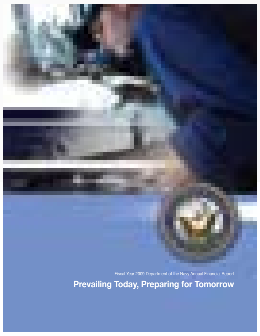
Fiscal Year 2009 Department of the Navy Annual Financial Report

Prevailing Today, Preparing for Tomorrow



ON THE COVER:

YOKOSUKA, Japan (Sept. 8, 2009) A Quartermaster 1st Class uses a parallel motion protractor to plot coordinates aboard the amphibious command ship USS Blue Ridge (LCC 19) before getting underway on a scheduled deployment. (U.S. Navy photo by Mass Communication Specialist 2nd Class Cynthia Griggs /Released)

PACIFIC OCEAN (July 24, 2009) Sailors assigned to the deck department of the aircraft carrier USS George Washington (CVN 73) conduct coxswain training in a rigid hull inflatable boat. George Washington is participating in Talisman Saber 09, a biennial, combined exercise designed to train Australian and U.S. forces in planning and conducting combined operations. (U.S. Navy photo by Mass Communication Specialist 1st Class John M. Hageman/Released)

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The Honorable Ray Mabus
Secretary of the Navy

THE SECRETARY OF THE NAVY
WASHINGTON, D.C. 20350-1000

October 2009

The United States Navy and Marine Corps remain the world's preeminent sea power, ready at all times to meet both current and future challenges. Our enduring sea power has been essential to furthering America's interests worldwide, with 70% of the planet covered by water, 80% of the world's inhabitants living near the oceans, and 90% of global commerce being transported by sea. By maintaining U.S. maritime dominance, our Sailors and Marines promote security, stability, and trust around the globe. Our Sailors and Marines, in cooperation with our foreign partners and allies, continue to provide training, deliver humanitarian aid, disaster relief and other assistance around the globe. In addition, our naval forces are uniquely postured to deter aggression and prevent escalations. Should deterrence fail, we stand ready to fight America's wars and defeat our adversaries.

In an increasingly complex security environment, the continued strength of our naval forces depends in part on our ability to respond to both seen and unforeseen threats and challenges. We must prepare to counter non-traditional weapons used by non-state actors that are just as lethal as those wielded by traditional nation-states: irregular warfare, insurgency, criminal activity, social unrest, and low-intensity civil conflicts. These non-traditional, but very dangerous threats, reinforce the need for a maritime force which is powerful, inventive and agile.

Our most important priority is providing proper care for our forces and their families. We must match the level of commitment that our Sailors and Marines give their country when providing for their health and welfare and that of their families. We also continue the Navy's proud tradition of readiness by ensuring that our forces are fully trained and equipped to do their many-faceted jobs. We will continue to support our global commitments by maintaining our conventional warfare capabilities while preparing for irregular warfare and hybrid campaigns. When prioritizing the Department of the Navy's programs, we will maintain only those that are achievable, affordable, and responsive to our Nation's needs. We are committed to refining fiscal and budgetary discipline, tackling waste and cost overruns, and the goal of balancing near-term requirements with those of the next decade and beyond. The Department of the Navy has worked hard on improving the acquisition process. We will continue to focus on acquisition reform and improvement of our business processes and ensures our Sailors and Marines continue to have the equipment they need, when they need it.

Since our operational flexibility and sustainability are directly linked to our energy supplies, energy reliability is a strategic concern for our force. We have made strides toward energy independence and conservation by increasing our energy efficiency, reducing energy consumption, and capitalizing on renewable energy sources. We will continue to address the issue of fuel efficiency throughout all programs.

The Department of the Navy's Fiscal Year 2009 Annual Financial Report, *Prevailing Today, Preparing for Tomorrow*, represents our enduring commitment to the proper stewardship of public resources and continuous improvement of financial transparency and accountability.

Ray Mabus

Ray Mabus

John W. McNair
Acting Assistant Secretary of the Navy (Financial Management and Comptroller)

THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

October 2009

In a year of transition and change, the Department of the Navy (DON) held its course, took care of its Sailors, Marines and their families, and protected our nation. Internally, DON financial managers made significant progress in many areas crucial to the smooth operation of the Department. Through the change in administration, DON successfully supported two wars, and in the face of change both at home and abroad, and we have prevailed.

Supporting the warfighter. Our most important accomplishment was providing support for the war fighter in Operation Enduring Freedom and Operation Iraqi Freedom. We identified, acquired and executed the resources necessary to support the Navy and Marine Corps contributions in Iraq and Afghanistan, and supporting operations across the theater and around the globe. As the landscape changed, we successfully transitioned to fewer forces in Iraq while increasing our presence in Afghanistan.

Our support for the warfighter has been multi-faceted and inclusive of U.S. joint forces and coalition partners. The Marine Corps accelerated their Grow the Force initiative to reduce the strain on Marine units that have continually high operational tempo. The Corps will continue to emphasize priorities that ensure success of this initiative by increases in force structure and facilities, and transformational shifts in training support. Individual augmentees have filled vacancies in units and provided specialized knowledge and skill sets in support of overseas contingency operations. The Joint Mine Resistant Ambush Protected Vehicle Program, led by the Marine Corps Systems Command, has contributed to saving the lives of many serving in Iraq and Afghanistan. Maritime ballistic missile defense has also provided an umbrella of protection to forward-deployed U.S. forces and partners.

Reinforcing and maintaining readiness. During 2009, DON took delivery of the Makin Island—the first U.S. Navy ship with a hybrid gas turbine-electric propulsion system. This ship can travel faster and farther than traditionally propelled ships, promising energy and fuel cost savings. We also took delivery of the littoral combat ship USS Freedom (LCS 1), and are completing construction of the littoral combat ship USS Independence (LCS 2) in 2009. These multi-mission ships are unique in that they operate with 50% fewer crew members than traditional naval warships. The maintenance and modernization of our ships, aircraft, and equipment have strengthened our naval capabilities and secured our naval presence for tomorrow's challenges.

Moving toward auditability. Producing financial statements in a timely manner has become part of the day-to-day fabric of our operations. Through our continued business transformation efforts, we are making significant progress toward improving the accuracy, reliability, and accessibility of our financial information. Most notably, the Marine Corps asserted audit readiness of their Statement of Budgetary Resources and is the first military service to be audited.

The success of Navy Enterprise Resource Planning (ERP) implementation at the Naval Air Systems Command laid the groundwork for deployment of ERP at the Naval Supply Systems Command and the Space and Naval Warfare Systems Command in 2009. Navy ERP provides greater financial transparency, total asset visibility across the enterprise, and establishes key elements associated with sound business practices.

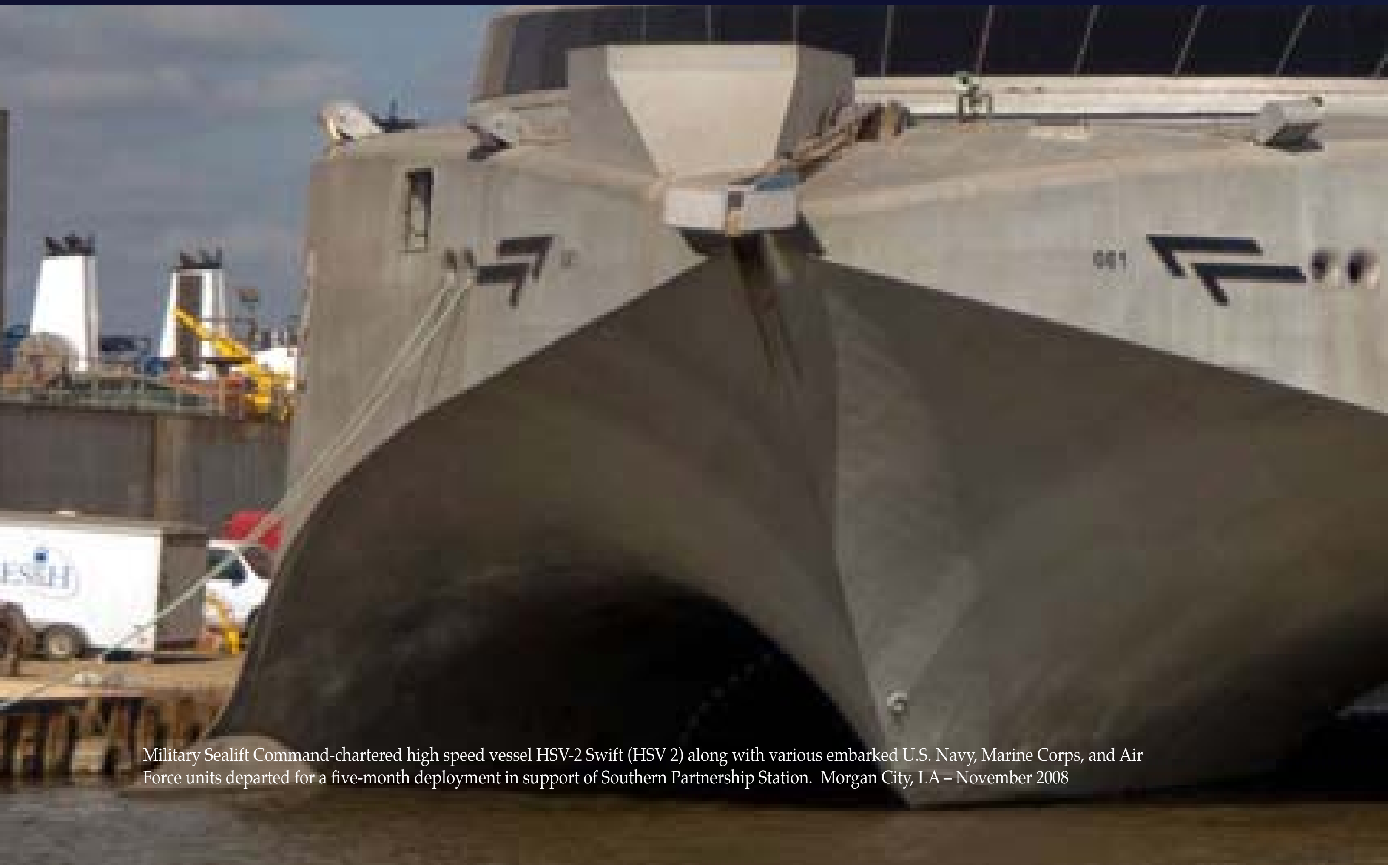
Improving cost analysis. We continue to improve the quality of cost estimation commensurate with the Secretary's emphasis on acquisition reform. Meaningful and credible cost information enables senior leadership to make more informed decisions on planned acquisitions.

Investing in our workforce. We offered several training opportunities for improving the competencies and knowledge of our financial management workforce. We also expanded our internship program, doubling the number of associates.

The Department of the Navy's Fiscal Year 2009 Annual Financial Report, *Prevailing Today, Preparing for Tomorrow*, highlights our accomplishments in a year of transition and change. It also represents our commitment to the proper stewardship of public resources and financial transparency and accountability not only today but over the years to come.

John W. McNair
Acting

MANAGEMENT'S DISCUSSION AND ANALYSIS



Military Sealift Command-chartered high speed vessel HSV-2 Swift (HSV 2) along with various embarked U.S. Navy, Marine Corps, and Air Force units departed for a five-month deployment in support of Southern Partnership Station. Morgan City, LA – November 2008

2009

Fiscal Year 2009 in Review

In 2009, U.S. ships, Sailors, and Marines stood on call throughout the world, ready at an instant to protect innocent people or to provide assistance as needed. During the year, the U.S. Navy kept our country and overseas partners safe from terrorism and other acts of cruelty, and provided humanitarian assistance and disaster relief when nature struck harshly. Despite a year of crises abroad and changes at home, the Navy and Marine Corps stayed focused, and were undeterred in the face of dangerous and shifting situations.

The pictures that follow provide a glimpse into some of the significant events involving the Department of the Navy in Fiscal Year 2009. U.S. maritime forces held strong, protected the homeland, and provided aid around the world to those in need.

Oct 2008 – Dec 2008

Crewmembers of the Virginia-class attack submarine USS New Hampshire (SSN 778) line the boat during the commissioning ceremony at Portsmouth Naval Shipyard. Kittery, ME – October 2008

Spectators attend the commissioning ceremony for the littoral combat ship USS Freedom (LCS 1) at Veterans Park. Milwaukee, WI – November 2008

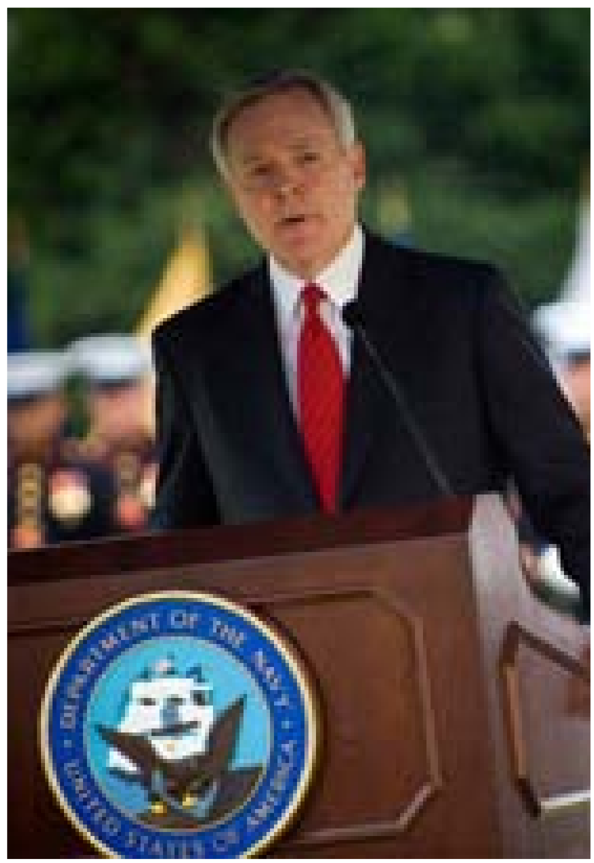
Jan 2009 – Mar 2009

President Barack Obama and Chief of Naval Operations Admiral Gary Roughead watch parade participants march by the reviewing stand during the Presidential Inaugural Parade. Washington, DC – January 2009

F/A-18 aircraft assigned to Air Wing 1 at Naval Air Station Oceana, VA perform a flyover during the commissioning ceremony for the 10th and final nuclear-powered Nimitz-class carrier, USS George H.W. Bush (CVN 77). Norfolk, VA – January 2009

Seabees assigned to Naval Mobile Construction Battalion (NMCB) 7 depart an Air Force C-17 aircraft following its arrival at a forward operating base. Helmand Province, Afghanistan – January 2009

Hospital Ship USNS Comfort (T-AH 20) departs for a four-month humanitarian mission to the U.S. Southern Command. Norfolk, VA – April 2009



Secretary of the Navy Ray Mabus addresses guests during his public Oath of Office ceremony at the Naval Support Activity Washington. Washington Navy Yard, DC - June 2009.

The amphibious assault ship Pre-Commissioning Unit Makin Island (LHD 8) sails through the Strait of Magellan on its way to its new homeport in San Diego, CA. Strait of Magellan – September 2009

During exercise Stellar Avenger, the Aegis-class destroyer USS Hopper (DDG 70) launches a standard missile (SM) 3 Blk IA, successfully intercepting a sub-scale short range ballistic missile, launched from the Kauai Test Facility, Pacific Missile Range Facility, Barking Sands, Kauai. Pacific Ocean – July 2009

The Los Angeles-class attack submarine USS Annapolis (SSN 760) was featured in "At Sea," a three-part documentary on the U.S. Navy. Military Channel – August 2009

To maintain, train, and equip combat-ready Naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas.

- Department of the Navy Mission

Introduction

During Fiscal Year (FY) 2009, the Department of the Navy (DON) maintained its capabilities, which included fighting two wars, while putting in place policies, procedures, and assets necessary for the years and challenges ahead. The theme of this report, "Prevailing Today, Preparing for Tomorrow," underlies all the actions and decisions at the DON. From a shift in force levels in Iraq and Afghanistan to evaluations of unmanned systems, DON takes actions to maintain its naval capabilities around the world. The DON continually prepares for future challenges at home and abroad to assure a positive impact wherever, and whenever, it is needed.

The FY 2009 Management's Discussion and Analysis (MD&A) that follows provides perspective on the breadth and depth of the DON's mission and the resources appropriated to it. The FY 2009 MD&A is organized as follows:

- Organization and Mission
- Strategic Management
- Management Assurances
- Financial Condition and Results of Operations
- Looking Forward

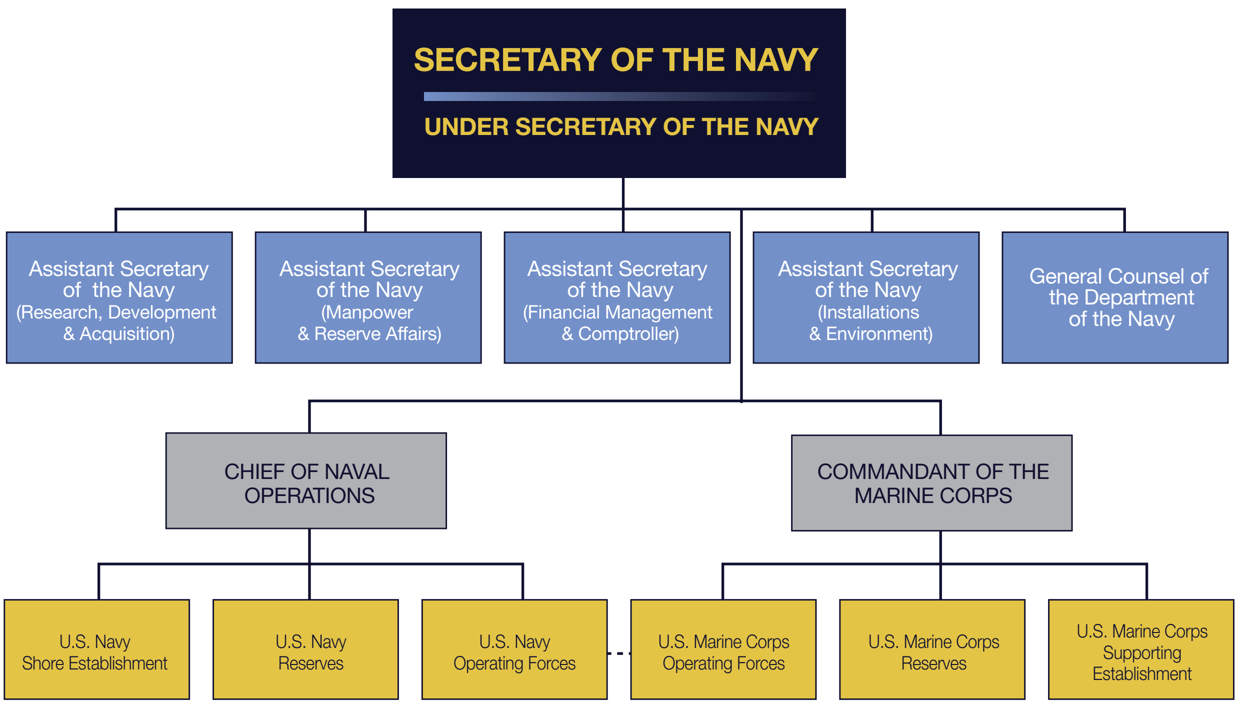
Organization and Mission

The DON's ability to effectively answer the call of duty around the world depends on an organizational structure designed for responsiveness to allies and support for Sailors and Marines on the front lines. The DON is a large and complex organization with nearly 640,000 U.S. Navy and U.S. Marine Corps personnel and over 196,000 Navy and Marine Corps civilians located worldwide. Headquartered at the Pentagon, DON is organized under the Secretary of the Navy, a civilian appointed by the President, who conducts all Department affairs under the authority, direction, and control of the Secretary of Defense. Under the purview of the Secretary of the Navy are the Under Secretary of the Navy, four Assistant Secretaries of the Navy, the General Counsel, and two key military leaders—the Chief of Naval Operations, a four-star Admiral, responsible for the command and operating efficiency of the U.S. Navy, and the Commandant of the Marine Corps, a four-star General, responsible for the performance of the U.S. Marine Corps.

The U.S. Navy and the U.S. Marine Corps have numerous commands that operate under the authority and responsibility of a commander or other designated official and typically support a network of subordinate commands. Each command has a clearly defined mission that supports the overall DON mission in support of the Department of Defense's responsibilities. Both Services provide ready forces to support the U.S. joint military commands in conducting their worldwide missions (*www.defenselink.mil/specials/unifiedcommand*) .

Founded April 30, 1798

Title 10 U.S. Code, Section 5061



**Dashed line signifies collaboration of the U.S. Navy and the U.S. Marine Corps operating forces.*

The chart above is a simplified illustration of the DON organizational structure. The full structure is shown online at *www.navy.mil* under "About the Navy."

United States Navy	United States Marine Corps
Founded October 13, 1775	*Founded November 10, 1775*
Title 10 U.S. Code, Section 5062	*Title 10 U.S. Code, Section 5063*

Navy Civilians: 176,026
(Full-time Equivalents)

Marine Corps Civilians: 20,866
(Full-time Equivalents)

U.S. Navy Active: 329,304
(Officers, Enlisted, & Midshipmen)

U.S. Marine Corps Active: 203,095
(Officers & Enlisted)

U.S. Navy Reserve: 66,474
(Drilling Reserve & Full-time Support)

U.S. Marine Corps Reserve: 38,510
(Drilling Reserve & Full-time Support)

Personnel Data as of Fiscal Year Ended September 30, 2009

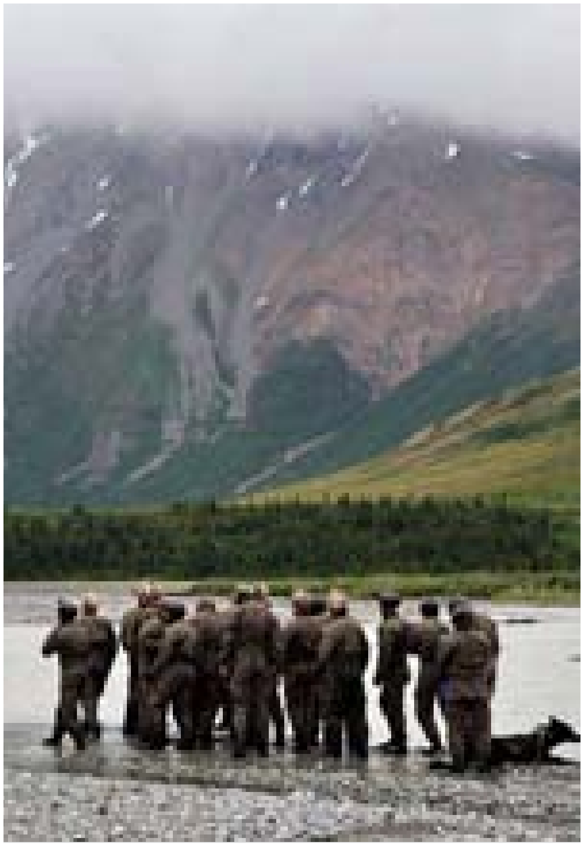
Sailors assigned to Beach Master Unit (BMU) Detachment Westpac, based in Sasebo, Japan, come ashore from Landing Craft Unit (LCU) 1627 toward Freshwater Beach during Exercise Talisman Saber - July 2009

Strategic Management

The DON is committed to improving core capabilities that support the U.S. maritime strategy, *A Cooperative Strategy for 21st Century Seapower*. These core capabilities are critical to U.S. maritime power and reflect an increased emphasis on activities that prevent war and build partnerships—forward presence, deterrence, sea control, power projection, maritime security, humanitarian assistance, and disaster response.

The cooperative strategy, guided by the objectives articulated in the National Strategy for Maritime Security, National Security Strategy, National Defense Strategy, and National Military Strategy, was developed to be a unified and enduring strategy that will apply maritime power to the crucial responsibility of protecting U.S. vital interests in an increasingly interconnected and uncertain world. It binds the three maritime services—U.S. Navy, U.S. Marine Corps, and U.S. Coast Guard—closer together than ever before in a mission to more fully safeguard maritime interests at home and abroad.

The Department of the Navy Objectives for FY 2008 and Beyond (listed below) support the U.S. maritime strategy by focusing on key efforts that will increase the Department's effectiveness, improve the lives of Sailors and Marines, and result in greater security for the U.S. A summary of key accomplishments by objective is provided below.



During Northern Edge 2009, Navy SEALS worked with the Northern Warfare Training Center on river crossing techniques and rope handling to prepare them for overseas contingency operations. Fort Wainwright, Alaska - June 2009

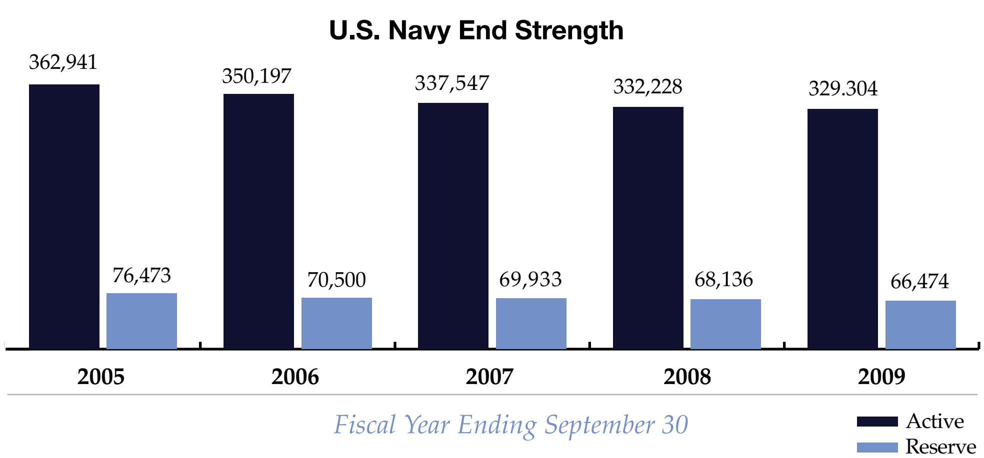
Objective 1: Provide a Total Naval Workforce Capable and Optimized to Support the National Defense Strategy

The DON continued to invest in recruiting, retaining, and training naval personnel to provide opportunity, promote personal and professional growth, and ensure the type of workforce needed for the 21st century. Recruitment and retention efforts focused on active and reserve personnel "low density/ high demand" skill sets, such as Naval Special Warfare, Seabees, reconnaissance Marines, explosive ordnance disposal, and medical specialties. Using advanced technologies, DON has shifted training from the traditional classroom to the use of simulators, trainers, computer-based interactive curriculums, and other media-based approaches. This initiative provided the total naval force with appropriate training in a more efficient manner and prepared naval personnel to better perform mission-critical tasks.

The DON also continued to ensure that wounded Sailors and Marines and their families receive the highest priority care, respect, and treatment for their sacrifices. Representative examples of DON quality of life and service initiatives include Navy Safe Harbor; Marine Corps Wounded Warrior Regiment; National Naval Medical Center's state-of-the art treatment for traumatic brain injuries; and Bureau of Medicine and Surgery's Operational Stress Control program to address post-traumatic stress disorders and other psychological conditions.

U.S. Navy

The Navy continued to resize and reshape its forces to meet deployment requirements of



continuing Overseas Contingency Operations, Homeland Defense, and stability operations. From FY 2005 to FY 2009, the Navy reduced the size of its active and reserve components by 9% and 13%, respectively. All assigned missions were accomplished at this level as a result of force structure changes, efficiencies gained through technology, altering the workforce mix, and new manning practices.

U.S. Marine Corps

The Marine Corps continued to grow the active force to meet the increasing demands of Overseas Contingency Operations. From FY 2005 to FY 2009, the Marine Corps increased the size of its active component by 13%. This growth in force should begin to reduce the strain on individual Marines assigned to continually high operational tempo units, such as amphibious assault, reconnaissance, combat service support, and explosive ordnance disposal.

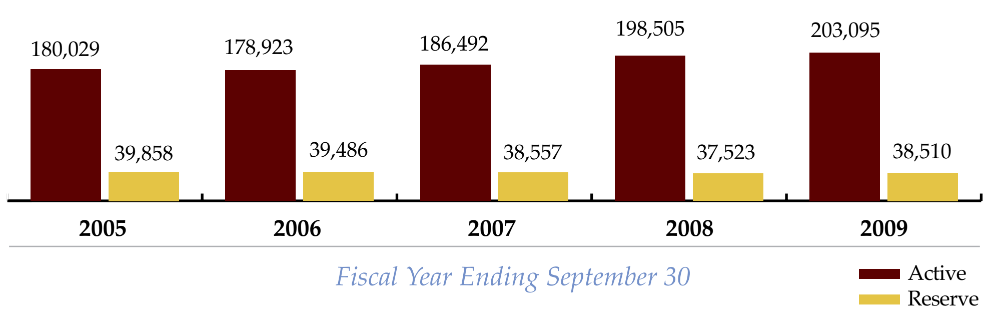
Navy and Marine Corps Civilian Personnel

The size of the civilian workforce, which has increased by 3% over the last five fiscal years, continued to support the mission and daily functions of the Navy and Marine Corps. Civilian personnel provide various types of support, such as research and development; engineering; acquisition; depot maintenance; and financial management and budget.

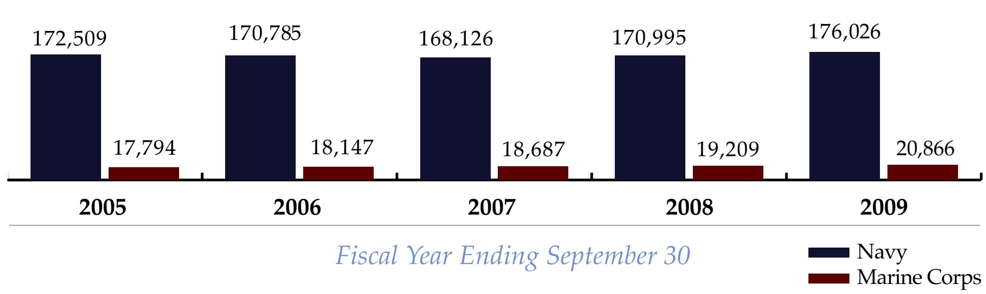
Objective 2: Use the Navy-Marine Corps Team to Aggressively Prosecute Overseas Contingency Operations

The Navy and Marine Corps team continued to answer our Nation's call in Overseas Contingency Operations. From combat operations in Iraq and Afghanistan to humanitarian assistance and disaster relief throughout the world, DON has proven ready to meet any task and answer any challenge.

U.S. Marine Corps End Strength



Civilian Personnel (Full-Time Equivalents*)



** Full-time equivalents are the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year.*

The aircraft carrier USS John C. Stennis (CVN 74) transits Singapore harbor during a six-month deployment to the western Pacific Ocean. Singapore Harbor, Singapore – April 2009

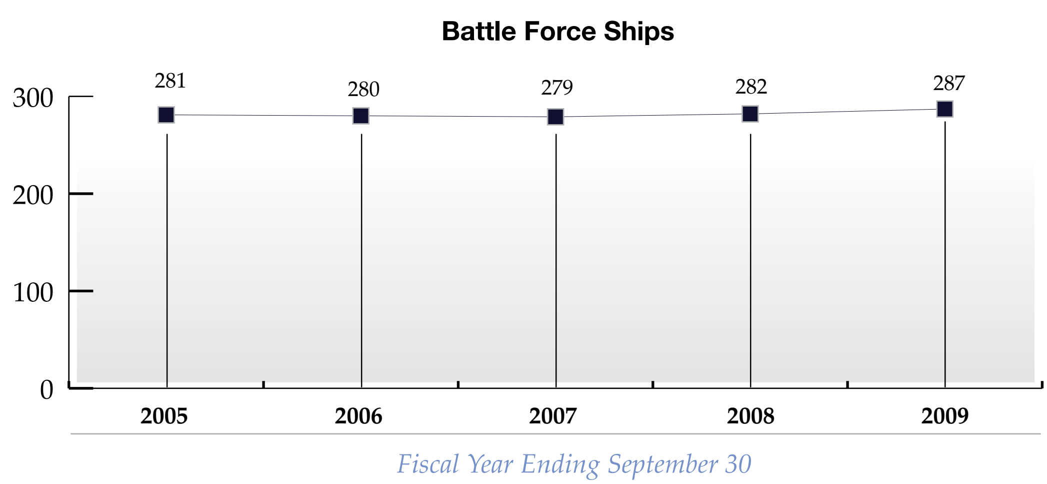
Fleet Response Plan

The Navy continued to focus on providing forward deployed ready forces, from individual units to strike groups, capable of providing a substantial surge force. The Fleet Response Plan (FRP), which supports the National Military Strategy, provides the readiness for this capability. FRP provides adaptable, flexible, and sustainable naval forces necessary not only to fight current ongoing contingencies, but also to support the needs of the Combatant Commanders maintaining a global forward presence and any other evolving national defense requirements.

Marine Corps Operating Forces

During 2009, Marines operated from Iraq to Afghanistan to the Horn of Africa displaying the flexibility and responsiveness of the Marine Air-Ground Task Force. They maintained a forward presence and security cooperation deterrence in the Western Pacific and the Central Command Area of Responsibility. These forces, along with numerous Fleet Anti-terrorism Security Teams, at all times displayed the versatility and dependability of Marine Forces.

Marine Expeditionary Forces (MEFs) provide highly trained, versatile expeditionary forces capable of rapid response to global contingencies. Each MEF consists of a command element, one infantry division, one aircraft wing, and one Marine logistics group. Embedded within each MEF are three Marine Expeditionary Units, which deploy regularly



Marines from the 31st Marine Expeditionary Unit aboard the amphibious assault ship USS Essex (LHD 2) board a CH-53E Sea Stallion helicopter during a joint exercise between the U.S. and the Australian Defense Force. Coral Sea – July 2009

in the Expeditionary Strike Groups. Each MEF also has an embedded capability to source a Marine Expeditionary Brigade.

Marine Corps Land Forces	2007	2008	2009
Marine Expeditionary Forces	3	3	3
Active Infantry Battalions	26	27	27
Reserve Infantry Battalions	9	9	9

Objective 3: Build the Navy-Marine Corps Force for Tomorrow

The DON is committed to finding solutions that allow the Navy and Marine Corps to balance current requirements and operational realities with the likely needs of the future. The DON strives to maintain an agile and flexible force that not only contributes to winning the Nation's wars, but also deters future conflict to the maximum extent possible—whether persuading by strength or supporting humanitarian relief.

Ship Construction

The future fleet of ships will sustain operations in forward areas longer, be able to respond more quickly to emerging contingencies, and generate more sorties and simultaneous attacks against a greater number of multiple

USNS Matthew Perry (T-AKE 9) is scheduled to be delivered to Military Sealift Command in early 2010. San Diego, California – August 2009

The Littoral Combat Ship Independence (LCS 2) underway during builder's trials. Gulf of Mexico – July 2009

targets and with greater effect than the current fleet. Examples of ship construction programs include:

- Dry cargo and ammunition ship (T-AKE)
- Guided missile destroyers (DDG)
- Ford Class (CVN 21), next generation of aircraft carrier
- Nuclear-powered attack submarine (SSN)
- Amphibious platform dock ship (LPD 17)
- Littoral combat ship (LCS)

Aircraft Procurement

To sustain global air superiority, DON has invested in naval aviation acquisition programs. The DON has an extensive program for long-term consolidation and recapitalization of all naval aircraft in order to develop the optimum balance between requirements and usage. Examples of aircraft procured are listed below.

Navy Aircraft:

- F/A-18 E/F Super Hornet – long-range, multi-mission, all-weather strike fighter
- EA-18G Growler – next-generation electronic attack aircraft
- MH-60S Knighthawk, MH-60R Seahawk – multi-mission support/combat helicopters
- MQ-8B Fire Scout – vertical take-off and landing tactical unmanned aerial vehicle

An F/A-18F Super Hornet (U.S. Navy). Gulf of Oman – September 2009

An MH-60R Sea Hawk helicopter (U.S. Navy). Pacific Ocean – May 2009

An AH-1Z Super Cobra (U.S. Marine Corps). Pacific Ocean – January 2009

Marine Corps Aircraft:

- MV-22B Osprey – vertical/short take-off and landing, multi-purpose tactical transport
- AH-1Z / UH-1Y – utility and attack helicopters
- KC-130J – multi-mission, tactical aerial refueler/transport aircraft

Acquisition Reform

Future DON capabilities depend on adequate and continual acquisitions. The DON has made a renewed commitment to invest in its acquisition workforce and realize a measurable return defined in terms of acquisition process improvements. Through an improved acquisition process, DON can better measure and evaluate the implications of specific unit procurement costs on total future force levels under likely constrained future budgets.

Towards this end, DON has markedly increased the requirement for trained and certified acquisition personnel (civilian and military) in several specialties including cost analysis. This focus corresponds with an expansion of the Acquisition Intern program and the active recruitment and retention of qualified personnel at the middle and senior career levels. Resources from the Department of Defense Acquisition Workforce Development Fund (DAWDF) support the expansion of recruitment at all levels including interns, journeymen, and highly qualified experts. DON also uses DAWDF for the retention and credentialing of personnel through educational and developmental activities.

As part of acquisition reform, DON is committed to better cost control and evaluation for shipbuilding and conversion, one of DON's major acquisition programs. Achieving a cost-effective fleet and a fleet that is less costly to operate requires acquisition reforms, such as stabilizing requirements and shipboard automation, as well as long-term industry investments.

Also required is a better understanding of how speed, size, and complexity of weapons systems affect future unit procurement costs and ultimately the size of future purchases and force levels. The DON sharply increased its staff and will bring these improved estimates more effectively into the design phase of the acquisition planning process.

Rear Admiral Arthur Johnson, Commander, Naval Safety Center, left, discusses on- and off-duty safety with Naval Air Station Whidbey Island leadership. Oak Harbor, Washington – May 2009

Objective 4: Safeguard the People and Resources of the Navy-Marine Corps Team

The Secretary of Defense has challenged each of the military departments to achieve a 75% rate reduction in mishaps by the end of FY 2012. As a result, DON promulgated its safety vision effective in FY 2009. This comprehensive document providing top-down guidance offers the Fleet a road map to implement, track, and refine unit-level safety programs and improve its organizational safety culture. The DON Safety Vision plots the Department's course for the future, aimed at achieving world-class safety – being the best military safety organization in the world.

In FY 2009, DON led the Department of Defense (DoD) in developing and expanding a new DON Military Sport Bike Rider Course and initiating a Marine Corps Sport Bike Track Day training program to target one of the leading causes of death for its personnel. These and other DON-wide efforts led to dramatic reductions in automobile and motorcycle fatalities in FY 2009.

Additionally, DON made a number of improvements in the development of its Risk Management Information System (RMIS). Going forward, RMIS will dramatically improve safety data reporting, analysis, and rapid dissemination of safety hazards/lessons learned. RMIS will eventually improve DON's overall safety culture by facilitating more efficient safety program management at individual DON units.

Objective 5: Strengthen Ethics as a Foundation of Exemplary Conduct within the Department of the Navy

The DON implemented a wide range of initiatives to promote and enhance DON's ethics culture. For example, DON instituted the Ethics Counselor Certification and Training Program, ensuring enhanced professionalism among counselors who can now offer more consistent and appropriate advice for clients.

The DON also built and launched, via Navy Knowledge Online, a Department-wide Core Values Training Program to ensure personnel more fully understand DON's guiding principles. The Navy General Counsel, the Judge Advocate General, and the Staff Judge Advocate to the Commandant joined together to merge websites into a single web-based source called the Ethics Compass, for ethics information in DON (*http://ethics.navy.mil/*) and to promote consistency in a user-friendly, technologically advanced way. The DON also recently completed an organizational ethics culture assessment after canvassing over 137,000 personnel, the results of which will be made available in late 2009. Finally, DON instituted the DON Ethics Leadership Award Program to recognize those within the Department who best exemplify the highest standards of ethical conduct.

Objective 6: Provide First-Rate Facilities to Support Stationing, Training, and Operations of Naval Forces

The DON continued to invest in military construction projects to keep pace with evolving mission requirements and quality of life initiatives. As part of the Defense Policy Review Initiative, an international alliance to enhance the security environment was initiated with the U.S. and the Government of Japan signing an agreement for the relocation of approximately 8,000 U.S. Marines and their families from Okinawa to Guam. Expansion, upgrades, and repairs of existing infrastructure at Guam military bases will support the impending move.

Investments in new construction on Marine Corps installations within the U.S. support authorized increases in Marine Corps personnel. The funding will provide permanent barracks, mess facilities, operations centers, training ranges, and other supporting facilities.

Secretary of the Navy, the Honorable Ray Mabus, left, is greeted at Kadena Air Base in Okinawa, Japan before speaking to Marines and Sailors about the move to Guam in 2014. Okinawa, Japan – August 2009

Construction of wounded warrior barracks at Camp Lejeune, North Carolina and Camp Pendleton, California began in 2009. The barracks will accommodate the specific needs of wounded Marines and be located near the Marine Corps bases' respective naval hospitals.

Business Transformation

As a separate and supporting element of its strategic objectives, DON is committed to transforming the way it does business by using its people, processes, and systems more effectively. The DON Financial Improvement Program is the integrating financial element of DON's business transformation strategy and a supporting initiative of the Department of Defense (DoD) Financial Improvement and Audit Readiness (FIAR) Plan, which organizes and prioritizes the financial improvement efforts of DoD Components. Navy Enterprise

Resource Planning (ERP) is the key system driver of DON business transformation and a key enabler of the DoD Enterprise Transition Plan, which organizes and prioritizes efforts to modernize DoD business and financial systems. Continuous Process Improvement/ Lean Six Sigma (CPI/LSS) initiatives, part of the DoD-wide CPI/LSS program, enable more effective and efficient operations across the DON enterprise.

DON Financial Improvement Program

The DON Financial Improvement Program (FIP) and the Marine Corps Financial Improvement Initiative (FII) are multi-year Department-wide efforts to modernize Navy-Marine Corps financial processes and systems to better serve worldwide operations. The goal of the FIP and FII is to produce financial management information with greater accuracy, reliability, and accessibility. With improved information, DON managers can allocate the Department's resources in a more precise way. Also, with improved financial information, DON will move closer to audit readiness.

Accomplishments for FY 2009 are identified below.

- Received a favorable audit review from the DoD Inspector General on the Weapons Systems component of the Environmental and Disposal Liabilities line item on the DON General Fund Balance Sheet.

- Asserted audit readiness of the Appropriations Received line item on the DON General Fund Statement of Budgetary Resources.
- Asserted audit readiness of components of the Environmental and Disposal Liabilities line item on the DON General Fund Balance Sheet, specifically Defense Environmental Restoration Program, Other Environmental Liabilities, and Base Realignment and Closure.
- Completed Naval Audit Service agreed-upon procedures at Military Sealift Command (MSC), moving MSC toward audit for September 30, 2009. MSC is a component of the Navy Working Capital Fund Transportation business area.

Marine Corps Financial Improvement and Audit Readiness Initiative

The Marine Corps, a subsidiary reporting entity within DON, has strengthened business processes to improve the accuracy, timeliness, and reliability of financial information. The Marine Corps' near-term goal is to achieve a favorable audit opinion on its General Fund FY 2010 Statement of Budgetary Resources (SBR) as well as the financial statement compilation process and the Fund Balance with Treasury, which were asserted as being audit ready in FY 2009.

During the financial improvement and audit readiness preparation process, a study was conducted to measure the direct costs and savings associated with the Marine Corps efforts. The results of the study showed that for every dollar invested, nearly three dollars in value were created. These improvements mean the audit preparation process holds the potential to achieve a considerable and measurable return on investment for every dollar appropriated by Congress.

The Marine Corps is the first major operational war-fighting organization to achieve audit readiness for any of the four financial statements and therefore, over a broad part of its business operations. The Marine Corps selected the SBR as the first statement to assert for audit readiness because it is the most heavily used and therefore, most heavily relied upon in the day-to-day management of its resources. The Marine Corps' audit readiness efforts also provide a meaningful pilot for DON as it continues to discover how to use the audit process to improve DON resource management.

Navy Enterprise Resource Planning

Navy ERP is an integrated business management system that updates and standardizes Navy business operations, provides financial transparency and total asset visibility across the enterprise, and increases effectiveness and efficiency. Naval Air Systems Command, Naval Supply Systems Command (NAVSUP), and Space and Naval Warfare Systems Command have implemented Navy

ERP Release 1.0 (Financial, Acquisition, and Workforce Management Capability). DON will deploy Navy ERP Release 1.1 (Single Supply Solution), which will consolidate wholesale and retail supply functions, in February 2010.

The Navy will continue to expand Navy ERP throughout the enterprise. Other Commands scheduled for implementation are Naval Sea Systems Command (General Fund operations, October 2010; and Working Capital Fund operations, October 2011); Strategic Systems Programs (October 2012); and Office of Naval Research (October 2012). More information on Navy ERP is available at *http://www.erp.navy.mil*.

Continuous Process Improvement

Continuous Process Improvement (CPI) is a primary enabler for managing the effectiveness and efficiency of DON processes in support of the Warfighter and Business Operations. CPI provides the DON workforce with proven performance improvement tools to build a strong warfighter support foundation for improving cycle time and reliability, aligning the work of subordinate organizations to enterprise-wide goals, and optimizing costs. DON established the Deputy Under Secretary of the Navy for Business Operations and Transformation, who also serves as Deputy Chief Management Officer, to bring together processes and organizations for the accomplishment of strategic and corporate business objectives.

The DON Continuous Process Improvement Management System (CPIMS) measures progress and facilitates replication of process improvements and results. CPIMS gained momentum in FY 2009 with the addition of hundreds of new projects and the participation of all DON commands. Below are some examples of successful CPI projects in FY 2009.

- Civilian Base Check-In and Check-Out Processes – The Naval Air Systems Command (NAVAIR) completed two projects that focused on civilian base check-in and check-out processes. Both projects identified long cycle times, excessive labor costs, disjointed processes, and network accounts remaining open after completion of check-out procedures. NAVAIR streamlined both processes with a one-stop check-in and phone check-out and identified a new process for termination or transfer of network accounts. NAVAIR reduced cycle times for check-in and check-out processes by 28% and 38%, respectively.
- Hostile Area Deployment – The Space and Naval Warfare Systems Center (SSC) Atlantic identified inefficiencies in the support and administrative processes for preparing travelers who support the warfighter in hostile threat areas. SSC Atlantic streamlined and standardized the processes for preparing the hostile area deployment packages, which had taken as long as 100 days. SSC Atlantic also standardized contents of the package by 40% and reduced the review process. Additionally, SSC Atlantic reduced submission of packages by 50% by eliminating redeployment packages for employees remaining in the hostile area.
- Patient Records Process – The Bureau of Medicine and Surgery (BUMED) identified inefficiencies in processing records of discharged patients. By utilizing various CPI tools, BUMED now processes 99.07% of patient records within the required 30-day period.
- Marine Recruit Training Cycle Time – Discharging a training recruit from Marine Corps Recruit Depot (MCRD) San Diego took 12 to 45 days. A Lean Six Sigma team analyzed the process and made changes that reduced the discharge cycle time by 62%. Fewer days spent on the depot for each of the approximately 1,400 recruits resulted in $800,000 savings in FY 2009.

Management Assurances

Commanders and managers throughout DON must ensure the integrity of their programs and operations. Part of this responsibility entails compliance with Federal requirements for financial reporting, financial management systems, and internal controls. These requirements promote the production of more timely, reliable, and accessible financial information, supported by the development and implementation of more effective internal controls. More useful financial information and effective controls save money and improve efficiency, thereby enhancing public confidence in DON's stewardship of public resources, which are critical for the protection and sustainment of our Nation and vital U.S. interests.

Below is a brief discussion of DON compliance with Federal requirements in FY 2009.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires agencies to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. FFMIA supports the same objectives as the Chief Financial Officers Act of 1990 but with a systems emphasis. The DON legacy financial management systems and feeder systems are not yet substantially compliant with Federal financial management systems requirements, generally accepted accounting principles, and the USSGL at the transaction level. While FFMIA compliancy requires a solid systems element, the improvements in process documentation and internal control testing being made through DON FIP, combined with the ongoing deployment of Navy ERP, will move DON toward these goals over the next several years. Navy ERP will be compliant with the DoD Standard Financial Information Structure (SFIS), which includes support for the USSGL at the transaction level. SFIS is DoD's common business language that supports standardization of financial reporting across DoD Components.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires agencies to evaluate their system of internal accounting and administrative controls and to report on the effectiveness of these controls in an annual statement of assurance. The FMFIA was the model for the Sarbanes-Oxley Act of 2002, which applies to publicly traded companies. Application of the Sarbanes-Oxley Act led to the Federal Government's reevaluation of internal control policies under FMFIA, including the addition of Appendix A to Office of Management and Budget (OMB) Circular A-123 in December 2004, "Management's Responsibility for Internal Control." Appendix A of the revised circular requires agencies to provide a separate statement of assurance on the effectiveness of internal controls over financial reporting.

Internal Controls Over Non-Financial Operations

DON's system of non-financial internal controls, in effect as of June 30, 2009, provided qualified assurance, with the exception of two unresolved prior year material weaknesses, that controls are in place, operating effectively, and being used. There were no new material weaknesses reported in FY 2009. DON has planned aggressive corrective action to strengthen internal controls, including targeting the two unresolved material weaknesses for closure. DON will continue to emphasize internal controls in its operational and business processes to improve operating efficiency, promote good stewardship, enhance decision-making capability, and comply with Office of the Secretary of Defense policy. The increased self-reporting activity and resulting transparency of the reporting process have served to ensure DON controls are reasonably sound and relevant to the overall DON mission.

Internal Controls Over Financial Reporting

Through its Financial Improvement Program (FIP), DON conducted an assessment of internal controls over financial reporting in various areas of the DON General Fund in FY 2009. Based on the results of control assessments in the DON General Fund, DON provided qualified assurance that internal controls over financial reporting, as of June 30, 2009, were operating effectively with the exception of six material weaknesses. Material weaknesses were noted in the following segments: Collections and Disbursements, Procure to Pay Processes, Real Property, General Equipment, Military Equipment, and Operating Materiel and Supplies.

Similarly, based on the results of control assessments in Navy Working Capital Fund, DON provided qualified assurance that internal controls over financial reporting, as of June 30, 2009, were operating effectively with the exception of five material weaknesses. Material weaknesses were noted in the following segments: Collections and Disbursements, Procure to Pay Processes, Inventory, Real Property, and General Equipment.

It is important to note that the DON could provide no assurance for the internal controls over financial reporting for segments in either fund where assessments were not conducted.

The Marine Corps, a subsidiary reporting entity within DON, documented and strengthened financial and business practices to improve the accuracy, timeliness, and reliability of reported financial information. Through recently concluded internal control assessments, the Marine Corps is able to highlight financial and business practice reliability for material lines of the Balance Sheet and Statement of Budgetary Resources. The scope of testing and the degree of confidence achieved also enabled Marine Corps to assert audit readiness in FY 2009.

The FY 2009 FMFIA Annual Statement of Assurance is available at *http://www.fmo.navy.mil/mic/soa_index.htm*.

Financial Condition and Results of Operations

The accompanying financial statements and related disclosures represent DON's enduring commitment to fiscal accountability and transparency. Through the DON FIP and related business transformation initiatives discussed earlier, DON has made significant progress toward improving the quality and timeliness of its financial information. However, DON is currently unable to fully implement all elements of generally accepted accounting principles and OMB Circular A-136, *Financial Reporting Requirements*, due to

limitations of its financial and non-financial management processes and systems feeding into the financial statements. Because of these limitations, the Department of Defense, Office of Inspector General, was unable to express an opinion on the FY 2009 DON financial statements. It should be noted that these limitations exist primarily in our proprietary accounting processes and less so in the budgetary accounting performed to manage and report on the application of budget authority to the purposes and programs approved in appropriations acts. In fact, the U.S. Marine Corps achieved full audit readiness for its General Fund Statement of Budgetary Resources (SBR) and DON has revised its strategy to place first priority on its SBR as well. Despite documented material weaknesses and because of compensating measures and close oversight, DON believes the budgetary information used for decision-making is accurate and reliable.

For financial reporting purposes, DON is organized into two reporting entities: DON General Fund (GF) and Navy Working Capital Fund (NWCF), which include financial information for both the U.S. Navy and the U.S. Marine Corps (USMC). Each reporting entity has its own set of financial statements and related notes. USMC also has a separate set of subsidiary financial statements and related notes, which are included in this annual financial report.

DON General Fund

The DON GF supports overall Departmental operations. Enacted appropriations comprise the majority of the GF account structure, which includes five major appropriation groups:

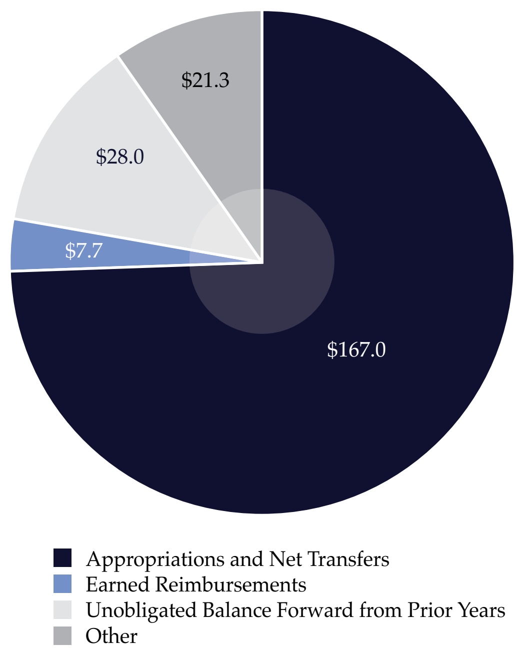
- Operation and Maintenance
- Military Personnel
- Procurement
- Research, Development, Test, and Evaluation
- Military Construction

Enacted appropriations flow through OMB and the Office of the Secretary of Defense to the Office of the Secretary of the Navy, where they are allocated to administering offices and major commands. The administering offices and major commands, which in turn obligate the appropriations to fund operational expenses and capital investments, are required to exercise a system of effective control over financial operations.

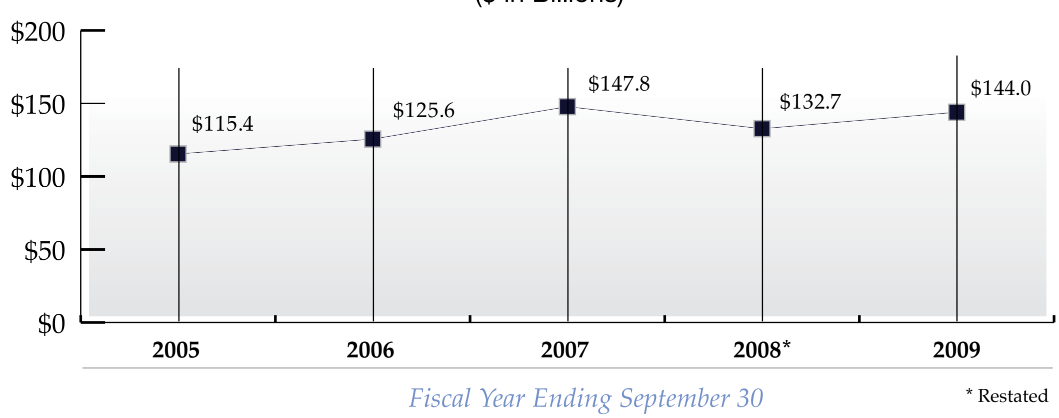
Results of Operations

The Combined Statement of Budgetary Resources presents total budgetary resources of $223.9 billion that were available to the DON GF during FY 2009 and the status of those resources at fiscal year-end. Total budgetary resources were up $8.1 billion, 4%, in FY 2009 over FY 2008. Most of the increase came from increased budgetary authority from appropriations, which comprised 74% of total budgetary resources. Enacted appropriations increased $2.5 billion, 2%, for a total of $165.3 billion, when compared to FY 2008. The majority of the increase, 69%, was in the Operation and Maintenance; Military Personnel; and Research, Development, Test, and Evaluation appropriation accounts. DON obligated $197.0 billion of the $223.9 billion total resources in FY 2009, an increase of $9.2 billion, 5%, over FY 2008.

DON GF Sources of Funds, FY 2009
($ in Billions)



DON GF Net Cost of Operations, FY 2005 – 2009
($ in Billions)



The Combined Statement of Net Cost presents net cost of operations of $144.0 billion during FY 2009. Net cost of operations represents gross costs incurred by the DON GF less earned revenue. Net cost of operations increased $11.3 billion, 9%, when compared to FY 2008.

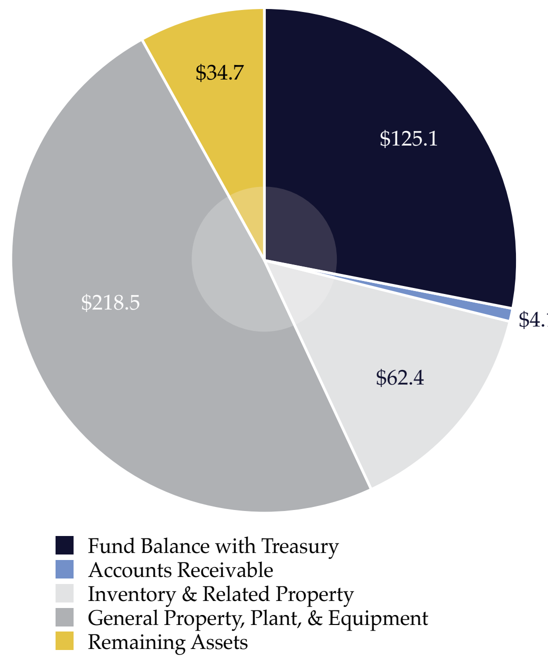
Financial Position

The DON GF continued to report a positive net position on its Consolidated Balance Sheet. Net position is the difference between total assets (what is owned) and total liabilities (what is owed). As of September 30, 2009, net position totaled $409.2 billion, which represents an increase of $24.8 billion, or 7%, from FY 2008. An increase of $23.4 billion in total assets attributed to the overall increase in net position. Total liabilities decreased by $1.5 billion.

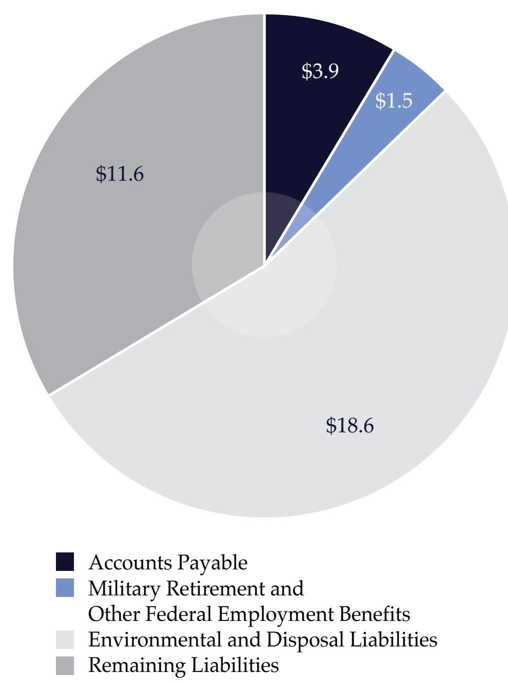
Primary contributors of the increase in total assets were General Property, Plant, and Equipment (GPP&E); and Fund Balance with Treasury (FBWT). The addition of new aircraft and ships during FY 2009 resulted in a $14.0 billion increase in Military Equipment, a component of GPP&E. Enacted appropriations for FY 2009 contributed to $2.5 billion of the increase in FBWT.

Primary contributors of the decrease in total liabilities were Other Liabilities, Nonfederal; and Accounts Payable, Nonfederal. A change in accrual methodology for tort claims resulted in a $2.7 billion decrease in legal liabilities, a component of Other Liabilities, Nonfederal. Partially offsetting this decrease in Other Liabilities was a $0.9 billion increase in Accounts Payable, Nonfederal. This increase is primarily attributable to a $0.6 billion increase in Aircraft Procurement.

DON GF Total Assets, FY 2009
($ in Billions)



DON GF Total Liabilities, FY 2009
($ in Billions)



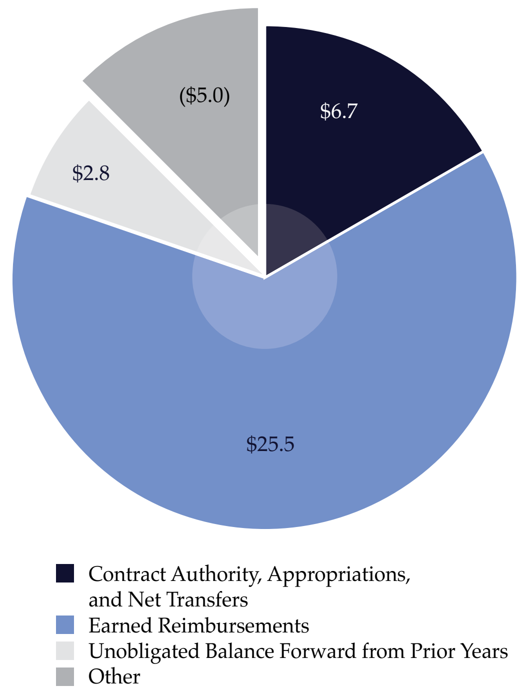
Navy Working Capital Fund

NWCF is a revolving fund established to meet the diverse requirements of the Navy and Marine Corps operating forces. Under the revolving fund concept, an appropriation or a transfer of funds finances initial NWCF operations. General or appropriated fund payments from customers for goods delivered or services performed subsequently replenish this initial working capital investment and sustain a continuous cycle of operations, minimizing the need for additional annual appropriations by Congress. The goal of NWCF is to break even over time by matching revenues earned to costs incurred. Achievement of this goal is occasionally complicated by the requirement that NWCF business areas maintain stable budget-driven prices for goods and services, to protect customers from unforeseen price fluctuations.

Results of Operations

The Combined Statement of Budgetary Resources presents total budgetary resources of $30.0 billion that were available to NWCF during FY 2009 and the status of those resources at fiscal year-end. Total budgetary resources were up $2.6 billion, 10%, in FY 2009 over FY 2008. Most of the increase came from increased spending authority from offsetting collections, which comprised 89% of total budgetary resources. Spending authority increased $1.4 billion, 5%, for a total of $26.7 billion, when compared to FY 2008.

NWCF Sources of Funds, FY 2009
($ in Billions)



Note: In the above chart, Other includes budgetary resources permanently not available of $6.4 billion, which is offset against the $1.4 billion sum total of Recoveries of prior year unpaid obligations and Change in unfilled customer orders.

Navy Working Capital Fund Business Activities By Business Area

Supply Management	Depot Maintenance
Supply Management, Navy (https://www.navsup.navy.mil) Supply Management, Marine Corps (http://www.logcom.usmc.mil)	Depot Maintenance, Aviation (http://www.navair.navy.mil) Depot Maintenance, Marine Corps (http://www.logcom.usmc.mil)
Base Support	**Transportation**
Facilities Engineering Commands (https://portal.navfac.navy.mil) Naval Facilities Engineering Service Center (https://portal.navfac.navy.mil)	Military Sealift Command (http://www.msc.navy.mil)
Research and Development	
Naval Research Laboratory* (http://www.nrl.navy.mil) Naval Surface Warfare Center (http://www.navsea.navy.mil) Naval Undersea Warfare Center (http://www.navsea.navy.mil)	Naval Air Warfare Center (http://www.navair.navy.mil) Space and Naval Warfare Systems Centers (http://enterprise.spawar.navy.mil) *Also see Office of Naval Research (http://www.onr.navy.mil)

NWCF business activities obligated $26.5 billion of the $30.0 billion total resources in FY 2009, an increase of $1.9 billion, 8%, over FY 2008.

The Combined Statement of Net Cost presents net cost of operations of $1.6 billion during FY 2009. Net cost of operations represents gross costs incurred by NWCF less earned revenue. Sources of earned revenue include DON, Army, and Air Force General Funds; Defense Working Capital Funds; other Navy and DoD appropriations; and non-DoD fund sources. Net cost of operations decreased $1.5 billion, 47%, when compared to FY 2008.

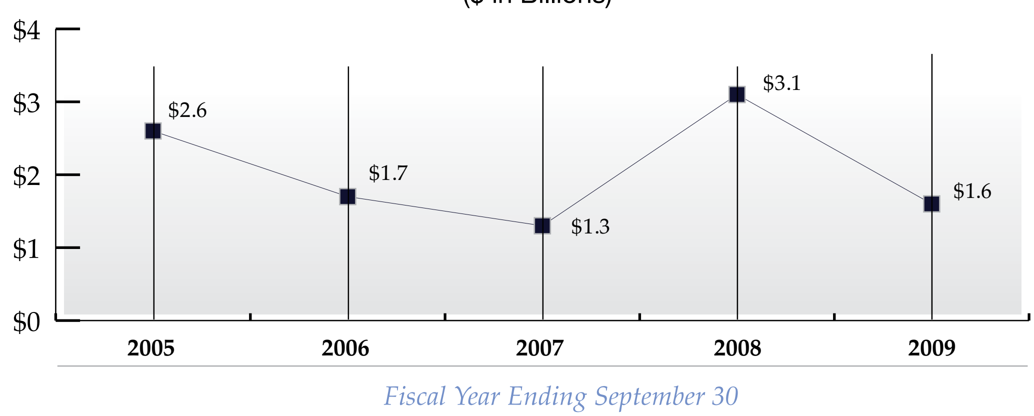
Financial Position

The NWCF continued to report a positive net position on its Consolidated Balance Sheet. Net position is the difference between total assets (what is owned) and total liabilities (what is owed). As of September 30, 2009, net position totaled $10.4 billion, which represents a decrease of $0.5 billion, or 5%, from FY 2008. Total assets increased $0.01 billion while total liabilities increased $0.5 billion. The larger increase in total liabilities, when compared to total assets, drove the overall decrease in net position.

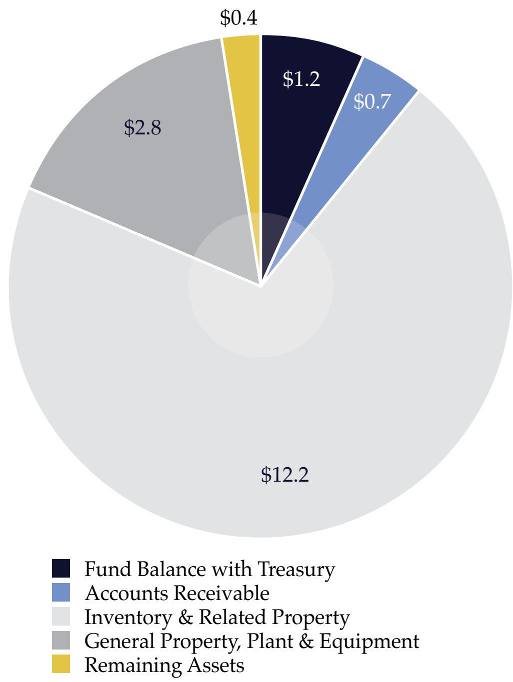
Decreases in Accounts Receivable, Intragovernmental; and General Property, Plant, and Equipment (GPP&E) primarily contributed to the smaller increase in total assets, when compared to total liabilities. Accounts Receivable, Intragovernmental decreased $0.3 billion primarily due to delayed FY 2008 billings, resulting in collections being processed through the U.S. Treasury in October 2008 (FY 2009). GPP&E decreased $0.4 billion primarily due to an increase in accumulated depreciation for NAVFAC buildings attributable to the reconciliation of their legacy property system to the DON's authoritative real property inventory system. Based on their reconciliation, NAVFAC determined that accumulated depreciation had been understated in FY 2008.

An overall increase of $0.4 billion in Other Liabilities (Intragovernmental and Nonfederal) primarily contributed to the increase in total liabilities. Of this $0.4 billion increase, $0.2 billion was attributable to Other Liabilities, Intragovernmental for advances from other Federal entities to the Space and Naval Warfare Systems Centers (SSC). SSC performed intelligence; and command, control, computer, communication, and information assurance services in order to enable the coordination of operations for these entities. Also, $0.1 billion was attributable to Accrued Funded Payroll and Benefits, a component of Other Liabilities, Nonfederal, as a result of more days of accrued payroll and leave, and new employees at Naval Supply Systems Command, Naval Air Warfare Center, Naval Surface Warfare Center, and NAVFAC.

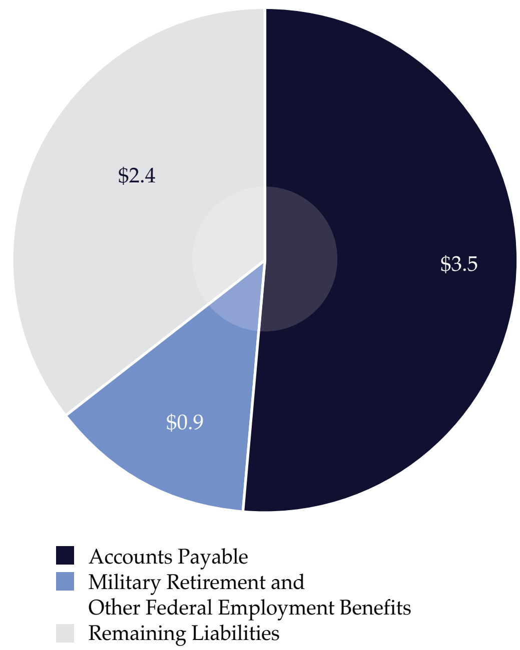
NWCF Net Cost of Operations, FY 2005 – 2009
($ in Billions)



NWCF Total Assets, FY 2009
($ in Billions)



NWCF Total Liabilities, FY 2009
($ in Billions)

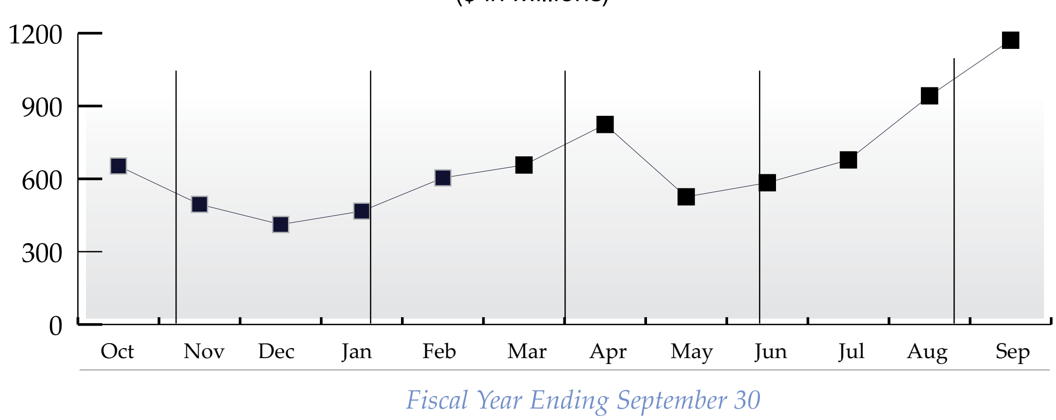


Cash Management

The DON manages working capital fund cash at the Departmental level. It must maintain cash levels at seven to ten days of operational costs, plus have sufficient cash reserves to meet six months of projected capital outlays, as required by the Department of Defense Financial Management Regulation. For FY 2009, the seven-day cash requirement was $753 million and the ten-day requirement was $1.034 billion.

Due to the transition to Navy ERP on October 1, 2009, SPAWAR collected non-Navy orders up front and minimized as many carry over financial transactions as possible causing

Navy Working Capital Fund Cash Balances
October 1, 2008 to September 30, 2009
($ in Millions)



Note: Cash balances above represent the combined total of monthly cash balances for five business areas and the corporate account.

an end of year growth in cash over the ten-day goal. Supply Management, Navy received Inventory Augmentation funding of $1.6 million. The Military Sealift Command had Capital Purchase Hires of $16.6 million.

Looking Forward

The DON's achievements during FY 2009 established a firm foundation that will assure future success in executing its mission and building a sound business operating environment. In FY 2010 and beyond, DON will remain focused on areas that increase its effectiveness and efficiency, improve the lives of Sailors and Marines, and result in greater security for the U.S. Below is a brief discussion of some key priorities.

Maritime Strategy

The U.S. maritime services—Navy, Marine Corps, and Coast Guard—will continue to operate closely with other joint forces, allies, and coalition partners to prevent war and build partnerships pursuant to the U.S. maritime strategy, *A Cooperative Strategy for 21st Century Seapower*. Building upon numerous achievements in support of this strategy, such as Combined Task Force 151 (a multinational effort to deter, disrupt, and suppress piracy near the Horn of Africa) and Sector Command Center-Joint (a Navy-Coast Guard Command Center to coordinate operations and planning for maritime domain awareness), the U.S. maritime sevices will further expand capabilities that comprise the core of U.S. maritime power—forward presence, deterrence, sea control, power projection, maritime security, humanitarian assistance, and disaster response. More information on our maritime strategy is available at *http://www.navy.mil/maritime*.

Infrastructure Investment

Support for DON's 21st century mission depends on a reliable, capable, and secure information technology infrastructure. The Navy and Marine Corps will continue to invest in programs that deliver agile and interoperable network-centric capabilities. These programs include the Next Generation Enterprise Network, which will replace the Navy Marine Corps Intranet, and the Marine Corps' Command and Control Harmonization Strategy. These emerging capabilities will ensure naval forces have accurate situational awareness to enable superior decision-making within a secure information environment.

The guided-missile destroyer USS Ramage (DDG 61) transits through the Persian Gulf as part of the Iwo Jima Expeditionary Strike Group supporting maritime security operations in the U.S. 5th Fleet area of operations. Persian Gulf – December 2008

Environmental Stewardship

The DON is committed to developing greater energy independence and conservation ashore and afloat. Energy costs siphon resources away from vital areas. The potential for disruption and the possible vulnerability of energy supplies could threaten U.S. naval forces' ability to perform in battle.

The DON has made progress in increasing energy efficiency, reducing energy consumption, and capitalizing on renewable energy sources. The DON is the DoD lead for solar, geothermal, and ocean energy, and today, 17% of DON's total energy requirements are provided through alternative or renewable sources.

The DON will continue to afford significant protection to marine mammals while preserving its ability to train using mid-frequency active (MFA) sonar. The tactical use of MFA sonar is the best means of detecting potentially hostile, quiet, diesel-electric submarines. The Navy, working with the National Marine Fisheries Service (NMFS), is on track to have environmental impact statements (EISs) for all at-sea training ranges and operating areas by 2010. The Navy and NMFS have already completed the first EISs for the Atlantic Fleet Active Sonar Training area, the Southern California Range Complex, and the Hawaii Range Complex.

Solar panels supply energy to Marine Corps Air Ground Combat Center. Twentynine Palms, California – February 2009

Business Transformation

The DON is implementing meaningful and sustainable changes in Navy-Marine Corps business management in order to continue the drive to improve effectiveness, realize efficiencies, and provide a more straight-forward and tighter focus on business transformation.

A top priority of the Under Secretary of the Navy is to ascertain DON's achievements toward implementing the business transformation guidance provided in the National Defense Authorization Act (NDAA) for FY 2008 and FY 2009. The DON leadership fully understands the intent of and strongly supports NDAA. It will take time to align and integrate efforts throughout DON into a comprehensive business transformation plan that will guide the development of enterprise-wide business performance improvement. The DON is confident that the implementation of NDAA for FY 2009 will further mature and advance business transformation efforts.

Additionally, DON plans to develop and implement an audit-driven business process improvement strategy. Among the objectives DON plans to work towards are evaluating and managing corrective action plans for material weaknesses and reportable conditions; developing a process to duplicate the audit assertion model developed by the Marine Corps; and collaborating with Navy commands and activities and DoD to develop an audit materiality strategy.

GENERAL FUND PRINCIPAL STATEMENTS

Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 United States Code 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Principal Statements

The Fiscal Year 2009 Department of the Navy General Fund principal statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the General Fund for the fiscal year ending September 30, 2009, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2008.

The following statements comprise the Department of the Navy General Fund principal statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources

The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994. The accompanying notes should be considered an integral part of the principal statements.

Department of Defense

Department of the Navy General Fund

CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008

($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 125,074,999	$ 118,168,348
Investments (Note 4)	9,621	10,356
Accounts Receivable (Note 5)	373,313	393,989
Other Assets (Note 6)	418,505	302,751
Total Intragovernmental Assets	125,876,438	118,875,444
Cash and Other Monetary Assets (Note 7)	160,509	137,277
Accounts Receivable, Net (Note 5)	3,681,949	3,688,790
Inventory and Related Property, Net (Note 9)	62,424,699	60,804,137
General Property, Plant, and Equipment, Net (Note 10)	218,470,785	202,508,235
Other Assets (Note 6)	34,153,251	35,385,429
TOTAL ASSETS	444,767,631	421,399,312
Stewardship Property, Plant, and Equipment (Note 10) *		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	1,289,644	1,434,076
Other Liabilities (Note 15 & Note 16)	4,786,951	4,767,298
Total Intragovernmental Liabilities	6,076,595	6,201,374
Accounts Payable (Note 12)	2,583,642	1,732,477
Military Retirement and Other Federal Employment Benefits (Note 17)	1,494,427	1,650,038
Environmental and Disposal Liabilities (Note 14)	18,604,432	18,291,417
Other Liabilities (Note 15 & Note 16)	6,796,504	9,131,795
TOTAL LIABILITIES	35,555,600	37,007,101
Commitments and Contingencies (Note 16) *		
NET POSITION		
Unexpended Appropriations - Other Funds	153,212,818	148,490,335
Cumulative Results of Operations - Earmarked Funds	26,171	24,230
Cumulative Results of Operations - Other Funds	255,973,042	235,877,646
TOTAL NET POSITION	409,212,031	384,392,211
TOTAL LIABILITIES AND NET POSITION	$ 444,767,631	$ 421,399,312

* - *Disclosure but no value required per Federal Accounting Standards.*

The accompanying notes are an integral part of the statements.

Department of Defense

Department of the Navy General Fund

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
Program Costs		
Gross Costs	$ 148,794,460	$ 137,348,817
Less: Earned Revenue	(4,781,266)	(4,606,524)
Net Program Costs	144,013,194	132,742,293
Net Cost of Operations	$ 144,013,194	$ 132,742,293

The accompanying notes are an integral part of the statements.

Department of Defense

Department of the Navy General Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Earmarked Funds	2009 Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 24,229	$ 235,972,388
Prior Period Adjustments	-	(94,740)
Beginning Balances, as adjusted	24,229	235,877,648
Budgetary Financing Sources:		
Appropriations used	-	159,052,821
Nonexchange revenue	319	(145)
Donations & forfeitures of cash & cash equivalents	23,896	155
Transfers in/out without reimbursement (+/-)	-	-
Other Financing Sources:		
Donations and forfeitures of property	-	(667)
Transfers in/out without reimbursement (+/-)	-	208,053
Imputed financing from costs absorbed by others	-	779,646
Other (+/-)	5	4,046,447
Total Financing Sources	24,220	164,086,310
Net Cost of Operations (+/-)	22,278	143,990,916
Net Change	1,942	20,095,394
Cumulative Results of Operations	$ 26,171	$ 255,973,042
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ -	$ 121,305,364
Prior Period Adjustments (+/-)	-	27,184,971
Beginning Balances, as adjusted	-	148,490,335
Budgetary Financing Sources:		
Appropriations received	-	165,233,492
Appropriations transferred-in/out (+/-)	-	1,711,873
Other adjustments (rescissions, etc) (+/-)	-	(3,170,061)
Appropriations used	-	(159,052,821)
Total Budgetary Financing Sources	-	4,722,483
Unexpended Appropriations	-	153,212,818
Net Position	$ 26,171	$ 409,185,860

The accompanying notes are an integral part of the statements.

Department of Defense

Department of the Navy General Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 235,996,617	$ 221,854,870
Prior Period Adjustments	(94,740)	(94,740)
Beginning Balances, as adjusted	235,901,877	221,760,130
Budgetary Financing Sources:		
Appropriations used	159,052,821	143,328,499
Nonexchange revenue	174	620
Donations & forfeitures of cash & cash equivalents	24,051	24,216
Transfers in/out without reimbursement (+/-)	-	102,833
Other Financing Sources:		
Donations and forfeitures of property	(667)	-
Transfers in/out without reimbursement (+/-)	208,053	348,312
Imputed financing from costs absorbed by others	779,646	678,845
Other (+/-)	4,046,452	2,400,714
Total Financing Sources	164,110,530	146,884,039
Net Cost of Operations (+/-)	144,013,194	132,742,293
Net Change	20,097,336	14,141,746
Cumulative Results of Operations	$ 255,999,213	$ 235,901,876
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 121,305,364	$ 109,221,611
Prior Period Adjustments (+/-)	27,184,971	20,021,907
Beginning Balances, as adjusted	148,490,335	129,243,518
Budgetary Financing Sources:		
Appropriations received	165,233,492	162,715,443
Appropriations transferred-in/out (+/-)	1,711,873	2,403,645
Other adjustments (rescissions, etc) (+/-)	(3,170,061)	(2,543,772)
Appropriations used	(159,052,821)	(143,328,499)
Total Budgetary Financing Sources	4,722,483	19,246,817
Unexpended Appropriations	153,212,818	148,490,335
Net Position	$ 409,212,031	$ 384,392,211

The accompanying notes are an integral part of the statements.

Department of Defense

Department of the Navy General Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Combined	2008 Combined
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 28,028,796	$ 23,934,546
Recoveries of prior year unpaid obligations	24,029,026	20,966,590
Budget Authority:		
Appropriations received	165,257,844	162,740,229
Spending authority from offsetting collections:		
Earned		
Collected	7,806,105	7,252,127
Change in receivables from Federal sources	(144,220)	262,649
Change in unfilled customer orders		
Advances received	323,916	435,937
Without advance from Federal sources	78,479	305,473
Subtotal	173,322,124	170,996,415
Nonexpenditure Transfers, net, anticipated and actual	1,711,873	2,506,478
Permanently not available	(3,170,061)	(2,543,773)
Total Budgetary Resources	223,921,758	215,860,256
Status of Budgetary Resources:		
Obligations incurred:		
Direct	186,801,435	179,361,449
Reimbursable	10,215,890	8,470,011
Subtotal	197,017,325	187,831,460
Unobligated balance:		
Apportioned	23,899,972	25,329,935
Exempt from apportionment	-	-
Subtotal	23,899,972	25,329,935
Unobligated balances not available	3,004,461	2,698,861
Total Status of Budgetary Resources	$ 223,921,758	$ 215,860,256

The accompanying notes are an integral part of the statements.

Department of Defense
Department of the Navy General Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Combined	2008 Combined
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 93,776,544	$ 86,191,077
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(3,864,218)	(3,296,095)
Total Unpaid Obligated Balance	89,912,326	82,894,982
Obligations incurred, net (+/-)	197,017,325	187,831,460
Less: Gross outlays	(165,217,414)	(159,279,403)
Less: Recoveries of prior year unpaid obligations, actual	(24,029,026)	(20,966,590)
Change in uncollected customer payments from Federal sources (+/-)	65,742	(568,123)
Obligated balance, net, end of period		
Unpaid obligations	101,547,429	93,776,544
Less: Uncollected customer payments from Federal sources	(3,798,476)	(3,864,218)
Total Unpaid Obligated Balance, net, end of period	97,748,953	89,912,326
Net Outlays:		
Gross Outlays	165,217,414	159,279,403
Less: Offsetting collections	(8,130,022)	(7,688,063)
Less: Distributed Offsetting receipts	(321,451)	98,060
Net Outlays	$ 156,765,941	$ 151,689,400

The accompanying notes are an integral part of the statements.

GENERAL FUND
NOTES TO THE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of the Navy (DON) General Fund (GF), 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 DON GF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which DON GF is responsible unless otherwise noted.

Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernable.

The DON GF financial statements include information from both financial systems and nonfinancial feeder systems. The Defense Finance and Accounting Service, Cleveland (DFAS-CL) collects the financial system information and incorporates it into the financial statements for DON GF. The DON GF collects financial information from nonfinancial feeder systems through a data call process and submits it to DFAS-CL for incorporation into the financial statements. On behalf of DON GF, DFAS-CL also collects information from multiple sources, such as intragovernmental data from DON GF's trading partners, which is incorporated into the financial statements. Beginning Fiscal Year (FY) FY 2007, DON GF completed migration from the DON Data Collection Instrument to the Defense Departmental Reporting System (DDRS) Data Collection Module (DCM). The DDRS DCM captures certain required financial information from feeder systems for the DON GF financial statements. The DDRS DCM identifies the information requirements to the source provider, provides an audit trail, and integrates data into the financial statement preparation process.

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

The Department of Defense Inspector General (DoDIG) issued an audit report dated November 8, 2008 and identified several financial statement material weaknesses: Financial Management Systems; Fund Balance with Treasury; Accounts Receivable; Inventory and Related Property; General Plant, Property, and Equipment (GPP&E); Accounts Payable; Environmental Liabilities; Statement of Net Cost; Problem Disbursements; and Unobligated Balances. The DON GF (as identified in the DON FY 2009 Annual Statement of Assurance dated August 25, 2009) recognizes those weaknesses as well as weaknesses associated with Collections and Disbursements, Procure to Pay Processes, General Equipment, Military Equipment, and Real Property as related to the GPP&E line on the Balance Sheet and Operating Materiel and Supplies (OM&S) (and the associated weaknesses with Inventory).

1.B. Mission of the Reporting Entity

The DON was created on April 30, 1798 by an act of Congress (I Stat. 533; 5 U.S.C. 411-12). The overall mission of DON is to maintain, train, and equip combat-ready Navy and Marine Corps forces capable of winning wars, deterring aggression, and maintaining freedom of the seas.

1.C. Appropriations and Funds

The DON receives appropriations and funds as general, working capital (revolving), trust, special, and deposit funds. The DON uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction.

The National Defense Sealift Fund is DON GF's only revolving fund. Revolving funds are generally established for the purpose of carrying out specific activities. Revolving funds are financed through an appropriation or a transfer to establish a corpus and are replenished through charges made for goods or services without fiscal year limitations. The National Defense Sealift Fund is unique because it receives an annual appropriation and has no corpus.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits, or purposes, and remain available over time. The DON GF is required to separately account for and report on the receipt, use, and retention of revenues and other financing sources for earmarked funds.

Special fund accounts are used to record government receipts reserved for a specific purpose.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not DON GF funds, and as such, are not available for DON GF's operations. The DON GF is acting as an agent or a custodian for funds awaiting distribution.

The DON GF is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. Allocation transfers are an entity's legal delegation of authority to obligate budget authority and outlay funds to another entity. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include all U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

Additionally, DON GF receives allocation transfers from certain funds meeting the OMB exception: the EOP for the Foreign Military Financing Program, as well as for the International Military Education and Training program. These funds meet the OMB exception; however, activities for these funds are reported separately from the DoD financial statements. The DON GF also receives allocation transfers from the U.S. Forest Service and the Federal Highway Administration and reports financial activity for those funds to the parent.

1.D. Basis of Accounting

The DON GF's financial management systems are unable to meet all full accrual accounting requirements. Many of DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of DON's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The DoD's Agencywide financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Military Services and Defense Agencies and their sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Military Service and Defense Agency level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

1.E. Revenues and Other Financing Sources

The DON GF receives congressional appropriations as financing sources for general funds that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The DON GF recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full cost pricing is DON GF's standard policy for services provided as required by OMB Circular A-25, User Charges. The DON GF recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

The DON GF does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, or where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be reported as expenses when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The DON GF continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminates intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, DON GF cannot accurately identify intragovernmental transactions by customer because DON GF's systems do not track buyer and seller data at the transaction level. Generally, seller entities within 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 and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls eliminating the need for reconciliations.

The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" and Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provide guidance for reporting and reconciling intragovernmental balances. While DON GF is unable to fully reconcile intragovernmental transactions with all federal agencies, DON GF is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

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

Generally, 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 costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, DON 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 authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

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

The DON GF's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of DON's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, DON GF's FBWT is adjusted to agree with the U.S. Treasury accounts.

1.J. Foreign Currency

Cash is the total of cash resources under the control of DoD, which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

The majority of cash and all foreign currency is classified as "nonentity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The DON GF conducts a significant portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The DON GF does not separately identify foreign currency fluctuation transactions.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at *http://www.fms.treas.gov/tfm/vol1/07-03.pdf*.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The DON GF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in DON GF's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The DON GF holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale" with a completion date of year-end FY 2010 reporting.

Related property includes OM&S and stockpile materiels. The DON GF uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, DON GF uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2009 and FY 2008, DON GF expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for DoD and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for using the consumption method of accounting.

The DON GF values OM&S assets using several cost valuation methods. Most OM&S is valued 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 logistics systems were designed for materiel management rather than accounting purposes. Although these systems provide visibility and accountability over inventory and related property items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these legacy inventory systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). The DON is continuing to transition OM&S to the moving average cost method. Most transitioned balances, however, were not baselined to auditable historical cost, and remain noncompliant with SFFAS No. 3.

The DON determined that the recurring high dollar value of OM&S in need of repair is material to the financial statements and required a separate reporting category. Many high dollar items, such as aircraft engines, are categorized as OM&S rather than military equipment.

Excess, obsolete, or unserviceable operating materiels and supplies are reported at their net realizable value. The DON GF recognizes condemned materiel in this category. The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero.

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

The DON GF reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method obtaining similar results. The DON GF's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The DON GF invests in nonmarketable market-based U.S. Treasury securities, which are issued to federal agencies by the U.S. Treasury's Bureau of Public Debt. They are not traded on any securities exchange but mirror the prices of particular U.S. Treasury securities traded in the government securities market.

1.O. General Property, Plant, and Equipment

The DON GF uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposals information.

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The DoN has not fully implemented the threshold for real property; therefore, DoN is primarily using the capitalization threshold of $100 thousand for General PP&E and most real property.

General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD's capitalization threshold. The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

When it is in the best interest of the government, DON GF provides government property to contractors when deemed necessary to complete contract work. The DON GF 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 meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on DON GF's Balance Sheet.

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires DON to maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The DON GF has not fully implemented this policy primarily due to system limitations.

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 USGAAP. 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's policy is to expense and/or properly classify assets when the related goods and services are received. The DON GF has not implemented this policy primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, DON GF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The DON GF records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The DON GF, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by DON GF are the largest component of operating leases and are based on costs gathered from existing leases, General Service Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on DON GF's Balance Sheet.

The DON GF 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, DON GF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances 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. The DON GF has not fully implemented this policy primarily due to system limitations.

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

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The DON GF 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 disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The DON GF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for DON's GF assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based upon DoD policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset. The DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

1.T. Accrued Leave

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

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended Appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. Beginning with FY 1998, the cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The DON purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow DON GF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Unexpended Obligations

The DON GF obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations includes 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 specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections are evidenced by collaborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

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. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements intransit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.Y. Significant Events

In FY 2009, Naval Supply Systems Command converted to Navy Enterprise Resource Planning (ERP). It is expected that the standardization of systems and processes in financial functions and acquisition programs is the backbone of Navy ERP and will provide the foundation for subsequent releases. The system will provide financial transparency and total asset visibility, key ingredients for improved enterprise management.

1.Z. Fiduciary Activities

Fiduciary cash and other assets are not assets of DON GF and are not recognized on the balance sheet. Fiduciary activities are reported on the financial statement note schedules.

Note 2. Nonentity Assets

As of September 30	2009		2008	
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	289,564	$	417,049
B. Accounts Receivable		0		0
C. Total Intragovernmental Assets	$	289,564	$	417,049
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	$	160,509	$	137,277
B. Accounts Receivable		3,462,365		3,365,103
C. Other Assets		0		0
D. Total Nonfederal Assets	$	3,622,874	$	3,502,380
3. Total Nonentity Assets	$	3,912,438	$	3,919,429
4. Total Entity Assets	$	440,855,193	$	417,479,883
5. Total Assets	$	444,767,631	$	421,399,312

Nonentity assets are assets for which the Department of the Navy (DON) maintains stewardship accountability and reporting responsibility, but are not available for DON's normal operations.

Intragovernmental Fund Balance with Treasury
This nonentity asset category primarily represents amounts in DON's Suspense Funds, Withheld State and Local Taxes Fund, and Withheld Allotment of Compensation for Payment of Employee Organization Dues Fund.

Cash and Other Monetary Assets
This nonentity asset category represents disbursing officers' cash, foreign currency, and undeposited collections as reported on the Disbursing Officer's Statement of Accountability. These assets are held by DON disbursing officers as agents of the U.S. Treasury and are not available for DON's use in normal operations.

Nonentity Nonfederal Accounts Receivable (Public)
The primary component of nonentity accounts receivable is an advance payment made to a contractor, which remains in litigation and includes associated accrued interest. These receivable balances are being reported in nonentity accounts receivable since the original appropriation year has been cancelled, and any funds collected as a result of this litigation would be remitted to the U.S. Treasury.

Note 3. Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 123,186,669	$ 116,157,423
B. Revolving Funds	1,580,966	1,574,364
C. Trust Funds	15,400	17,171
D. Special Funds	2,400	2,341
E. Other Fund Types	289,564	417,049
F. Total Fund Balances	$ 125,074,999	$ 118,168,348
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 126,394,135	$ 119,501,677
B. Fund Balance per DON	125,074,999	118,168,348
3. Reconciling Amount	$ 1,319,136	$ 1,333,329

The total reconciling amount of $1.3 billion in Fund Balance with Treasury (FBWT) is due to cancelled appropriations ($1.3 billion). Cancelled appropriations are not available as of the end of the reporting period; therefore, they are excluded from the Department of the Navy's (DON) FBWT but remained in fund balance reported by U.S. Treasury.

Other Fund Types (Line 1.E) consists primarily of amounts in the following deposit and receipt accounts: General Fund Proprietary Receipts, Pay of the Navy Deposit Fund, and Pay of the Marine Corps Deposit Fund.

Status of Fund Balance with Treasury

As of September 30		2009		2008
(Amounts in thousands)				
1. Unobligated Balance				
A. Available	$	23,899,972	$	25,329,935
B. Unavailable		3,004,461		2,698,861
2. Obligated Balance not yet Disbursed	$	101,547,429	$	93,776,544
3. Nonbudgetary FBWT	$	431,148	$	237,359
4. NonFBWT Budgetary Accounts	$	(3,808,011)	$	(3,874,351)
5. Total	$	125,074,999	$	118,168,348

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

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

Obligated balance not yet disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts. For DON General Fund (GF), Nonbudgetary FBWT consists of balances in receipt accounts and clearing accounts.

NonFBWT Budgetary Accounts reduces the Status of FBWT. For DON GF, NonFBWT Budgetary Accounts include Trust Fund investments in U.S. Treasury securities, unfilled customer orders without advance, and reimbursements receivable.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Unobligated, Unavailable balances are restricted to future use and are not apportioned for current use.

Although funds have been appropriated, expired single year appropriations, such as Operation and Maintenance and Military Personnel accounts, are not generally available for obligation because the period for obligation established by law in the applicable appropriation act has lapsed. Multi-year accounts and "X" or no year accounts are restricted based on their appropriation type. Trust funds and Earmarked funds are restricted to their intended use.

Note 4. Investments and Related Interest

As of September 30	2009								
(Amounts in thousands)		Cost	Amortization Method		Amortized (Premium) / Discount		Investments, Net		Market Value Disclosure
1. Intragovernmental Securities									
A. Nonmarketable, Market-Based									
1. Military Retirement Fund	$	0		$	0	$	0	$	0
2. Medicare Eligible Retiree Health Care Fund		0			0		0		0
3. US Army Corps of Engineers		0			0		0		0
4. Other Funds		9,631			(40)		9,591		9,601
5. Total Nonmarketable, Market-Based	$	9,631		$	(40)	$	9,591	$	9,601
B. Accrued Interest		30			0		30		30
C. Total Intragovernmental Securities	$	9,661		$	(40)	$	9,621	$	9,631
2. Other Investments									
A. Total Other Investments	$	0		$	0	$	0	$	N/A

As of September 30	2008								
(Amounts in thousands)		Cost	Amortization Method		Amortized (Premium) / Discount		Investments, Net		Market Value Disclosure
1. Intragovernmental Securities									
A. Nonmarketable, Market-Based									
1. Military Retirement Fund	$	0		$	0	$	0	$	0
2. Medicare Eligible Retiree Health Care Fund		0			0		0		0
3. US Army Corps of Engineers		0			0		0		0
4. Other Funds		10,301			(51)		10,250		10,279
5. Total Nonmarketable, Market-Based	$	10,301		$	(51)	$	10,250	$	10,279
B. Accrued Interest		106			0		106		106
C. Total Intragovernmental Securities	$	10,407		$	(51)	$	10,356	$	10,385
2. Other Investments									
A. Total Other Investments	$	0		$	0	$	0	$	N/A

Intragovernmental Investments for Earmarked Funds

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash generated from earmarked funds is deposited in the U.S. Treasury, which uses the cash for general Government purposes. The U.S. Treasury securities are issued to the earmarked funds as evidence of its receipts and are an asset to the Department of the Navy (DON) and a liability to the U.S. Treasury. Since the DON and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements.

The U.S. Treasury securities provide DON with the authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When DON requires redemption of these securities to make expenditures, the Government finances the securities out of accumulated cash balances, by raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government used the same method to finance all other expenditures.

Other Funds (Line 1.A.4) represents DON Trust Fund holdings in interest-bearing securities for the Naval Academy General Gift Fund and the Navy General Gift Fund. These investments are Nonmarketable Market-Based U.S. Treasury securities reported at cost, net of amortized premiums and discounts. In accordance with the Statement of Federal Financial Accounting Standards No. 27, "Identifying and Reporting Earmarked Funds," DON Trust Funds are reported as earmarked funds.

Note 5. Accounts Receivable

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 373,313	N/A	$ 373,313
2. Nonfederal Receivables (From the Public)	$ 3,714,338	$ (32,389)	$ 3,681,949
3. Total Accounts Receivable	$ 4,087,651	$ (32,389)	$ 4,055,262

As of September 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 393,989	N/A	$ 393,989
2. Nonfederal Receivables (From the Public)	$ 3,718,115	$ (29,325)	$ 3,688,790
3. Total Accounts Receivable	$ 4,112,104	$ (29,325)	$ 4,082,779

During 3rd Quarter, FY 2009, Navy implemented an automated interface from the monthly reporting system to the quarterly reporting system. Previously, amounts were manually cross walked to accounts for quarterly reporting. During the implementation, it was discovered that the crosswalk logic for many accounts was flawed, resulting in incorrect ending balances from FY 2008. A prior period adjustment was recognized to correct the beginning 2009 balances. This affected Accounts Receivable and Interest Receivable and increased the overall balance by $40.8 million. Accounts Receivable increased $15.5 million and Interest Receivable increased $25.3 million. Refer to Note 26, Restatements, for additional details.

Note 6. Other Assets

As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	418,505	$	302,751
B. Other Assets		0		0
C. Total Intragovernmental Other Assets	$	418,505	$	302,751
2. Nonfederal Other Assets				
A. Outstanding Contract Financing Payments	$	33,744,724	$	34,631,265
B. Advances and Prepayments		398,873		743,841
C. Other Assets (With the Public)		9,654		10,323
D. Total Nonfederal Other Assets	$	34,153,251	$	35,385,429
3. Total Other Assets	$	34,571,756	$	35,688,180

The Department of the Navy (DON) restated the Fiscal Year (FY) 2008 balance in Outstanding Contract Financing Payments (OCFP) by $26.8 billion. The DON incorrectly reported shipbuilding payments as expenses rather than assets through FY 2008. These payments include progress payments based on percentage or stage of completion, which cannot be identified due to systems limitations.

During 3rd Quarter, FY 2009, Navy implemented an automated interface from the monthly reporting system to the quarterly reporting system. Previously, amounts were manually cross walked to accounts for quarterly reporting. During the implementation it was discovered that the crosswalk logic for many accounts was flawed, resulting in incorrect ending balances from FY 2008. A prior period adjustment was recognized to correct the beginning 2009 balances. Refer to Note 26, Restatements, for additional details. This caused a restatement of Other Assets (with the Public) by $317.3 thousand.

Nonfederal Other Assets - Outstanding Contract Financing Payments
Contract terms and conditions for certain types of contract financing payments convey certain rights to DON 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 Federal Government. The Federal Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and DON is not obligated to make payment to the contractor until delivery and acceptance. Some of the amounts reported as OCFP may be progress payments based on percentage or stage of completion. However, DON is unable to identify these due to system limitations and all amounts are reported as OCFP.

The OCFP balance of $33.7 billion is comprised of $33.3 billion in contract financing payments and an additional $400.0 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).

Nonfederal Other Assets, Other Assets (With the Public)
Other Assets (With the Public) includes advance pay to DON military personnel, travel advances to military and civilian personnel, and miscellaneous advances to contractors that are not considered outstanding contract financing payments.

Note 7. Cash and Other Monetary Assets

As of September 30 (Amounts in thousands)	2009	2008
1. Cash	$ 65,429	$ 106,883
2. Foreign Currency	95,080	30,394
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 160,509	$ 137,277

Cash and Foreign Currency consists primarily of cash held by Department of the Navy (DON) Disbursing Officers to carry out their payment, collection, and foreign currency accommodation exchange mission. Foreign currency is also held in overseas banks in support of contingency operations. The primary source of the amounts reported is the Disbursing Officers Statements of Accountability. DON Disbursing Officers are agents of the U.S. Treasury.

Restriction on Cash, Foreign Currency, and Other Monetary Assets
Total cash, foreign currency, and other monetary assets reported are nonentity assets that are not available for DON's use in normal operations. Therefore, the $160.5 million in cash and foreign currency is restricted as to its use.

Note 8. Direct Loan and Loan Guarantees

Not applicable.

Note 9. Inventory and Related Property

As of September 30 (Amounts in thousands)	2009	2008
1. Inventory, Net	$ 0	$ 0
2. Operating Materiel & Supplies, Net	62,424,699	60,804,137
3. Stockpile Materiel, Net	0	0
4. Total	$ 62,424,699	$ 60,804,137

Inventory, Net

Not applicable.

Operating Materiel and Supplies, Net

As of September 30 (Amounts in thousands)	2009 OM&S Gross Value		2009 Revaluation Allowance		2009 OM&S, Net		Valuation Method
1. OM&S Categories							
A. Held for Use	$	57,668,809	$	0	$	57,668,809	SP, LAC, MAC
B. Held for Repair		6,414,636		(1,658,746)		4,755,890	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		809,170		(809,170)		0	NRV
D. Total	$	64,892,615	$	(2,467,916)	$	62,424,699	

As of September 30 (Amounts in thousands)	2008 OM&S Gross Value		2008 Revaluation Allowance		2008 OM&S, Net		Valuation Method
1. OM&S Categories							
A. Held for Use	$	54,867,199	$	0	$	54,867,199	SP, LAC, MAC
B. Held for Repair		7,296,002		(1,359,064)		5,936,938	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		597,471		(597,471)		0	NRV
D. Total	$	62,760,672	$	(1,956,535)	$	60,804,137	

Legend for Valuation Methods:

LAC = Latest Acquistion Cost
NRV = Net Realizable Value
SP = Standard Price
MAC = Moving Average Cost

Restrictions on the Use of Operating Materiel and Supplies (OM&S)
There are no known restrictions on the use of OM&S.

General Composition of OM&S
OM&S includes spare and repair parts, ammunition, conventional missiles, torpedoes, aircraft configuration pods, and centrally managed aircraft engines. The categories of OM&S are Ammunitions and Munitions, Principal End and Secondary Items, Sponsor Owned Materiel (SOM), Realtime Reutilization Asset Management (RRAM) Materiel and Other OM&S.

Ammunition and Munitions are maintained in the Department of the Navy (DON) Ordnance Information System and valued at latest acquisition cost.

Principal End and Secondary Items include OM&S such as shipboard hull, mechanical and electronic equipment, and uninstalled aircraft engines. They are items of such importance that central inventory control is required. They normally possess one of the following characteristics: essential for combat or training; high dollar value; difficult to procure or produce; or critical basic materiel or components.

SOM is defined as programmatic materiel required in support of Program Managers' mission requirements for production, life cycle maintenance, and installation of systems and equipment. The materiel usage may involve, but is not limited to: item fabrication, assembly, testing, manufacture, development, repair, or research and development.

Materiel maintained and valued in RRAM is considered excess to the owner, or materiel manager responsible for the materiel, but may not be excess to DON. Standard price is used to value all stock-numbered items. Part-numbered items are valued by best available information. Stock-numbered items represent common items available in the supply system. Part-numbered items are older, unique items only used in specific types of OM&S.

Other OM&S consists primarily of Fleet Hospitals held by the Bureau of Medicine and Surgery and War Reserve materiel in possession of the U.S. Coast Guard.

Decision Criteria for Identifying the Category to Which Operating Materiel and Supplies Are Assigned

The DON General Fund assigns OM&S items to a category based upon the type and condition of the asset. OM&S Available and Purchased for Resale includes spare and repair parts, clothing and textiles, and petroleum products. OM&S Held for Repair consists of damaged materiel held as inventory that is more economical to repair than to dispose. Excess, Obsolete, and Unserviceable OM&S 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.

Stockpile Materiel, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2009				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 576,770	N/A	$ 576,770
B. Buildings, Structures, and Facilities	S/L	20 Or 40	34,992,199	$ (21,019,586)	13,972,613
C. Leasehold Improvements	S/L	lease term	6,530	(1,768)	4,762
D. Software	S/L	2-5 Or 10	11,594	(10,363)	1,231
E. General Equipment	S/L	5 or 10	11,565,043	(6,152,590)	5,412,453
F. Military Equipment	S/L	Various	348,505,864	(153,186,170)	195,319,694
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	3,183,262	N/A	3,183,262
J. Other			0	0	0
K. Total General PP&E			$ 398,841,262	$ (180,370,477)	$ 218,470,785

As of September 30	2008				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 601,649	N/A	$ 601,649
B. Buildings, Structures, and Facilities	S/L	20 Or 40	33,163,260	$ (20,582,861)	12,580,399
C. Leasehold Improvements	S/L	lease term	7,283	(1,457)	5,826
D. Software	S/L	2-5 Or 10	11,171	(9,571)	1,600
E. General Equipment	S/L	5 or 10	11,048,453	(5,994,156)	5,054,297
F. Military Equipment	S/L	Various	326,702,773	(145,367,183)	181,335,590
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	2,928,874	N/A	2,928,874
J. Other			0	0	0
K. Total General PP&E			$ 374,463,463	$ (171,955,228)	$ 202,508,235

Legend for Valuation Methods:	
S/L = Straight Line	N/A = Not Applicable

During 3rd Quarter, FY 2009, Navy implemented an automated interface from the monthly reporting system to the quarterly reporting system. Previously, amounts were manually cross walked to accounts for quarterly reporting. During the implemented it was discovered that the crosswalk logic for many accounts was flawed, resulting in incorrect ending balances from FY 2008. This affected Accumulated Depreciation on Equipment and increased the balance by $23.9 million. Refer to Note 26, Restatements, for additional details.

Restrictions on the Use or Convertibility of General Property, Plant, & Equipment (PP&E)
The DON has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow DON continued use of these properties until the treaties expire. There are no other known restrictions on General PP&E.

Accounting Standards for Military Equipment
DON estimates values for Capitalized Military Equipment using department internal records. The Capital Asset Management System-Military Equipment (CAMS-ME) is a Department of Defense wide system used to provide DON's Military Equipment valuations. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposals information.

Heritage Assets and Stewardship Land
The Federal Accounting Standards Advisory Board's SFFAS No. 29, "Heritage Assets and Stewardship Land," requires note disclosures for these types of assets. The DON's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Heritage assets within DON consist of buildings and structures, archeological sites, and museum collections. The DON defines these as follows:

- Buildings and Structures. Buildings and structures that are listed on, or eligible for listing on, the National Register of Historic Places, including Multi-Use Heritage Assets.
- Archeological Sites. Sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Historical Places in accordance with Section 110 National Historical Preservation Act.
- Museum Collection Items. Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

The DON holds the following quantities of heritage assets at September 30, 2009.

Categories	Measure Quantity	As of September 30, 2008	Additions	Deletions	As of September 30, 2009
Buildings and Structures	Each	4,389	-	-	4,389
Archaeological Sites	Each	1,460	-	-	1,460
Museum Collection Items (Objects, Not Including Fine Art)	Each	1,141,275	21,261	596,452	566,084
Museum Collection Items (Objects, Fine Art)	Each	31,131	427	2,729	28,829

The DON's stewardship land consists mainly of mission essential land acquired by donation or devise. Fiscal Year Ended September 30, 2009 stewardship land data is not yet available due to limitations of DON's financial and nonfinancial management processes and systems that feed into the financial statements. The DON held the following acres of land as of September 30, 2008.

(acres in Thousands)

Facility Code	Facility Title	As of September 30, 2007	Additions	Deletions	As of September 30, 2008
9110	Government Owned Land	1,370	9	-	1,379
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	2,032	-	46	1,986
9130	Licensed and Permitted Land	92	-	18	74
9140	Public Land	694	-	-	694
9210	Land Easement	100	-	28	72
9220	In-Leased Land	124	-	1	123
9230	Foreign Land	136	-	-	136
				Grand Total	4,464
				TOTAL - All Other Lands	1,784
				TOTAL - Stewardship Lands	2,680

Note: FY 2009 data will be available after December 15, 2009

Relationship of Heritage Assets to DON's Mission

The overall mission of DON is to control and maintain freedom of the seas, project power beyond the sea, and influence events and advance U.S. interests across the full spectrum of military operations. As this mission has been executed, DON has become a large-scale owner of historic buildings, structures, districts, archeological sites and artifacts, ships, aircraft, other cultural resources, and several hundred installations to include stewardship land. Protection of these components of the nation's heritage assets and stewardship land is an essential part of DON's mission; DON is committed to responsible cultural resources stewardship.

Assets under Capital Lease

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Liabilities				
A. Accounts Payable	$	0	$	0
B. Debt		0		0
C. Other		449,392		4,236,508
D. Total Intragovernmental Liabilities	$	449,392	$	4,236,508
2. Nonfederal Liabilities				
A. Accounts Payable	$	43,148	$	60,712
B. Military Retirement and Other Federal Employment Benefits		1,494,427		1,650,038
C. Environmental Liabilities		18,604,432		18,291,417
D. Other Liabilities		4,524,248		7,114,127
E. Total Nonfederal Liabilities	$	24,666,255	$	27,116,294
3. Total Liabilities Not Covered by Budgetary Resources	$	25,115,647	$	31,352,802
4. Total Liabilities Covered by Budgetary Resources	$	10,439,953	$	5,654,299
5. Total Liabilities	$	35,555,600	$	37,007,101

Liabilities Not Covered by Budgetary Resources are those liabilities that are not considered covered by realized budgetary resources as of the balance sheet date. Budgetary Authority to satisfy these liabilities is expected to be provided in a future Department of Defense Appropriations Act.

Conversely, Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity, which are covered by realized budgetary resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year.

Realized budgetary resources include:

- New budget authority
- Spending authority from offsetting collections (credited to an appropriation or fund account)
- Recoveries of unexpired budget authority through downward adjustments of prior year obligations
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and
- Permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met.

Accounts payable not covered by budgetary resources is related to cancelled year accounts payable that are not budgeted. Military retirement and other federal employment benefits are future actuarial liabilities. Environmental liabilities are estimates related to future events, such as cleanup of nuclear powered assets that will be budgeted for when those assets are removed from service. Finally, other liabilities for annual leave, estimated legal contingent liabilities, and the disposal of excess structures are not currently budgeted for but will become funded as future events occur.

Intragovernmental Liabilities – Other (Not Covered by Budgetary Resources) (Line 1.C) consists primarily of liabilities to U.S. Treasury related to nonentity assets, and Federal Employees' Compensation Act (FECA) liabilities due to the Department of Labor.

Military Retirement and Other Federal Employment Benefits consists of 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.

Nonfederal Liabilities – Other (Not Covered by Budgetary Resources) (Line 2.D) consists primarily of liabilities for annual leave, estimated legal contingencies, and for the disposal of excess and obsolete structures.

Note 12. Accounts Payable

As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 1,289,644	$ N/A	$ 1,289,644
2. Nonfederal Payables (to the Public)	2,583,632	10	2,583,642
3. Total	$ 3,873,276	$ 10	$ 3,873,286

As of September 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 1,434,076	$ N/A	$ 1,434,076
2. Nonfederal Payables (to the Public)	1,732,404	73	1,732,477
3. Total	$ 3,166,480	$ 73	$ 3,166,553

During 3rd Quarter, FY 2009, Navy implemented an automated interface from the monthly reporting system to the quarterly reporting system. Previously, amounts were manually cross walked to accounts for quarterly reporting. During the implementation it was discovered that the crosswalk logic for many accounts was flawed, resulting in incorrect ending balances from FY 2008. This affected Accounts Payable and decreased the balance by $538.3 million. Refer to Note 26, Restatements, for additional details.

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by DON. The DON General Fund's accounting systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller-side accounts receivable. This is accomplished by reclassifying amounts between federal and nonfederal cost categories, and accruing additional costs when necessary.

Note 13. Debt

Not applicable.

Note 14. Environmental Liabilities

As of September 30 (Amounts in thousands)	2009	2008
1. Environmental Liabilities--Nonfederal		
A. Accrued Environmental Restoration Liabilities		
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 2,267,235	$ 2,372,933
2. Active Installations—Military Munitions Response Program (MMRP)	895,417	899,949
3. Formerly Used Defense Sites—IRP and BD/DR	0	0
4. Formerly Used Defense Sites--MMRP	0	0
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	127,947	125,917
2. Environmental Closure Requirements	575,754	624,958
3. Environmental Response at Operational Ranges	14,035	19,767
4. Asbestos	46,784	0
5. Non-Military Equipment	79,667	60,023
6. Other	922	990
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	1,588,246	1,563,633
2. Military Munitions Response Program	107,492	131,437
3. Environmental Corrective Action / Closure Requirements	34,071	38,672
4. Asbestos	0	0
5. Non-Military Equipment	0	0
6. Other	0	0
D. Environmental Disposal for Military Equipment / Weapons Programs		
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	12,672,448	12,255,741
2. Non-Nuclear Powered Military Equipment	0	0
3. Other National Defense Weapons Systems	194,414	197,397
4. Other	0	0
E. Chemical Weapons Disposal Program		
1. Chemical Demilitarization - Chemical Materials Agency (CMA)	0	0
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	0	0
3. Other	0	0
2. Total Environmental Liabilities	$ 18,604,432	$ 18,291,417

The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment was $1.7 billion for Fiscal Year (FY) 2009 and $1.6 billion for FY 2008.

The "Other" type of environmental liabilities under Other Accrued Environmental Costs (Line 1.B.6) represents an environmental estimate for disposal of Polychlorinated Biphenyls (PCBs) transformers located at various Naval installations.

In addition to the liabilities reported above, Department of the Navy (DON) has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The DON is unable to provide a reasonable estimate at this time because the extent of restoration required is not known.

1. Applicable Laws and Regulations of Cleanup Requirements
The following is a list of significant laws that affect DON's conduct of environmental policy and regulations.

- The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, commonly referred to as the Superfund legislation
- The Resource Conservation and Recovery Act of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984
- The Clean Water Act of 1977, amended the Federal Water Pollution Control Act
- The Atomic Energy Act of 1954
- The Nuclear Waste Policy Act of 1982
- The Low Level Radioactive Waste Policy Amendments Act of 1986
- The National Environmental Policy Act of 1970 (BRAC only)

2. Methods for Assigning Total Cleanup Costs to Current Operating Periods
Accrued Environmental Restoration (Defense Environmental Restoration Program (DERP) Funded Liabilities).

Environmental Restoration: Accrued restoration (cleanup) liabilities represent the cost to correct past environmental areas that are funded under the Defense Environmental Restoration Program in accordance with "Management Guidance for DERP," and "Environmental and Non-Environmental Liabilities," Chapter 13 of Volume 4 of Department of Defense Financial Management Regulation (DoD FMR). These liabilities relate to Plant, Property, and Equipment, including acquired land and Stewardship Land, as those major asset categories are described in Chapter 6 of Volume 4 of DoD FMR. Environmental restoration activities may be conducted at operating installations, and at Closed, Transferred, and Transferring Ranges. Environmental restoration measurements involve the use of cost estimates that consider, on a current cost basis, the anticipated costs of the level of effort required to affect the restoration, as well as applicable legal and/or regulatory requirements. Program management and support costs are included in the estimates. The estimates are based on DON's cost-to-complete (CTC) module of the Normalization of Data System (NORM) and other Verified, Validated and Accredited (VAA'd) systems. Verification, validation, and accreditation of CTC module was completed in FY 2002. Such cost estimates are based on the current technology available. The DON, as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services), used the site inventory and estimated cost data prepared for DERP report to the Congress. The Accrued Environmental Restoration (Cleanup)

Costs do not include the costs of environmental compliance; pollution prevention, conservation activities, contamination, or spills associated with current operations or treaty obligations, all of which are accounted for as part of ongoing operations.

The DON Environmental Restoration Program includes 3,981 clean-up sites at active installations while those installations covered by Base Realignment and Closure (BRAC) funding include 1,130 IRP sites and 32 MMRP sites. The Marine Corps is included in these programs. In addition, the DON Environmental Corrective Action Program at BRAC installations includes 612 sites.

Military Munitions Response Program: This area represents the environmental liabilities associated with the identification, investigation and removal and remedial actions to address environmental contamination at ranges that were closed prior to September 30, 2002. The contamination may include munitions, chemical residues from military munitions and munitions scrap at ranges on active installations that pose a threat to human health or the environment. The amount reported is the portion of the liability that can be estimated based on site level investigations and characterizations. The estimate produced is based on site-specific information and use of cost models validated in accordance with DoD Instruction 5000.61, "DoD Modeling and Simulation, Verification, Validation, and Accreditation" of May 2003. Cost of Complete (CTC) are not estimated until there is sufficient site-specific data available to estimate the total cost to complete for Military Munitions Response Program (MMRP-eligible sites. However, DON uses the cost of the study as the estimate until the study is completed. Beginning in FY 2001, DON began an inventory of closed ranges and transferring ranges and individual restoration sites under the Military Munitions Response Program (MMRP) or Unexploded Ordnance (UXO) program and completed it in September 2002. Currently there are 257 closed range sites at active installations and 32 MMRP sites at BRAC installations.

Environmental Disposal for Weapons Systems Programs: This area represents environmental liabilities associated with the Nuclear Powered Aircraft Carriers and Submarines, Other Nuclear Powered Ships, Conventional Ships, and Spent Nuclear Fuel. During FY 2006, under DON Financial Improvement Program (FIP), DON completed a review of the estimating methodology for determining the cost for disposal of ships and submarines. This review resulted in an environmental and non-environmental liability estimate that more accurately reflects the true costs of disposal. The estimating methodology is based on average cost per class of ship rather than an average applied to all ships regardless of class.

3. Description of the Types of Environmental Liabilities and Disposal Liabilities

Accrued Environmental Restoration (DERP Funded) Liabilities.

The DON Environmental Restoration includes those sites that have been identified as legacy cleanup sites. For FY 2009, DON estimated and reported $3.2 billion for environmental restoration liabilities. This amount is comprised of $2.3 billion in Active Installations – Installation Restoration Program (IRP) liabilities and $895.4 million in Active Installations – MMRP, liabilities, which represents UXO. The DoD FMR, Volume 6B, Chapter 10 requires that "any estimate produced must be based on site specific information and use cost models validated in accordance with DoD Instruction 5000.61." The DON is supporting this requirement by continuing to validate its range inventory as well as by pursuing the process of obtaining valid cost estimates for each range.

Other Accrued Environmental Costs (Non-BRAC funds).
The DON defines Non-BRAC environmental units as those sites associated with on-going operations such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retro fill, and/or disposal of PCBs transformers, underground storage tank remedial investigation and closure. As part of the DON FIP efforts, the Navy completed surveying, identifying, and estimating, Non-BRAC units and began recognizing the estimated environmental liability 1st Quarter, FY FY 2007. For FY 2009, the total Other Accrued Environmental Liabilities is $845.1 million. Of the total, the Navy portion is $594.2 million while the Marine Corps portion is $250.9 million.

Base Realignment and Closure.
BRAC environmental sites are environmental sites at DON installations that are or will be closed under the congressionally mandated BRAC process. For FY 2009, DON estimated and reported $1.7 billion for BRAC funded environmental liabilities. This amount includes $1.6 billion for IRP, $107.5 million for MMRP, and $34.1 million for environmental corrective action and closure requirements. MMRP includes military munitions, chemical residues from military munitions, and munitions scrap at locations on a BRAC installation.

Environmental Disposal for Weapons Systems Programs.
Environmental Disposal for Weapons Systems are those estimates associated with the environmental disposal costs for DON Nuclear Weapons Programs that includes Nuclear Powered Aircraft Carriers and Submarines and Other Nuclear Powered Ships, Conventional Ships, and Spent Nuclear Fuel. The DON reported an environmental disposal liability for Weapons Systems Programs of $12.9 billion in FY 2009. This amount includes Nuclear Powered Military Equipment of $10.0 billion, Spent Nuclear Fuel (Other) of $2.7 billion, and Other Weapons Systems of $194.4 million.

4. Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations
Estimated environmental liabilities are adjusted for price growth (inflation) and increases in labor rates and materials. Currently, there are no indications that any of the environmental liabilities for any category will be adjusted due to deflation. As of FY 2009, there are no changes to the environmental liability estimates due to changes in laws, regulations, and agreements with regulatory agencies. The DON does not have any estimates that were changed due to advances in technology.

5. Description of the Level of Uncertainty Regarding the Accounting Estimates used to calculate the Reported Environmental Liabilities
The environmental liabilities for DON are based on accounting estimates that require certain judgments and assumptions that DON believes are reasonable based upon information available to us at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if regulatory agencies require remediation to a different degree than when the original estimates were calculated. The liabilities can be further impacted if subsequent investigation discloses different contamination levels, the type of contaminates have changed, and other site characteristics were confirmed.

Overall, DON has a reasonable level of confidence in the estimates recognized on the financial statements. This reasonable level of confidence in the estimates is because the estimates for

DERP/BRAC programs are based on the CTC module of the NORM System. A verification, validation, and accreditation were completed by a third party for CTC module of NORM, while the environmental program managers continue to validate the data.

For the Weapons systems, the environmental program managers base their environmental disposal estimates on actual costs for similar projects. A change in the overall methodology in weapons systems reflects a more accurate estimate of what it will cost to dispose of the weapons systems. Given the fact that the planned date for opening DOE's planned waste repository has been delayed, there is uncertainty associated with the estimate for spent nuclear fuel. As DOE's plans are solidified, DON's estimates for spent nuclear fuel will change accordingly.

The DON believes that the total current environmental liabilities for BRAC are reasonable, based upon information available at the time in calculating the estimates. However, as the FY 2005 BRAC closure activities are implemented over the next several fiscal years, the actual results may vary materially from the required reportable estimates. The variance will depend on additional information obtained from planned or ongoing studies of the extent and concentration of site environmental contamination. In addition to the possibility of the estimates changing on current identified sites, DON may incur additional environmental cleanup and restoration costs if new sites are identified as BRAC activities are implemented.

The DON believes that the current environmental liabilities for Other Accrued Environmental Liabilities (Non-DERP) for FY 2009 are reasonable, based upon the information available at the time in calculating the estimates and completing the fence to fence survey. However, as internal controls are implemented to sustain this effort, changes to some of the estimates could occur. In addition to the possibility of some of the estimates changing for the current list of identified units, DON may incur additional units and changes to estimates as the inventory of units are reviewed annually. BRAC PMO has been notified that a status change was made in the OEL database. BRAC is developing eligibility criteria for the reporting of these OEL units.

Note 15. Other Liabilities

As of September 30	2009		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 326,674	$ -	$ 326,674
B. Deposit Funds and Suspense Account Liabilities	289,564	-	289,564
C. Disbursing Officer Cash	162,411	-	162,411
D. Judgment Fund Liabilities	-	-	-
E. FECA Reimbursement to the Dept. of Labor	152,214	196,915	349,129
F. Custodial Liabilities	3,460,463	-	3,460,463
G. Employer Contribution and Payroll Taxes Payable	65,521	-	65,521
H. Other Liabilities	133,189	-	133,189
I. Total Intragovernmental Other Liabilities	$ 4,590,036	$ 196,915	$ 4,786,951
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 1,040,336	$ -	$ 1,040,336
B. Advances from Others	689,214	-	689,214
C. Deferred Credits	(298)	-	(298)
D. Deposit Funds and Suspense Accounts	-	-	-
E. Temporary Early Retirement Authority	-	-	-
F. Nonenvironmental Disposal Liabilities			-
(1) Military Equipment (Nonnuclear)	3,484	262,383	265,867
(2) Excess/Obsolete Structures	105,559	598,971	704,530
(3) Conventional Munitions Disposal	-	-	-
G. Accrued Unfunded Annual Leave	2,706,765	-	2,706,765
H. Capital Lease Liability	-	-	-
I. Contract Holdbacks	109,884	-	109,884
J. Employer Contribution and			-
Payroll Taxes Payable	2,257	-	2,257
K. Contingent Liabilities	9,947	1,237,052	1,246,999
L. Other Liabilities	30,950	-	30,950
M. Total Nonfederal Other Liabilities	$ 4,698,098	$ 2,098,406	$ 6,796,504
3. Total Other Liabilities	$ 9,288,134	$ 2,295,321	$ 11,583,455

As of September 30	2008		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	$ 57,613	$ 0	$ 57,613
B. Deposit Funds and Suspense Account Liabilities	417,049	0	417,049
C. Disbursing Officer Cash	139,608	0	139,608
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Dept. of Labor	152,091	198,470	350,561
F. Custodial Liabilities	3,674,748	0	3,674,748
G. Employer Contribution and Payroll Taxes Payable	54,414	0	54,414
H. Other Liabilities	73,305	0	73,305
I. Total Intragovernmental Other Liabilities	$ 4,568,828	$ 198,470	$ 4,767,298
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 981,665	$ 0	$ 981,665
B. Advances from Others	634,361	0	634,361
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	(9,152)	0	(9,152)
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			0
(1) Military Equipment (Nonnuclear)	7,748	244,509	252,257
(2) Excess/Obsolete Structures	116,171	616,611	732,782
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,550,357	0	2,550,357
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	104,823	11,077	115,900
J. Employer Contribution and			0
Payroll Taxes Payable	5,576	0	5,576
K. Contingent Liabilities	10,539	3,857,510	3,868,049
L. Other Liabilities	0	0	0
M. Total Nonfederal Other Liabilities	$ 4,402,088	$ 4,729,707	$ 9,131,795
3. Total Other Liabilities	$ 8,970,916	$ 4,928,177	$ 13,899,093

The Department of the Navy (DON) completed a restatement to adjust beginning balances for USSGL accounts 3100 and 3310. These accounts were adjusted as part of the implementation of the DDRS-B/AFS export in 3rd Quarter, FY 2009. This affected the Custodial Liabilities (USSGL - Liability for Non-Entity Assets) and increased the balance by $337.2 million. Refer to Note 26, Restatements, for additional details.

Intragovernmental Other Liabilities (Line 1.H) consists primarily of Unemployment Compensation unfunded liabilities.

Nonfederal Other Liabilities (Line 2.L) is currently being researched. After discussing the issue with Budget Execution it appears that this potentially was erroneously cross walked into the Nonfederal line.

Contingent Liabilities includes $399.9 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 DON General Fund (GF) 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, DON GF 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.

Capital Lease Liability

Not applicable.

Note 16. Commitments and Contingencies

The Department of the Navy (DON) is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests, which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. The DON has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) 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 U.S. Treasury Judgment Fund. Others may be payable from DON's resources, either directly or by reimbursement to the Judgment Fund. The DON records Judgment Fund liabilities in Note 12, Accounts Payable; and Note 15, Other Liabilities.

For Fiscal Year (FY) 2009, DON General Fund (GF) materiality threshold for reporting litigation, claims, or assessments is $41.3 million for Navy and $2.8 million for the US Marine Corps. The DON OGC conducts a review of litigation and claims threatened or asserted involving DON General Fund to which the OGC attorneys devoted substantial attention in the form of legal consultation or representation.

The DON currently has 12 cases that meet the existing FY 2009 DON GF materiality thresholds. DON legal counsel was unable to express an opinion concerning the likely outcome on 8 of 12 cases.

Due to the inherent uncertainties of litigation, lawyers generally refrain from expressing judgments as to outcomes except in those relatively few clear cases. In response to a Department of Defense (DoD), Inspector General Audit, "DoD Process for Reporting Contingent Legal Liabilities," DON developed a methodology to determine an estimate for contingent legal liabilities. Beginning with 1st Quarter, FY FY 2007, DON recognized and disclosed an estimate for contingent legal liabilities. The methodology considers the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual case basis. The likelihood of an unfavorable or potential liability was determined by using an average of the data from the current year-to-date and the preceding two years. The total dollar amount of the cases closed was divided by the total dollar amount claimed in those closed cases for each of the last two years plus current year, which were then used to calculate the average. This average is based entirely on historical data and represents the percentage that has historically been paid on claims. The merits of each individual case have not been taken into consideration. The estimate for those cases considered reasonably possible to result in an adverse judgment against DON is $1.2 billion. Until sufficient historical data can be collected for the Navy Working Capital Fund, the DON GF estimate will consider all DON funding sources together.

The DON is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, DON has limited automated system processes by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present DON's contingent liabilities.

The DON GF has recorded in Note 12 a contingent liability in the amount of $43.1 million for obligations related to cancelled appropriations.

The DON GF has recorded in Note 15 a contingent liability in the amount of $150.5 million for Contract Incentives.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009						
		Liabilities	Assumed Interest Rate (%)		(Less: Assets Available to Pay Benefits)		Unfunded Liabilities
(Amounts in thousands)							
1. Pension and Health Actuarial Benefits							
A. Military Retirement Pensions	$	0		$	0	$	0
B. Military Retirement Health Benefits		0			0		0
C. Military Medicare-Eligible Retiree Benefits		0			0		0
D. Total Pension and Health Actuarial Benefits	$	0		$	0	$	0
2. Other Actuarial Benefits							
A. FECA	$	1,494,427		$	0	$	1,494,427
B. Voluntary Separation Incentive Programs		0			0		0
C. DoD Education Benefits Fund		0			0		0
D. Total Other Actuarial Benefits	$	1,494,427		$	0	$	1,494,427
3. Other Federal Employment Benefits	$	0		$	0	$	0
4. Total Military Retirement and Other Federal Employment Benefits:	$	1,494,427		$	0	$	1,494,427

As of September 30	2008						
		Liabilities	Assumed Interest Rate (%)		(Less: Assets Available to Pay Benefits)		Unfunded Liabilities
(Amounts in thousands)							
1. Pension and Health Actuarial Benefits							
A. Military Retirement Pensions	$	0		$	0	$	0
B. Military Retirement Health Benefits		0			0		0
C. Military Medicare-Eligible Retiree Benefits		0			0		0
D. Total Pension and Health Actuarial Benefits	$	0		$	0	$	0
2. Other Actuarial Benefits							
A. FECA	$	1,650,038		$	0	$	1,650,038
B. Voluntary Separation Incentive Programs		0			0		0
C. DoD Education Benefits Fund		0			0		0
D. Total Other Actuarial Benefits	$	1,650,038		$	0	$	1,650,038
3. Other Federal Employment Benefits	$	0		$	0	$	0
4. Total Military Retirement and Other Federal Employment Benefits:	$	1,650,038		$	0	$	1,650,038

Federal Employees' Compensation Act

Actuarial Cost Method Used and Assumptions:

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

Discount Rates
4.223% in Year 1
4.715% in Year 2, and thereafter

To provide more specifically for the effects of inflation on the liability for future workers compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2009 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBYs were as follows:

CBY	COLA	CPIM
2009	N/A	N/A
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014+	2.00%	3.71%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitive analysis of the model to economic assumptions;

(2) a comparison of the percentage change in the liability amount 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 2009 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the 2009 projection to the average pattern for the projections of the most recent three years.

Other Federal Employment Benefits
Other federal employment benefits (Line 3) consist primarily of voluntary separation incentive pay for former employees.

Note 18. Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Costs	$	44,524,564	$	42,702,854
2. Public Costs		104,269,896		94,645,963
3. Total Costs	$	148,794,460	$	137,348,817
4. Intragovernmental Earned Revenue	$	(3,343,323)	$	(3,526,762)
5. Public Earned Revenue		(1,437,943)		(1,079,762)
6. Total Earned Revenue	$	(4,781,266)	$	(4,606,524)
7. Net Cost of Operations	$	144,013,194	$	132,742,293

The Department of the Navy (DON) restated the Fiscal Year (FY) 2008 balance in Outstanding Contract Financing Payments (OCFP) by $22.4 billion. The DON incorrectly reported this amount as expenses rather than assets through FY 2008. These payments include progress payments based on percentage or stage of completion, which cannot be identified due to systems limitations. For the Statement of Net Cost (SNC), a credit to Operating Expenses reduced the Total Costs balance by $7.2 billion. Refer to Note 26, Restatements, for additional details.

Intragovernmental costs and revenues are related to transactions made between the DON General Fund (GF) and another federal entity within the Federal Government.

Public costs and revenues are exchange transactions made between DON GF and a nonfederal entity.

The DON GF's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of generally accepted accounting principles (GAAP) for federal agencies. Most of DON's legacy systems were designed to record information on a budgetary basis, and do not track intragovernmental transactions by customer at the transaction level. Considering these systems limitations, DON GF is unable to accurately compare its intragovernmental costs and revenues with the corresponding balances of its intragovernmental trading partners. Buyer-side accounts payable and expenses were adjusted to match seller-side accounts receivable and revenues. This is accomplished by reclassifying amounts between federal and public cost categories, and accruing additional costs when necessary.

The SNC represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DON'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 DON 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."

In conjunction with the Department of Defense, DON has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of GAAP. One such action is the revision of its accounting systems to record transactions based on the U.S. Standard General Ledger. Until such time as all of the DON's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, DON GF's financial data will be largely based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

The DON's accounting systems generally do not capture information relative to Heritage Assets separately and distinctly from normal operations.

Note 19. Disclosures Related to the Statement of Changes in Net Position

The Department of the Navy (DON) restated its financial statements as of September 30, 2008 to properly recognize payments related to Shipbuilding procurement costs from October 1, 2005 through June 30, 2008 as contract financing payments. These payments include progress payments based on percentage or stage of completion, which cannot be identified due to systems limitations. A prior period adjustment was recognized to correct the beginning 2009 balances. The error impacted assets, expenses, unexpended appropriations, cumulative results of operations, and net position. It impacted DON's Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. Refer to Note 6, Other Assets, for additional details and disclosures.

During 3rd Quarter, FY 2009, Navy implemented an automated interface from the monthly reporting system to the quarterly reporting system. Previously amounts were manually cross walked to accounts for quarterly reporting. During the implementation it was discovered that the crosswalk logic for many accounts was flawed, resulting in incorrect ending balances from FY 2008. A prior period adjustment was recognized to correct the beginning 2009 balances. The adjustment impacted assets, liabilities, unexpended appropriations, and cumulative results of operations. It impacted the Balance Sheet and the Statement of Changes in Net Position. Refer to Note 26, Restatements, for additional details on both Prior Period Adjustments.

The following chart reflects the cumulative effect on DON's balances reported in the comparative period (amounts in millions):

FY 2008 Statement of Changes in Net Position		
Cumulative Results of Operations		
Prior Period Adjustments:		
Corrections of Errors	$	(94.7)
Budgetary Financing Sources:		
Expended Appropriations		7,163.1
Net Cost of Operations		(7,163.1)
Cumulative Results of Operations	**$**	**(94.7)**
Unexpended Appropriations		
Prior Period Adjustments:		
Corrections of Errors	$	20,021.9
Budgetary Financing Sources:		
Expended Appropriations		7,163.1
Unexpended Appropriations	**$**	**27,185.0**
Net Position	**$**	**27,090.3**

Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations Received on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference of $24.3 million is due to Trust Funds and Special Receipt Accounts included in the Appropriations Received line of the SBR. Refer to Note 20 for additional details.

In the SCNP, all offsetting balances (i.e. transfers-in and transfers-out, revenues, and expenses) for intradepartment activity between earmarked and other (nonearmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line except for intraentity imputed financing costs.

Description of Other Lines on the SCNP

Other Financing Sources – Other (Line 5.D) represents net gains and losses recorded in relation to the capitalization of assets such as Real Property, Construction in Progress, Operating Materiel and Supplies, and Military Equipment.

Other Adjustments (Line 13.C) represents reductions to budget authority and rescissions in accordance with Public Law.

Abnormal Balance

In 4th Quarter, FY 2009 an abnormal balance appeared in USSGL 5610 Donated Revenue – Nonfinancial Resources in the amount of $667.4 thousand under the Navy General Fund. Account 5610 crosswalks into the Statement of Changes in Net Position Line 5.A Donations and Forfeitures of Property. This balance is the result of a correcting entry to remove overstated cumulative Donated Revenue. The abnormal balance will be cleared when year-end balances are rolled into FY 2010 beginning balances.

In 4th Quarter, FY 2009, an abnormal balance appeared in USSGL 5993, Offsets to Non-Entity Collections, in the amount of $145.2 thousand under the DON General Fund. Account 5993 crosswalks into the Statement of Changes in Net Position Line 4.C, Non-Exchange Revenue. This abnormal was generated by an adjusting entry within DDRS-B to move prior period funds from Unobligated Balance Not Available - Other to Unobligated Balance Apportioned Balance - Currently Available. The abnormal balance will be cleared when year-end balances are rolled into FY 2010 beginning balances.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 130,649,021	$ 124,099,586
2. Available Borrowing and Contract Authority at the End of the Period	0	0

Apportionment Categories for Obligations Incurred.
On the Statement of Budgetary Resources (SBR): Obligations Incurred includes $186.8 billion of Direct Program Obligations and $10.2 billion of Reimbursable Program Obligations.

On the Report on Budget Execution (SF-133):

- Direct Obligations, Category A, amounts apportioned quarterly, are $105.7 billion.
- Direct Obligations, Category B, amounts apportioned on a basis other than quarterly, are $81.1 billion.
- Total Direct Obligations are therefore $186.8 billion.
- The $16.2 million difference in direct obligations between the SBR and SF-133 is due to adjustments on the SBR to recognize fringe benefits, reclassify reimbursable obligations as noted below, and recognize other adjustments not captured in the field accounting systems.
- Category B Reimbursable Obligations are $10.2 billion.
- The $255 thousand difference in reimbursable obligations between the SBR and SF-133 results from a reclassification adjustment to record trading partner data.

Other Disclosures
The SBR includes intraentity transactions because the statements are presented as combined.

As noted above, in terms of obligations, differences exist between the SF-133 and the SBR for a number of reasons; including accruals recorded for fringe benefits, liabilities recorded for the Judgment Fund, and accruals recorded for trading partner advances and liabilities.

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations Received on the SBR due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference of $24.3 million is due to the values for Trust Funds and Special Receipt Accounts not being included in the Appropriations Received line of the SCNP.

Legal limitations and restrictions affect the use of the unobligated balance of budget authority based upon program and fiscal year in the applicable appropriation language or in the alternative provisions section at the end of the appropriations act.

Permanent, Indefinite Appropriations
The National Defense Sealift Fund (NDSF) is operated under the authority of 10 U.S. Code 2218, which provides for the construction (including design of vessels), purchase, alteration, and conversion of Department of Defense (DoD) sealift vessels; operation, maintenance, and lease or charter of DoD vessels for national defense purposes; installation and maintenance of defense features for national defense purposes on privately owned and operated vessels that are constructed in the United States and documented under the laws of the United States; research and development relating to national defense sealift; and expenses for maintaining the National Defense Reserve Fleet, including the acquisition, alteration or conversion of vessels. For FY 2009, no transfers to or from NDSF occurred.

The Environmental Restoration, Navy (ER, N) appropriation is a transfer account that funds environmental restoration, reduction, and recycling of hazardous waste, removal of unsafe buildings and debris, and similar purposes. Funds remain available until transferred and remain available for the same purpose and same time period as the appropriations to which transferred. For FY 2009, one transfer from ER, N for $294.8 million to the Operation and Maintenance, Navy appropriation was recorded; no transfers to ER, N occurred.

The DON restated the FY 2008 balance in Outstanding Contract Financing Payments by $26.9 billion. The DON incorrectly reported this amount as expenses rather than assets through FY 2008. These payments include progress payments based on percentage or stage of completion, which cannot be identified due to systems limitations. On the SBR, the Prior Period Adjustment had a net effect of zero. For Gross Outlays, a debit to Delivered Orders – Obligations, Paid was offset by a credit to Undelivered Orders – Obligations, Prepaid. Refer to Note 26, Restatements, for additional details.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2009	2008
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 197,017,325	$ 187,831,460
2. Less: Spending authority from offsetting collections and recoveries (-)	(32,093,306)	(29,222,776)
3. Obligations net of offsetting collections and recoveries	164,924,019	158,608,684
4. Less: Offsetting receipts (-)	(321,451)	98,060
5. Net obligations	164,602,568	158,706,744
Other Resources:		
6. Donations and forfeitures of property	(667)	-
7. Transfers in/out without reimbursement (+/-)	208,053	348,312
8. Imputed financing from costs absorbed by others	779,646	678,845
9. Other (+/-)	4,046,452	2,400,715
10. Net other resources used to finance activities	5,033,484	3,427,872
11. Total Resources Used to Finance Activities	$ 169,636,052	$ 162,134,616
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 (-)	$ (33,444,096)	$ (35,194,494)
12b. Unfilled Customer Orders	402,395	741,410
13. Resources that fund expenses recognized in prior periods (-)	(2,992,872)	(750,198)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	321,451	(98,060)
15. Resources that finance the acquisition of assets (-)	(29,671,803)	(27,771,911)
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 (-)	-	-
16b. Other (+/-)	22,640,823	16,982,567
17. Total resources used to finance items not part of the Net Cost of Operations	$ (42,744,102)	$ (46,090,686)
18. Total resources used to finance the Net Cost of Operations	$ 126,891,950	$ 116,043,930

As of September 30	2009	2008
(Amounts in thousands)		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 158,049	$ 163,468
20. Increase in environmental and disposal liability	328,512	37,808
21. Upward/Downward reestimates of credit subsidy expense	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	81,906	1,952,276
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 568,467	$ 2,153,552
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 9,404,125	$ 11,958,197
26. Revaluation of assets or liabilities (+/-)	1,634,709	(519,521)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	0	0
27c. Operating Material and Supplies Used	5,405,716	3,098,196
27d. Other	108,227	7,939
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 16,552,777	$ 14,544,811
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 17,121,244	$ 16,698,363
30. Net Cost of Operations	$ 144,013,194	$ 132,742,293

The Reconciliation of Net Cost of Operations to Budget is designed to provide information about the total resources used by an entity, to explain how those resources were used to finance orders for goods and services not yet delivered, to acquire assets and liabilities, and to fund the entity's net cost of operations. It is designed to report the differences and facilitate the reconciliation of accrual based amounts used in the Statement of Net Cost (SNC) and obligation-based amounts used in the Statement of Budgetary Resources. The computations and presentation of items in the Reconciliation of Net Cost of Operations to Budget demonstrate that the budgetary and proprietary information in an entity's financial management system agrees.

Due to the Department of the Navy financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. Differences between budgetary and proprietary data are a previously identified deficiency. This causes a difference in net cost between the SNC and the Reconciliation of Net Cost of Operations to Budget that requires an adjustment to the Reconciliation of Net Cost of Operations to Budget. For 4th Quarter, Fiscal Year (FY) 2009, an adjustment of $97 million was made to Resources that Finance the Acquisition of Assets so that proprietary accounts reconcile with the budgetary accounts.

The Reconciliation of Net Cost of Operations to Budget is presented as a consolidated statement. However, the following 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

Description of Other Lines
Resources Used to Finance Activities – Budgetary Resources Obligated:
The balance of $4.1 billion represents net gains and losses recorded in relation to the capitalization of assets such as Real Property, Construction in Progress, Operating Materials and Supplies, and Military Equipment.

Resources Used to Finance Items not Part of the Net Cost of Operations:
The balance of $22.6 billion reflects net gains and losses recorded in relation to the net change of the value of assets such as Military Construction, Ammunition, Real Property, and Shipbuilding and Conversion.

Components Requiring or Generating Resources in Future Periods:
The balance of $81.9 million consists primarily of accrued expenses for Non-Environmental Liabilities and the Unemployment Unfunded Liability.

Components not Requiring or Generating Resources:
The balance of $108.2 million consists primarily of bad debt expense and expenses not requiring budgetary resources.

Abnormal Balance
In 4th Quarter, FY 2009 an abnormal balance appeared in USSGL 5610 Donated Revenue – Nonfinancial Resources in the amount of $667.4 thousand under the Navy General Fund. Account 5610 crosswalks into the Statement of Changes in Net Position Line 5.A Donations and Forfeitures of Property. This balance is the result of a correcting entry to remove overstated cumulative Donated Revenue. The abnormal balance will be cleared when year-end balances are rolled into FY 2010 beginning balances.

Note 22. Disclosures Related to Incidental Custodial Collections

Not applicable.

Note 23. Earmarked Funds

BALANCE SHEET As of September 30 (Amounts in thousands)	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	$ 0	0	17,800	0	17,800
Investments	0	0	9,621	0	9,621
Accounts & Interest Receivable	0	0	0	0	0
Other Assets	0	0	0	0	0
Total Assets	$ 0	0	27,421	0	27,421
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	$ 0	0	0	0	0
Other Liabilities	0	0	1,250	0	1,250
Total Liabilities	$ 0	0	1,250	0	1,250
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	26,171	0	26,171
Total Liabilities & Net Position	$ 0	0	27,421	0	27,421
STATEMENT OF NET COST For the period ended September 30					
Program Costs	$ 0	0	22,279	0	22,279
Less Earned Revenue	0	0	0	0	0
Net Program Costs	$ 0	0	22,279	0	22,279
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	0	22,279	0	22,279
STATEMENT OF CHANGES IN NET POSITION For the period ended September 30					
Net Position Beginning of the Period	$ 0	0	24,230	0	24,230
Net Cost of Operations	0	0	22,279	0	22,279
Budgetary Financing Sources	0	0	24,215	0	24,215
Other Financing Sources	0	0	5	0	5
Change in Net Position	$ 0	0	1,941	0	1,941
Net Position End of Period	$ 0	0	26,171	0	26,171

BALANCE SHEET As of September 30 (Amounts in thousands)		2008			
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	$ 0	0	19,512	0	19,512
Investments	0	0	10,356	0	10,356
Accounts & Interest Receivable	0	0	0	0	0
Other Assets	0	0	23	0	23
Total Assets	$ 0	0	29,891	0	29,891
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	$ 0	0	0	0	0
Other Liabilities	0	0	5,661	0	5,661
Total Liabilities	$ 0	0	5,661	0	5,661
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	24,230	0	24,230
Total Liabilities & Net Position	$ 0	0	29,891	0	29,891
STATEMENT OF NET COST For the period ended September 30					
Program Costs	$ 0	0	24,863	0	24,863
Less Earned Revenue	0	0	0	0	0
Net Program Costs	$ 0	0	24,863	0	24,863
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	0	24,863	0	24,863
STATEMENT OF CHANGES IN NET POSITION For the period ended September 30					
Net Position Beginning of the Period	$ 0	0	24,258	0	24,258
Net Cost of Operations	0	0	24,863	0	24,863
Budgetary Financing Sources	0	0	24,837	0	24,837
Other Financing Sources	0	0	(2)	0	(2)
Change in Net Position	$ 0	0	(28)	0	(28)
Net Position End of Period	$ 0	0	24,230	0	24,230

Earmarked funds are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes. The Department of the Navy (DON) has seven earmarked funds. Four are categorized as Special Funds and three are categorized as Trust Funds. A list of these earmarked funds and a brief description of each follows below. There have been no changes in legislation during or subsequent to the reporting period that significantly changes the purpose of any of the seven funds or that redirects a material portion of the accumulated balances of any of the seven funds. Generally, revenues for the DON's earmarked funds are inflows of resources to the Government.

Special Earmarked Funds

Wildlife Conservation, Military Reservations, Navy –

This fund, authorized by 16 United States Code 670b, provides for the development and conservation of fish and wildlife and recreational facilities on military installations. Proceeds from the sale of fishing and hunting permits are used for these programs at Navy and Marine Corps installations charging such user fees. These programs are carried out through cooperative plans agreed upon by the local representatives of the Secretary of Defense, the Secretary of the Interior, and the appropriate agency of the State in which the installation is located.

Kaho'olawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy –
This fund, authorized by 107 Statute 1483, was established to recognize and fulfill the commitments made on behalf of the United States to the people of Hawaii and to return to the State of Hawaii the Island of Kaho'olawe. Congress has found it to be in the national interest and an essential element in the Federal Government's relationship with the State of Hawaii the conveyance, clearance, or removal of unexploded ordnance, environmental restoration, control of access to the Island and future use of the Island be undertaken in a manner consistent with the enhancement of that relationship, the Department of Defense's military mission, the federal interest, and applicable provisions of law. This fund is financed by congressional appropriations.

Rossmoor Liquidating Trust Settlement Account –
The Rossmoor Liquidating Trust account was established by Section 2208 of Public Law 104-106; the National Defense Authorization Act of 1996. Per the statute, monies awarded the United States when litigation is settled in favor of the Rossmoor Liquidating Trust is deposited into this account. The monies are made available to DON solely for the acquisition or construction of military family housing in, or in the vicinity of, San Diego, California.

Ford Island Improvement Account –
The Ford Island Improvement fund is authorized by 10 United States Code 2814 and was established to carry out improvements to property and facilities that will deliver overall benefits to DON at the Pearl Harbor Naval Complex at Ford Island, Hawaii. Ford Island is a central feature in the Pearl Harbor National Historic Landmark. The Ford Island legislation allows DON to sell or lease properties in Hawaii and use the proceeds to develop Ford Island.

Trust Earmarked Funds

DON General Gift Fund –
This trust fund is authorized by 10 United States Code 2601. Under the provisions of this statute, the Secretary of the Navy may accept, hold, administer, and spend any gift, devise, or bequest of real or personal property, made on the condition that they be used for the benefit, or in connection with the establishment, operation, or maintenance of a school, hospital, library, museum, cemetery, or other institution under the jurisdiction of DON.

Ships Stores Profit, Navy –
This trust fund is authorized by 10 United States Code 7220. Deposits to this fund are derived from profits realized through the operation of ships' stores and from gifts accepted for providing recreation, amusement, and contentment for enlisted members of the Navy and Marine Corps.

U.S. Naval Academy General Gift Fund –
This trust fund is authorized by 10 United States Code 6973. Under the provisions of this statute, the Secretary of the Navy may accept, hold, administer, and spend any gift, devise, or bequest of personal property, made on the condition that it be used for the benefit of, or in connection with, the United States Naval Academy, or the Naval Academy Museum, its collections, or its services.

Note 24. Fiduciary Activities

For the period ended September 30 (Amounts in thousands)		2009
1. Fiduciary net assets, beginning of year	$	20,570
2. Fiduciary revenues		0
3. Contributions		39,680
4. Investment earnings		2,211
5. Gain (Loss) on disposition of investments, net		0
6. Administrative and other expenses		0
7. Distributions to and on behalf of beneficiaries		(35,730)
8. Increase/(Decrease) in fiduciary net assets	$	6,161
9. Fiduciary net assets, end of period	$	26,731

For the period ended September 30 (Amounts in thousands)		2009
Fiduciary Assets		
1. Cash and cash equivalents	$	26,731
2. Investments		0
3. Other Assets		0
Fiduciary Liabilities		
4. Less: Liabilities	$	0
Total Fiduciary Net Assets	$	26,731

The Department of the Navy's Fiduciary Activity consists of funds in the Savings Deposit Program. Under 10, USC, §1035, and Department of Defense Financial Management Regulation, Volume 7A, Chapter 51, deployed service members of both the Navy and Marine Corps can earn 10 percent interest on up to $10 thousand deposited into the program. Funds are held in the program during the member's tour of duty and are paid out within 90 days after the member leaves the eligible region. The accounts included in the balance are 17X6025 for Navy and 17X6026 for Marine Corps.

Note 25. Other Disclosures

As of September 30	2009			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Entity as Lessee - Operating Leases				
Future Payments Due				
Fiscal Year				
2009	$ 0	$ 0	$ 0	$ 0
2010	50,545	0	0	50,545
2011	52,022	0	0	52,022
2012	53,550	0	0	53,550
2013	55,129	0	0	55,129
2014	56,763	0	0	56,763
After 5 Years	58,454	0	0	58,454
Total Future Lease Payments Due	$ 326,463	$ 0	$ 0	$ 326,463

Note 26. Restatements

The Department of the Navy (DON) restated its financial statements as of September 30, 2008 to properly recognize payments related to Shipbuilding procurement costs from October 1, 2005 through June 30, 2008 as contract financing payments. These payments include progress payments based on percentage or stage of completion, which cannot be identified due to systems limitations. A prior period adjustment was recognized to correct the beginning 2009 balances. The error impacted assets, expenses, unexpended appropriations, cumulative results of operations, and net position. It impacted DON's Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. Refer to Note 6, Other Assets, for additional details and disclosures.

During 3rd Quarter, Fiscal Year (FY) 2009, Navy implemented an automated interface from the monthly reporting system to the quarterly reporting system. Previously amounts were manually cross walked to accounts for quarterly reporting. During the implementation it was discovered that the crosswalk logic for many accounts was flawed, resulting in incorrect ending balances from FY 2008. A prior period adjustment was recognized to correct the beginning 2009 balances. The adjustment impacted assets, liabilities, unexpended appropriations, and cumulative results of operations. It impacted the Balance Sheet and the Statement of Changes in Net Position.

The following chart reflects the cumulative effect on DON's balances reported in the comparative period (amounts in millions):

FY 2008 Balance Sheet		
Accounts Receivable	$	15.5
Interest Receivable		25.3
Advances and Prepayments		26,824.1
Accumulated Depreciation on Equipment - OCFP		23.9
Other Assets		0.3
Total Assets	$	**26,889.1**
Accounts Payable		(538.3)
Liability for Non-Entity Assets		337.2
Total Liabilities	$	**(201.1)**
Unexpended Appropriations - Prior Period		20,021.9
Unexpended Appropriations - Used		7,163.1
Cumulative Results of Operations		(94.7)
Net Position	$	**27,090.3**

FY 2008 Statement of Net Costs		
Gross Costs	$	(7,163.1)

FY 2008 Statement of Changes in Net Position		
Cumulative Results of Operations		
Prior Period Adjustments:		
Corrections of Errors	$	(94.7)
Budgetary Financing Sources:		
Expended Appropriations		7,163.1
Net Cost of Operations		(7,163.1)
Cumulative Results of Operations	$	**(94.7)**
Unexpended Appropriations		
Prior Period Adjustments:		
Corrections of Errors	$	20,021.9
Budgetary Financing Sources:		
Expended Appropriations		7,163.1
Unexpended Appropriations	$	**27,185.0**
Net Position	$	**27,090.3**

The following chart reflects the cumulative effect on DON's balances reported in the current period:

FY 2009 Statement of Changes in Net Position		
Cumulative Results of Operations		
Prior Period Adjustments:		
Corrections of Errors	$	(94.7)
Unexpended Appropriations		
Prior Period Adjustments:		
Corrections of Errors	$	27,185.0

GENERAL FUND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Investments in Research and Development
Yearly Investment in Research and Development
For Fiscal Years 2005 through 2009
($ in Millions)

Categories	FY09	FY08	FY07	FY06	FY05
Basic Research	$ 523	$ 452	$ 448	$ 449	$ 437
Applied Research	854	748	781	739	692
Development					
Advanced Technology Development	883	752	801	912	951
Advanced Component Development and Prototypes	3,464	3,329	3,229	3,223	3,030
System Development and Demonstration	8,288	8,141	8,731	7,819	7,094
Research, Development, Test, and Evaluation Management Support	1,245	1,112	1,034	1,022	955
Operational Systems Development	4,249	3,943	3,810	3,399	3,775
Totals	**$ 19,506**	**$ 18,477**	**$ 18,834**	**$ 17,563**	**$ 16,934**

Narrative Statement:

Investments in Research and Development
Investment values are based on Research and Development outlays (expenditures). Outlays are used because current Department of the Navy (DON) systems are unable to fully capture and summarize costs in accordance with standards promulgated by the Federal Accounting Standards Advisory Board.

Research and Development (R&D) programs are classified as Basic Research, Applied Research, and Development. The definition of each R&D category and subcategory is explained below.

A. Basic Research
Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

The following are two representative program examples for the Basic Research category.

Environmentally Safe Hull Coatings
Biofouling of ship hulls, primarily caused by the accretion of marine crustaceans, such as barnacles and tubeworms, poses a significant impediment to ship performance. Biofilm can add up to 20 percent drag and barnacles more than 60 percent.

The Naval Surface Warfare Center, Carderock, estimates that vessel speed is reduced by up to 10 percent from biofouling, which can require up to a 40 percent increase in fuel consumption to counter the added drag.

The Office of Naval Research (ONR) is investing in environmentally friendly coatings for ship hulls to prevent biofouling organisms from interfering with a ship's hydrodynamic performance. Current biofouling solutions generally rely on the use of biocides, which use toxins to kill organisms that try to attach to the hull. Such toxins leach from the coatings and may accumulate in the environment.

ONR's research has yielded significant progress in the development of two powerful, nontoxic biofouling prevention agents. The Sharklet™ coating, developed in partnership with researchers at the University of Florida, mimics the inherent texture and antimicrobial properties of shark skin. Zwitterionic or mixed charge compounds, developed in partnership with the University of Washington, manipulate surface environments at the molecular level to prevent proteins from binding to the ship's surface.

By reducing microorganism build-up, both coatings stand to substantially improve ship performance and fuel efficiency, while dramatically cutting fuel and maintenance costs. These coatings may also reduce the transport of invasive species via ship hulls and eliminate the discharge of biocides into surrounding environments.

Additionally, researchers have determined that the ONR-funded marine biofouling prevention technologies also inhibit the growth of disease-causing bacteria. This unique attribute may have applications in the design of medical devices or hygienic surfaces found in hospitals and food preparation areas.

Video Game-Induced Enhancements in Adult "Fluid Intelligence"

ONR is unique among multiple players in the field of cognitive science. ONR is pursuing mission-focused neuroscience and cognition research specifically applicable to human learning and performance requiring adaptability.

Research on video games for training has proven to be highly fruitful with new and very surprising findings showing that short periods of game-based training can increase "fluid intelligence" in young, military age adults by as much as 40 to 50 percent. Fluid intelligence is the fundamental ability to reason and solve problems in novel contexts.

This form of intelligence has long been thought to be a hard-wired, fixed trait in adulthood that is not affected by training or experience. Showing training effects of this nature overturns established dogma in cognitive science and shows great promise for training warfighters to become more adaptive and resilient problem-solvers in fast-paced, unpredictable operational environments. Other information processing capabilities now found, surprisingly, to show training-induced cognitive improvements in adults are visual discrimination ability, memory capacity, and the ability to concentrate.

It is believed that computer games achieve these effects by increasing the efficiency of information flow in game players through the strengthening of executive attentional control mechanisms in the prefrontal cortex.

Research in this area will contribute to three main operational capabilities:

- Human Systems Integration – systems, equipment optimized for human use, such as the perceptual ability of sailors in the Combat Information Center of warship on warship – very visually intensive environment

- Training – prepare Sailors and Marines to prevail and survive in combat – closing the gap between training and operations
- Selection and Classification – putting the right people in the right job reduces training time, cost, and will ultimately save lives

B. Applied Research

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting the recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts.

The following are two representative program examples for the Applied Research category.

BioEngineered Systems

Synthetic biology offers a path forward for development of autonomous "sense and respond" systems for environmental and possibly medical monitoring and intervention.

Of particular interest are strategies for persistent surveillance of various environments for analytes, such as explosives, and of biomedical environments for pathogens or other disease-promoting elements. For example, plants have been genetically engineered to sense trinitrotoluene (TNT) and respond by having their leaves turn white – this has been accomplished by stopping the enzymatic production of pigment and increasing its degradation when the TNT trigger is sensed.

The plant sensors can detect TNT at low parts-per-trillion in solution and parts-per-billion in the vapor phase and can be visualized using hyperspectral imaging. They may provide a stealthy way to monitor the placement of improvised explosive devices or facilities where they are made. The technology is flexible and will allow us to create plant sentinels for other chemical targets (e.g., pollutants).

ONR has also used synthetic biology to genetically program a bacterium (E. coli) to enable it to detect and kill specific pathogenic bacteria. Genetic pathways were inserted that enabled the E. coli to sense small, specific signal molecules secreted by the targeted bacteria and then turn on other genetic programs that synthesize and secrete antibiotics to kill the pathogens.

This system may provide a strategy for early delivery of the correct antibiotic in a healing wound. In the future, similar systems may be devised to help augment the immune system to enable it to fight recalcitrant infections.

High Temperature Superconducting Degaussing for Ships

Naval mine strikes are the root cause of 77 percent of U.S. Navy ship casualties occurring since 1950. Most recently, the modern warships USS Samuel B. Roberts (FFG 58), USS Princeton (CG 59), and USS Tripoli (LPH 10) were severely damaged by mine warfare during Persian Gulf conflicts.

With increased operations in the coastal areas (or littorals) of the world's oceans, U.S. Navy ships face an increasing threat from naval mines. As the mine threat has become more sophisticated, degaussing systems have evolved in complexity. Copper coil based systems have impacted ship designs in terms of weight and size requirements. Utilization of High Temperature Superconducting (HTS) technology can alleviate to a large extent the weight and space impact to the ship of legacy degaussing system designs.

In partnership with the Naval Surface Warfare Center Carderock Division's Ship Engineering Station Philadelphia, an HTS degaussing coil system was installed on board the USS Higgins (DDG 76) in July 2008. The new HTS degaussing coil—the first of its kind to be installed on board a naval vessel—successfully produced a full "coil effect" and delivered the first-ever measurement of a degaussing system using superconductive materials on April 1, 2009 as the ship completed a pass over the U.S. Navy Magnetic Silencing Range in San Diego, California.

The HTS degaussing coil system neutralizes a ship's inherent magnetic field, interfering with undersea mines' ability to detect and detonate when a large magnetic field – like the one created by a ship – comes within close proximity.

HTS degaussing neutralizes a ship's magnetic field by sending electrical currents through ceramic cables encircling all or part of a ship. HTS degaussing replaces legacy copper coils providing the same function, but much more efficiently due to the use of superconducting materials.

HTS provides superior degaussing over legacy copper coils, is more efficient producing a great "coil effect" with less energy, and weighs significantly less than copper systems. Weight and space savings provide options to naval architects for added mission payload, additional fuel, or future systems to be added to the ship over its life cycle.

C. Development

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages, as defined below.

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and production rather than the development of hardware for service use. It employs demonstration activities intended to prove or test a technology or method.

2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components or complete weapon systems ready for operational and developmental testing and field use.

3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

4. Research, Development, Test, and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the Research and Development program.

5. Operational Systems Development is concerned with development projects in support of programs or upgrades that are still in engineering and manufacturing development. These projects have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are representative program examples for the Development category—two for the DON General Fund, and two for the U.S. Marine Corps General Fund.

Integrated Topside

The Integrated Topside (InTop) is an Innovative Naval Prototype (INP) program that will develop a scalable family of Electronic Warfare (EW), radar and communications capability to support multiple classes of ships and other Navy platforms. InTop will use a modular / open radio frequency (RF) design to facilitate best-of-breed technology and cost-effective upgrades. The InTop vision is to:

- Dominate the RF spectrum
- Enable innovation through a RF Open Architecture (hardware and software)
- Create affordable systems that are scalable across platforms

InTop plans to reduce the number of topside apertures present on Navy ships through the use of integrated, multi-function, multi-beam arrays. In the past, the topside design approach was based on developing separate systems and associated antennas for each individual RF function, which led to a significant increase in topside antennas. This increase led to problems with electro-magnetic interference, radar cross section, and the overall performance of critical ship EW and communication functions.

InTop builds off of a past ONR effort, the Advanced Multi-Function RF Concept (AMRFC), which was a proof-of-principle demonstration that showed the feasibility of multi-beam, multi-function apertures capable of simultaneously supporting EW, communications and radar functions in two arrays (transmit and receive). The AMRFC test bed also provided a modular architecture where interfaces were sufficiently defined between units (arrays, signal processing, resource manager, etc.) that systems developed by different companies and government labs could be integrated and work together in one overall system.

The InTop INP will use a teaming arrangement between Navy research, Navy acquisition, and industry to define RF form, fit, function, and interface standards, pursue different array architectures, and support development of component technology to reduce array cost. ONR completed numerous site visits and meetings with industry to present the concepts for the InTop INP and the attendant modular open scalable architecture approach that will be required. Industry support and willingness to participate in this effort has been extremely positive and proactive.

Closed-Loop Ventilation
Closed-Loop Control (CLC) software provides algorithms for mechanical ventilation of trauma patients.

CLC systems automatically make adjustments in the supply of oxygen based on the physiological status of the patient without outside intervention. CLC systems are force multipliers and also reduce the logistical burden for oxygen cylinders and provide better medical care since they are continuously monitoring the patient.

Results from a 50-patient study indicate the software algorithm was safe and effective. The study also demonstrated:

- 50 percent of patients do not need oxygen
- CLC enables patients to be weaned off the ventilator sooner
- Decreases risk of pneumonia, which will reduce length of stay in intensive care units and associated medical costs

Additional testing is planned for Fiscal Year 2011. After completion of the clinical trials, the algorithms will be licensed for incorporation into the light trauma module currently in development.

Expeditionary Fighting Vehicle Program
The Expeditionary Fighting Vehicle (EFV) Program will field a successor to the Marine Corps' current amphibious vehicle, the Assault Amphibious Vehicle Model 7A1 (AAV7A1). The EFV will provide the principal means of tactical surface mobility for the Marine Air Group Task Force during both ship-to-objective maneuvers and sustained combat operations ashore.

The EFV program is an Acquisition Category-1D program managed by the Marine Corps. The EFV is the next generation of Marine Corps Assault Vehicles being developed to satisfy the requirements of the 21st Century Marine War Fighters. Along with the Landing Craft Air Cushion and the MV-22 Osprey, the EFV will provide the Marine Corps with the tactical mobility assets required within the Expeditionary Maneuver Warfare capstone. Acquisition of the EFV is critical to the Marine Corps.

During FY 2009, the EFV program continued engineering and logistics efforts to support design development, manufacturing planning, and design enhancements of both the EFV Command and Personnel variants. The program continued developmental and reliability test support as well as the design, integration, and testing of vehicle modifications that will support the Milestone C Operational Assessment. Developmental Testing and Reliability/Availability/Maintainability testing conducted during FY 2009 included riverine testing; detection, acquisition, recognition, and identification testing; track and drivetrain durability testing; and toxic fumes testing. The Design for Reliability effort was completed during this period following the established systems engineering processes. The System Development

Demonstration (SDD) prototypes manufacturing continued. Also, the capstone System Critical Design Review and Integrated Baseline Review were completed.

Efforts continued on the SDD-2 contract, awarded during FY 2008. This follow-on SDD Phase includes continued design, development, and reliability upgrades; increased Reliability/Availability/Maintainability testing; modification of existing SDD prototypes; and manufacture and testing of up to seven additional SDD prototype vehicles.

Joint Light Tactical Vehicle
The Joint Light Tactical Vehicle (JLTV) capabilities represent a shift to adapt from a threat based, Cold War garrison force focused on containment to a capabilities based, expeditionary force focused on flexibility, survivability, force protection, responsiveness, and agility. The JLTV is a joint Army/Marine Corps program, which consists of a family of vehicles with companion trailers capable of performing multiple mission roles. The JLTV family of vehicles must be capable of operating across a broad spectrum of terrain and weather conditions. The Military Services and the U.S. Special Operations Command require enhanced capabilities, greater than those provided by the existing High Mobility Multipurpose Wheeled Vehicle, to support the Joint Functional Concepts of Battlespace Awareness, Force Application, and Focused Logistics. The initial production of JLTVs will provide the Marine Air Group Task Force commander a family of tactical wheeled vehicles capable of providing combat forces protected, sustained, and netted mobility in irregular warfare operations and enhancing its contribution to the integrated Joint Task Force.

In October 2008, the JLTV program awarded three Technology Development phase contracts. However, two competitors filed protests, which resulted in a work-stop until the Government Accountability Office (GAO) completed a protest review. In March 2009, the JLTV program office held Start of Work Meetings and System Requirements Reviews with the contractors. The Start of Work Meetings allowed the JLTV program office to develop joint team charters, establish communication lines, and establish metrics. The System Requirements Reviews ensured agreement on what each JLTV contract requires.

During 2009, the JLTV program office awarded contracts for the incorporation of additional right hand operations versions because Australia had joined the JLTV program in January 2009. The additional test assets from each contractor benefits the U.S. by further reducing schedule risk, performance risk, and U.S. test costs, as well as improving the quality and depth of data from the Technology Development phase.

During FY 2009, Preliminary Design Reviews were completed. Each contractor presented key design trades and decisions in the following performance parameter areas: mobility, transportability, net-ready, force protection, survivability, payload, and availability. The Army and Marine Corps Combat Developers also conducted Quarterly Knowledge Point reviews to evaluate these design trades in order to establish vehicle requirements that balance affordability with protection, payload, and performance within a transportable platform.

NON-FEDERAL PHYSICAL PROPERTY
The DON General Fund does not fund this type of Activity.

GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Department of the Navy
General Property, Plant, and Equipment
Real Property Deferred Maintenance and Repair
For Fiscal Year Ended September 30, 2009
($ in Thousands)

Property Type	1. Plant Replacement Value	2. Required Work (Deferred Maintenance and Repair)	3. Percentage
Category 1: Enduring Facilities			
Navy	$ 92,091,361	$ 23,966,603	26.0%
Marine Corps	$ 40,569,794	$ 1,214,148	3.0%
Category 2: Excess Facilities or Planned for Replacement			
Navy	$ 3,201,663	$ 836,418	26.1%
Marine Corps	$ 391	$ 0	0.0%
Category 3: Heritage Assets			
Navy	$ 28,287,751	$ 7,366,915	26.0%
Marine Corps	$ 14,662	$ 440	3.0%

NOTE: In the table above, Navy real property deferred maintenance and repair data represent both Department of the Navy General Fund and Navy Working Capital Fund (NWCF). Similarly, Marine Corps real property deferred maintenance and repair data represent both the United States Marine Corps General Fund and NWCF-Marine Corps.

Narrative Statement:

1. The method used to assess Navy facilities condition is a combination of commercial Infrastructure Condition Assessment Program software and facilities inspection. The method used to assess Marine Corps facilities condition is a facilities inspection, which categorizes buildings as Adequate, Substandard, or Inadequate. The Department of the Navy (DON) calculates quality rating (Q-rating) using the formula below.

$$Q = \underline{1 - (\text{Requirements}\ ) \text{ X } 100}$$
$$\text{PRV}$$

DON's Q-rating is represented by the following bands: 100%-90% Q1; 90%-80% Q2; 80%-60% Q3; and less than 60% Q4.

2. The Navy models the "Requirements" value in the above formula from the condition rating and configuration rating. The condition rating is a measure (0 -100) of an asset's physical condition at a particular point in time. The Navy uses condition modeling software to capture condition assessment data to model system/component condition ratings. The condition assessment data is supplemented by eyes-on condition assessments that capture accurate facility components and confirm as-built condition.

The configuration rating is a measure (0 - 100) of the asset's capability to support the current occupant or mission with respect to functionality. The configuration rating is calculated in the internet Navy Facility Assets Data Store (iNFADS) from an algorithm that weights configuration deficiency codes (code compliance, functional/space criteria, location/siting criteria or inadequate capacity/coverage) collected during Asset Evaluations. Deficiency codes identify impacts to the suitability of spaces for their intended use.

3. During Fiscal Year (FY) 2008, the Navy used an interim configuration rating formula that did not consider iNFADS Deficiency Codes, which identify the type and severity of configuration deficiencies. The formula simply weighted measures (e.g., SF) assigned to Adequate, Substandard, and Inadequate spaces. During FY 2009, the Navy implemented an improved methodology for calculating the configuration rating that resulted in more accuracy and granularity.

4. The FY 2009 target Q-rating value representing full investment requirement for the Navy is Q1. DON follows the Office of the Secretary of Defense installation strategic plan goal of having facilities at a Q2 level on average as an acceptable rating. The table above shows that deferred maintenance for the Navy is valued at 26%, 26.1%, and 26% of plant replacement value (PRV) for categories 1 through 3, respectively. The deferred maintenance estimates are based on the facility Q-ratings found in the Navy's real property inventory. The PRV and deferred maintenance estimates are reported for the following Maintenance Fund Sources:

- Operation and Maintenance, Navy
- Operation and Maintenance, Navy Reserve
- Research, Development, Test, and Evaluation
- Navy Working Capital Fund

The table above also shows that deferred maintenance for the Marine Corps is valued at approximately 3.0% of PRV for categories 1 and 3. The percentage for category 1 and 3 facilities is the same because Marine Corps cannot separate the deferred maintenance between those categories at this time. Category 2 is zero because we do not hold deferred maintenance backlogs on facilities to be demolished.

Description of Property Type categories:

- Category 1 – Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission, including multi-use Heritage Assets.
- Category 2 – Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.
- Category 3 – Buildings, Structures, and Utilities that are Heritage Assets.

Military Equipment Deferred Maintenance
For Fiscal Year Ended September 30, 2009
($ in Thousands)

Major Category	OP30 Amounts	Adjustments	Totals
1. Aircraft	$-	$-	$-
2. Automotive Equipment	-	-	-
3. Combat Vehicles	-	-	-
4. Construction Equipment	514	-	514
5. Electronics and Communications Systems	2,177	-	2,177
6. Missiles	47,343	-	47,343
7. Ships	80,353	-	80,353
8. Ordnance Weapons and Munitions	22,908	-	22,908
9. General Purpose Equipment	-	-	-
10. All Other Items Not Identified Above	97,754	-	97,754
Total	**$251,049**	**$-**	**$251,049**

Narrative Statement:

Aircraft Deferred Maintenance
Four sub-categories comprise aircraft deferred maintenance: airframe rework and maintenance (active and reserve), engine rework and maintenance (active and reserve), component repair, and software maintenance. The airframe rework deferred maintenance calculation reflects unfunded requirements, which represent aircraft that failed Aircraft Service Period Adjustment (ASPA) inspections or reached fixed Period End Date (PED) at year-end. The engine rework deferred maintenance calculation reflects year-end actual requirements minus actual funded units. Component repair deferred maintenance represents the difference between the validated requirements minus corresponding funding.

Airframe rework and maintenance (active and reserve) is currently performed under both the Standard Depot Level Maintenance (SDLM) and Integrated Maintenance Concept (IMC) programs. Currently, the AV-8B, C-130, C-2, E-2, E-6, EA-6B, F-5, F/A-18, H-1, H-46, H-53, H-60, P-3, and S-3 aircraft programs have been incorporated under the IMC concept. The IMC concept uses Planned Maintenance Intervals (PMI), performing more frequent depot maintenance, but with smaller work packages, thereby reducing out-of-service time. The goal of this program is to improve readiness while reducing operating and support costs. The Naval Air Systems Command's (NAVAIR) Industrial Strategy is to maintain the minimum level of organic capacity, consistent with force levels, that is necessary to sustain peacetime readiness and maintain fighting surge capability. NAVAIR works in partnership with private industry to make maximum use of industry's production capabilities and for non-core related aviation depot maintenance.

Combat Vehicles Deferred Maintenance
The combat vehicles category refers to deferred vehicle maintenance for the active and reserve Marine Corps assets. The combat vehicle category consists of weapons systems such as the M1A1 Tank, the Amphibious Assault Vehicle, the Hercules Recovery Vehicle, and the Light

Armored Vehicle. The total requirement is the planned quantity of combat vehicles that require depot level maintenance in a year as determined by program managers and the operating forces with requirements validated by a modeling process. The deferred maintenance is the difference between the validated requirements and funding received for that fiscal year.

Missiles Deferred Maintenance

Four categories are used to determine missile maintenance: missiles, tactical missiles, software maintenance, and other. Deferred maintenance is defined as the difference between the total weapon maintenance requirement as determined by requirements modeling processes and the weapon maintenance that is funded in accordance with the annual budget controls for the missile maintenance program. The maintenance requirements model projects the quantity of missiles and missile components per weapon system that are required to be maintained or reworked annually.

Ships Deferred Maintenance

Fleet Type Commanders provide deferred ship maintenance data. Data is collected from the Current Ships' Maintenance Plan (CSMP) database, which captures maintenance actions at all levels (organizational, intermediate, depot) for active and reserve ships. Only depot level deferred maintenance is provided in the calculation of ship deferred maintenance. This includes maintenance actions deferred from actual depot maintenance work-packages as well as maintenance deferred before inclusion in a work package due to fiscal, operational, or capacity constraints. Although there are some deferred maintenance actions, no ships fall into the category of "unacceptable operating condition." Any ship that would be at risk of being in unacceptable operating condition would receive priority for maintenance funding to maintain acceptable operating condition.

Ordnance Weapons and Munitions Deferred Maintenance

Ordnance weapons and munitions are part of a broader category, Other Weapons Systems. This category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of repairable components. Three categories define ordnance maintenance: ordnance maintenance, software maintenance, and other. Although the various programs vary in the methodology in defining requirements, all programs define deferred maintenance as the difference between validated requirements and funding.

Deferred Maintenance on All Other Items Not Identified Above

This category comprises deferred maintenance for software, radar equipment, arrest gear, lighting and surfacing equipment, and EFTM (external fuel transfer module). The deferred maintenance is the difference between the validated requirements and funding received for that fiscal year.

Software maintenance includes the operational and system test software that runs in the airborne avionics systems (e.g., mission computer, display computer, radar) and the software that runs the ground-based support labs used to perform software sustainment (e.g., compilers, editors, simulation, configuration management).

Heritage Assets Condition Information

The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to the DON collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

Department of Defense
Department of the Navy
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES
For the periods ended September 30, 2009 and 2008
($ in Thousands)

	Other	Research, Development, Test & Evaluation	Operation and Maintenance	Procurement
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1	$ 13,285	$ 2,568,607	$ 1,645,908	$ 21,534,926
Recoveries of prior year unpaid obligations	641	713,041	5,207,903	7,062,280
Budget authority				
Appropriation	314,574	20,089,290	52,547,782	43,200,030
Borrowing authority	0	0	0	0
Contract authority	0	0	0	0
Spending authority from offsetting collections				
Earned				
Collected	(157,724)	511,757	5,361,535	784,947
Change in receivables from Federal sources	0	(93,774)	(19,075)	(2,873)
Change in unfilled customer orders				
Advance received	161,740	1,058	(59,533)	4,129
Without advance from Federal sources	0	(50,335)	17,963	26,109
Anticipated for rest of year, without advances	0	0	0	0
Previously unavailable	0	0	0	0
Expenditure transfers from trust funds	0	0	0	0
Subtotal	318,590	20,457,996	57,848,672	44,012,342
Nonexpenditure transfers, net, anticipated and actual	(294,747)	140,757	935,874	957,672
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	0	(439,541)	(1,813,505)	(824,855)
Total Budgetary Resources	$ 37,769	$ 23,440,860	$ 63,824,852	$ 72,742,365
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 5,108	$ 20,337,097	$ 56,090,602	$ 53,291,323
Reimbursable	0	481,240	5,661,633	715,669
Subtotal	5,108	20,818,337	61,752,235	54,006,992
Unobligated balance:				
Apportioned	32,660	2,416,675	413,286	18,271,916
Exempt from apportionment	0	0	0	0
Subtotal	32,660	2,416,675	413,286	18,271,916
Unobligated balance not available	-	205,848	1,659,330	463,456
Total status of budgetary resources	$ 37,768	$ 23,440,860	$ 63,824,851	$ 72,742,364
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 73,588	$ 9,425,212	$ 21,572,563	$ 56,929,760
Less: Uncollected customer payments from Federal sources, brought forward, October 1	0	(390,505)	(1,625,008)	(270,829)
Total unpaid obligated balance	73,588	9,034,707	19,947,555	56,658,931
Obligations incurred net ()	$ 5,108	$ 20,818,337	$ 61,752,235	$ 54,006,992
Less: Gross outlays	(26,682)	(19,924,261)	(55,897,235)	(41,388,451)
Obligated balance transferred, net				
Actual transfers, unpaid obligations ()	0	0	0	0
Actual transfers, uncollected customer payments from Federal sources ()	0	0	0	0
Total Unpaid obligated balance transferred, net	0	0	0	0
Less: Recoveries of prior year unpaid obligations, actual	(641)	(713,041)	(5,207,903)	(7,062,280)
Change in uncollected customer payments from Federal sources ()	0	144,109	1,112	(23,235)
Obligated balance, net, end of period				
Unpaid obligations	51,373	9,606,247	22,219,660	62,486,021
Less: Uncollected customer payments () from Federal sources (-)	0	(246,397)	(1,623,896)	(294,064)
Total, unpaid obligated balance, net, end of period	51,373	9,359,850	20,595,764	62,191,957
Net Outlays				
Net Outlays:				
Gross outlays	26,682	19,924,261	55,897,235	41,388,451
Less: Offsetting collections	(4,016)	(512,814)	(5,302,002)	(789,075)
Less: Distributed Offsetting receipts	(321,447)	0	(2)	0
Net Outlays	$ (298,781)	$ 19,411,447	$ 50,595,231	$ 40,599,376

Department of Defense
Department of the Navy
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES
For the periods ended September 30, 2009 and 2008
($ in Thousands)

	Military Personnel	Military Construction/ Family Housing	2009 Combined	2008 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1	$ 338,138	$ 1,927,931	$ 28,028,796	$ 23,934,546
Recoveries of prior year unpaid obligations	9,037,342	2,007,819	24,029,026	20,966,590
Budget authority				
Appropriation	44,819,750	4,286,418	165,257,844	162,740,229
Borrowing authority	0	0	0	0
Contract authority	0	0	0	0
Spending authority from offsetting collections				
Earned				
Collected	370,187	935,405	7,806,105	7,252,127
Change in receivables from Federal sources	13,936	(42,433)	(144,220)	262,649
Change in unfilled customer orders				
Advance received	0	216,524	323,916	435,937
Without advance from Federal sources	(5)	84,747	78,479	305,473
Anticipated for rest of year, without advances	0	0	0	0
Previously unavailable	0	0	0	0
Expenditure transfers from trust funds	0	0	0	0
Subtotal	45,203,868	5,480,661	173,322,124	170,996,415
Nonexpenditure transfers, net, anticipated and actual	172,209	(199,892)	1,711,873	2,506,478
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(87,739)	(4,422)	(3,170,061)	(2,543,773)
Total Budgetary Resources	$ 54,663,818	$ 9,212,097	$ 223,921,758	$ 215,860,256
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 53,708,309	$ 3,368,997	$ 186,801,435	$ 179,361,449
Reimbursable	384,925	2,972,423	10,215,890	8,470,011
Subtotal	54,093,234	6,341,420	197,017,325	187,831,460
Unobligated balance:				
Apportioned	45,719	2,719,715	23,899,972	25,329,935
Exempt from apportionment	0	0	0	0
Subtotal	45,719	2,719,715	23,899,972	25,329,935
Unobligated balance not available	524,865	150,962	3,004,461	2,698,861
Total status of budgetary resources	$ 54,663,818	$ 9,212,097	$ 223,921,758	$ 215,860,256
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 1,618,044	$ 4,157,377	$ 93,776,544	$ 86,191,077
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(26,059)	(1,551,816)	(3,864,218)	(3,296,095)
Total unpaid obligated balance	1,591,985	2,605,561	89,912,326	82,894,982
Obligations incurred net ()	$ 54,093,234	$ 6,341,420	$ 197,017,325	$ 187,831,460
Less: Gross outlays	(44,833,275)	(3,147,511)	(165,217,414)	(159,279,403)
Obligated balance transferred, net				
Actual transfers, unpaid obligations ()	0	0	0	0
Actual transfers, uncollected customer payments from Federal sources ()	0	0	0	0
Total Unpaid obligated balance transferred, net	0	0	0	0
Less: Recoveries of prior year unpaid obligations, actual	(9,037,342)	(2,007,819)	(24,029,026)	(20,966,590)
Change in uncollected customer payments from Federal sources ()	(13,931)	(42,313)	65,742	(568,123)
Obligated balance, net, end of period				
Unpaid obligations	1,840,661	5,343,466	101,547,429	93,776,544
Less: Uncollected customer payments () from Federal sources (-)	(39,990)	(1,594,129)	(3,798,476)	(3,864,218)
Total, unpaid obligated balance, net, end of period	1,800,671	3,749,337	97,748,953	89,912,326
Net Outlays				
Net Outlays:				
Gross outlays	44,833,275	3,147,511	165,217,414	159,279,403
Less: Offsetting collections	(370,187)	(1,151,929)	(8,130,022)	(7,688,063)
Less: Distributed Offsetting receipts	(2)	0	(321,451)	98,060
Net Outlays	$ 44,463,086	$ 1,995,582	$ 156,765,941	$ 151,689,400

GENERAL FUND
OTHER ACCOMPANYING INFORMATION

Appropriations, Funds, and Accounts Included in the Principal Statements

Entity Accounts

General Funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps
17 0730	Family Housing Construction, Navy and Marine Corps
17 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
17X0810	Environmental Restoration, Navy
17 1000	Medicare Eligible Retiree Health Care Fund, Military Personnel Navy
17 1001	Medicare Eligible Retiree Health Care Fund, Military Personnel Marine Corps
17 1002	Medicare Eligible Retiree Health Care Fund, Reserve Personnel Navy
17 1003	Medicare Eligible Retiree Health Care Fund, Reserve Personnel Marine Corps
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1116	Operation and Maintenance - Recovery Act, Marine Corps
17 1117	Operation and Maintenance - Recovery Act, Marine Corps Reserve
17 1205	Military Construction, Navy and Marine Corps
17 1206	Military Construction - Recovery Act, Navy and Marine Corps
17 1235	Military Construction, Naval Reserve
17 1236	Payments to Kaho Olawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test, and Evaluation, Navy
17 1320	Research, Development, Test and Evaluation - Recovery Act, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion
17 1804	Operation and Maintenance, Navy
17 1805	Operation and Maintenance - Recovery Act, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1807	Operation and Maintenance - Recovery Act, Navy Reserve
17 1810	Other Procurement, Navy

Revolving Funds

17X4557	National Defense Sealift Fund, Navy

Earmarked Trust Funds

17X8008	Office of Naval Records and History Fund
17X8716	Department of the Navy General Gift Fund

17X8723	Ships Stores Profits, Navy
17X8730	United States Naval Academy Museum Fund
17X8733	United States Naval Academy General Gift Fund

Earmarked Special Funds

17X5095	Wildlife Conservation, Military Reservations, Navy
17X5185	Kaho Olawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account
17X5562	Ford Island Improvement Account

General Fund Non- Entity Accounts

17 1XXX	Receipt Accounts
17 3XXX	Receipt Accounts
17X6XXX	Deposit Funds

Parent-Child (Allocation) Transfer Accounts

17 11 1081	International Military Education and Training Funds, appropriated to the President
17 11X1081	International Military Education and Training Funds, appropriated to the President
17 11 1082	Foreign Military Financing Program, Funds appropriated to the President
17 12X1105B	State and Private Forestry, Forest Service
17 69X8083	Federal-Aid Highways (Liquidation of Contract Authorization), Federal Highway Administration

Deposit Funds

17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property,Navy (T)
17X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy (T)
17X6025	Pay of the Navy, Deposit Fund (T)
17X6026	Pay of the Marine Corps, Deposit Fund (T)
17X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
17X6083	Withheld Allotment of Compensation for Charitable Contributions
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6434	Servicemen’s Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotment Account, Navy
17X6706	Commercial Communication Service, Navy

NAVY WORKING CAPITAL FUND PRINCIPAL STATEMENTS

Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 United States Code 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Principal Statements

The Fiscal Year FY 2009 Navy Working Capital Fund principal statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the Navy Working Capital Fund for the fiscal year ending September 30, FY 2009, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, FY 2008.

The following statements comprise the Navy Working Capital Fund principal statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources

The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994. The accompanying notes should be considered an integral part of the principal statements.

Department of Defense
Navy Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 2009 and 2008
($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,171,045	$ 784,593
Accounts Receivable (Note 5)	560,596	854,151
Other Assets (Note 6)	717	2,303
Total Intragovernmental Assets	1,732,358	1,641,047
Cash and Other Monetary Assets (Note 7)	476	(3,353)
Accounts Receivable, Net (Note 5)	99,430	11,635
Inventory and Related Property, Net (Note 9)	12,175,672	12,043,751
General Property, Plant, and Equipment, Net (Note 10)	2,841,232	3,210,420
Other Assets (Note 6)	361,860	293,597
TOTAL ASSETS	17,211,028	17,197,097
Stewardship Property, Plant, and Equipment (Note 10) *		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	151,290	168,350
Debt (Note 13)	-	16,881
Other Liabilities (Note 15 & Note 16)	655,157	420,131
Total Intragovernmental Liabilities	806,447	605,362
Accounts Payable (Note 12)	3,326,652	3,070,115
Military Retirement and Other Federal Employment Benefits (Note 17)	931,160	1,035,874
Other Liabilities (Note 15 & Note 16)	1,730,608	1,551,549
TOTAL LIABILITIES	6,794,867	6,262,900
Commitments and Contingencies (Note 16) *		
NET POSITION		
Unexpended Appropriations - Other Funds	30,954	60,156
Cumulative Results of Operations - Other Funds	10,385,207	10,874,041
TOTAL NET POSITION	10,416,161	10,934,197
TOTAL LIABILITIES AND NET POSITION	$ 17,211,028	$ 17,197,097

* - *Disclosure but no value required per Federal Accounting Standards.*

The accompanying notes are an integral part of the statements.

Department of Defense

Navy Working Capital Fund

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Consolidated	2008 Consolidated
Program Costs		
Gross Costs	$ 24,978,369	$ 24,912,489
Less: Earned Revenue	(23,340,001)	(21,840,461)
Net Program Costs	1,638,368	3,072,028
Net Cost of Operations	$ 1,638,368	$ 3,072,028

The accompanying notes are an integral part of the statements.

Department of Defense
Navy Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 9,894,936	$ 11,947,778
Prior Period Adjustments	979,106	666,761
Beginning Balances, as adjusted	10,874,042	12,614,539
Budgetary Financing Sources:		
Appropriations used	30,778	158,111
Nonexchange revenue	-	50,323
Transfers in/out without reimbursement (+/-)	-	(102,832)
Other Financing Sources:		
Transfers in/out without reimbursement (+/-)	(364,257)	(66,968)
Imputed financing from costs absorbed by others	470,522	429,565
Other (+/-)	1,012,490	863,331
Total Financing Sources	1,149,533	1,331,530
Net Cost of Operations (+/-)	1,638,368	3,072,028
Net Change	(488,835)	(1,740,498)
Cumulative Results of Operations	$ 10,385,207	$ 10,874,041

The accompanying notes are an integral part of the statements.

Department of Defense
Navy Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 60,156	$ 33,595
Prior Period Adjustments (+/-)	-	-
Beginning Balances, as adjusted	60,156	33,595
Budgetary Financing Sources:		
Appropriations received	1,576	286,072
Appropriations transferred-in/out	-	(80,000)
Other adjustments (rescissions, etc) (+/-)	-	(21,400)
Appropriations used	(30,778)	(158,111)
Total Budgetary Financing Sources	(29,202)	26,561
Unexpended Appropriations	30,954	60,156
Net Position	$ 10,416,161	$ 10,934,197

The accompanying notes are an integral part of the statements.

Department of Defense
Navy Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Combined	2008 Combined
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 2,822,888	$ 1,525,166
Recoveries of prior year unpaid obligations	182,409	85,626
Budget Authority:		
Appropriations received	1,576	286,074
Contract Authority	6,689,051	6,014,993
Spending authority from offsetting collections:		
Earned		
Collected	25,849,200	24,398,770
Change in receivables from Federal sources	(339,802)	274,593
Change in unfilled customer orders		
Advances received	248,350	20,881
Without advance from Federal sources	989,973	703,403
Subtotal	33,438,348	31,698,714
Nonexpenditure Transfers, net, anticipated and actual	-	(182,833)
Permanently not available	(6,424,572)	(5,701,987)
Total Budgetary Resources	30,019,073	27,424,686
Status of Budgetary Resources:		
Obligations incurred:		
Direct	-	144,111
Reimbursable	26,464,761	24,457,687
Subtotal	26,464,761	24,601,798
Unobligated balance:		
Apportioned	3,350,323	2,773,872
Exempt from apportionment	199,586	44,445
Subtotal	3,549,909	2,818,317
Unobligated balances not available	4,403	4,571
Total Status of Budgetary Resources	$ 30,019,073	$ 27,424,686

The accompanying notes are an integral part of the statements.

Department of Defense
Navy Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Combined	2008 Combined
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 11,825,672	$ 12,129,800
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(8,259,920)	(7,281,919)
Total Unpaid Obligated Balance	3,565,752	4,847,881
Obligations incurred, net (+/-)	26,464,761	24,601,798
Less: Gross outlays	(25,696,052)	(24,820,298)
Less: Recoveries of prior year unpaid obligations, actual	(182,409)	(85,627)
Change in uncollected customer payments from Federal sources (+/-)	(650,170)	(978,001)
Obligated balance, net, end of period		
Unpaid obligations	12,411,972	11,825,673
Less: Uncollected customer payments from Federal sources	(8,910,090)	(8,259,920)
Total Unpaid Obligated Balance, net, end of period	3,501,882	3,565,753
Net Outlays:		
Gross Outlays	25,696,052	24,820,298
Less: Offsetting collections	(26,097,551)	(24,419,646)
Net Outlays	$ (401,499)	$ 400,652

The accompanying notes are an integral part of the statements.

NAVY WORKING CAPITAL FUND
NOTES TO THE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Navy Working Capital Fund (NWCF), as required by the Chief Financial Officers (CFO) 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 NWCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the NWCF is responsible unless otherwise noted.

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

The NWCF currently has seven auditor identified material weaknesses: (1) Financial Management Systems, (2) Fund Balance with Treasury, (3) Accounts Receivable, (4) Inventory and Related Property, (5) General Equipment, (6) Accounts Payable, and (7) Other Liabilities.

The NWCF currently has five management identified material weaknesses: (1) Intragovernmental Eliminations, (2) Unsupported Accounting Entries, (3) Statement of Net Costs, (4) Operating Materiel and Supplies, (5) Reconciliation of Net Cost of Operations to Budget.

1.B. Mission of the Reporting Entity

The Department of the Navy (DON) was created on April 30, 1798 by an act of Congress (I Stat. 533; 5 U.S.C. 411-12). The overall mission of DON is to maintain, train, and equip combat-ready Navy and Marine Corps forces capable of winning wars, deterring aggression, and maintaining freedom of the seas. The NWCF provides goods, services, and infrastructure to DON and other DoD customers to help ensure our military forces are mobile, ready, and have the most advanced technology.

1.C. Appropriations and Funds

The NWCF receives appropriations and funds primarily through reimbursable orders from customers. The NWCF uses these appropriations and funds to execute its mission and subsequently report on resource usage.

Working capital funds (WCF) received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations which result in 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

The NWCF's financial management systems are unable to meet all full accrual accounting requirements. Many of the NWCF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of NWCF's financial and nonfinancial legacy systems were designed to record information on a proprietary basis.

The DoD's Agencywide financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Military Services and Defense Agencies and their sub-entities. The underlying data is largely derived from proprietary transactions data from nonfinancial feeder systems, and accruals. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Military Service and Defense Agency level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

1.E. Revenues and Other Financing Sources

Depot Maintenance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items. Research and Development activities recognize revenue according to the percentage of completion method or as actual costs are incurred and billed. Revenue is recognized at the time service is rendered for Base Support WCF activities. The Transportation WCF activity, Military Sealift Command, recognizes revenue on either a reimbursable or per diem basis. The preponderance of per diem projects are billed and collected in the month services are rendered. In the case of remaining per diem projects, revenue is accrued in the month the services are rendered. For reimbursable projects, costs and revenue are recognized in the month services are rendered. MSC does not generate bills until actual invoiced costs on the project are recorded.

The NWCF does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and Note 21, "Reconciliation of Net Cost of Operations to Budget." The U.S. has cost-sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items, such as payroll expenses, accounts payable, and unbilled revenue. In the case of Operating Materiel & Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be reported as expenses when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The NWCF continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminates intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the NWCF cannot accurately identify intragovernmental transactions by customer because NWCF's systems do not track buyer and seller data 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 and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls eliminating the need for reconciliations.

The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" and Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provide guidance for reporting and reconciling intragovernmental balances. While NWCF is unable to fully reconcile intragovernmental transactions with all federal agencies, NWCF is able to reconcile balances pertaining to borrowings from the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

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

Generally, 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 costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, NWCF 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 authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

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

The NWCF's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Services, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the NWCF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

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

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. NWCF is in the process of developing a methodology for the allowances for uncollectible accounts due from the public and should see implementation by 4th Quarter, FY 2010. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at *http://www.fms.treas.gov/tfm/vol1/07-03.pdf*.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The NWCF values 100% of its 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). At the current time, NWCF does not report any inventory using the moving average cost method. However, by utilizing new system development processes, NWCF will be transitioning to the moving average cost method with the implementation of Navy Enterprise Resource Planning (ERP).

The NWCF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in NWCF's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The NWCF holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale" with a completion date of year end FY 2010 reporting.

Related property includes OM&S. The OM&S, including munitions not held for sale, are valued at standard purchase price. The NWCF uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, NWCF uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2009 and FY 2008, NWCF expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

The NWCF 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 reparable items owned and managed by NWCF. 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 items rather than to procure them. The NWCF often relies on weapon systems and machinery no longer in production. As a result, NWCF 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 (1) costs related to the production or servicing of items, including direct material, direct labor, applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with its associated costs incurred in the delivery of maintenance services.

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

Not applicable.

1.O. General Property, Plant, and Equipment

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The NWCF has not fully implemented the threshold for real property; therefore the capitalization threshold is $100 thousand for General PP&E and most real property.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD's capitalization threshold. The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

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

When it is in the best interest of the government, the NWCF provides government property to contractors to complete contract work. The NWCF 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 meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on NWCF's Balance Sheet.

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires NWCF to maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The NWCF has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. 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's policy is to expense and/or properly classify assets when the related goods and services are received. The NWCF has not implemented this policy primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, NWCF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The NWCF records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The NWCF, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by NWCF are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on NWCF's Balance Sheet.

The NWCF 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, NWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances 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. The NWCF has not fully implemented this policy primarily due to system limitations.

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

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The NWCF 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 disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The NWCF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

1.T. Accrued Leave

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

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended Appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. Beginning with FY 1998, the cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The NWCF purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow NWCF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Unexpended Obligations

The NWCF obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations includes 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 specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

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. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements intransit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.Y. Significant Events

In FY 2009, Naval Supply Systems Command converted to Navy Enterprise Resource Planning (ERP). It is expected that the standardization of systems and processes in financial functions and acquisition programs is the backbone of Navy ERP and will provide the foundation for subsequent releases. The system will provide financial transparency and total asset visibility, key ingredients for improved enterprise management.

1.Z. Fiduciary Activities

Not applicable.

Note 2. Nonentity Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0	$ 0
B. Accounts Receivable	0	0
C. Total Intragovernmental Assets	$ 0	$ 0
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 0	$ 0
B. Accounts Receivable	3,742	3,369
C. Other Assets	0	0
D. Total Nonfederal Assets	$ 3,742	$ 3,369
3. Total Nonentity Assets	$ 3,742	$ 3,369
4. Total Entity Assets	$ 17,207,286	$ 17,193,728
5. Total Assets	$ 17,211,028	$ 17,197,097

Nonentity assets are assets for which the Navy Working Capital Fund (NWCF) maintains stewardship accountability and reporting responsibility, but are not available for the NWCF normal operations.

The Nonentity Accounts Receivable amount represents interest, penalties, fines and administrative fees. These fees do not belong to the NWCF and will be distributed directly to the U.S. Treasury.

Note 3. Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 0	$ 0
B. Revolving Funds	1,171,045	784,593
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	$ 1,171,045	$ 784,593
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 1,171,045	$ 784,593
B. Fund Balance per NWCF	1,171,045	784,593
3. Reconciling Amount	$ 0	$ 0

Status of Fund Balance with Treasury

As of September 30		2009		2008
(Amounts in thousands)				
1. Unobligated Balance				
A. Available	$	3,549,908	$	2,818,318
B. Unavailable		4,405		4,571
2. Obligated Balance not yet Disbursed	$	12,411,972	$	11,825,672
3. Nonbudgetary FBWT	$	0	$	0
4. NonFBWT Budgetary Accounts	$	(14,795,240)	$	(13,863,968)
5. Total	$	1,171,045	$	784,593

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

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

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

NonFBWT Budgetary Accounts reduces the Status of FBWT. This amount is comprised of contract authority, accounts receivable, and unfilled orders without advance from customers for the Navy Working Capital Fund (NWCF).

All unobligated unavailable balances are restricted to future use and are not apportioned for current use. The unavailable balance consists of contract and budgetary authority from closed NWCF activities as a result of the financial closure process.

Note 4. Investments and Related Interest

Not applicable.

Note 5. Accounts Receivable

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 560,596	N/A	$ 560,596
2. Nonfederal Receivables (From the Public)	$ 99,459	$ (29)	$ 99,430
3. Total Accounts Receivable	$ 660,055	$ (29)	$ 660,026

As of September 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 854,151	N/A	$ 854,151
2. Nonfederal Receivables (From the Public)	$ 11,664	$ (29)	$ 11,635
3. Total Accounts Receivable	$ 865,815	$ (29)	$ 865,786

Note 6. Other Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 717	$ 2,303
B. Other Assets	-	-
C. Total Intragovernmental Other Assets	$ 717	$ 2,303
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 332,318	$ 21,583
B. Advances and Prepayments	17,438	241,231
C. Other Assets (With the Public)	12,104	30,783
D. Total Nonfederal Other Assets	$ 361,860	$ 293,597
3. Total Other Assets	$ 362,577	$ 295,900

Other Assets (With the Public) consists of prepayments made to vendors, and travel advances.

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Navy Working Capital Fund (NWCF) 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 Federal Government. The Federal Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and NWCF is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The Outstanding Contract Financing Payments balance of $332.3 million is comprised of $301.5 million in contract financing payments and an additional $30.9 million in estimated future funded payments that will be paid to the contractor upon future delivery and Federal Government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

In FY 2008 Outstanding Contract Financing Payments were reported as Advances and Prepayments. In FY 2009 Outstanding Contract Financing Payments were reported as Outstanding Contract Financing Payments.

Note 7. Cash and Other Monetary Assets

As of September 30 (Amounts in thousands)	2009	2008
1. Cash	$ 476	$ (3,353)
2. Foreign Currency	0	0
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 476	$ (3,353)

There are no restrictions on cash.

Note 8. Direct Loan and Loan Guarantees

Not applicable.

Note 9. Inventory and Related Property

As of September 30 (Amounts in thousands)	2009	2008
1. Inventory, Net	$ 11,951,582	$ 11,781,791
2. Operating Materiel & Supplies, Net	224,090	261,960
3. Stockpile Materiel, Net	0	0
4. Total	$ 12,175,672	$ 12,043,751

Inventory, Net

As of September 30	2009			
	Inventory Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
1. Inventory Categories				
A. Held for Use	$ 31,319,720	$ (21,279,496)	$ 10,040,224	LAC, MAC
B. Held for Repair	5,834,220	(4,170,846)	1,663,374	LAC, MAC
C. Excess, Obsolete, and Unserviceable	1,176,397	(1,176,397)	-	NRV
D. Raw Materiel	-	-	-	
E. Work in Process	247,984	-	247,984	AC
F. Total	$ 38,578,321	$ (26,626,739)	$ 11,951,582	

As of September 30	2008			
	Inventory Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
1. Inventory Categories				
A. Held for Use	$ 31,796,212	$ (21,948,563)	$ 9,847,649	LAC, MAC
B. Held for Repair	5,656,646	(4,017,038)	1,639,608	LAC, MAC
C. Excess, Obsolete, and Unserviceable	930,548	(930,548)	-	NRV
D. Raw Materiel	-	-	-	
E. Work in Process	294,534	-	294,534	AC
F. Total	$ 38,677,940	$ (26,896,149)	$ 11,781,791	

Legend for Valuation Methods:

LAC = Latest Acquistion Cost	NRV = Net Realizable Value	MAC = Moving Average Cost
SP = Standard Price	LCM = Lower of Cost or Market	

There are no restrictions on the use, sale, or disposition of inventory except in the following situations:

1) Distributions without reimbursement are made when authorized by Department of Defense (DoD) directives;
2) War reserve materiel in the amount of $3.2 million includes repair items that are considered restricted; and
3) Inventory, with the exception of safety stocks, may be sold to foreign, state, and local governments; private parties; and contractors in accordance with current policies and guidance or at the direction of the President.

There are no known restrictions on disposition of inventory as related to environmental or other liabilities.

Inventory available and purchased for resale includes consumable spare and repair parts as well as reparable items owned and managed by the Navy Working Capital Fund (NWCF) and includes all materiel available for customer purchase. Inventory held for repair consists of damaged materiel that requires repair to make it usable and all economically reparable materiel. Excess inventory includes scrap materiels or items that are uneconomical to repair and are awaiting disposal. Work in process includes costs related to the production or servicing of items, including direct materiel, 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.

Federal Accounting Standards require disclosure of the amount of inventory held for "future sale." The NWCF currently has no inventory held for future sale reported for 4th Quarter, FY 2009 in Inventory Held for Sale, Net. All inventory is planned for sale within the next fiscal year.

Inventory is assigned to categories based upon condition of the inventory items, or in the case of raw materiel and work-in-process based upon stage of fabrication.

The Supply Management, Navy's inventory is reported using the approximation of historical cost method. The approximation of historical cost is calculated by using the latest acquisition cost less the allowance for holding gains and losses. Legacy inventory systems were designed to capture materiel management information rather than accounting data. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property. Since the implementation of the Office of Under Secretary of Defense, Comptroller (OUSD (C)) Cost of Goods Sold Model, prior year values in equity, inventory, and inventory allowance accounts have been impacted and remain noncompliant with SFFAS No. 3 and generally accepted accounting principles. The Navy Enterprise Resource Planning System will value inventory at moving average cost and will be compliant with necessary guidance.

NWCF has restated FY 2008 prior year column for Inventory and Related Property, Net by $983.3 million. See Note 26, Restatements, for additional details.

Operating Materiel and Supplies, Net

As of September 30 (Amounts in thousands)	2009 OM&S Gross Value	2009 Revaluation Allowance	2009 OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 224,090	$ 0	$ 224,090	SP, LAC, MAC
B. Held for Repair	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	
D. Total	$ 224,090	$ 0	$ 224,090	

As of September 30 (Amounts in thousands)	2008 OM&S Gross Value	2008 Revaluation Allowance	2008 OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 261,960	$ 0	$ 261,960	SP, LAC, MAC
B. Held for Repair	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	
D. Total	$ 261,960	$ 0	$ 261,960	

Legend for Valuation Methods:

LAC = Latest Acquistion Cost	NRV = Net Realizable Value	MAC = Moving Average Cost
SP = Standard Price	LCM = Lower of Cost or Market	
AC = Actual Cost	O = Other	

Operating Materiel and Supplies (OM&S) held for use consists of property that is consumed during normal operations and includes consumable spare and repair parts for use on customer work by various activities.

The NWCF determines categories to which OM&S are assigned based upon readiness for issue and use as determined by condition of the individual inventory items.

Federal Accounting Standards require disclosure of the amount of OM&S held for "future use." The NWCF reports that $3.7 million of OM&S is held for future use and is included in the "held for use" category. These items are not readily available in the market and there is a more than remote chance that they will eventually be needed.

There are no restrictions with regard to the use, sale, or disposition of OM&S applicable to NWCF activities.

Stockpile Materiel, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2009				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 38,612	N/A	$ 38,612
B. Buildings, Structures, and Facilities	S/L	20 or 40	6,435,611	$ (4,832,768)	1,602,843
C. Leasehold Improvements	S/L	lease term	46	(9)	37
D. Software	S/L	2-5 or 10	488,682	(360,811)	127,871
E. General Equipment	S/L	5 or 10	2,624,542	(2,134,619)	489,923
F. Military Equipment	S/L	Various	0	0	0
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	579,393	N/A	579,393
J. Other			2,553	0	2,553
K. Total General PP&E			$ 10,169,439	$ (7,328,207)	$ 2,841,232

As of September 30	2008				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 39,335	N/A	$ 39,335
B. Buildings, Structures, and Facilities	S/L	20 or 40	6,338,727	$ (4,391,877)	1,946,850
C. Leasehold Improvements	S/L	lease term	348	(289)	59
D. Software	S/L	2-5 or 10	489,163	(347,044)	142,119
E. General Equipment	S/L	5 or 10	2,596,306	(2,104,726)	491,580
F. Military Equipment	S/L	Various	0	0	0
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	588,192	N/A	588,192
J. Other			2,285	0	2,285
K. Total General PP&E			$ 10,054,356	$ (6,843,936)	$ 3,210,420

Legend for Valuation Methods:

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

There are no known restrictions on the use or convertibility of General Property, Plant, and Equipment (PP&E).

The acquisition cost for General PP&E is captured and maintained in the applicable property accountability systems. There are no material amounts or types of General PP&E for which the acquisition cost is unknown.

Military equipment, heritage assets and stewardship land are reported on the financial statements of the Department of the Navy General Fund (DON GF).

General PP&E, Other consists of assets awaiting disposal.

Assets under Capital Lease

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	206,742	214,104
D. Total Intragovernmental Liabilities	$ 206,742	$ 214,104
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Military Retirement and Other Federal Employment Benefits	931,160	1,035,873
C. Environmental Liabilities	0	0
D. Other Liabilities	0	0
E. Total Nonfederal Liabilities	$ 931,160	$ 1,035,873
3. Total Liabilities Not Covered by Budgetary Resources	$ 1,137,902	$ 1,249,977
4. Total Liabilities Covered by Budgetary Resources	$ 5,656,965	$ 5,012,923
5. Total Liabilities	$ 6,794,867	$ 6,262,900

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

Other Intragovernmental Liabilities consist of custodial liabilities for interest, penalties, fines and administrative fees receivable held on behalf of the U.S. Treasury. These fees will be distributed directly to the U.S. Treasury when collected, and the corresponding liabilities reduced.

The amount in Liabilities Not Covered by Budgetary Resources is comprised of an actuarial liability, which is an estimate of what may have to be paid out in future fiscal years. Therefore, this liability is not covered by current fiscal year budgetary resources.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of Federal Employees' Compensation Act Actuarial liability of $931.2 million. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2009					
	Accounts Payable		Interest, Penalties, and Administrative Fees		Total	
(Amounts in thousands)						
1. Intragovernmental Payables	$	151,290	$	N/A	$	151,290
2. Nonfederal Payables (to the Public)		3,326,652		0		3,326,652
3. Total	$	3,477,942	$	0	$	3,477,942

As of September 30	2008					
	Accounts Payable		Interest, Penalties, and Administrative Fees		Total	
(Amounts in thousands)						
1. Intragovernmental Payables	$	168,350	$	N/A	$	168,350
2. Nonfederal Payables (to the Public)		3,070,115		0		3,070,115
3. Total	$	3,238,465	$	0	$	3,238,465

Accounts Payable include amounts owed to federal and nonfederal entities for good and services received by Navy Working Capital Fund (NWCF). The NWCF's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

As of September 30	2009					
	Beginning Balance		Net Borrowing		Ending Balance	
(Amounts in thousands)						
1. Agency Debt (Intragovernmental)						
A. Debt to the Treasury	$	0	$	0		0
B. Debt to the Federal Financing Bank		16,881		(16,881)		0
C. Total Agency Debt	$	16,881	$	(16,881)		0
2. Total Debt	$	16,881	$	(16,881)		0

As of September 30						
	Beginning Balance		Net Borrowing		Ending Balance	
(Amounts in thousands)						
1. Agency Debt (Intragovernmental)						
A. Debt to the Treasury	$	0	$	0		0
B. Debt to the Federal Financing Bank		70,697		(53,816)		16,881
C. Total Agency Debt	$	70,697	$	(53,816)	$	16,881.00
2. Total Debt	$	70,697	$	(53,816)	$	16,881.00

Not applicable.

Note 14. Environmental Liabilities and Disposal Liabilities

The Navy Working Capital Fund Environmental Liabilities are reported under the Department of the Navy General Fund.

Note 15. Other Liabilities

As of September 30	2009		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 395,307	$ 0	$ 395,307
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Dept. of Labor	90,074	116,668	206,742
F. Custodial Liabilities	4,881	0	4,881
G. Employer Contribution and Payroll Taxes Payable	48,227	0	48,227
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	$ 538,489	$ 116,668	$ 655,157
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 920,155	$ 0	$ 920,155
B. Advances from Others	266,783	0	266,783
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	31	0	31
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	1,531	0	1,531
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	504,532	30,861	535,393
L. Other Liabilities	6,715	0	6,715
M. Total Nonfederal Other Liabilities	$ 1,699,747	$ 30,861	$ 1,730,608
3. Total Other Liabilities	$ 2,238,236	$ 147,529	$ 2,385,765

As of September 30	2008		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 164,922	$ 0	$ 164,922
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Dept. of Labor	91,672	119,064	210,736
F. Custodial Liabilities	3,369	0	3,369
G. Employer Contribution and Payroll Taxes Payable	41,104	0	41,104
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	$ 301,067	$ 119,064	$ 420,131
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 816,488	$ 0	$ 816,488
B. Advances from Others	248,959	0	248,959
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	(11,756)	0	(11,756)
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	0	0	0
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	474,675	21,583	496,258
L. Other Liabilities	1,600	0	1,600
M. Total Nonfederal Other Liabilities	$ 1,529,966	$ 21,583	$ 1,551,549
3. Total Other Liabilities	$ 1,831,033	$ 140,647	$ 1,971,680

Contingent Liabilities includes $30.9 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 contractor's work vest with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The NWCF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract 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 NWCF 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.

The $6.7 million balance in Other Liabilities is comprised of: 1) the residual accrued liability balance of five closed/transitioned shipyards (Long Beach, Charleston, Philadelphia, Mare Island, and Pearl Harbor) reported at Naval Shipyards Long Beach; 2) accrual of miscellaneous non labor expenses (i.e. utilities), fringe benefits and accelerated fringe rates applied to jobs at Supply Management, Navy; and 3) an irreconcilable amount that is being examined at Depot Maintenance, Aviation. The balances for the closed/transitioned shipyards are being examined. The expected conclusion is that the balances are no longer necessary and will be candidates for future adjustment (write-off).

Capital Lease Liability

Not applicable.

Note 16. Commitments and Contingencies

The Department of the Navy (DON) is a party in various administrative proceedings and legal actions, related to claims for environmental damage, equal opportunity matters, and contractual bid protests.

The DON has accrued contingent liabilities for legal actions where the Office of 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 U.S. Treasury Judgment Fund. The DON records Judgment Fund liabilities in Note 12, Accounts Payable; and Note 15, Other Liabilities.

For FY 2009, the NWCF materiality threshold for reporting litigation, claims, or assessments is $2.2 million. The DON WCF currently has 10 cases that meet the existing FY 2009 DON WCF. The DON OGC was unable to express an opinion concerning the likely outcome of 7 of the 10 cases.

Due to the inherent uncertainties of litigation, lawyers generally refrain from expressing judgments as to outcomes except in those relatively few clear cases. In response to a Department of Defense (DoD), Inspector General Audit, "DoD Process for Reporting Contingent Legal Liabilities," DON developed a methodology to determine an estimate for contingent legal liabilities. Beginning with 1st Quarter, FY 2007 DON recognized and disclosed an estimate for contingent legal liabilities. The methodology considers the likelihood of an unfavorable outcome or potential liability and is provided as an overall assessment of all cases currently pending and not on an individual case basis. The likelihood of an unfavorable or potential liability was determined by using an average of the data from the current year-to-date and the preceding four years. The total dollar amount of the cases closed was divided by the total dollar amount claimed in those closed cases for each of the last four years plus current year, which were then used to calculate the average. This average is based entirely on historical data and represents the percentage that has historically been paid on claims for all DON cases. The merits for each individual case have not been taken into consideration. As a result, estimates cannot be allocated between NWCF and DON General Fund (GF).

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009			
(Amounts in thousands)	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	$ 0		$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	$ 0		$ 0	$ 0
2. Other Actuarial Benefits				
A. FECA	$ 931,160		$ 0	$ 931,160
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	$ 931,160		$ 0	$ 931,160
3. Other Federal Employment Benefits	$ 0		$ 0	$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	$ 931,160		$ 0	$ 931,160

As of September 30	2008			
(Amounts in thousands)	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	$ 0		$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	$ 0		$ 0	$ 0
2. Other Actuarial Benefits				
A. FECA	$ 1,035,874		$ 0	$ 1,035,874
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	$ 1,035,874		$ 0	$ 1,035,874
3. Other Federal Employment Benefits	$ 0		$ 0	$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	$ 1,035,874		$ 0	$ 1,035,874

The Department of the Navy (DON) actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to DON at the end of each fiscal year. The liability is distributed between the Navy Working Capital Fund and DON General Fund based upon the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. 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.

The assumptions relate to Federal Employees' Compensation Act (FECA). Consistent with past practice, the projected annual benefit payments are discounted to the present value using Office of Management and Budget's economic assumptions for ten year U.S. Treasury notes and bonds.

The interest rate assumptions utilized when discounting were as follows:

Discount Rates
4.223% in Year 1
4.715% in Year 2 and thereafter

To provide more specificity concerning the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2009 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various CBYs were as follows:

CBY	COLA	CPIM
2009	N/A	N/A
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014+	2.00%	3.71%

The model's resulting projections were analyzed to ensure 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 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 2009 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 Discount Rates projection to the average pattern for the projections of the most recent three years.

Note 18. General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Costs	$	4,977,049	$	5,091,758
2. Public Costs		20,001,320		19,820,731
3. Total Costs	$	24,978,369	$	24,912,489
4. Intragovernmental Earned Revenue	$	(22,176,527)	$	(20,784,013)
5. Public Earned Revenue		(1,163,474)		(1,056,448)
6. Total Earned Revenue	$	(23,340,001)	$	(21,840,461)
7. Net Cost of Operations	$	1,638,368	$	3,072,028

Intragovernmental costs and revenues are related to 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 Navy Working Capital Fund's (NWCF) financial management systems do not track intragovernmental transactions by customer at the transactional level. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems do not capture and report accumulated cost for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD 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."

The NWCF does not meet accounting standards and that information presented is based on proprietary transactions data from nonfinancial feeder systems and accruals.

Note 19. Disclosures Related to the Statement of Changes in Net Position

In order to clean up the data before fully converting to Enterprise Resource Planning (ERP), a Prior Period Adjustment (PPA) was recorded to correct the effects of Cost of Goods Sold (COGS) inventory valuation process. Therefore, FY 2009 and Comparative FY 2008 have been restated as explained in Note 26.

The current FY 2009 and comparative FY 2008 Statement of Changes in Net Position were impacted.

1. The beginning Cumulative Results of Operations was restated by $983.3 million for FY 2009 and by $666.8 million for FY 2008.
2. The FY 2008 Other Financing Sources, Other was restated by $316.5 million.

Other Financing Sources, Other is comprised of a gain reported during the trading partner elimination process and an adjustment made to reclassify the COGS model PPA amount properly to Other Gains.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 8,206,543	$ 7,794,257
2. Available Borrowing and Contract Authority at the End of the Period	0	0

Obligations Incurred – Direct	Category A	$0
Obligations Incurred – Reimbursable	Category B	$26.5 billion
Obligations Incurred – Reimbursable	Exempt from Apportionment	$0

The SBR includes intraentity transactions because the statements are presented as combined.

Defense Departmental Reporting System- Budgetary (DDRS-B), is the system used to produce the SF133 and DDRS-Audited Financial Statements (AFS) is the system used to produce quarterly financial reports. The Differences between the SF133 and Statement of Budgetary Resources for 4th Quarter, FY 2009 are as follows:

Unobligated balance, brought forward, October 1 –

- A direct appropriation for War Reserve Material (WRM) in the amount of $32.4 million was provided to Marine Supply Management Activity Group in June 2007. The journal entry made at that time did not post to the correct budgetary USSGL accounts in DDRS-B; DDRS-AFS was adjusted in 4th Quarter, FY 2008.
- Marine Corps: A $1.1 million journal voucher (JV) was posted to DDRS-AFS in September 2008 to record the activity's employee benefits accruals and expenses for FEGLI, FEHB, Retirement, and VSIP to reconcile to the Department of Labor amounts, per guidance. This quarterly data call is only posted in DDRS-AFS, and not to DDRS-B. As the JV is not posted in DDRS-B, the expenses did not close with the same cumulative results. This results in a disconnect between DDRS-AFS and DDRS-B beginning balances.

Permanently not available - A direct appropriation for WRM for $32.4 million was provided to Marine Supply Management Activity Group in June 2007. The journal entry made at that time did not post to the correct budgetary USSGL accounts in DDRS-B; DDRS-AFS was adjusted in 4th Quarter, FY 2008.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2009	2008
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 26,464,761	$ 24,601,798
2. Less: Spending authority from offsetting collections and recoveries (-)	(26,930,130)	(25,483,273)
3. Obligations net of offsetting collections and recoveries	(465,369)	(881,475)
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	(465,369)	(881,475)
Other Resources:		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	(364,257)	(66,968)
8. Imputed financing from costs absorbed by others	470,522	429,565
9. Other (+/-)	1,012,490	863,331
10. Net other resources used to finance activities	1,118,755	1,225,928
11. Total Resources Used to Finance Activities	$ 653,386	$ 344,453
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 (-)	$ (412,286)	$ 81,002
12b. Unfilled Customer Orders	1,238,321	724,284
13. Resources that fund expenses recognized in prior periods (-)	(109,799)	(11,715)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
15. Resources that finance the acquisition of assets (-)	(4,998,100)	(4,402,419)
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	0
16b. Other (+/-)	(648,232)	(796,364)
17. Total resources used to finance items not part of the Net Cost of Operations	$ (4,930,096)	$ (4,405,212)
18. Total resources used to finance the Net Cost of Operations	$ (4,276,710)	$ (4,060,759)

As of September 30 (Amounts in thousands)	2009	2008
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 0	$ 0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	1,092	210,736
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 1,092	$ 210,736
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 590,752	$ 252,751
26. Revaluation of assets or liabilities (+/-)	1,130,600	1,219,549
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	13,955,406	14,105,206
27c. Operating Material and Supplies Used	0	0
27d. Other	(9,762,772)	(8,655,455)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 5,913,986	$ 6,922,051
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 5,915,078	$ 7,132,787
30. Net Cost of Operations	$ 1,638,368	$ 3,072,028

Due to Navy Working Capital Fund (NWCF) financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency. As a result of these system limitations, resources that finance the acquisition of assets on the reconciliation of Net Cost of Operations to Budget was adjusted downward by $2.9 billion (absolute amount) at the end of 4th Quarter, FY 2009 to bring it into balance with the Statement of Net Cost.

The following Reconciliation of Net Cost of Operations to Budget lines are represented 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

Other Resources Used to Finance Activities consists of gains and losses associated with the financial closure of NWCF activities.

Other Resources Used to Finance Items not Part of the Net Cost of Operations consists of gains and losses associated with transfers of assets out of NWCF.

Other Components not Requiring or Generating Resources consists of overhead costs distributed to work in process, as well as costs originally recorded into another expense account that are transferred to one of three accounts: inventory work in process, internal use software in development, or completed assets.

Note 22. Disclosures Related to Incidental Custodial Collections

Navy Working Capital Fund (NWCF) collected $3.7 million of incidental custodial revenues generated primarily from interest, penalties, fines, and administrative fees. These funds are not available for use by NWCF. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

Note 23. Earmarked Funds

Not applicable.

Note 24. Fiduciary Activities

Not applicable.

Note 25. Other Disclosures

Not applicable.

Note 26. Restatements

In the current environment, inventory is recorded in the Material Financial and Control System (MFCS) at standard cost. The inventory is then converted in the Central Database (CDB) from standard costs to Latest Acquisition Costs (LAC). And finally, the LAC costs from the CDB are revalued in the cost of good sold (COGS) model to an approximation of historical cost. This model was developed by Office of Secretary of Defense (OSD) in the early 1990s.

Embedded in this COGS model inventory revaluation process, is a calculation that records a portion of the revaluation as a Prior Period Adjustment (PPA) monthly. Essentially, this PPA allowed the supply activities the ability to revalue a portion of their inventory without adversely affecting their Net Operating Results (NOR). Adjusting the beginning balance in cumulative results of operations (U.S. Standard General Ledger (USSGL) account 3310) based on the COGS model calculation was initially designed as a temporary solution but evolved into a business practice for the military supply communities.

In October 2003, representatives from Defense Finance and Accounting Service - Cleveland (DFAS-CL), DFAS-Arlington, OSD, Navy Financial Management Office (FMO), and Supply Management, Navy (NAVSUP) met to discuss the proper handling of these adjustments as they related to the Budget Execution (BE) (DDRS-B 1307 reports) and the financial statements (DDRS-AFS Financial Statements). During this collaborative meeting, it was decided that the PPA would not be changed for BE reporting but would be reclassified from PPA to an inventory allowance adjustment for the quarterly financial statements (i.e. reclassifying it from USSGL account 7400 to USSGL account 1529).

Based on the team's (DFAS-CL, FMO, and NAVSUP) continuing analysis and focus on eliminating the contributing factors causing NWCF fluctuations in inventory and to clean up the data before fully converting to Enterprise Resource Planning (ERP) architecture, we have done the following:

1. Removed the permanent entry in DDRS-AFS used to reverse the cumulative effects of year-end adjustments reclassifying the COGS model calculated Prior Period Adjustment (PPA) (USSGL account 7400) to the inventory allowance account (USSGL account 1529).

2. Processed a PPA to remove the cumulative value inappropriately posted to the inventory allowance account (USSGL account 1529) in the previous years and move this cumulative value to other gains/losses (USSGL account 7190/7290).

3. Changed the reclassification of PPA (USSGL 7400) from the inventory allowance account (USSGL 1529) to other gains/losses (USSGL 7190/7290), as applicable. This will accomplish two things:

    a. It will systematically update cumulative results (USSGL 3310) during the year-end close and

    b. It will eliminate the need to process a reversing entry in the subsequent year.

In the future, we will be booking Other Gains (USSGL account 7190) and/or Other Losses (USSGL account 7290) instead of the inventory allowance account (USSGL account 1529) when reclassifying the PPA (USSGL account 7400) for inventory adjustments

In addition to the above PPA package, NAVSUP processed a PPA package writing off $494.0 million in Other Supply Officer (OSO) liabilities. The adjustment of $494.0 million is comprised of financial clean up in the field accounting system, MFCS, and in the CDB. An OSO liability was a mechanism to track the movement of NAVSUP material from one Supply Officer to another. All of the materiel was owned by NAVSUP. As materiel was transferred, financial records would be provided to both the receiving and issuing Supply Officers as well as the Naval Inventory Control Point (NAVICP). Since each ship maintained independent inventory systems, the NAVICP attempted to track all the financial inventory records. However, the records were not always sent or received resulting in unsupported OSO balances.

These adjustments affected Inventory and Other Financing Sources.

Comparative FY 2008 ending balances have been restated and adjustments were made in FY 2009.

The current FY 2009 and comparative FY 2008 Balance Sheet, Statement of Changes in Net Position, and Statement of Net Cost were impacted.

1. Inventory and Related Property was increased by $1.5 billion in FY 2009 and by $983.3 million in FY 2008 due to adjustments made to Supply Management USSGL account 1529.

2. The beginning FY 2009 Cumulative Results of Operations was restated by $983.3 million in FY 2009 and by $666.8 million in FY 2008.

3. The FY 2008 Other Financing Sources, Other was restated by $316.5 million.

NAVY WORKING CAPITAL FUND
REQUIRED SUPPLEMENTARY INFORMATION

Navy Working Capital Fund
General Property, Plant, and Equipment
Real Property Deferred Maintenance and Repair
For Fiscal Year Ended September 30, FY 2009

The Navy Working Capital Fund real property deferred maintenance and repair information for fiscal year ended September 30, FY 2009 is reported with the Department of the Navy General Fund deferred maintenance and repair. See Department of the Navy General Fund Required Supplementary Information.

NAVY WORKING CAPITAL FUND
OTHER ACCOMPANYING INFORMATION

Appropriations, Funds, and Accounts Included in the Principal Statements

Reporting Entity

Navy Working Capital Fund (NWCF)

Fund/Account Treasury Symbol and Title

97X4930.002

Navy Working Capital Fund Activity Group Treasury Symbol and Title

97X4930.NA1*	Depot Maintenance - Shipyards[a]
97X4930.NA2*	Depot Maintenance - Aviation
97X4930.NA4A*	Depot Maintenance - Other, Marine Corps
97X4930.NA3*	Ordnance[b]
97X4930.ND*	Transportation
97X4930.NE*	Base Support
97X4930.NH*	Research and Development
97X4930.NC*	Supply Management
97X4930.NC2A*	Supply Management, Marine Corps

Notes

** The "*" represents alpha or numeric characters which identify an activity or reporting segment of the activity group.*

a Depot Maintenance, Shipyards became a part of the DON General Fund in FY 2007. The Depot Maintenance, Shipyards information included in this report represents residual NWCF accounting.

b The Ordnance activity group became a part of the DON General Fund in FY 2000. The Ordnance information included in this report represents residual NWCF accounting for this group.

UNITED STATES MARINE CORPS GENERAL FUND PRINCIPAL STATEMENTS

Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 United States Code 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

In Fiscal Year (FY) 2006, the Office of the Under Secretary of Defense (Comptroller), with support from the Department of the Navy, designated the U.S. Marine Corps a financial reporting entity. This designation allowed the Marine Corps to prepare comprehensive subsidiary financial statements and related notes beginning in FY 2006.

The Marine Corps shares appropriations with the U.S. Navy and in addition maintains accountability for its own appropriations. The Marine Corps has specific funds and budget execution unto itself that are managed by Marine Corps program sponsors. Given this fiduciary responsibility, the Marine Corps is able to fully comply with Statement of Federal Financial Accounting Concepts Number 2, Entity and Display.

Principal Statements

The FY 2009 U.S. Marine Corps General Fund principal statements and related notes are subsidiary financial statements and related notes of the Department of the Navy General Fund, and are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the U.S. Marine Corps General Fund for the fiscal year ending September 30, 2009, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2008.

The following statements comprise the U.S. Marine Corps General Fund principal statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources

The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994. The accompanying notes should be considered an integral part of the principal statements.

Department of Defense
United States Marine Corps General Fund

CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008
($ in Thousands)

	2009 Consolidated	2008 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 17,981,853	$ 17,809,687
Accounts Receivable (Note 5)	32,494	56,370
Other Assets (Note 6)	29	872
Total Intragovernmental Assets	18,014,376	17,866,929
Cash and Other Monetary Assets (Note 7)	26,640	52,645
Accounts Receivable, Net (Note 5)	30,542	7,549
Inventory and Related Property, Net (Note 9)	5,809,902	6,439,109
General Property, Plant, and Equipment, Net (Note 10)	12,810,346	12,028,288
Other Assets (Note 6)	561,207	663,947
TOTAL ASSETS	37,253,013	37,058,467
Stewardship Property, Plant, and Equipment (Note 10) *		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	204,531	197,807
Other Liabilities (Note 15 & Note 16)	109,693	99,600
Total Intragovernmental Liabilities	314,224	297,407
Accounts Payable (Note 12)	703,449	853,096
Military Retirement and Other Federal Employment Benefits (Note 17)	194,375	219,057
Environmental and Disposal Liabilities (Note 14)	250,892	262,455
Other Liabilities (Note 15 & Note 16)	1,336,688	1,292,138
TOTAL LIABILITIES	2,799,628	2,924,153
Commitments and Contingencies (Note 16) *		
NET POSITION		
Unexpended Appropriations - Other Funds	17,124,697	16,929,956
Cumulative Results of Operations - Earmarked Funds	664	576
Cumulative Results of Operations - Other Funds	17,328,024	17,203,782
TOTAL NET POSITION	34,453,385	34,134,314
TOTAL LIABILITIES AND NET POSITION	$ 37,253,013	$ 37,058,467

** - Disclosure but no value required per Federal Accounting Standards.*

The accompanying notes are an integral part of the statements.

Department of Defense
United States Marine Corps General Fund

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Consolidated	2008 Consolidated
Program Costs		
Gross Costs	$ 30,876,482	$ 26,840,010
Less: Earned Revenue	(786,826)	(799,394)
Net Program Costs	30,089,656	26,040,616
Net Cost of Operations	$ 30,089,656	$ 26,040,616

The accompanying notes are an integral part of the statements.

Department of Defense
United States Marine Corps General Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Earmarked Funds	2009 Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 577	$ 17,203,782
Prior Period Adjustments	-	-
Beginning Balances, as adjusted	577	17,203,782
Budgetary Financing Sources:		
Appropriations used	-	30,033,566
Transfers in/out without reimbursement (+/-)	150	-
Other Financing Sources:		
Transfers in/out without reimbursement (+/-)	-	16
Imputed financing from costs absorbed by others	-	75,868
Other (+/-)	-	104,385
Total Financing Sources	150	30,213,835
Net Cost of Operations (+/-)	63	30,089,593
Net Change	87	124,242
Cumulative Results of Operations	$ 664	$ 17,328,024
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ -	$ 16,929,956
Prior Period Adjustments (+/-)	-	-
Beginning Balances, as adjusted	-	16,929,956
Budgetary Financing Sources:		
Appropriations received	-	29,273,364
Appropriations transferred-in/out (+/-)	-	1,282,050
Other adjustments (rescissions, etc) (+/-)	-	(327,107)
Appropriations used	-	(30,033,566)
Total Budgetary Financing Sources	-	194,741
Unexpended Appropriations	-	17,124,697
Net Position	$ 664	$ 34,452,721

The accompanying notes are an integral part of the statements.

Department of Defense

United States Marine Corps General Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Consolidated	2008 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 17,204,359	$ 13,760,975
Prior Period Adjustments	-	-
Beginning Balances, as adjusted	17,204,359	13,760,975
Budgetary Financing Sources:		
Appropriations used	30,033,566	29,240,578
Transfers in/out without reimbursement (+/-)	150	153
Other Financing Sources:		
Transfers in/out without reimbursement (+/-)	16	1
Imputed financing from costs absorbed by others	75,868	66,595
Other (+/-)	104,385	176,672
Total Financing Sources	30,213,985	29,483,999
Net Cost of Operations (+/-)	30,089,656	26,040,616
Net Change	124,329	3,443,383
Cumulative Results of Operations	$ 17,328,688	$ 17,204,358
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 16,929,956	$ 15,749,077
Prior Period Adjustments (+/-)	-	-
Beginning Balances, as adjusted	16,929,956	15,749,077
Budgetary Financing Sources:		
Appropriations received	29,273,364	29,317,905
Appropriations transferred-in/out (+/-)	1,282,050	1,503,458
Other adjustments (rescissions, etc) (+/-)	(327,107)	(399,906)
Appropriations used	(30,033,566)	(29,240,578)
Total Budgetary Financing Sources	194,741	1,180,879
Unexpended Appropriations	17,124,697	16,929,956
Net Position	$ 34,453,385	$ 34,134,314

The accompanying notes are an integral part of the statements.

Department of Defense

United States Marine Corps General Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Combined	2008 Combined
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 5,169,650	$ 3,400,875
Recoveries of prior year unpaid obligations	2,632,670	1,809,015
Budget Authority:		
Appropriations received	29,273,515	29,318,058
Spending authority from offsetting collections:		
Earned		
Collected	435,081	558,199
Change in receivables from Federal sources	(3,036)	(15,858)
Change in unfilled customer orders		
Advances received	1,669	2,384
Without advance from Federal sources	(73,487)	52,551
Subtotal	29,633,742	29,915,334
Nonexpenditure Transfers, net, anticipated and actual	1,282,050	1,503,458
Permanently not available	(327,107)	(399,906)
Total Budgetary Resources	38,391,005	36,228,776
Status of Budgetary Resources:		
Obligations incurred:		
Direct	33,915,640	30,413,211
Reimbursable	396,888	645,916
Subtotal	34,312,528	31,059,127
Unobligated balance:		
Apportioned	3,455,244	4,657,091
Subtotal	3,455,244	4,657,091
Unobligated balances not available	623,233	512,558
Total Status of Budgetary Resources	$ 38,391,005	$ 36,228,776

The accompanying notes are an integral part of the statements.

Department of Defense
United States Marine Corps General Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Combined	2008 Combined
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 12,868,599	$ 13,841,236
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(190,940)	(154,247)
Total Unpaid Obligated Balance	12,677,659	13,686,989
Obligations incurred, net (+/-)	34,312,528	31,059,127
Less: Gross outlays	(30,510,863)	(30,222,749)
Less: Recoveries of prior year unpaid obligations, actual	(2,632,670)	(1,809,015)
Change in uncollected customer payments from Federal sources (+/-)	76,523	(36,693)
Obligated balance, net, end of period		
Unpaid obligations	14,037,594	12,868,599
Less: Uncollected customer payments from Federal sources	(114,417)	(190,940)
Total Unpaid Obligated Balance, net, end of period	13,923,177	12,677,659
Net Outlays:		
Gross Outlays	30,510,863	30,222,749
Less: Offsetting collections	(436,750)	(560,583)
Less: Distributed Offsetting receipts	89,513	167,559
Net Outlays	$ 30,163,626	$ 29,829,725

The accompanying notes are an integral part of the statements.

UNITED STATES MARINE CORPS GENERAL FUND
NOTES TO THE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

The United States Marine Corps (USMC), a component of the Department of the Navy (DON), has prepared these financial statements to report the financial position and results of operations of the USMC General Fund, as required by the "Chief Financial Officers (CFO) Act of 1990," Public Law 101-590, expanded by the "Government Management Reform Act of 1994," Public Law 103-356, and other appropriate legislation. Though USMC produces General Fund (GF) financial statements as a stand alone entity, USMC remains a subsidiary of the DON financial statements and reporting process. The financial statements have been prepared from the books and records of USMC GF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular No. A 136, "Financial Reporting Requirements," and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which USMC GF is responsible unless otherwise noted.

Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable.

The USMC GF is unable to fully implement all elements of USGAAP and OMB Circular A 136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The USMC GF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The USMC GF continues to implement process and system improvements addressing these limitations.

The DoD currently has 13 auditor identified material weaknesses. Of these, the USMC GF has the following: (1) Financial Management Systems, (2) General Property, Plant, and Equipment (PP&E), (3) Accounts Payable, and (4) Environmental Liabilities. In designing the improved financial management and financial reporting structure, USMC GF management recognized the existence these material weaknesses. The USMC GF management has enabled a combined system of Standard Accounting, Budgeting, and Reporting System (SABRS) core financial system controls; standard process controls and internal audit monitoring process; and extensive data quality reviews to mitigate risks. The USMC FII has designed efforts to improve and refine financial accounting and financial reporting processes to remediate and mitigate several remaining financial management issues including those identified as potential financial statement material weaknesses.

1.B. Mission of the Reporting Entity

The USMC was created on November 10, 1775 by an act of the 2nd Continental Congress. The overall mission of USMC is to provide trained and equipped forces to Combatant Commanders in support of the President's National Security Strategy. As set forth in the "National Security Act of 1947," USMC missions are: to seize and defend advanced naval bases and to conduct such land operations as may be essential to the prosecution of a naval campaign; to provide detachments and organizations for service in armed vessels of the Navy or for protection of naval property on naval stations and bases; to develop, with the other Armed Forces, the tactics, techniques, and equipment employed by landing forces in amphibious operations; to train and equip, as required, Marine forces for airborne operations; to develop, with the other Armed Forces, doctrine, procedures, and equipment of interest to USMC for airborne operations which are not provided for by the Army; and to be able to expand from a peacetime posture to meet the needs of war in accordance with mobilization plans.

1.C. Appropriations and Funds

The USMC GF receives appropriations and funds as general, special, and deposit funds. These appropriations and funds may be either provided solely to USMC GF or shared with other DON activities. The USMC GF uses these appropriations and funds to execute its mission and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including military personnel, operation and maintenance, research and development, and procurement.

Special funds accounts are used to record government receipts reserved for a specific purpose. Certain special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. The USMC GF is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for earmarked funds.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not the USMC GF funds, and as such, are not available for USMC GF's operations. The USMC GF is acting as an agent or a custodian for funds awaiting distribution.

1.D. Basis of Accounting

The USMC GF's financial management systems are unable to meet all full accrual accounting requirements. Many of USMC GF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of USMC GF's (financial and nonfinancial) legacy systems were designed to record information on a budgetary basis.

The DoD's Agencywide financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Military Services and Defense Agencies and their sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Military Service and Defense Agency level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). The USMC GF accounting system, SABRS, is USGAAP, USSGL, and Standard Financial Information Structure (SFIS) compliant. The SABRS is a transaction driven general ledger accounting system that utilizes standardized transactions for processing. The USMC GF management recognizes the existence of USMC GF dependencies related to DoD financial and nonfinancial systems. The SABRS is interfaced with DoD approved business enterprise systems, such as the Defense Travel System, Standard Procurement System, Defense Civilian Personnel System, Defense Property Accountability System, and Wide Area Work Flow. These interfaces improve financial reporting and eliminate manual recording by capturing data from the source systems. Until all USMC GF financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, USMC GF's financial data relies, in part, on budgetary data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The USMC GF receives congressional appropriations as financing sources for general funds that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The USMC GF recognizes revenue as a result of costs incurred and services provided to other federal agencies and the public. Full cost pricing is USMC GF's standard policy for services provided as required by OMB Circular A 25, "User Charges." The USMC GF recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

The USMC GF does not include nonmonetary support provided by U.S. allies for common defense and mutual security in the Statement of Net Cost and the Note 21, "Reconciliation of Net Cost of Operations to Budget." The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. The USMC GF has implemented the consumption method for recognizing OM&S expenses for certain items. Under the consumption method, OM&S would be reported as expenses when consumed. Due to system limitations, in some instances expenditures for capital and other long term assets may be recognized as operating expenses. The USMC GF continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. The USMC GF accounts for all intragovernmental transactions at the transaction level. In an effort to more efficiently identify intragovernmental transactions by customer, USMC GF has implemented the DoD's trading partner requirements in its accounting system to capture trading partner data. Generally, seller entities within 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 and are then eliminated. The DoD system limitations and the volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long term system improvements to ensure intragovernmental information, including developing sufficient up-front edits and controls eliminating the need for manual reconciliations.

The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" and Treasury Financial Manual, Part 2 Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provide guidance for reporting and reconciling intragovernmental balances. While USMC GF is unable to fully reconcile intragovernmental transactions with all federal agencies, USMC GF is able to reconcile balances pertaining to "Federal Employees' Compensation Act" transactions with the Department of Labor, and benefit program transactions with Office of Personnel Management.

The DoD's 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's financial statements do not report any public debt, interest or source of public financing whether from issuance of debt or tax revenues.

Generally, 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 costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, USMC GF 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 authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

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

The USMC GF's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Services, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of USMC GF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, USMC GF's FBWT is adjusted to agree with the U.S. Treasury FBWT accounts.

1.J. Foreign Currency

Cash is the total of cash resources under the control of DoD which includes coin, paper currency, negotiable instruments, and amounts held for deposits in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

The majority of cash and all foreign currency is classified as "nonentity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The USMC GF conducts a significant portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: operations and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. The USMC GF does not separately identify currency fluctuation transactions.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts, claims, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection history by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at *http://www.fms.treas.gov/tfm/vol1/07-03.pdf*.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The USMC GF reports its inventory of repair parts, munitions, and ammunition in related property as OM&S. The USMC GF manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in USMC GF's materiel management activities. The USMC GF holds materiel based on military need and support for contingencies.

The OM&S nonammunition inventories are valued at cost using the latest acquisition cost method and are comprised of high volume, high turnover, lower unit price supplies. The latest acquisition cost unit prices represent end of period contract prices. The USMC GF management has performed analysis to support that period end OM&S nonammunition account value is comparable to values of such inventories computed at the Lower of Cost or Market pricing method.

Most of USMC GF's OM&S are currently reported using latest acquisition cost adjusted for holding gains and losses. The USMC GF uses the latest acquisition cost method because legacy OM&S inventory systems were designed for materiel management rather than accounting. Older OM&S, munitions are reported at standard price. Although the legacy systems provide visibility and accountability over 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" (Public Law 104 208).

The USMC GF uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored inventories such as ammunition, tactical missiles, spare parts, and engines are expensed based on the consumption method. Noncentrally managed inventories are accounted for on a purchase method which expenses materiel and supplies as purchased. The USMC GF plans to implement Global Combatant Support System to provide unit accountability to account for all items on the consumption method of accounting.

The USMC GF determined that the recurring high dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high dollar items are categorized as OM&S rather than military equipment.

The USMC GF 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.

1.N. Investments in U.S. Treasury Securties

The USMC GF investments in U.S. Treasury securities are reported in the DON General Fund Financial Statements.

1.O. General Property, Plant, and Equipment

The USMC GF uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions and disposals to create a baseline. The military equipment baseline is updated using expenditure, acquisition and disposals information.

The DoD's General Property, Plant, & Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The DON has not fully implemented the threshold for real property. The USMC GF is currently using the capitalization threshold of $100 thousand for all General PP&E.

With the exception of USACE Civil Works and Working Capital Fund, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD's capitalization threshold. The DoD also requires capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

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

The DoD developed policy and reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires components to maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The USMC GF has not fully implemented this policy primarily due to system limitations. The property system's next upgrade, which will be used by all Marine Corps installations, will have a government furnished equipment module so that the assets will be easier to maintain and track.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. As such, payments in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The USMC GF has implemented this policy.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, USMC GF records the applicable asset as though purchased, with an offsetting liability and depreciates it. The USMC GF records the asset and liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The USMC GF as the lessee receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by USMC GF are the largest component operating leases and are based on costs gathered from existing leases, General Services Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price. The USMC GF has not implemented procedures to collect and report operating leases. However, under the Financial Improvement Initiative program, USMC GF has begun to implement a strategy to identify operating leases and to develop a process to report operating leases.

1.R. Other Assets

Other assets includes those assets, such as military and civil service employee pay advances, travel advances, and certain contracting financing payments that are not reported elsewhere on USMC GF's Balance Sheet.

The USMC GF 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, USMC GF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The USMC GF has not fully implemented this policy primarily due to system limitations.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisition Regulations Supplement authorizes progress payments based on percentage of stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress. The USMC GF does not make progress payments based on percentage of completion; the Navy Facilities Command manages Marine Corps real property construction and reports related progress payments in the DON statements.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by the 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 USMC GF 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 disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The USMC GF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as vehicle accidents, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for USMC GF's assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government" nonenvironmental disposal liabilities are recognized when management decides to dispose of the asset. The USMC GF does not have nuclear powered military equipment.

1.T. Accrued Leave

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

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. Cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of the land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The USMC GF purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow USMC GF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Unexpended Obligations

The USMC GF obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the 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 obligations, payables, or receivables in the source system and those reported by the U.S. Treasury.

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely do not meet audit scrutiny.

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. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.Y. Significant Events

The USMC GF has no significant events to disclose.

1.Z. Fiduciary Activities

Fiduciary cash and other assets are not assets of the USMC GF and are not recognized on the balance sheet. Fiduciary activities are reported on the financial statement note schedule

Note 2. Nonentity Assets

As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	69,717	$	129,938
B. Accounts Receivable		0		0
C. Total Intragovernmental Assets	$	69,717	$	129,938
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	$	26,640	$	52,645
B. Accounts Receivable		392		407
C. Other Assets		0		0
D. Total Nonfederal Assets	$	27,032	$	53,052
3. Total Nonentity Assets	$	96,749	$	182,990
4. Total Entity Assets	$	37,156,264	$	36,875,477
5. Total Assets	$	37,253,013	$	37,058,467

Nonentity assets are assets for which USMC GF maintains stewardship accountability and reporting responsibility, but are not available for USMC's normal operations.

The nonentity fund balance with treasury represents amounts in USMC GF deposit fund accounts. The deposit fund accounts contain various withholdings from Marines' pay such as taxes, allotments, and garnishments held until the appropriate disbursement date. The USMC GF maintains stewardship accountability and reporting responsibility for these assets, but the assets are not available for use in normal operations.

Nonentity cash and other monetary assets represent cash held by disbursing officers to carry out payment, collection, and foreign currency accommodation exchange missions.

The nonentity nonfederal accounts receivable represents interest, fines, and penalties receivable on aged delinquent debt. Once collected, nonentity receivables are deposited to the U.S. Treasury as miscellaneous receipts.

Note 3. Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 17,911,460	$ 17,679,140
B. Revolving Funds	0	0
C. Trust Funds	0	0
D. Special Funds	676	610
E. Other Fund Types	69,717	129,937
F. Total Fund Balances	$ 17,981,853	$ 17,809,687
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 15,576,518	$ 15,793,969
B. Fund Balance per USMC General Fund	17,981,853	17,809,687
3. Reconciling Amount	$ (2,405,335)	$ (2,015,718)

Explanation of Reconciliation Amount

(In thousands)	
Shared Appropriations per USMC GF*	$2,556,923
Suspense Accounts per USMC GF**	(89,518)
DoD Wide difference between SDP and GWA***	(11,071)
Total Reconciling Amount	$2,405,335

*This amount is the fund balance with treasury for USMC GF portion of appropriations shared with the U.S. Navy: Research and Development, Test and Evaluation, Navy; Procurement of Ammunition, Navy and Marine Corps; Wildlife Conservation, Military Reservations, Navy; and Family Housing Operation and Maintenance, Navy and Marine Corps. The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. As a result, the U.S. Treasury does not separately identify USMC GF portion of fund balance with treasury for the shared appropriations.

**This amount is the fund balance with treasury for suspense and deposit accounts shared with the U.S. Navy: Disbursing Officer Suspense Account; Lost or Cancelled Treasury Checks Suspense Account; Interfund/Intragovernmental Payment and Collection (IPAC) Suspense Account; and Small Escrow Amounts Deposit Account. The U.S. Treasury does not separately identify USMC GF portion of fund balance with treasury for the shared suspense and deposit accounts.

***This amount is to reconcile at DoD Agencywide level fund balance with treasury Saving Deposit Program (SDP) with the U.S. Treasury Government-Wide Accounting (GWA). At 1st Quarter, FY 2009, OUSD(C) decided that USMC GF will report the difference between SDP and GWA balances for all Services as nonentity. The USMC GF account balance consists of other non-SDP payroll withholdings; this deposit account is used for all payroll withholdings for Marines and is in the process of being reconciled.

Other fund types represent USMC GF deposit fund accounts. The deposit fund accounts contain various withholdings from Marines' pay such as taxes, allotments, and garnishments held until the appropriate disbursement date. The USMC GF maintains stewardship accountability and reporting responsibility for these assets, but the assets are not available for use in USMC GF operations.

Status of Fund Balance with Treasury

As of September 30 (Amounts in thousands)		2009		2008
1. Unobligated Balance				
A. Available	$	3,455,244	$	4,657,091
B. Unavailable		623,233		512,559
2. Obligated Balance not yet Disbursed	$	14,037,593	$	12,868,599
3. Nonbudgetary FBWT	$	(19,800)	$	(37,622)
4. NonFBWT Budgetary Accounts	$	(114,417)	$	(190,940)
5. Total	$	17,981,853	$	17,809,687

Status of Fund Balance with Treasury

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

Unobligated balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds.

Obligated balance not yet disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts. Nonbudgetary FBWT is comprised of the fund balance with Treasury for the Disbursing Officer Suspense Account, Lost or Cancelled Treasury Checks Suspense Account, Interfund/IPAC Suspense Account, Small Escrow Accounts Deposit Account, and the Pay of the Marine Corps Deposit Account.

NonFBWT Budgetary Accounts reduce the Status of FBWT. NonFBWT budgetary accounts are comprised of unfilled customer orders without advance and reimbursements and other income earned-receivable.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances are unavailable for new obligations, but the USMC GF has no restrictions on unobligated balances.

Note 4. Investments and Related Interest

The USMC GF investments and related interest are reported under the Department of the Navy General Fund.

Note 5. Accounts Receivable

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 32,494	N/A	$ 32,494
2. Nonfederal Receivables (From the Public)	$ 37,640	$ (7,098)	$ 30,542
3. Total Accounts Receivable	$ 70,134	$ (7,098)	$ 63,036

As of September 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 56,370	N/A	$ 56,370
2. Nonfederal Receivables (From the Public)	$ 20,059	$ (12,510)	$ 7,549
3. Total Accounts Receivable	$ 76,429	$ (12,510)	$ 63,919

Note 6. Other Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 29	$ 872
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$ 29	$ 872
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 531,473	$ 635,080
B. Advances and Prepayments	29,734	28,867
C. Other Assets (With the Public)	0	0
D. Total Nonfederal Other Assets	$ 561,207	$ 663,947
3. Total Other Assets	$ 561,236	$ 664,819

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Government 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 Federal Government. The Federal Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and USMC GF is not obligated to make payment to the contractor until delivery and acceptance.

The Contract Financing Payment balance $531.5 million is comprised of $505.7 million in contract financing payments and an additional $25.8 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).

Note 7. Cash and Other Monetary Assets

As of September 30 (Amounts in thousands)	2009	2008
1. Cash	$ 21,205	$ 52,645
2. Foreign Currency	5,435	0
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 26,640	$ 52,645

Cash and foreign currency are nonentity assets held by USMC GF. Cash, $21.2 million and foreign currency, $5.4 million are restricted, held by USMC disbursing officers, but not available for USMC GF's normal operations.

The amounts reported as cash consist of cash held by disbursing officers to carry out their payment, collection, and foreign currency accommodation exchange mission. The source of the amounts reported is the Statement of Accountability, a DoD disbursing officer's report.

Note 8. Direct Loan and Loan Guarantees

Not applicable.

Note 9. Inventory and Related Property

As of September 30 (Amounts in thousands)	2009	2008
1. Inventory, Net	$ 0	$ 0
2. Operating Materiel & Supplies, Net	5,809,902	6,439,109
3. Stockpile Materiel, Net	0	0
4. Total	$ 5,809,902	$ 6,439,109

Inventory, Net

Not applicable.

Operating Materiel and Supplies, Net

As of September 30	2009						
		OM&S Gross Value		Revaluation Allowance		OM&S, Net	Valuation Method
(Amounts in thousands)							
1. OM&S Categories							
A. Held for Use	$	5,424,975	$	0	$	5,424,975	SP, LAC, MAC
B. Held for Repair		384,927		0		384,927	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		131,092		(131,092)		0	NRV
D. Total	$	5,940,994	$	(131,092)	$	5,809,902	

As of September 30	2008						
		OM&S Gross Value		Revaluation Allowance		OM&S, Net	Valuation Method
(Amounts in thousands)							
1. OM&S Categories							
A. Held for Use	$	5,928,868	$	0	$	5,928,868	SP, LAC, MAC
B. Held for Repair		510,241		0		510,241	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		88,964		(88,964)		0	NRV
D. Total	$	6,528,073	$	(88,964)	$	6,439,109	

Legend for Valuation Methods:	
LAC = Latest Acquistion Cost	NRV = Net Realizable Value
SP = Standard Price	MAC = Moving Average Cost

General Composition of Operating Materiel and Supplies
Operating materiel and supplies include (1) ammunition and munitions that consists of spare and repair parts and missiles, and (2) Appropriation Purchase Account (APA) Secondary Inventory that consists of spare and repair parts, clothing and textiles, medical and dental supplies, and fuel.

Restrictions on Operating Materiel and Supplies
There are no restrictions on the use of operating materiel and supplies.

Decision Criteria for Identifying the Category to which Operating Materiel and Supplies are Assigned
The USMC GF determines reporting categories for operating materiel and supplies based on condition codes assigned to individual inventory items.

Of the $5.8 billion operating materiel and supplies, $5.5 billion is valued using latest acquisition cost adjusted for gains and losses, and the remaining $346.2 million is valued at standard price.

Stockpile Materiel, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30 (Amounts in thousands)	2009				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 169,067	N/A	$ 169,067
B. Buildings, Structures, and Facilities	S/L	20 Or 40	8,609,832	$ (4,553,370)	4,056,462
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	0	0	0
E. General Equipment	S/L	5 or 10	393,870	(142,200)	251,670
F. Military Equipment	S/L	Various	11,202,272	(2,869,125)	8,333,147
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	0	N/A	0
J. Other			0	0	0
K. Total General PP&E			$ 20,375,041	$ (7,564,695)	$ 12,810,346

As of September 30 (Amounts in thousands)	2008				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 166,286	N/A	$ 166,286
B. Buildings, Structures, and Facilities	S/L	20 Or 40	7,975,979	$ (4,264,255)	3,711,724
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	0	0	0
E. General Equipment	S/L	5 or 10	507,536	(173,235)	334,301
F. Military Equipment	S/L	Various	10,119,025	(2,303,048)	7,815,977
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	0	N/A	0
J. Other			0	0	0
K. Total General PP&E			$ 18,768,826	$ (6,740,538)	$ 12,028,288

Legend for Valuation Methods:

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

Restrictions on the use or convertibility of General Property, Plant, and Equipment, Net
For USMC GF sites outside of the continental U.S. there are no restrictions on the use or convertibility of General Property, Plant, and Equipment (PP&E) in accordance with international agreements with Japan. In other areas where Marines are deployed, such as Iraq or Afghanistan, information is not available regarding restrictions on General PP&E.

Heritage Assets and Stewardship Land

The Federal Accounting Standards Advisory Board's SFFAS No. 29, "Heritage Assets and Stewardship Land," requires note disclosures for these types of assets. The USMC GF policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Heritage assets within the USMC GF consist of buildings and structures, and museum collections. The USMC GF defines these as follows:

- Buildings and Structures. Buildings and structures listed on or eligible for listing on, the National Register of Historic Places, including Multi-Use Heritage Assets.
- Museum Collection Items. Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to USMC GF collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

The USMC GF holds the following quantities of heritage assets at September 30, 2009.

Categories	Measure Quantity	As of September 30, 2008	Additions	Deleitons	As of September 30, 2009
Buildings and Structures	Each	1,960	0	0	1,960
Archaeological Sites	Each	0	0	0	0
Musuem Collection Items (Objects, Not Including Fine Art)	Each	40,491	1,299	48	41,742
Musuem Collection Items (Objects, Fine Art)	Each	1,014	129	1	1,142

The USMC GF continues to review and validate the heritage asset database. For FY 2009, the USMC GF acquired 129 fine art objects and 1,299 other museum collection items partly through donation and as a result of reclassification of items in the database. Items were also deleted because they did not meet the reporting criteria.

The USMC GF's stewardship land consists mainly of mission essential land acquired by donated or devise. Fiscal Year ended September 30, 2009 stewardship land data is not available due to limitation of the USMC GF financial and nonfinancial management processes and systems that feed into the financial statements. The USMC GF held the following acres of land as of September 30, 2008.

(acres in Thousands)

Facility Code	Facility Title	As of September 30, 2007	Additions	Deleitons	As of September 30, 2008
9110	Government Owned Land	789	0	0	789
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public Land	679	0	0	679
9130	Licensend and Permitted Land	7	0	0	7
9140	Public Land	692	0	0	692
9210	Land Easement	36	0	28	8
9220	In-Leased Land	63	0	0	63
9230	Foreign Land	84	0	0	84
				Grand Total	2,322
				TOTAL - All Other Lands	951
				TOTAL - Stewardship Lands	1,371

Note: FY 2009 data will be available after December 15, 2009

The overall mission of USMC is to provide trained and equipped forces to Combatant Commanders in support of the President's National Security Strategy. In that mission the USMC GF, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets (capitalized and depreciated).

Stewardship land also includes public domain and land set aside. Within the definition of stewardship land, land can be further categorized as improved, semi-improved or in the other category of land. Some of this land is used as a buffer around perimeter of Marine Corps installations and may be used grazing land and forestry maintenance areas. The USMC GF strives to be a responsible steward of the land and maintain it in a way that protect human health and the environmental and allows for training and support of force readiness.

Assets under Capital Lease

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Liabilities				
A. Accounts Payable	$	1,850	$	1,693
B. Debt		0		0
C. Other		93,087		129,868
D. Total Intragovernmental Liabilities	$	94,937	$	131,561
2. Nonfederal Liabilities				
A. Accounts Payable	$	23,499	$	19,097
B. Military Retirement and Other Federal Employment Benefits		194,375		219,057
C. Environmental Liabilities		250,891		262,455
D. Other Liabilities		785,564		716,421
E. Total Nonfederal Liabilities	$	1,254,329	$	1,217,030
3. Total Liabilities Not Covered by Budgetary Resources	$	1,349,266	$	1,348,591
4. Total Liabilities Covered by Budgetary Resources	$	1,450,362	$	1,575,562
5. Total Liabilities	$	2,799,628	$	2,924,153

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. These liabilities are not covered by realized budgetary resources as of the Balance Sheet date. Budgetary authority to satisfy these liabilities is expected to be provided in a future Defense Appropriations Act. When that future budgetary authority is provided, these respective liabilities will be recorded as covered by budgetary resources with an associated funded expense.

Unfunded military and civilian leave liability, $743.5 million is not covered by budgetary resources because it is funded as leave is taken. Environmental Liabilities, $250.9 million, are estimates related to future events that will be budgeted for when those assets are removed from service and cleaned up in future years.

The military retirement and other federal employment benefits, $194.4 million consists of various employee future 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.

Intragovernmental liabilities – other (not covered by budgetary resources) includes liability for the Federal Employees Compensation Act, $51.4 million and unemployment compensation, $41.7 million.

Nonfederal liabilities - other liabilities (not covered by budgetary resources) includes civilian and military unfunded leave liability, $743.5 million and nonenvironmental disposal excess/obsolete structures liability, $39.4 million.

Note 12. Accounts Payable

As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 204,531	$ N/A	$ 204,531
2. Nonfederal Payables (to the Public)	703,449	0	703,449
3. Total	$ 907,980	$ 0	$ 907,980

As of September 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 197,807	$ N/A	$ 197,807
2. Nonfederal Payables (to the Public)	853,096	0	853,096
3. Total	$ 1,050,903	$ 0	$ 1,050,903

Accounts payable include amounts owed to federal and nonfederal entities for goods and services received by USMC GF. The USMC GF has implemented the DoD's trading partner requirements in the core accounting system, Standard Accounting Budgeting Reporting System to capture trading partner data. Other financial and feeder systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

Not applicable.

Note 14. Environmental Liabilities

As of September 30	2009	2008
(Amounts in thousands)		
1. Environmental Liabilities--Nonfederal		
A. Accrued Environmental Restoration Liabilities		
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 0	$ 0
2. Active Installations—Military Munitions Response Program (MMRP)	0	0
3. Formerly Used Defense Sites—IRP and BD/DR	0	0
4. Formerly Used Defense Sites--MMRP	0	0
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	111,843	98,927
2. Environmental Closure Requirements	112,301	126,707
3. Environmental Response at Operational Ranges	23	22
4. Asbestos	2,893	0
5. Non-Military Equipment	23,785	36,742
6. Other	47	57
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	0	0
2. Military Munitions Response Program	0	0
3. Environmental Corrective Action / Closure Requirements	0	0
4. Asbestos	0	0
5. Non-Military Equipment	0	0
6. Other	0	0
D. Environmental Disposal for Military Equipment / Weapons Programs		
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0	0
2. Non-Nuclear Powered Military Equipment	0	0
3. Other National Defense Weapons Systems	0	0
4. Other	0	0
E. Chemical Weapons Disposal Program		
1. Chemical Demilitarization - Chemical Materials Agency (CMA)	0	0
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	0	0
3. Other	0	0
2. Total Environmental Liabilities	$ 250,892	$ 262,455

Environmental Liabilities Nonfederal
Other Accrued Environmental Liabilities – Active Installations

In the 4th Quarter, FY 2009, USMC GF reported $111.8 million in environmental corrective action and $112.3 million in environmental closure requirements. The USMC GF is continuing efforts to complete their survey and estimations of USMC GF environmental liabilities of closure/decommissioning requirements for ongoing operations.

Other Accrued Environmental Liabilities – Other

The USMC GF reported $47.1 thousand in other accrued environmental liabilities, other which is comprised solely of noncurrent liability for transformers containing Polychlorinated Biphenyls (PCB).

Unrecognized Cleanup Costs
The unrecognized portion of cleanup costs is the unamortized portion of closure assets and non military equipment, and un-utilized landfill capacity. As of September 30, 2009, total unrecognized other environmental liabilities were $60.2 million.

Applicable Laws and Regulations for Cleanup Requirements
The following is a summary of significant laws that impact USMC GF's environmental policy and regulations for cleanup requirements:

The Resource Conservation and Recovery Act (RCRA) of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984, was the first comprehensive federal effort to deal with safe disposal of all types of hazardous wastes, and provides for "cradle to grave" tracking of hazardous wastes. The RCRA addresses and requires permits for solid waste and hazardous waste closure and corrective action, including solid waste landfill and hazardous waste permitted storage facility closures. Permits are required for treatment, storage or disposal. Requirements for underground storage tanks are also contained in RCRA.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), commonly referred to as the Superfund legislation, provided for Federal agencies authority to respond to the release or the substantial threat of release of hazardous substances into the environment. The CERCLA was amended several times; one of the amendments was the Superfund Amendment and Reauthorization Act of 1986. This amendment established procedures to ensure that actual or threatened hazardous substance releases have proper responses. The procedures address reporting, investigating, remedy selection, and responsive provisions.

The Clean Water Act (CWA) of 1977, Section 405 Disposal of Sewage Sludge, amended the Federal Water Pollution Control Act. The purpose of CWA is to restore and maintain the integrity of the nation's waters. Facilities may dispose of sewage sludge on site from the operation of a treatment works. The CWA implementing regulations established closure and post closure requirements for sewage sludge disposal. To help protect the nation's drinking water supply, including underground injections through a permitting scheme implemented by the states is the purpose of the Safe Drinking Water Act (SDWA) of 1974, amended in 1986 to include Wellhead Protection Areas. The SDWA regulates the underground disposal of wastes in deep wells and establishes a program to protect public water supply wells. One requirement to protect public water supply wells addresses closure of Class I injection wells used for industrial hazardous, industrial nonhazardous and municipal (nonhazardous) waste.

Method for Assigning Estimated Total Cleanup Costs to Current Operating Periods
The USMC GF uses engineering estimates and independently validated models to estimate environmental costs. The models are contained within the Remedial Action Cost Engineering Requirements and the Normalization of Data System. The DoD validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The USMC GF primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, USMC GF complies with accounting standards to assign costs to current operating periods. The USMC GF has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then USMC GF expensed that portion of the asset that has passed since General PP&E was placed into service and is systematically recognizing the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the USMC GF expenses the associated environmental costs systematically over the life of the asset. The USMC GF expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

The USMC GF uses two methods for systematic recognition: physical capacity for operating landfills and life expectancy in years for all other assets.

Method for Estimating NonDefense Environmental Restoration Program (NonDERP) Environmental Liabilities

The NonDERP environmental liability estimates are based on the following:

- Execution/payment amounts,
- Historical references (e.g., prior projects, investigations, monitoring),
- Current projects of comparable scope (similar sites),
- Estimates from vendors/contractors,
- Estimates from Military Construction Data Project form,
- Program Objectives Memorandum Guidebook, and
- Professional experience.

Description of the Types of Environmental Liabilities and Disposal Liabilities

Other Accrued Environmental Costs (NonDERP funds), Cost, Base Realignment and Closure (BRAC), and Environmental Disposal for Weapons systems Programs

The USMC GF defines NonDERP environmental sites/units as those sites/units associated with on-going operations such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retro fill, and/or disposal of the PCB transformers, underground storage tank remedial investigation and closure. The USMC GF has reported NonDERP environmental liabilities for USMC GF installations totaled 225 projects and covered approximately 3,290 sites. The projects span the following nonDERP reporting categories: (1) closure for units or sites put into service prior to September 30, 1997, (2) closure for units or sites put into service after September 30, 1997, and (3) corrective actions. There are no projects that are categorized as NonDERP environmental liability for "response at active ranges" and other reporting categories. For units or sites put into service after September 30, 1997, the number of years of service was used to allocate the liability for the current fiscal year and the accumulated liability to date.

Accrued Environmental Restoration Defense Environmental Restoration Program (DERP) Funded

The U.S. Navy centrally manages and executes DERP and BRAC portions at Department of the Navy level. Therefore, USMC GF does not report DERP and BRAC environmental liabilities.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

NonDERP environmental liabilities can change in the future because of changes in laws/regulations and regulatory agencies agreements, and technology advances.

Description of the Level of Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities

The environmental liabilities for USMC GF are based on accounting estimates that require certain judgments and assumptions that we believe are reasonable based upon information available to us at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if laws/regulations change requiring a different closure method, or if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation of the environmental sites discloses contamination different than known at the time of the estimates.

Note 15. Other Liabilities

As of September 30	2009		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 0	$ 0	$ 0
B. Deposit Funds and Suspense Account Liabilities	(19,800)	0	(19,800)
C. Disbursing Officer Cash	26,641	0	26,641
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Dept. of Labor	22,512	28,919	51,431
F. Custodial Liabilities	391	0	391
G. Employer Contribution and Payroll Taxes Payable	9,281	0	9,281
H. Other Liabilities	41,749	0	41,749
I. Total Intragovernmental Other Liabilities	$ 80,774	$ 28,919	$ 109,693
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 513,439	$ 0	$ 513,439
B. Advances from Others	4,052	0	4,052
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			0
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	5,282	34,110	39,392
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	743,476	0	743,476
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	5,460	0	5,460
J. Employer Contribution and			0
Payroll Taxes Payable	2,363	0	2,363
K. Contingent Liabilities	0	28,506	28,506
L. Other Liabilities	0	0	0
M. Total Nonfederal Other Liabilities	$ 1,274,072	$ 62,616	$ 1,336,688
3. Total Other Liabilities	$ 1,354,846	$ 91,535	$ 1,446,381

As of September 30	2008		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 0	$ 0	$ 0
B. Deposit Funds and Suspense Account Liabilities	(37,622)	0	(37,622)
C. Disbursing Officer Cash	52,651	0	52,651
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Dept. of Labor	22,036	29,555	51,591
F. Custodial Liabilities	401	0	401
G. Employer Contribution and Payroll Taxes Payable	7,291	0	7,291
H. Other Liabilities	25,288	0	25,288
I. Total Intragovernmental Other Liabilities	$ 70,045	$ 29,555	$ 99,600
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 510,118	$ 0	$ 510,118
B. Advances from Others	2,384	0	2,384
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			0
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	5,282	34,110	39,392
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	672,100	0	672,100
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	0	11,171	11,171
J. Employer Contribution and			0
Payroll Taxes Payable	5,598	0	5,598
K. Contingent Liabilities	0	51,375	51,375
L. Other Liabilities	0	0	0
M. Total Nonfederal Other Liabilities	$ 1,195,482	$ 96,656	$ 1,292,138
3. Total Other Liabilities	$ 1,265,527	$ 126,211	$ 1,391,738

Intragovernmental other liabilities-others includes unemployment compensation and accrued education benefits for separated Marines.

Contingent liabilities includes $25.8 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 contractor's work vests with the Federal Government when a specific type of contract financing payments is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the right of ownership. The USMC GF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contracts until delivery and government acceptance. Due to the probability the contractors will complete its efforts and deliver satisfactory products, and because the amount of potential future payments are estimable; the USMC GF 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 DAR. 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 contactor incurred costs to determine the contingency amount.

Contingent liabilities also include $2.7 million in estimated legal liabilities. In FY 2007, Department of Navy/USMC GF began recognizing and disclosing an estimate for contingent legal liabilities. The methodology to determine an estimate for contingent legal liabilities considers the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual case basis. For more details, see Note 16, Commitments and Contingencies.

Capital Lease Liability

Not applicable.

Note 16. Commitments and Contingencies

The USMC GF, a sub-entity of the Department of the Navy (DON) General Fund, is a party in various administrative proceedings and legal actions, related to claims for environmental damage, equal opportunity matters, and contractual bid protests which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown.

The USMC GF has accrued contingent liabilities for legal actions where the Office of Navy General Counsel considers an adverse decision probable and the amount of the loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. Others may be payable from DON resources, either directly or by reimbursement to the Judgment Fund. The USMC GF records Judgment Fund liabilities in Note 12, "Accounts Payable."

The Office of Navy General Counsel completed a review of litigation and claims threatened or asserted involving the USMC GF to which attorneys devote substantial attention in the form of legal consultation or representation. This review applies to individual and aggregate claims, litigation, assessments, or contingencies arising out of a single event or series of events, and includes matters that existed on September 30, 2009.

Based on information contained in the FY 2009 Final Legal Representation Letters, management does not have sufficient reason to believe that it is likely that the Government will be liable for the amounts claimed in individual or aggregated cases.

The DON developed a methodology to determine an estimate for contingent legal liabilities for aggregated cases. This estimate approximates the percentage that has historically been paid on claims. It is based entirely on historical data. The merits of each individual case have not been taken into consideration. Until sufficient historical data can be collected for the Navy Working Capital Fund—Marine Corps, this estimate will consider all USMC funding sources together. This estimate for contingencies that are considered both measurable and probable have been recognized and included in contingent liabilities in Note 15, Other Liabilities.

The estimate for those aggregate of cases considered reasonably possible to result in an adverse judgment against USMC GF is $36.6 million.

The USMC GF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, USMC GF has limited automated system processes by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present USMC GF's contingent liabilities.

The USMC GF recognizes contingent liabilities for obligations related to undelivered orders for open contracts citing canceled appropriations, which remain unfilled or unreconciled in Note 12, Accounts Payable, nonfederal payables.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009			
(Amounts in thousands)	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	$ 0		$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	$ 0		$ 0	$ 0
2. Other Actuarial Benefits				
A. FECA	$ 194,375		$ 0	$ 194,375
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	$ 194,375		$ 0	$ 194,375
3. Other Federal Employment Benefits	$ 0		$ 0	$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	$ 194,375		$ 0	$ 194,375

As of September 30	2008			
(Amounts in thousands)	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	$ 0		$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	$ 0		$ 0	$ 0
2. Other Actuarial Benefits				
A. FECA	$ 219,057		$ 0	$ 219,057
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	$ 219,057		$ 0	$ 219,057
3. Other Federal Employment Benefits	$ 0		$ 0	$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	$ 219,057		$ 0	$ 219,057

Military Retirement Pensions

The portion of the military retirement benefits actuarial liability applicable to USMC GF is reported on the financial statements of the Military Retirement Fund.

Military Retirement Health Benefits
Health benefits are funded centrally at the Department of Defense (DoD) level. As such, the portion of the health benefits actuarial liability that is applicable to USMC GF is reported only on the DoD Agencywide Financial Statements and the Medicare-Eligible Retiree Health Care Fund Financial Statements.

Federal Employees Compensation Act (FECA)
The USMC GF actuarial liability for future workers' compensation benefits is developed by Department of Labor and provided to USMC GF at the end of each fiscal year. The liability is allocated between USMC GF and Navy Working Capital Fund Marine Corps based on the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System. The benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims.

The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10 year U.S. Treasury notes and bonds. For discounting, a 4.22 percent interest rate was assumed for year one and 4.72 percent interest rate was assumed for year 2 and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2009 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	**COLA**	**CPIM**
2009	N/A	N/A
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014 +	2.00%	3.71%

The model's resulting projections were analyzed to ensure 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 2009 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 2009 projection to the average pattern for the projections of the most recent 3 years.

Note 18. General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Costs	$	7,094,993	$	6,616,796
2. Public Costs		23,781,489		20,223,214
3. Total Costs	$	30,876,482	$	26,840,010
4. Intragovernmental Earned Revenue	$	(288,879)	$	(381,558)
5. Public Earned Revenue		(497,947)		(417,836)
6. Total Earned Revenue	$	(786,826)	$	(799,394)
7. Net Cost of Operations	$	30,089,656	$	26,040,616

Intragovernmental costs and revenues are related to transactions made between two reporting entities within the Federal Government.

Public costs and revenues are exchange transactions made between USMC GF and a nonfederal entity.

The USMC GF systems do not track intragovernmental transactions by customer at the transaction level. Buyer side expenses are adjusted to agree with internal seller side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administration by a responsible reporting entity. The DoD's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as requires by the Government Performance and Results Act. The DoD 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."

The SNC presents information based on budgetary obligation, disbursement, and collection transactions, as well as data from nonfinancial feeder systems. Amounts are adjusted for accruals such as payroll expenses, accounts payable, and environmental liabilities.

The USMC GF's accounting system does not capture information relative to heritage assets separately and distinctly from normal operations. The USMC GF does not report any amounts for the costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets (other than multi use heritage assets); nor costs for acquiring stewardship land and preparing stewardship for its intended use.

Note 19. Disclosures Related to the Statement of Changes in Net Position

Other financing sources, other is comprised of the adjustments of $585.6 million to record year to date change in land, building and accumulated depreciation and $(481.2) million to record year to date changes in operating materiel and supplies, ammunition.

Budgetary financing source, other adjustments (rescissions, etc.) is comprised of $(327.1) million due to canceling year adjustments.

Appropriations received reported on the Statement of Changes of Net Position (SCNP) does not agree with appropriation reported on the Statement of Budgetary Resources (SBR). The difference of $150.1 thousand is the amount of special receipts from USMC GF portion of the Wildlife Conservation on Military Reservations appropriation. This amount is included as appropriation reported on the SBR, but not on the SCNP.

Earmarked Cumulative Results of Operations ending balance on the SCNP does not agree with the Earmarked Cumulative Results reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 13,155,273	$ 11,921,573
2. Available Borrowing and Contract Authority at the End of the Period	0	0

The USMC GF Report on Budget Execution accurately reflects $26.4 billion direct obligations in category A, amounts apportioned quarterly; $5.5 billion direct obligations in category B, amounts apportioned on a basis other than quarterly; and $396.5 million reimbursable obligations in category B.

The SBR includes intraentity transactions because the statements are presented as combined.

Appropriations Received on SBR does not agree with Appropriations Received on the Statement of Changes in Net Position (SCNP) because of differences between proprietary and budgetary accounting concepts and reporting concepts. The difference of $150 thousand is the amount of special receipts from USMC GF portion of the Wildlife Conservation on Military Reservations appropriation. This amount is included on the SBR, but not on SCNP.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2009	2008
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 34,312,528	$ 31,059,127
2. Less: Spending authority from offsetting collections and recoveries (-)	(2,992,897)	(2,406,291)
3. Obligations net of offsetting collections and recoveries	31,319,631	28,652,836
4. Less: Offsetting receipts (-)	89,513	167,559
5. Net obligations	31,409,144	28,820,395
Other Resources:		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	16	1
8. Imputed financing from costs absorbed by others	75,868	66,595
9. Other (+/-)	104,385	176,672
10. Net other resources used to finance activities	180,269	243,268
11. Total Resources Used to Finance Activities	$ 31,589,413	$ 29,063,663
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 (-)	$ (1,233,700)	$ 508,888
12b. Unfilled Customer Orders	(71,818)	54,935
13. Resources that fund expenses recognized in prior periods (-)	(40,074)	(3,032)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	(89,514)	(167,559)
15. Resources that finance the acquisition of assets (-)	(1,661,460)	(4,152,785)
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	0
16b. Other (+/-)	(104,400)	(176,673)
17. Total resources used to finance items not part of the Net Cost of Operations	$ (3,200,966)	$ (3,936,226)
18. Total resources used to finance the Net Cost of Operations	$ 28,388,447	$ 25,127,437

As of September 30	2009		2008	
(Amounts in thousands)				
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
19. Increase in annual leave liability	$	71,376	$	85,423
20. Increase in environmental and disposal liability		0		37,809
21. Upward/Downward reestimates of credit subsidy expense		0		0
22. Increase in exchange revenue receivable from the public (-)		0		0
23. Other (+/-)		22,427		24,564
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	93,803	$	147,796
Components not Requiring or Generating Resources:				
25. Depreciation and amortization	$	1,121,170	$	878,531
26. Revaluation of assets or liabilities (+/-)		(150,516)		(112,348)
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		0		0
27c. Operating Material and Supplies Used		642,161		0
27d. Other		(5,409)		(800)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$	1,607,406	$	765,383
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$	1,701,209	$	913,179
30. Net Cost of Operations	$	30,089,656	$	26,040,616

The following note schedule lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated:

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

The note schedule line, “Other Resources, Other” is primarily comprised of the year to date changes in real property and ammunition.

The note schedule line, “Other, Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations, Other” is comprised of the year to date changes in real property and ammunition and free issues from the Defense Logistics Agency Stock Fund.

The note schedule line, "Components Requiring or Generating Resources Future Period, Other" is comprised of future funded expenses from closing canceled year receivables and payables and the year-to-date change in Federal Employees Compensation Act (FECA) actuarial liability.

The note schedule line, "Components Not Requiring or Generating Resources, Other, Other" is primarily comprised of adjustments made to operating materiel and supplies expenses, refunds receivable and the bad debt expense for public accounts receivable.

Note 22. Disclosures Related to Incidental Custodial Collections

Not applicable.

Note 23. Earmarked Funds

BALANCE SHEET As of September 30 (Amounts in thousands)	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	$ 0	0	676	0	676
Investments	0	0	0	0	0
Accounts & Interest Receivable	0	0	0	0	0
Other Assets	0	0	0	0	0
Total Assets	$ 0	0	676	0	676
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	$ 0	0	0	0	0
Other Liabilities	0	0	12	0	12
Total Liabilities	$ 0	0	12	0	12
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	664	0	664
Total Liabilities & Net Position	$ 0	0	676	0	676
STATEMENT OF NET COST For the period ended September 30					
Program Costs	$ 0	0	63	0	63
Less Earned Revenue	0	0	0	0	0
Net Program Costs	$ 0	0	63	0	63
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	0	63	0	63
STATEMENT OF CHANGES IN NET POSITION For the period ended September 30					
Net Position Beginning of the Period	$ 0	0	576	0	576
Net Cost of Operations	0	0	63	0	63
Budgetary Financing Sources	0	0	151	0	151
Other Financing Sources	0	0	0	0	0
Change in Net Position	$ 0	0	88	0	88
Net Position End of Period	$ 0	0	664	0	664

BALANCE SHEET As of September 30 (Amounts in thousands)	2008					
		Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS						
Fund balance with Treasury	$	0	0	610	0	610
Investments		0	0	0	0	0
Accounts & Interest Receivable		0	0	0	0	0
Other Assets		0	0	0	0	0
Total Assets	$	0	0	610	0	610
LIABILITIES and NET POSITION						
Military Retirement Benefits and Other Federal Employment Benefits	$	0	0	0	0	0
Other Liabilities		0	0	34	0	34
Total Liabilities	$	0	0	34	0	34
Unexpended Appropriations		0	0	0	0	0
Cumulative Results of Operations		0	0	576	0	576
Total Liabilities & Net Position	$	0	0	610	0	610
STATEMENT OF NET COST For the period ended September 30						
Program Costs	$	0	0	51	0	51
Less Earned Revenue		0	0	0	0	0
Net Program Costs	$	0	0	51	0	51
Less Earned Revenues Not Attributable to Programs		0	0	0	0	-
Net Cost of Operations	$	0	0	51	0	51
STATEMENT OF CHANGES IN NET POSITION For the period ended September 30						
Net Position Beginning of the Period	$	0	0	474	0	474
Net Cost of Operations		0	0	51	0	51
Budgetary Financing Sources		0	0	153	0	153
Other Financing Sources		0	0	0	0	0
Change in Net Position	$	0	0	102	0	102
Net Position End of Period	$	0	0	576	0	576

Wildlife Conservation, Military Reservations, 16 USC 670

This fund provides for the development and conservation of fish and wildlife and recreational facilities on military installations. Proceeds from the sale of fishing and hunting permits are used for these programs at Navy and Marine Corps installations charging such user fees. These programs are carried out through cooperative plans agreed upon by the local representatives of the Secretary of Defense, the Secretary of the Interior, and the appropriate agency of the state in which the installation is located. During this reporting period, legislation regarding the purpose and use of the Wildlife Conservation, Military Reservation has not changed.

The nonexchange revenue in the amount of $150.1 thousand is from the proceeds of the sale of fishing and hunting permits.

Note 24. Fiduciary Activities

For the period ended September 30		2009
(Amounts in thousands)		
1. Fiduciary net assets, beginning of year	$	8,759
2. Fiduciary revenues		0
3. Contributions		16,533
4. Investment earnings		826
5. Gain (Loss) on disposition of investments, net		0
6. Administrative and other expenses		0
7. Distributions to and on behalf of beneficiaries		(16,300)
8. Increase/(Decrease) in fiduciary net assets	$	1,059
9. Fiduciary net assets, end of period	$	9,818

For the period ended September 30		2009
(Amounts in thousands)		
Fiduciary Assets		
1. Cash and cash equivalents	$	9,818
2. Investments		0
3. Other Assets		0
Fiduciary Liabilities		
4. Less: Liabilities	$	0
Total Fiduciary Net Assets	$	9,818

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which nonfederal individuals or entities have an ownership interest that the Federal Government must uphold.

The Savings Deposit Program was authorized by the Act of August 14, 1966, which authorized USMC GF to collect unallotted current pay and allowance on behalf of Marines servings in areas that have been designated a combat zone or are in direct support of a combat zone. Marines may deposit amounts up to $10,000 with interest accrual at a rate of 10 percent per annum.

This legislation dates back to the Vietnam Conflict, members of the Uniformed Services who were serving on a permanent duty assignment outside the United States, or its possessions, to deposit their "unallotted current pay and allowances" for savings purposes. Effective February 1, 2003 any member serving in an area that has been designated a combat zone or is in direct support of a combat zone is eligible to participate in the Savings Deposit Program after the member has served in that assignment for at least 30 consecutive days or at least one day for each of 3 consecutive months.

Fiduciary cash and other assets are not assets of the Federal Government and accordingly are not recognized on the balance sheet.

Note 25. Other Disclosures

Currently, USMC GF does not record or report operating leases; however, under its Financial Improvement Initiative program, USMC GF has begun to implement a strategy to identify operating leases and to develop a process to report operating leases in the USMC GF financial statements. The development of our process is in its early stages, therefore, at this time, a completion date has not been established. Procedures have been adopted to establish/update inter-service support agreements and financial practices. Training and implementation of the procedures will begin during FY 2010.

Note 26. Restatements

The USMC GF does not have any restatements.

UNITED STATES MARINE CORPS GENERAL FUND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Investments in Research and Development
Yearly Investment in Research and Development
For Fiscal Years 2006 through 2009
($ in Millions)

Categories	FY09	FY08	FY07	FY06
Development				
Advanced Technology Development	$ 232	$ 3	$ 5	$ 36
Advanced Component Development and Prototypes	225	361	64	302
System Development and Demonstration	19	22	18	13
Research, Development, Test, and Evaluation Management Support	44	44	48	48
Operational Systems Development	511	508	359	284
Totals	**$ 1,031**	**$ 938**	**$ 494**	**$ 683**

Narrative Statement:

Investments in Research and Development
Fiscal Year (FY) 2009 is the fourth year that the U.S. Marine Corps (USMC) General Fund (GF) is reporting as a separate entity and therefore is reporting four comparative years for Investments in Research and Development schedule. The USMC GF Research, Development, Test, and Evaluation investments are all in Development; there are no basic and applied research investments. The values included in the table above are based on Development outlays (expenditures). Outlays are used because current USMC GF systems are unable to fully capture and summarize costs in accordance with standards promulgated by the Federal Accounting Standards Advisory Board.

Development
Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages, as defined below.

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and production rather than the development of hardware for service use. It employs demonstration activities intended to prove or test a technology or method.

2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components or complete weapon systems ready for operational and developmental testing and field use.

3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

4. Research, Development, Test, and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the Research and Development program.

5. Operational Systems Development is concerned with development projects in support of programs or upgrades that are still in engineering and manufacturing development. These projects have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are two representative program examples for the Development category.

Expeditionary Fighting Vehicle Program

The Expeditionary Fighting Vehicle (EFV) Program will field a successor to the Marine Corps' current amphibious vehicle, the Assault Amphibious Vehicle Model 7A1 (AAV7A1). The EFV will provide the principal means of tactical surface mobility for the Marine Air Group Task Force during both ship-to-objective maneuvers and sustained combat operations ashore.

The EFV program is an Acquisition Category-1D program managed by the Marine Corps. The EFV is the next generation of Marine Corps Assault Vehicles being developed to satisfy the requirements of the 21st Century Marine War Fighters. Along with the Landing Craft Air Cushion and the MV-22 Osprey, the EFV will provide the Marine Corps with the tactical mobility assets required within the Expeditionary Maneuver Warfare capstone. Acquisition of the EFV is critical to the Marine Corps.

During FY 2009, the EFV program continued engineering and logistics efforts to support design development, manufacturing planning, and design enhancements of both the EFV Command and Personnel variants. The program continued developmental and reliability test support as well as the design, integration and testing of vehicle modifications that will support the Milestone C Operational Assessment. Developmental Testing and Reliability/Availability/Maintainability testing conducted during FY 2009 included riverine testing; detection, acquisition, recognition, and identification testing; track and drivetrain durability testing; and toxic fumes testing. The Design for Reliability effort was completed during this period following the established systems engineering processes. The System Development Demonstration (SDD) prototypes manufacturing continued. Also, the capstone System Critical Design Review and Integrated Baseline Review were completed.

Efforts continued on the SDD-2 contract, awarded during FY 2008. This follow-on SDD Phase includes continued design, development, and reliability upgrades; increased Reliability/

Availability/Maintainability testing; modification of existing SDD prototypes; and manufacture and testing of up to seven additional SDD prototype vehicles.

Joint Light Tactical Vehicle

The Joint Light Tactical Vehicle (JLTV) capabilities represent a shift to adapt from a threat based, Cold War garrison force focused on containment to a capabilities based, expeditionary force focused on flexibility, survivability, force protection, responsiveness, and agility. The JLTV is a joint Army/Marine Corps program, which consists of a family of vehicles with companion trailers capable of performing multiple mission roles. The JLTV family of vehicles must be capable of operating across a broad spectrum of terrain and weather conditions. The Military Services and the U.S. Special Operations Command require enhanced capabilities, greater than those provided by the existing High Mobility Multipurpose Wheeled Vehicle, to support the Joint Functional Concepts of Battlespace Awareness, Force Application, and Focused Logistics. The initial production of JLTVs will provide the Marine Air Group Task Force commander a family of tactical wheeled vehicles capable of providing combat forces protected, sustained, and netted mobility in irregular warfare operations and enhancing its contribution to the integrated Joint Task Force.

In October 2008, the JLTV program awarded three Technology Development phase contracts. However, two competitors filed protests, which resulted in a work-stop until the Government Accountability Office (GAO) completed a protest review. In March 2009, the JLTV program office held Start of Work Meetings and System Requirements Reviews with the contractors. The Start of Work Meetings allowed the JLTV program office to develop joint team charters, establish communication lines, and establish metrics. The System Requirements Reviews ensured agreement on what each JLTV contract requires.

During FY 2009, the JLTV program office awarded contracts for the incorporation of additional right hand operations versions because Australia had joined the JLTV program in January 2009. The additional test assets from each contractor benefits the U.S. by further reducing schedule risk, performance risk, and U.S. test costs, as well as improving the quality and depth of data from the Technology Development phase.

During FY 2009, Preliminary Design Reviews were completed. Each contractor presented key design trades and decisions in the following performance parameter areas: mobility, transportability, net-ready, force protection, survivability, payload, and availability. The Army and Marine Corps Combat Developers also conducted Quarterly Knowledge Point reviews to evaluate these design trades in order to establish vehicle requirements that balance affordability with protection, payload, and performance within a transportable platform.

NON-FEDERAL PHYSICAL PROPERTY

The U.S. Marine Corps General Fund does not fund this type of Activity.

UNITED STATES MARINE CORPS GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

United States Marine Corps
General Property, Plant, and Equipment
Real Property Deferred Maintenance and Repair
For Fiscal Year Ended September 30, 2009
($ in Thousands)

Property Type	1. Plant Replacement Value	2. Required Work (Deferred Maintenance and Repair)	3. Percentage
Category 1: Enduring Facilities	$ 40,569,794	$ 1,214,148	3.0%
Category 2: Excess Facilities or Planned for Replacement	$ 391	$ 0	0.0%
Category 3: Heritage Assets	$ 14,662	$ 4440	3.0%

NOTE: The table above presents real property deferred maintenance and repair data for both U.S. Marine Corps General Fund and Navy Working Capital Fund-Marine Corps.

Narrative Statement:

1. The method used to assess facilities conditions is a facilities inspection, which categorizes buildings as Adequate, Substandard or Inadequate. Those ratings are converted to Quality ratings (Q-ratings) of 100%-90% Q1; 90%-80% Q2; 80%-60% Q3; and less than 60% Q4 by assessing facilities that are rated as Adequate and less than 25 years old as Q1; facilities that are over 25 years old and rated as Adequate as Q2; facilities rated as Substandard as Q3; and Inadequate facilities as Q4.

2. There has been no change to the condition assessment methodology since last fiscal year.

3. The U.S. Marine Corps follows the Office of the Secretary of Defense installation strategic plan goal of having facilities at a Q2 level on average as an acceptable rating. This represents an average level of 15% of Plant Replacement Value (PRV) as an acceptable level of deferred maintenance. The table above shows that deferred maintenance and repair are valued at approximately 3.0% of PRV for categories 1 and 3. The percentage for category 1 and 3 facilities is the same because Marine Corps cannot separate the deferred maintenance between those categories at this time. Category 2 is zero because Marine Corps does not hold deferred maintenance backlogs on facilities to be demolished.

Description of Property Type categories:

- Category 1 – Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission, including multi-use Heritage Assets.
- Category 2 – Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.
- Category 3 – Buildings, Structures, and Utilities that are Heritage Assets.

Military Equipment Deferred Maintenance
For Fiscal Year Ended September 30, 2009
($ in Thousands)

Major Category	OP30 Amounts	Adjustments	Totals
1. Aircraft	$0	$0	$0
2. Automotive Equipment	0	0	0
3. Combat Vehicles	0	0	0
4. Construction Equipment	514	0	514
5. Electronics and Communications Systems	2,177	0	2,177
6. Missiles	23	0	23
7. Ships	0	0	0
8. Ordnance Weapons and Munitions	10,182	0	10,182
9. General Purpose Equipment	0	0	0
10. All Other Items Not Identified Above	0	0	0
Total	**$12,896**	**$0**	**$12,896**

Narrative Statement:

Combat Vehicles Deferred Maintenance
The combat vehicles category refers to deferred vehicle maintenance for the active and reserve Marine Corps assets. The combat vehicle category consists of weapons systems such as the M1A1 Tank, the Amphibious Assault Vehicle, the Hercules Recovery Vehicle, and the Light Armored Vehicle. The total requirement is the planned quantity of combat vehicles that require depot level maintenance in a year as determined by program managers and the operating forces with requirements validated by a modeling process. The deferred maintenance is the difference between the validated requirements and funding received for that fiscal year.

Missiles Deferred Maintenance
Four categories are used to determine missile maintenance: missiles, tactical missiles, software maintenance, and other. Deferred maintenance is defined as the difference between the total weapon maintenance requirement as determined by requirements modeling processes and the weapon maintenance that is funded in accordance with the annual budget controls for the missile maintenance program. The maintenance requirements model projects the quantity of missiles and missile components per weapon system that are required to be maintained or reworked annually.

Ordnance Weapons and Munitions Deferred Maintenance
Ordnance weapons and munitions are part of a broader category, Other Weapons Systems. This category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of repairable components. Three categories define ordnance maintenance: ordnance maintenance, software maintenance, and other. Although the various programs vary in the methodology in defining requirements, all programs define deferred maintenance as the difference between validated requirements and funding.

Heritage Assets Condition Information

The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to the DON collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

UNITED STATES MARINE CORPS GENERAL FUND OTHER ACCOMPANYING INFORMATION

Appropriations, Funds, and Accounts Included in the Principal Statements

Entity Accounts

General Accounts

17 1001	Medicare Eligible Retiree Health Care Fund, Military Personnel Marine Corps
17 1003	Medicare Eligible Retiree Health Care Fund, Reserve Personnel Marine Corps
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1116	Operation and Maintenance - Recovery Act, Marine Corps
17 1117	Operation and Maintenance - Recovery Act, Marine Corps Reserve
17 1206	Military Construction - Recovery Act, Navy and Marine Corps

Shared Appropriations (Appropriations from which U.S. Marine Corps receives allocations)

17 0703	Family Housing, Navy and Marine Corps
17 1319	Research and Development, Test and Evaluation, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps

Shared Earmarked Funds

17X5095	Wildlife Conservation

Non-Entity Accounts

17X6026	Pay of the Marine Corps, Deposit Fund Receipts

Shared Non-Entity Accounts

17 3XXX	Receipt Accounts
17X6XXX	Deposit Funds

NAVY WORKING CAPITAL FUND – MARINE CORPS PRINCIPAL STATEMENTS

Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 United States Code 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

In Fiscal Year (FY) 2006, the Office of the Under Secretary of Defense (Comptroller), with support from the Department of the Navy, designated the U.S. Marine Corps a financial reporting entity. This designation allowed the Marine Corps to prepare comprehensive subsidiary financial statements and related notes beginning in FY 2006.

The Marine Corps shares appropriations with the U.S. Navy and in addition maintains accountability for its own appropriations. The Marine Corps has specific funds and budget execution unto itself that are managed by Marine Corps program sponsors, maintained in a single core integrated Working Capital Fund accounting and budgeting reporting system, and supported by Marine Corps managerial accountants and the Defense Finance and Accounting Service. Given this fiduciary responsibility, the Marine Corps is able to fully comply with Statement of Federal Financial Accounting Concepts Number 2, Entity and Display.

Principal Statements

The FY 2009 Navy Working Capital Fund-Marine Corps principal statements and related notes are subsidiary financial statements and related notes of the Navy Working Capital Fund, and are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the Navy Working Capital Fund-Marine Corps for the fiscal year ending September 30, 2009, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2008.

The following statements comprise the Navy Working Capital Fund-Marine Corps principal statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources

The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994. The accompanying notes should be considered an integral part of the principal statements.

Department of Defense

Navy Working Capital Fund - Marine Corps

CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008

($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 86,045	$ 70,746
Accounts Receivable (Note 5)	15,363	5,826
Other Assets (Note 6)	-	295
Total Intragovernmental Assets	101,408	76,867
Accounts Receivable, Net (Note 5)	283	81
Inventory and Related Property, Net (Note 9)	252,843	346,415
General Property, Plant, and Equipment, Net (Note 10)	50,029	45,972
Other Assets (Note 6)	828	509
TOTAL ASSETS	405,391	469,844
Stewardship Property, Plant, and Equipment (Note 10) *		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	11,942	52,258
Other Liabilities (Note 15 & Note 16)	1,415	1,130
Total Intragovernmental Liabilities	13,357	53,388
Accounts Payable (Note 12)	99,387	24,291
Military Retirement and Other Federal Employment Benefits (Note 17)	28,311	27,219
Other Liabilities (Note 15 & Note 16)	14,593	11,296
TOTAL LIABILITIES	155,648	116,194
Commitments and Contingencies (Note 16) *		
NET POSITION		
Unexpended Appropriations - Other Funds	3,198	32,400
Cumulative Results of Operations - Other Funds	246,545	321,250
TOTAL NET POSITION	249,743	353,650
TOTAL LIABILITIES AND NET POSITION	$ 405,391	$ 469,844

** - Disclosure but no value required per Federal Accounting Standards.*

The accompanying notes are an integral part of the statements.

Department of Defense
Navy Working Capital Fund - Marine Corps

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Consolidated	2008 Consolidated
Program Costs		
Gross Costs	$ 714,419	$ 801,781
Less: Earned Revenue	(602,504)	(656,654)
Net Program Costs	111,915	145,127
Net Cost of Operations	$ 111,915	$ 145,127

The accompanying notes are an integral part of the statements.

Department of Defense
Navy Working Capital Fund - Marine Corps

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 325,438	$ 458,571
Prior Period Adjustments	(4,188)	-
Beginning Balances, as adjusted	321,250	458,571
Budgetary Financing Sources:		
Appropriations used	29,202	798
Transfers in/out without reimbursement (+/-)	15,000	-
Other Financing Sources:		
Transfers in/out without reimbursement (+/-)	(20,258)	-
Imputed financing from costs absorbed by others	13,265	11,197
Other (+/-)	1	(4,189)
Total Financing Sources	37,210	7,806
Net Cost of Operations (+/-)	111,915	145,127
Net Change	(74,705)	(137,321)
Cumulative Results of Operations	$ 246,545	$ 321,250

The accompanying notes are an integral part of the statements.

Department of Defense
Navy Working Capital Fund - Marine Corps

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 32,400	$ 32,400
Prior Period Adjustments (+/-)	-	-
Beginning Balances, as adjusted	32,400	32,400
Budgetary Financing Sources:		
Appropriations received	-	866
Other adjustments (rescissions, etc) (+/-)	-	(68)
Appropriations used	(29,202)	(798)
Total Budgetary Financing Sources	(29,202)	-
Unexpended Appropriations	3,198	32,400
Net Position	$ 249,743	$ 353,650

The accompanying notes are an integral part of the statements.

Department of Defense

Navy Working Capital Fund - Marine Corps

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008

($ in Thousands)

	2009 Combined	2008 Combined
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 290,303	$ 179,815
Budget Authority:		
Appropriations received	-	866
Contract Authority	173,739	34,040
Spending authority from offsetting collections:		
Earned		
Collected	702,938	676,609
Change in receivables from Federal sources	9,529	(7,292)
Change in unfilled customer orders		
Advances received	(283)	(186)
Without advance from Federal sources	(35,736)	51,241
Subtotal	850,187	755,278
Nonexpenditure Transfers, net, anticipated and actual	15,000	-
Permanently not available	(161,376)	27,500
Total Budgetary Resources	994,114	962,593
Status of Budgetary Resources:		
Obligations incurred:		
Direct	-	798
Reimbursable	711,760	671,492
Subtotal	711,760	672,290
Unobligated balance:		
Apportioned	218,963	194,510
Exempt from apportionment	63,393	95,793
Subtotal	282,355	290,303
Unobligated balance not available	(1)	-
Total Status of Budgetary Resources	$ 994,114	$ 962,593

The accompanying notes are an integral part of the statements.

Department of Defense
Navy Working Capital Fund - Marine Corps

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008
($ in Thousands)

	2009 Combined	2008 Combined
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 242,172	$ 243,475
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(341,661)	(297,712)
Total Unpaid Obligated Balance	(99,489)	(54,237)
Obligations incurred, net (+/-)	711,760	672,290
Less: Gross outlays	(702,355)	(673,593)
Change in uncollected customer payments from Federal sources (+/-)	26,206	(43,949)
Obligated balance, net, end of period		
Unpaid obligations	251,577	242,172
Less: Uncollected customer payments from Federal sources	(315,455)	(341,661)
Total Unpaid Obligated Balance, net, end of period	(63,878)	(99,489)
Net Outlays:		
Gross Outlays	702,355	673,593
Less: Offsetting collections	(702,654)	(676,423)
Net Outlays	$ (299)	$ (2,830)

The accompanying notes are an integral part of the statements.

NAVY WORKING CAPITAL FUND – MARINE CORPS NOTES TO THE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Navy Working Capital Fund-Marine Corps (NWCF-MC), 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 NWCF-MC in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which NWCF-MC is responsible unless otherwise noted.

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

The DoD currently has 13 auditor identified material weaknesses. Of these, NWCF-MC has the following: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounts Receivable; (4) Inventory; (5) Operating Materiels and Supplies; (6) General Property, Plant, and Equipment; (7) Accounts Payable; (8) Statement of Net Cost; (9) Intragovernmental Eliminations; (10) Other Accounting Entries; and (11) Reconciliation of Net Cost of Operations to Budget.

1.B. Mission of the Reporting Entity

The United States Marine Corps (USMC) was created on November 10, 1775 as an act of the 2nd Continental Congress. The overall mission of USMC is to defend advanced naval bases and to conduct such land operations as may be essential to the prosecution of a naval campaign. The NWCF-MC provides goods and quality products, responsive maintenance support services required to support mobilization, surge and reconstitution requirements to the Department of the Navy (DON) and other DoD customers to ensure the operating forces are equipped for war in accordance with mobilization plans. In addition, NWCF-MC supports other governmental and nongovernmental customers.

1.C. Appropriations and Funds

The NWCF-MC receives appropriations and funds as working capital (revolving) funds. The NWCF-MC uses these appropriations and funds to execute its missions and subsequently report on resource usage.

Working capital funds (WCF) received 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 WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

1.D. Basis of Accounting

The NWCF-MC's financial management systems are unable to meet all full accrual accounting requirements. Many of NWCF-MC's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. The NWCF-MC and the Defense Finance and Accounting Service (DFAS) continue with the implementation of new accounting systems designed to produce both proprietary and budgetary reports and use U.S. Standard General Ledger (USSGL). Until the implementation is completed, the amounts recorded are primarily based upon proprietary data.

The DoD's Agencywide financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Military Services and Defense Agencies and their sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Military Service and Defense Agency level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on USSGL. Until all NWCF-MC's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, NWCF-MC's financial data will be derived from data from nonfinancial feeder systems and accruals.

1.E. Revenues and Other Financing Sources

Depot Maintenance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), operating expenses are generally recognized when the items are issued for workload consumption, which is the "consumption method of accounting." Under the consumption method, OM&S would be reported as expenses when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The NWCF-MC continues to implement process and system improvements to address these limitations. In certain cases, OM&S may be reported as an operating expense at the time of purchase, which is the "purchase method of accounting." Some examples of OM&S that would be expensed based on the purchase method are (1) when the customer's statement of work requires the purchase method to be utilized, (2) for unique nonrecurring workload as required, and (3) for fast moving products that have minimal repair cycle times and require direct delivery to the production shops.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, NWCF-MC cannot accurately identify intragovernmental transactions by customer because NWCF-MC's systems do not track buyer and seller data at the transaction level. Generally, seller entities within 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 and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls eliminating the need for reconciliations.

The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" and Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provide guidance for reporting and reconciling intragovernmental balances. While NWCF-MC is unable to fully reconcile intragovernmental transactions with all federal agencies, NWCF-MC 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's 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's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

Generally, 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 U.S. Treasury does not allocate such costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, NWCF-MC 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 authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

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

The NWCF-MC's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of DFAS, the Military Departments, U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of NWCF-MC's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to 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. On a monthly basis, FBWT is adjusted to agree with U.S. Treasury accounts.

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public includes: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon an estimate of uncollectible accounts receivable. This estimate is a percentage of the billed amount after the total project cost has been adjusted to reflect the advance deposit. The NWCF-MC requires an advance deposit from all public entities prior to the commencement of work. Therefore, an assumption is made that the amount of uncollectible accounts should be negligible. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the "Intragovernmental Business Rules" published in the Treasury Financial Manual at *http://www.fms.treas.gov/tfm/vol1/07-03.pdf*.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The NWCF-MC values and reports its resale inventories at an approximation of historical cost using latest acquisition cost (LAC) adjusted for holding gains and losses. The LAC 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 USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208).

As a part of the Financial Improvement Plan, NWCF-MC will be reviewing several cost accounting systems to determine the feasibility of implementing Supply Management Activity Group's operations.

The NWCF-MC manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as tanks, self-propelled weapons, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in NWCF-MC materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The NWCF-MC holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale" with a completion date of year-end FY 2010 reporting.

Related property includes OM&S and stockpile materiels. The OM&S, including munitions not held for sale, are valued at standard purchase price. The NWCF-MC uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. The NWCF-MC uses the purchase method only when special circumstances exist as identified under "recognition of expenses."

The NWCF-MC 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 NWCF-MC. 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 items rather than to procure them. The NWCF-MC often relies on weapon systems and machinery no longer in production. As a result, NWCF-MC 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 (1) costs related to the production or servicing of items, including direct material, direct labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; (3) munitions in production and depot maintenance work with its associated costs incurred in the delivery of maintenance services.

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

Not applicable.

1.O. General Property, Plant, and Equipment

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The NWCF-MC has not fully implemented the threshold for real property; therefore, DoD is primarily using the capitalization threshold of $100 thousand for General PP&E, and most real property. The NWCF-MC is currently using the capitalization threshold of $100 thousand for all General PP&E.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD's capitalization threshold. The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

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

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. 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's policy is to expense and/or properly classify assets when the related goods and services are received. The NWCF-MC has not implemented this policy primarily due to system limitations.

1.Q. Leases

Not applicable.

1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on NWCF-MC's Balance Sheet.

The NWCF-MC 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, NWCF-MC may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances 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. The NWCF-MC has not fully implemented this policy primarily due to system limitations.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property. 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 NWCF-MC recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

The NWCF-MC is unable to identify specific legal contingencies primarily due to difficulty identifying data and method of computation. These difficulties include, but are not limited to unsupported comprehensive documentation that specifically identifies NWCF-MC as the liable source of contingency. Contingent legal liabilities are recognized at DON and corporate Marine Corps levels only, but not at NWCF-MC level.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The NWCF-MC's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as vehicle accidents; property damages; and contract disputes.

1.T. Accrued Leave

The NWCF-MC reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative Results of Operations represent the net difference, between expenses and losses and financing sources (including appropriations, revenue, and gains), since inception. Beginning with FY 1998, the cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Unexpended Obligations

The NWCF-MC obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the 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 obligations, payables, or receivables in the source systems and those reported by U.S. Treasury.

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

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. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities. The NWCF-MC does not follow DoD policy because financial feeder systems and accounting systems do not provide sufficient detail to identify federal and nonfederal or supported and unsupported transactions.

The NWCF-MC identifies undistributed disbursements and collections to specific federal and nonfederal partners based on detailed transactions and apply them to accounts payable and accounts receivable appropriately. Disbursements and collections, which remain unidentified, are treated as unsupported. Unsupported undistributed disbursements are recorded in federal accounts payable since the majority of NWCF-MC business is with federal entities. Unsupported undistributed collections are zero.

1.Y. Significant Events

Not applicable.

1.Z. Fiduciary Activities

Not applicable.

Note 2. Nonentity Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0	$ 0
B. Accounts Receivable	0	0
C. Total Intragovernmental Assets	$ 0	$ 0
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 0	$ 0
B. Accounts Receivable	1	1
C. Other Assets	0	0
D. Total Nonfederal Assets	$ 1	$ 1
3. Total Nonentity Assets	$ 1	$ 1
4. Total Entity Assets	$ 405,390	$ 469,843
5. Total Assets	$ 405,391	$ 469,844

Nonentity assets are assets for which the Navy Working Capital Fund-Marine Corps (NWCF-MC) maintains stewardship accountability and reporting responsibility but are not available for NWCF-MC's normal operations.

The amount reported in NWCF-MC's Nonentity Assets is accounts receivable for penalties and interest related to a public receivable, which has been submitted to the Debt Management Office for collection.

Nonentity receivables are deposited in U.S. Treasury as miscellaneous receipts once collected.

Note 3. Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2009	2008
1. Fund Balances		
A. Appropriated Funds	$ 0	$ 0
B. Revolving Funds	86,045	70,746
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	$ 86,045	$ 70,746
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 86,045	$ 70,746
B. Fund Balance per United States Marine Corps	86,045	70,746
3. Reconciling Amount	$ 0	$ 0

The Navy Working Capital Fund-Marine Corps (NWCF-MC) has no reconciling amount to report this period.

Status of Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2009	2008
1. Unobligated Balance		
A. Available	$ 282,355	$ 290,303
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	$ 251,577	$ 242,172
3. Nonbudgetary FBWT	$ 0	$ 0
4. NonFBWT Budgetary Accounts	$ (447,887)	$ (461,729)
5. Total	$ 86,045	$ 70,746

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

Obligated balance not yet disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

NonFBWT Budgetary Accounts reduces the Status of FBWT. For NWCF-MC, NonFBWT Budgetary Accounts are comprised of contract authority for capital assets in depot maintenance and operating expenses in supply management, accounts receivable, and unfilled orders from customers.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. For this reporting period, there are no unobligated unavailable balances for NWCF-MC. Unobligated available balances are not restricted to future use.

Note 4. Investments and Related Interest

Not applicable.

Note 5. Accounts Receivable

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 15,363	N/A	$ 15,363
2. Nonfederal Receivables (From the Public)	$ 283	$ 0	$ 283
3. Total Accounts Receivable	$ 15,646	$ 0	$ 15,646

As of September 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 5,826	N/A	$ 5,826
2. Nonfederal Receivables (From the Public)	$ 81	$ 0	$ 81
3. Total Accounts Receivable	$ 5,907	$ 0	$ 5,907

Note 6. Other Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 0	$ 295
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$ 0	$ 295
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 788	$ 60
B. Advances and Prepayments	40	449
C. Other Assets (With the Public)	0	0
D. Total Nonfederal Other Assets	$ 828	$ 509
3. Total Other Assets	$ 828	$ 804

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Government 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 Federal Government. The Federal Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and Navy Working Capital Fund-Marine Corps is not obligated to make payment to the contractor until delivery and acceptance.

The Contract Financing Payment balance of $787.7 thousand is the 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).

Note 7. Cash and Other Monetary Assets

Not applicable.

Note 8. Direct Loan and Loan Guarantees

Not applicable.

Note 9. Inventory and Related Property

As of September 30 (Amounts in thousands)	2009	2008
1. Inventory, Net	$ 157,599	$ 231,432
2. Operating Materiel & Supplies, Net	95,244	114,983
3. Stockpile Materiel, Net	0	0
4. Total	$ 252,843	$ 346,415

Inventory, Net

As of September 30 (Amounts in thousands)	2009			
	Inventory Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	$ 330,537	$ (408,850)	$ (78,313)	LAC, MAC
B. Held for Repair	262,956	(27,722)	235,234	LAC, MAC
C. Excess, Obsolete, and Unserviceable	182,741	(182,741)	0	NRV
D. Raw Materiel	0	0	0	
E. Work in Process	678	0	678	AC
F. Total	$ 776,912	$ (619,313)	$ 157,599	

As of September 30 (Amounts in thousands)	2008			
	Inventory Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	$ 432,793	$ (438,506)	$ (5,713)	LAC, MAC
B. Held for Repair	237,273	0	237,273	LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	
D. Raw Materiel	0	0	0	
E. Work in Process	(128)	0	(128)	AC
F. Total	$ 669,938	$ (438,506)	$ 231,432	

Legend for Valuation Methods:		
LAC = Latest Acquistion Cost	NRV = Net Realizable Value	MAC = Moving Average Cost
SP = Standard Price	LCM = Lower of Cost or Market	

The $78.3 million abnormal balance in Inventory Available and Purchased for Resale is the result of adjustments made in the calculation methodologies, beginning in the 4th Quarter, Fiscal Year (FY) 2008, to compute balances in the inventory allowance account. This account is an offset to the inventory accounts, completed monthly, to revalue inventory in the Supply Management Activity Group (SMAG) accounts from standard to latest acquisition cost. Further research is required to document a proposed prior period adjustment (PPA) to correct the account balance, and to analyze both data and processes to ensure all causes of the abnormal balance have been identified. Anticipated completion data for finalization is 1st Quarter, FY 2010.

Generally, there are no restrictions with regard to the use, sale, or disposition of inventory to applicable Department of Defense (DoD) activities and personnel. Other than specified safety and war reserve levels, established as a result of DoD and MC regulatory operations, inventory may be sold to foreign countries, state and local governments, private parties and contractors in accordance with DoD and MC policies and guidance or at the direction of the President.

The Navy Working Capital Fund-Marine Corps (NWCF-MC) has changed the accounting method for calculating the adjustment for the cost of goods sold (COGS) model. A PPA was processed to correct the prior period balance of $4.2 million for FY 2008.

SMAG's inventory is recorded in its financial system at standard cost. It is then converted from standard costs to latest acquisition costs (LAC) and reported on the monthly financial statement.

LAC costs are revalued in COGS model to an approximation of historical cost. Embedded in this COGS model inventory revaluation process, is a calculation that records a portion of the revaluation as PPA on a monthly basis. Essentially, this PPA allowed supply activities to revalue a portion of inventory without adversely affecting Net Operating Results. Adjusting the beginning balance in cumulative results of operations based on COGS model calculation was initially designed as a temporary solution but evolved into a business practice for the military supply communities. This, however, was not the proper way to handle these adjustments as it relates to budget execution and audited financial statements.

Inventory Categories

Inventory represents property that is held (a) for sale to customers, (b) in the process of supporting production for eventual sale to customers, and (c) to be consumed in the production of goods for sale or in the provision of providing services for a fee.

Inventory Available and Purchased for Resale includes consumable spare and repair parts and repairable items owned and managed by NWCF-MC as well as consumable and repairable items that are managed by other Military Services, such as the Defense Logistics Agency or the General Services Administration, where MC has permission to stock, store, and sell. Materiel available and purchased for resale includes materiel held to support military or national contingencies based on various managerial decisions.

Included in Inventory Available and Purchased for Resale, is an amount of $82.8 million for War Reserve Materiel for SMAG, MC.

Federal Accounting Standards require disclosure of the amount of Inventory Held for "Future Sale." The NWCF-MC currently has no inventory included in this reporting period that is being held for future sale. All inventory, included in Inventory Net through 4th Quarter, FY 2009 is currently planned for sale to customers or retained for military or national contingencies. There is no management or valuation difference between the two categories.

Inventory Held for Repair is inventory that is in less than "ready for issue/sale" condition and requires repair to make suitable for sale. Some of the inventory items are more economical to repair than to procure. Since many weapon systems and machinery for warfighting readiness are no longer in commercial production, there are relatively no ready and economical sources of replenishment available via new purchase. The MC supports its customers' requests for purchase of certain items by repairing or rebuilding these items vice new acquisitions. The repair/rebuild process is an essential part of the MC's commitment as a "Force in Readiness" as well as supporting our other DoD customers in maintaining a ready, mobile, and armed military forces.

Inventory Excess, Obsolete, and Unserviceable are stocks that are no longer needed due to changes in technology, laws, customs, or operations; or are damaged physically and cannot be consumed in operations.

Work in Process balances include costs related to the production or servicing of items, including direct materiel, direct labor, applied overhead and other direct costs. Work in Process also includes the value of finished products or completed services pending billing to the customer. Work in Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of materiel ordered, but not delivered.

The NWCF-MC has changed the method of identifying the category to which inventory attributes are assigned to populate Note 9. During the analysis of the inventory, DFAS and MC discovered the following: (a) revaluation allowance account was not being populated for the inventory held for repair, or excess, obsolete and unserviceable and (b) excess, obsolete and unserviceable inventory was being captured in inventory available and purchased for resale account. DFAS corrected this error in this quarter by redistributing the allowance amount in the appropriate categories and separately identifying the excess, obsolete, and unserviceable inventory. This resulted in a net effect of zero to inventory, net. The NWCF-MC has adopted this as a business practice for financial statement reporting.

Operating Materiel and Supplies, Net

As of September 30	2009			
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	$ 95,244	$ 0	$ 95,244	SP, LAC, MAC
B. Held for Repair	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	
D. Total	$ 95,244	$ 0	$ 95,244	

As of September 30	2008			
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	$ 114,983	$ 0	$ 114,983	SP, LAC, MAC
B. Held for Repair	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	
D. Total	$ 114,983	$ 0	$ 114,983	

Legend for Valuation Methods:

LAC = Latest Acquistion Cost	NRV = Net Realizable Value	MAC = Moving Average Cost
SP = Standard Price	LCM = Lower of Cost or Market	

Operating Materiel and Supplies (OM&S) Held for Use represents property that is consumed during normal operations and includes consumable spare and repair parts for use on customer work by various activities. The items are recorded using different methodologies including actual, weighted-average and historical cost.

Generally, there are no restrictions with regard to the use, sale, or disposition of OM&S applicable to DoD activities.

Generally, the values of NWCF-MC's Government Furnished Material are not included in OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems in accordance with Volume 6B, Chapter 10 of DoD Financial Management Regulation.

Stockpile Materiel, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2009				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0	N/A	$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	74,247	$ (46,754)	27,493
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	0	0	0
E. General Equipment	S/L	5 or 10	71,649	(60,899)	10,750
F. Military Equipment	S/L	Various	0	0	0
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	11,786	N/A	11,786
J. Other			0	0	0
K. Total General PP&E			$ 157,682	$ (107,653)	$ 50,029

As of September 30	2008				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0	N/A	$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	73,328	$ (44,226)	29,102
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	0	0	0
E. General Equipment	S/L	5 or 10	70,053	(59,613)	10,440
F. Military Equipment	S/L	Various	0	0	0
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	6,430	N/A	6,430
J. Other			0	0	0
K. Total General PP&E			$ 149,811	$ (103,839)	$ 45,972

SL = Straight Line N/A = Not Applicable

Generally, for Navy Working Capital Fund-Marine Corps (NWCF-MC), there are no restrictions on General Property, Plant, and Equipment.

Heritage Assets and Stewardship Land are reported in the financial statements and related footnotes of the General Fund-MC.

Assets under Capital Lease

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	0	1
D. Total Intragovernmental Liabilities	$ 0	$ 1
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Military Retirement and Other Federal Employment Benefits	28,310	27,219
C. Environmental Liabilities	0	0
D. Other Liabilities	0	0
E. Total Nonfederal Liabilities	$ 28,310	$ 27,219
3. Total Liabilities Not Covered by Budgetary Resources	$ 28,310	$ 27,220
4. Total Liabilities Covered by Budgetary Resources	$ 127,338	$ 88,974
5. Total Liabilities	$ 155,648	$ 116,194

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided.

The Military Retirement and Other Federal Employment Benefits are related to the Department of Labor's Office of Inspector General estimated liability for future Navy Working Capital Fund-Marine Corps workers' compensation benefits. This liability is recorded as actuarial since it is based on guidelines issued by the Office of Management and Budget.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of $28.3 million. These actuarial benefits will be funded in future years. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 11,942	$ N/A	$ 11,942
2. Nonfederal Payables (to the Public)	99,387	0	99,387
3. Total	$ 111,329	$ 0	$ 111,329

As of September 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 52,258	$ N/A	$ 52,258
2. Nonfederal Payables (to the Public)	24,291	0	24,291
3. Total	$ 76,549	$ 0	$ 76,549

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services by Navy Working Capital Fund-Marine Corps (NWCF-MC). The NWCF-MC's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

Not applicable.

Note 14. Environmental Liabilities

Environmental Liabilities are reported on the financial statements of Marine Corps General Fund.

Note 15. Other Liabilities

As of September 30	2009		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 0	$ 0	$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Dept. of Labor	0	0	0
F. Custodial Liabilities	1	0	1
G. Employer Contribution and Payroll Taxes Payable	1,414	0	1,414
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	$ 1,415	$ 0	$ 1,415
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 13,720	$ 0	$ 13,720
B. Advances from Others	85	0	85
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			0
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	0	0	0
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	788	788
L. Other Liabilities	0	0	0
M. Total Nonfederal Other Liabilities	$ 13,805	$ 788	$ 14,593
3. Total Other Liabilities	$ 15,220	$ 788	$ 16,008

As of September 30	2008		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 0	$ 0	$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Dept. of Labor	0	0	0
F. Custodial Liabilities	1	0	1
G. Employer Contribution and Payroll Taxes Payable	1,129	0	1,129
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	$ 1,130	$ 0	$ 1,130
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 10,868	$ 0	$ 10,868
B. Advances from Others	368	0	368
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			0
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	0	0	0
J. Employer Contribution and			0
Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	60	60
L. Other Liabilities	0	0	0
M. Total Nonfederal Other Liabilities	$ 11,236	$ 60	$ 11,296
3. Total Other Liabilities	$ 12,366	$ 60	$ 12,426

Contingent Liabilities includes $787.7 thousand 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 Navy Working Capital Fund-Marine Corps (NWCF-MC) 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, NWCF-MC 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 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.

Capital Lease Liability

Not applicable.

Note 16. Commitments and Contingencies

The Navy Working Capital Fund-Marine Corps (NWCF-MC) is a party in various administrative proceedings and legal actions related to claims for equal opportunity matters and contractual bid protests. While the results of these legal actions may ultimately result in settlements or decisions adverse to the Federal Government, due to uncertainties of litigation, difficulty in identifying data, historical information, and methods of computation, estimates of contingent liability are not available for NWCF-MC.

The Office of the Navy General Counsel completed a review of litigation and claims threatened or asserted involving NWCF-MC which attorneys devote substantial attention in the form of legal consultation or representation. This review reflects a threshold of materiality of $59.6 thousand, which applies to individual and aggregate claims, litigation, assessments, or contingencies arising out of a single event or series of events, and includes matters that existed on September 30, 2009.

The NWCF-MC has cases that individually meet its existing FY 2009 materiality threshold of $59.6 thousand. The Department of the Navy (DON) legal counsel could not express an opinion to the outcome, including estimating contingent liability amounts for the cases against NWCF-MC.

The NWCF-MC does not have undelivered orders for open contracts related to cancelled appropriations for which a contractual commitment for payment exists.

The NWCF-MC has contractual arrangements (i.e. undelivered orders) which may require financial obligations based on contractor claims under the "disputes" clause contained in contracts. As of the end of 4th Quarter, FY 2009, undelivered orders are estimated at $125.0 million.

The NWCF-MC has contingencies that are considered both measurable and probable and have been recognized as liabilities. Refer to Note 15 for further details.

The NWCF-MC is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, NWCF-MC has limited automated system processes by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present NWCF-MC's contingent liabilities.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	$ 0		$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	$ 0		$ 0	$ 0
2. Other Actuarial Benefits				
A. FECA	$ 28,311		$ 0	$ 28,311
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	$ 28,311		$ 0	$ 28,311
3. Other Federal Employment Benefits	$ 0		$ 0	$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	$ 28,311		$ 0	$ 28,311

As of September 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	$ 0		$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	$ 0		$ 0	$ 0
2. Other Actuarial Benefits				
A. FECA	$ 27,219		$ 0	$ 27,219
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	$ 27,219		$ 0	$ 27,219
3. Other Federal Employment Benefits	$ 0		$ 0	$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	$ 27,219		$ 0	$ 27,219

The Department of the Navy (DON) actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to DON at the end of each fiscal year (FY). The liability is distributed between the Navy Working Capital Fund (NWCF) and General Fund for DON and the Marine Corps (MC), which is based upon the number of civilian employees funded in each entity as, reported in the Navy Budget Tracking System. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments.

The NWCF-MC's estimated actuarial liability is updated only at the end of each FY. The change in actuarial liability for FY 2009 is a decrease of $23.6 million.

The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for ten year U.S. Treasury notes and bonds. Cost of living adjustments (COLAs) and medical inflation factors are also applied to the calculation of projected future benefits. The interest rate assumptions used in the discount calculations are as follows for September 30, 2009:

2009
4.223% in Year 1
4.715% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensations benefits, wage inflation factors COLAs and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2009 were also used to adjust the methodology's historical payments to current year constant dollars.

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

CBY	COLA	CPIM
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014+	2.00%	3.71%

The model's resulting projections were analyzed to ensure 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 2009 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 2009 projection to the average pattern for the projections of the most recent three years.

Note 18. Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Costs	$	424,954	$	382,207
2. Public Costs		289,465		419,574
3. Total Costs	$	714,419	$	801,781
4. Intragovernmental Earned Revenue	$	(600,243)	$	(656,410)
5. Public Earned Revenue		(2,261)		(244)
6. Total Earned Revenue	$	(602,504)	$	(656,654)
7. Net Cost of Operations	$	111,915	$	145,127

Intragovernmental costs and revenues are related to transactions made between two reporting entities within the Federal Government.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of 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 of Defense's (DoD'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 DoD 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".

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

The Navy Working Capital Fund-Marine Corps' (NWCF-MC's) systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses.

The NWCF-MC generally records transactions on an accrual basis as required by federal generally accepted accounting principles (GAAP).

The NWCF-MC does not report any heritage assets or stewardship land, as these entities are reported on the financial statements of the General Fund-Marine Corps.

Note 19. Disclosures Related to the Statement of Changes in Net Position

In the current environment, inventory for Supply Management Activity Group is recorded in the financial system at standard cost. The inventory is then converted in the General Ledger from standard costs to Latest Acquisition Costs (LAC). Finally, LAC costs are revalued in the cost of good sold (COGS) model to an approximation of historical cost. This model was developed by the Office of the Under Secretary of Defense (OUSD) in the early 1990s.

Embedded in this COGS model inventory revaluation process, is a calculation that records a portion of the revaluation as a prior period adjustment (PPA) on a monthly basis. Essentially, this PPA allowed supply activities to revalue a portion of inventory without adversely affecting Net Operating Results (NOR). Adjusting the beginning balance in cumulative results of operations [U. S. Standard General Ledger (USSGL) 3310] based on COGS model calculation was initially designed as a temporary solution but evolved into a business practice for the military supply communities.

In October 2003, representatives from the Defense Finance and Accounting Service-Cleveland (DFAS-CL), DFAS-Arlington, OUSD, Navy Financial Management Office (FMO), and Navy Supply met to discuss the proper handling of these adjustments as they related to the Budget Execution (BE) [Defense Departmental Reporting System-Budgetary (DDRS-B) Accounting Report Monthly (AR (M) 1307 reports) and the financial statements [DDRS-Audited Financial Statements (AFS)]. During this collaborative meeting, it was decided that PPA would not be changed for BE reporting but would be reclassified from PPA to an inventory allowance adjustment for the quarterly financial statements (i.e. reclassifying it from USSGL 7400 to 1529).

Based on our team's (DFAS-CL, FMO, and Marine Corps) continuing analysis during fiscal year (FY) 2008 and 2009 and focus on eliminating the contributing factors causing Navy Working Capital Fund-Marine Corps (NWCF-MC) fluctuations in inventory and to clean up the data, we have done the following:

1. Removed the permanent entry in DDRS-AFS used to reverse the cumulative effects of year-end adjustments reclassifying the COGS model calculated PPA (USSGL 7400) to the inventory allowance account (USSGL 1529).

2. Processed PPA to remove the cumulative value inappropriately posted to the inventory allowance account (USSGL 1529) in the previous year and move this cumulative value to other gains/losses (USSGL 7190/7290).

3. Changed the reclassification of PPA (USSGL 7400) from the inventory allowance account (USSGL 1529) to other gains/losses (USSGL 7190/7290), as applicable. This will accomplish two things:

   (a) It will systematically update cumulative results (USSGL 3310) during the year-end close and

   (b) It will eliminate the need to process a reversing entry in the subsequent year.

FY 2009 was adjusted for the restatement and Comparative FY 2008 has been restated.

The current FY 2009 and comparative FY 2008 Balance Sheet and the Statement of Changes in Net Position lines were impacted as follows:

1. Line 1.E. Inventory and Related Property was decreased by $4.2 million in FY 2009 and by $4.2 million in FY 2008 due to adjustments made to NWCF-MC USSGL account 1529.

2. Line 7.D. The beginning FY 2009 Cumulative Results of Operations was adjusted by $4.2 million in FY 2009 and restated by $4.2 million in FY 2008.

3. Line 2.B. The FY 2009 Correction of Errors was decreased by $4.2 million.

4. Line 5.D. The FY 2008 Other Financing Sources, Other was restated by $4.2 million.

In the future, we will be reclassifying COGS adjustment (included in USSGL 7400 for the monthly BE purposes) from PPA to other gains/losses (USSGL account 7190/7290), as applicable, instead of inventory allowance, (USSGL 1529).

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30 (Amounts in thousands)	2009	2008
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 124,979	$ 154,257
2. Available Borrowing and Contract Authority at the End of the Period	0	0

The Office of Management and Budget Circular A-136 requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B, and exempt from apportionment. Navy Working Capital Fund-Marine Corps (NWCF-MC) has a total $711.8 million in reimbursable obligations incurred in Category B.

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

The NWCF-MC has no available borrowing authority and contract authority at the end of this period.

The NWCF-MC does not have any legal arrangements affecting the use of unobligated balances of budget authority such as time limits, purpose, and obligation limitations.

The NWCF-MC has a $31.3 million difference between amounts reported on SBR and SF 133, Monthly Report on Budget Execution and Budgetary Resources. This is due to an adjustment for

$32.4 million processed in order to correct a posting error. The original adjustment was posted to an incorrect account in June 2007 for a supplemental direct appropriation received to finance the cost of War Reserve Materiel replenishment. This was offset by an adjustment for $1.1 million posted for Employee Benefits. These adjustments were processed in the quarterly financial statement compilation and not included in the monthly budgetary reports.

Note 21. Reconciliation of Net Cost of Operations toBudget

As of September 30	2009	2008
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 711,760	$ 672,290
2. Less: Spending authority from offsetting collections and recoveries (-)	(676,448)	(720,372)
3. Obligations net of offsetting collections and recoveries	35,312	(48,082)
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	35,312	(48,082)
Other Resources:		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	(20,258)	0
8. Imputed financing from costs absorbed by others	13,265	11,197
9. Other (+/-)	1	(4,189)
10. Net other resources used to finance activities	(6,992)	7,008
11. Total Resources Used to Finance Activities	$ 28,320	$ (41,074)
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 (-)	$ 29,278	$ 6,889
12b. Unfilled Customer Orders	(36,019)	51,054
13. Resources that fund expenses recognized in prior periods (-)	0	(405)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
15. Resources that finance the acquisition of assets (-)	(130,363)	(92,507)
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	0
16b. Other (+/-)	20,258	4,188
17. Total resources used to finance items not part of the Net Cost of Operations	$ (116,846)	$ (30,781)
18. Total resources used to finance the Net Cost of Operations	$ (88,526)	$ (71,855)

As of September 30	2009	2008
(Amounts in thousands)		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 0	$ 0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	1,092	0
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 1,092	$ 0
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 4,899	$ 4,975
26. Revaluation of assets or liabilities (+/-)	162,883	151,228
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	642,773	60,779
27c. Operating Material and Supplies Used	0	0
27d. Other	(611,206)	0
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 199,349	$ 216,982
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 200,441	$ 216,982
30. Net Cost of Operations	$ 111,915	$ 145,127

The Reconciliation of Net Cost of Operations to Budget is designed to provide information about the total resources used by an entity to explain how those resources were used to finance orders for goods and services not yet delivered, to acquire assets and liabilities, and to fund the entity's net cost of operations. It is designed to report the differences and facilitate the reconciliation of accrual based amounts used in the Statement of Net Cost (SNC) and obligation-based amounts used in the Statement of Budgetary Resources. The computations and presentation of items in the Reconciliation of Net Cost of Operations to Budget demonstrate that the budgetary and proprietary information in an entity's financial management system agree.

Due to the Navy Working Capital Fund-Marine Corps (NWCF-MC) financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data has been previously identified as a system deficiency.

To bring the Reconciliation of Net Cost of Operations to Budget into balance with SNC, the following adjustment (absolute value) was made:

Resources That Finance the Acquisition of Assets: $130.4 million

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

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

The NWCF-MC has four "Other" lines on the Reconciliation of Net Cost of Operations to Budget during fiscal year (FY) 2009. The compositions are described below:

Resources Used to Finance Items not Part of the Net Cost of Operations, Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations, Other:
The amount reported as other consists of assets transferred without reimbursement. This is the result of an agreement between the Marine Corps and the Defense Logistics Agency (DLA) to transfer DLA managed materiel in FY 2009. The materiel was transferred from the Maintenance Centers to DLA for redistribution and/or resale in an effort to reduce Department of Defense inventory across services.

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

- Components Requiring or Generating Resources in Future Period, Other

The amount reported as other consists of changes in actuarial liability.

- Components not Requiring or Generating Resources, Other

The amounts reported as other consists of NWCF-MC

- Cost of Goods Sold
- Applied overhead and cost capitalization offset for direct costs incurred.

Note 22. Disclosures Related to Incidental Custodial Collections

Not applicable.

Note 23. Earmarked Funds

Not applicable.

Note 24. Fiduciary Activities

Not applicable.

Note 25. Other Disclosures

Not applicable.

Note 26. Restatements

In the current environment, inventory for Supply Management Activity Group is recorded in the financial system at standard cost. The inventory is then converted in the General Ledger from standard costs to Latest Acquisition Costs (LAC). Finally, LAC costs are revalued in the cost of good sold (COGS) model to an approximation of historical cost. This model was developed by the Office of the Under Secretary of Defense (OUSD) in the early 1990s.

Embedded in this COGS model inventory revaluation process, is a calculation that records a portion of the revaluation as a prior period adjustment (PPA) on a monthly basis. Essentially, this PPA allowed supply activities to revalue a portion of inventory without adversely affecting Net Operating Results (NOR). Adjusting the beginning balance in cumulative results of operations [U. S. Standard General Ledger (USSGL) 3310] based on COGS model calculation was initially designed as a temporary solution but evolved into a business practice for the military supply communities.

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Based on our team's (DFAS-CL, FMO, and Marine Corps) continuing analysis during fiscal year (FY) 2008 and 2009 and focus on eliminating the contributing factors causing Navy Working Capital Fund-Marine Corps (NWCF-MC) fluctuations in inventory and to clean up the data, we have done the following:

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1. Line 1.E. Inventory and Related Property was decreased by $4.2 million in FY 2009 and by $4.2 million in FY 2008 due to adjustments made to NWCF-MC USSGL account 1529.

2. Line 7.D. The beginning FY 2009 Cumulative Results of Operations was adjusted by $4.2 million in FY 2009 and restated by $4.2 million in FY 2008.

3. Line 2.B. The FY 2009 Correction of Errors was decreased by $4.2 million.

4. Line 5.D. The FY 2008 Other Financing Sources, Other was restated by $4.2 million.

In the future, we will be reclassifying COGS adjustment (included in USSGL 7400 for the monthly BE purposes) from PPA to other gains/losses (USSGL account 7190/7290), as applicable, instead of inventory allowance, (USSGL 1529).

NAVY WORKING CAPITAL FUND – MARINE CORPS REQUIRED SUPPLEMENTARY INFORMATION

Navy Working Capital Fund-Marine Corps
General Property, Plant, and Equipment
Real Property Deferred Maintenance and Repair
For Fiscal Year Ended September 30, 2009

The Navy Working Capital Fund-Marine Corps real property deferred maintenance and repair information for fiscal year ended September 30, 2009 is reported with the U.S. Marine Corps General Fund deferred maintenance and repair. See U.S. Marine Corps General Fund Required Supplementary Information.

NAVY WORKING CAPITAL FUND – MARINE CORPS OTHER ACCOMPANYING INFORMATION

Appropriations, Funds, and Accounts Included in the Principal Statements

Reporting Entity

Navy Working Capital Fund (NWCF)

Fund/Account Treasury Symbol and Title:

97X4930.002

Navy Working Capital Fund Activity Group Treasury Symbol and Title:

97X4930.NA4A	Depot Maintenance - Other, Marine Corps
97X4930.NC2A	Supply Management, Marine Corps

NAVY WORKING CAPITAL FUND – MARINE CORPS OTHER ACCOMPANYING INFORMATION

AUDIT OPINIONS

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 8, 2009

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Department of the Navy General Fund FY 2009 and FY 2008 Basic Financial Statements (Report No. D-2010-014)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Department of the Navy General Fund Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Department of the Navy management. The Department of the Navy is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Department of the Navy General Fund FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged to us that the Department of the Navy General Fund FY 2009 and FY 2008 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Department of the Navy financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial

Statements," as amended[1] to determine whether material amounts on the financial statements were presented fairly.

Prior audits have identified, and the Department of the Navy has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

As discussed in Note 26 to the financial statements, the Department of the Navy has restated the FY 2008 General Fund Basic Financial Statements. The Department of the Navy has made restatements to properly recognize payments related to shipbuilding as contract-financing payments. The restatements affected the Department of the Navy General Fund Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. In addition, the Department of the Navy completed a restatement to adjust beginning balances for United States Government Standard General Ledger accounts 3100 and 3310. These accounts were adjusted as part of the implementation of the Defense Departmental Reporting System-Budgetary/Audited Financial Statements export in 3rd Quarter, FY 2009. This restatement affected the Department of the Navy General Fund Balance Sheet and the Statement of Changes in Net Position.

Summary of Internal Control

In planning our work, we considered Department of the Navy internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

- Financial Management Systems
- Fund Balance with Treasury
- Accounts Receivable

[1] OMB Memorandum M-09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

[2] The annual financial statements include the Basic Financial Statements, Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.

- Inventory and Related Property, Net
- General Property, Plant, and Equipment
- Statement of Net Cost
- Accounts Payable
- Problem Disbursements
- Unobligated Balance

A material weakness is a significant deficiency,[3] or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[4]

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, all of which we consider to be material internal control weaknesses.

The Department of the Navy General Fund reported all of these weaknesses in its 2009 Statement of Assurance except for the Financial Managements Systems, Accounts Receivable, Statement of Net Cost, Problem Disbursements, and Unobligated Balances.

Summary of Compliance With Laws and Regulations

We limited our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Secretary of the Navy (Financial Management Comptroller) acknowledged to us that Department of the Navy financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Department of the Navy complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

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[3] A significant deficiency is a control deficiency, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected.

[4] The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Assistant Secretary of the Navy (Financial Management and Comptroller) who provided no technical comments. Department of the Navy officials expressed their continuing commitment to address the problems this report outlines.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated

Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses that could adversely affect the Department of the Navy financial management operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

Financial Management Systems

Department of the Navy legacy financial management systems and feeder systems deficiencies include the inability to: comply with the Federal financial management systems requirements, implement elements of U.S. GAAP, and adequately implement the U.S. Government Standard General Ledger.

Fund Balance With Treasury

Deficiencies associated with Fund Balance with Treasury include: unmatched disbursements and collections; undistributed disbursements, collections and abnormal balances; and the inability to reconcile Department of the Navy fund records with the Department of Treasury records and the Statement of Budgetary Resources.

Accounts Receivable

There are two deficiencies associated with the Accounts Receivable line: the audit trails are inadequate and the accounts receivable subledgers do not reconcile with the general ledger.

Inventory and Related Property, Net

Legacy systems do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and related Property." In addition, completeness issues exist because the legacy systems were not designed to provide the value of Operating Material and Supplies using the moving average cost method and to ensure that all of the items are included in the values reported on the Balance Sheet. Some Department of the Navy commands have not used the consumption method for expensing Operating Material and Supplies. Also, some commands are unable to provide Operation Material and Supplies at the detail-transaction level and only maintain beginning and ending balances.

General Property, Plant, and Equipment

Completeness issues may exist with recognizing internal use software and leasehold improvements. The Department of the Navy is currently working with the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) and Department of the Navy major commands to fully implement Statement of Federal Financial Accounting Standards No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment." In addition, the Department of the Navy is working with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer to ensure that: documentation for real property is available, beginning with FY 1999; a preponderant user policy is properly implemented; and Form DD 1354, "Transfer and Acceptance of Military Property," is properly used throughout the Department of the Navy.

Accounts Payable

The Department of the Navy is not recording Intragovernmental Accounts Payable transactions and Accounts Payable with the Public completely, accurately, or in a timely manner. Other issues include the lack of sufficient systems, processes, and data to support reconciliation of buyer-side trading partner information.

Statement of Net Cost

The Department of the Navy currently derives the information on the Statement of Net Cost from budgetary accounts, instead of using an accrual basis. In addition, the costs are not aligned with major programs and goals, as required in Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards," but are instead aligned with the major appropriations. Furthermore, Department of the Navy costs are not categorized and reported by the responsible Component, as required by Statement of Federal Financial Accounting Standards No. 4.

Problem Disbursements

Inaccurate or missing fund accounting codes have resulted in unmatched disbursements and collections requiring the use of suspense accounts. The suspense accounts cause difficulty in reconciling Department of the Navy General Fund records with Department of Treasury records.

Unobligated Balances

Deficiencies exist in recorded unobligated amounts because financial systems are not fully integrated, and not all commands sufficiently review unliquidated obligations. Additionally, reimbursable transactions are not properly documented or reported on the Disbursing Officer Statement of Accountability.

These financial management deficiencies may cause inaccurate management information. As a result, Department of the Navy management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Department of the Navy was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, the Department of the Navy did not fully comply with FFMIA. The Department of the Navy acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009.

Audit Disclosures

The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged to us on March 20, 2009, that Department of the Navy financial management and feeder systems could not provide adequate evidence to support various material amounts on the financial statements, and previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Government Performance and Results Act, Antideficiency Act, Prompt Payment Act, and Improper Payments Information Act.

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because audit projects currently in progress will include appropriate recommendation.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202–4704

November 8, 2009

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER

SUBJECT: Independent Auditor's Report on the Department of the Navy Working Capital Fund FY 2009 and FY 2008 Basic Financial Statements (Report No. D-2010-013)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Department of the Navy Working Capital Fund Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Department of the Navy management. The Department of the Navy is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Department of the Navy Working Capital Fund FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged to us that the Department of the Navy Working Capital Fund FY 2009 and FY 2008 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Department of the Navy financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended[1] to determine whether material amounts on the financial statements were presented fairly.

[1] OMB Memorandum M-09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Prior audits have identified, and the Department of the Navy has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

As discussed in Note 26 to the financial statements, the Department of the Navy has restated the Department of the Navy Working Capital Fund FY 2008 Basic Financial Statements. It made a restatement to the Other Supply Officer Liabilities to write off residual and abnormal account balances for decommissioned ships and activities affected by base realignment and closure actions. In addition, the Department of the Navy made a restatement to Inventory to correct a cumulative understatement in the Inventory balance. The current 2009 and comparative 2008 Balance Sheet, Statement of Changes in Net Position, and Statement of Net Cost were affected by these restatements. The changes are material to the Department of the Navy Working Capital Fund financial statements. We have made no change to the previously issued disclaimer of audit opinion on the FY 2008 Basic Financial Statements.

Summary of Internal Control

In planning our work, we considered the Department of the Navy internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

- Financial Management Systems
- Fund Balance With Treasury
- Accounts Receivable
- Inventory and Related Property, Net
- General Property, Plant, and Equipment
- Accounts Payable

[2] The annual financial statements include the Basic Financial Statements, Management's Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information.

- Other Liabilities
- Statement of Budgetary Resources

We did not identify any additional material weaknesses in FY 2009. A material weakness is a significant deficiency,[3] or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[4]

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, all of which we consider to be material internal control weaknesses.

The Department of the Navy reported the eight above weaknesses in its management representation letter. However, Financial Management Systems, Accounts Receivable, Other Liabilities, and Statement of Budgetary Resources were not reported in the FY 2009 Statement of Assurance.

Summary of Compliance With Laws and Regulations

We limited our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged to us that the Department of the Navy financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Department of the Navy Working Capital Fund complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;

[3] A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected.

[4] The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and

- complying with applicable laws and regulations.

We provided a draft of this report to the Assistant Secretary of the Navy (Financial Management and Comptroller). The Department of the Navy officials expressed their continuing commitment to address the problems this report outlines.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated

Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses that could adversely affect the Department of the Navy financial management operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

Financial Management Systems

Department of the Navy financial systems do not comply with U.S. GAAP and the U.S. Government Standard General Ledger at the transaction level. As a result, the Department of the Navy financial management and feeder systems cannot provide adequate evidence to support various material amounts on the financial statements.

Fund Balance With Treasury

The Department of the Navy Working Capital Fund activities do not reconcile cash accounts to the Department of the Treasury cash account balance on a regular basis. In addition, system interfaces do not exist between the financial reporting systems, which results in unmatched disbursements and collections.

Accounts Receivable

The Department of the Navy does not reconcile subsidiary records to corresponding general ledger accounts on a regular basis, resulting in a control weakness and no audit trail. The Department of the Navy also posts unmatched collections to accounts receivable using journal vouchers, leaving no audit trail. Trading partner adjustments posted to intragovernmental accounts receivable are not always supported by transactions. The Department of the Navy does not always record and post collection of contract overpayments, travel advances, employee debt, and other public accounts.

Inventory and Related Property, Net

The Department of the Navy Working Capital Fund supply management activities record inventory at the latest acquisition cost. To comply with U.S. GAAP, the latest acquisition cost must be converted to an approximation of historical cost. However, the Department of the Navy does not have adequate data, processes, and methodologies to make accurate conversions. Consequently, auditors would not be able to verify the converted inventory balances.

General Property, Plant, and Equipment

The Department of the Navy Working Capital Fund cannot establish or support ownership and valuation of General Equipment because of the lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record, and system limitations. In addition, the Department of the Navy cannot substantiate that the asset records represent all General Equipment assets; include all ancillary costs to the asset or assign a correct useful life; and reconcile its property accountability system with its financial systems, causing its presentation and disclosure of assets to be inaccurate.

Accounts Payable

The Accounts Payable line item is adversely affected by insufficient or inconsistent reconciliations and supporting documentation; undistributed disbursements; the inability to capture trading partner information; and a lack of direct system interfaces, which causes matching difficulties. Unmatched disbursements are transferred to accounts payable using journal vouchers, leaving no audit trail and often causing abnormal balances.

Other Liabilities

The Department of the Navy needs to resolve unsupported, undistributed disbursements. Additionally, it needs to analyze contract accruals to determine whether these amounts are properly posted to Other Liabilities.

Statement of Budgetary Resources

The Statement of Budgetary Resources is populated from proprietary accounts at a business-area-level. Guidance and training need to be provided on appropriate accounts that should be maintained. In addition, beginning balances need to be verified, reconciliation procedures need to be established, and performance reviews need to be performed.

These financial management deficiencies may cause inaccurate management information. As a result, the Department of the Navy management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Department of the Navy Working Capital Fund complied with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, the Department of the Navy did not fully comply with FFMIA. The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009.

Audit Disclosures

The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged to us on March 20, 2009, that the Department of the Navy financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: the Government Performance and Results Act, the Antideficiency Act, the Prompt Payment Act, and the Improper Payments Information Act.

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because audit projects currently in progress will include appropriate recommendations.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 8, 2009

MEMORANDUM FOR ASSISTANT DEPUTY COMMANDANT FOR PROGRAMS AND RESOURCES, UNITED STATES MARINE CORPS

SUBJECT: Independent Auditor's Report on the United States Marine Corps General Fund FY 2009 and FY 2008 Basic Financial Statements (Report No. D-2010-012)

Under Secretary of Defense (Comptroller) guidance implementing the Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying United States Marine Corps (Marine Corps) General Fund Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of the Marine Corps management. The Marine Corps is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Marine Corps General Fund FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance With Laws and Regulations (Report). This Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Deputy Commandant, Programs and Resources, Marine Corps, stated that the Marine Corps General Fund FY 2009 and FY 2008 Basic Financial Statements conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that the Marine Corps financial management system adequately supported material amounts on the financial statements as of September 30, 2009. However, the Marine Corps has not provided documentation demonstrating that previously identified weaknesses have been corrected, allowing its FY 2009 and FY 2008 Financial Statements to conform to U.S. GAAP.

Although the Marine Corps has stated that its financial management system is able to adequately support material amounts on the financial statements as of September 30, 2009, its financial management system receives the majority of its transactions from other DOD financial management feeder systems. The Marine Corps has identified financial management systems as a material weakness; therefore, the material amounts on the financial statements as of September 30, 2009, may not be adequately supported.

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended[1] to determine whether material amounts on the financial statements were presented fairly.

Prior audits have identified, and the Marine Corps and the Department of the Navy have acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

Summary of Internal Control

In planning our work, we considered Marine Corps internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

- Financial Management Systems
- Fund Balance with Treasury
- Accounts Receivable
- Inventory
- General Property, Plant, and Equipment

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[1] OMB Memorandum M-09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

[2] The annual financial statements include the Basic Financial Statements, Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.

- Accounts Payable
- Environmental Liabilities
- Statement of Net Cost
- Problem Disbursements
- Appropriations Received
- Unobligated Balances

A material weakness is a significant deficiency,[3] or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[4]

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, all of which we consider to be material internal control weaknesses.

The Marine Corps identified only Real Property, Military Equipment, and Internal Use Software as material weaknesses in its FY 2009 Annual Statement of Assurance. However, the Marine Corps did not report Financial Management Systems, Fund Balance with Treasury, Accounts Receivable, Inventory, Accounts Payable, Environmental Liabilities, Statement of Net Cost, Problem Disbursements, Appropriations Received, and Unobligated Balances.

Summary of Compliance With Laws and Regulations

We limited our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Deputy Commandant, Programs and Resources, Marine Corps, stated that the Marine Corps financial management system complies with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. However, the Marine Corps financial management system receives the majority of its transactions from financial management feeder systems. The Marine Corps has also identified financial management systems as a material weakness; therefore, the material amounts on the financial statements as of September 30, 2009, may not be adequately supported. Consequently, we did not determine whether the Marine Corps complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an

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[3] A significant deficiency is a control deficiency, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected.

[4] The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Assistant Deputy Commandant, Programs and Resources, Marine Corps, who did not provide technical comments.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated

Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses that could adversely affect the financial management operations of the Marine Corps, which is a component of the Department of the Navy.

Previously Identified Material Weaknesses

The Marine Corps and Department of the Navy management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

Financial Management Systems

The Marine Corps' business enterprise recognizes that feeder system documentation and internal control assessment gaps exist and may hinder accurate and reliable financial information. Although it has taken steps to implement documented compensating controls, the Marine Corps needs to ensure that accurate data are transferred from feeder systems.

Fund Balance With Treasury

The following deficiencies are associated with Fund Balance with Treasury: unmatched disbursements and collections; undistributed disbursements, collections, and abnormal balances; and an inability to reconcile the Department of the Navy fund records with the Department of the Treasury records and the Statement of Budgetary Resources.

Accounts Receivable

Although the Marine Corps is making progress, two deficiencies remain in this area: audit trails are inadequate and the accounts receivable subsidiary ledgers do not reconcile with the general ledger.

Inventory

The Marine Corps legacy systems were designed for material management purposes, not accounting purposes; thus, they do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, although these legacy systems provide controls over the accountability of Operating Materials and Supplies (OM&S), they were not designed to provide the value of OM&S using the moving average cost method or to ensure that the values reported on the Balance Sheet represent all items. Also, some commands have not used the consumption method for expensing OM&S. Additionally, some commands are unable to provide OM&S at the detailed transaction level and only maintain beginning and ending balances. Finally, required inventory trading partner information may not be available.

General Property, Plant, and Equipment

The Marine Corps has not resolved documentation and support of baseline valuations for personal property, real property, military equipment, and internal use software. The Marine Corps General Fund military equipment accountability is also incomplete because of an inability to verify the existence and condition of deployed assets.

Accounts Payable

The Marine Corps General Fund is working to design a viable estimation process for all material vendor payment systems. These processes include estimations of major contracts, level spending, and other contract estimates based on historical cost analysis and contract projections.

Environmental Liabilities

The Marine Corps is implementing processes, procedures, and improved environmental liability supporting documentation to resolve weaknesses in this area.

Statement of Net Cost

SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards," requires that Federal agencies provide reliable and timely information on the full cost of Federal programs, activities, and outputs. Currently, the Department of the Navy derives Intragovernmental Gross Costs, Gross Costs with the Public, Intragovernmental Earned Revenue, and Earned Revenue from the Public from budgetary accounts, instead of using an accrual basis. In addition, the costs are not aligned with major programs and goals, as required by SFFAS No. 4. Instead, they are aligned to major appropriations. Finally, the Department of the Navy costs are not itemized and reported by the responsible component, as required by SFFAS No. 4.

Problem Disbursements

Inaccurate or missing fund accounting codes have resulted in unmatched disbursements and collections, requiring the use of "suspense" accounts, and an inability to reconcile Department of Navy fund records with Treasury records.

Appropriations Received

The Department of the Navy allocates funds to the Marine Corps. The Marine Corps erroneously recorded shared appropriations in the U.S. Government Standard General Ledger account 4119, "Other Appropriations Realized." This general ledger account crosswalks to the Appropriations Received line of the Statement of Budgetary Resources. Therefore, the Marine Corps General Fund Appropriations Received line is misstated by $1.9 billion.

Unobligated Balances

The lack of fully integrated financial systems has caused deficiencies in recorded unobligated amounts. Also, sufficient reviews of unliquidated obligations were not performed by all commands.

These financial management deficiencies may cause inaccurate management information. As a result, Marine Corps management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Marine Corps was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, the Marine Corps stated that its critical financial management system complied with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009. The Marine Corps financial management system receives the majority of its transactions from financial management feeder systems. The Marine Corps has identified financial management systems as a material weakness; therefore, the material amounts on the financial statements as of September 30, 2009, may not be adequately supported.

Audit Disclosures

The Assistant Deputy Commandant, Programs and Resources, Marine Corps, stated to us on March 24 that the Marine Corps financial management and feeder systems provided adequate evidence supporting various material amounts on the financial statements. The Marine Corps financial management system receives the majority of its transactions from financial management feeder systems. The Marine Corps has identified financial management systems as a material weakness; therefore, the material amounts on the financial statements as of September 30, 2009, may not be adequately supported. In addition, the Assistant Deputy Commandant, Programs and Resources, Marine Corps, and the Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged to us on March 24 and March 20, 2009, respectively, that previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Antideficiency Act, Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, Prompt Payment Act, and the Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act of 1996).

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because audit projects currently in progress will include appropriate recommendations.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 8, 2009

MEMORANDUM FOR ASSISTANT DEPUTY COMMANDANT FOR PROGRAMS AND RESOURCES, UNITED STATES MARINE CORPS

SUBJECT: Independent Auditor's Report on the Department of the Navy Working Capital Fund-Marine Corps FY 2009 and FY 2008 Basic Financial Statements (Report No. D-2010-011)

Under Secretary of Defense (Comptroller) guidance implementing the Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Department of the Navy Working Capital Fund-Marine Corps Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of United States Marine Corps (Marine Corps) management. The Marine Corps is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Department of the Navy Working Capital Fund-Marine Corps FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance With Laws and Regulations (Report). This Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Deputy Commandant, Programs and Resources, Marine Corps, acknowledged to us that the Department of the Navy Working Capital Fund-Marine Corps FY 2009 and FY 2008 Basic Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Department of the Navy Working Capital Fund-Marine Corps financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended[1] to determine whether material amounts on the financial statements were presented fairly.

Prior audits have identified, and the Marine Corps has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

Summary of Internal Control

In planning our work, we considered Marine Corps internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

- Financial Management Systems
- Fund Balance with Treasury
- Accounts Receivable
- Inventory
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Accounts Payable
- Intragovernmental Eliminations
- Other Accounting Entries
- Statement of Net Cost

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[1] OMB Memorandum M-09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

[2] The annual financial statements include the Basic Financial Statements, Management's Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information.

- Statement of Budgetary Resources
- Reconciliation of Net Cost of Operations to Budget

A material weakness is a significant deficiency,[3] or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[4]

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, all of which we consider to be material internal control weaknesses.

The Marine Corps did not report any of the above weaknesses in its FY 2009 Statement of Assurance.

Summary of Compliance With Laws and Regulations

We limited our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Deputy Commandant, Programs and Resources, Marine Corps, acknowledged to us that the Marine Corps financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Marine Corps complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

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[3] A significant deficiency is a control deficiency, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected.

[4] The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

We provided a draft of this report to the Assistant Deputy Commandant, Programs and Resources, Marine Corps, who did not provide technical comments.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated

Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses that could adversely affect the Marine Corps financial management operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

Financial Management Systems

The Navy Working Capital Fund-Marine Corps is unable to fully implement all elements of U.S. GAAP and OMB Circular A-136 because of the limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The Navy Working Capital Fund-Marine Corps derives its reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and the status of Federal appropriations, rather than for preparing financial statements in accordance with U.S. GAAP.

Fund Balance With Treasury

Reconciliation of the Navy Working Capital Fund-Marine Corps Fund Balance with Treasury account is not completed on a consistent basis (including inconsistent justification and verification of entries to cash accounts). The Navy Working Capital Fund-Marine Corps continues to work with Defense Finance and Accounting Service and other stakeholders to locate missing documentation and establish validation procedures to complete the reconciliation process. The lack of direct automated information systems interfaces between the official financial reporting system and one or more financial or feeder systems causes difficulties in the reconciliation process. This generates unmatched disbursements, abnormal balances, and unsupported journal voucher entries required to reconcile Treasury records. In addition, because of obsolete feeder systems and problems related to interfacing with official financial systems, it is difficult to determine the necessary financial adjustments.

Accounts Receivable

Subsidiary records are not reconciled to their corresponding general ledger account on a regular basis, resulting in an internal control weakness and no audit trail. The Navy Working Capital Fund-Marine Corps has employed business processes that require routine review of outstanding accounts in order to ensure validity and proper recording. In addition, difficulty exists with trading partner adjustments being posted to Intragovernmental Accounts Receivable. This is primarily because of communication problems with trading partners and problems with ensuring that the Marine Corps is identified as the payee of record for services rendered, instead of Department of the Navy.

Inventory

Legacy and migratory feeder systems supporting the Navy Working Capital Fund-Marine Corps financial management systems were not designed to retain the historical cost data required by the Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." In addition, although these systems provide controls to ensure accountability and visibility of inventory, they were designed to record issues and receipt of inventory at the standard unit price and latest acquisition cost, instead of the moving average cost. The data and processes do not exist to convert inventory values to the moving average cost basis accurately and in a verifiable manner.

Operating Materials and Supplies

Generally, the values of the Navy Working Capital Fund-Marine Corps Government-Furnished Material are not included in Operating Materials and Supplies values reported in the Inventory and Related Property, Net line of the balance sheet. DOD is reviewing its process for reporting these amounts to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating the information in existing logistics systems.

General Property, Plant, and Equipment

The Navy Working Capital Fund-Marine Corps General Property, Plant, and Equipment (General PP&E) capitalization threshold is $100,000, except for real property, which is $20,000. The Navy Working Capital Fund-Marine Corps has not implemented the threshold for real property. It is currently using the capitalization threshold of $100,000 for all General PP&E. In addition, the Navy Working Capital Fund-Marine Corps capitalizes all General PP&E regardless of whether it meets the definition of any other General PP&E categories.

Accounts Payable

Insufficient or inconsistent reconciliations and supporting documentation, the lack of direct-interface automated information systems, and improper trading partner information have adversely affected this line item. As a result, there are unmatched or unreconciled records (including at the Treasury level), manual journal voucher postings, and unsupported validation of transactions. Also, Defense Civilian Payroll System payment data are not directly interfaced with the Defense Industrial Financial Management System, which increases the risk of reconciliation and labor-posting errors.

Intragovernmental Eliminations

The Navy Working Capital Fund-Marine Corps cannot accurately eliminate intragovernmental transactions by customer because its systems do not retain transaction-level detail. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources. Although the Navy Working Capital Fund-Marine Corps is unable to fully reconcile intragovernmental transactions with all Federal partners, the Navy Working Capital Fund-Marine Corps is able to reconcile Federal Employees' Compensation Act transactions with Department of Labor data and benefit program transactions with Office of Personnel Management data.

Other Accounting Entries

The Navy Working Capital Fund-Marine Corps does not follow DOD policy because financial feeder systems and accounting systems do not provide sufficient detail to identify Federal/nonfederal and supported/unsupported transactions. Systems enhancements are underway to provide more appropriate levels of detail.

Statement of Net Cost

Current DOD processes and systems do not capture and report accumulated costs for major programs based on performance measures, as required by the Government Performance and Results Act. DOD is in the process of reviewing available data and developing a cost reporting methodology that complies with the Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

Statement of Budgetary Resources

Problem disbursements are responsible for the most significant deficiencies in the Statement of Budgetary Resources. The implementation of automated information systems, such as Defense Travel System, Purchase Request Builder, and Standard Procurement System, has highlighted problems with electronic data feeds to the various accounting systems.

Reconciliation of Net Costs of Operations to Budget

Because of Navy Working Capital Fund-Marine Corps financial system limitations, budgetary data do not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data has been previously identified as a system deficiency. The various automated and manual financial management and feeder systems used for the Navy Working Capital Fund-Marine Corps do not record transfers of material purchases to the various fixed asset categories at the time of receipt.

These financial management deficiencies may cause inaccurate management information. As a result, Marine Corps management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Marine Corps was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, the Marine Corps did not fully comply with the Federal Financial Management Improvement Act. The Marine Corps, acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009.

Audit Disclosures

The Assistant Deputy Commandant, Programs and Resources, Marine Corps, acknowledged to us on March 24, 2009, that the Marine Corps financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Antideficiency Act, Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, Prompt Payment Act, and the Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act of 1996).

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because audit projects currently in progress will include appropriate recommendations.

Special thanks to ***Rear Admiral Frank Thorp IV***, Chief of Naval Information; ***Mr. Christopher Madden***, Director of the Navy Visual News Service; and the ***staff of the Office of the Chief of Naval Information*** for providing the Department of the Navy photographs.

Many thanks also to the Financial Statements Team at the ***Department of the Navy (DON) Office of Financial Operations***, the extended financial community at the ***DON major commands***, and our accounting partners at the ***Defense Finance and Accounting Service*** for their dedicated time and effort in producing the Fiscal Year 2009 Department of the Navy Annual Financial Report. We dedicate the Fiscal Year 2009 Department of the Navy Annual Financial Report once again to ***the men and women of our Navy and Marine Corps warfighting team***.

For More Information

Assistant Secretary of the Navy Financial Management and Comptroller
http://www.finance.hq.navy.mil/FMC

Navy
http://www.navy.mil

Marine Corps
http://www.marines.mil

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Comments or requests for printed copies of this report may be sent to DON_Financial_Report@navy.mil