 154
Total Intragovernmental Liabilities	\$ 139	\$ 154
Nonfederal Liabilities		
Accounts Payable	1,506	1,598
Federal Employment Benefits	626	634
Total Nonfederal Liabilities	2,132	2,232
Total Liabilities Not Covered by Budgetary Resources	2,271	2,386
Total Liabilities Covered by Budgetary Resources	\$ 85,860,347	\$ 79,984,759
Total Liabilities	\$ 85,862,618	\$ 79,987,145

These liabilities are categorized as not covered because there is no current or immediate appropriation available to pay them.

Military Retirement and Other Federal Employment Benefits consists of Federal Employee Compensation Act (FECA) actuarial liabilities of \$626.1 thousand not due and payable during the current fiscal year. Refer to Note 13, Federal Employment Benefits, for additional details and disclosures.

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

NOTE 9. ACCOUNTS PAYABLE

Accounts Payable	Dollars in Thousands		
	2016		
<i>As of September 30</i>	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	\$ 425,854	N/A	\$ 425,854
Nonfederal Payables (To the Public)	436,809	0	436,809
Total Accounts Payable	\$ 862,663	\$ 0	\$ 862,663

Accounts Payable	Dollars in Thousands		
	2015		
<i>As of September 30</i>	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	\$ 405,228	N/A	\$ 405,228
Nonfederal Payables (To the Public)	300,379	0	300,379
Total Accounts Payable	\$ 705,607	\$ 0	\$ 705,607

Accounts Payable includes amounts owed to federal and nonfederal entities for goods and services received by DSCA Security Assistance Accounts.

The systems used by the DSCA Security Assistance Accounts do not track intragovernmental accounts payable transactions by customer. The DSCA therefore cannot reconcile accounts payable with other federal entities. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable.

NOTE 10. DEBT

Debt	Dollars in Thousands		
	2016		
As of September 30	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	\$ 39,354	\$ 2,459,357	\$ 2,498,711
Total Debt	\$ 39,354	\$ 2,459,357	\$ 2,498,711

Debt	Dollars in Thousands		
	2015		
As of September 30	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	\$ 37,469	\$ 1,885	\$ 39,354
Total Debt	\$ 37,469	\$ 1,885	\$ 39,354

The [*Federal Credit Reform Act \(FCRA\) 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 FMF Direct Loan Financing Account and the Military Debt Reduction 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 principal amounts guaranteed.

NOTE 11. OTHER LIABILITIES

Other Liabilities <i>As of September 30</i>	Dollars in Thousands		
	2016		
	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Advances from Others	\$ 317,960	\$ 0	\$ 317,960
FECA Reimbursement to the Department of Labor	63	76	139
Custodial Liabilities	0	645,919	645,919
Total Intragovernmental Other Liabilities	\$ 318,023	\$ 645,995	\$ 964,018
Nonfederal			
Accrued Funded Payroll and Benefits	\$ 101	\$ 0	\$ 101
Advances from Others	75,916,642	4,977,367	80,894,009
Contract Holdbacks	642,484	0	642,484
Employer Contribution and Payroll Taxes Payable	6	0	6
Total Nonfederal Other Liabilities	\$ 76,559,233	\$ 4,977,367	\$ 81,536,600
Total Other Liabilities	\$ 76,877,256	\$ 5,623,362	\$ 82,500,618

Other Liabilities <i>As of September 30</i>	Dollars in Thousands		
	2015		
	Current Liability	Noncurrent Liability	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	\$ 66	\$ 88	\$ 154
Custodial Liabilities	0	641,138	641,138
Total Intragovernmental Other Liabilities	\$ 66	\$ 641,226	\$ 641,292
Nonfederal			
Accrued Funded Payroll and Benefits	\$ 35	\$ 0	\$ 35
Advances from Others	73,749,884	4,318,161	78,068,045
Contract Holdbacks	532,156	0	532,156
Employer Contribution and Payroll Taxes Payable	22	0	22
Total Nonfederal Other Liabilities	\$ 74,282,097	\$ 4,318,161	\$ 78,600,258
Total Other Liabilities	\$ 74,282,163	\$ 4,959,387	\$ 79,241,550

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where the Department is acting on behalf of another Federal entity.

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance.

Other Liabilities

Nonfederal Advances from Others, Noncurrent includes \$4.9 billion related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (*FAR*). In accordance with contract terms, specific rights to the contractors' work 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 12. COMMITMENTS AND CONTINGENCIES

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

NOTE 13. FEDERAL EMPLOYMENT BENEFITS

Federal Employment Benefits	Dollars in Thousands		
	2016		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
<i>As of September 30</i>			
Pension and Health Actuarial Benefits			
FECA	\$ 626	\$ 0	\$ 626
Total Federal Employment Benefits	\$ 626	\$ 0	\$ 626

Federal Employment Benefits	Dollars in Thousands		
	2015		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
<i>As of September 30</i>			
Pension and Health Actuarial Benefits			
FECA	\$ 634	\$ 0	\$ 634
Total Federal Employment Benefits	\$ 634	\$ 0	\$ 634

Federal Employees' Compensation Act (FECA)**Actuarial Cost Method Used and Assumptions**

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 utilizing 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 based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. An interest rate for wage benefits of 2.781 percent was assumed for year one and 2.781 percent for year two and thereafter. An interest rate for medical benefits of 2.261 percent was assumed for year one and 2.261 percent for year two and thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2016 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 CBYs were as follows:

Federal Employees Compensation Act (FECA)		
CBY	COLA	CPIM
2017	1.31%	2.99%
2018	1.13%	3.09%
2019	1.23%	3.40%
2020	1.45%	3.68%
2021+	1.85%	3.87%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitive analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2016 to the average pattern observed during the most current three CBYs, and (4) a comparison of the estimated liability per case in the CBY 2016 projection to the average pattern for the projections of the most recent three years.

NOTE 14. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Costs and Exchange Revenue <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2016	2015
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	\$ 2,679,071	\$ 3,458,594
Nonfederal Cost	\$ 33,579,960	\$ 35,399,429
Total Cost	\$ 36,259,031	\$ 38,858,023
Earned Revenue		
Intragovernmental Revenue	\$ (154,631)	\$ (11,270)
Nonfederal Revenue	\$ (7,655)	\$ (24,643)
Total Revenue	\$ (162,286)	\$ (35,913)
Total Net Cost	\$ 36,096,745	\$ 38,822,110

SNC represents the net cost of programs and organizations of the Department as 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. Intragovernmental costs and revenue represent

transactions between two reporting entities within the Federal Government. Public costs and exchange revenues are transactions made between the reporting entity and a nonfederal entity.

The systems utilized by DSCA for the FMS Trust Fund and the accounts for funds appropriated for security assistance do not fully 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. 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 4*, Managerial Cost Accounting Concepts and Standards for the Federal Government, as amended by *SFFAS 30*, Inter-entity Cost Implementation.

Additionally, these systems do not track intragovernmental transactions by a customer at the transaction level. The FMS Trust Fund adjusts expenses by reclassifying amounts between federal and nonfederal expenses and accruing additional payables and expenses. Intradepartmental revenues and expenses are then eliminated.

NOTE 15. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

The Appropriations on the Statement of Budgetary Resources (SBR) does not agree with the Appropriations Received on the Statement of Changes in Net Position. The difference of \$2.1 billion is primarily attributable to mandatory adjustments required by OMB.

Year Ended September 30, 2016	
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position	<i>Dollars in Thousands</i>
	Total
Appropriations, Statement of Budgetary Resources	\$ 8,220,054
Less: Appropriations Received, Statement of Changes in Net Position	(6,133,813)
Total Reconciling Amount	\$ 2,086,241
Items Reported as Decreases to Appropriations, Statement of Budgetary Resources	
Temporary Reductions	\$ (200,780)
Transfers	(212,543)
Contract Authority	2,499,564
Total Reconciling Items	\$ 2,086,241

NOTE 16. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Disclosures Related to the Statement of Budgetary Resources	<i>Dollars in Thousands</i>	
<i>As of September 30</i>	2016	2015
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 161,856,016	\$ 165,850,074

Abnormal Balances

The abnormal balance of \$22.7 million on the NonBudgetary, Appropriation line is due to a one day loan initiated by one country. The DSCA borrowed the funds for the loan from the Treasury. The short duration of the loan caused the interest received on the loan to be less than the minimum interest due to Treasury. The DSCA will pay the additional interest due on the loan to Treasury.

Other Disclosures

Obligations incurred of \$34.4 billion are direct and exempt from apportionment.

The SBR includes intra-entity transactions because the statements are presented on a combined basis.

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 [*Federal Credit Reform Act of 1990*](#) (FCRA) provides permanent indefinite appropriations to fund upward subsidy reestimates that fund repayments of principal and interest of U.S. Treasury borrowings with the FMF 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 line item on the SBR does not agree with Appropriations Received on the Statement of Changes in Net Position. Refer to Note 15, Disclosures Related to the Statement of Changes in Net Position, for additional details.

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

NOTE 17. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Reconciliation of Net Cost of Operations to Budget <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2016	2015
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	\$ 34,770,838	\$ 46,710,313
Less: Spending authority from offsetting collections and recoveries	(2,736,339)	(1,991,844)
Obligations net of offsetting collections and recoveries	\$ 32,034,499	\$ 44,718,469
Less: Offsetting receipts	(32,051,703)	(32,424,380)
Net Budgetary Resources Obligated	\$ (17,204)	\$ 12,294,089
Other Resources:		
Other (+/-)	5,623	0
Net other resources used to finance activities	5,623	0
Total resources used to finance activities	\$ (11,581)	\$ 12,294,089
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders	\$ 3,994,132	\$ (5,918,010)
Resources that fund expenses recognized in prior periods	(115)	(14)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	32,545,507	32,895,422
Resources that finance the acquisition of assets	(408,879)	(453,863)
Other resources or adjustment to net obligated resources that do not affect Net Cost of Operations:		
Other (+/-)	(5,622)	0
Total resources used to finance items not part of the Net Cost of Operations	\$ 36,130,571	\$ 26,523,535
Total resources used to finance the Net Cost of Operations	\$ 36,112,367	\$ 38,817,624
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Period		
Other	\$ 0	\$ 1,607
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 0	\$ 1,607

Reconciliation of Net Cost of Operations to Budget <i>As of September 30</i>	<i>Dollars in Thousands</i>	
	2016	2015
Components not Requiring or Generating Resources		
Other	\$ (16,697)	\$ 2,879
Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ (16,697)	\$ 2,879
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ (16,697)	\$ 4,486
Net Cost of Operations	\$ 36,095,670	\$ 38,822,110

The Reconciliation of Net Cost of Operations to Budget reconciles the cost reflected on the SNC to the budgetary information reflected on the SBR. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated as intraagency budgetary transactions are not 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 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 Federal Employee Compensation Act actuarial expense.

APPENDIX B: LIST OF ACRONYMS AND ABBREVIATIONS

Acronym	Definition
ACC	Air Craft Carriers
AF-IPPS	Air Force Integrated Personnel and Pay System ERP
AFR	Agency Financial Report
AFRICOM	Africa Combatant Command
ANDSF	Afghan National Defense Security Force
APP	Annual Performance Plan
APR	Annual Performance Report
APSR	Accountable Systems of Record
ASD	Assistant Secretary of Defense
BAM	Business Activity Monitoring
BBP	Better Buying Power
BRAC	Base Realignment and Closure
BSAT	Biological Select Agents and Toxins
CAP	Contractor Acquired Property
CAP	Corrective Action Plan
CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Progress
CMO	Chief Management Officer
COLA	Cost of Living Adjustment
COR	Contracting Officer Representative
COTS	Commercial off-the-shelf
CPIM	Consumer Price Index, Medical
DAI	Defense Agency Initiative
DAU	Defense Acquisition University
DAWIA	Defense Acquisition Workforce Improvement Act
DCAA	Defense Contract Audit Agency
DCIS	Defense Criminal Investigative Service
DCMA	Defense Contract Management Agency
DCMO	Deputy Chief Management Officer
DCPS	Defense Civilian Pay System
DCS	Duplicate Claims System
DEAMS	Defense Enterprise Accounting and Management System
DepSecDef	Deputy Secretary of Defense
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHP	Defense Health Program

Acronym	Definition
DIUx	Defense Innovation Unit-Experimental
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DMDC	Defense Management Data Center
DMF	Death Master File
DNP	Do Not Pay
DoD	Department of Defense
DoDI	Department of Defense Instruction
DoS	Department of State
DPAP	Defense Procurement and Acquisition Policy
DSCA	Defense Security Cooperation Agency
DTS	Defense Travel System
EA	Executive Agency
EBS	Enterprise Business System
EFT	Electronic Funds Transfer
EIC	External Independent Contractor
EOP	Executive Office of the President
ERP	Enterprise Resource Planning
FBWT	Fund Balance With Treasury
FFMIA	Federal Financial Management Improvement Act of 1996
FIAR	Financial Improvement and Audit Readiness
FIPT	Functional Integrated Product Team
FM	Financial Management
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FUSRAP	Formerly Utilized Sites Remedial Action Program
FPSR	FIAR Plan Status Report
FY	Fiscal Year
FYDP	Future Years Defense Program
GAO	Government Accountability Office
GCSS-A	Global Combat Support System - Army
GCSS-MC	Global Combat Support System - MC
GFEBs	General Fund Enterprise Business System
GFP	Government Furnished Property
GFM	Government Furnished Material
GIDEP	Government-Industry Data Exchange Program
HIPC	Highly Indebted Poor Countries
HOA	Horn of Africa
IDES	Integrated Disability Evaluation System
IG	Inspector General

Acronym	Definition
IMF	International Monetary Fund
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payment Information Act of 2002
IPPS-A	Integrated Personnel Pay System - Army
ISIL	Islamic State of Iraq and the Levant
IT	Information Technology
IUS	Internal Use Software
JITC	Joint Interoperability Test Command
JV	Journal Vouchers
LAC	Latest Acquisition Cost
LMP	Logistics Modernization Program
MAC	Moving Average Cost
MDA	Missile Defense Agency
MDAP	Major Defense Acquisition Programs
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHPI	Military Housing Privatization Initiative
MHS	Military Health System
MICP	Managers' Internal Control Program
MILDEP	Military Department
MOCAS	Mechanization of Contract Administrative Services
MRF	Military Retirement Fund
MRHB	Military Retirement Health Benefits
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NDS	National Defense Stockpile
NPV	Net Present Value
NRV	Net Realizable Value
O&M	Operations and Maintenance
OCO	Overseas Contingency Operations
ODO	Other Defense organizations
OFS	Operation Freedom's Sentinel
OIF	Operation Iraqi Freedom
OIG	Office of the Inspector General
OIR	Operation Inherent Resolve
OM&S	Operating Material and Supplies
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)

Acronym	Definition
PCS	Permanent Change of Station
PFPA	Pentagon Force Protection Agency
PP&E	Property, Plant, and Equipment
PSA	Principal Staff Assistants
QDR	Quadrennial Defense Review
R&D	Research and Development
SAO	Senior Accountability Officer
SBA	Schedule of Budgetary Activity
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SNC	Statement of Net Cost
SRRB	Service Requirements Review Board
SSA	Social Security Administration
SSAE	Statement on Standards for Attestation Engagement
SSP	Source Selection Procedures
TAC	Transportation Account Codes
TAP	Transition Assistance Program
TDY	Temporary Duty
TEDS	TRICARE Encounter Data Set
ToT	Transportation of Things
UFC	USACE Finance Center
U.S.	United States
USACE	United States Army Corps of Engineers
USD	Under Secretary of Defense
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology and Logistics
U.S. GAAP	United States Generally Accepted Accounting Principles
USMC	United States Marine Corps
USSGL	United States Standard General Ledger
USSOCOM	United States Special Operations Command
USSTRATCOM	United States Strategic Command
USTRANSCOM	United States Transportation Command
VA	Department of Veterans Affairs
WCF	Working Capital Fund
WII	Wounded, Ill, or Injured

APPENDIX C: USEFUL WEBSITES

Link	URL
Budget Control Act of 2011	http://www.gpo.gov/fdsys/pkg/PLAW-112publ25/pdf/PLAW-112publ25.pdf
Defense Advanced Research Projects Agency	http://www.darpa.mil
Defense Business Council	http://dcmo.defense.gov/Governance/DefenseBusinessCouncil.aspx
Defense Commissary Agency	http://www.commissaries.com
Defense Contract Audit Agency	http://www.dcaa.mil
Defense Contract Management Agency	http://www.dcm.a.mil
Defense Finance and Accounting Service	http://www.dfas.mil
Defense Health Agency	http://www.health.mil/dha
Defense Intelligence Agency	http://www.dia.mil
Defense Information Systems Agency	http://www.disa.mil
Defense Logistics Agency	http://www.dla.mil
Defense Media Activity	http://www.dma.mil
Defense POW/MIA Accounting Agency	http://www.dpaa.mil/
Defense Security Cooperation Agency	http://www.dsca.mil
Defense Security Service	http://www.dss.mil
Defense Strategic Guidance 2012	http://www.defense.gov/news/Defense_Strategic_Guidance.pdf
Defense Technical Information Center	http://www.dtic.mil
Defense Technology Security Administration	http://www.dtsa.mil
Defense Threat Reduction Agency	http://www.dtra.mil
Department of the Air Force	http://www.af.mil
Department of the Army	http://www.army.mil
Department of Defense (DoD)	http://www.defense.gov/
Department of the Navy	http://www.navy.mil
DoD Education Activity	http://www.dodea.edu/
DoD Enterprise Transition Plan	http://dcmo.defense.gov/Publications/EnterpriseTransitionPlan.aspx
DoD Financial Improvement and Audit Readiness	http://comptroller.defense.gov/fiar
DoD Financial Management Certification Program	http://comptroller.defense.gov/externalLinks/FMCert.aspx
DoD Financial Management Regulation	http://comptroller.defense.gov/fmr
Defense Human Resources Activity	http://www.dhra.mil

Link	URL
Joint Chiefs of Staff	http://www.jcs.mil/
DoD Managers' Internal Control Program	http://comptroller.defense.gov/fiar/micp.aspx
DoD, Office of Inspector General	http://www.dodig.mil/
DoD Strategic Management Plan	http://dcmo.defense.gov/Publications/DoD-ASP/
Federal Accounting Standards Advisory Board	http://fasab.gov/
Federal Financial Management Improvement Act	https://www.dol.gov/ocfo/media/regs/ffmia.pdf
Federal Managers' Financial Integrity Act	http://www.gpo.gov/fdsys/pkg/STATUTE-96/pdf/STATUTE-96-Pg814.pdf
Missile Defense Agency	http://www.mda.mil
National Geospatial-Intelligence Agency	https://www.nga.mil/Pages/default.aspx
National Guard	http://www.nationalguard.mil
National Reconnaissance Office	http://www.nro.gov
National Security Agency/Central Security Service	https://www.nsa.gov/
Office of Economic Adjustment	http://www.oea.gov
Office of Management and Budget	https://www.whitehouse.gov/omb/information-for-agencies/circulars
The Pentagon Force Protection Agency	http://www.pfpa.mil
Quadrennial Defense Review 2014	http://www.defense.gov/qdr
U.S. Africa Command	http://www.africom.mil
U.S. Central Command	http://www.centcom.mil
U.S. European Command	http://www.eucom.mil
U.S. Marine Corps	http://www.marines.mil
U.S. Northern Command	http://www.northcom.mil
U.S. Pacific Command	http://www.pacom.mil
U.S. Southern Command	http://www.southcom.mil
U.S. Special Operations Command	http://www.socom.mil
U.S. Strategic Command	https://www.stratcom.mil/
U.S. Transportation Command	http://www.transcom.mil
Washington Headquarters Services	http://www.whs.mil

APPENDIX D: INDEX OF FIGURES AND TABLES

FIGURES

Figure 1. DoD FY 2016 Budget Authority	5
Figure 2. Department of Defense Organizational Structure.....	14
Figure 3. Office of the Secretary of Defense Principal Staff Assistants	15
Figure 4. Reserve Components: Reserves and National Guard	17
Figure 5. Defense Agencies and DoD Field Activities	18
Figure 6. Combatant Commands	20
Figure 7. DFAS Statistics FY 2016	27
Figure 8. Trend in DoD Budget Authority	28
Figure 9. Composition of DoD Total Budgetary Resources	28
Figure 10. Summary of Total Assets	29
Figure 11. Summary of Total Liabilities.....	30
Figure 12. Unfunded Liabilities	31
Figure 13. Summary of Net Cost of Operations	32
Figure 14. Financial Performance Summary	33
Figure 15. General Funds Projected Under Audit in FY 2016, FY 2017, and FY 2018.....	36
Figure 16. Working Capital Funds Projected Under Audit in FY 2016, FY 2017, and FY . 2018.....	37
Figure 17. The Department’s Integrated Business Framework	52
Figure 18. DoD Financial Management Improvement Initiatives	53
Figure 19. Improper Payment Rate – Military Health Benefits	185
Figure 20. Improper Payment Rate – Military Pay	186
Figure 21. Improper Payment Rate – Civilian Pay	187
Figure 22. Improper Payment Rate – DFAS Commercial Pay	188
Figure 23. Improper Payment Rate – Military Retirement	189

TABLES

Table 1. Summary of Financial Statement Audit.....	156
Table 2. Effectiveness of Internal Controls over Financial Reporting.....	157
Table 2a. FY 2016 Material Weaknesses in Internal Controls over Financial Reporting	158
Table 2b. Effectiveness of Internal Controls over Non-Financial Operations	171
Table 2b-1. FY 2016 Material Weaknesses in Internal Controls over Non-Financial Operations.....	171
Table 2c. Conformance with Financial Management System Requirements	174
Table 2c-1. FY 2016 Internal Control over Financial Systems Material Weakness.....	175
Table 3. Compliance with Federal Financial Management Improvement Act	177
Table 4. Improper Payment Reduction Outlook	183
Table 5. Improper Payment Root Cause Category Matrix.....	184
Table 6. Status of Internal Controls	195
Table 7. Improper Payment Recaptures with and without Audit Programs.....	198
Table 8. Results of the Do Not Pay Initiative in Preventing Improper Payments.....	201
Table 9. Freeze the Footprint Baseline Comparison.....	204
Table 10. Annual Operating Costs.....	204



The U.S. Navy's Blue Angels perform precision formation flying and aerobatics during the Arctic Thunder Open House, July 30, 2016 at Joint Base Elmendorf-Richardson. The biennial event is historically the largest multi-day event in the state and one of the premier aerial demonstrations in the world. The event features more than 40 key performers and ground acts to include the JBER joint forces, U.S. Air Force F-22, and U.S. Navy Blue Angels demonstrations teams.

U.S. Air Force photo by Senior Airman James Richardson



The guided-missile destroyers USS Momen (DDG 92), left, maneuvers for a replenishment-at-sea with the fleet replenishment oiler USNS Joshua Humphreys (T-AO 188). The guided-missile destroyers USS Spruance (DDG 111), USS Decatur (DDG 73- and Momen are deployed in support of maritime security and stability in the Indo-Asia Pacific as part of a U.S. 3rd Fleet Pacific Surface Action Group (PAC SAG) under Commander, Destroyer Squadron (CDS) 31.

U.S. Navy photo by Chief Mass Communication Specialist (select) Jay C. Pugh/Released

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