

## Note 5. Inventories and Related Property, Net

### Inventories and Related Property, Net as of September 30, 2017, and 2016

(In billions of dollars)	All			All		
	Defense	Others	Total	Defense	Others	Total
	2017			2016		
Inventory purchased for resale .....	61.3	0.5	61.8	61.9	0.5	62.4
Inventory and operating material and supplies held for repair .....	65.8	1.3	67.1	88.1	1.2	89.3
Inventory—excess, obsolete, and unserviceable .....	0.9	-	0.9	1.1	-	1.1
Operating materials and supplies held for use .....	140.3	3.5	143.8	105.0	3.5	108.5
Operating materials and supplies held in reserve for future use .....	-	0.2	0.2	-	0.2	0.2
Operating materials and supplies-excess, obsolete, and unserviceable .....	2.5	-	2.5	2.1	-	2.1
Stockpile materials held in reserve for future use .....	0.8	48.5	49.3	1.1	47.3	48.4
Stockpile materials held for sale .....	-	5.1	5.1	-	5.6	5.6
Other related property .....	2.7	1.1	3.8	2.4	1.2	3.6
Allowance for loss .....	(7.3)	(0.5)	(7.8)	(6.4)	(0.5)	(6.9)
Total inventories and related property, net.....	<u>267.0</u>	<u>59.7</u>	<u>326.7</u>	<u>255.3</u>	<u>59.0</u>	<u>314.3</u>

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. As of September 30, 2017, DOD values approximately 98 percent of its resale inventory using the moving average cost (MAC) method. DOD reports the remaining 2 percent of resale inventories at an approximation of historical cost using LAC adjusted for holding gains and losses. DOD continues to implement SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, permitting alternative methods in establishing opening balances. Please refer to the financial statements of DOD for more information on its inventories.

Inventory and operating materials and supplies held for repair are damaged inventory that require repair to make them suitable for sale (inventory) or is more economical to repair than to dispose of (operating materials and supplies). Excess, obsolete, and unserviceable inventory is reported at net realizable value. Inventory—excess, obsolete, and unserviceable consists of:

- Excess inventory that exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale.
- Obsolete inventory that is no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable inventory that is damaged beyond economic repair.

Operating materials and supplies held for use are tangible personal property to be consumed in normal operations.

Operating materials and supplies held in reserve for future use are materials retained because they are not readily available in the market or because they will not be used in the normal course of operations, but there is more than a remote chance they will eventually be needed. DOD, which accounts for most of the reported operating materials and supplies held for use, uses both the consumption method and the purchase method of accounting for operating materials and supplies, and expends a significant amount when purchased instead of when consumed.

Operating materials and supplies—excess, obsolete, and unserviceable consists of:

- Excess operating materials and supplies are materials that exceed the demand expected in the normal course of operations, and do not meet management's criteria to be held in reserve for future use.

- Obsolete operating materials and supplies are materials no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable operating materials and supplies are materials damaged beyond economic repair.

DOD, which accounts for most of the reported excess, obsolete, and unserviceable operating materials and supplies, revalues it to a net realizable value of zero through the allowance account. Please refer to the financial statements of DOD for more information on its operating materials and supplies. Stockpile materials include strategic and critical materials held in reserve for use in national defense, conservation, or national emergencies due to statutory requirements; for example, nuclear materials and oil, as well as stockpile materials that are authorized to be sold. The majority of the stockpile materials held for sale and stockpile materials held in reserve for future use were reported by the Department of Energy (DOE). Please refer to the financial statements of DOE for more information on stockpile materials.

Other related property consists of the following:

- Commodities include items of commerce or trade that have an exchange value used to stabilize or support market prices. Please refer to the financial statements of the USDA for detailed information regarding commodities.
- Seized monetary instruments are comprised only of monetary instruments that are awaiting judgment to determine ownership. The related liability is included in other liabilities. Other property seized by the government, such as real property and tangible personal property, is not considered a government asset. It is accounted for in agency property-management records until the property is forfeited, returned, or otherwise liquidated. Please refer to the financial statements of the Department of Justice (DOJ), Treasury, and the Department of Homeland Security (DHS) for detailed information regarding seized property.
- Forfeited property is comprised of monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the government to satisfy a tax liability; and/or unclaimed/abandoned merchandise. Please refer to the financial statements of DOJ, Treasury, and DHS for detailed information regarding forfeited property.
- Foreclosed property is comprised of assets received in satisfaction of a loan receivable or as a result of payment of a claim under a guaranteed or insured loan (excluding commodities acquired under price support programs). All properties included in foreclosed property are assumed to be held for sale. Please refer to the financial statements of USDA and HUD for detailed information regarding foreclosed property.