

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED BALANCE SHEET**  
As of June 30, 2009 and 2008

	<u>2009 Consolidated</u>	<u>2008 Consolidated</u>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	\$ 1,053,548,993.58	\$ 2,077,307,370.57
3. Accounts Receivable (Note 5)	334,097,665.52	469,696,368.18
4. Other Assets (Note 6)	0.00	6,066,612.50
5. Total Intragovernmental Assets	<u>\$ 1,387,646,659.10</u>	<u>\$ 2,553,070,351.25</u>
C. Accounts Receivable, Net (Note 5)	41,940,891.50	31,211,413.66
E. Inventory and Related Property, Net (Note 9)	24,140,899,787.82	20,407,167,495.22
F. General Property, Plant and Equipment, Net (Note 10)	1,125,321,256.75	1,006,530,606.39
H. Other Assets (Note 6)	906,177,284.42	434,822,565.90
<b>2. TOTAL ASSETS</b>	<u>\$ 27,601,985,879.59</u>	<u>\$ 24,432,802,432.42</u>
<b>3. STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>4. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 96,798,718.27	\$ 110,189,747.29
3. Other Liabilities (Note 15 & 16)	61,140,749.51	58,846,346.43
4. Total Intragovernmental Liabilities	<u>\$ 157,939,467.78</u>	<u>\$ 169,036,093.72</u>
B. Accounts Payable (Note 12)	\$ 3,174,314,722.33	\$ 1,341,307,248.28
C. Military Retirement and Other Federal Employment Benefits (Note 17)	254,518,231.79	243,111,829.47
F. Other Liabilities (Note 15 & Note 16)	402,965,051.53	418,571,012.25
<b>5. TOTAL LIABILITIES</b>	<u>\$ 3,989,737,473.43</u>	<u>\$ 2,172,026,183.72</u>
<b>6. COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>		
<b>7. NET POSITION</b>		
B. Unexpended Appropriations - Other Funds	614,222,370.00	0.00
D. Cumulative Results of Operations - Other Funds	22,998,026,036.16	22,260,776,248.70
<b>8. TOTAL NET POSITION</b>	<u>\$ 23,612,248,406.16</u>	<u>\$ 22,260,776,248.70</u>
<b>9. TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 27,601,985,879.59</u>	<u>\$ 24,432,802,432.42</u>

**Department of Defense**  
**Army Working Capital Fund**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended June 30, 2009 and 2008**

	<u>2009 Consolidated</u>	<u>2008 Consolidated</u>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 20,401,162,097.81	\$ 14,903,647,324.31
B. (Less: Earned Revenue)	(15,409,645,649.62)	(15,534,602,489.99)
C. Net Program Costs	<u>\$ 4,991,516,448.19</u>	<u>\$ (630,955,165.68)</u>
<b>4. Net Cost of Operations</b>	<u>\$ 4,991,516,448.19</u>	<u>\$ (630,955,165.68)</u>

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2009 and 2008

	<u>2009 Earmarked Funds</u>	<u>2009 All Other Funds</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 22,376,164,264.29
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	5,537,153,054.20
<b>3. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>27,913,317,318.49</u>
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	651,077,630.00
4.E. Transfers-in/out without reimbursement	0.00	(1,023,000,000.00)
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(85,714,394.08)
5.C. Imputed financing from costs absorbed by others	0.00	125,603,069.27
5.D. Other (+/-)	0.00	408,258,860.67
<b>6. Total Financing Sources</b>	<u>0.00</u>	<u>76,225,165.86</u>
<b>7. Net Cost of Operations (+/-)</b>	<u>0.00</u>	<u>4,991,516,448.19</u>
<b>8. Net Change</b>	<u>0.00</u>	<u>(4,915,291,282.33)</u>
<b>9. Cumulative Results of Operations</b>	<u>0.00</u>	<u>22,998,026,036.16</u>
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 719,900,000.00
<b>12. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>719,900,000.00</u>
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	545,400,000.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	(651,077,630.00)
<b>14. Total Budgetary Financing Sources</b>	<u>0.00</u>	<u>(105,677,630.00)</u>
<b>15. Unexpended Appropriations</b>	<u>0.00</u>	<u>614,222,370.00</u>
<b>16. Net Position</b>	<u>0.00</u>	<u>23,612,248,406.16</u>

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2009 and 2008

	<u>2009 Eliminations</u>	<u>2009 Consolidated</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 22,376,164,264.29
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	5,537,153,054.20
<b>3. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>27,913,317,318.49</u>
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	651,077,630.00
4.E. Transfers-in/out without reimbursement	0.00	(1,023,000,000.00)
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(85,714,394.08)
5.C. Imputed financing from costs absorbed by others	0.00	125,603,069.27
5.D. Other (+/-)	0.00	408,258,860.67
<b>6. Total Financing Sources</b>	<u>0.00</u>	<u>76,225,165.86</u>
<b>7. Net Cost of Operations (+/-)</b>	0.00	4,991,516,448.19
<b>8. Net Change</b>	<u>0.00</u>	<u>(4,915,291,282.33)</u>
<b>9. Cumulative Results of Operations</b>	0.00	22,998,026,036.16
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 719,900,000.00
<b>12. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>719,900,000.00</u>
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	545,400,000.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	(651,077,630.00)
<b>14. Total Budgetary Financing Sources</b>	0.00	(105,677,630.00)
<b>15. Unexpended Appropriations</b>	<u>0.00</u>	<u>614,222,370.00</u>
<b>16. Net Position</b>	0.00	23,612,248,406.16

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2009 and 2008

	<u>2008 Earmarked Funds</u>	<u>2008 All Other Funds</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 21,893,732,873.89
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>21,893,732,873.89</u>
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	4,982,000.00
4.E. Transfers-in/out without reimbursement	0.00	(420,000,000.00)
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	66,813.94
5.C. Imputed financing from costs absorbed by others	0.00	114,378,662.14
5.D. Other (+/-)	0.00	36,660,733.05
<b>6. Total Financing Sources</b>	<u>0.00</u>	<u>(263,911,790.87)</u>
<b>7. Net Cost of Operations (+/-)</b>	<u>0.00</u>	<u>(630,955,165.68)</u>
<b>8. Net Change</b>	<u>0.00</u>	<u>367,043,374.81</u>
<b>9. Cumulative Results of Operations</b>	<u>0.00</u>	<u>22,260,776,248.70</u>
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 0.00
<b>12. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>0.00</u>
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	5,000,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(18,000.00)
13.D. Appropriations used	0.00	(4,982,000.00)
<b>14. Total Budgetary Financing Sources</b>	<u>0.00</u>	<u>0.00</u>
<b>15. Unexpended Appropriations</b>	<u>0.00</u>	<u>0.00</u>
<b>16. Net Position</b>	<u>0.00</u>	<u>22,260,776,248.70</u>

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2009 and 2008

	<u>2008 Eliminations</u>	<u>2008 Consolidated</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 21,893,732,873.89
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>21,893,732,873.89</u>
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	4,982,000.00
4.E. Transfers-in/out without reimbursement	0.00	(420,000,000.00)
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	66,813.94
5.C. Imputed financing from costs absorbed by others	0.00	114,378,662.14
5.D. Other (+/-)	0.00	36,660,733.05
<b>6. Total Financing Sources</b>	<u>0.00</u>	<u>(263,911,790.87)</u>
<b>7. Net Cost of Operations (+/-)</b>	<u>0.00</u>	<u>(630,955,165.68)</u>
<b>8. Net Change</b>	<u>0.00</u>	<u>367,043,374.81</u>
<b>9. Cumulative Results of Operations</b>	<u>0.00</u>	<u>22,260,776,248.70</u>
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 0.00
<b>12. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>0.00</u>
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	5,000,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(18,000.00)
13.D. Appropriations used	0.00	(4,982,000.00)
<b>14. Total Budgetary Financing Sources</b>	<u>0.00</u>	<u>0.00</u>
<b>15. Unexpended Appropriations</b>	<u>0.00</u>	<u>0.00</u>
<b>16. Net Position</b>	<u>0.00</u>	<u>22,260,776,248.70</u>

Department of Defense  
Army Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 3,359,577,704.04	\$ 2,516,314,300.77
2. Recoveries of prior year unpaid obligations	560,367,801.69	659,223,712.17
3. Budget authority		
3.A. Appropriation	545,400,000.00	5,000,000.00
3.C. Contract authority	9,955,708,462.92	11,968,535,744.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	12,040,151,508.12	11,810,308,977.61
3.D.1.b. Change in receivables from Federal sources	40,727,977.79	183,369,581.31
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	(13,262,316.02)	(18,481,508.83)
3.D.2.b. Without advance from Federal sources	892,659,105.80	614,313,713.18
3.D.3. Anticipated for rest of year, without advances	490,581,071.73	884,232,330.34
3.E. Subtotal	<u>23,951,965,810.34</u>	<u>25,447,278,837.61</u>
4. Nonexpenditure transfers, net, anticipated and actual	(1,023,000,000.00)	(420,000,000.00)
6. Permanently not available	(7,528,638,810.34)	(7,426,859,837.61)
<b>7. Total Budgetary Resources</b>	<u><u>\$ 19,320,272,505.73</u></u>	<u><u>\$ 20,775,957,012.94</u></u>

Department of Defense  
Army Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.B. Reimbursable	13,133,187,284.02	14,438,304,202.55
8.C. Subtotal	<u>13,133,187,284.02</u>	<u>14,438,304,202.55</u>
9. Unobligated balance:		
9.A. Apportioned	6,187,085,221.71	6,337,652,810.39
9.C. Subtotal	<u>6,187,085,221.71</u>	<u>6,337,652,810.39</u>
<b>11. Total status of budgetary resources</b>	<u>\$ 19,320,272,505.73</u>	<u>\$ 20,775,957,012.94</u>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	12,938,885,316.04	10,854,913,527.25
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ (5,937,172,446.25)	\$ (5,537,452,947.41)
12.C. Total unpaid obligated balance	<u>7,001,712,869.79</u>	<u>5,317,460,579.84</u>
13. Obligations incurred net (+/-)	\$ 13,133,187,284.02	\$ 14,438,304,202.55
14. Less: Gross outlays	<u>(13,067,182,013.78)</u>	<u>(11,578,585,852.85)</u>
16. Less: Recoveries of prior year unpaid obligations, actual	(560,367,801.69)	(659,223,712.17)
17. Change in uncollected customer payments from Federal sources (+/-)	(933,387,083.59)	(797,683,294.49)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	12,444,522,784.59	13,055,408,164.78
18.B. Less: Uncollected customer payments from Federal sources (-)	(6,870,559,529.84)	(6,335,136,241.90)
18.C. Total, unpaid obligated balance, net, end of period	<u>5,573,963,254.75</u>	<u>6,720,271,922.88</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	13,067,182,013.78	11,578,585,852.85
19.B. Less: Offsetting collections	(12,026,889,192.10)	(11,791,827,468.78)
<b>19.D. Net Outlays</b>	<u>\$ 1,040,292,821.68</u>	<u>\$ (213,241,615.93)</u>



<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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**1.A. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the Army Working Capital Fund (AWCF), as required by the “Chief Financial Officers Act of 1990,” expanded by the “Government Management Reform Act of 1994,” and other appropriate legislation. The financial statements have been prepared from the books and records of the AWCF in accordance with the Department of Defense (DoD) “Financial Management Regulation (FMR),” the Office of Management and Budget (OMB) Circular A-136, “Financial Reporting Requirements,” and to the extent possible, generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the AWCF is responsible unless otherwise noted.

The AWCF is unable to fully implement all elements of GAAP and OMB Circular A-136 due to limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The AWCF derives some of its reported values and information for major asset and liability categories from nonfinancial feeder systems, such as inventory and logistics systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The AWCF continues to implement processes and system improvements addressing these limitations.

The AWCF currently has nine auditor identified financial statement material weaknesses: (1) financial management systems; (2) inventory; (3) general property, plant, and equipment; (4) intragovernmental eliminations; (5) accounting adjustments; (6) Statement of Net Cost; (7) accounts payable; (8) Reconciliation of Net Cost of Operations to Budget; (9) abnormal account balances.

**1.B. Mission of the Reporting Entity**

The AWCF is part of the Defense Working Capital Fund, and is divided into two separate business areas: Supply Management and Industrial Operations. These business areas ensure delivery of critical items, such as petroleum products, repair parts, consumable supplies, depot maintenance services, munitions, and weapons to support the deployment and projection of lethal force as and when required by the nation.

**1.C. Appropriations and Funds**

Working capital funds (revolving funds) receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress

provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

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

For FY 2009, AWCF financial management systems are unable to meet all of the requirements for full accrual accounting. Many AWCF financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. The AWCF's financial and nonfinancial legacy systems were designed to record information on cost (cost accounting systems), budget execution, and accountability over assets.

The DoD has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). At this time, not all AWCF accounting systems are USSGL compliant. However, the Army has implemented the Logistics Modernization Program (LMP) at Tobyhanna Army Depot, Communications Electronics Life Cycle Management Command, Corpus Christi Army Depot, Letterkenny Army Depot, Aviation and Missile Life Cycle Management Command, and other Army Materiel Command activities. The LMP is substantially compliant with the Federal Financial Management Integrity Act (FFMIA) as determined by the Army Audit Agency (AAA). Until LMP is fully implemented and all of the processes are updated to collect and report financial information as required by GAAP, some of the AWCF financial data will be derived from budgetary transactions (obligations, disbursements and collections) from nonfinancial feeder systems, and accruals made for major items such as payroll expenses and accounts payable.

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

The AWCF Industrial Operations activities recognize revenue according to the percentage of completion method. Supply Management activities recognize revenue from the sale of inventory items.

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

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because AWCF financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items such as payroll expenses, accounts payable and unbilled revenue.

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

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, the AWCF cannot accurately eliminate intragovernmental transactions by

customer because the AWCF systems do not track at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. Intra DoD intragovernmental balances are then eliminated. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements that will ensure accurate intragovernmental information, to include sufficient upfront edits and controls to eliminate the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between the DoD and other federal agencies. The U.S. Treasury Financial Manual, Part 2 – chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government” and the U.S. Treasury’s “Federal Intragovernmental Transactions Accounting Policy Guide,” provide guidance for reporting and reconciling intragovernmental balances. While the AWCF is unable to fully reconcile intragovernmental transactions with all federal partners, the AWCF is able to reconcile balances pertaining to Federal Employees’ Compensation Act transactions with the Department of Labor and benefit program transactions with the Office of Personnel Management.

The DoD proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD financial statements, therefore, do not report any portion of the public debt or interest, nor do the financial statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such interest costs to the benefiting agencies.

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

Each year, the AWCF sells defense articles and services to foreign governments and international organizations under the provisions of the “Arms Export Control Act of 1976.” Under the provisions of the Act, DoD has the authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the U.S. government. Payments in U.S. dollars are required in advance.

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

The AWCF monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), Military Departments, the U.S. Army Corps of Engineers (USACE) and the Department of State’s financial service centers process the majority of the AWCF cash collections,

disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. The AWCF recorded balance in FBWT accounts and the U.S. Treasury's FBWT accounts must balance monthly.

**1.J. Foreign Currency**

Not applicable.

**1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable includes three categories: accounts receivable, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectable accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual.

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

Not applicable.

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

The AWCF values approximately 65% of its resale inventory using the moving average cost method. The AWCF reports the remaining 35% of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). By utilizing new systems development processes, the AWCF is continuing to transition the balance of the inventories to the moving average cost method.

The AWCF manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes all items (including tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment, but excluding real property, installations, and utilities) necessary to equip, operate, maintain, and support military activities without

distinction as to its application for administrative or combat purposes. Items commonly used in and available from the commercial sector are generally not managed in the AWCF materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The AWCF holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for and differentiate “inventory held for sale” and “inventory held in reserve for future sale” with a completion date of year-end FY 2010 reporting.

There are new DoD accounting and reporting requirements for inventory held in reserve for future sale and for inventory held for repair. Items suspended from current sale (such as items suspended due to litigation), should be accounted for as inventory held in reserve for future sale. Additionally, new accounting policy now defines inventory held for repair as “inventory held for remanufacture.” Inventory held for remanufacture capitalizes repair and rebuild costs, values unrepaired carcasses at cost, and provides for exchange pricing concepts for customer returns. At those activities at which LMP has been implemented, AWCF is able to comply with the accounting requirements for remanufacturing. However, AWCF is still unable to comply with some inventory related tasks in the Army CFO Strategic Financial Improvement Plan.

The AWCF recognizes condemned materiel as “Excess, Obsolete, and Unserviceable.” The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero.

Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the AWCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. Often, it is more economical to repair these inventory items rather than to procure these items. The DoD often relies on weapon systems and machinery no longer in production. As a result, the AWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in process also includes the value of finished products or completed services that are yet to be placed in service and transferred to an asset account. Work in process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

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

Not applicable.

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

The AWCF's General Property, Plant and Equipment (PP&E) capitalization threshold is \$100 thousand except for real property, which is \$20 thousand.

The AWCF capitalizes all General PP&E used in the performance of their mission. These capitalized assets are categorized as General PP&E, whether or not they meet the definition of any other General PP&E categories.

When it is in the best interest of the government, the AWCF provides government property to contractors to complete contract work. The AWCF either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, Federal accounting standards require that it be reported on the AWCF Balance Sheet.

The DoD is developing new policies and a contractor reporting process for Government Furnished Equipment that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the AWCF reports only government property in the possession of contractors that is maintained in AWCF property systems. The DoD has issued new property accountability and reporting requirements that require the AWCF to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

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

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances or prepayments in accordance with GAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD policy is to expense and/or properly classify assets when the related goods and services are received. The AWCF has implemented this policy for advances identified in contract feeder systems, but has not fully implemented the policy primarily due to system limitations.

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

Not applicable.

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

Other assets includes those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments, that are not reported elsewhere on the AWCF Balance Sheet.

The AWCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden

on the contractor that long-term contracts can cause, the AWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as Other Assets.

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

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

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The AWCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to only disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The AWCF risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft and vehicle accidents; property or environmental damages; and contract disputes.

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

The AWCF reports as liabilities earned civilian leave, except sick leave, that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

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

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments that have not been incurred.

Cumulative results of operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfers in and out of assets without reimbursement.

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

Not applicable.

**1.W. Unexpended Obligations**

The AWCF obligates funds to provide goods and services for outstanding orders not yet delivered. Unless title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations include both obligations for which goods and services have been delivered (title passed) and a liability recognized and obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources and is referred to as “Total, unpaid obligated balances, net, end of period.”

**1.X. Undistributed Disbursements and Collections**

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the monthly accounting reports. In-transit payments are those payments that have been made, but have not been recorded in the fund holder’s accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. The AWCF does not follow this procedure for collections since all AWCF undistributed collections are derived from interfund transactions which processes automatic collections from federal sources only. Undistributed disbursements are allocated between federal and nonfederal based on disbursement history accumulated fiscal year to date. The AWCF records unsupported undistributed disbursements in accounts payable and unsupported undistributed collections in other liabilities.

**1.Y. Significant Events**

Not applicable.

**1.Z. Fiduciary Activities**

Not applicable.



<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of June 30	2009	2008
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 0.00	\$ 0.00
<b>3. Total Nonentity Assets</b>	\$ 0.00	\$ 0.00
<b>4. Total Entity Assets</b>	\$ 27,601,985,879.59	\$ 24,432,802,432.42
<b>5. Total Assets</b>	\$ 27,601,985,879.59	\$ 24,432,802,432.42

Nonentity assets are assets for which the AWCF maintains stewardship accountability and responsibility to report, but are not available for the AWCF's operations.

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of June 30	2009	2008
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 231,976,788.14	\$ 0.00
B. Revolving Funds	821,572,205.44	2,077,307,370.57
C. Trust Funds	0.00	0.00
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 1,053,548,993.58	\$ 2,077,307,370.57
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 1,053,548,993.58	\$ 2,077,307,370.57
B. Fund Balance per	1,053,548,993.58	2,077,307,370.57
<b>3. Reconciling Amount</b>	\$ 0.00	\$ 0.00

<b>Status of Fund Balance with Treasury</b>
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As of June 30	2009	2008
<b>1. Unobligated Balance</b>		
A. Available	\$ 5,696,504,149.98	\$ 5,453,420,480.05
B. Unavailable	0.00	0.00
<b>2. Obligated Balance not yet Disbursed</b>	\$ 12,444,522,784.59	\$ 13,055,408,164.78
<b>3. Nonbudgetary FBWT</b>	\$ 0.00	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (17,087,477,940.99)	\$ (16,431,521,274.26)
<b>5. Total</b>	<u>\$ 1,053,548,993.58</u>	<u>\$ 2,077,307,370.57</u>

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support the FBWT.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with contract authority and customer orders. There are no restrictions on the Unobligated Balance.

Obligated Balance not yet disbursed represents funds that have been obligated for goods that have not been received, services that have not been performed, and goods and services that have been delivered/received but not yet paid.

Non-FBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. For the AWCF, this consists of unfilled orders, reimbursements earned and contract authority. This category reduces the status of FBWT.

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of June 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 334,097,665.52	N/A	\$ 334,097,665.52
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 47,348,284.95	\$ (5,407,393.45)	\$ 41,940,891.50
<b>3. Total Accounts Receivable</b>	\$ 381,445,950.47	\$ (5,407,393.45)	\$ 376,038,557.02

As of June 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 469,696,368.18	N/A	\$ 469,696,368.18
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 35,585,905.66	\$ (4,374,492.00)	\$ 31,211,413.66
<b>3. Total Accounts Receivable</b>	\$ 505,282,273.84	\$ (4,374,492.00)	\$ 500,907,781.84

<b>Note 6.</b>	<b>Other Assets</b>
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As of June 30	2009	2008
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 0.00	\$ 6,066,612.50
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 0.00	\$ 6,066,612.50
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 857,979,889.65	\$ 430,587,783.78
B. Advances and Prepayments	44,259,301.99	296,689.34
C. Other Assets (With the Public)	3,938,092.78	3,938,092.78
D. Total Nonfederal Other Assets	\$ 906,177,284.42	\$ 434,822,565.90
<b>3. Total Other Assets</b>	\$ 906,177,284.42	\$ 440,889,178.40

Other Assets (With the Public) consists of travel advances and prepaid expenses.

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

The Contract Financing Payment balance of \$858 million is comprised of \$822.3 million in contract financing payments and an additional \$35.7 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of June 30	2009	2008
1. Inventory, Net	\$ 24,140,899,787.82	\$ 20,407,167,495.22
2. Operating Materiel & Supplies, Net	0.00	0.00
3. Stockpile Materiel, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 24,140,899,787.82</b>	<b>\$ 20,407,167,495.22</b>

## Inventory, Net

As of June 30	2009			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
<b>1. Inventory Categories</b>				
A. Available and Purchased for Resale	\$ 20,945,705,904.95	\$ (3,001,559,188.91)	17,944,146,716.04	LAC,MAC
B. Held for Repair	6,904,351,989.15	(1,183,103,739.37)	5,721,248,249.78	LAC,MAC
C. Excess, Obsolete, and Unserviceable	415,711,697.32	(415,711,697.32)	0.00	NRV
D. Raw Materiel	285,668,621.08	0.00	285,668,621.08	MAC,SP,LA
E. Work in Process	189,836,200.92	0.00	189,836,200.92	AC
<b>F. Total</b>	<b>\$ 28,741,274,413.42</b>	<b>\$ (4,600,374,625.60)</b>	<b>24,140,899,787.82</b>	

As of June 30	2008			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
<b>1. Inventory Categories</b>				
A. Available and Purchased for Resale	\$ 25,281,900,273.30	\$ (8,917,523,417.49)	16,364,376,855.81	LAC,MAC
B. Held for Repair	5,957,081,978.04	(2,173,637,144.32)	3,783,444,833.72	LAC,MAC
C. Excess, Obsolete, and Unserviceable	536,519,626.64	(536,519,626.64)	0.00	NRV
D. Raw Materiel	104,999,280.39	0.00	104,999,280.39	MAC,SP,LA
E. Work in Process	154,346,525.30	0.00	154,346,525.30	AC
<b>F. Total</b>	<b>\$ 32,034,847,683.67</b>	<b>\$ (11,627,680,188.45)</b>	<b>20,407,167,495.22</b>	

**Legend for Valuation Methods:**

LAC = Latest Acquisition Cost  
 SP = Standard Price  
 AC = Actual Cost

NRV = Net Realizable Value  
 LCM = Lower of Cost or Market  
 O = Other

**Restrictions of Inventory Use, Sale, or Disposition:**

There are restrictions on the use, sale, and disposition of inventory classified as war reserve materiel of \$769.2 million which includes petroleum products, subsistence items, spare parts, and medical materiel.

## **Other Information:**

The categories listed below comprise Inventory, Net. The AWCF assigns Inventory items to a category based upon the type and condition of the asset. Inventory Available and Purchased for Resale includes spare and repair parts, clothing and textiles, and petroleum products. Inventory Held for Repair consists of damaged materiel held as inventory that is more economical to repair than to dispose. Excess, Obsolete, and Unserviceable Inventory consists of scrap materiel or items that cannot be economically repaired and are awaiting disposal. Raw Materials consists of items consumed in the production of goods for sale or in the provision of services for a fee.

Work in process includes costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer. The work in process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including amounts withheld from payment to ensure performance, and amounts paid to other government plants for accrued costs of end items of materiel ordered but not delivered. Work in process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

During 3rd quarter, FY 2009, AWCF changed the accounting method for a portion of its inventory from latest acquisition cost (LAC) to moving average cost (MAC). This migration and revaluation resulted in a \$3.0 billion increase in the net inventory values for the Aviation and Missile Life Cycle Management Command activities involved with the second deployment of the Logistic Modernization Program (LMP). This adjustment included a \$3.6 billion decrease in gross inventory due to baselining inventory to MAC and a \$6.6 billion increase associated with the write-off of the holding gains and losses allowance accounts. These changes also impacted the prior period based on the balances that existed in the allowance accounts for those activities as reported at September 30.

Additionally, there is a disconnect created when inventory deliveries are processed into LMP resulting in an estimated \$2.0 billion misstatement of inventory value at MAC, accounts payable, and undelivered orders. The specific cause and amount of the misstatement cannot be determined without further investigation.



**Note 10. General PP&E, Net**

As of June 30	2009				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>1. Major Asset Classes</b>					
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	1,617,383,076.12	\$(1,272,925,067.73)	344,458,008.39
C. Leasehold Improvements	S/L	lease term	96,629,138.87	(85,810,979.53)	10,818,159.34
D. Software	S/L	2-5 Or 10	624,512,772.37	(297,225,336.58)	327,287,435.79
E. General Equipment	S/L	5 or 10	1,572,555,392.42	(1,228,606,491.98)	343,948,900.44
F. Military Equipment	S/L	Various	0.00	0.00	0.00
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0.00	0.00	0.00
H. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	98,808,752.79	N/A	98,808,752.79
J. Other			0.00	0.00	0.00
K. Total General PP&E			\$ 4,009,889,132.57	\$(2,884,567,875.82)	\$ 1,125,321,256.75

As of June 30	2008				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>1. Major Asset Classes</b>					
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	1,885,745,495.02	\$(1,463,835,569.07)	421,909,925.95
C. Leasehold Improvements	S/L	lease term	96,629,138.87	(83,481,011.36)	13,148,127.51
D. Software	S/L	2-5 Or 10	490,159,461.81	(282,166,468.39)	207,992,993.42
E. General Equipment	S/L	5 or 10	1,567,024,416.06	(1,261,369,838.05)	305,654,578.01
F. Military Equipment	S/L	Various	0.00	0.00	0.00
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0.00	0.00	0.00
H. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	56,973,689.07	N/A	56,973,689.07
J. Other			851,292.43	0.00	851,292.43
K. Total General PP&E			\$ 4,097,383,493.26	\$(3,090,852,886.87)	\$ 1,006,530,606.39

<sup>1</sup> Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line      N/A = Not Applicable

<b>Assets Under Capital Lease</b>
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As of June 30	2009	2008
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	\$ 0.00	\$ 0.00

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of June 30	2009	2008
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	41,224,912.24	41,867,814.86
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 41,224,912.24</b>	<b>\$ 41,867,814.86</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	254,518,231.79	243,111,829.47
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	0.00
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 254,518,231.79</b>	<b>\$ 243,111,829.47</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 295,743,144.03</b>	<b>\$ 284,979,644.33</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 3,693,994,329.40</b>	<b>\$ 1,887,046,539.39</b>
<b>5. Total Liabilities</b>	<b>\$ 3,989,737,473.43</b>	<b>\$ 2,172,026,183.72</b>

Liabilities not Covered by Budgetary Resources are liabilities for which Congressional action is needed before budgetary resources can be provided.

Intragovernmental Other Liabilities represents future funded Federal Employees Compensation Act (FECA) liabilities billed to AWCF by the Department of Labor (DOL) for payments made by DOL to Army's beneficiaries. The current portion of this bill, \$20.6 million, is due in FY 2010 and the remainder is due in the following fiscal years.

Military Retirement and Other Federal Employment benefits not covered by budgetary resources are comprised of various FECA actuarial liabilities not due and payable during the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of June 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 96,798,718.27	\$ N/A	\$ 96,798,718.27
2. Nonfederal Payables (to the Public)	3,174,314,722.33	0.00	3,174,314,722.33
<b>3. Total</b>	<b>\$ 3,271,113,440.60</b>	<b>\$ 0.00</b>	<b>\$ 3,271,113,440.60</b>

As of June 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 110,189,747.29	\$ N/A	\$ 110,189,747.29
2. Nonfederal Payables (to the Public)	1,341,307,248.28	0.00	1,341,307,248.28
<b>3. Total</b>	<b>\$ 1,451,496,995.57</b>	<b>\$ 0.00</b>	<b>\$ 1,451,496,995.57</b>

The AWCF systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue, accounts receivable, and unearned revenue. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

During 3rd quarter, FY 2009, AWCF deployed the Logistic Modernization Program (LMP) at Aviation and Missile Life Cycle Management Command. A disconnect is being created when inventory deliveries are processed into LMP resulting in an estimated \$2.0 billion misstatement of inventory value at MAC, accounts payable, and undelivered orders. The specific cause and amount of the misstatement cannot be determined without further investigation.

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of June 30	2009		
	Current Liability	Noncurrent Liability	Total
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	20,612,456.12	20,612,456.12	41,224,912.24
F. Custodial Liabilities	0.00	0.00	0.00
G. Employer Contribution and Payroll Taxes Payable	19,915,837.27	0.00	19,915,837.27
H. Other Liabilities	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 40,528,293.39	\$ 20,612,456.12	\$ 61,140,749.51
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 163,692,389.38	\$ 0.00	\$ 163,692,389.38
B. Advances from Others	85,598,301.98	0.00	85,598,301.98
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(20,759,930.72)	0.00	(20,759,930.72)
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	82,612,113.51	0.00	82,612,113.51
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	20,995,165.48	0.00	20,995,165.48
J. Employer Contribution and Payroll Taxes Payable	31,873,189.92	0.00	31,873,189.92
K. Contingent Liabilities	3,225,360.00	35,728,461.98	38,953,821.98
L. Other Liabilities	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 367,236,589.55	\$ 35,728,461.98	\$ 402,965,051.53
<b>3. Total Other Liabilities</b>	\$ 407,764,882.94	\$ 56,340,918.10	\$ 464,105,801.04

Army Working Capital Fund

As of June 30	2008		
	Current Liability	Noncurrent Liability	Total
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	20,933,907.43	20,933,907.43	41,867,814.86
F. Custodial Liabilities	0.00	0.00	0.00
G. Employer Contribution and Payroll Taxes Payable	16,978,531.57	0.00	16,978,531.57
H. Other Liabilities	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 37,912,439.00	\$ 20,933,907.43	\$ 58,846,346.43
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 128,302,240.95	\$ 0.00	\$ 128,302,240.95
B. Advances from Others	97,863,916.05	0.00	97,863,916.05
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	2,572.42	0.00	2,572.42
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	102,031,909.15	0.00	102,031,909.15
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	26,340,734.64	0.00	26,340,734.64
J. Employer Contribution and Payroll Taxes Payable	27,743,308.01	0.00	27,743,308.01
K. Contingent Liabilities	25,360.00	36,260,971.03	36,286,331.03
L. Other Liabilities	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 382,310,041.22	\$ 36,260,971.03	\$ 418,571,012.25
<b>3. Total Other Liabilities</b>	\$ 420,222,480.22	\$ 57,194,878.46	\$ 477,417,358.68

Contingent Liabilities includes \$35.7 million related to contracts authorizing Progress Payments Based on Cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Department has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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The AWCF is a party in various administrative proceedings and legal actions, with claims, including environmental damage claims, equal opportunity matters, and contractual bid protests.

The AWCF has accrued contingent liabilities for legal actions where the Army's Office of the General Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. The AWCF records Judgment Fund liabilities in Note 12, "Accounts Payable," and Note 15, "Other Liabilities."

**Nature of Contingency**

The FY 2009 Legal Representation Letter for the Army Working Capital Fund outlines two claims against AWCF totaling \$498.3 million for which the Army Office of General Counsel is unable to express an opinion.

**Other Information Pertaining to Commitments**

Contingencies that are considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further details.

The AWCF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may or may not result in a future outflow of expenditures. Currently, AWCF does not have a systematic process by which it captures or assesses these potential contingent liabilities; therefore, no associated liabilities are recognized or disclosed.



<b>Note 17.</b>	<b>Military Retirement and Other Federal Employment Benefits</b>
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As of June 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
<b>1. Pension and Health Actuarial Benefits</b>				
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
<b>2. Other Actuarial Benefits</b>				
A. FECA	\$ 254,518,231.79		\$ 0.00	\$ 254,518,231.79
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 254,518,231.79		\$ 0.00	\$ 254,518,231.79
<b>3. Other Federal Employment Benefits</b>	\$ 0.00		\$ 0.00	\$ 0.00
<b>4. Total Military Retirement and Other Federal Employment Benefits:</b>	<b>\$ 254,518,231.79</b>		<b>\$ 0.00</b>	<b>\$ 254,518,231.79</b>

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

Army Working Capital Fund

As of June 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
<b>1. Pension and Health Actuarial Benefits</b>				
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
<b>2. Other Actuarial Benefits</b>				
A. FECA	\$ 243,111,829.47		\$ 0.00	\$ 243,111,829.47
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 243,111,829.47		\$ 0.00	\$ 243,111,829.47
<b>3. Other Federal Employment Benefits</b>				
	\$ 0.00		\$ 0.00	\$ 0.00
<b>4. Total Military Retirement and Other Federal Employment Benefits:</b>				
	\$ 243,111,829.47		\$ 0.00	\$ 243,111,829.47

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

### Federal Employees Compensation Act (FECA)

The AWCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to AWCF at the end of each fiscal year. The liability includes the estimated liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments. The projected annual benefit payments are discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments (COLAs) and consumer price index medical (CPIM) factors are applied to the calculation of projected future benefits.

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefits payments have been discounted to present value using the OMB's economic assumptions

for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2009

4.368% in Year 1

4.770% in Year 2

And thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2008 are used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
<b>2008</b>	3.03%	4.71%
<b>2009</b>	3.87%	4.01%
<b>2010</b>	2.73%	3.86%
<b>2011</b>	2.20%	3.87%
<b>2012</b>	2.23%	3.93%
<b>2013+</b>	2.30%	3.93%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2008 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2008 projection to the average pattern for the projections of the most recent three years.

**Other Disclosures**

The AWCF actuarial liabilities increased \$11.4 million since the previous calculation at the end of FY 2008.

Actuarial liabilities are computed for employee compensation benefits as mandated by the Federal Employment Compensation Act (FECA). The Office of Personnel Management provides updated Army actuarial liabilities during the 4<sup>th</sup> Quarter of each fiscal year. The AWCF computes its portion of the total Army actuarial liability based on the percentage of AWCF FECA expense to the total Army FECA expense.

<b>Note 18.</b>	<b>General Disclosures Related to the Statement of Net Cost</b>
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Intragovernmental Costs and Exchange Revenue		
As of June 30	2009	2008

As of June 30	2009	2008
1. Intragovernmental Costs	\$ 3,157,102,854.97	\$ 2,787,391,066.04
2. Public Costs	17,244,059,242.84	12,116,256,258.27
<b>3. Total Costs</b>	<b>\$ 20,401,162,097.81</b>	<b>\$ 14,903,647,324.31</b>
4. Intragovernmental Earned Revenue	\$ (9,589,852,391.62)	\$ (10,133,871,048.14)
5. Public Earned Revenue	(5,819,793,258.00)	(5,400,731,441.85)
<b>6. Total Earned Revenue</b>	<b>\$ (15,409,645,649.62)</b>	<b>\$ (15,534,602,489.99)</b>
<b>7. Net Cost of Operations</b>	<b>\$ 4,991,516,448.19</b>	<b>\$ (630,955,165.68)</b>

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

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The AWCF systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue. Expenses were adjusted by reclassifying amounts between federal and nonfederal expenses.

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

While AWCF activities generally record transactions on an accrual basis, as is required by federal generally accepted accounting principles, the systems do not always capture actual costs. Some of the information presented on the Consolidated Statement of Net Cost is based on non-financial feeder systems, including property accountability and logistics systems. The AWCF is in the process of converting to the Logistics Modernization Program to address this issue.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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Other Financing Sources, Other on the Statement Changes in Net Position consists of other gains and other losses from non exchange activity primarily attributable to intragovernmental transfers-in/out for which trading partners could not be identified and the correction of prior period adjustments that did not meet the materiality thresholds.

During 3<sup>rd</sup> quarter, FY 2009, AWCF changed the accounting method for a portion of its inventory from latest acquisition cost (LAC) to moving average cost (MAC). This migration and revaluation resulted in a \$3.0 billion increase in the net inventory values for the Aviation and Missile Life Cycle Management Command activities involved with the second deployment of the Logistic Modernization Program (LMP). This adjustment included a \$3.6 billion decrease in gross inventory due to baselining inventory to MAC and a \$6.6 billion increase associated with the write-off of the holding gains and losses allowance accounts. These changes also impacted the prior period based on the balances that existed in the allowance accounts for those activities as reported at September 30. These adjustments resulted in a \$5.5 billion increase in the cumulative results of operations on the AWCF supply management activities. In addition, a disconnect is being created when inventory deliveries are processed into LMP resulting in an estimated \$2.0 billion misstatement of inventory value at MAC, accounts payable, and undelivered orders. The specific cause and amount of the misstatement cannot be determined without further investigation.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of June 30	2009	2008
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 9,782,367,894.63	\$ 11,774,168,047.30
2. Available Borrowing and Contract Authority at the End of the Period	2,871,052,538.43	2,696,596,419.64

All AWCF obligations represent reimbursable obligations in apportionment category B.

The AWCF Statement of Budgetary Resources includes intraentity transactions because the statements are presented as combined.

There are no legal arrangements affecting the use of unobligated balances of budgetary authority.

The Army Working Capital Fund received \$545.4 million in appropriations, of which \$443.2 was supplemental, to purchase war reserve secondary items and spares for Army Prepositioned Stocks.

During 3<sup>rd</sup> quarter, FY 2009, AWCF deployed the Logistic Modernization Program (LMP) at Aviation and Missile Life Cycle Management Command. A disconnect is being created when inventory deliveries are processed into LMP resulting in an estimated \$2.0 billion misstatement of inventory value at MAC, accounts payable, and undelivered orders. The specific cause and amount of the misstatement cannot be determined without further investigation.

<b>Note 21.</b>	<b>Reconciliation of Net Cost of Operations to Budget</b>
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As of June 30	2009	2008
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**Resources Used to Finance Activities:**

Budgetary Resources Obligated:

1. Obligations incurred	\$ 13,133,187,284.02	\$ 14,438,304,202.55
2. Less: Spending authority from offsetting collections and recoveries (-)	(13,520,644,077.38)	(13,248,734,475.44)
3. Obligations net of offsetting collections and recoveries	\$ (387,456,793.36)	\$ 1,189,569,727.11
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	\$ (387,456,793.36)	\$ 1,189,569,727.11

Other Resources:

6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	(85,714,394.08)	66,813.94
8. Imputed financing from costs absorbed by others	125,603,069.27	114,378,662.14
9. Other (+/-)	408,258,860.67	36,660,733.05
10. Net other resources used to finance activities	\$ 448,147,535.86	\$ 151,106,209.13
<b>11. Total resources used to finance activities</b>	<b>\$ 60,690,742.50</b>	<b>\$ 1,340,675,936.24</b>

**Resources Used to Finance Items not Part of the Net Cost of Operations:**

12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ 2,454,843,593.87	\$ (1,823,417,930.64)
12b. Unfilled Customer Orders	879,396,789.78	595,832,204.35
13. Resources that fund expenses recognized in prior Periods (-)	(30,466,245.07)	(22,385,763.67)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0.00	0.00
15. Resources that finance the acquisition of assets (-)	(8,869,212,612.85)	(6,397,522,206.49)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	(322,544,466.59)	(36,727,546.99)
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$ (5,887,982,940.86)</b>	<b>\$ (7,684,221,243.44)</b>
<b>18. Total resources used to finance the Net Cost of Operations</b>	<b>\$ (5,827,292,198.36)</b>	<b>\$ (6,343,545,307.20)</b>

As of June 30	2009	2008
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$ 10,755,885.74	\$ 20,239,369.46
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 10,755,885.74	\$ 20,239,369.46
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 44,186,384.07	\$ 41,260,802.13
26. Revaluation of assets or liabilities (+/-)	4,083,036,820.97	1,772,321,711.70
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	8,657,754,584.46	4,507,679,493.99
27c. Operating Material and Supplies Used	0.00	0.00
27d. Other	(1,976,925,028.69)	(628,911,235.76)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 10,808,052,760.81	\$ 5,692,350,772.06
<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	<b>\$ 10,818,808,646.55</b>	<b>\$ 5,712,590,141.52</b>
<b>30. Net Cost of Operations</b>	<b>\$ 4,991,516,448.19</b>	<b>\$ (630,955,165.68)</b>

Due to AWCF's financial systems limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency.

Resources that Finance the Acquisition of Assets were adjusted by \$869.7 million to bring the note schedule into agreement with the Statement of Net Cost.

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

- Obligations Incurred



- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Resources, Other consists of other gains and other losses from non exchange activity primarily attributable to intragovernmental transfers-in/out for which trading partners could not be identified and the correction of prior period adjustments that did not meet the materiality thresholds.

Other Resources or adjustments to net obligated resources that do not affect Net Cost of operations, Other consists of other gains and losses from non exchange activity primarily attributable to intragovernmental transfers-in/out for which trading partners could not be identified and the correction of prior period adjustments that did not meet the materiality thresholds.

Components Requiring or Generating Resources in a Future Period, Other consists of the unfunded Federal Employee Compensation Act (FECA) expense and the change in the related actuarial liability.

Components not Requiring or Generating Resources Other, Other consists of cost capitalization offsets. Agencies must first record all expenses to Operating Expenses/Program Costs. These expenses are then offset using the Cost Capitalization Offset account when the costs are capitalized to the appropriate "in-process type" account.

In addition, there is a disconnect created when inventory deliveries are processed into LMP resulting in an estimated \$2.0 billion misstatement of inventory value at MAC, accounts payable, and undelivered orders. The specific cause and amount of the misstatement cannot be determined without further investigation.

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