Audit Report

OFFICE OF THE INSPECTOR GENERAL

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT FINANCIAL STATEMENTS FOR FY 1992

Report No. 93-106 June 11, 1993

DISTRIBUTION STATEMENT A
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Department of Defense

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Acronyms

DSAA	Defense Security Assistance Agency
FMFIA	Federal Managers' Financial Integrity Act
FMLLA	Foreign Military Loan Liquidating Account
OMB	Office of Management and Budget

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

June 11, 1993

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER
OF THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Foreign Military Loan Liquidating Account Financial Statements for FY 1992 (Report No. 93-106)

We are providing this audit report for your information and use, and for use by Congress. Financial statement audits such as this one are required by the Chief Financial Officers Act of 1990. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, which implements the Act, requires the Inspectors General to express an opinion on the fairness of the financial statements. We are also required to report on the adequacy of internal controls and compliance with laws and regulations.

It is our unqualified opinion that the financial statements present fairly, in all material respects, the assets, liabilities, and net financial position of the Foreign Military Loan Liquidating Account as of September 30, 1992, and the results of its operations, cash flows, and reconciliation to budget for the year then ended, in accordance with DoD accounting policies and procedures.

We noted no internal control deficiencies or instances of noncompliance with laws and regulations that would materially affect the financial statements. This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3; accordingly, comments are not required.

If you have any questions about this audit, please contact Mr. Alvin L. Madison, Program Director, at (703) 614-1681 (DSN 224-1681) or Mrs. Belinda J. Finn, Project Manager, at (703) 693-0437 (DSN 223-0437). The courtesies extended to the audit staff are appreciated. The distribution of this report is listed in Part IV, Appendix C.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 93-106
(Project No. 2FA-2012)

June 11, 1993

AUDIT REPORT ON THE FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT FINANCIAL STATEMENTS FOR FY 1992

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act of 1990 requires an annual audit of the financial statements of the Foreign Military Loan Liquidating Account (FMLLA). Under the Federal Credit Reform Act of 1990, the Defense Security Assistance Agency (DSAA) consolidated all pre-1992 Foreign Military Financing direct loans and loan guaranties (those originally obligated or committed prior to October 1, 1991) into the former Guaranty Reserve Fund, a revolving fund for guaranteed loans. The DSAA then reclassified that fund and renamed it the FMLLA. As of September 30, 1992, the FMLLA had assets of $10.9 billion and funded liabilities of $4.4 billion.

Objectives. The overall objective of the audit was to determine whether the FMLLA financial statements for FY 1992 are presented fairly in accordance with generally accepted accounting principles as implemented by DoD accounting policies and procedures. We determined whether the internal controls were adequate and whether management complied with applicable laws for transactions that have a direct and material effect on the financial statements. We also determined the usefulness and reliability of financial information reported to the Office of Management and Budget (OMB), Department of the Treasury, the Office of the Secretary of Defense, and the account manager.

Independent Auditor's Opinion. In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities, and net financial position of the FMLLA as of September 30, 1992, and the results of its operations, cash flows, and reconciliation to budget for the year then ended, in accordance with DoD accounting policies and procedures and generally accepted accounting principles.

The FY 1992 financial statements are not consistent with the unaudited FY 1991 financial statements for the Guaranty Reserve Fund because of the consolidation of the direct loan funds and loan guaranties into the liquidating account. Additionally, the DSAA did not include administrative expenses applicable to maintaining the account in the statements.

Internal Controls. We found nothing involving the internal control structure and its operation that we consider to be a material weakness. Therefore, we believe there is reasonable assurance that the internal control objectives were achieved. See Part II for a description of the controls we assessed.

Compliance with Laws and Regulations. The results of our tests of transactions indicated that with respect to the items tested, the FMLLA complied in all material

respects with policies, laws, and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that the DSAA had not complied in all material respects. Part III contains our report on compliance with laws and regulations. Appendix A in Part IV lists the laws and regulations tested.

Usefulness of Financial Statements. The audit improved the accuracy of the FY 1992 financial statements and prompted disclosure of $690.0 million in receivables from a few countries lacking the ability to repay in the forseeable future. The audit also prompted reporting of $1.05 billion in additional collection activity on loans. As a result, managers and other interested parties will have more complete and accurate data to use in their decisionmaking processes. Although the DSAA prepared the statements according to OMB and DoD guidance on financial statements, the statements are not informative without extensive use of the Notes accompanying the statements. Additional categorization on the financial statement of the Loans and Accounts Receivables by loan type (direct, guaranteed, rescheduled, and defaulted loans) would improve the usefulness of the financial statements. Also, the prescribed account titles and descriptions in the Statement of Cash Flows and Reconciliation to Budget are relevant to operations of agencies, not liquidating accounts, which primarily hold assets.

Management Comments. The Comptroller of the Department of Defense and the Comptroller, Defense Security Assistance Agency, received drafts of reports on internal controls and on compliance with laws and regulations and concurred with the facts presented. Part VI contains their comments.

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This report was prepared by the Financial Management Directorate, Office of the Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Part I - Independent Auditor's Opinion on the Financial Statements

Introduction

Under the Federal Credit Reform Act of 1990, the Defense Security Assistance Agency (DSAA) consolidated all pre-1992 Foreign Military Financing direct loans and loan guaranties (those originally obligated or committed prior to October 1, 1991) into the former Guaranty Reserve Fund, a revolving fund for guaranteed loans. The DSAA then reclassified that fund and renamed it the Foreign Military Loan Liquidating Account (FMLLA). As of September 30, 1992, the FMLLA had assets of $10.9 billion and funded liabilities of $4.4 billion.

The Chief Financial Officers Act of 1990 requires an annual audit of the financial statements of the FMLLA. Those statements are the responsibility of management of the Defense Security Assistance Agency (DSAA). Our responsibility is to express an opinion on the statements based on our audit.

Scope

We have audited the Statement of Financial Position of the Foreign Military Loan Liquidating Account as of September 30, 1992, and the related Statements of Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expenses, along with the accompanying Notes to the Principal Statements for the year then ended. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements, including the Notes. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the statements. We believe that our audit provides a reasonable basis for our opinion. We reviewed documentation supporting receivables and confirmed loan balances with the debtor countries. We recalculated interest and penalty charges and traced loan disbursements, default payments, collection receipts, and transactions arising from loan reschedulings. This financial statement audit was made during the period April 1992 through March 1993. Appendix B in Part IV lists the organizations and activities contacted.

Auditing Standards

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements and the accompanying Notes are free of material misstatements.

Accounting Principles

Accounting principles are evaluated by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities will be promulgated by the Comptroller General of the United States and the Director, OMB, based on advice from the Board. In the interim, Federal agencies are to follow the applicable accounting standards contained in agency accounting policy, procedures manuals, and other related guidance. The summary of significant accounting policies included in the Notes to the financial statements describes the accounting methods prescribed by DoD 7220.9-M, "Department of Defense Accounting Manual," and used to prepare the FMLLA financial statements.

Opinion

In our opinion, the FMLLA financial statements present fairly, in all material respects, the assets, liabilities, and net financial position of the FMLLA as of September 30, 1992, and the results of its operations, cash flows, and reconciliation to budget for the year then ended, in accordance with DoD accounting policies and procedures and generally accepted accounting principles.

The FY 1992 financial statements are not presented on a basis consistent with the previous years' statements because of the change in financial entity resulting from the consolidation of all pre-1992 Foreign Military Financing loans into the FMLLA. We verified the transfer of applicable account assets and liabilities into the FMLLA and tested some transactions for FY 1991 and other prior years. While we cannot express an opinion on the unaudited opening balances in the accounts, nothing came to our attention in conducting those tests that would indicate that those balances were materially misstated.

The DSAA did not include any allocation of administrative costs to maintain the FMLLA in the financial statements, as required by OMB Bulletin No. 93-02. Management estimated that administrative expenses related to the operation of the account were approximately $200,000. We do not consider this omission to be a material error in the presentation of the financial statements.

Except for the omission of administrative operating expenses, the DSAA prepared the statements according to OMB and DoD guidance. We do not, however, find the statements useful or informative as presented. The Loans Receivable account consolidates several loan instrument categories. The reader must refer extensively to the Notes accompanying the financial statements to gain an understanding of the Foreign Military Financing programs represented by the financial statements. Additional categorization on the financial statement of the Loans and Accounts Receivables by loan type (direct, guaranteed, rescheduled, and defaulted loans) would improve the usefulness of the financial statements. Also, the prescribed account titles and descriptions in the Statement of Cash Flows and Reconciliation to Budget are relevant to operations of agencies, not liquidating accounts, which primarily hold assets.

Additional Information

Our audit was conducted for the purpose of expressing an opinion on the FMLLA financial statements. We have reviewed the financial information relating to the FMLLA presented in the management's overview of the DSAA. The material in the Overview is presented for additional information and analysis. Such material has not been audited by us and, accordingly, we have not expressed an opinion on this material. The audit disclosed nothing that would be inconsistent with the Overview information presented regarding the FMLLA.

Part II - Internal Controls

Introduction

We have audited the financial statements of the Foreign Military Loan Liquidating Account (FMLLA) of the Defense Security Assistance Agency (DSAA) for the year ended September 30, 1992, as required by the Chief Financial Officers Act of 1990.

The DSAA is responsible for establishing and maintaining an internal control structure. To fulfill this responsibility, management assesses the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the following are met.

o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

o Funds, property, and other assets are safeguarded against loss from unauthorized use.

o Transactions are executed in compliance with applicable laws and regulations.

o Data that support performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Objectives and Scope

The objective of our audit was to determine whether material internal control weaknesses existed. In planning and performing our audit of the financial statements of the FMLLA, we considered its internal control structure. The objectives of this consideration were to determine the nature and extent of our auditing procedures for the purpose of expressing our opinion on the financial statements of the FMLLA and to determine whether the internal control structure provided reasonable assurance that the financial statements were free of material misstatements. We obtained an understanding of the internal control policies and procedures and assessed the level of control risk relevant to all significant processing cycles, classes of transactions, and account balances. We performed sufficient tests of the significant policies and procedures to provide reasonable assurance that the controls were effective and working as designed.

For the purpose of this report, we have classified the significant internal control structure policies and procedures into the following categories or cycles.

o Loan Approval Process: policies and procedures associated with the initial approval and recording of loan authorization, maximum principal amount, and terms of repayment.

o Drawdowns/Disbursements Cycle: policies and procedures governing the distribution of authorized loan funds.

o Collection Cycle: processing and recording of loan repayments from foreign countries.

o Default Cycle: policies and procedures for disbursing funds to cover defaults under loan guaranty programs.

o Accounts Receivable Cycle: billing, processing, and recording of interest payments, including the policies and procedures governing application of payments and calculation of interest, late charges, and penalties due.

o Financial reporting: policies and procedures for recording transactions in the general ledger and for preparing the financial statements.

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require we plan and perform the audit to obtain reasonable assurance the financial statements are free of material misstatements.

Prior Audit Coverage

The FMLLA has not received any prior audit coverage since its creation on October 1, 1991. The predecessor accounts, the Guaranty Reserve Fund and three direct loan accounts, also received no prior audit coverage in the last 5 years. The Inspector General, Department of Defense, issued Report No. 91-081, "Commercial Sales Financed Under the Foreign Military Sales Financing Program," May 21, 1992. That audit reviewed direct commercial sales to approved countries of items financed by the Foreign Military Financing program.

Results of Audit

We found no material weaknesses involving the internal control structure and its operation. Therefore, we believe there is reasonable assurance that the internal control objectives were achieved.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a material weakness under standards established by OMB bulletin No. 93-06. A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts material to the

statements being audited, or material to a performance measure or aggregation of related performance measures, and might not be detected within a timely period by employees in the normal course of performing their assigned functions.

Management Comments

We received comments on the draft of Part II from the Comptroller of the Department of Defense and the Comptroller, DSAA, who concurred with the facts presented. See Part VI for the complete text of management comments.

Part III - Compliance with Laws and Regulations

Introduction

We have audited the financial statements of the Foreign Military Loan Liquidating Account (FMLLA) of the Defense Security Assistance Agency (DSAA) for the fiscal year ended September 30, 1992, as required by the Chief Financial Officers Act of 1990.

Objectives and Scope

Our objective was to obtain reasonable assurance that FMLLA activity was conducted in compliance with applicable laws and regulations, and that the financial statements were free of material misstatements. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws and regulations. Such failures or violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or those whose sensitive nature would cause them to be perceived as significant by others.

The DSAA is responsible for compliance with laws and regulations applicable to the FMLLA. To obtain reasonable assurance that the financial statements were free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements and certain other policies and regulations designated by the Office of Management and Budget (OMB) and the Department of Defense. The policies, laws, and regulations included the Arms Export Control Act and the Foreign Assistance Act of 1961, as amended; the Brooke-Alexander Amendment to Public Law 101-513; the Federal Credit Reform Act; the Debt Collection Act of 1982; the Federal Managers' Financial Integrity Act (FMFIA); and DoD Instruction 2140.2, "Collecting and Reporting of Foreign Indebtedness Within the Department of Defense (DoD)." See Appendix A in Part IV for a complete list of laws and regulations tested.

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the FMFIA and compared the agency's most recent FMFIA reports with the evaluation we conducted of DSAA's internal control system. We also reviewed and tested DSAA's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Overview of the Reporting Entity and Supplemental Financial and Management Information. Our objective, however, was not to provide an opinion on that process or system.

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States and with OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993.

Prior Audit Coverage

The FMLLA has not received any prior audit coverage since its creation on October 1, 1991. The predecessor accounts, the Guaranty Reserve Fund and three direct loan accounts, also received no prior audit coverage in the last 5 years. The Inspector General, Department of Defense, issued Report No. 91-081, "Commercial Sales Financed Under the Foreign Military Sales Financing Program," May 21, 1992. That audit reviewed direct commercial sales to approved countries of items financed by the Foreign Military Financing program.

Results of Audit

The results of our tests indicated that with respect to the items tested, the FMLLA complied in all material respects with policies, laws, and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that the DSAA had not complied in all material respects.

Management Comments

We received comments on the draft of Part III from the Comptroller of the Department of Defense and the Comptroller, DSAA, who concurred with the facts presented. See Part VI for the complete text of management comments.

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Part IV - Additional Information

Appendix A. Laws and Regulations

Foreign Assistance Act of 1961, Public Law (P.L.) 87-195

Arms Export Control Act, P.L. 90-629

Federal Managers' Financial Integrity Act of 1982, P.L. 97-255

Debt Collection Act of 1982, P.L. 97-365

Federal Credit Reform Act of 1990, P.L. 101-508

Brooke-Alexander Amendment to P.L. 101-513, November 5, 1990

Chief Financial Officers Act of 1990, P.L. 101-576

Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies," August 1987

Office of Management and Budget (OMB) Circular A-123, "Internal Control Systems," August 4, 1986

OMB Bulletin 93-02, "Form and Content of Agency Financial Statements," October 22, 1992

OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993

DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983

DoD Instruction 2140.2, "Collecting and Reporting of Foreign Indebtedness Within the Department of Defense (DoD)," October 15, 1986

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Deputy Comptroller of the Department of Defense (Management Systems)

Defense Agencies

Defense Security Assistance Agency, Washington, DC
Defense Finance and Accounting Service Center, Denver, CO

Non-Defense Federal Organizations

U.S. General Accounting Office, Washington, DC
Department of Commerce, Washington, DC
Department of State, Washington, DC
Department of the Treasury, Washington, DC

Other

Republic of Botswana
Republic of Cameroon
Government of Colombia
Government of the Dominican Republic
Government of Ecuador
Government of El Salvador
Government of the Gabonese Republic
Government of Greece
Government of Honduras
Government of Indonesia
Government of Israel
Government of Jamaica
Hashemite Kingdom of Jordan
Republic of Kenya
Government of Korea
Government of Morocco
Government of Nicaragua
Government of Niger
Government of Pakistan
Government of Panama
Government of Peru
Republic of the Philippines
Government of Portugal

Other (cont'd)

Republic of Senegal
Government of Spain
Democratic Republic of the Sudan
Government of Thailand
Government of Tunisia
Republic of Turkey
Government of Zaire

Chemical Bank, New York, NY
First National Bank of Chicago, Chicago, IL
Manufacturers & Traders Trust Company, Buffalo, NY
State Street Bank & Trust, Hartford, CT

Appendix C. Report Distribution

Office of the Secretary of Defense

Deputy Secretary of Defense
Under Secretary of Defense for Policy
Deputy Chief Financial Officer of the Department of Defense

Defense Agencies

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service - Denver Center
Director, Defense Security Assistance Agency

Non-DoD Federal Organizations

Office of Management and Budget
U.S. General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Foreign Relations
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Foreign Affairs
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

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Part V - Foreign Military Loan Liquidating Account - Financial Statements For FY 1992

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301 1100

MAR 25 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of the Defense Security Assistance Agency Financial Statements on FY 1992 Financial Activity

The attached financial statements for the Defense Security Assistance Agency (DSAA) on FY 1992 financial activity are submitted for audit as required by the Chief Financial Officers Act of 1990.

The principal statements include consolidating and supporting financial statements for accounts 97-11X4116, 97-11X4121, 97-11X4122 and 97-11X8242 to provide an audit trail from the individual accounts to the principal statements.

My staff, and that of the Defense Security Assistance Agency, are available to provide assistance and information as you require in the upcoming audit of these financial statements. We will work with your staff to make the adjustments and improvements necessary to ensure the financial statements present fairly, in all material respects, the assets, liabilities, and net financial position, of the Defense Security Assistance Agency as of September 30, 1992.

Alvin Tucker
Acting Chief Financial Officer

Attachment

Chief Financial Officer

FY 1992 Annual Financial Statement

Defense Security Assistance Agency

December 31, 1992

The financial statements presented here are excerpts from the DSAA FY 1992 Annual Financial Statements and form the basis for our opinion.
| Denotes information applicable to FMLLA in the Overview and Notes.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

FOREWORD

REQUIREMENT

The Chief Financial Officers Act (CFO) of 1990 established an annual requirement that all departments and agencies within the U.S. Government prepare, and have audited, financial statements covering their activities for the previous fiscal year. The Office of Management and Budget (OMB) has issued the form and content requirements and the Chief Financial Officer for the Department of Defense has further defined and supplemented those instructions. OMB and DOD policy and instructions clearly require that both program and financial information be presented in the report. For FY 1992, DSAA was directed to include only its commercial, revolving, and trust fund accounts in this report. However, in future years OMB and DOD are expected to direct the inclusion of all appropriation accounts.

ANNUAL DOD REQUIREMENT

This document was requested by OSD (C) Acting Chief Financial Officer's Memorandum of October 27, 1992, Subject: DoD Guidance on Form and Content of Financial Statements for FY 1992 Financial Activity. The DSAA submission conforms to the instructional set of forms and guidance that was supplied as an attachment to the memo. Following submission by DSAA to the DOD Chief Financial Officer, this report will be audited by the DODIG and incorporated into the DOD CFO report that is submitted to OMB and the Congress.

DSAA INVOLVEMENT

Fiscal year 1992 is the second year that DSAA has prepared the CFO document and each publication contains improvements. These documents were prepared by DSAA personnel with assistance from DFAS-DE/FR personnel. DSAA-COMPT-PBD was the focal point within the DSAA Comptroller's Office for producing the report. DSAA Operations and Plans personnel provided significant input for the Part I "Overview and Summary" Statement. DFAS-DE/FR personnel contributed the financial statements in Part II and assisted with the footnotes in Part III. In Part V., DSAA Program Division was the main contributor to the Special Defense Acquisition Fund's performance indicators and DSAA-COMPT-FCRD contributed most of the Trust Fund's performance indicators.

Inquiries or suggestions for improvements should be addressed to DSAA-COMPT-PBD. A distribution listing is included within the report.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

OVERVIEW AND SUMMARY - PART I

The Defense Security Assistance Agency (DSAA) administers the military segment of U.S. Government security assistance programs.

SECURITY ASSISTANCE DEFINED

Security Assistance refers to the range of programs authorized by the Foreign Assistance Act of 1961 and the Arms Export Control Act (AECA), as amended. Security assistance is a valuable instrument of U.S. national security and foreign policy. It helps friends and allies deter and defend against aggression and shoulder more of the common defense burden. It helps maintain strong and cohesive defense arrangements with friends and allies and to secure access to important military facilities throughout the world. It promotes regional stability through arms transfer controls on the volume and types of weaponry provided to security assistance recipients. It also fosters respect for human rights, democratic values and institutions.

The military component of U.S. Government security assistance includes the following programs:

- Foreign Military Sales (FMS). FMS is the government-to-government channel for the sale of U.S. defense articles and services to eligible foreign governments and international organizations. Historically, approximately eighty percent of all sales are government-to-government. Foreign governments and international organizations, in most cases, may also purchase U.S. defense articles and services directly from U.S. commercial firms, subject to State Department's issuance of the requisite munitions export license.

- Foreign Military Financing (FMF). FMF is an appropriated aid program that makes financing available to certain U.S. friends and allies to procure U.S. defense articles and services through FMS and, for a more limited number of countries, direct commercial purchases. FMF is made available on a grant and a concessional interest rate loan basis.

- International Military Education and Training (IMET). IMET is an appropriated grant aid program that makes available professional and management education and technical training to military and civilian officials of over 100 countries.

- Excess Defense Articles (EDA). EDA of the DoD may be transferred to eligible foreign governments and international organizations on a grant basis pursuant to several authorities in the Foreign Assistance Act of 1961. EDA may also be sold at its current value through FMS.

- Emergency Drawdown Authorities. Section 506 of the Foreign Assistance Act of 1961 authorizes the President, on a grant basis, to drawdown defense articles from DoD inventories and provide defense services to foreign governments and international organizations in response to military emergencies or to provide

assistance for international narcotics control, international disaster relief, or refugees.

- Special Defense Acquisition Fund (SDAF). SDAF is a revolving fund that procures defense articles and services in anticipation of later sale to foreign governments and international organizations through FMS. SDAF's annual obligation limit is established in annual appropriations legislation.

SECURITY ASSISTANCE RESPONSIBILITIES

Within the Executive Branch, the National Security Council, the Office of Management and Budget, the Department of the Treasury, the Department of Commerce, and others have responsibilities related to security assistance. However, the principal responsibilities fall to the Department of State and the Department of Defense.

The Secretary of State has statutory responsibility for security assistance policy. Simply put, the State Department determines what assistance will be provided or what sales will be made to what countries or international organizations. The Secretary of Defense has statutory responsibility for determining what defense articles or services are available for sale or transfer abroad and for implementing the military segment of security assistance programs. The Department of Defense also has significant input into the Department of State's decision making. The security assistance functions delegated to the Secretary of Defense have been redelegated to the Director, DSAA. The Director, DSAA reports to the Secretary of Defense and Deputy Secretary of Defense through the Assistant Secretary of Defense for International Security Affairs and the Under Secretary of Defense for Policy.

DSAA is primarily a policy and oversight organization; the Military Departments actually implement programs. DSAA functions include the following: coordinate formulation and execution of security assistance within DoD, including the development of DoD regulations governing security assistance programs and the DoD position on security assistance budget and legislative matters; monitor major systems sale competitions and technology transfer issues; manage all budgetary and financial arrangements associated with FMS on a cash or FMF basis; manage the IMET program; maintain the FMS and IMET data bases; implement drawdown authority transfers to foreign countries from DoD stock and transfers of excess defense articles; serve as DoD focal point for liaison with other Executive Branch agencies, Congress, and U.S. industry on security assistance matters; and supervise the organization, training, administrative support and staffing of DoD elements in foreign countries responsible for managing security assistance programs.

Accomplishing DSAA's management responsibilities with notable effectiveness would not be possible without clearly focused centralized program management supported by the decentralized logistics and services organizations of DoD. Security Assistance is multi-functional, requiring extensive interdepartmental, interagency and intradepartmental coordination and management outside of the Security Assistance management structure. DSAA

provides the central focus, working directly with Congress, Office of Management and Budget (OMB), Department of State, Department of Treasury, National Security Council and other Executive Agencies. This central management is supported by decentralized operational activities. The Military Departments' program offices provide a subordinate structure to manage the interface of logistics, training, transportation, technology and program management of Service-unique weapons systems and organizational performance. These program offices work directly with the over 100 FMS purchasers and with their counterpart field activities to structure their Service's assistance program within DSAA guidance.

IMPLEMENTATION OF U.S. SECURITY ASSISTANCE POLICY AND OBJECTIVES

An understanding of the functions performed by DSAA is best conveyed by examining DSAA's role in the U.S. Government. The Agency is uniquely positioned to translate the goals of national security policy into the realities of defense logistical, services, procurement and financial systems and weapons systems production lines. The ability to link the broad goals of national security policy to concrete plans coordinated through these disparate realities can only be done centrally.

DSAA continues to play a central role in support of Administration policies and Congressionally legislated actions for international security assistance. Examples include the Operation Desert Shield/Desert Storm and Operation Provide Comfort efforts. In critical international situations, past and ongoing international security relationships have proven to be essential in providing the foundation for implementation of U.S. foreign policy and international security.

During FY 1992, DSAA continued to work with our allies from the Desert Shield/Desert Storm operation and others to help them enhance their defense capabilities. Approximately $3 billion of foreign military sales were undertaken with Egypt, Saudi Arabia, Kuwait, United Arab Emirates, and Turkey, which will lead to considerable enhancement of the air and land forces capabilities of these countries. In the case of Turkey, their major purchase of additional F-16 C/D aircraft is being facilitated financially by the implementation by DSAA of a third party contributory account whereby Desert Shield/Desert Storm allies will make available more than $2 billion dollars which when combined with Turkish national funds will help to finance this purchase as well as anticipated follow-on buys.

In FY 1992, the Foreign Military Financing and International Military Education and Training (IMET) Program appropriations were significantly reduced from FY 1991 funding. This required significant restructuring of the security assistance grant programs and very close focus on the utility of our funding allocations. Nevertheless, we have distributed the shortfalls as equitably as possible to maintain viable security assistance relationships. In the case of IMET, we have expanded training assistance to include ten former communist block nations including Russia and the Ukraine from the former Soviet Union. These initial programs open up our military-to-military relations and will form a solid basis for the evolving security assistance relationships which are determined to be in our best interests.

During FY 1992, DSAA initiated and conducted what will be a continuing program of in-depth country financial reviews. These reviews take a comprehensive look at the financial status of a country's Foreign Military Sales cases, with a view towards identifying funds (U.S. Security Assistance Financing or the country's national funds) which could be freed up and reallocated to other uses. The FY 1992 reviews for African, Caribbean nations, and Korea identified close to $100 million for reallocation.

Also during FY 1992, the newly designated Foreign Military Loan Liquidating Account (FMLLA) disbursed $541 million of additional loan funds on behalf of foreign purchasers and $125 million in guaranty payments on defaulted loans. During the same period, it collected $1,407 million in principal, interest and late charges on all receivables, of which the fund returned $652 million to the Treasury Miscellaneous Receipts Account and 'paid' $647 million to the Federal Financing Bank (FFB). The fund recognized $275 million in accrued interest and penalty revenue.

DSAA'S EVOLVING INTERNATIONAL SECURITY ASSISTANCE ROLE

An extension of the DSAA role was the stimulation and building of international and domestic consensus for international security issues. DSAA has guided sensitive negotiations in support of the Japanese FSX fighter program to protect U.S. technology advantages, while assisting the Japanese in acquiring a mainline air defense system. This should strengthen the defense and economic bonds between our countries. DSAA oversight of negotiations during the formulation of the Korean Fighter Program was instrumental in protecting U.S. economic interests, while meeting the Korean Defense Forces needs, culminating in the FY 1992 F-16 aircraft coproduction sale valued at more than $2.1 billion. Similar benefits were associated with the F/A-18 aircraft sale to Finland.

In addition, DSAA has provided essential leadership in maintaining the bridge between foreign security assistance requirements and maintenance of U.S. production capability. The continued long-term operation of numerous production and rebuild lines for major items of defense equipment are heavily impacted by, or dependent on, continued international security agreements. Some examples are:

* M1A2 and M60 Tanks
* 2 1/2-ton Trucks
* HAWK Missiles
* HARPOON Missiles
* MARK 46 Torpedoes
* Patriot Missiles
* AH-1 Helicopters
* UH-1 Helicopters
* UH-60 Helicopters
* F-15 Fighters
* F-16 Fighters
* F-18 Fighters
* MLRS Rocket System

These supplements to the production base tangibly reduce the U.S. taxpayers' cost of maintaining the defense production base, while providing economic benefits to the U.S. work force and local communities where production lines operate.

SPECIFIC DSAA FUNCTIONS

DSAA is involved in numerous managerial and administrative functions relative to implementing the Security Assistance Programs. Highlights follow:

* Develop the Congressional Presentation Document (including the extensive classified annex for reprogramming), to include the consolidated operational assessment of countries needs for equipment, training, support, financing and technology. DSAA provides central management, since the nine implementing agencies cannot individually consolidate or prioritize sales and grant requirements or reconcile these requirements to country financial resources. Examples are: Priority of distribution of excess defense equipment among various purchasers and priority of delivery of weapons systems, such as: F-16 fighter; F-18 fighter; Multiple Launch Rocket System (MLRS); and AH-64 helicopter.

* Collect and report security assistance plans and performance under statutory requirements for the Congressional Presentation Document, Congressional security assistance surveys, Congressional Reports on commercial and military exports, and reports on FMS price and availability.

* Develop, defend and manage requirements and resources for the over 60 countries which receive appropriated loan and grant funds assistance. Priority of appropriated fund allocations are coordinated by DSAA with other DoD offices, State and OMB throughout the programming and budgeting cycle. Execution of the program is managed singularly by DSAA. Examples are: Priority of allocation of International Military Education and Training (IMET) and Foreign Military Financing (FMF) funding among countries such as Philippines, Portugal, Turkey, and Central America.

* Develop, present and coordinate transfers of defense articles under Sections 506(a)(2) of the Foreign Assistance Act for Colombia, Mexico, and Pakistan.

* Negotiate, coordinate and provide representation with Department of State, Commerce, Treasury, OMB and Congress on political, program, and financial issues involving foreign assistance. Issues are as various as: (1) rescheduling and forgiveness of FMF debts for approved countries; (2) coordinating Southern Regional Amendment transfers; (3) negotiating terms and technology of weapon systems sales; (4) coordinating international narcotics control assistance; and (5) control of country ceilings for Taiwan, Greece, and Turkey.

* Program, budget, and execute: the multi-billion dollar annual Foreign Military Financing Program (including billing and collection for the $22 billion of repayable principal and interest); the $43 million annual International Military Education and Training (IMET) Program; the $9 billion dollar Foreign Military Loan Liquidating Account; the $1.07 billion Special Defense Acquisition Fund; the multi-billion Foreign Military Sales Trust Fund; the $300 million annual administrative fee budget; and other FMS surcharge accounts.

* Approve and financially execute commercial contracts totaling over $1.1 billion annually under the Foreign Military Financing Program for ten Congressionally authorized countries.

* Approve, coordinate, and notify the proper authorities of sales and transfers that are subject to Presidential, Department of State, and Congressional approval.

* Coordinate, prioritize and approve procurement programs within the Special Defense Acquisition Fund for missiles, UH-1H Helicopter Refurbishment, ammunition, and vehicles to reduce the diversion of DoD equipment.

* Staff and care for the worldwide Security Assistance Organizations in over 70 countries, providing manpower, funding, and policy.

* Standardize DoD Security Assistance Policy and Performance in multi-functional areas, such as: sales preparation, presentation, approval and performance; logistics; financial; training; technology; leases; and information reporting.

SALES, REVENUE, AND COST MANAGEMENT

Fiscal years 1991 and 1992 Foreign Military Sales were among the highest levels of activity ever experienced in security assistance, totaling over $39 billion, which is equivalent to twenty percent of all currently active sales cases. World-wide manpower resources for administration of the sales program have decreased eight percent.

Through more disciplined management of administration resources, DSAA has improved the matching of costs to revenues. Since 1988, the cash position of the sub-accounts that finance the administration of the Security Assistance Program has improved by over $300 million, with a net balance at the end of FY 1992 totaling nearly $400 million.

COMMERCIAL FUNCTIONS, REVOLVING FUNDS, AND TRUST FUNDS REPORTED

DSAA was established as a separate agency of the DoD to administer the military assistance component of the nation's security assistance programs. In fulfilling this mission, DSAA has managerial and administrative responsibility for: the Foreign Military Sales (FMS) Trust Fund; the Foreign Military Financing Program Account; the Foreign Military Loan Liquidating Account; the Foreign Military Financing Direct Loan Financing Account; the Special Defense Acquisition Fund (SDAF); and the Guaranty Reserve Fund (GRF).

FOREIGN MILITARY SALES (FMS) TRUST FUND. The FMS Trust Fund, Account 8242, was established as a means of facilitating the purchases of U.S. defense articles and services by foreign countries, as authorized in the Arms Export Control Act (AECA). The Trust Fund provides a vehicle through which the United States Government processes foreign country funds required for FMS case payments to U.S. contractors for new procurement, and to Department of Defense (DoD) components for sales from DoD stocks.

SPECIAL DEFENSE ACQUISITION FUND (SDAF). The SDAF, Account 4116, was authorized by the International Security and Development Cooperation Act of 1981. The SDAF is a revolving fund under the control of the DoD which finances the acquisition of defense articles and services in anticipation of their transfer (pursuant to the AECA), to eligible foreign nations and international organizations. The SDAF account is replenished from the proceeds of sales of items purchased by the account.

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (FMFPA). This account is not being reported, however, the following narrative is provided to reflect its relationship to the Foreign Military Financing Direct Loan Financing Account 4122. The FMFPA, Account 1085, was established by the Credit Reform Act as an appropriated fund account to provide the funding necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the Foreign Military Financing Direct Loan Financing Account (Account 4122) to make the required loan disbursements for approved FMS or commercial sales.

GUARANTY RESERVE FUND (GRF). The GRF, Account 4121, was established by Congress to provide a guaranty against country loan arrearages or defaults on the repayment of loans due to the Federal Financing Bank (FFB) and commercial banks. The nature and purpose of this account was changed on October 1, 1991, by implementation of the Credit Reform Act. It has now been replaced by the Foreign Military Loan Liquidating Account.

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (FMLLA). The FMLLA, Account 4121, was established under the Credit Reform Act. Consolidated into this symbol were all assets, liabilities, and equities for loan balances previously recorded in accounts 11*1082, 11M1083, 11M1084, and 11X4121. This account disburses funds previously made available and accounted under the previously mentioned accounts.

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA). The FMFDLFA, Account 4122, was established under the Credit Reform Act. The establishment of this account provides the vehicle for making disbursement of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans. The account uses permanent borrowing authority from the Treasury, combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury.

ACCOUNTING RESPONSIBILITIES FOR THE FUNDS

The Defense Finance and Accounting Service - Denver, Security Assistance Accounting Center (SAAC), provides centralized accounting services for the FMS Trust Fund and the SDAF activity. Accounting for the FMFLLA, FMFPA, and FMFDLFA and the executive agency portion of the SDAF is performed by DSAA. All accounts use approved DoD general ledger accounts and automated accounting systems in accordance with Title 2. DSAA's accounting

responsibilities are scheduled to be transferred to the Defense Finance and Accounting Service during FY 1993.

KEY ACCOUNTING CHANGES

During FY 1992, several key accounting changes were implemented. Although these changes were not completely separate and discrete from each other, they fall into three general categories: Credit Reform; SDAF Accounting; and SDAF Inventory.

CREDIT REFORM. During FY 1992, new accounting procedures prescribed by the Credit Reform Act of 1990 were implemented. These changes included the transfer of $1,900 million of obligated and unobligated balances and $8,897 million of loans and accounts receivable balances from the Foreign Military Financing Grants Account (11X1082) to the Foreign Military Loan Liquidating Account (11*4121). In addition, two new accounts, the Foreign Military Financing Program Account (11X1085) and the Foreign Military Financing Direct Loan Financing Account (11*4122), were established.

SDAF ACCOUNTING. Beginning with FY 1992, SDAF implemented within its existing accrual accounting process, an accounting procedure that more closely matches the actual operation of the fund. This procedure, known as the 'completed contract method of accounting,' recognizes that a single procurement contract represents a discrete aggregation of effort which best embodies the recordable activity of the fund, and that final costs on a procurement contract cannot be determined until the contract is legally complete and closed. Upon contract closure, all expenses are matched with the appropriate revenues.

SDAF INVENTORY. The SDAF inventory valuation was based on actual amounts reported by the Military Departments since these assets are controlled and managed by these agencies. This method of reporting replaced the previous method, which included both the constructive work-in-process and inventory held by the Military Departments.

"DSAA FINANCIAL PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, 4121

Title: OPERATING RESULTS

DOLLARS IN THOUSANDS ($ x 000)

FY 1992 ACTIVITY	TOTAL
Appropriations or Revenues	$80,644
Less: Expenses	387,090
Operating Results	-$306,446

FY 1991 ACTIVITY	TOTAL
Appropriations or Revenues	$115,923
Less: Expenses	7,677,116
Operating Results	-$7,561,193

Narrative:

This account was restructured during FY 1992. Comparisons with FY 1991 have no meaning

"DSAA FINANCIAL PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, 4121

Title: FINANCIAL OBLIGATIONS

DOLLARS IN MILLIONS (S X 000.000)

FY 1992 END OF YEAR POSITION	TOTAL
Assets	$10,920.4
Liabilities	4,413.2
Equity	$6,507 2
Assets to Liabilities Ratio	2.5 : 1

FY 1991 END OF YEAR POSITION	TOTAL
Assets	$734 0
Liabilities	.0
Equity	$734 0
Assets to Liabilities Ratio	N/A

Narrative:

This account was restructured after FY 1991 year end close-out and reporting. Therefore, comparison of the two years is impractical. This measure indicates that the fund is financially sound.

"DSAA FINANCIAL PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, 4121

Title: Financial Condition - Asset and Liability Account Balances and Ratio

DOLLARS IN MILLIONS ($ X 000 000)

FY 1992 YEAR END POSITION	TOTAL
ASSETS	
Cash / Fund Balance with Treasury	$1,331 4
Inventory	0.0
Advances and Prepayments	0 0
Accounts Receivable, Non-Federal	369 3
Loans Receivable	9,219.7
TOTAL ASSETS	$10,920 4
LIABILITIES	
Accounts Payable, Non-Federal	$.0
Other Liabilites	4,413 2
Accounts Payable, Federal	.0
TOTAL LIABILITIES	$4,413 2
CURRENT RATIO	2 5 : 1

FY 1991 YEAR END POSITION	TOTAL
ASSETS	
Cash / Fund Balance with Treasury	$34 1
Inventory	0 0
Advances and Prepayments	0.0
Accounts Receivable, Non-Federal	175.4
Loans Receivable	524.5
TOTAL ASSETS	$734 0
LIABILITIES	
Accounts Payable, Non-Federal	$.0
Other Liabilites	.0
Accounts Payable, Federal	.0
TOTAL LIABILITIES	$.0
CURRENT RATIO	N/A

Narrative:

This account was restructured after the FY 1991 year-end position was reported. Therefore, comparison of the two years is impractical. This ratio indicates that the fund is sound.

"DSAA FINANCIAL PERFORMANCE INDICATORS PART I"

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT, 4121

Title REIMBURSEMENT OF DoD FOR ARTICLES AND SERVICES

DOLLARS IN THOUSANDS ($ X 000)

FY 1992 ACTIVITY, END OF YEAR POSITION		TOTAL
11X4121	Principal and interest collections on defaulted Federal Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans -	100,818 0
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans -	381,091 0
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Federal Financing Bank and Commercial Guaranteed Loans -	277,884 5
11X4121	Principal on Federal Financing Bank loans - transferred to 20X4521 097	255,697 2
11X4121	Interest on Federal Financing Bank loans - transferred to 20X4521	391,512.2
TOTAL COLLECTIONS		1,407,002.9

FY 1991 ACTIVITY, END OF YEAR POSITION	TOTAL
COLLECTIONS	$173,670 6

Narrative:

This account was restructured at the end of FY 1991 Therefore, a comparison between years is somewhat impractical However, the FY 1991 total is comparable to the 11X4121 value for FY 1992

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

NOTES TO THE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies.

A. REPORTING ENTITY.

DEFENSE SECURITY ASSISTANCE AGENCY (DSAA). The DSAA was established as a separate agency of the Department of Defense (DoD) to administer the nation's Security Assistance Programs. In fulfilling this mission, DSAA has administrative responsibility for the Foreign Military Sales (FMS) Trust Fund, the Special Defense Acquisition Fund (SDAF), the Foreign Military Loan Liquidating Account (FMLLA), and the Foreign Military Financing Direct Loan Financing Account (FMFDLFA). Also, there are other financial accounts that comprise the remainder of the military components of Security Assistance.

FMS TRUST FUND, TREASURY SYMBOL CODE 8242. The FMS Trust Fund was established as a means of facilitating the purchases of U.S. defense articles and services by foreign countries, as authorized in the Arms Export Control Act (AECA). The Trust Fund provides a vehicle through which the United States Government processes foreign country funds required for FMS case payments to U.S. contractors for new procurement, and to components for sales from DoD stocks.

SPECIAL DEFENSE ACQUISITION FUND (SDAF), TREASURY SYMBOL CODE 4116. The SDAF was authorized by the International Security and Development Cooperation Act of 1981. The SDAF is to be used as a revolving fund under the control of the DoD to finance the acquisition of defense articles and services in anticipation of their transfer (pursuant to the AECA, the Foreign Assistance Act (FAA), or other legislation) to eligible foreign nations and international organizations. The SDAF account is reimbursed through sales and transfers of items carried in the account.

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (FMFPA), TREASURY SYMBOL CODE 1085. The Credit Reform Act establishment of this appropriated fund account is to provide the funding necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the Foreign Military Financing Direct Loan Financing Account (4122) to make required loan disbursements for approved FMS or commercial sales. For the purpose of this report, FMFPA accounting transactions, to the extent they are relevant to the 4122 account, are included in the data reported for the 4122 account.

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (FMLLA), TREASURY SYMBOL CODE 4121. The Credit Reform Act consolidated into this symbol: all assets, liabilities, and equities for loan balances previously recorded in accounts 11*1082, 11M1083, 11M1084, and 11X4121. This account disburses funds previously made available and accounted via the above referenced accounts.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA), TREASURY SYMBOL CODE 4122. The Credit Reform Act resulted in the establishment of this account to provide the vehicle for making disbursements of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans. The account uses permanent borrowing authority from the Treasury combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury.

B. ACCOUNTING STANDARDS.

These financial statements are presented in accordance with the DoD Accounting Manual, which prescribes the accrual basis as the basis of accounting to be used by DoD Components.

C. BUDGETARY ACCOUNTING PRACTICES.

The FMS program operates using contract authority. Contract authority is statutory authority to incur obligations prior to an appropriation (or the realization of revenues) for the future payment of such obligations. For the FMS program, 82 Statute 1323 (22 U.S.C. 2762) establishes its permanent indefinite authority. The total value of implemented cases is the only limiting factor in the total amount of obligations that can be incurred.

The SDAF is a revolving budget account. Congress enacts an annual program authority amount that is available for obligation for a three year period. Money to finance the approved annual program comes from sales and transfers of items purchased by the fund.

D. BASIS OF ACCOUNTING.

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

E. REVENUES AND OTHER FINANCING SOURCES.

While the Congress appropriates some funds to finance portions of the Security Assistance Program via the Foreign Military Financing appropriation, the majority of sales are funded from customers' funds.

In accordance with the DoD Acting Chief Financial Officer's memorandum of August 31, 1992, the FMS Trust Fund does not recognize nor report revenue. Funds collected into the Trust Fund are in advance of the performance of services or sale of goods. Since

various DoD components actually perform the services and sell the goods, recognition of revenue and expense occurs in the financial statements of the applicable DoD components. The financing source for both FMLLA and FMFDLFA are Congressional appropriations.

F. ACCOUNTING FOR INTRA-GOVERNMENTAL ACTIVITIES.

The Security Assistance Program, as an activity of DoD, interacts with, and is dependent upon, other financial activities of the government as a whole. In FY 1992, the Department or its Components sold assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Customers are required to make payments, in advance, to the FMS Trust Fund. The Trust Fund then reimburses, directly or indirectly, the Military Services for the cost of administering and executing the sales program. The indirect reimbursement is in the form of allowing the Military Services to cite the Trust Fund on appropriate budgetary and expenditure documents. During fiscal year 1992, the Trust Fund reimbursed the Military Services in the amount of $12,439,844 thousand for assets and services sold under the FMS Program.

G. FUNDS WITH U.S. TREASURY AND CASH.

There are several banking relationships involved in administering, and fiduciary responsibilities associated with, the accounting for security assistance funds. Some funds are held in treasury accounts, others are with the Federal Reserve Bank, and still others are with commercial banks. As of September 30, 1992, the Security Assistance Program has a balance of $8,775,587 thousand in the U.S. Treasury, and $6,676,847 thousand on deposit with the Federal Reserve Bank and other commercial banks.

H. FOREIGN CURRENCY.

All payments and collections involved in the Security Assistance Program are accounted for in U.S. Dollars.

I. ACCOUNTS RECEIVABLE.

As presented in the consolidated statement of financial position, accounts receivable includes accounts, claims, and refunds receivable. The Security Assistance Program, as of September 30, 1992, has a net accounts receivable as follows:

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

Dollars in Thousands ($ X 000)

ACCOUNTS RECEIVABLE	AMOUNT	TOTAL NET
Government	$ 25,932	$ 25,932
Public	8,971,509	8,971,509
Refunds	0	0
Claims	0	0
Total	$8,997,441	$8,997,441

The FMS Trust Fund's $8,602,243 thousand portion of the public receivable is based upon its requirement to bill in advance of providing goods and services as established in the Arms Export Control Act of 1976. The amount billed to customers on DD Form 645, adjusted for both special bill arrangements and individual cases that have collections in excess of financial requirements, is the basis for the trust fund's accounts receivable value.

J. LOANS RECEIVABLE.

Loans are accounted for as receivable after funds have been disbursed. The amount of loans obligated but not disbursed are disclosed in Note 6.

K. INVENTORIES.

The FMS Trust Fund has no inventory. Items are either delivered directly to the FMS customer from the contractor, or in the case of FMS sales from U.S. stocks, they are retained as inventory in the procurement or stock fund accounts of the military departments until transferred to the ownership of the foreign customer.

Inventory in SDAF is controlled and managed by the various military departments. The SDAF inventory value is acquisition cost as reported to the DSAA by the military department. See Note 5 for specific information.

L. INVESTMENTS IN U.S. GOVERNMENT SECURITIES.

The Security Assistance Program does not invest in U.S. government securities.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

M. PROPERTY AND EQUIPMENT.

The funds and accounts that make up the Security Assistance Program have no property or equipment values. For the FMS trust fund, this policy was established by the DoD Acting Chief Financial Officer memorandum of August 31, 1992.

N. PREPAID AND DEFERRED CHARGES.

The prepayment for SDAF represents payments made to contractors where inventory has not yet been delivered. All payments are posted as a pre-paid asset. FMS trust fund 'progress payments to contractors' are accounted by for using the constructive delivery method and, accordingly, are identified as an expenditure at the time of payment.

O. BORROWINGS PAYABLE TO TREASURY.

The FMLLA portion of the Security Assistance Program has borrowed funds from the Treasury for disbursement under a valid loan program. Detailed information concerning borrowing is identified in Note 16.

P. CONTINGENCIES.

The Security Assistance Program is obligated for goods and services, which have been ordered but not yet received (i.e., undelivered orders) as of September 30, 1992, in the amount of $23,083,293 thousand. Within that total, $22,676,383 thousand is attributable to the FMS trust fund and $406,910 thousand is attributable to SDAF.

Neither the FMS Trust Fund nor the SDAF is a party to any administrative proceedings, legal actions, or any other types of claims.

Q. ACCRUED LEAVE.

No fund included in these statements records any accrual of unpaid leave.

R. EQUITY.

The FMS Trust Fund has no net position. In his memorandum of August 31, 1992, the DoD Acting Chief Financial Officer stated that the FMS Trust Fund is a trust fund requiring DoD to act in a fiduciary capacity on behalf of its customers. All revenue, expense, and operational reporting for the program is the responsibility of the Military Departments. Accordingly, the FMS Trust Fund accounts only for dollars in and dollars out on a cash basis and has no net position.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

Equity in SDAF is not to exceed the capitalized amount of $1,070,000 thousand. Any excess resulting from operation of the fund is transferred to the miscellaneous receipts account.

The FMFDLFA equity position consists of unexpended appropriations. The FMLLA and SDAF equity positions consist of invested capital. All equity information is contained in Note 16.

S. COMPARATIVE DATA.

Comparative data for the prior year has not been presented because this is the first year for which financial statements are prepared using the Office of Management and Budget format and would require a complete recasting of prior year's data. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the Department's reporting activities.

Note 2. Fund Balances with Treasury, Cash and Foreign Currency.

Dollars in Thousands ($ X 000)

A. Fund Balances with Treasury.

(1)	Trust Funds	$6,516,948
(2)	Revolving Funds	2,208,491
(3)	Appropriated Funds	50,148
(4)	Other Fund Types	
	Total	$8,775,587

B. Cash.

(1)	Restricted Cash	$7,000
(2)	Unrestricted Cash	6,669,847
	Total	$6,676,847

C. Foreign Currency. $0

D. Other Information.

$1,324,359 thousand of A(2) is attributable to 11X4121. Account 11X4121 is not a revolving fund, but it is a liquidating fund. Treasury instructed DSAA to classify 11X4121 as a revolving fund.

The $50,148 thousand on A(3) is included in the 1121085 account and is applicable to 11X4122. DSAA was instructed by Treasury to classify these funds as appropriated.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

The value stated in B(2) is for the FMS Trust Fund. There are several banking relationships involved in administering, and fiduciary responsibility, of security assistance funds. Some funds are held in treasury accounts, others are held by the Federal Reserve Bank, and still others are held by commercial banks. Cash balances are in agreement with the September 30, 1992, Treasury, Federal Reserve Bank, and commercial bank balances.

Note 3. Other Monetary Assets.

The Security Assistance Program has no other monetary assets.

Note 4. Investments. NONE

Note 5. Inventories.

A. Inventory Categories.

Dollars in Thousands ($ X 000)

Inventory Categories	Inventory Amount	Allowance for Losses	Inventory, Net	Valuation Method
(1) Inventory Held for Sale	$179,387	$ 0	$179,387	e
(2) Inventory Not Held for Sale				
(a) Material and Goods for Own Use	0	0	0	
(b) Stockpile Materials	0	0	0	
(c) Other	0	0	0	
Subtotal	0	0	0	
Total	$179,387	$ 0	$179,387	

B. Restrictions on Inventory Use, Sale, or Disposition.

SDAF inventory must be used for transfers in security assistance programs unless approved by SECDEF for sale to Military Departments.

C. Other Information.

All inventory belongs to SDAF. The valuation, as reported by the military departments, is the acquisition cost of items on hand at installation level not identified to a specific sale to a foreign customer.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

Note 6. Loans and Loan Guarantees, Non Federal.

A. The entity operates the following loan and/or loan guarantee programs.

(1)	Pre-1992 Direct Loan Obligations -	DSAA Direct Loans
(2)	Pre-1992 Direct Loan Obligations -	DSAA Rescheduled Loans (Direct Portion)
(3)	Pre-1992 Direct Loan Obligations -	DSAA Rescheduled Loans (Guaranty Portion)
(4)	Pre-1992 Direct Loan Obligations -	FFB Loans
(5)	Pre-1992 Direct Loan Obligations -	Subrogated Defaulted FFB Loans
(6)	Pre-1992 Direct Loan Obligations -	Subrogated Defaulted Refinanced Loans
(7)	Pre-1992 Loan Guarantees -	Refinanced Loans
(8)	Pre-1992 Loan Guarantees -	Commercial Bank Loans

B. Direct Loans Obligated Prior to FY 1992.

Dollars in Thousands ($ X 000)

	LOAN PROGRAMS	LOAN RECEIVABLE, GROSS	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLE LOANS	LOAN RECEIVABLE, NET
(1)	See Para A (1)	$4,123,549	$ 0	$4,123,549
(2)	See Para A (2)	215,594	0	215,594
(3)	See Para A (3)	497,522	0	497,522
(4)	See Para A (4)	4,344,273	0	4,344,273
(5)	See Para A (5)	38,800	0	38,800
(6)	See Para A (6)	0	0	0
	TOTAL	$9,219,738	$ 0	$9,219,738

C. Direct Loans Obligated after FY 1991. NONE

D. Defaults on Pre-1992 Loan Guarantees. NONE

NOTE. FFB loans are considered Direct Loans; however, $38,800 thousand of loan principal was defaulted to FFB by various countries and DSAA paid FFB the defaulted principal.

E. Defaults on Post-1991 Loan Guarantees. NONE

F. Liability for Loan Guarantees. NONE

NOTE. DSAA expects to collect 100% of its defaulted guaranty loans.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

G. Subsidy Expense for Post-1991 Loans and Loan Guarantees.

(1) Current Year's Direct Loans.

Dollars in Thousands ($ X 000)

	Loan Programs	Interest Differential	Defaults	Fees	Other	Total
(a)	FY 1992 - FMFDLFA	$25,985	$24,117			$50,102

(2) Prior Year's Direct Loans. NONE

(3) Total Direct Loan Subsidy Expenses.

Dollars in Thousands ($ X 000)

	Loan Programs	Total
(a)	FY 1992 - FMFDLFA	$50,102

(4) Current Year's Loan Guarantees. NONE

(5) Prior Year's Loan Guarantees. NONE

(6) Total Loan Guarantees Subsidy Expense. NONE

H. Administrative Expense. NONE

I. Other Information.

(1) Other Disclosures. Of the $9.2 billion of Loans Receivable reported in Note 6.B., a portion is currently in default and is primarily attributable to a few foreign borrowers that, for the foreseeable future, lack the ability to repay. These borrowers account for 98 percent of principal and interest defaults in excess of three years and 99 percent of defaults in excess of one year. The debts related to these foreign govenments have and will continue to accrue interest (Accounts Receivable) until such time as they are repaid, officially rescheduled, or legislation is enacted to forgive the debt. A table of pertinent information related to the status of Loans and Accounts Receivable follows.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

Dollars in Thousands ($ X 000)

Description	Loans Receivable (Principal)	Accounts Receivable (Interest)
Total Loans / Accounts Receivable	$9,219,738.5	$369,265.9
Problem Borrowers	435,323.4	255,086.3
Other Borrowers	8,784,415.1	114,179.6
Total Payments in Default	$112,583.3	$253,616.5
Problem Borrowers	108,184.7	246,359.1
Other Borrowers	4,398.6	7,257.4
Defaults - Three Years or More	$12,120.4	$89,041.6
Problem Borrowers	12,120.4	87,488.8
Other Borrowers	0.0	1,552.8

(2) Accounting Changes. During FY 1992, new accounting procedures prescribed by the Credit Reform Act of 1990 were implemented. These changes included the transfer of $1,900 million of obligated and unobligated balances and $8,897 million of loans and accounts receivable from the Foreign Military Financing Grant Account (11*1082) to the Foreign Military Loan Liquidating Account (11X4121). In addition, two new accounts, the Foreign Military Financing Program Account (11*1085) and the Foreign Military Financing Direct Loan Financing Account (11X4122) were established.

(3) Guaranteed Loans. Following is the status of DSAA Guaranteed Loans.

Dollars in Thousands ($ X 000)

	Description	Amount
*	Face Value of Guaranteed Refinanced Loans	$8,173,192
*	DSAA Guaranteed Portion of Refinanced Loans (90% of Face Value)	7,355,873
*	Portion of Refinanced Loans Secured by Country Deposits in the Financing Bank (10% Face Value)	817,319
**	Face Value of Guaranteed Commercial Bank Loans	40,000
**	DSAA Guaranteed Portion of Commercial Bank Loans (100% Face Value)	40,000

(4) Undisbursed Direct Loans. The undisbursed balance available for new Direct Loans Receivable is $1,324,359,027.

Note 7. Property Held For Sale. NONE

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

Note 8. Other Financial Resources -- Non-Federal. NONE

Note 9. Property, Plant, and Equipment, Net. NONE

Note 10. Other Non-Financial Resources. NONE

Note 11. Leases. NONE

Note 12. Debt.

Dollars in Thousands ($ X 000)

	Description	Beginning Balance	New Borrowing	Repayments	Ending Balance	Refinance
A.	Gross Fed Debt: NONE	$ 0	$ 0	$ 0	$ 0	$ 0
B	Intergovernmental Debt:	0	0	0	0	0
	(1) Borrowing from the Treasury	0	0	0	0	0
	(2) Borrowing from Federal Financing Bank	$4,599,970	0	$255,697	$4,344,273	0
	(3) Borrowing from Other Federal Agencies	0	0	0	0	0
	Total Intergovernmental Debt	$4,599,970		$255,697	$4,344,273	0
C.	Total Debt	$4,599,970	$0	$255,697	$4,344,273	$0

Note 13. Other Funded Liabilities.

Dollars in Thousands ($ X 000)

A.	Other Funded Liabilities	Non-Federal	Federal	Total
(1)	FMS Trust Fund	$21,608,001	$ 0	$21,608,001
(2)	SDAF	7,360	0	7,360
(3)	FMLLA	0	68,937	68,937
(4)	FMFDLFA -- Estimated liability from borrowings to be made	0	294,898	294,898
(5)	FMFDLFA -- Liability for subsidy related to undisbursed loans	0	50,102	50,102
	Total	$21,615,361	$413,937	$22,029,298

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

B. Other Information.

(1) The FMS Trust Fund value represents the net amount billed to and unpaid by the foreign customer. This practice is based upon the Arms Export Control Act of 1976 requirement to bill in advance of performance of services and issuance of goods. Amount is value expected to be expended by U.S. government on behalf of foreign customer.

(2) The SDAF value represents excess collections from customers over disbursements.

(3) The FMFDLFA value represents future repayments of borrowings from Treasury for credit reform loans.

Note 14. Pensions and Other Actuarial Liabilities. NONE

Note 15. Other Unfunded Liabilities. NONE

Note 16. Fund Balances.

Dollars in Thousands ($ X 000)

Description	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations	$1,324,359	$ 0	$ 0	$1,324,359
B. Invested Capital	6,252,794	0	46	6,252,840
C. Cumulative Results of Operations	0	0	0	0
D. Donations	0	0	0	0
E. Transfers	0	0	0	0
F. Total	$7,577,153	$ 0	$ 46	$7,577,199

G. Other Information.

(1) $1,070,000 thousand of B. is attributable to SDAF. Any excess generated from the operation of the fund is returned to the Treasury miscellaneous receipts account. In FY 1992, $1,864 thousand was returned to Treasury.

(2) FMLLA is not considered a revolving fund. It is a liquidating fund. It is being classified as a revolving fund since the Treasury is classifying it as a revolving fund for the SF 220 reports. All of A. and $5,182,794 thousand of B. are attributable to FMLLA.

FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY

Note 17. Future Funding Requirements. NONE

Note 18. Taxes. NONE

Note 19. Other Revenue and Financing Sources. NONE

Note 20. Program and Operating Expenses.

All expenses ($50,102 thousand) are other subsidy expenses incurred by the FMFDLFA.

Note 21. Other Expenses. NONE

Note 22. Extraordinary Items and Prior Period Adjustments. NONE

Note 23. Transfers (and Donations). NONE

Note 24. Intrafund Eliminations. NONE

Note 25. Other Disclosures. NONE

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency 11X4121
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1992
(In Thousands)

ASSETS	1992
1. Financial Resources:	
a Fund Balances with Treasury (Note 2)	$ 1,324,359
b. Cash (Note 2)	7,000
c. Foreign Currency (Note 2)	
d. Other Monetary Assets (Note 3)	
e. Investments, Non-Federal (Note 4)	
f. Accounts Receivable, Net - Non-Federal	369,266
g. Inventories Held for Sale, Net (Note 5)	
h. Loans Receivable, Net - Non-Federal (Note 6)	9,219,738
i. Advances and Prepayments, Non-Federal	
j. Property Held for Sale (Note 7)	
k. Other, Non-Federal (Note 8)	
l. Intragovernmental Items:	
(1) Accounts Receivable, Federal	
(2) Loans Receivable, Federal	
(3) Investments, Federal (Note 4)	
(4) Other, Federal	
m. Total Financial Resources	10,920,363
2. Non-Financial Resources:	
a. Resources Transferable to Treasury	
b. Inventories Not Held for Sale (Note 5)	
c. Property, Plant and Equipment, Net (Note 9)	
d. Other (Note 10)	
e. Total Non-Financial Resources	
3. Total Assets	$ 10,920,363

The accompanying notes are an integral part of these statements.

VI-9

LIABILITIES		1992
4. Funded Liabilities:		
a Accounts Payable, Non-Federal	$	
b. Accrued Interest Payable		
c Accrued Payroll and Benefits		
d Accrued Entitlement Benefits		
e Lease Liabilities (Note 11)		
f Debt (Note 12)		
g Guarantees Payable (Note 6)		
h. Other Funded Liabilities, Non-Federal (Note 13)		
i. Intragovernmental Liabilities		
(1) Accounts Payable, Federal		
(2) Debt (Note 12)		4,344,273
(3) Deferred Revenue		
(4) Other Funded Liabilities, Federal (Note 13)		68,937
j. Total Funded Liabilities		4,413,210
5. Unfunded Liabilities:		
a. Accrued Leave		
b. Lease Liabilities (Note 11)		
c. Pensions and Other Actuarial Liabilities (Note 14)		
d. Other Unfunded Liabilities (Note 15)		
e. Total Unfunded Liabilities		0
6. Total Liabilities	$	4,413,210
NET POSITION		
7. Fund Balances: (Note 16)		
a. Revolving Fund Balances	$	6,507,153
b. Trust Fund Balances		
c. Appropriated Fund Balances		
d. Total Fund Balances		6,507,153
8. Less Future Funding Requirements (Note 17)		
9. Net Position (Note 16)		6,507,153
10. Total Liabilities and Net Position	$	10,920,363

The accompanying notes are an integral part of these statements.

VI-10

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency 11X4121
STATEMENT OF OPERATIONS (AND CHANGES IN NET POSITION)
FOR THE PERIOD ENDED SEPTEMBER 30, 1992
(In Thousands)

REVENUES AND FINANCING SOURCES (See notes 1E and 1R)		1992
1. Appropriations Expensed	$	
2. Revenues from Sales of Goods and Services		
a. To the Public		
b. Intragovernmental		
3. Interest and Penalties, Non-Federal		732,620
4. Interest, Federal		
5. Taxes (Note 18)		
6. Other Revenues and Financing Sources(Note 19)		
7. Less: Taxes and Receipts Returned to the Treasury		(651,976)
8. Total Revenues and Financing Sources		80,644
EXPENSES		
9. Cost of Goods or Services Sold		
a. To the Public		
b. Intragovernmental		
10. Program or Operating Expenses (Note 20)		
11. Depreciation		
12. Bad Debts and Writeoffs		
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		387,090
b. Federal Securities		
c. Other		
14. Other Expenses (Note 21)		
15. Total Expenses		387,090
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments		(306,446)
17. Plus (Minus) Adjustments:		
a. Extraordinary Items (Note 22)		
b. Prior Period Adjustments (Note 22)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		(306,446)
19. Plus: Unfunded Expenses		
20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	$	(306,446)
21. Net Position, Beginning Balance	$	6,857,588
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		(306,446)
23. Plus (Minus) Equity Transfers		(43,989)
24. Net Position, Ending Balance	$	6,507,153

The accompanying notes are an integral part of these statements.

VI-11

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency 11X4121
STATEMENT OF CASH FLOWS (INDIRECT METHOD)
AS OF SEPTEMBER 30, 1992
(In Thousands)

		1992
Cash Flows from Operating Activities:		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$	(306,446)
Adjustments affecting Cash Flow:		
2. Appropriations Expensed		
3. Decrease (Increase) in Accounts Receivable		(48,616)
4. Decrease (Increase) in Loans Receivable		56,778
5. Decrease (Increase) in Other Assets		
6. Increase (Decrease) in Accounts Payable		(4,422)
7. Increase (Decrease) in Debt		
8. Increase (Decrease) in Other Liabilities		
9. Depreciation and Amortization		
10. Other Unfunded Expenses		
11. Other Adjustments		
12. Total Adjustments		3,740
13. Net Cash Provided (Used) by Operating Activities		(302,706)
Cash Flows from Non-Operating Activities:		
14. Proceeds from Sales of Investments		
15. Proceeds from Sales of Property, Plant, and Equipment		
16. Purchases of Investments		
17. Purchases of Property, Plant and Equipment		
18. Net Cash Provided (Used) by Non-Operating Activities		0

The accompanying notes are an integral part of these statements.

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES		1992
19. Appropriations (Current Warrants)	$	
20. Add:		
a. Restorations		
b. Transfers of Cash From Others		
21. Deduct:		
a. Withdrawals		43,989
b. Transfers of Cash To Others		
22. Net Appropriations		(43,989)
23. Borrowing from the Public		
24. Repayments on Loans		
25. Borrowing from the Treasury and the Federal Financing Bank		
26. Repayments on Loans from the Treasury and the Federal Financing Bank		(255,697)
27. Other Borrowings and Repayments		
28. Net Cash Provided (Used) by Financing Activities		(299,686)
29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities		(602,392)
30. Fund Balances with Treasury, Cash, and Foreign Currency, Beginning		1,933,751
31. Fund Balances with Treasury, Cash, and Foreign Currency, Ending	$	1,331,359

The accompanying notes are an integral part of these statements.

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency 11X4121
STATEMENT OF BUDGETED AND ACTUAL EXPENSES
FOR THE PERIOD ENDED SEPTEMBER 30, 1992
(In Thousands)

	BUDGET			ACTUAL
		Obligations		
Program Name(s)	Total Resources	Direct	Reimbursed	Expenses
11X4121	$ 755,682	$	$ 124,779	$ 387,090
Totals	$ 755,682	$ 0	124,779	$ 387,090

Budget Reconciliation

A. Total Expenses	$ 387,090
B. Add:	
(1) Capital Acquisitions	
(2) Loans Disbursed	627,129
(3) Other Expended Budget Authority	39,092
C. Less:	
(1) Depreciation and Amortization	
(2) Unfunded Annual Leave Expense	
(3) Other Unfunded Expenses	
D. Expended Appropriations	1,053,311
E. Less Reimbursements	767,566
F. Expended Appropriations, Direct	$ 285,745

The accompanying notes are an integral part of these statements.

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Part VI - Management Comments

Comptroller of the Department of Defense Comments

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

MAY 17 1993

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE OF THE DOD INSPECTOR GENERAL

SUBJECT: Draft Reports on Internal Controls and Compliance with Laws and Regulations for the Foreign Military Loan Liquidating Account Financial Statements for FY 1992 (Project No. 2FA-2012)

A DoDIG memorandum, dated May 14, 1993, forwarded the subject draft reports and requested comment on the facts presented therein.

This office has reviewed the draft reports and offers no objection to the material presented in the subject draft reports.

Mr. Oscar Covell is my staff contact for audited financial statements. He may be contacted at (703) 697-6149.

Alvin Tucker
Acting Chief Financial Officer

DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

24 MAY 1993

In reply refer to:
I-002163/93

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE OF THE DoD INSPECTOR GENERAL

SUBJECT: Revisions to DSAA's CFO Report for 1992

REFERENCES: (a) DoDIG Memorandum of May 6, 1993, Subject: Audit of the Foreign Military Loan Liquidating Account FY 1992 Financial Statements (Project No. 2FA-2012)
(b) DoD Deputy Comptroller (Management Systems) Memorandum of May 21, 1993, Same Subject as Ref. (a)
(c) DoDIG Memorandum of May 14, 1993, Subject: Draft Reports on Internal Controls and Compliance with Laws and Regulations for the Foreign Military Loan Liquidating Account Financial Statements for FY 1992 (Project No. 2FA-2012)

As you requested, enclosed are three copies of Change 1, dated March 93, and Change 2, dated May 93, to the DSAA FY 1992 Annual Financial Statement. The pages in the original document should be replaced using the enclosed pages. For your information, Change 1, Page ii indicates the distribution of all copies and changes.

Reference (b) incorporates DSAA's response to Reference (a). As agreed in Reference (b), DSAA has forwarded all known changes to the DoD CFO printer at DFAS-IN-AF. We are now proofreading the final DSAA FY 92 CFO Report to the current DoD Deputy Comptroller (Management Systems) draft.

Reference (c) found no internal control deficiencies or instances of noncompliance with laws and regulations that would materially affect the financial statements. Therefore, and in accordance with your request, DSAA has no further comments. The DSAA Comptroller POC is Mr. Joe Irwin, (703) 614-1173.

James R. Woods
Comptroller

Enclosures: As stated

Audit Team Members

Nancy L. Hendricks	Director, Financial Management
Alvin L. Madison	Program Director
Belinda J. Finn	Project Manager
Maureen F. Hollingsworth	Team Leader
Carolyn B. Jones	Auditor
Sherry C. Hoda	Auditor
Tonya M. Dean	Auditor
Andrew J. Filer	Auditor
Jennifer L. Stone	Auditor