AROUND THE GLOBE, AROUND THE CLOCK.

Department of the Navy Fiscal Year 2015 Annual Financial Report

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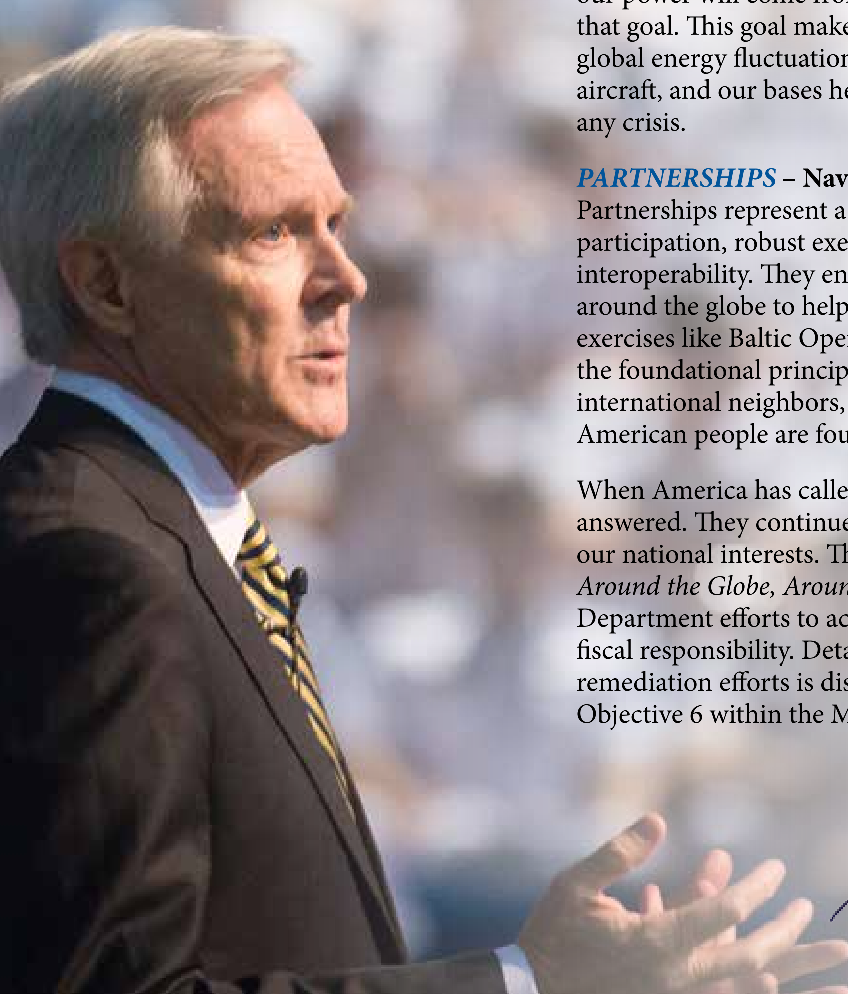
“THE NAVY AND MARINE CORPS TEAM GIVES AMERICA A STRONG GLOBAL PRESENCE, PROVIDING OUR LEADERS OPTIONS BECAUSE WE ARE IN THE RIGHT PLACE, AT THE RIGHT TIME, ALL OF THE TIME.”



November 2015

The Department of the Navy continues to serve and support America’s interests throughout the world. This past year, the men and women of the Navy and Marine Corps responded to crises in the Middle-East, conducted humanitarian missions in Latin America and Southeast Asia, and relentlessly gave their time and talents contributing to the success of our organization. The Navy and Marine Corps team gives America a strong global presence, providing our leaders options because we are in the right place, at the right time, all of the time. Four fundamental principles are what provide this worldwide presence: *People, Platforms, Power and Partnerships*.

PEOPLE – **Our True Advantage:** Our forces deploy in times of peace and in times of conflict. The Sailors, Marines, and civilian workforce are our greatest advantage and most important asset. We’re increasing opportunities for meritorious advancement and we’re providing more opportunities for women to serve. This year the first enlisted female Sailors were chosen to serve in the U.S. Navy’s submarine force. Our financial managers are supporting the Navy through its first audit of the Schedule of Budgetary Activity. This wide range of accomplishments is due to the exceptional contributions of our people.

PLATFORMS – **America’s Fleet:** Presence requires platforms. Our fleet requires the right mix of ships, submarines, aircraft, UAVs, vehicles, and equipment to operate. The DON has partnered with industry to not only maintain, but grow the size of our fleets and procure more aircraft. We’ve increased our buying while lowering our costs and provided stability to industry partners.

POWER – **Energy and Efficiency:** Power and energy are an important part of ensuring our people have what they need and can get where they are needed. It is a critical element of our presence and why the Navy has always been an energy innovator. In 2009 I set a goal that by 2020 at least half of all our power will come from non-fossil-fuel sources and we’re on track to meet that goal. This goal makes us better fighters because we’re less vulnerable to global energy fluctuations. Diversifying our energy supply for our ships, our aircraft, and our bases helps guarantee our presence and ability to respond to any crisis.

PARTNERSHIPS – **Naval Diplomacy and International Cooperation:** Partnerships represent a global network of navies, a concept based on participation, robust exercises, relationship building, communication, and interoperability. They enable us to cooperate with our ally and partner nations around the globe to help assure stability and security. Regular international exercises like Baltic Operations (BALTOPS) reaffirm our commitment to the foundational principle of mutual defense. These partnerships with our international neighbors, partnerships with industry, and partnerships with the American people are foundational to the DON’s success and global presence.

When America has called, the Navy and Marine Corps have always answered. They continue to protect and defend the American people and our national interests. The DON’s fiscal year 2015 Annual Financial Report, *Around the Globe, Around the Clock* conveys this enduring commitment and Department efforts to achieve audit readiness while continuing to strengthen fiscal responsibility. Detailed discussion of identified weaknesses and ongoing remediation efforts is disclosed in the DON Statement of Assurance and Objective 6 within the Management’s Discussion and Analysis section.

Ray Mabus

AROUND THE GLOBE, AROUND THE CLOCK.

ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT & COMPTROLLER

"WE ARE WORKING HARD TO RECOVER FROM YEARS OF STRESSED READINESS WHILE PREPARING FOR EMERGING THREATS AND A WIDE RANGE OF OTHER CONTINGENCIES AROUND THE GLOBE."

November 2015

Department of the Navy leadership is committed to the Department's objectives to protect the homeland, build global security, project power and win decisively when called upon. Our financial managers continue to balance the fiscal demands of maintaining current capabilities, growing the fleet, and ensuring future capacities and capabilities meet the needs of the nation's leaders. Achieving this balance is essential to presence: being where it matters, when it matters.

As the Navy and Marine Corps continue to feel the effects of budget cuts, hard choices were made to protect our core missions while avoiding irreversible cuts in shipbuilding. We are working hard to recover from years of stressed readiness while preparing for emerging threats and a wide range of other contingencies around the globe. Leadership has implemented targeted cost cutting while improving acquisition practices to increase the return for each dollar we spend. The Department's leadership is firmly committed to effectively and efficiently managing the resources entrusted to us, on behalf of the American people.

Financial improvement is progressing with the Navy undergoing the first audit of its Schedule of Budgetary Activity for fiscal year 2015 appropriations. This key milestone is a significant step forward in addressing the congressional mandate to achieve audit ready financial statements by September 30, 2017. Concurrently, our financial improvement and audit readiness staffs diligently work toward building the processes, internal control structures and reporting capabilities needed to remediate weaknesses.

The Department of the Navy's Annual Financial Report, *Around the Globe, Around the Clock*, for fiscal year 2015 communicates to our stakeholders our efforts to improve financial management, performance, accountability, and transparency.

S.J. Rabern

MANAGEMENT'S DISCUSSION AND ANALYSIS

AROUND THE GLOBE, AROUND THE CLOCK.

Conducting morning colors aboard an aircraft carrier providing a combat-ready force that protects and defends the collective maritime interests of its allies and partners in the Indo-Asia-Pacific region. (U.S. Navy photo by Mass Communication Specialist 3rd Class Nathan Burke/Released)

OVERVIEW

The Department of Defense (DoD) includes three military departments (Department of the Army, Department of the Navy, and Department of the Air Force); however, there are four separate service branches (Army, Navy, Marine Corps, and Air Force). Since 1834, the Navy and Marine Corps have been housed together under the Department of the Navy (DON).

The Department of the Navy was established on April 30, 1798. The DON has three principal components: the Navy Department, consisting of executive offices mostly in Washington, DC; the operating forces, including the Marine Corps, the reserve components, and, in time of war, the U.S. Coast Guard (in peace, a component of the Department of Homeland Security); and the shore establishment. The Department of the Navy consists of two uniformed Services: the United States Navy and the United States Marine Corps.

The United States Navy was founded on October 13, 1775. The Navy's core responsibilities are to deter aggression and, if deterrence fails, win the nation's wars. The Navy employs the global reach and persistent presence of forward-stationed and rotational forces to secure the nation from direct attack, assure Joint operational access, and retain global freedom of action. Along with global partners, the Navy protects the maritime freedom that is the basis for global prosperity and fosters and sustains cooperative relationships with an expanding set of allies and international partners to enhance global security.

The United States Marine Corps was founded by an act of the Continental Congress on November 10, 1775. As the nation's Expeditionary Force in Readiness, the Marine Corps provides power projected from the sea, utilizing the mobility of the Navy to rapidly deliver combined-arms task forces in coastal regions or emergent global crises. The Marine Corps has evolved into a balanced air-ground task force with significant logistical capabilities to forward deployed and forward engaged areas shaping, training, deterring, and responding to all manner of crises and contingencies.

The DON continues to operate forward across the globe, providing the nation offshore options to deter and defeat aggression today and in the future. The Navy and Marine Corps team provides unique capabilities that will prove crucial as our nation's strategic focus shifts to the Asia-Pacific region. In fiscal year (FY) 2015, the Navy organized and participated in the International Mine Countermeasures Exercise (IMCMEX), the world's largest naval exercise, with 44 participating nations from six continents. IMCMEX is an opportunity for more than 6,500 personnel from navies around the world to hone the intricate defensive techniques necessary to search for and dispose of mines, which represent a threat to all nations worldwide. While the IMCMEX focuses on mine countermeasures, it has been broadened to include opportunities for ships' crews from around the world to conduct maritime security operations such as escorting and defending commercial shipping, as well as carrying out the drills required to protect maritime infrastructure, such as harbors and oil rigs. This exercise demonstrated that the international community is capable and ready to work together in the spirit of cooperation and partnership.

Also during FY 2015, the DON participated in the 21st annual Cooperation Afloat Readiness and Training (CARAT). CARAT is the premier naval engagement in South and Southeast Asia. The bilateral and multilateral exercises provide a regional venue to develop strong maritime partnerships that contribute to the greater peace and stability of the region. Each CARAT exercise features several days of shore-based exchanges, professional symposia, and tactical scenarios culminating in combined training at sea. The exercises are a practical way to address shared maritime security priorities, enhance capabilities, and improve interoperability between forces. The highlight of this year's CARAT Singapore exercise was the inaugural use of unmanned aircraft systems. The U.S. Navy and Republic of Singapore Navy operated in a joint environment, demonstrating the value of unmanned platforms in providing an enhanced maritime domain awareness picture. This year's CARAT Philippines also marked the first time a Littoral combat ship has participated in a CARAT exercise. These exercises and partnerships are essential to the National Defense strategy and the DON's efforts to strengthen alliances and partnerships in the Asia-Pacific region to advance a common security vision for the future.

The DON will face additional challenges in meeting its mission as the world is defined by speed and information sharing. The pace with which technology is developed, employed, and then changed drives everything in the world today. Information is shared everywhere in seconds, and technology is no longer available just to the few governments and nations, but to everyone. Adversaries can be nations, or not, and can appear at the speed of connectivity. They can adapt and employ technology as fast as the commercial world develops it and can be unburdened by policies and processes. The array of cyber-attacks and the variety of both attackers and targets are prime examples of the challenges the Department faces going forward. In order to combat these challenges, the DON established the Navy Task Force Innovation Vision. This task force comprises thinkers, experts, and warfighters with diverse backgrounds and from every level. This task force is charged with harnessing the creative energy of Sailors and Marines and infusing the ideas that

Sailors attach a load during a vertical replenishment exercise as part Cooperation Afloat Readiness and Training (CARAT) (U.S. Navy photo by Mass Communication Specialist 2nd Class Joe Bishop/Released)

The Navy's unmanned X-47B receives fuel from an Omega K-707 tanker while operating in the Atlantic Test Ranges over the Chesapeake Bay. This test marked the first time an unmanned aircraft refueled in flight. (U.S. Navy photo/Released)

come forward into DON operations. The primary focus will be to establish an innovation network for the DON, reform how the DON manages its workforce and talent, use massive amounts of data collected by the DON in a better way, get emerging operational capabilities to the fleet faster, and create breakthrough warfighting concepts.

One example of innovative technology is the introduction of interactive software that can dramatically cut the time it takes to plan safe submarine missions. This software was crossed over to the surface fleet and installed on the guided-missile cruiser USS Mobile Bay in December 2014. This technology adds speed and precision to the process of finding the best routes around hazardous waterways throughout the world. Through partial automation and use of apps and widgets, this new technology can review thousands of chart markings in a fraction of the time it took manually, pinpointing potential hazards and creating optimal routes around rocks, reefs, and other shallow spots. The installation on Mobile Bay will help researchers refine the mission planning technology for the surface ship community.

During FY 2015, the Navy conducted the first ever Autonomous Aerial Refueling of an unmanned aircraft. While flying off the coast of Maryland and Virginia, the X-47B connected to an Omega K-707 tanker aircraft and received over 4,000 pounds of fuel using the Navy's probe-and-drogue method. This testing helps solidify the concept that future unmanned aircraft can perform standard missions like aerial refueling and operate seamlessly with manned aircraft as part of the Carrier Air Wing.

The Navy launched its fourth Mobile User Objective System (MUOS) satellite in September 2015. MUOS is an architecture comprised of a five-satellite constellation, with the fifth satellite to be launched in FY 2016. This array allows mobile forces, including submarines, surface ships and aircraft, to communicate around the world via the narrowband spectrum. MUOS works like a smartphone network in space, vastly improving secure satellite communications for mobile U.S. forces. MUOS is already providing legacy communications to combatant commanders via active satellites on-orbit. MUOS' new Wideband Code Division Multiple Access capability has been demonstrated in various environments, platforms, and applications such as integration testing with the newest submarine antennas, Navy special operations scenario exercises, and Air Force C-17 in-flight tests. MUOS will be used by all services. For example, the Army will extend satellite communication to their individual soldiers and special operations forces will use MUOS for all their missions. The Navy uses MUOS in particular for submarine communications.

The Navy and Marine Corps continued to make significant progress toward reaching the Secretary's energy goals. During FY 2015, the DON entered into an agreement with Sempra U.S. Gas & Power and Western Power Administration to construct a 210 megawatt (MW) direct current solar facility to benefit 14 DON installations. This agreement is the largest purchase of renewable energy ever made by a federal entity. Adding solar power to naval installations will help diversify the DON's shore energy portfolio and provide long-term cost stability, which ultimately contributes to the DON's energy security priorities. In addition to the energy security benefits to the DON, this project will help the 14 installations comply with California's Renewable Portfolio Standard. The solar facility will contribute 21% of the power needed to meet the SECNAV's goal of bringing one gigawatt of renewable energy into procurement by the end of FY 2015. With this new signing, a recent groundbreaking at Camp Lejeune, NC, and upcoming groundbreaking at Kings Bay, GA, the Navy is on track to meet that goal with a total 1.2 gigawatts of projects in the pipeline. The Navy's efforts to support a clean energy economy will make Americans better stewards of our planet.

The DON recognizes the value of investing in audit readiness as part of the Department of Defense (DoD) mission. The Navy is currently undergoing its first audit of the Schedule of Budgetary Activity (SBA) in FY 2015. The path to auditability will result in improved stewardship, reduced cost of business operations, and compliance with Congressional direction. While executing DoD Financial Improvement and Audit Readiness (FIAR) activities, the DON continues to focus efforts to ready people, processes, and business systems for a financial audit. The DON understands fundamental improvements that establish tighter internal controls and more standardized processes are needed within its operations. The DON has employed control gap analysis to identify when a command's processes and / or controls differ significantly from suggested controls, allowing the DON to track and address significant deviations.

The DON FY 2015 objectives listed below focus on key efforts that will provide real benefits to the nation in fulfillment of the DON's responsibilities to maintain a capable Navy and Marine Corps presence. Success will increase the effectiveness and efficiencies of the entire Department, improve the lives of Sailors and Marines, and result in greater security for the United States.

- Take Care of Our People
- Maximize Warfighter Readiness and Avoid Hollowness
- Lead the Nation in Sustainable Energy
- Promote Acquisition Excellence and Integrity
- Proliferate Unmanned Systems
- Drive Innovative Enterprise Transformation

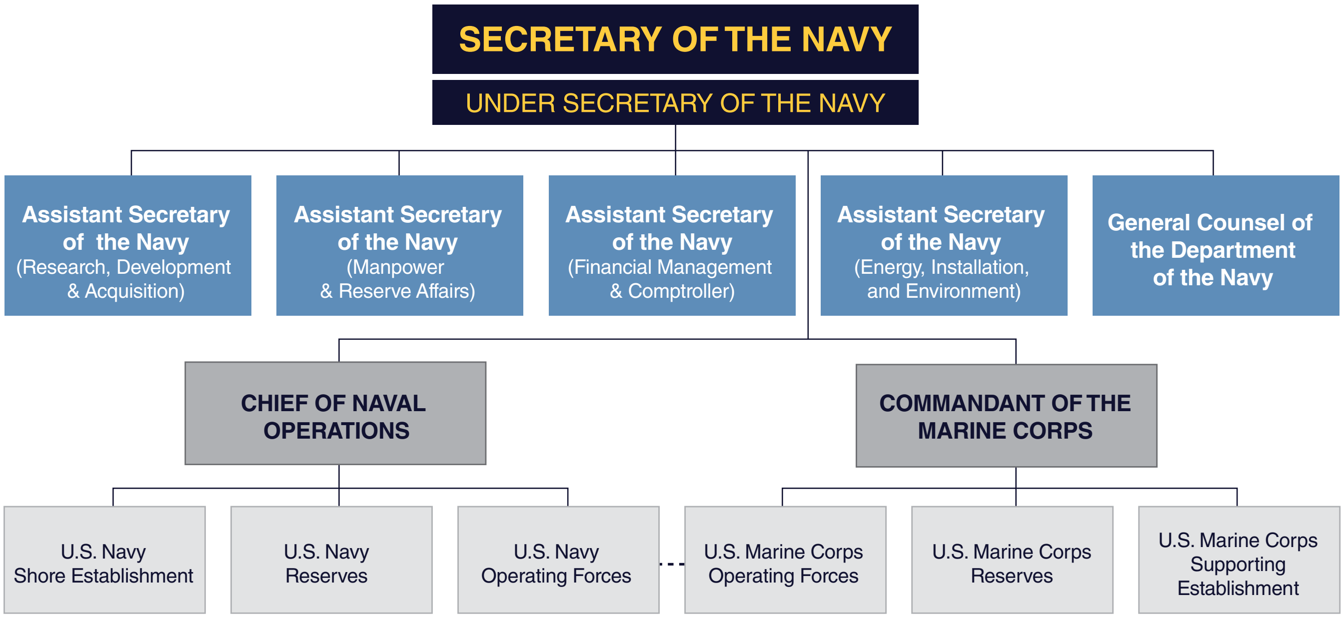
Secretary of the Navy (SECNAV) Ray Mabus delivers remarks during a ceremony commemorating an agreement with Western Area Power Administration and Sempra U.S. Gas & Power to construct a 210 megawatt direct current solar facility. (U.S. Navy photo by Mass Communication Specialist 2nd Class Armando Gonzales/Released)

An amphibious assault ship and amphibious transport dock ship conduct a simulated strait transit. (U.S. Navy photo by Mass Communication Specialist 3rd Class Huey D. Younger Jr./Released)

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

Founded 30 April 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.

ORGANIZATION AND MISSION

The Department of the Navy, established on April 30, 1798, has three principal components: the Department headquarters, consisting of executive offices mostly in Washington, DC, the Naval and Marine Corps operating and reserve components, and the shore establishment. In times of war, the U.S. Coast Guard (a component of the Department of Homeland Security during peacetime) is under the operational control of the DON. All are structured to respond to a broad range of mission priorities that preserve the nation's freedom and protect U.S. global interests.

The Secretary of the Navy (SECNAV), a civilian appointed by the President, is responsible for, and has authority under Title 10 of the United States Code, to conduct all the affairs of the DON, including: recruiting, organizing, supplying, equipping, training, mobilizing, and demobilizing. The SECNAV also oversees the construction, outfitting, and repair of naval ships, equipment, and facilities. The SECNAV is responsible for the formulation and implementation of policies and programs that are consistent with the national security policies and objectives established by the President and the Secretary of Defense. Under the purview of the SECNAV 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 (CNO), a four-star Admiral, responsible for the command and operating efficiency of the Navy; and the Commandant of the Marine Corps, a four-star General, responsible for the performance of the Marine Corps.

The Navy and the 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 DoD's responsibilities. Both Services provide ready forces to support the U.S. joint military commands in conducting their worldwide missions.

U.S. NAVY

The United States Navy was founded on October 13, 1775. The mission of the Navy is to maintain, train, and equip combat-ready naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas. It is overseen by the CNO, and consists of the operating forces and shore establishment. The CNO is the senior military officer in the Navy, a member of the Joint Chiefs of Staff, and is the principal naval advisor to the President and to the SECNAV on the conduct of war. He is also the principal advisor and naval executive to the Secretary on the conduct of naval activities of the DON. The CNO's office is responsible for the command, utilization of resources, and operating efficiency of the operating forces of the Navy and of the Navy shore activities assigned by the Secretary. The Navy operating forces commanders and fleet commanders have a dual chain of command. Administratively, they report to the CNO and provide, train, and equip naval forces. Operationally, they provide naval forces and report to the appropriate Unified Combatant Commanders. The Commander of the Fleet Forces Command controls fleet assets on both the Atlantic and Pacific coasts for interdeployment training cycle purposes. As units of the Navy enter the area of responsibility for a particular Navy area commander, they are operationally assigned to the appropriate numbered fleet. All Navy units also have an administrative chain of command with the various ships reporting to the appropriate type commander. The shore establishment provides support to the operating forces (known as "the fleet") in the form of: facilities for the repair of machinery and electronics; communications centers; training areas and simulators; ship and aircraft repair; intelligence and meteorological support; storage areas for repair parts, fuel, and munitions; medical and dental facilities; and air bases.

Bureau of Medicine and Surgery

The Navy Bureau of Medicine and Surgery (BUMED) provides high-quality health care to beneficiaries in wartime and in peacetime, under the leadership of the Navy Surgeon General. Highly trained Navy Medicine personnel deploy with Sailors and Marines worldwide—providing critical mission support aboard ship, in the air, under the sea, and on the battlefield. The Navy Medicine team of physicians, nurses, corpsmen, dentists, and mental health providers work in tandem with the Army and Air Force medical personnel and coalition forces to ensure the physical and mental wellbeing of troops and civilians. Navy Medicine's military and civilian health care professionals also provide care for uniformed services' family members and retirees at military treatment facilities around the globe. BUMED has 63,000 active duty personnel and reservists, government civilians, and contractors of Navy Medicine engaged in all aspects of expeditionary medical operations in support of the warfighter. BUMED is headquartered in Falls Church, VA.

Bureau of Naval Personnel

The Bureau of Naval Personnel (BUPERS) provides administrative leadership, policy planning, general oversight, training and education for all Navy personnel. BUPERS strives to support the needs of the DON by providing the fleet with the right person with the right skill set in the right place at the right time, using the most efficient human resource processes possible. BUPERS also provides support services to Sailors and is dedicated to ensuring Sailor readiness and quality of life through its myriad of professional and personal/family focused programs. BUPERS has six subordinate commands: Naval Education Training Command (NETC); Navy Recruiting Command (NRC); Navy Personnel Command (NPC); United States Naval Academy (USNA); Naval Postgraduate School (NPS); and Naval War College (NWC). BUPERS and its subordinate commands have a total of 9,443 authorized full time equivalent (FTE) civilian employees. BUPERS is headquartered in Arlington, VA.

Commander Navy Installations Command

Commander, Navy Installations Command (CNIC) is responsible for Navy-wide shore installation management. CNIC enables and sustains naval forces from the shore by designing, developing, and delivering integrated shore capabilities to our fleet, the fighter, and the family. The programs and services launch every shore-based ship, submarine, and aircraft and take care of every Sailor and their families. CNIC has 52,000 employees in 11 regions, 70 Installations, and 123 Naval Operations

Support Centers. CNIC has overall shore installation management responsibility and authority as the Budget Submitting Office (BSO) for installation support. CNIC is headquartered in Washington, DC.

Commander, Navy Reserve Force

Commander, Navy Reserve Force (CNRF), also known as the Commander U.S. Navy Reserve Force, delivers strategic depth and operational capability to the Navy, Marine Corps, and Joint Forces by providing mission-capable units and individuals in support of the full range of operations, from peace to war. The 59,100 personnel of the Navy Reserve represent approximately 10% of the Navy Total Force. The Navy Reserve provides essential warfighting capabilities and expertise, is strategically aligned with mission requirements, and is valued for readiness, innovation, and agility. The military component of the Navy Reserve represents only 6% of the Navy's total military personnel budget but is a significant force multiplier for Active Component. CNRF is headquartered in Norfolk, VA.

Department of Navy Assistant for Administration

The Department of the Navy Assistant for Administration (DON/AA) provides administrative management and support to the Office of the Secretary of the Navy (SECNAV), its approximate 4,600 member Secretariat, staff offices, field activities, and supported organizations. The command is comprised of administrative divisions focused on customer service, directives and records management, contract management, executive dining, facilities and support services, financial management, human resources, information technology, and security. The DON/AA has 127 personnel and is headquartered at the Pentagon in Arlington, VA.

Field Support Activity

Field Support Activity (FSA) establishes, maintains, and provides a system of financial services as the BSO and Principal Administering Office (PAO) for Navy's assigned unified command (PACOM), Navy Headquarters and activities, the National Defense Sealift Fund, and Department of the Navy Centrally-Managed Bills. FSA initiates action in matters pertaining to the provision of funds and manpower; evaluates resource utilization; and initiates or recommends appropriate corrective actions. Additionally, FSA plans and programs for current and future resource requirements for activities within the Director, Navy Staff (DNS) sponsorship and also provides contract support for DNS/CNO activities. FSA has 39 personnel and is headquartered at the Washington Navy Yard in Washington, DC.

Military Sealift Command

The Military Sealift Command (MSC) operates approximately 110 noncombatant, civilian-crewed ships that replenish Navy ships at sea, conduct specialized missions, strategically preposition combat cargo at sea around the world, perform a variety of support services, and move military equipment and supplies to deployed U.S. forces and coalition partners. MSC operates five subordinate commands worldwide that are aligned with the numbered fleet logistics staffs in the Atlantic, Pacific, Europe/Africa, Central, and Far East areas. MSC is headquartered in Washington, DC and Norfolk, VA, with approximately 9,500 Department of the Navy civilian employees supporting its mission worldwide.

Naval Air Systems Command

The Naval Air Systems Command (NAVAIR) has a force of 26,000 personnel focused on research, design, development, and systems engineering; acquisition management; test and evaluation; training facilities and equipment; repair and modification; and in-service engineering and logistics support of naval aviation aircraft and weapon systems operated by Sailors and Marines. NAVAIR is organized into eight "competencies" or communities of practice including Program Management, Contracts, Research and Engineering, Test and Evaluation, Logistics and Industrial Operations, Corporate Operations, Comptroller, and Counsel. NAVAIR provides support (people, processes, tools, training, mission facilities, and core technologies) to Naval Aviation Program Executive Officers and their assigned program managers, who are responsible for meeting the cost, schedule, and performance requirements of their assigned programs. NAVAIR is the principal provider for the Naval Aviation Enterprise, which maintains top combat effectiveness by smartly managing precious resources and attack readiness degraders, while collaborating across organization boundaries to deliver ready forces where and when they are needed. NAVAIR is headquartered in Patuxent River, MD with military and civilian personnel stationed at eight locations across the continental United States and one site overseas.

Naval Facilities Engineering Command

The Naval Facilities Engineering Command (NAVFAC) delivers and maintains quality, sustainable facilities; acquires and manages capabilities for the Navy's expeditionary combat forces; provides contingency engineering response; and enables energy security and environmental stewardship. NAVFAC is a global organization with an annual volume of business in excess of $11 billion. NAVFAC has 18,000 Civil Engineer Corps officers, civilians, and contractors, who serve as engineers, architects, contract specialists and professionals to manage the planning, design, construction, contingency engineering, real estate, environmental, and public works support for Navy shore facilities around the world. As a major Navy systems command and an integral member of the Navy and Marine Corps team, NAVFAC delivers timely and effective facilities engineering solutions worldwide. NAVFAC has 12 component commands and is headquartered at the Washington Navy Yard in Washington, DC.

Naval Sea Systems Command

The Naval Sea Systems Command (NAVSEA) has a force of 60,000 civilian and military personnel including personnel assigned at public shipyards and regional maintenance centers where NAVSEA is the operating agent and technical authority. NAVSEA provides material support to the Navy, Marine Corps, and other agencies, as assigned, for ships, submersibles, and other sea platforms; shipboard combat systems and components; and other surface and undersea warfare and weapons systems including ship and aviation interface systems; and surface and submarine expendable ordnance. NAVSEA exercises technical authority and certification authority for ship, submarine, diving, and weapon systems. NAVSEA reports to CNO and the Commandant of the Marine Corps for the execution of logistics sustainment and operating forces responsibilities. The organization is located at the Washington Navy Yard in Washington, DC and is responsible for chartering two warfare centers, Naval Surface Warfare Center and Naval Undersea Warfare Center, and 9 working capital fund divisions located throughout the U.S. NAVSEA is also responsible for 9 field activities including 4 Supervisors of Shipbuilding who administer contracts with private sector shipbuilders.

Naval Special Warfare Command

The Naval Special Warfare Command (NSWC) mission is to man, train, equip, deploy, and sustain Naval Special Warfare (NSW) forces for operations and activities abroad in support of combatant commanders and U.S. national interests. The NSW community encompasses the Echelon II headquarters, Naval Special Warfare Command, and seven Echelon III commands (seven NSW Groups and the NSW Center), as well as the Echelon IV commands subordinate to the Echelon IIIs. Echelon IV commands include operational forces i.e. Special Warfare Operators (SEAL) Teams and Special Boat Teams, logistics commands, training commands and detachments, mobile communications teams, NSW Units (OCONUS), and a National Mission Force.

NSWC is currently comprised of 10,793 total funded billets (Active Duty, Reserve, Government Civilian, and Contractors), including 2,885 active-duty SEAL billets, 809 Special Warfare Boat Operator billets, 4,457 support billets, 1,012 reserve billets, 1,283 Government civilian FTEs, and 347 contractor FTE. The NSW Force is organized around 8 SEAL teams, one SEAL Delivery Vehicle Team, three Special Boat Teams, and supporting commands which deploy forces worldwide to meet the requirements of theater commanders. NSWC constitutes 11% of U.S. Special Operations Forces and less than 2% of Navy forces. NSWC is headquartered in San Diego, CA.

Naval Supply Systems Command

Naval Supply Systems Command (NAVSUP) provides U.S. naval forces with quality supplies and services. With headquarters in Mechanicsburg, PA, and employing a diverse workforce of more than 22,500 military and civilian personnel, NAVSUP oversees logistics programs in the areas of supply operations, conventional ordnance, contracting, resale, fuel, transportation, and security assistance. NAVSUP is responsible for quality-of-life support for naval forces, including food service, postal services, Navy Exchanges, and movement of household goods. In addition to its headquarters activity, the NAVSUP enterprise is comprised of four major organizations with 12 commands located worldwide.

Office of Naval Intelligence

The Office of Naval Intelligence (ONI) is the leading provider of maritime intelligence to the Navy and joint warfighting forces, as well as national decision makers and other consumers in the Intelligence Community. ONI specializes in the analysis, production and dissemination of vital, timely and accurate scientific, technical, geopolitical and military intelligence information. The command supports a broad range of customers worldwide including the fleet, warfighters, the Navy acquisition community, national intelligence community, law enforcement agencies, foreign and coalition partners, and national decision makers. ONI employs more than 3,000 military, civilian, and mobilized reservists and contractor personnel worldwide, including analysts, scientists, engineers, specialists, and technicians. ONI is headquartered in Suitland, MD.

Office of Naval Research

Naval science and technology (S&T) delivers new capabilities to the Navy and Marine Corps that ensure continued superiority of U.S. naval forces today and warfighters in the future. In keeping with its mandate, the Office of Naval Research (ONR) plans, fosters, and encourages scientific research in recognition of its paramount importance to future naval power and national security. Led by the Chief of Naval Research, ONR provides technical advice to the CNO and SECNAV and oversees the execution of Naval S&T objectives to support a Navy and Marine Corps that is capable of prevailing in any environment. This is done through focusing on S&T areas with big payoffs, encouraging innovative thinking and business processes, and striving to improve the transition of S&T into acquisition programs in the most cost-effective means possible, striking the right balance between responsive near-term technology insertion and long-term basic research. ONR organization employs approximately 1,050 people, comprising uniformed, civilian, and contract personnel. Additional employees staff the Naval Research Lab in Washington, DC. ONR is headquartered in Arlington, VA.

Space and Naval Warfare Systems Command

As the Navy's Information Dominance systems command, the Space and Naval Warfare Systems Command (SPAWAR) develops, delivers, and sustains advanced cyber capabilities for the warfighters. SPAWAR, along with its system centers, space field activity, and three program executive offices, provides the hardware and software needed to execute Navy missions. With nearly 10,000 active duty military and civilian professionals located around the world and close to the fleet, SPAWAR is at the forefront of research, engineering, and acquisition, keeping the forces connected around the globe. As one of the Department of the Navy's major acquisition commands, SPAWAR's realm of expertise is in information technology. SPAWAR creates products and services that transform ships, aircraft, and vehicles from individual platforms into integrated warfighting networks, delivering and enhancing information awareness among all key players. SPAWAR pursues cutting-edge research and development for the Navy's growing cyberspace capabilities and provides the hardware and software that support manned and unmanned systems in the air, at sea, on land, and in space. SPAWAR is headquartered in San Diego, CA.

Strategic Systems Program

Strategic Systems Programs (SSP) directs the end-to-end effort of the Navy's Strategic Weapons Systems to include training, systems, equipment, facilities and personnel, and fulfill the terms of the United States/United Kingdom Polaris Sales Agreement. SSP's five lines of business include The Strategic Weapons System, Nuclear Weapons System, Guided Missile Submarine (SSGN) Attack Weapons System, Emerging Missions, and Navy Treaty Implementation Program. In addition, Director SSP has been assigned the responsibility and authority as Nuclear Weapons Regulator via SECNAVINST 8120.1A. SSP is headquartered at the Washington Navy Yard in Washington, DC.

U.S. Fleet Forces Command

The U.S. Fleet Forces Command (COMUSFLTFORCOM) supports both the CNO and Combatant Commanders worldwide by providing responsive, relevant, sustainable Naval forces ready-for-tasking. COMUSFLTFORCOM provides operational and planning support to Combatant Commanders and integrated warfighter capability requirements to the CNO. Additionally, U.S. Fleet Forces Command serves as the CNO's designated Executive Agent for Anti-Terrorism/Force Protection (ATFP), Individual Augmentees (IA), and Sea Basing. In collaboration with U.S. Pacific Fleet, U.S. Fleet Forces Command organizes, mans, trains, maintains, and equips Navy forces; develops and submits budgets; and executes readiness and personnel accounts to develop both required and sustainable levels of fleet readiness. The U.S. Fleet Forces Command has over 120,000 personnel serving around the world. COMUSFLTFORCOM is headquartered in Norfolk, VA.

U.S. Pacific Fleet

The Commander, U.S. Pacific Fleet (COMPACFLT) is the world's largest fleet command, encompassing 100 million square miles, more than half the Earth's surface. The Pacific Fleet consists of approximately 200 ships, nearly 2,000 aircraft and 143,557 Sailors, Marines and civilians. U.S. Commands that fall directly under the Pacific Fleet include "type" commands for surface ships, submarines, aircraft, and Navy construction with an annual budget of $12.7 billion. Operational commands that report directly to the U.S. Pacific Fleet include Third Fleet in the Eastern Pacific and Seventh Fleet in Western Pacific and Indian Ocean. U.S. Pacific Fleet protects and defends the collective maritime interests of the United States and its allies and partners in the Asia-Pacific region. In support of U.S. Pacific Command and with allies and partners, U.S. Pacific Fleet enhances stability, promotes maritime security and freedom of the seas, deters aggression and when necessary, fights to win. The U.S. Pacific Fleet is headquartered at Pearl Harbor, HI.

U.S. MARINE CORPS

The Marine Corps, established on November 10, 1775, currently consists of Active Duty Marines, Select Reserve Marines, and Inactive Ready Reserve (IRR). At any given time, approximately 30,000 Marines are forward deployed in operations supporting our nation's defense.

Headquarters Marine Corps consists of the Commandant of the Marine Corps and those staff agencies that advise and assist him in discharging his responsibilities prescribed by law and higher authority. This includes the administration, discipline, internal organization, training, requirements, efficiency, and readiness of the service. Headquarters Marine Corps is spread throughout the Washington, DC metro area, including the Pentagon, Marine Barracks Washington, DC, Marine Corps Base Quantico, and the Washington Navy Yard.

The operating forces are subdivided into four categories: Marine Corps Forces, including all Marine ground, aviation, and combat logistics; Marine Corps Reserves, Marines who support the Active Component by fielding deployable units; Security Forces, which protect key installations, vessels, units, and assets of the United States Government; and Special Activity Forces, who guard United States embassies and foreign posts.

The supporting establishment includes all bases, air stations, and installations. They assist in training, sustainment, equipping, and embarkation of deploying Marine Forces.

Headquarters, U. S. Marine Corps

Headquarters, U.S. Marine Corps (HQMC) consists of the Commandant of the Marine Corps and those staff agencies that advise and assist him in discharging his responsibilities prescribed by law. The Commandant is directly responsible to the Secretary of the Navy for the overall performance of the Marine Corps. This includes the administration, discipline, internal organization, training, requirements, efficiency, and readiness of the service. Also, as the Commandant is a member of the Joint Chiefs of Staff, HQMC supports him in his interaction with the Joint Staff. The Commandant also is responsible for the operation of the Marine Corps material support system.

U.S. Marine Corps Forces Command

Located in Norfolk, VA, U.S. Marine Corps Forces Command (MARFORCOM) is tasked with: commanding Active Component (AC), Marine Corps-retained operating forces; executing force sourcing and synchronization to provide joint commanders with the Marine Corps forces they require; directing deployment planning and the execution of Marine-Corps-retained operating forces in support of combatant commander and service requirements; serving as Commanding General, Fleet Marine Forces Atlantic (CGFMFLANT) and commanding embarked Marine Corp forces; coordinating Marine Corps-Navy integration of operational initiatives and advising the Commander, U.S. Fleet Forces Command on Navy support to Marine Corps forces assigned to naval ships, bases, and installation; and serving as Commander, Marine Forces Europe.

U.S. Marine Corps Forces, Cyberspace Command

Recognizing the significance of the cyberspace domain to national security, the Secretary of Defense directed the establishment of U.S. Cyber Command (CYBERCOM) as a sub-unified command under the U.S. Strategic Command. The primary objective of CYBERCOM is to integrate the computer network operations capabilities of the services and agencies in support of the National Strategy to Secure Cyberspace (NSSC). In response, the Marine Corps established U.S. Marine Corps Forces Cyberspace Command (MARFORCYBER) in October 2009. (This was complemented by the standing up of the Navy's U.S.Tenth Fleet/Fleet Cyber Command in January 2010.) MARFORCYBER's mission is to plan, coordinate, integrate, synchronize, and direct full spectrum Marine Corps cyberspace operations.

U.S. Marine Corps Forces, Pacific

U.S. Marine Corps Forces, Pacific (MARFORPAC) has three command roles and responsibilities. The command serves as U.S. Marine Corps component to U.S. Pacific Command (USPACOM), U.S. Marine Corps component to U.S. Forces Korea (USFK), and Fleet Marine Forces Commander to Pacific Fleet. In addition to its service component responsibilities, MARFORPAC could be tasked to act as a joint task force command element. With its headquarters located aboard Camp H. M. Smith, HI, MARFORPAC is the largest field command in the Marine Corps, having control of two-thirds of Marine Corps operational forces. Commander, MARFORPAC commands all U.S. Marine Corps forces assigned to USPACOM operating in a diverse geographic area stretching from Yuma, AZ to Goa, India.

U.S. Marine Corps Forces Reserve

Headquartered in New Orleans, LA, U.S. Marine Corps Forces Reserve (MARFORRES) is responsible for providing trained units and qualified individuals for active-duty service in times of war, national emergency, or in support of contingency operations. Marine Corps force expansion is made possible by activation of the Marine Corps Reserve. As an operational reserve, MARFORRES provides personnel and operational tempo relief for active component forces during times of peace. Like the active component, MARFORRES is a combined-arms force with balanced ground, aviation, and logistics combat support units. MARFORRES capabilities are managed through MARFORCOM as part of its global force management responsibilities for the Commandant. Commander, MARFORRES is also Commander, Marine Forces Northern Command (MARFORNORTH) and serves as the Marine component of NORTHCOM.

U.S. Marine Corps Forces, Special Operations Command

U.S. Marine Corps Forces, Special Operations Command (MARFORSOC) was formally established February 23, 2006 and is the Marine Corps component of the U.S. Special Operations Command (USSOCOM). Headquartered at Camp Lejeune, NC, MARFORSOC trains, organizes, equips, and when directed by the Commander USSOCOM, deploys task organized, scalable and responsive Marine Corps Special Operation Forces (SOF) worldwide in support of combatant commanders and other agencies. MARFORSOC includes three subordinate commands; Marine Special Operations Regiment (MSOR); the Marine Special Operations Support Group (MSOSG); and the Marine Special Operations School (MSOS) at Camp Lejeune, NC.

Marine Corps Installations Command

Marine Corps Installations Command (MCICOM) is the single authority for all installation matters. MCICOM consists of a headquarters and four subordinate commands: Marine Corps Installations Pacific, Marine Corps Installations West, Marine Corps Installations East, and Marine Corps Installations the National Capital Region. The forces assigned to MCICOM provide timely support to the Marines, Sailors, and families from the operating forces and maintenance depots. MCICOM directly supports Marine Corps Operating Forces, individual Marines and family members. They are essential components in the foundation of national defense as they are the force projection platforms that support training, sustainment, mobilization, deployment, embarkation, redeployment, reconstitution, and force protection.

Marine Corps Logistics Command

Headquartered in Albany, GA, Marine Corps Logistics Command (LOGCOM) provides worldwide, integrated logistics, supply chain, and distribution management; maintenance management; and strategic prepositioning capability in support of the operating forces and other supported units. The services and support provided by LOGCOM maximize supported unit readiness, synchronize distribution processes, and support Marine Corps enterprise and program-level total lifecycle management. LOGCOM is the Marine Corps Executive Agent for the tactical coordination, planning, and execution of ground equipment reset. LOGCOM is the lead agency for the retrograde and reset of equipment returning from Afghanistan, and continues to expedite, track, and process principal end items and other classes of supply from Operation Enduring Freedom. LOGCOM manages the enterprise lifecycle maintenance program that resets designated ground weapon systems, and provides critical sustainment logistics support to Marine forces currently deployed to Afghanistan.

U.S. Navy Civilians: 175,237
(Full-time Equivalents)

U.S. Navy Active: 327,862
(Officers, Enlisted, and Midshipmen)

U.S. Navy Reserve: 57,359
(Drilling Reserve and Full-time Support)

U.S. Marine Corps Civilians: 23,405
(Full-time Equivalents)

U.S. Marine Corps Active: 183,410
(Officers and Enlisted)

U.S. Marine Corps Reserve: 38,906
(Drilling Reserve and Full-time Support)

Personnel Data as of Fiscal Year Ended September 30, 2015

Standing aft look-out watch aboard a guided-missile destroyer as the ship transits the Mediterranean Sea. (U.S. Navy photo by Mass Communication Specialist 3rd Class Robert S. Price/Released)

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 approach that will apply maritime power to the crucial responsibility of protecting vital U.S. 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 (during wartime) — closer together than ever before in a mission to more fully safeguard maritime interests at home and abroad.

The DON's six priority objectives support the U.S. maritime strategy by focusing on key efforts that will increase effectiveness and improve the lives of Sailors, Marines, and their families, which results in greater security for the nation and U.S. global interests. A summary of key accomplishments by objective begins below.

Objective 1: Take Care of Our People

Sailors and Marines are the DON's greatest advantage and most important asset. The Navy and Marine Corps have the best people in the world. Sailors and Marines are well known for the ability to exercise independent judgment, as well as the flexibility to adapt to changing circumstances or environments that were unanticipated at the start of a deployment, but for which their training has fully prepared them. Providing the Sailors, Marines, and civilian workforce the resources to deal with the uncertainties they will certainly face and providing the support that they need to do their jobs is one of the DON's most important responsibilities. This also extends to helping their dedicated families and ensuring support of wounded or injured veterans.

The DON continues to deploy the 21st Century Sailor and Marine Initiative as an overarching method of supporting people. The goal is to help Sailors and Marines maximize their personal and professional readiness, and to assist them and their families with the mental, physical, and

Sailors weigh in for the semi-annual physical fitness assessment on the rooftop of a barge ship. (U.S. Navy photo by Mass Communication Specialist Seaman Jonathan Nelson/Released)

Petty officer anchors pinning ceremony. (U.S. Navy photo by Mass Communication Specialist 2nd Class Kory Alsberry/Released)

emotional challenges of military service. In particular, the DON is working to counter the challenges of suicide, sexual assault, and alcohol-related incidents. The DON trended positively for the 21st Century Sailor and Marine programs in FY 2015 compared to FY 2014. Navy and Marine Corps personnel readiness data show a decrease in suicides, decreases in losses due to alcohol and drug abuse, and a decline in sexual harassment reports, discrimination reports, substantiated sexual harassment reports, and substantiated discrimination.

The DON must ensure that it promotes the health of Sailors and Marines and therefore, a Fuel to Fight program was launched by the SEALS which increases the availability of lean-proteins, vegetables, and complex carbohydrates in the DON's galleys. Additionally, all gyms on all naval bases and offices are now open 24 hours a day, 7 days a week. The Navy recognizes that employees are busy juggling work and family and it is not unusual to encounter issues which impact their quality of life. This includes employees who are soon to be mothers. The DON announced that it will increase the amount of maternity leave for new mothers to eighteen weeks, which must be used during the child's first year. This increase demonstrates the commitment of the DON to the women who are committed to serve. With the additional leave, there is a likelihood that a woman will return to and stay in her career, yielding higher readiness and retention for the services.

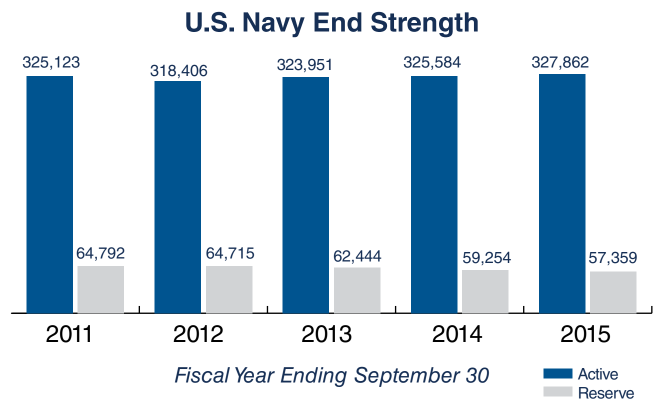
The DON has continued to advocate and remove barriers to promote a gender-neutral force. The Marine Corps has made approximately 94% of the military occupational specialties available to women. The infantry, artillery, tank, and assault amphibious vehicle occupation fields are still the focus of ongoing Marine Corps research to establish occupationally specific, operationally relevant, gender-neutral physical standards. The Navy filled the first group of billets for enlisted female submariners. Four chief petty officers and 34 Sailors in the grades E-6 and below were selected for two crews of the USS Michigan, an Ohio-class guided-missile submarine based out of Bangor, WA. These selections are only the first step in a long-term plan to integrate the submarine force and provide opportunities for women in the Navy to serve in all types of submarines in support of all missions in the undersea warfare domain.

The DON facilitated collaborative relationships with other services and agencies to increase effectiveness of care, resource efficiencies, and the seamless transition of service members to the Department of Veterans Affairs (VA). Some examples include oversight and monitoring of Navy medicine's results on the Secretary of Defense's mandated Military Health System (MHS) Review and participation and feedback to the MHS Modernization Study, which was an analysis and review of capabilities of all medical treatment facilities and private sector care usage accounting for force structure and modernization adjustments. Also, the DON facilitated improvements in the Service Treatment Record (STR) process management and renewal in support of eliminating the VA claims backlog, enabling the VA to achieve less than 100,000 claims for the first time since the STR process started. Additionally, STR compliance to transition records from the DoD to the VA within 45 business days has increased over the last year. Navy compliance is 77% and Marine Corps compliance is above 90%.

The DON continues to uphold the standards of equality, freedom, and opportunity and has fostered an environment where individuals are safe from prejudice. This is essential to maintaining high morale, good order, discipline, and readiness.

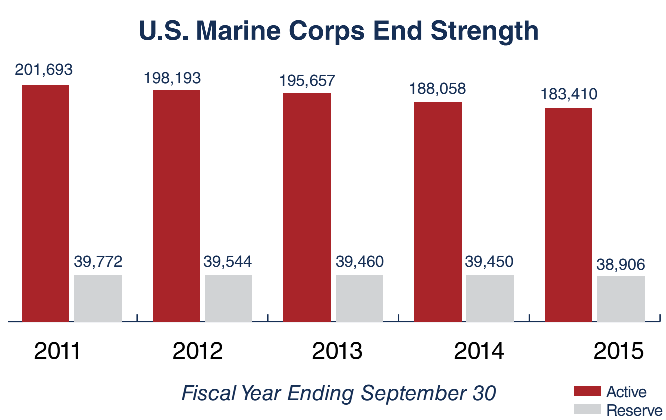
U.S. NAVY

The Navy continues to resize and reshape its forces to meet its mission requirements more efficiently and effectively. This is especially important in an environment of limited budgetary resources and rising personnel costs. Over the last five years, the Navy has resized its active and reserve components by 1% and -11%, respectively. The Navy has been able to accomplish all assigned missions at this level because of force structure changes, efficiencies gained through technology, modifications in workforce mix, and new manning practices.



U.S. MARINE CORPS

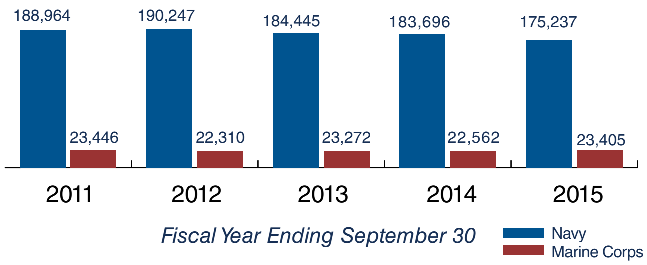
The Marines Corps continues to provide a balanced force adequately postured for future National Security Strategy requirements, while supporting operations in a post-Afghanistan security environment requiring greater affordability. The Marine Corps enduring end strength of 183,410 and the corresponding ready and capable force structure will provide a strategically mobile, middleweight force optimized for rapid crisis response and forward-presence. The drawdown of the Marine Corps Active Component end strength to 182,100 as outlined in the National Security Strategy will be completed by the end of FY 2016.



NAVY AND MARINE CORPS CIVILIAN PERSONNEL

The size of the civilian workforce, which has decreased by 4.6% over the last five fiscal years, continues 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.

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.

Objective 2: Maintain Warfighter Readiness and Avoid Hollowness

The Navy and Marine Corps are the nation's first line of defense, often far from the shores. As such, maintaining America's leadership role in the world requires the DON to reassess the approach to shifting relationships and global responsibilities. The newly issued maritime strategy has affirmed the DON's focus on providing presence around the world in order to ensure stability, build on relationships with allies and partners, prevent wars, and provide the nation's leaders with options in times of crisis. It has confirmed the continued commitment to maintain the combat power necessary to deter potential adversaries and to fight and win when required.

During FY 2015, the Navy began implementation of the Optimized Fleet Response Plan (OFRP) to stabilize operational and maintenance schedules, protect time-to-train, and provide a degree of improved stability for Sailors and their families. The plan aims to streamline pre-deployment inspection requirements and increase readiness by putting all members of a strike group on the same maintenance and deployment schedule. Starting in FY 2015, all required maintenance, training, evaluations, and single eight-month deployment will be effectively scheduled throughout the cycle in such a manner to reduce costs and increase overall fleet readiness. The OFRP implementation began November 2014 with the Harry S. Truman Carrier Strike Group and will eventually roll out to all Navy assets from the Amphibious Readiness Group/Marine Expeditionary Unit to submarines and expeditionary forces.

Sustainable Level of Navy Presence

The DON continues funding the necessary requirements to ensure the ability to protect vital U.S. interests and assure and assist friends in crisis situations. During FY 2015, the Navy stood up the Marine Corps Special Purpose Marine Air Ground Task Force for Crisis Response Africa (SPMAGTF-CR-AF) to provide resupply and transportation support to aid in remote areas in West Africa affected by the Ebola epidemic. The Navy also deployed over 100 Marines in support of the U.S. humanitarian assistance efforts (earthquake relief and rescue) in Nepal during April and May 2015. The Navy conducted embassy reinforcement, tactical strength challenge exercises, and provided critical aviation and ground capabilities in the fight against Islamic State of Iraq and the Levant (ISIL).

Innovation through Technology

The fleet must be ready to protect freedom while meeting today's extraordinary challenges. Consequently, decisions must be centered on what Sailors and Marines need to perform their jobs effectively and efficiently. The Department has acquired and continues to invest in proven technology that Sailors can use and depend on at sea and ashore. During FY 2015, the Navy developed and submitted a business case analysis to the DoD Chief Information Officer (CIO) that documents how existing investments in Navy Enterprise Email are sound and will align to Joint Information Environment (JIE). The DON CIO provided subject matter experts and artifacts in support of integrated design teams in the following areas, but not limited to, core data centers, enterprise operation centers, and network normalization.

During FY 2015, the Navy also integrated overseas enterprise network with Next Generation Enterprise Network (NGEN), which will further standardize the Navy's network architecture and governance while providing the "on-ramp" to the JIE. This effort will increase mission effectiveness, use of enterprise solutions, and use of common standards across the DON.

Objective 3: Lead the Nation in Sustainable Energy

Energy is critical to the DON's ability to provide the global presence necessary to ensure stability, deter

An E-2C Hawkeye performs a "touch-and-go" on the flight deck of aircraft carrier USS Harry S. Truman. (U.S. Navy photo by Mass Communication Specialist 3rd Class Ethan T. Miller/Released)

potential adversaries, and present options in times of crisis—wherever and whenever they might arise.

Energy availability costs and security are at the forefront of the challenges faced by the nation, DoD, and the Navy. The cost of energy needed to complete Navy missions is becoming more volatile and less secure. Both price volatility and supply predictability are strategic concerns since Navy operational flexibility and sustainability are linked directly to access of energy. High energy costs siphon away resources that can be used to procure Force Structure and to train and equip Sailors. The potential for disruption of fuel supplies threatens the ability to perform in the battle space and the vulnerability of energy supplies to facilities puts the ability to support deployed forces at risk. The nation and naval forces rely heavily on a finite source of fuel from volatile global regions.

With these risks in mind, the DON has taken a bolder, more aggressive stance toward energy reform by committing to five energy goals (see chart). These goals require adoption of new fuels and development of new systems and energy efficient practices and techniques over the next few years. The Navy's strategy in achieving these goals is centered on energy security, efficiency, and

Placing the SPS-48 air search radar on the USS Abraham Lincoln while undergoing a refueling complex overhaul (RCOH) at Newport News Shipbuilding. (U.S. Navy photo by Mass Communication Specialist 3rd Class Ryan L. Wampler/Released) sustainability while remaining the preeminent global maritime power.

Hybrid Electric Power

During FY 2015, the Navy commissioned USS America which is driven by hybrid electric power plants. This is the same engineering design used in USS Makin Island that, for her maiden deployment, cut fuel consumption nearly in half when compared to other big deck amphibious ships. The hybrid electric propulsion system is an energy initiative designed to give the ship the benefit of increased range, endurance, and time on station, enhancing its combat capability. It also provides greater flexibility in scheduling refueling and reduces maintenance costs.

As part of the energy initiative, the Navy will begin installing a hybrid electric drive system (HED) on 34 Arleigh Burke class guided missile destroyers in a bid to lower the fuel costs of the ships. The system, which will marry an electric motor to the ships' main reduction gear to drive the ship at low speeds, promises to save the Navy thousands of barrels of fuel over a ship's deployment. While the Arleigh Burke class destroyers' gas turbines are highly efficient at top speeds, the efficiency decreases at lower speeds, wasting more fuel. The HED motor is capable of turning the drive shaft and propelling the ship at speeds less than 13 knots. That speed range works well for missions like ballistic missile defense or maritime security operations. Lowering the rate of fuel consumption during low speed operation increases mission effectiveness through greater time on station. In an operational context, using HED 50% of the time increases time on station by as much as 2.5 days between refueling.

Solar Energy

In 2009, Congress mandated that the DoD produce or procure 25% of total DoD facility energy from renewable sources by 2025, with each service responsible for generating a portion of that renewable energy. Since 2009, the DON has made significant progress in adopting renewable energy to improve energy security, operational capability, strategic flexibility, and resource availability. The SECNAV challenged the DON to accelerate efforts and bring one gigawatt (GW) into procurement by the end of 2015. A longtime leader in energy innovation, the Navy continues to collaborate with industry to develop new energy resources, which are important to the DON as well as the surrounding communities.

In FY 2015, the DON entered into an agreement to construct a 210 megawatt (MW) direct current (DC) solar facility to benefit 14 DON installations on the west coast. The agreement is the largest purchase of renewable energy ever made by a federal entity. They also awarded a contract for the long-term purchase of 25 MW DC to supply 6% of Naval Station Norfolk. Adding solar power to naval installations will help diversify the DON's shore energy portfolio and provide long-term cost stability, which ultimately contributes to the DON's energy security priorities. These agreements are also projected to save the DON at least $90 million over the life of the projects. Access to reliable supplies of energy is critical for the DON to execute its missions at home and abroad. In addition to more and different types of power sources, signing long-term contracts for a set price informs long-term planning for energy and provides needed stability. The DON will continue to seek agreements like these to help enhance energy security and operational capacity.

With the signing of these two agreements, the recent groundbreaking at Camp Lejeune, NC, (17 MW) and upcoming groundbreaking at Kings Bay, GA, (42 MW), the Navy is on track to meet its goal of one GW by the end of 2015 with a total 1.2 GW of projects in the pipeline.

Telematics

The first of approximately 3,330 government vehicles were installed with telematics devices during FY 2015 as part of the Navy's overall shore energy initiatives. Vehicles throughout CONUS and OCONUS bases will have devices fitted. Telematics will be used to help with fuel savings and fleet management of DON vehicles. Telematics refers to the use of wireless devices and "black box" technologies to transmit data in real time back to an organization using installed devices that collect and transmit data on vehicle use, maintenance requirements or automotive servicing. Telematics will track and record vehicle location, routes driven, mileage, days-per-month used, and trips-per-month, and provide various analytical reports or dashboards.

Data obtained from telematics will enable the Navy to make informed vehicle reduction or allocation decisions. It will also determine which vehicles could be replaced with electric vehicles, and support efforts to change certain behaviors like speeding or excessive idling. Plans for the shore enterprise include the ability to 'right size' the Navy's vehicle fleet and reduce fuel consumption, ultimately contributing to SECNAV's goal to reduce petroleum consumption by 50%, compared to the 2005 baseline. In addition, organizations that adopt telematics often report reductions in the number and severity of accidents and associated reductions in repair cost and lost work time.

Department of the Navy Energy Goals

Energy Efficient Acquisition: Evaluation of energy factors will be mandatory when awarding contracts for systems and buildings.

Sail the "Great Green Fleet": DON will demonstrate a Green Strike Group in local operations by 2012 and sail it by 2016.

Reduce Non-Tactical Petroleum Use: By 2015, DON will reduce petroleum use in the commercial fleet by 50%.

Increase Alternative Energy Ashore: By 2020, DON will produce at least 50% of shore-based energy requirements from alternative sources; 50% of DON installations will be net-zero.

Increase Alternative Energy Use DON-Wide: By 2020, 50% of total DON energy consumption will be from alternative sources.

Secretary of the Navy Ray Mabus receives briefs on green energy, recycling and water conservation initiatives and the training conducted on Marine Air Ground Task Force Training Command. (U.S. Navy photo by Mass Communication Specialist 2nd Class Armando Gonzales/Released)

Objective 4: Promote Acquisition Excellence and Integrity

The DON is continuing its reform of acquisition practices, including fundamental changes to how they contract for services. They are establishing additional discipline in the contractual services process—from requirements to tracking to execution to surveillance—that ensures the integrity of the system remains high and to guard against fraud. Also, as a result of reformed contracting processes, the DON fully expects to achieve reductions in contractual services that began last FY, realigning those resources to buying more material equipment and readiness for the force.

The DON continues to aggressively implement acquisition practices that improve the return for each taxpayer dollar spent. Improved management of requirements, multiyear procurements, appropriate incentive contracts, additional competitions, and small business initiatives are but a few of the tools the DON is using to maximize the return on each dollar invested on behalf of the taxpayer.

During FY 2015, the DON implemented the DoD's Better Buying Power (BBP) 3.0. BBP is the implementation of best practices to strengthen the Defense Department's buying power, improve industry productivity, and provide an affordable, value-added military capability to the Warfighter. New in BBP 3.0 is a strong emphasis on innovation, technical excellence, and the quality of products. Core initiatives focus on: ensuring the programs pursued are affordable, mandating managers identify and pursue "should cost" savings opportunities, providing effective incentives to industry, emphasizing competition, reducing bureaucracy, improving acquisition of contracted services, and building professionalism. One example of results utilizing the BBP guidance is the F414 Engine Performance Based Logistics program. This partnership has documented business case savings totaling over $90 million which were obtained by adopting supply chain best practices and focusing on the desired outcomes of BBP.

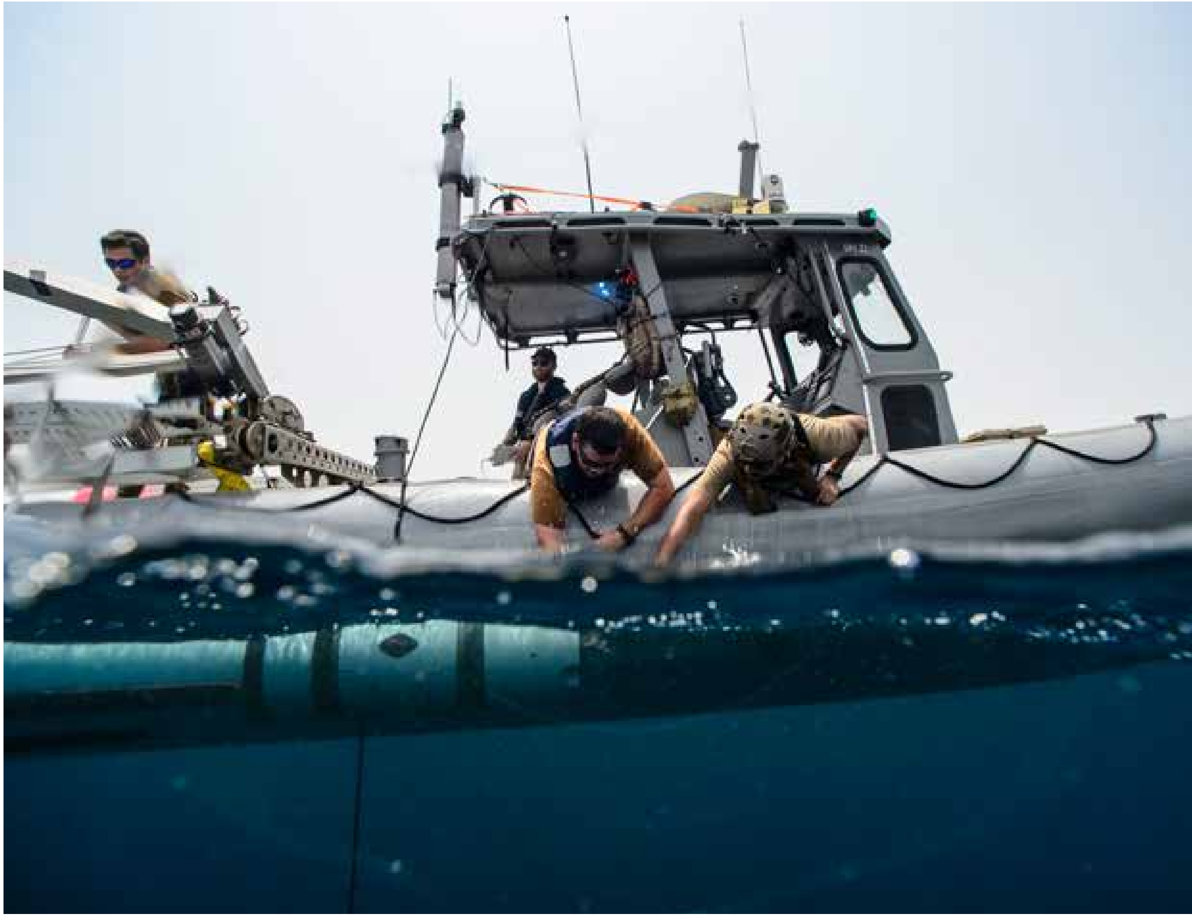
The DON assisted in developing a new husbanding service provider (HSP) contract policy to reduce fraud vulnerabilities in HSP contracting by reducing dependence on a single contractor, increasing competition, increasing regular contract quality assurance oversight, and reducing vulnerabilities associated with the ordering and payment processes. The new procedures take the responsibility for the ordering and payment of husbanding services off of the ship's Supply Department and places it at shore activities. The procedures relieve busy shipboard personnel of the administrative tasks associated with port visit costs and provide centralized oversight of the process and ensure the taxpayers are getting the best value for their money. The new procedures require the ship and vendor to submit their final invoices into inventory, receipt, acceptance and property transfer (iRAPT), a secure web-based system for electronic invoicing, receipt, and acceptance. A contracting officer's representative validates that the two sets of invoices match and submits the accepted invoices for electronic payment by the Defense Finance and Accounting Service (DFAS).

Also in FY 2015, the Department proposed regulation and policy changes intended to both reduce fraud-related vulnerabilities and increase the DON's ability to respond to fraud. The Acquisition Integrity Office (AIO) and Assistant General Counsel, Research Development & Acquisition proposed a change to the Federal Acquisition Regulation that would allow for suspension and debarment of a contractor based only on a prior conviction. During FY 2015, the AIO substantially exceeded the total number of administrative actions, such as suspensions, proposed debarments, and debarments of irresponsible or poorly performing contractors over FY 2014.

Objective 5: Proliferate Unmanned Systems

To sustain the Navy's ability to defeat aggression, respond to crises, and strengthen partnerships, the DON must continue developing and integrating unmanned systems that improve the ability to operate beyond the limits of human endurance and in highly contested, high-risk environments. This includes air, surface, undersea, and land-based applications.

Progress made in the past year shows that the Navy and Marine Corps are leading the way in technological



Sailors assigned launch an Mk 18 Mod 2 unmanned underwater vehicle from an 11-meter rigid-hull inflatable boat while conducting mine countermeasures, explosive ordnance disposal, salvage diving, and force protection operations. (U.S. Navy photo by Mass Communication Specialist 2nd Class John Paul Kotara II/Released) advances, creating a 21st century force with Sailors and Marines providing the innovative thinking and developing new ideas that are crucial to success. The unmanned systems and platforms being developed today will become a central part of the Navy and Marine Corps of tomorrow and will help ensure the forces continue to be the most powerful expeditionary fighting force the world has ever known.

During FY 2015, the Navy conducted the first ever Autonomous Aerial Refueling (AAR) of an unmanned aircraft using the X-47B. While flying off the cost of Maryland and Virginia, the X-47B connected to an Omega K-707 tanker aircraft and received over 4,000 pounds of fuel using the Navy's probe-and-drogue method. During the test, the X-47B exchanged refueling messages with a government-designed Refueling Interface Systems (RIS) aboard the tanker. The aircraft autonomously maneuvered its fixed refueling probe into the tanker's drogue, also known as the basket, the same way a Navy pilot would refuel a manned aircraft.

Also during FY 2015, the Navy had a technological breakthrough that will allow unmanned surface vehicles (USV) to autonomously "swarm" offensively on hostile vessels. This allows unmanned Navy vessels to overwhelm an adversary. A USV's sensors and software enable swarming capability, giving naval warfighters a decisive edge. The technology allows boats to operate autonomously, without a Sailor physically needing to be at the controls including operating in sync with other unmanned vessels, choosing their own routes, swarming to interdict enemy vessels, and escorting/protecting naval assets. The technology is under development by ONR and can be put into a transportable kit and installed on almost any boat. In the future, the capability could scale to include even greater numbers of USVs and extend to other platforms, including unmanned aerial vehicles.

GhostSwimmer is the latest in a series of projects developed by the project Silent NEMO. Silent NEMO is an experiment that explores the possible uses for biomimetic, unmanned underwater vehicles in the fleet. The Navy completed tests on the GhostSwimmer unmanned underwater vehicle and the device gathered data on tides, varied currents, wakes, and weather conditions for the development of future tasks. GhostSwimmer will allow the Navy to have success during more types of missions while keeping divers and Sailors safe. The GhostSwimmer was developed to resemble the shape and mimic the swimming style of a large fish and can operate in water depths ranging from 10 inches to 300 feet. The unit is a combination of unmanned systems engineering and unique propulsion and control capabilities. Its bio-mimicry provides additional security during low-visibility intelligence, surveillance and reconnaissance missions and friendly hull inspections, while quieter than propeller driven craft of the same size. The robot is capable of operating autonomously for extended periods of time due to its long-lasting battery, but it can also be controlled via laptop with a 500-foot tether.

Objective 6: Drive Innovative Enterprise Transformation

The DON continues to value the importance of Innovative Enterprise Transformation to its mission and overall operations. Innovation leads the Navy towards improvements for people, to platforms, and helps every taxpayer dollar go further. The DON Transformation Plan for FY 2014-2016 sets forth the transformation priorities for the DON and establishes a clear path forward for both business transformation and institutional reform.

The DON established the Navy's Task Force Innovation, a group from across the Department comprising thinkers, experts, and warfighters with diverse backgrounds and from every level. The DON has a long tradition of creative and exceptionally talented people in the Navy and Marine Corps. The task force was charged with harnessing the creative energy of Sailors and Marines and infusing the ideas that come forward into operations. The task force focused its efforts on three main areas: leveraging innovative practices to create and maintain an adaptive workforce; ensuring the DON is effectively viewing information as an asset; and ensuring emerging operational capabilities have a clear and expedient path to the fleet. Following months of study and collaboration with the fleet, other governmental organizations, and the private sector, the task force reported their results and recommendations. From these results the DON established the five innovation elements:

1. Build the Naval Innovation Network
2. Manage the Talent of the Workforce
3. Improve the Use of DON Information
4. Accelerate Operational Capabilities to the Fleet
5. Develop Game-Changing Warfighting Concepts

Establishing Task Force Innovation will help develop the best ways to improve systems and ensure the DON is able to embrace innovative ideas at a pace that keeps ahead of today's threats.

The DON Financial Improvement and Audit Readiness (FIAR) Program

The DON FIAR Program and the Marine Corps Financial Improvement and Audit Readiness Initiatives are multiyear, Departmentwide efforts to modernize Navy and Marine Corps financial processes and systems to better serve worldwide operations. The goal of the FIAR efforts is to produce more timely financial management information with greater accuracy, reliability, and accessibility. With improved information, the DON can allocate resources in a more precise way and move closer to producing auditable DON-wide financial statements.

The FIAR efforts align with the new priorities and associated strategy established by the Under Secretary of Defense (Comptroller) for bringing DoD into a state of financial audit readiness and in compliance with the Chief Financial Officers Act of 1990 (as amended). These priorities focus on improving processes, controls, and systems that support information most often used and relied upon by both civilian and military leaders in daily business operations—budgetary information, as reported on the Statement of Budgetary Resources (SBR); and mission critical asset information, such as military equipment and real property, as reported on the Balance Sheet. These priorities demonstrate the value of these financial statements to daily business operations, particularly for funds control and resource utilization.

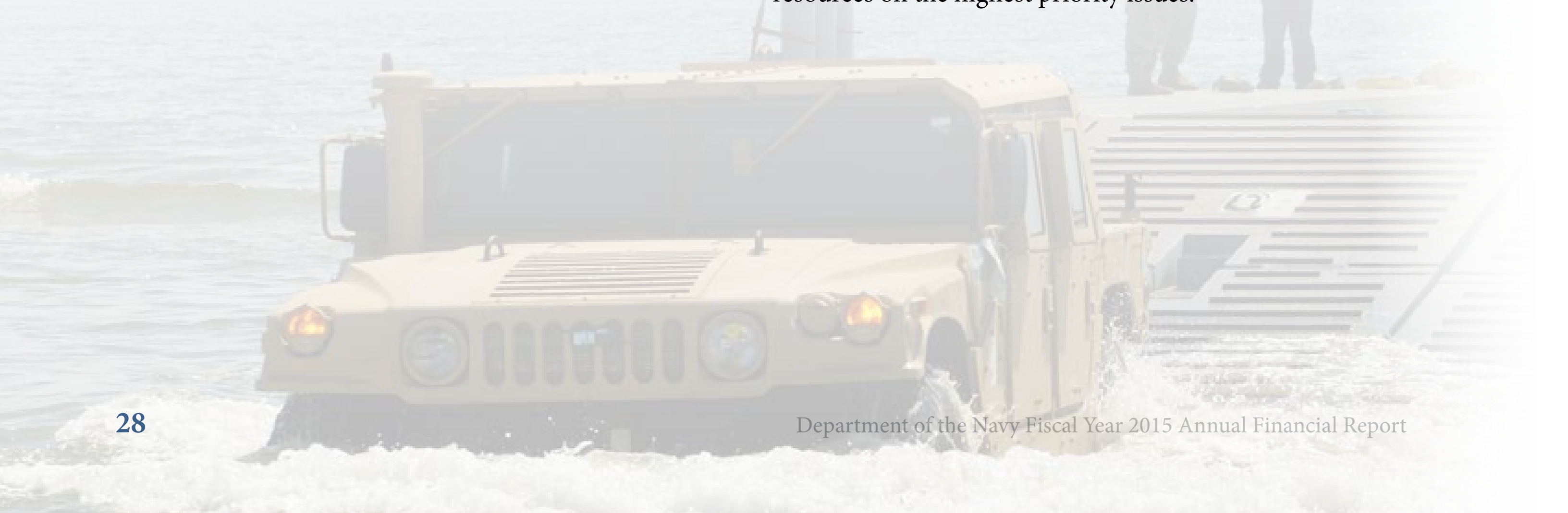
The DON, along with an Independent Public Accounting (IPA) firm, are currently conducting an audit of the Navy's General Fund FY 2015 SBA and they have made significant progress. The Navy has also developed and began implementation of a strategy to achieve full financial statement auditability. The complex effort of achieving full financial statement audit readiness required shifting from focusing on business processes to supporting line item assertions at the financial-statement level.

The DON has prioritized the Navy Working Capital Fund (NWCF) assertion activities to focus on the Balance Sheet (specifically Inventory and OM&S (Operating Materials and Supplies)). Accordingly, the DON is focusing on the Navy's proprietary accounting and the magnitude of total assets and liabilities. Based on the understanding developed for the Balance Sheet, the Navy is considering accelerating the schedule to fully audit NWCF Financial Statements prior to September 30, 2016.

The DON continues to monitor corrective action development and remediation at DFAS due to the rescinded opinion of the Marine Corps' FY 2012 SBA audit. In order to maintain audit gains and support internal control implementation from the results of the SBA audit, the DON initiated an audit of the Marine Corps 2015 SBA in September of 2015. The Marine Corps will transition to an expanded scope SBR audit during FY 2016 while it continues to resolve the findings identified during the FY 2014 SBA audit. The Marine Corps is positioned for a successful SBR audit applying the lessons learned from the SBA audits.

Evaluation, Prioritization, and Remediation

The DON established the Evaluation, Prioritization, and Remediation (EPR) program. The EPR is designed to assess the overall health of the DON's audit readiness and sustainment posture through routine testing of processes and controls that impact financial events. Through these initiatives, EPR will: institutionalize a DON-wide culture of self-assessment to enable the DON to be audit ready every day by coordinating and overseeing audit sustainment activities; facilitate BSO ownership of audit sustainment work streams down to the lowest echelons; and recommend changes to owners and inform Secretariat and Service Level Program Managers of recommended changes. The program creates a centralized capability to manage and track the remediation of deficiencies across the DON, in order to generate clean financial statements while focusing resources on the highest priority issues.



Performing maintenance on an F/A-18E Super Hornet on the flight deck of an aircraft carrier. (U.S. Navy photo by Mass Communication Specialist Seaman L. A. Preston/Released)

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

The DON Commanders, senior leaders, and managers are obligated to safeguard the integrity of their respective programs and operations. Adherence to the Federal Financial Management Improvement Act (FFMIA) and the Federal Managers' Financial Integrity Act (FMFIA) enforces the statutory requirements to comply with internal controls that address financial reporting, financial systems, and non-financial operations. Statutory requirements support the production of timely, reliable, and accessible financial information, which facilitate the development and implementation of effective and efficient internal controls. Assessable financial information in conjunction with sufficient controls create efficiencies to standardize processes and ultimately preserve the DON's limited resources, which is critical to the Department's commitment to national defense and public stewardship.

Included in this section are internal control elements encompassed in the DON's annual Statement of Assurance (SOA), which provides management's FMFIA and FFMIA assessment on the current state of internal control. The DON's overview of internal controls over non-financial operations, financial reporting, and financial systems is described within the enclosed sections.

Management Assurances

The DON objectives of the systems of internal accounting and administrative control are to provide reasonable assurance that:

- Obligations and costs are in compliance with fiscal statutory and regulatory requirements;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Applicable revenues and expenditures are properly recorded and accounted for, to permit the preparation of reliable accounting, financial, and statistical reports and to maintain accountability over assets.

Internal Control over Non-Financial Operations (ICONO)

The DON Managers' Internal Control Program (MICP) is the administrative vehicle for monitoring ICONO. The MICP is decentralized and encompasses ashore

Commands and afloat Forces. To mitigate fraud, waste, and misuse of the DON's limited resources, the evaluation and execution of effective and efficient internal control extends to internal stakeholders and external shared service providers.

Responsibility for program execution and reporting resides within a network of 17 Major Assessable Units (MAU), which include the Assistant Secretaries of the Navy, the CNO, the Commandant of the Marine Corps, Secretariat Staff Offices, and other entities that report directly to the SECNAV or Under Secretary of the Navy. The DON MAUs perform ICONO self-assessments and maintain supporting documentation to support their FMFIA certification statements, which are the primary source for SECNAV's determination of reasonable assurance.

Complementing the self-identification of control-related deficiencies, the DON Auditor General, in collaboration with the Deputy Assistant Secretary of the Navy, Financial Operations (DASN (FO)), conducts quarterly reviews of audit reports from the Government Accountability Office (GAO), the Department of Defense Inspector General (DoDIG), and the Naval Audit Service (NAVAUDSVC). This review assists in the identification of control deficiencies and utilizes a systematic methodology of determining materiality and potential for inclusion in the DON SOA. The high degree of collaboration and communication between the DASN (FO), MICP administrators and the NAVAUDSVC has resulted in a consistent and comprehensive perspective on the DON's internal control posture.

Outstanding Material Weaknesses FY 2015

INTERNAL CONTROL REPORTING CATEGORY		
CATEGORY	MATERIAL WEAKNESS	TARGET CORRECTION YEAR
Contract Administration	Contract Management – Service Contracts	FY 2015*
Acquisition	Attenuating Hazardous Noise in Acquisition & Weapon System Design	FY 2017
Communications/Intelligence/ Security	Management of Communications Security (COMSEC)	FY 2015*
Communications/Intelligence/ Security	Personally Identifiable Information (PII)	FY 2017
Acquisition	Earned Value Management (EVM)	FY 2015*
Contract Administration/ Procurement	Execution of Husbanding Contracts – Husbanding Service Providers	FY 2016

** Corrective action implementation remains in progress as of September 2015.*

In addition to ICONO assessments described above, the DON MICP encompasses Internal Control over Financial Reporting (ICOFR) and Internal Control over Financial Systems (ICOFS) into the Department's annual SOA to support the Office of the Secretary of Defense's (OSD) report to Congress and the President.

Internal Control over Financial Reporting

The DON continues to implement processes to reach a status of full compliance with Office of Management and Budget (OMB) Circular A-123, Appendix A in conjunction with overall Navy and Marine Corps FIAR efforts. The DON's current focus is achieving the FIAR objectives relative to budgetary information and mission critical asset information priorities. Through the FIAR discovery process, the DON continues to work closely with participating commands and service providers, such as DFAS, to identify, evaluate, and document the risks and internal controls associated with the end-to-end business processes underlying the financial statements. Attention is focused on remediating material weaknesses which will allow for overall achievement of the DON assertion goals. Documentation efforts continue as the DON moves toward its objective of asserting audit readiness over all financial reporting segments.

In FY 2015, the DON identified 25 material weaknesses in General Equipment, Real Property, Operating Materials and Supplies, Inventory, Reimbursable Work Orders – Grantor and Performer, Contract Vendor Pay, Financial Statement Compilation and Reporting, Military Standard Requisitioning and Issue Procedures, and Transportation of Things. In FY 2016, the DON plans further discovery and development of corrective action plans with executable tasks to mitigate material weaknesses.

The Marine Corps continued improving the documentation of specified business processes to assist stakeholders and auditors in obtaining an understanding of financial processes used by the Marine Corps. Revised descriptions are used to identify which controls and key controls to test. The Marine Corps ICOFR program aims to support the DON FIAR objectives by targeting specific evaluations that strengthen the integrated objectives of the DON SBR assertion. For FY 2015, the Marine Corps reported eight material weaknesses in General Equipment, Real Property, Financial Statement Compilation and Reporting, Reimbursable Work Orders—Grantor, and Military Standard Requisitioning and Issue Procedures. Efforts are underway to address these material weaknesses via formal corrective action plans pending additional analyses and concurrence by the Marine Corps Senior Assessment Team.

Internal Control over Financial Systems

The DON understands ICOFS plays a key role in the generation and auditability of the DON financial statements. The DON implemented a strategy for identifying and prioritizing assessment of financial and mixed systems. Over two hundred systems are utilized to support Navy's complete set of financial statements. After a system is identified as relevant or critical to the audit of a segment assertion package, the DON works with segment managers to collect additional data points that will affect the assessment scope, approach, and timeline.

The DON conducted Federal Information System Controls Audit Manual (FISCAM) assessments on selected IT systems and coordinated with OSD and service providers such as DFAS, Defense Logistics Agency, and Defense Contract Management Agency to identify and prioritize feeder system assessments. The DON continued to refine its strategy for assessing legacy and Enterprise Resource Planning (ERP) system controls. The DON prioritized IT controls based on FISCAM and FIAR guidance to ensure financial data integrity and reliability. For FY 2015, the DON performed the following tasks to facilitate an auditable financial systems environment:

- Established an inventory of key and ancillary Navy IT systems;
- Assessed key and ancillary systems;
- Continued to work with the Financial Information System Working Group to address enterprise IT control guidance;
- Worked to streamline efficient assessment of IT controls for those data centers serving Navy financial systems;
- Continued to collaborate with shared service providers to document interfaces and interactions between IT systems and address Complementary User Entity Controls; and
- Communicated IT system audit readiness expectations, guidance and status, workshops, and training.

For the current reporting period, the DON identified 16 non-conformities in IT controls across key and ancillary IT systems.

The Marine Corps developed an internal test plan to perform FISCAM reviews of key and material Marine Corps-owned financial systems. Such reviews will determine the effectiveness of both general and application IT controls, as well as assist in early detection and remediation of system deficiencies. As part of audit readiness efforts, the Marine Corps conducted a full FISCAM review of the Global Combat Support System—Marine Corps (GCSS-MC) to determine the effectiveness of general and application information technology controls. In addition, as a result of the FY 2010 through FY 2014 SBR and SBA audits, FISCAM tests were performed on the Standard Accounting, Budgeting and Reporting System (SABRS); Marine Corps Total Force System (MCTFS); Defense Departmental Reporting System (DDRS); and Defense Cash Accountability System (DCAS). DoDIG's independent audit team characterized their findings (in aggregate) as material non-compliance with laws and regulations related to FFMIA. The Marine Corps for the reporting period identified three non-conformances. The Marine Corps acknowledges although the system weaknesses create a condition of FFMIA non-conformance, it does not directly imply that the resulting output is inaccurate, incomplete, or unsupported. The Marine Corps continues to develop and execute corrective actions to address internal control system weaknesses and FFMIA non-conformance.

The following is the management assurance letter for FY 2015.

THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

October 14, 2015

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2015

As the Secretary of the Navy, I recognize that the Department of the Navy (DON) is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Tab A provides specific information on how the DON conducted the assessment of operational internal controls, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, and provides a summary of the significant accomplishments and actions taken to improve the DON's internal controls during the past year.

I am able to provide a qualified Statement of Assurance (SOA) that operational internal controls of the DON meet the objectives of FMFIA, with the exception of six unresolved material weaknesses described in Tab B. These weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of the date of this memorandum. Other than these material weaknesses, the internal controls were operating effectively.

The DON conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, Internal Control over Financial Reporting. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a qualified SOA that the internal controls over financial reporting as of June 30, 2015, were operating effectively with the exception of the following: DON – 26 material weaknesses and United States Marine Corps (USMC) – 8 material weaknesses as noted in Tab C.

The DON also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a qualified SOA that the internal controls over the integrated financial management systems as of June 30, 2015, are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-123 Appendix D, with the exception of the following: DON – 17 non-conformance and USMC – 3 non-conformance as noted in Tab C.

A classified annex will be forwarded under separate cover.

Sailors prepare to launch an MQ-8B Fire Scout unmanned aircraft system. (U.S. Navy photo by Mass Communication Specialist 2nd Class Joe Bishop/ Released)

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The accompanying financial statements and related disclosures represent the DON's enduring commitment to fiscal accountability and transparency. Through the FIAR plan and related business transformation initiatives discussed earlier, the Department has made significant progress toward improving the quality and timeliness of financial information. However, the DON is currently unable to fully implement all elements of U.S. generally accepted accounting principles and OMB Circular A-136, "Financial Reporting Requirements," due to limitations of financial and non-financial management processes and systems feeding into the financial statements. Because of these limitations, the DoD, Office of Inspector General, was unable to express an opinion on the FY 2015 financial statements. It should be noted that these limitations exist primarily in the 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. Despite documented material weaknesses and because of compensating measures and close oversight, the DON believes the budgetary information used for decision-making is accurate and reliable.

For financial reporting purposes, the DON is organized into two reporting entities: The DON General Fund and NWCF, which includes financial information for both the Navy and the Marine Corps. Each reporting entity has a separate set of financial statements and related disclosures.

DEPARTMENT OF NAVY GENERAL FUND

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

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

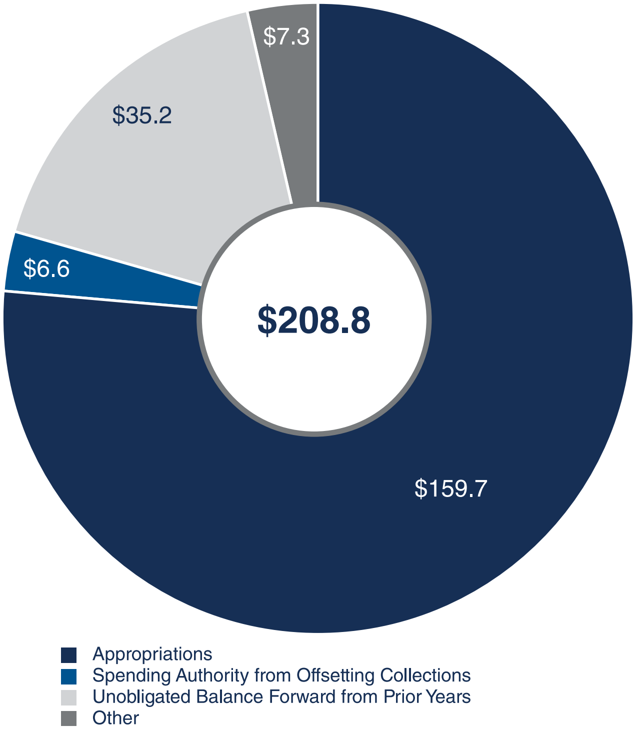
Enacted appropriations flow through OMB and the Office of the Secretary of Defense to the Office of the Secretary of the Navy, where they are allocated to administering offices and commands. The administering offices and commands, which in turn obligate the appropriations to fund operational expenses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

Results of Operations

The Combined SBR presents total budgetary resources of $208.8 billion that were available to the DON during FY 2015 and the status of those resources at fiscal year-end. Total budgetary resources were down $1 billion, a 0.5% decrease in FY 2015 compared to FY 2014. The enacted appropriations of $159.7 billion represent 76.5% of total budgetary resources and decrease $2.1 billion from FY 2014. The decrease in total budgetary resources is attributable to the slight decrease of 1.3% in appropriations. The DON obligated $172.6 billion of the $208.8 billion total resources in FY 2015, which is a decrease of $2 billion or 1% compared to FY 2014. The Consolidated Statement of Net Cost presents net cost of operations of $154 billion during FY 2015. Net cost of operations represents gross costs incurred by the DON less earned revenue. Net cost of operations decreased $3.1 billion, which represents a 2% decrease over FY 2014.

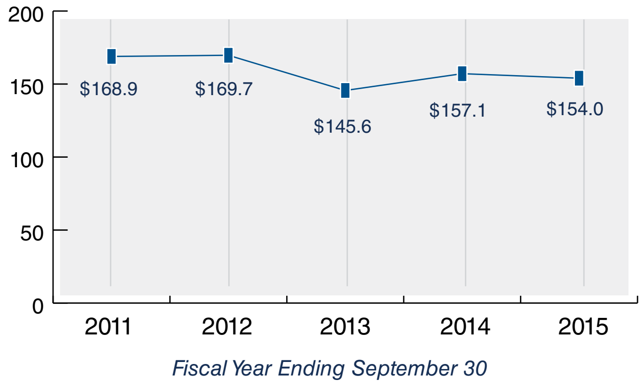
FY 2015 DON Sources of Funds

($ in Billions)



FY 2011 – 2015 DON Net Cost of Operations

($ in Billions)

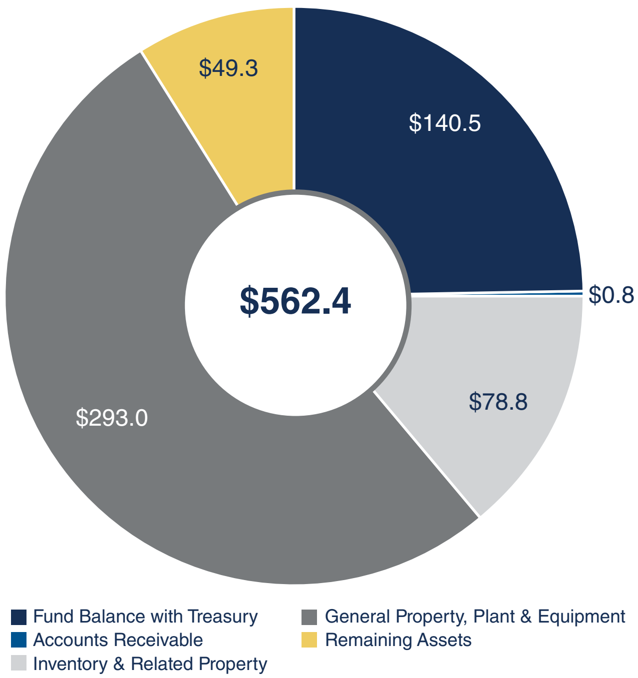


Training on the combined contaminated fuel detector, which determines the quantity of solid contamination present in fuels. (U.S. Navy photo by Mass Communication Specialist 2nd Class Joe Bishop/Released)

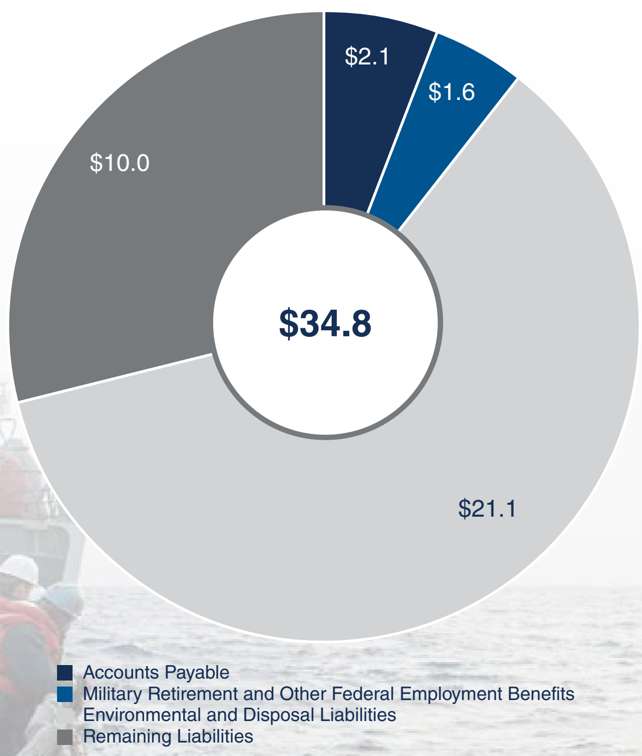
Financial Position

The DON continued to report a positive net position on its Consolidated Balance Sheet. Net position is the difference between total assets and total liabilities. As of September 30, 2015, net position totaled $527.6 billion, which represents a $14.3 billion or 2.8% increase from FY 2014. The overall increase in net position is attributed to increases of $14.3 billion in total assets and a slight decrease of 0.1% in total liabilities.

FY 2015 DON Total Assets
($ in Billions)



FY 2015 DON Total Liabilities
($ 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.

Using an alidade and sound-powered telephone. (U.S. Navy photo by Mass Communication Specialist 2nd Class Paolo Bayas/ Released)

NAVY WORKING CAPITAL FUND BUSINESS ACTIVITIES BY BUSINESS AREA		
SUPPLY MANAGEMENT Supply Management, Navy *(https://www.navsup.navy.mil)* Supply Management, Marine Corps *(http://www.logcom.usmc.mil)* **DEPOT MAINTENANCE** Depot Maintenance, Aviation *(http://www.navair.navy.mil)* Depot Maintenance, Marine Corps *(http://www.logcom.usmc.mil)*	**BASE SUPPORT** Facilities Engineering Commands *(https://portal.navfac.navy.mil)* Naval Facilities Engineering Service Center *(https://portal.navfac.navy.mil)* **TRANSPORTATION** 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://spawar.navy.mil)*

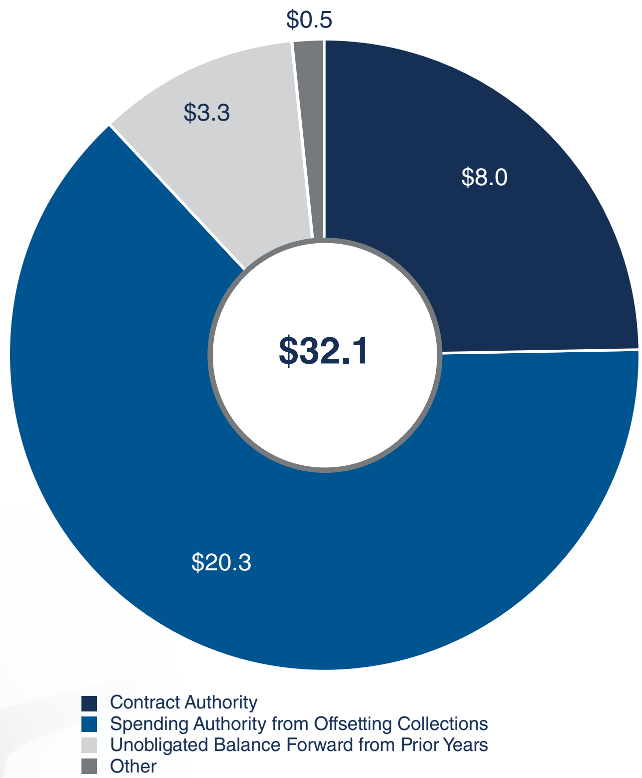
**Also see Office of Naval Research (http://www.onr.navy.mil)*

Results of Operations

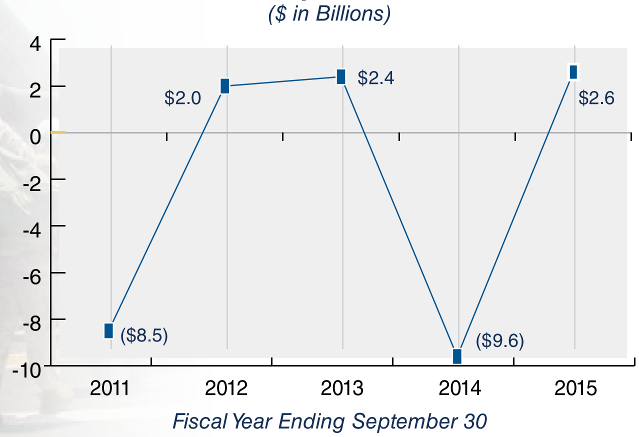
The Combined SBR presents total budgetary resources of $32.1 billion that were available to NWCF during FY 2015 and the status of those resources at fiscal year-end. Total budgetary resources increased $0.4 billion, which was a 1.3% increase over FY 2014. NWCF budget authority is comprised of contract authority and spending authority from offsetting collections, of which the latter accounts for 63.2% of total budgetary resources. The majority of the increase in overall budget authority is due to a $0.3 billion increase in Recoveries of Prior Year Unpaid Obligations in FY 2015. NWCF business activities obligated $29.8 billion of the $32.1 billion total resources in FY 2015 which represents a increase of $1.4 billion or 5% over FY 2014.

The Consolidated Statement of Net Cost presents net cost of operations of $2.6 billion during FY 2015. Net cost of operations represents gross costs incurred by NWCF less earned revenue. Sources of earned revenue include the DON; Army and Air Force General Funds; Defense Working Capital Funds; other Navy and DoD appropriations; and non-DoD fund sources. The NWCF had an increase of $12.2 billion in net costs in FY 2015 over FY 2014, which results in a positive net cost of operations.

FY 2015 NWCF Sources of Funds
($ in Billions)



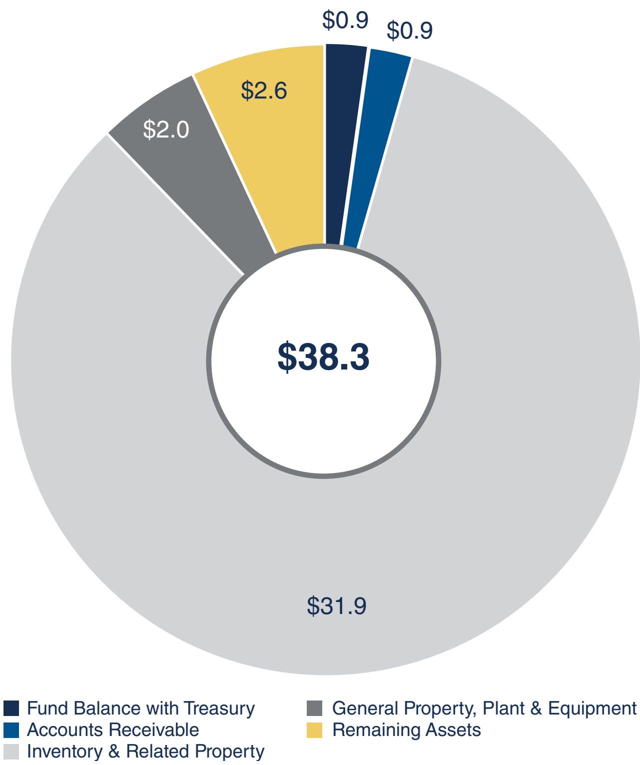
NWCF Net Cost of Operations, FY 2011 – 2015
($ in Billions)



Financial Position

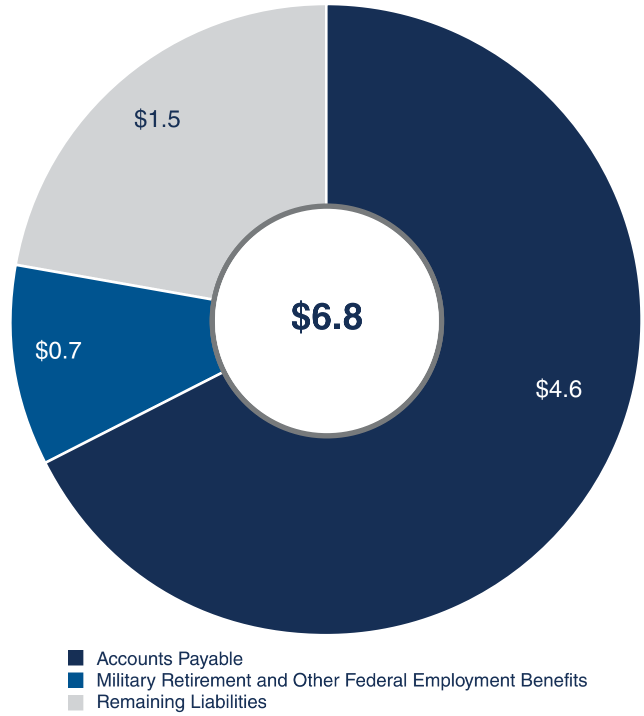
The NWCF continued to report a positive net position in its Consolidated Balance Sheet. Net position is the difference between total assets and total liabilities. As of September 30, 2015, net position totaled $31.5 billion, which represents an increase of $0.2 billion and a less than 1% increase from FY 2014. An increase of $0.4 billion in total assets and $0.2 billion in total liabilities contributed to the overall increase in net position.

FY 2015 NWCF Total Assets
($ in Billions)



Waiting to board a helicopter on an amphibious assault ship. (U.S. Navy photo by Mass Communication Specialist Seaman Derry Todd/Released)

FY 2015 NWCF Total Liabilities
($ in Billions)

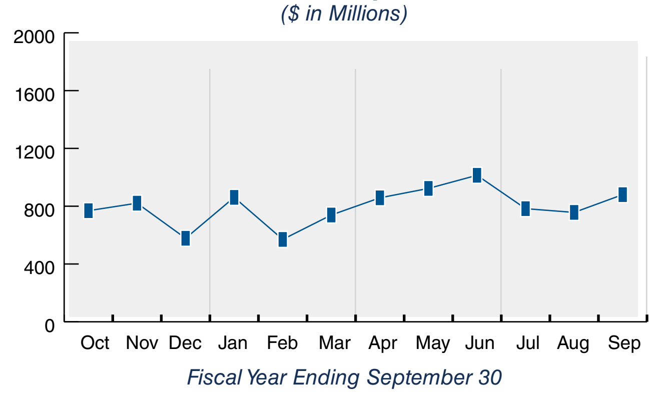


Cash Management

The NWCF manages working capital fund cash at the Departmental level. It must maintain the minimum cash balance necessary to meet operations, capital investment, and other justified requirements, as required by the DoD Financial Management Regulation. The NWCF has established a high and low cash requirement based on business events and activities relevant to its operations.

For FY 2015, the high cash requirement was $1.66 billion and the low cash requirement was $1.168 billion.

NWCF Cash Balances
October 1, 2014 to September 30, 2015
($ in Millions)



F-35C Lightning IIs and an F/A-18E/F Super Hornets fly over Naval Air Station Fallon's (NASF) Range Training Complex. (U.S. Navy photo by Lt. Cmdr. Darin Russell/Released)

LOOKING FORWARD

The DON's achievements during FY 2015 established a firm foundation that will assure future success in executing the mission of the Navy and Marine Corps and building a sound business operating environment. In FY 2016, the Navy will focus on achieving the DON's priorities: provide a credible, modern, and safe strategic deterrent; global forward presence of combat ready forces; preserve the means to defeat one aggressor and simultaneously deny the objectives of a second; focus on critical afloat and ashore readiness and personnel; sustain asymmetrical advantages; and sustain a relevant industrial base.

Personnel

Sailors, Marines, civilians, and their families enable the Navy and Marine Corps to remain ready, forward, and engaged in challenging times. The men and women who comprise today's all-volunteer military are of superb caliber, and the DON continues to invest to sustain this impressive force. In FY 2016, the Navy will begin increasing the number of Sailors over a 5-year period to properly size manpower accounts to reflect force structure decisions, reduce manning gaps at sea, and improve Fleet readiness. The continued focus will be on recruiting and retention to retain the optimal mix of Sailors that maintain the right skills and experience to adequately man the Fleet. The Navy will continue improving the quality of life for Sailors and implementing quality of service initiatives funded with compensation reform savings. The DON will manage personnel strength to deliver a highly trained, ready force that meets mission needs and can operate forward.

Readiness

The DON continues to support the requirements for the Carrier Strike Groups, Amphibious Ready Groups, and Marine Expeditionary Forces to respond to persistent as well as emerging threats. The Navy deploys full-spectrum-ready forces to further security objectives in support of U.S. interests. Every day, more than 100 ships and submarines, embarked and shore-based air squadrons, and Navy personnel ashore are on watch around the globe. Marines are forward deployed protecting the nation's security by conducting operations to defeat and deter adversaries, support partners, and create decision space for national leaders.

Procurement

To maintain a robust Fleet and adaptable Marine Corps, the DON invests in platforms and systems to address today's wide range of operations. The Department also continues their aggressive efforts to reduce acquisition cost. The DON balances a build capability that supports the industrial base with a capacity it can afford. The Department continues to maintain advantage in advanced technologies and weapons, allowing the DON to operate in every region across the full spectrum of conflict. In FY 2016, the DON budget procures nine battle force ships, 124 manned and unmanned aircraft, accompanying systems and weapons, ammunition, and multiple vital ground equipment programs and system development efforts.

Development

The DON's Research, Development, Test, and Evaluation program supports the DON missions by giving the Department asymmetric and technological advantages against adversaries in all environments and spectrums. Science and technology research is vital to provide for future technologies that support innovative capabilities in shipbuilding, aviation, weapons, and ground equipment. Investment in Research & Development is also fundamental in electromagnetic warfare, protecting national interests across space and cyberspace.

Infrastructure

The mission of the Department could not be achieved without high quality facilities that support the Sailors, Marines, and their families. Further, the Department's ability to rapidly deploy around the globe is directly connected to an effective shore infrastructure. In FY 2016, the Department will finance 60 military construction projects. Key tenets in the Department's facilities investment strategy include: improving quality of life and safety; enhancing the global defense posture; replacing aging facilities; supporting new systems; upgrading operation, training; and security facilities, and upgrading infrastructure.

Overseas Contingency Operations

The Navy and Marine Corps overseas force posture is shaped by ongoing and projected operational commitments. The DON continues operations in Afghanistan, the Horn of Africa, and other locations in theater, as well as ongoing efforts to counter ISIL and for

Explosive ordnance disposal (EOD) technicians perform a free fall jump from a C-130 Hercules during a military free fall jump sustainment training in Santa Rita, Guam. (U.S. Navy photo by Petty Officer 1st Class Ace Rheaume/ Released) the European Reassurance Initiative. Beyond the Marines participating in counterinsurgency, security cooperation, and civil-military operations, on any given day there are 4,600 Sailors ashore and another 10,000 afloat throughout the U.S. Central Command. These Sailors are conducting operations such as maritime infrastructure protection, explosive ordnance disposal, combat construction engineering, cargo handling, combat logistics, maritime security, detainee operations, customs inspections, civil affairs, base operations, and other forward presence activities. For the foreseeable future, the demand for naval presence in theater remains high as the DON upholds commitments to allies and partner states.

Financial Operations

The Department's efforts at transforming the DON's business enterprise are of paramount importance, ensuring that all available resources are directed to DON's Sailors and Marines. The Department's drive to provide stronger financial management and to achieve auditability will continue its momentum throughout FY 2016. The DON's ability to manage their budget efficiently is directly related to their ability to properly account for every dollar. The DON continues its commitment to improve the performance of its business processes and systems and to develop measurements of that progress. The DON's plan to achieve compliance with financial audit standards is today's most comprehensive business transformation initiative. Improving the accuracy and accessibility of the Departmental financial information will provide the DON leaders with better data to make resource decisions; increase accountability for funds appropriated and reduce the risk of funds misuse; and reduce the number of unsuccessfully-processed financial transactions requiring rework.

The DON continues to make significant progress toward meeting Congressional and DoD mandates for the DON financial audit readiness. The Navy underwent an audit on its FY 2015 SBA, a big step toward full financial auditability—defined as audit readiness on all four of the DON financial statements. Congress has mandated in legislation that the Military Departments achieve full auditability by FY 2017. The DON is making steady progress toward this goal.

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 the 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.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 16, 2015

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 2015 and FY 2014 Basic Financial Statements (Report No. DODIG-2016-014)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, requires the DoD Inspector General to audit the accompanying Department of the Navy General Fund consolidated balance sheet as of September 30, 2015, and 2014, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

The annual financial statements are the responsibility of the Department of the Navy management. Management is responsible for (1) preparing financial statements that conform with U.S generally accepted accounting principles (U. S. GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the Department of the Navy's financial management systems fully comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements," August 4, 2015. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. The Department of the Navy management asserted to us that the Department of the Navy General Fund FY 2015 and FY 2014 Basic Financial Statements would not substantially conform to U.S. GAAP and that Department of the Navy General Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2015. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin No. 15-02 to determine whether material amounts on the basic statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic statements. Additionally, the Department of the Navy did not provide us a timely management representation letter. We consider the inability of the Department of the Navy to furnish us a timely management representation letter as a scope limitation and an additional basis for disclaimer of opinion on the Department of the Navy General Fund FY 2015 and FY 2014 Basic Financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Department of the Navy General Fund FY 2015 and FY 2014 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Emphasis of Matter

As discussed in Note 9 to the basic statements, the Department of the Navy stated significant accounting adjustments were made to the Department of the Navy General Fund's mission critical assets. The accounting adjustments were recognized in current year gain/loss accounts because the events could not be identified to specific accounting periods.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. The Department of the Navy management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we identified material inconsistencies between the information and the basic statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," August 4, 2015, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements" April 2013. Specifically, the Other Information section did not contain sufficient information specific to the Navy General Fund to meet OMB requirements. The Department of the Navy acknowledged that the Navy General Fund did not comply with OMB Circular No. A-136 (Revised) because management processes and systems that support the financial statements were inadequate.

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have direct and material effect on the basic statements, and compliances with OMB regulations and audit requirements for financial reporting because management represented that instances of noncompliance identified in prior audits continue to exist. Therefore, we did not determine whether the Department of the Navy General Fund complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

See Attachment for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Assistant Secretary of the Navy (Financial Management and Comptroller), who provided technical comments that we have incorporated as appropriate. The Assistant Secretary of the Navy (Financial Management and Comptroller) expressed the Navy's continuing commitment to address the problems this report outlines.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; Department of the Navy management; and the DoD Office of the Inspector General. It is not intended to be used and should not be used by anyone else.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 or (DSN) 329-5945.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the Department of the Navy General Fund's internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances for the purposes of expressing our opinion on the basic financial statements but not appropriate to the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal control to include providing reasonable assurance that Department of the Navy personnel accumulated, recorded, and reported accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal control over financial reporting, and we do not do so. However, the following material weaknesses exist that could adversely affect the Department of the Navy General Fund financial operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department of the Navy General Fund financial statements will not be prevented, or detected and corrected on a timely basis. The following material weaknesses continue to exist.

Financial Reporting of Military Pay. The Department of the Navy has outdated military pay and financial management systems that lack modern capabilities to support required auditability framework. Current deficiencies require unsustainable manual activities to support auditability. The Department of the Navy is developing the Integrated Pay and Personnel System-Navy to improve financial reporting of military pay.

Financial Reporting of General Equipment. Department of the Navy management cannot establish and/or support ownership and valuation of general equipment due to 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 management cannot substantiate that the Accounting System of Record represents a complete inventory of general equipment assets. Discovery efforts are ongoing; upon completion of discovery efforts, Department of the Navy Management will perform existence and completeness testing for inventory.

Financial Reporting of Operating Material and Supplies. Department of the Navy management cannot demonstrate the ability to perform annual physical inventories of Operating Material and Supplies or generate auditable documentation. Legacy systems were designed for material management, but lack the ability to capture financial information. As a result, the Department of Navy has not sufficiently maintained historical cost data to comply with Generally Accepted Accounting Principles.

Financial Reporting of Operating Material and Supplies, Global Combat Support System-Marine Corps. Multiple information technology control deficiencies were identified during Federal Information System Controls Audit Manual audit, including application level general controls, access control, interface, and configuration management controls. The Department of the Navy management will continue to implement and monitor actions identified in the detailed corrective action plan to remediate open Notices of Findings and Recommendations for the Global Combat Support System-Marine Corps.

Financial Reporting of Real Property. Department of the Navy management had insufficient standardized internal control and supporting documentation requirements, which ultimately has a direct impact on the timeliness and accuracy of Construction in Progress and real property transactions. Department of the Navy management will continue to perform inventory testing. In addition, Department of Navy management did not have proper procedures and controls in place for the transfer and acceptance of Military Real Property. Standard operating procedures and internal control test procedures have been written and implemented. A Real Property Accountability Officer and Assistant Planner have been hired and are working to fix and maintain records.

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Financial Reporting of Reimbursable Work Order-Grantor. Department of the Navy management's control environment is not designed and/or operating effectively to:

- verify that recorded disbursements are recorded and accurate. The DoD's enterprise-wide solution is the implementation of Invoice Processing Platform, which will assist the Department of the Navy in performing electronic receipt and acceptance procedures for goods and services.

- validate the accuracy of year-end accruals. Department of the Navy management will develop a central methodology to estimate and post payable accruals across major Commands.

- validate if recorded obligations are complete and accurate. The DoD enterprise-wide solution is the Invoice Processing Platform, which is contingent upon development of system interfaces between Federal accounting system of records which will allow Department of Navy personnel to perform Trading Partner reconciliations. Upon launch of the Invoice Processing Platform, commands will perform monthly reconciliations with Trading Partners (Grantors) to identify variations.

- ensure obligations are recorded timely within Standard Accounting, Budgeting and Reporting System when joint contracts are awarded between the Navy and external organizations. A number of policies and procedures have been developed and implemented to address the noted deficiencies and further system corrections are being analyzed.

- ensure recording of receipt (expense) transactions in the accounting systems takes place at the time of delivery rather than after invoice payments are made. Efforts are underway to identify a system solution to address this issue.

- verify if undelivered orders and accounts receivables represent valid transactions that are authorized and approved. Commands will implement a Triannual Review to monitor the status of dormant reimbursable agreement receivables and unfilled orders to validate if a bona fide need exists.

Financial Reporting of Contract Vendor Pay. Department of the Navy management's control environment is not designed and/or operating effectively to:

- ensure obligations incurred were posted in the general ledger accounting system in a timely manner. Obligations were not recorded in the accounting system within 10 calendar days following the award of a contract. Commands will be required to have at least two government comptroller personnel with access to Electronic Document Access, and provide them with the functionality to create, edit, and maintain customized list and receive a Contract Load Electronic Notification report on a daily basis to ensure obligations are recorded timely.

- substantiate individuals authority to approve purchase request, purchase orders, and certify invoices for payment. Department of the Navy management is drafting a Secretary of the Navy Instruction 7000.28 "Requirements for Delegation and Appointment Documentation by Function" which will clarify requirements for delegating funds control authority and the appointment of accountable officials.

Financial Reporting of Reimbursable Work Order - Performer. Department of the Navy management's control environment is not designed and/or operating effectively to:

- verify if the amount billed was valid and accurately recorded based on goods or services provided. The DoD's enterprise wide solution is the implementation of Invoice Processing Platform, which will assist the Department of the Navy in performing electronic receipt and acceptance procedures for goods and services.

- verify if year-end accruals were accurately posted. Department of the Navy management will develop a central methodology to estimate and post payable accruals across major commands.

- verify if undelivered orders and accounts receivables represent valid transactions that were authorized and approved. Commands will implement a Triannual Review to monitor the status of dormant reimbursable agreement receivables and unfilled orders to validate if a bona fide need exists.

Attachment 1
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- verify if unfilled reimbursable orders/authorizations were recorded completely and accurately. The DoD enterprise-wide solution is the Invoice Processing Platform, which is contingent upon development of system interfaces between Federal accounting system of records which will allow the Department of the Navy to perform Trading Partner reconciliations. Upon launch of the Invoice Processing Platform, commands will perform monthly reconciliations with Trading Partners (Grantors) to identify variations.

Financial Reporting of Military Standard Requisitioning and Issue Procedures

Shipyards. Department of the Navy management cannot efficiently and accurately reconcile Naval Shipyard transactions to the general ledger. Department of the Navy management will perform discovery to address potential risks through the development of remediation timelines.

Visual Inter-fund System Transaction Accountability Validation. Department of the Navy management's service provider, the Defense Finance and Accounting Service, had insufficient controls in place to validate the effectiveness of Visual Inter-fund System Transaction Accountability system functionality for assigning a Line of Accounting to Inter-fund Bills that result in Military Standard Requisitioning and Issue Procedures obligations or payables and disbursements on the general ledger. In conjunction with Defense Finance and Accounting Service, the Department of the Navy will review and prioritize Visual Inter-fund System Transaction Accountability Federal Information System Controls Audit Manual control testing.

Unliquidated Obligations. Department of the Navy management's internal controls reconciliation process for unliquidated obligations was not designed to effectively monitor if open Military Standard Requisitioning and Issue Procedures commitments and obligations represent a bona fide need. Department of the Navy management is analyzing the Tri-Annual review process across segments. Additionally, Financial Improvement and Audit Readiness Wave 4 (Full Financial Statement) Financial Reporting Objectives require reconciliations of all open obligation amounts to recorded Accounts Payable balances.

Offline Requisitions. The Defense Logistics Agency and General Services Administration established off line requisition systems to access and purchase cataloged or General Services Administration schedule products. These systems did not include the necessary interfaces with the Marine Corps supply and financial automated systems; therefore, incomplete information resulted in invalid accounting entries and Prompt Payment Act violations. A number of policies and procedures have been developed and implemented to address the noted deficiency, as well as approving a Defense Logistics Management Standards System Change Request.

Financial Reporting of Transportation of Things

Transportation Account Codes Authorization and Funds Validation. Department of the Navy management's control environment was not designed and/or operating effectively to prevent unauthorized use of Transportation Account Codes or shipments from occurring. Department of the Navy management will continue to collaborate with the Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness working groups to develop solutions.

Access to Key Supporting Documentation. Department of the Navy management did not have standardized processes and procedures for Transportation of Things key supporting documentation to support management evaluations, examinations, and audits. Department of the Navy management will continue to collaborate with the Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness working groups to develop solutions.

Standardization of System and Data Requirements. Department of the Navy management's transportation and financial system interfaces did not support the exchange of all required transaction data. Department of the Navy management will continue to collaborate with the Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness working groups to develop solutions.

Various Assessable Units, Financial Systems. Department of the Navy management identified internal control design and operating effectiveness deficiencies in access controls, configuration management, audit and accountability, and identification and authentication. Additionally, there was a lack of governance forum to address financial systems planning, implementation and management at an Enterprise level. The Department of the Navy management developed metrics to monitor and manage system-specific remediation activities, and the information technology Financial Improvement and Audit Readiness assessment team is working closely with the Department of the Navy Chief Information Officer to identify the complete inventory of financially-relevant systems and remediate identified control deficiencies.

Financial Statement Compilation and Reporting. Department of the Navy management's control environment is not designed and/or operating effectively to:

- ensure all adjusting entries into command trial balances follow a standardized process. Department of the Navy management will implement Command-level training to identify controls around journal entries to ensure entries are properly prepared, reviewed and approved, supported, and documented.

- ensure transactions resident in the Business Transaction Systems could be efficiently and accurately reconciled to the general ledger accounting systems. Process variances, system interface and configuration management issues present a risk that the Department of the Navy could over or under state obligations, accounts receivable, accounts payable, and disbursements.

- ensure that general ledger accounting systems posting logic produced expected financial and budgetary accounting relationships. Tie point failures in each of the nine accounting systems tested are being analyzed to determined actions to remediate problems. This analysis supports oversight of Journal Vouchers prepared to correct tie point failures.

- ensure beginning balances are supported. Department of the Navy management was unable to provide data to support transactions from inception through FY 2014. Department of the Navy management has developed a transaction universe that includes all transactions that support short term assets, liabilities, and Schedule of Budgetary Activity recorded since October 1, 2014. Department of the Navy management has implemented specific completeness and valuation activity to support long term asset and liability beginning balances with a target date of September 2017.

- building partner capacity cases use of the Foreign Military Sales line of accounting. Building partner capacity is funded through a variety of government appropriations having various periods of availability. Building partner capacity funds are transferred to the Foreign Military Sales Trust Fund, which shows a no-year appropriation.

- ensure supporting receipt documentation for Military Sealift Command liquidations/payments exist. All requirements are processed through Defense Finance and Accounting Services for payment. However, substantiating receipt documentation was not provided to III Marine Expeditionary Force from Military Sealift Command. Department of the Navy management will continue coordinating with Military Sealift Command to provide appropriate source documentation, III Marine Expeditionary Force will reconcile documents provided with liquidations posted through Defense Finance and Accounting Services to ensure requirements are being substantiated accurately.

- ensure the Department of the Navy is in compliance with the Improper Payments Information Act of 2002 (as amended). The Department of the Navy did not have assurances over 1) reconciliation of the payment universe in order to perform program assessments, 2) adequacy of sampling plans, 3) guidance, 4) root cause analysis of improper payments and associated corrective action plans, 5) tracking and recovering overpayments to prevent loss of funds, 6) identification and resolution of Service Provider improper payments, 7) Internal Control Over Improper Payments, and 8) conducting recovery audits.

These financial management control 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 the Department of the Navy may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. We did not identify material weaknesses that were not reported as such in the Department of the Navy General Fund FMFIA report.

Report on Compliance with Applicable Provisions of Law, Regulations, Contracts, and Grant Agreements

Generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Department of the Navy complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31. U.S.C. § 1341 [1990]), limits the Department of the Navy and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Department of the Navy or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. § 1517, (2004), the Department of the Navy and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2015, the Department of the Navy General Fund reported one ADA violation.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," November 2010, establishes time frames for identifying and reporting on ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. This includes the combined Department of the Navy and OUSD(C) processing times. Two investigations of potential ADA violations have been open for more than 15 months.

Compliance With FFMIA Requirements

FFMIA requires the Department of the Navy to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular A-136 (Revised) requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA.

The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Department of the Navy Chief Information Officer, Department of the Navy commands, Department of the Navy activities, and the Defense Finance and Accounting Service are jointly responsible for implementing and maintaining financial management systems that comply substantially with the Federal financial management system requirements in OMB Circular No. A-127, "Financial Management Systems," applicable U.S GAAP, and the U.S. Government Standard General Ledger at the transaction level. The Department of the Navy management states the staff is focusing compliance efforts on the Navy Enterprise Resource Planning system and selected legacy environments, which will be tested to comply substantially with the Federal financial management systems requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. The Department of the Navy has based its assessment on system requirements promulgated by OMB Circular A-127 and by the Office of the Secretary of Defense through the DoD Business Enterprise Architecture laws, regulations, and policies. The Department of the Navy staff recognizes that legacy systems were, in some cases, substantively not compliant and therefore did not perform system reviews for selected legacy systems.

For FY 2015, the Department of the Navy General Fund did not substantially comply with FFMIA. The Department of the Navy acknowledged to us that the Department of the Navy General Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2015. Therefore, based on the representation of the Department of the Navy, we did not substantiate whether the Department of the Navy General Fund complied with FFMIA and OMB implementation guidance.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations, because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 16, 2015

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 2015 and FY 2014 Basic Financial Statements (Report No. DODIG-2016-015)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, requires the DoD Inspector General to audit the accompanying Department of the Navy Working Capital Fund consolidated balance sheet as of September 30, 2015, and 2014, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

The annual financial statements are the responsibility of the Department of the Navy management. Management is responsible for (1) preparing financial statements that conform with U.S. generally accepted accounting principles (U.S. GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the Department of the Navy's financial management systems fully comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements," August 4, 2015. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. The Department of the Navy management asserted to us that the Department of the Navy Working Capital Fund FY 2015 and FY 2014 Basic Financial Statements would not substantially conform to U.S. GAAP and that the Department of the Navy Working Capital Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2015. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin No. 15-02 to determine whether material amounts on the basic financial statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic statements. Additionally, the Department of the Navy did not provide us a timely management representation letter. We consider the inability of the Department of the Navy to furnish us a timely management representation letter as a scope limitation and an additional basis for disclaimer of opinion on the Department of the Navy Working Capital Fund FY 2015 and FY 2014 Basic Financial Statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Department of the Navy Working Capital Fund FY 2015 and FY 2014 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Emphasis of Matter

As discussed in Note 7 and 8 to the basic statements, the Department of the Navy stated significant accounting adjustments were made to the Department of the Navy Working Capital Fund's mission critical assets. The accounting adjustments were recognized in current year gain/loss accounts because the events could not be identified to specific accounting periods.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. The Department of the Navy management presented the Management's Discussion and Analysis, Required Supplemental Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the required annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we identified material inconsistencies between the information and the basic statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," August 4, 2015, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements" April 2013. Specifically, the Other Information section did not contain sufficient information specific to the Navy Working Capital Fund to meet OMB requirements. The Department of the Navy acknowledged that the Navy Working Capital Fund did not comply with OMB Circular No. A-136 (Revised) because management processes and systems that support the financial statements were inadequate.

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have direct and material effect on the basic statements, and compliances with OMB regulations and audit requirements for financial reporting because management represented that instances of noncompliance identified in prior audits continue to exist. Therefore, we did not determine whether the Department of the Navy Working Capital Fund complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

See Attachment for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Assistant Secretary of the Navy (Financial Management and Comptroller), who provided technical comments that we have incorporated as appropriate. The Assistant Secretary of the Navy (Financial Management and Comptroller) expressed the Navy's continuing commitment to address the problems this report outlines.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; the Department of the Navy management; and the DoD Office of the Inspector General. It is not intended to be used and should not be used by anyone else.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 or (DSN) 329-5945.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the Department of the Navy Working Capital Fund internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances for the purposes of expressing our opinion on the basic financial statements but not appropriate to the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal control to include providing reasonable assurance that the Department of the Navy personnel accumulated, recorded, and reported accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal control over financial reporting, and we do not do so. However, the following material weaknesses exist that could adversely affect the Department of the Navy Working Capital Fund financial operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department of the Navy Working Capital Fund financial statements will not be prevented, or detected and corrected on a timely basis. The following material weaknesses continue to exist.

Financial Reporting of General Equipment. The Department of Navy could not establish and/or support ownership and valuation of General Equipment due to lack of supporting documentation, improper interpretation of guidance, and underutilization of the Accounting System of Record and system limitations. In addition, we cannot substantiate that the Accounting System of Record represents a complete inventory of General Equipment assets. Discovery efforts are ongoing; upon completion of discovery efforts, we will perform existence and completeness testing for inventory.

Financial Reporting of Inventory. The Department of the Navy could not maintain accurate Moving Average Cost inventory values or clear audit trails by the Accounting System of Record to permit the tracing of transactions from the source documentation to the reported total dollar values on the Depart of Navy Working Capital Fund Financial Statements.

Financial Reporting of Operating Material and Supplies. The Department of the Navy could not demonstrate the ability to perform annual physical inventories of Operating Material and Supplies and generate auditable documentation. Legacy systems were designed for material management, but lack the ability to capture financial information; as such, the Department of the Navy did not sufficiently maintain historical cost data to comply with Generally Accepted Accounting Principles.

Additionally, in regard to Global Combat Support System–Marine Corps, multiple information technology control deficiencies were identified during Federal Information System Controls Audit Manual audit to include application level general controls, access control, interface, and configuration management controls. The Department of the Navy will continue to implement and monitor actions identified in the detailed Corrective Action Plan to remediate open Notices of Findings and Recommendations for the Global Combat Support System–Marine Corps.

Financial Reporting of Real Property. The Department of the Navy had insufficient standardized internal control and supporting documentation requirements, which ultimately has a direct impact on the timeliness and accuracy of Construction in Progress and Real Property transactions. The Department of the Navy will continue to perform inventory testing. In addition, the Department of the Navy did not have proper procedures and controls in place around the transfer and acceptance of Military Real Property. Standard operating procedures and internal control test procedures have been written and implemented. A Real Property Accountability Officer and Assistant Planner have been hired and are working to fix and maintain records.

Financial Reporting of Reimbursable Work Order - Grantor. The Department of the Navy's control environment was not designed or operating effectively to:

- verify that recorded disbursements were recorded and accurate. The DoD's enterprise-wide solution is the implementation of the Invoice Processing Platform, which will assist the Department of the Navy in performing electronic receipt and acceptance procedures for goods and services.

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- validate the accuracy of year-end accruals. The Department of the Navy stated it will develop a central methodology to estimate and post payable accruals across major commands.

- validate if recorded obligations are complete and accurate. The DoD enterprise-wide solution is the Invoice Processing Platform, which is contingent upon development of system interfaces between Federal accounting system of records which will allow the Department of the Navy personnel to perform Trading Partner reconciliations. Upon launch of the Invoice Processing Platform, Commands will perform monthly reconciliations with Trading Partners (Grantors) to identify variations.

- timely record obligations within Standard Accounting, Budgeting and Reporting System when joint contracts are awarded between the Navy and external organizations. A number of policies and procedures have been developed and implemented to address the noted deficiencies and further system corrections are being analyzed.

- ensure the recording of receipt (expense) transactions in the accounting systems takes place at the time of delivery rather than after invoice payments are made. Efforts are underway to identify a system solution to address this issue.

- verify if undelivered orders and accounts receivables represent valid transactions that are authorized and approved. Commands will implement a Triannual Review to monitor the status of dormant reimbursable agreement receivables and unfilled orders to validate if a bona fide need exists.

Financial Reporting of Contract/Vendor Pay. The Department of the Navy's control environment was not designed or operating effectively to ensure obligations incurred were posted in the general ledger accounting system in a timely manner. Obligations were not recorded in the accounting system within 10 calendar days following the award of a contract. The Department of the Navy commands will be required to have at least two government comptroller personnel with access to Electronic Document Access, and provide them with the functionality to create, edit, and maintain customized list and receive a Contract Load Electronic Notification report on a daily basis to ensure obligations are recorded timely. In addition, the control environment was not designed or operating effectively to substantiate individual authority to approve purchase requests, purchase orders, and certify invoices for payment. The Department of the Navy is drafting Secretary of the Navy Instruction 7000.28, "Requirements for Delegation and Appointment Documentation by Function," which will clarify requirements for delegating funds control authority and the appointment of accountable officials.

Financial Reporting of Reimbursable Work Order- Performer. The Department of the Navy control environment was not designed or operating effectively to:

- verify if the amount billed was valid and accurately recorded based on goods or services provided. The DoD's enterprise wide solution is the implementation of Invoice Processing Platform, which will assist the Department of the Navy in performing electronic receipt and acceptance procedures for goods and services.

- verify if year-end accruals were accurately posted. The Department of the Navy will develop a central methodology to estimate and post payable accruals across Major Commands.

- verify if undelivered orders and accounts receivables represent valid transactions that were authorized and approved. The Department of the Navy commands will implement a Triannual Review to monitor the status of dormant reimbursable agreement receivables and unfilled orders to validate if a bona fide need exists.

- verify if unfilled reimbursable orders/authorizations are recorded completely and accurately. The DoD enterprise-wide solution is the Invoice Processing Platform, which is contingent upon development of system interfaces between Federal accounting system of records which will allow the Department of the Navy to perform Trading Partner reconciliations. Upon launch of the Invoice Processing Platform, Commands will perform monthly reconciliations with Trading Partners (Grantors) to identify variations.

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Financial Reporting of Military Standard Requisitioning and Issue Procedures

Visual Inter-fund System Transaction Accountability Validation*.* The Department of the Navy's service provider, the Defense Finance and Accounting Service, had insufficient controls in place to validate the effectiveness of Visual Inter fund System Transaction Accountability system functionality for assigning a line of accounting to inter-fund bills that result in Military Standard Requisitioning and Issue Procedures obligations or payables and disbursements on the general ledger. The Department of the Navy, in conjunction with the Defense Finance and Accounting Service, will review and prioritize Federal Information System Controls Audit Manual control testing, based on materiality, for Visual-Inter fund System Transaction Accountability.

Unliquidated Obligations. The Department of the Navy internal control reconciliation process for unliquidated obligations was not designed to effectively monitor whether open Military Standard Requisitioning and Issue Procedures commitments and obligations represented a bona fide need. The Department of the Navy is analyzing the Tri-Annual review process across segments. Additionally, Financial Improvement and Audit Readiness Wave 4 (Full Financial Statement) Financial Reporting Objectives require reconciliations of all open obligation amounts to recorded Accounts Payable balances.

Offline Requisitions. The Defense Logistics Agency and General Services Administration established off line requisition systems to access and purchase cataloged or General Services Administration schedule products. These systems did not include the necessary interfaces with the Marine Corps supply and financial automated systems; therefore, incomplete information resulted in invalid accounting entries and Prompt Payment Act violations. A number of policies and procedures have been developed and implemented to address the noted deficiency, as well as approving a Defense Logistics Management Standards System Change Request.

Financial Reporting of Transportation of Things

Transportation Account Codes Authorization and Funds Validation. The Department of the Navy control environment was not designed or operating effectively to prevent unauthorized use of transportation account codes or shipments from occurring. The Department of the Navy will continue to collaborate with the Office of the Under Secretary of Defense (Comptroller) Financial Improvement Audit Readiness working groups to develop solutions.

Access to Key Supporting Documentation. The Department of the Navy did not have standardized processes and procedures for Transportation of Things key supporting documentation to support management evaluations, examinations, and audits. The Department of the Navy will continue to collaborate with the Office of the Under Secretary of Defense (Comptroller) Financial Improvement Audit Readiness working groups to develop solutions.

Standardization of System and Data Requirements. The Department of the Navy transportation and financial system interfaces do not support the exchange of all required transaction data. The Department of the Navy will continue to collaborate with the Office of the Under Secretary of Defense (Comptroller) Financial Improvement Audit Readiness working groups to develop solutions.

Various Assessable Units, Financial Systems. The Department of the Navy identified internal control design and operating effectiveness deficiencies in access controls, configuration management, audit and accountability, and identification and authentication. Additionally, there is a lack of governance forum to address financial systems planning, implementation and management at an Enterprise level. The Department of the Navy developed metrics to monitor and manage system-specific remediation activities, and the Navy Information Technology Financial Improvement and Audit Readiness assessment team is working closely with the Department of the Navy Chief Information Officer to identify the complete inventory of financially-relevant systems and remediate identified control deficiencies.

Financial Statement Compilation and Reporting. The Department of the Navy control environment was not designed or operating effectively to:

- ensure all adjustments into Command trial balances follow a standardized process. The Department of the Navy will implement Command-level training to identify controls around journal entries to ensure entries are properly prepared, reviewed and approved, supported, and documented.

- address transactions resident in the Business Transaction Systems that could not be efficiently and accurately reconciled to the Department of the Navy general ledger accounting systems. Process variances, system interface and configuration management issues present a risk that the Department of the Navy could over or under state obligations, accounts receivable, accounts payable, and disbursements.

- produce expected financial and budgetary accounting relationships from general ledger accounting systems, based on Trial Balance analysis. Tie point failures in each of the nine accounting systems are being analyzed to determined actions to remediate problems. This analysis is designed to support oversight of Journal Vouchers prepared to correct tie point failures.

- support beginning balances. The Department of the Navy was unable to provide data to support transactions from inception through FY 2014. The Department of the Navy developed a Transaction Universe that includes all transactions that support short term assets, liabilities, and the Schedule of Budgetary Activity recorded since October 1, 2014. The Department of the Navy implemented a specific completeness and valuation activity to support long term asset and liability beginning balances with a target date of September 2017.

- ensure building partner capacity cases use of the Foreign Military Sales line of accounting. Building partner capacity was funded through a variety of government appropriations having various periods of availability. Building partner capacity funds were transferred to the Foreign Military Sales Trust Fund, which shows a no-year appropriation.

- ensure supporting receipt documentation for Military Sealift Command liquidations/payments were available. All requirements were processed through the Defense Finance and Accounting Service for payment, however substantiating receipt documentation was not provided to III Marine Expeditionary Force from Military Sealift Command. The Department of the Navy stated they will continue coordinating with Military Sealift Command to provide appropriate source documentation and the III Marine Expeditionary Force will reconcile documents provided with liquidations posted through the Defense Finance and Accounting Service to ensure requirements are being substantiated accurately.

- ensure the Department of the Navy was in compliance with the Improper Payments Information Act of 2002 (as amended). The Department of the

Navy did not have assurances over 1) reconciliation of the payment universe in order to perform program assessments, 2) adequacy of sampling plans, 3) guidance, 4) root cause analysis of improper payments and associated Corrective Action Plans, 5) tracking and recovering overpayments to prevent loss of funds, 6) identification and resolution of service provider improper payments, 7) Internal Control Over Improper Payments, and 8) conducting recovery audits.

These financial management control 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 the Department of the Navy may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. We did not identify material weaknesses that were not reported as such in the Department of the Navy Working Capital Fund FMFIA report.

Report on Compliance with Applicable Provisions of Law, Regulations, Contracts, and Grant Agreements

Generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Department of the Navy complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31. U.S.C. § 1341 [1990]), limits the Department of the Navy and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Department of the Navy or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. § 1517, (2004), the Department of the Navy and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2015, the Department of the Navy Working Capital Fund reported one ADA violation.

Compliance With FFMIA Requirements

FFMIA requires the Department of the Navy to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular A-136 (Revised) requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA.

The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Department of the Navy Chief Information Officer, Department of the Navy commands, Department of the Navy activities, and the Defense Finance and Accounting Service are jointly responsible for implementing and maintaining financial management systems that comply substantially with the Federal financial management system requirements in OMB Circular No. A-127, "Financial Management Systems," applicable U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. The Department of the Navy management states the staff is focusing compliance efforts on the Navy Enterprise Resource Planning system and selected legacy environments, which will be tested to comply substantially with the Federal financial management systems requirements, U.S. GAAP, and the U.S. Government

Standard General Ledger at the transaction level. The Department of the Navy has based its assessment on system requirements promulgated by OMB Circular A-127 and by the Office of the Secretary of Defense through the DoD Business Enterprise Architecture laws, regulations, and policies. The Department of the Navy staff recognizes that legacy systems were, in some cases, substantively not compliant and therefore did not perform system reviews for selected legacy systems.

For FY 2015, the Department of the Navy Working Capital Fund did not substantially comply with FFMIA. The Department of the Navy acknowledged to us that the Department of the Navy Working Capital Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2015. Therefore, based on the representation of the Department of the Navy, we did not substantiate whether the Department of the Navy Working Capital Fund complied with FFMIA and OMB implementation guidance.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations, because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.

PRINCIPAL STATEMENTS

DEPARTMENT OF THE NAVY GENERAL FUND

The fiscal year 2015 Department of the Navy (DON) 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 DON for the fiscal year ending September 30, 2015, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2014.

The following statements comprise the DON 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.

*Note that amounts may vary slightly due to rounding.

Department of Defense

DEPARTMENT OF THE NAVY

CONSOLIDATED BALANCE SHEET

As of September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 140,494,819	$ 142,729,631
Investments (Note 4)	6,543	6,139
Accounts Receivable (Note 5)	212,630	235,932
Other Assets (Note 6)	444,466	500,122
Total Intragovernmental Assets	141,158,458	143,471,824
Cash and Other Monetary Assets (Note 7)	106,034	85,798
Accounts Receivable, Net (Note 5)	571,763	786,738
Inventory and Related Property, Net (Note 8)	78,851,740	73,096,348
General Property, Plant and Equipment, Net (Note 9)	292,992,602	280,388,363
Other Assets (Note 6)	48,724,034	50,306,289
TOTAL ASSETS	$ 562,404,631	$ 548,135,360
Stewardship Property, Plant and Equipment (Note 9) *		
LIABILITIES		
Intragovernmental:		
Accounts Payable (Note 11)	$ 1,398,696	$ 1,856,469
Other Liabilities (Note 13)	887,244	1,007,602
Total Intragovernmental Liabilities	2,285,940	2,864,071
Accounts Payable (Note 11)	725,613	(95,288)
Federal employee and Veteran Benefits (Note 15)	1,537,559	1,672,236
Environmental and Disposal Liabilities (Note 12)	21,120,540	21,713,730
Other Liabilities (Note 13 & Note 14)	9,125,671	8,676,235
TOTAL LIABILITIES	34,795,323	34,830,984
Commitments and Contingencies (Note 14) *		
NET POSITION		
Unexpended Appropriations - Other Funds	182,429,593	187,208,169
Cumulative Results of Operations - Dedicated Collections	30,290	27,545
Cumulative Results of Operations - Other Funds	345,149,425	326,068,662
TOTAL NET POSITION	527,609,308	513,304,376
TOTAL LIABILITIES AND NET POSITION	$ 562,404,631	$ 548,135,360

The accompanying notes are an integral part of the statements.

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

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
Program Costs		
Gross Costs		
Military Personnel	$ 46,294,677	$ 45,976,699
Operations, Readiness, & Support	59,199,665	58,799,793
Procurement	40,160,576	40,622,794
Research, Development, Test, & Evaluation	14,976,204	15,472,309
Family Housing & Military Construction	1,516,441	1,447,381
Less: Earned Revenue	(8,160,633)	(5,202,827)
Net Cost of Operations	$ 153,986,930	$ 157,116,149

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2015

($ in Thousands)

	2015 Dedicated Collections	2015 Other Funds	2015 Eliminations	2015 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 27,545	$ 326,068,662	$ -	$ 326,096,207
Budgetary Financing Sources:				
Appropriations Used	-	161,884,208	-	161,884,208
Non-exchange Revenue	198	1,178	(1,178)	198
Donations & Forfeitures of Cash & Cash Equivalents	23,560	204	-	23,764
Transfers-In/Out without Reimbursement	-	127,399	-	127,399
Other Financing Sources:				
Donations and Forfeitures of Property	-	-	-	-
Transfers-In/Out without Reimbursement	-	(1,012,788)	-	(1,012,788)
Imputed Financing from Costs Absorbed by Others	-	704,140	-	704,140
Other	-	11,343,517	-	11,343,517
Total Financing Sources	23,758	173,047,858	(1,178)	173,070,438
Net Cost of Operations	21,013	153,967,095	(1,178)	153,986,930
Net Change	2,745	19,080,763	-	19,083,508
Cumulative Results of Operations	$ 30,290	$ 345,149,425	$ -	$ 345,179,715
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ -	$ 187,208,169	$ -	$ 187,208,169
Budgetary Financing Sources:				
Appropriations Received	-	159,223,179	-	159,223,179
Appropriations Transferred-In/Out	-	949,498	-	949,498
Other Adjustments (Rescissions, etc.)	-	(3,067,045)	-	(3,067,045)
Appropriations Used	-	(161,884,208)	-	(161,884,208)
Total Budgetary Financing Sources	-	(4,778,576)	-	(4,778,576)
Unexpended Appropriations	-	182,429,593	-	182,429,593
Net Position	$ 30,290	$ 527,579,018	$ -	$ 527,609,308

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2014

($ in Thousands)

	2014 Dedicated Collections	2014 Other Funds	2014 Eliminations	2014 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 27,762	$ 317,225,870	$ -	$ 317,253,632
Budgetary Financing Sources:				
Appropriations Used	-	159,389,292	-	159,389,292
Non-exchange Revenue	166	-	-	166
Donations & Forfeitures of Cash & Cash Equivalents	21,088	379	-	21,467
Transfers-In/Out without Reimbursement	-	431,514	-	431,514
Other Financing Sources:				
Donations and Forfeitures of Property	-	1,141	-	1,141
Transfers-In/Out without Reimbursement	-	(843,837)	-	(843,837)
Imputed Financing from Costs Absorbed by Others	-	782,721	-	782,721
Other	(8)	6,176,268	-	6,176,260
Total Financing Sources	21,246	165,937,478	-	165,958,724
Net Cost of Operations	21,463	157,094,686	-	157,116,149
Net Change	(217)	8,842,792	-	8,842,575
Cumulative Results of Operations	$ 27,545	$ 326,068,662	$ -	$ 326,096,207
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ -	$ 187,097,659	$ -	$ 187,097,659
Budgetary Financing Sources:				
Appropriations Received	-	164,106,520	-	164,106,520
Appropriations Transferred-In/Out	-	628,185	-	628,185
Other Adjustments (Rescissions, etc.)	-	(5,234,903)	-	(5,234,903)
Appropriations Used	-	(159,389,292)	-	(159,389,292)
Total Budgetary Financing Sources	-	110,510	-	110,510
Unexpended Appropriations	-	187,208,169	-	187,208,169
Net Position	$ 27,545	$ 513,276,831	$ -	$ 513,304,376

The accompanying notes are an integral part of the statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2015 and 2014

($ in Thousands)

	2015 Combined	2014 Combined
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	$ 35,245,619	$ 33,316,125
Recoveries of Prior Year Unpaid Obligations	9,719,355	9,670,220
Other Changes in Unobligated Balance	(2,467,570)	(1,872,092)
Unobligated Balance from Prior Year Budget Authority, Net	42,497,404	41,114,253
Appropriations	159,724,368	161,825,911
Spending Authority from Offsetting Collections	6,614,057	6,892,986
Total Budgetary Resources	$ 208,835,829	$ 209,833,150
Status of Budgetary Resources:		
Obligations Incurred	$ 172,560,694	$ 174,587,531
Unobligated Balance, End of Year		
Apportioned	30,084,039	29,251,281
Exempt from Apportionment	25,813	22,834
Unapportioned	6,165,283	5,971,504
Total Unobligated Balance, End of Year	36,275,135	35,245,619
Total Budgetary Resources	$ 208,835,829	$ 209,833,150
Change in Obligated Balance:		
Unpaid Obligations		
Unpaid Obligations, Brought Forward, October 1	$ 110,665,931	$ 112,478,843
Obligations Incurred	172,560,694	174,587,531
Outlays, Gross	(166,136,648)	(166,730,223)
Recoveries of Prior Year Unpaid Obligations	(9,719,355)	(9,670,220)
Unpaid Obligations, End of Year, Gross	107,370,622	110,665,931
Uncollected Payments		
Uncollected Payments from Federal Sources, Brought Forward, October 1	(3,274,255)	(3,229,494)
Change in Uncollected Payments from Federal Sources	(163,611)	(44,761)
Uncollected Payments from Federal Sources, End of Year	(3,437,866)	(3,274,255)
Obligated Balance, Start of Year	107,391,676	109,249,349
Obligated Balance, End of Year	$ 103,932,756	$ 107,391,676
Budget Authority and Outlays, Net:		
Budget Authority, Gross	$ 166,338,425	$ 168,718,897
Actual Offsetting Collections	(6,450,446)	(6,848,225)
Change in Uncollected Payments from Federal Sources	(163,611)	(44,761)
Budget Authority, Net	$ 159,724,368	$ 161,825,911
Outlays, Gross	$ 166,136,648	$ 166,730,223
Actual Offsetting Collections	(6,450,446)	(6,848,225)
Outlays, Net	159,686,202	159,881,998
Distributed Offsetting Receipts	(196,776)	(237,198)
Agency Outlays, Net	$ 159,489,426	$ 159,644,800

The accompanying notes are an integral part of the 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, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DON 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 the DON 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 financial statements include information from both financial systems and nonfinancial feeder systems. The Defense Finance and Accounting Service, Cleveland (DFAS-CL) collects information from the financial system and incorporates it into the financial statements for the DON. The DON 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 the DON, DFAS-CL also collects information from multiple sources, such as intragovernmental data from the DON's trading partners, which is incorporated into the financial statements. The Defense Departmental Reporting System Data Collection Module (DDRS DCM) captures certain required financial information from non-integrated systems for the DON financial statements. The DDRS DCM identifies the information requirements to the source provider, and integrates data into the financial statement preparation process.

The DON is unable to fully implement all elements of USGAAP and the OMB Circular No. A-136, due to limitations of its financial and nonfinancial management processes and systems that support the financial statements. The DON 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 continues to implement process and system improvements addressing these limitations.

The DON currently has 15 auditor-identified financial statement material weaknesses: (1) Financial Management Systems; (2) Reimbursable Work Order – Performer; (3) Financial Reporting of Operating Materials and Supplies; (4) Financial Reporting of General Equipment; (5) Financial Reporting of Real Property; (6) Reimbursable Work Order - Grantor; (7) Contract/Vendor Pay; (8) Shipyard Transactions; (9) Visual Inter-fund System Transaction Accountability Validation; (10) Unliquidated Obligations; (11) Transportation Account Codes Authorization and Funds Validation; (12) Access to Key Supporting Documentation; (13) Standardization of System and Data Requirements; (14) Adjusting Entries into Command Trial Balances; and (15) Financial System, Schedule of Budgetary Activity.

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 the 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 the funds (excluding deposit funds) to execute its missions and subsequently report and resource usage.

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

These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009.

The National Defense Sealift Fund is the DON General Fund's only revolving fund. Revolving funds are generally established for 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 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 funds from dedicated collections. Funds from dedicated collections 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 is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for funds from dedicated collections.

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

The DON is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (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 U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The DON receives allocation transfers from the U.S. Forest Service and the Federal Highway Administration. The activities for these funds are reported separately from the DoD financial statements and reported to the parent.

Additionally, the DON receives allocation transfers for the Foreign Military Financing Program, the International Military Education and Training Program, and the Security Assistance Programs which each meet the OMB exception for EOP funds. These funds are reported separately from the DON's financial statements based on an agreement with OMB.

1.D. Basis of Accounting

The DON's financial management systems are unable to meet all full accrual accounting requirements. Many of the DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP.

Most of the DON's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

Although the DON has not fully implemented accrual accounting, under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

The DON financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DON's 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, environmental liabilities, and Federal Employees' Compensation Act (FECA) liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated DON 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 the U.S. Standard General Ledger (USSGL). Until all the DON financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, there will be instances when the DON's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

The preparation of the financial statements requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

1.E. Revenues and Other Financing Sources

The DON receives congressional appropriations as financing sources for general funds that expire annually, some 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 recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is the DON's standard policy for services provided as required by OMB Circular A-25, "User Charges." The DON recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

The DON 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 19, 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.

The DON records donations in trust funds and special funds as nonexchange revenue in accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." The DON recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, 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 FECA liabilities. In the case of Operating Materials & 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 expensed 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 continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. However, the DON cannot accurately identify intragovernmental transactions by customer because the DON'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 accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure, incorporating the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government" provides guidance for reporting and reconciling intragovernmental balances. While the DON is unable to fully reconcile intragovernmental transactions with all federal agencies, the DON is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, FECA transactions with the U.S. Department of Labor (DOL), and benefit program transactions with the Office of Personnel Management.

Imputed Financing represents the costs paid on behalf of the DON by another Federal entity. The DON recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act; (3) losses in litigation proceedings; and (4) military payroll for service members assigned to the DON.

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, the 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's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of 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 the 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. The disbursing station monthly reports are consolidated at the disbursing office level for financial reporting purposes.

In addition, DFAS and the 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, DFAS performs reconciliation between DON's FBWT and the U.S. Treasury.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the DoD including 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 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: (1) operations and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) 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 does not separately identify currency fluctuation transactions.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities", the methodology for losses due to uncollectable amounts are based on an individual account analysis and/or group analysis. The analysis is based on three years of receivable data. This data is used to determine the historical percentage of collections in each age category of receivables. The DON 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 Treasury Financial Manual Part 2, Chapter 4700, Appendix 10, "Intragovernmental Business Rules."

1.L. Inventories and Related Property

The DON 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, support equipment, etc. As it relates to the DON, OM&S includes the related spares and repair parts for materiel. Items commonly used in and available from the commercial sector are not managed in the DON's materiel management activities. Operational cycles are not irregular and the military risks associated with stock-out positions have no commercial parallel. The DON 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 future sale."

The DON uses both the consumption method and the purchase method of accounting for OM&S. The DON OM&S is categorized as operating materials and supplies held for use, operating materials and supplies held in reserve for future use (held for repair) (including munition not held for sale) and excess, obsolete and unserviceable operating material and supplies. 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, the DON uses the purchase method. Under this method, material and supplies are expensed when purchased. During FY 2015 and 2014, the DON 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 an identified 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 DON OM&S assets held for use and held for repair use three cost valuation methods: Standard Price (SP), Latest Acquisition Cost (LAC), and Moving Average Cost (MAC). Excess, obsolete, and unserviceable OM&S are valued using Net Realizable Value (NRV) pending development of an effective means of valuing such material. Currently these items are valued at a NRV of $0. The LAC method is used because legacy logistics systems were designed for material 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 (FFMIA). The DON is continuing to transition OM&S to the MAC method. Most transitioned balances, however, were not baselined to auditable historical cost, and remain noncompliant with SFFAS No. 3.

Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than general equipment. As a result, the DON 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.

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

The DON reports investments in accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities." The DON reports 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'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 invests in nonmarketable market-based U.S. Treasury securities, issued to federal agencies by the U.S. Treasury's Bureau of Fiscal Service. These securities are not traded on any financial exchange but are priced consistently with publicly traded U.S. Treasury securities.

1.N. General Property, Plant and Equipment

General Property, Plant and Equipment (PP&E) assets are capitalized in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment", as amended by SFFAS Nos. 10, 23, and 35, when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the DoD's capitalization threshold. The DoD capitalizes 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 DON depreciates all General PP&E, other than land and aircraft, on a straight-line basis in accordance with FMR Volume 4 Chapter 6.

The DON's General PP&E capitalization threshold is $1 million. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment and $20 thousand for real property) and are carried at the remaining book value.

The DON uses a combination of actual expenditure data and program funding to calculate the value for PP&E in accordance with SFFAS No. 35, "Estimating the Historical Cost of General Property, Plant, and Equipment". The DON is developing a process to track and record actual general equipment (GE) costs. The GE value is updated using expenditure, acquisition, and disposal information.

When it is in the best interest of the government, the DON provides government property to contractors to complete contract work. The DON 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 the DON'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. In accordance with Federal Acquisition Regulations (FAR), the DoD requires the DON 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 has not fully implemented this policy primarily due to system limitations.

1.O. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy as prescribed in SFFAS No.1, "Accounting for Selected Assets and Liabilities" is to record advances or prepayments in accordance with USGAAP. As such, payments made prior to 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 has not implemented this policy primarily due to system limitations.

Due to inconsistencies in the posting logic for Nonfederal Advances and Prepayments, the DON is noncompliant with the FFMIA, which requires agencies to comply with the Federal financial management system requirements, standards promulgated by the FASAB, and the USSGL at the transaction level.

1.P. Leases

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government", 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, the DON records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The DON 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, as the lessee, receives the use and possession of leased property, such as 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 the DON are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.Q. Other Assets

Other assets include those assets, such as military and civil service employee pay advances and certain contract financing payments not reported elsewhere on the DON's Balance Sheet. The DON maintains this classification in accordance with SFFAS No. 1.

Advances are cash outlays made by the DON to its employees, contractors, or others to cover a part or all of the recipients' anticipated expenses. Military pay advances are advance payments authorized for purposes intended to ease hardships imposed by the lack of regular payments when a military member is mobilized, ordered to duty at distant stations, or deployed aboard ships for more than 30 days. Civilian pay advances are payments advanced to full time DON civilians intended to finance unusual employee expenses associated with oversea assignments that are not otherwise reimbursed and to aid foreign assignment recruitment and retention. Travel advances are disbursed to employees prior to business trips. Travel advances are subsequently reduced when travel expenses are actually incurred.

The DON conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the DON may provide financing payments. Contract financing payments are defined in the FAR, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment 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 costs, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The DON 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.R. Contingencies and Other Liabilities

The DON is party to various administrative proceedings, legal actions, and claims. Under SFFAS No. 5, "Accounting for Liabilities of the Federal Government", as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation", the Balance Sheet should include estimated liabilities for these items when an adverse decision is probable, reasonably possible, and estimable. When the amount of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is remote, the contingency is not disclosed.

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'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 also arise as a result of anticipated disposal costs for the DON'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. DON adheres to the 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 an asset. In addition, DoD recognizes nonenvironmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

1.S. Accrued Leave

Military leave, compensatory and annual leave earned by civilians, but not yet used, is reported as accrued liabilities. The accrued balance is adjusted annually to reflect current pay rates. Any portions of the accrued leave, for which funding is not available, are recorded as an unfunded liability. Sick leave for civilians is expensed as taken.

1.T. Net Position

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

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

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

1.U. 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 the DON 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.V. 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 disbursement and collections have corroborating documentation for the summary-level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the DON's Accounts Payable and Receivable trial balances prior to validating that the underlying transactions.

Due to identified material weaknesses in current accounting and financial feeder systems, the DoD generally cannot determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable/receivable at the time accounting reports are prepared. Accordingly, the 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. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

1.W. Fiduciary Activities

Fiduciary cash and other assets are not assets of the DON and are not recognized on the balance sheet. Fiduciary activities are reported in the accompanying notes to the principal statements.

1.X. Military Retirement and Other Federal Employment Benefits

For financial reporting purposes, the DON's actuarial liability for worker's compensation benefits is developed by the DOL and provided to the DON at the end of each fiscal year. Military retirement is accounted for in the audited financial statements of the Military Retirement fund as the DON does not record any liabilities or obligations for pensions or healthcare retirement benefits.

NOTE 2. NONENTITY ASSETS

As of September 30		2015		2014
(Amounts in thousands)				
Intragovernmental Assets				
Fund Balance with Treasury	$	237,752	$	73,221
Nonfederal Assets				
Cash and Other Monetary Assets		106,034		85,798
Accounts Receivable		98,655		334,280
Total Nonentity Assets	$	442,441	$	493,299
Total Entity Assets	$	561,962,190	$	547,642,061
Total Assets	$	562,404,631	$	548,135,360

Nonentity assets are assets for which the DON maintains stewardship accountability and reporting responsibility but which are not available for the 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.

Nonfederal 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 on behalf of other agencies and are not available for DON's use in normal operations.

Nonfederal Accounts Receivable (Public)

The primary components of nonentity accounts receivable are contractor debts owed to closed general fund accounts. The balance also includes out-of-service employee debts owed to closed general funds accounts, and interest, penalty, and administrative charges for all other public debts.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30		2015		2014
(Amounts in thousands)				
Fund Balances				
Appropriated Funds	$	139,974,541	$	142,177,547
Revolving Funds		203,384		429,771
Trust Funds		22,459		22,974
Special Funds		2,295		2,206
Other Fund Types		292,140		97,133
Total	$	140,494,819	$	142,729,631

Other Fund Types 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. These funds represent receipts held temporarily for distribution to another fund or entity or held as an agent for others.

STATUS OF FUND BALANCE WITH TREASURY

As of September 30		2015		2014
(Amounts in thousands)				
Unobligated Balance				
Available	$	30,109,852	$	29,274,114
Unavailable		6,166,591		5,972,843
Obligated Balance not yet Disbursed		107,370,622		110,665,931
Non-Budgetary FBWT		292,140		97,134
Non-FBWT Budgetary Accounts		(3,444,386)		(3,280,391)
Total	$	140,494,819	$	142,729,631

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority 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.

Non-budgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT. For the DON, Non-budgetary FBWT consists of balances in receipt accounts and clearing accounts.

Non-FBWT Budgetary Accounts reduces the Status of FBWT. This amount is comprised of Trust Fund investments in U.S. Treasury securities, unfilled customer orders without advance, and reimbursements receivable. Due to DON systems inability to segregate Budgetary FBWT balances, Non-FBWT Budgetary Accounts are used to reconcile the Status of FBWT.

While the Navy's Unobligated Balance, Available is not reported in an abnormal condition as part of the "Status of Fund Balance With Treasury", the Navy has identified an abnormal balance in one of the USSGL accounts making up that balance. USSGL 4510.9000-Reimbursable (Unobligated Balance, Available Current Year - Reimbursable) has an abnormal balance that is attributed to improper recording of internal reimbursable funds distributions within the field accounting system. Navy Enterprise Resource Planning (ERP) system is established to utilize the appropriate USSGL to record funding distributions. When recorded correctly, the field accounting system will present a fully distributed funding status that supports the Navy trial balance and financial statements by properly reporting the availability of the funds for obligation. As of September 2015, $2,307,592 was improperly recorded, creating this abnormal balance. The Navy is researching the transactions in order to accurately identify necessary corrective action.

OTHER

As of September 30	2015	2014
(Amounts in thousands)		
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 140,539,966	$ 142,839,569
Fund Balance per DON	140,494,819	142,729,631
Reconciling Amount	$ 45,147	$ 109,938

The total reconciling amount of $45.1 million in FBWT is due to saving deposit program differences and parent-child transactions. The reconciling difference related to allocation transfers results from instances in which DON allocates to or is allocated funds from various governmental entities. In cases in which DON is allocated funds, the amount is excluded from the Fund Balance per DON, but included in Fund Balance per Treasury. In cases in which DON allocates funds, the amount is included in the Fund Balance per DON, but it is excluded from the Fund Balance per Treasury. See Note 21, Fiduciary Activities for further information regarding the deposit funds.

NOTE 4. INVESTMENTS AND RELATED INTEREST

As of September 30	2015			
	Cost	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)				
Intragovernmental Securities				
Nonmarketable, Market-Based				
Other Funds	$ 6,540	$ (16)	$ 6,524	$ 6,531
Acrued interest	19	-	19	19
Total	$ 6,559	$ (16)	$ 6,543	$ 6,550

As of September 30	2014			
	Cost	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)				
Intragovernmental Securities				
Nonmarketable, Market-Based				
Other Funds	$ 6,140	$ (4)	$ 6,136	$ 6,139
Accrued Interest	3	-	3	3
Total	$ 6,143	$ (4)	$ 6,139	$ 6,142

Other Funds 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 SFFAS No. 27, "Identifying and Reporting Funds from Dedicated Collections," DON Trust Funds are reported as funds from dedicated collections.

The U.S. Treasury securities are issued to the funds from dedicated collections as evidence of its receipts and are an asset to the DON and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash generated from funds from dedicated collections are deposited in the U.S. Treasury, which uses the cash for general Government purposes. 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 liability in the U.S. Government financial statements.

The U.S. Treasury securities provide the DON with authority to access funds to make future benefit payments or other expenditures. When the DON requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, 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.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30	2015 Gross Amount Due		2015 Allowance For Estimated Uncollectibles		2015 Accounts Receivable, Net	
(Amounts in thousands)						
Intragovernmental Receivables	$	212,630	$	-	$	212,630
Nonfederal Receivables (From the Public)		580,363		(8,600)		571,763
Total	$	792,993	$	(8,600)	$	784,393

As of September 30	2014 Gross Amount Due		2014 Allowance For Estimated Uncollectibles		2014 Accounts Receivable, Net	
(Amounts in thousands)						
Intragovernmental Receivables	$	235,932	$	-	$	235,932
Nonfederal Receivables (From the Public)		798,751		(12,013)		786,738
Total	$	1,034,683	$	(12,013)	$	1,022,670

The accounts receivable represent the DON's claim for payment from other entities. The DON only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules. Intra-governmental Receivables primarily represents amounts due from other federal agencies for reimbursable work performed pursuant to the Economy Act and other statutory authority. The methodology used in determining the allowance amount is discussed in Note 1.K, Accounts Receivable. Refer to Note 2, Nonentity Assets for additional information on Nonfederal Accounts Receivable.

NOTE 6. OTHER ASSETS

As of September 30	2015		2014	
(Amounts in thousands)				
Intragovernmental Other Assets				
Advances and Prepayments	$	444,466	$	500,122
Outstanding Contract Financing Payments		48,447,272		50,001,621
Advances and Prepayments		271,158		300,547
Other Assets (With the Public)		5,604		4,121
Total Nonfederal Other Assets		48,724,034		50,306,289
Total	$	49,168,500	$	50,806,411

Intragovernmental and Nonfederal Other Assets - Advances and Prepayments
Advances are cash outlays made by a federal entity to cover a part or all of the recipients' anticipated expenses or as advance payments for the costs of goods and services the entity receives. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred.

Nonfederal Other Assets - Outstanding Contract Financing Payments (OCFP)
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 contractors 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 the 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, the DON is unable to identify these due to system limitations and all amounts are reported as OCFP.

The balance of OCFP includes $47.1 billion in contract financing payments and an additional $1.4 billion in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. (See additional discussion in Note 13, 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	2015	2014
(Amounts in thousands)		
Cash	$ 85,178	$ 57,400
Foreign Currency	20,856	28,398
Total	$ 106,034	$ 85,798

Cash and Foreign Currency consist primarily of cash held by 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.

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 entire Cash and Foreign Currency balance is restricted to its use.

NOTE 8. INVENTORY AND RELATED PROPERTY

As of September 30	2015	2014
(Amounts in thousands)		
Inventory, Net	$ -	$ -
Operating Material & Supplies, Net	78,851,740	73,096,348
Total	$ 78,851,740	$ 73,096,348

INVENTORY AND RELATED PROPERTY

As of September 30	2015			
(Amounts in thousands)	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
OM&S Categories				
Held for Use	$ 59,568,266	$ -	$ 59,568,266	SP, LAC, MAC
Held for Repair	19,283,583	(109)	19,283,474	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	1,038,618	(1,038,618)	-	NRV
Total	$ 79,890,467	$ (1,038,727)	$ 78,851,740	

As of September 30	2014			
(Amounts in thousands)	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
OM&S Categories				
Held for Use	$ 63,477,958	$ -	$ 63,477,958	SP, LAC, MAC
Held for Repair	9,619,497	(1,107)	9,618,390	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	1,313,347	(1,313,347)	-	NRV
Total	$ 74,410,802	$ (1,314,454)	$ 73,096,348	

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

The DON assigns Operating Materials & Supplies (OM&S) to a category based upon the type and condition of the asset. OM&S includes spare and repair parts, ammunition, conventional missiles, torpedoes, aircraft configuration pods, and centrally managed aircraft engines. OM&S Held for Use includes spare and repair parts, clothing and textiles, petroleum products and material held in reserve for future use. OM&S Held for Repair consists of damaged material held as inventory that is more economical to repair than to dispose. Excess, Obsolete, and Unserviceable OM&S consists of scrap material or items that cannot be economically repaired and are awaiting disposal.

The consumption method is applied when accounting for OM&S. Exceptions to the consumption method are provided when (1) the OM&S are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost beneficial to apply the consumption method. In any of these events, the purchase method is allowed. Legacy accounting systems cannot support the consumption method of accounting, thus the various reporting activities are currently using the purchase method. As financial reporting entities begin to purchase and manage material in Navy ERP, the consumption method will be properly applied.

The moving average cost valuation method using historical cost is used for a majority of the OM&S categories; however, actual cost, standard price, and latest acquisition cost are also valuation methods applied depending on the legacy inventory system used to forecast OM&S cost. The DON is currently using the allowance method of accounting for repairables in the legacy accounting system and the direct method of accounting for repairables in Navy ERP.

Ammunition and Munitions are maintained in the 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 to provide the readiness of the material for the Fleet. These items possess one of the following characteristics: essential for combat or training; high dollar value; difficult to procure or produce; or critical basic material or component parts. Principal End and Secondary Items are valued at moving average cost.

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

NOTE 9. GENERAL PP&E, NET

As of September 30	2015				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 780,121	$ -	$ 780,121
Buildings, Structures, and Facilities	S/L	20 or 40	51,493,603	(26,022,858)	25,470,745
Leasehold Improvements	S/L	lease term	6,530	(3,650)	2,880
Software	S/L	2-5 or 10	5,341	(3,639)	1,702
General Equipment	S/L	Various	483,192,904	(229,914,151)	253,278,753
Construction-in-Progress	N/A	N/A	13,029,665	-	13,029,665
Other	N/A	N/A	428,736	-	428,736
Total General PP&E			$ 548,936,900	$ (255,944,298)	$ 292,992,602

As of September 30	2014				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 768,543	$ -	$ 768,543
Buildings, Structures, and Facilities	S/L	20 or 40	50,660,637	(26,626,008)	24,034,629
Leasehold Improvements	S/L	lease term	6,530	(3,338)	3,192
Software	S/L	2-5 or 10	5,341	(2,758)	2,583
General Equipment	S/L	Various	462,975,102	(221,070,895)	241,904,207
Construction-in-Progress	N/A	N/A	12,799,329	-	12,799,329
Other	N/A	N/A	875,880	-	875,880
Total General PP&E			$ 528,091,362	$ (247,702,999)	$ 280,388,363

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

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.

As a result of audit readiness efforts, adjustments had to be made to mission critical asset balances that resulted from events that could not be identified to specific accounting periods, and that those adjustments were made against current year gain/loss accounts. Significant accounting adjustments have been made to the DON's mission critical assets as a result of the Department's ongoing audit readiness efforts. These accounting adjustments were recognized in current year gain/loss accounts when auditable data was not available to support restatement of prior period financial statements.

For FY 2014 the DoD combined Military Equipment (ME), previously reported as a separate line item for general property plant and equipment, and General Equipment (GE) into a single category entitled "General Equipment." The capitalization threshold for GE has increased from $100 thousand to $1 million, This change is prospective and applies to asset acquisitions and modifications/improvements placed into service October 1, 2013 and after.

The DON estimates values for Capitalized General Equipment using department internal records such as budgetary information for aircraft and expenditure data for ships. Currently, the DON is not reporting the construction of General Equipment in the appropriate Construction-in-Progress (CIP) account. The balance in the CIP account is comprised of real property. The DON is reporting the value of the construction of its General Equipment as an Advance.

Other General PP&E consists of Real Property held in Caretaker Status. Caretaker is defined as those properties that Navy still owns, but which are being held awaiting further disposal action to another entity, such as Defense Base Closure and Realignment Commission (BRAC) property awaiting sale or transfer to another Federal agency. As of September 30, 2015 the accumulated depreciation related to these assets in Caretaker status are currently included in the total accumulated depreciation of Buildings, Structures, and Facilities still in service and is unknown at this time. The DON is researching the dollar value of depreciation expenses related to these assets.

Heritage Assets

As of September 30	Measure Quantity	As of September 30, 2014	Addition	Deletions	As of September 30, 2015
Categories					
Building and Structures	Each	10,035	-	-	10,035
Archaeological Sites	Each	18,534	-	-	18,534
Museum Collection Items (Objects, Not Including Fine Art)	Each	511,348	5,912	5	517,255
Museum Collection Items (Objects, Fine Art)	Each	43,454	277	-	43,731

As of September 30		As of September 30, 2014	Additions	Deletions	As of September 30, 2015
Stewardship Land (Acres in thousands)					
Facility Code	**Facility Title**				
9110	Government Owned Land	5	-	-	5
9111	State Owned Land	-	13	-	13
9120	Withdrawn Public Land	2,683	149	56	2776
9130	Licensed and Permitted Land	26	-	1	25
				Grand Total	2,819
				TOTAL - All Other Lands	30
				TOTAL - Stewardship Lands	2,789

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 that 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 Marine Corps continues to make updates to their Heritage Asset beginning balances as a result of audit findings.

The DON's stewardship land consists mainly of mission essential land acquired by donation or devise. The DON held the above acres of land as of September 30, 2015.

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, the 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.

NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2015		2014	
(Amounts in thousands)				
Intragovernmental Other Liabilities	$	400,156	$	433,485
Accounts Payable	$	(102,291)	$	(16,221)
Federal Employee and Veteran Benefits		1,536,102		1,671,680
Environmental and Disposal Liabilities		21,120,540		21,713,730
Other Liabilities		4,580,858		4,461,320
Total Liabilities Not Covered by Budgetary Resources	$	27,535,365	$	28,263,994
Total Liabilities Covered by Budgetary Resources	$	7,259,958	$	6,566,990
Total Liabilities	$	34,795,323	$	34,830,984

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided. These include liabilities resulting from the receipt of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods, for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or earnings of the entity.

Intragovernmental Other Liabilities consist primarily of unfunded FECA liabilities due to the Department of Labor and unemployment compensation due to applicable states. These liabilities will be funded by future years' budgetary resources.

Nonfederal Liabilities

Accounts Payable is related to cancelled year accounts payable that are not budgeted. The Accounts Payable value includes balances comprised of accounts payable transactions recorded in the Navy's field accounting system and departmental reporting system. In addition, this value is impacted by the value of the Navy's undistributed disbursements. Undistributed disbursements are defined as the difference between the amount of disbursements reported by the Treasury finance network and the amount of disbursements recorded by the Department's (i.e. Navy's) disbursement and collection activities. Financial reporting procedures and system logic for the Navy have been established to apply the undistributed disbursement value against the outstanding Accounts Payable balance. When the undistributed exceeds the recorded Accounts Payable, the result is an abnormal balance. The Navy continues to partner with its service provider to research and correct undistributed transactions to reduce the negative impact on the Accounts Payable balance.

Federal Employee and Veteran Benefits consist of unfunded FECA actuarial liabilities not due and payable during the current fiscal year. Refer to Note 15, Military Retirement and Other Federal Employment Benefits, for additional details.

Environmental and Disposal liabilities are estimates related to future events, and consist of liabilities related to active installations, Defense Base Closure and Realignment Commission sites, equipment and weapons programs, and chemical weapons disposal. See Note 12, Environmental and Disposal Liabilities, for additional details.

Other Liabilities include annual leave, estimated legal contingent liabilities, and the disposal of excess structures that are not currently budgeted for but will become funded as future events occur.

NOTE 11. ACCOUNTS PAYABLE

As of September 30	2015		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 1,398,696	$ -	$ 1,398,696
Nonfederal Payables (to the Public)	725,613	-	725,613
Total	$ 2,124,309	$ -	$ 2,124,309

As of September 30	2014		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 1,856,469	$ -	$ 1,856,469
Nonfederal Payables (to the Public)	(95,328)	40	(95,288)
Total	$ 1,761,141	$ 40	$ 1,761,181

Accounts Payable includes amounts owed to federal and nonfederal entities for goods and services received by the DON. The DON's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable. This is accomplished by 1) reclassifying amounts between federal and nonfederal cost categories, 2) accruing additional accounts payable and expenses, and 3) applying both supported and unsupported undistributed disbursements at the reporting entity level.

NOTE 12. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2015	2014
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 2,618,322	$ 2,592,934
Active Installations - Military Munitions Response Program (MMRP)	2,016,833	2,008,440
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	$ 55,505	$ 54,664
Environmental Closure Requirements	473,907	381,188
Environmental Response at Operational Ranges	13,690	13,530
Asbestos	298,412	304,423
Non-Military Equipment	253,592	537,247
Other	743	733
Base Realignment and Closure Installations		
Installation Restoration Program	$ 1,267,645	$ 1,206,824
Military Munitions Response Program	96,251	118,540
Environmental Corrective Action / Closure Requirements	8,868	30,403
Environmental Disposal for Military Equipment/Weapons Programs		
Nuclear Powered Military Equipment / Spent Nuclear Fuel	$ 13,814,600	$ 14,325,374
Other Weapons Systems	202,172	139,430
Total	$ 21,120,540	$ 21,713,730

The above table excludes estimated total cleanup costs associated with General Property, Plant, and Equipment of $2.7 billion for FY 2015 and $2.7 billion for FY 2014.

The "Other" type of environmental liabilities under Other Accrued Environmental Liabilities represents an environmental estimate for disposal of Polychlorinated Biphenyls (PCB) transformers located at various Naval installations.

In addition to the liabilities reported above, the 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.

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

- Superfund Amendments and Reauthorization Act of 1986
- The Clean Water Act of 1977, amended the Federal Water Pollution Control Act
- The Safe Drinking Water Act of 1974
- The Clean Air Act, as amended in 1990
- 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 1969
- Comprehensive Environmental Response, Compensation, and Liability Act
- Medical Waste Tracking Act of 1988
- Toxic Substances Control Act of 1976
- Resource Conversation and Recovery Act of 1976

Methods for Assigning Total Cleanup Costs to Current Operating Periods
Active Installations - Defense Environmental Restoration Program (DERP) Funded: Accrued DERP cleanup liabilities represent the cost to correct past releases of hazardous constituents to Property, Plant, and Equipment, including acquired land and Stewardship Land. Environmental cleanup of past releases is funded by DERP and carried out under applicable regulatory laws and procedural guidance.

Environmental restoration activities may be conducted at operating installations under the Installation Restoration Program (IRP) and at Closed, Transferred, and Transferring Munitions Ranges under the Military Munitions Response Program (MMRP). Determining total environmental cleanup cost considers, on a current cost basis, the anticipated actions required to complete the cleanup, as well as applicable legal and/or regulatory requirements. Program management and support costs are also included in the estimates. The estimate produced is based on site-specific information and use of cost models. The cost estimates are developed and maintained in DON's Normalization of Data System (NORM) database. Such cost estimates are based on the current technology available.

MMRP liabilities are specific to the identification, investigation, 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. Cost to Complete (CTC) is not estimated until there is sufficient site-specific data available to estimate the total CTC. However, DON uses the cost of the study as the estimate until the study is completed.

The Accrued environmental restoration 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.

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 the 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.

Description of the Types of Environmental Liabilities and Disposal Liabilities

Accrued Environmental Restoration Liabilities
The DON environmental cleanup cost estimate was based on 4007 IRP and 382 MMRP sites at 207 active installations. As of September 30, 2015, DON estimated and reported $4.6 billion for environmental restoration liabilities. This amount is comprised of $2.6 billion in Active Installations-IRP liabilities and $2.0 billion in Active Installations-MMRP liabilities.

Other Accrued Environmental Liabilities – Non-BRAC
The DON defines Non-BRAC environmental units as those sites associated with on-going operations such as solid/hazardous waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retro fill, and/or disposal of PCB transformers, underground storage tank remedial investigation and closure.

This report estimates environmental clean-up or disposal costs for hazardous waste associated with future closure of GPP&E assets. Such costs are categorized in the Navy financial statements (Note 12) as environmental corrective action, closure of facilities, remediation of operational range contamination, asbestos abatement, and disposal of non-military equipment. DON estimates totaled $1,095.9 million. Estimates for Navy "Other Accrued Environmental Liabilities – Non-BRAC" (OEL) totaled $832.3 million and for US Marine Corps OEL totaled $263.6 million as of September 30, 2015.

Environmental conditions that result from current operations and require immediate cleanup (like oil spills or routine hazardous waste removal) are not considered environmental liabilities and are part of current operating expenses.

Base Realignment and Closure Installations
BRAC environmental sites are environmental sites at DON installations that are or will be closed under the congressionally mandated BRAC process. As of September 30, 2015, the DON has estimated and reported $1.5 billion for BRAC funded environmental liabilities. This amount includes $1.3 billion for IRP, $0.1 billion for MMRP, and $0.009 billion 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 Military Equipment / Weapons Programs
Environmental Disposal for Weapons Systems are those estimates associated with the environmental disposal costs for DON Nuclear Weapons Programs that include Nuclear Powered Aircraft Carriers and Submarines and Other Nuclear Powered Ships, Conventional Ships, and Spent Nuclear Fuel.

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. As of September 30, 2015, there are no changes to the environmental liability estimates due to deflation, changes in laws, regulations, agreements with regulatory agencies, and advances in technology. The DON is not aware of any pending changes but the liability can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

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, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters.

The DON tangible property, plant, and equipment contains non-friable asbestos. At this time the DON is unable to reasonably estimate the clean-up costs but is working to estimate these costs.

NOTE 13. OTHER LIABILITIES

As of September 30 *(Amounts in thousands)*	2015 Current Liability	 Noncurrent Liability	 Total
Intragovernmental			
Advances from Others	$ 227,724	$ -	$ 227,724
Disbursing Officer Cash	107,313	-	107,313
Judgment Fund Liabilities	5,516	-	5,516
FECA Reimbursement to the Dept of Labor	148,052	180,806	328,858
Custodial Liabilities	97,376	-	97,376
Employer Contribution and Payroll Taxes Payable	54,433	-	54,433
Other Liabilities	66,024	-	66,024
Total Intragovernmental	706,438	180,806	887,244
Accrued Funded Payroll and Benefits	1,666,412	-	1,666,412
Advances from Others	971,459	-	971,459
Deposit Funds and Suspense Accounts	292,140	-	292,140
Nonenvironmental Disposal Liabilities			
Military Equipment (Nonnuclear)	173,537	49,200	222,737
Excess/Obsolete Structures	18,005	278,790	296,795
Accrued Unfunded Annual Leave	2,869,279	-	2,869,279
Contract Holdbacks	239,441	866	240,307
Employer Contribution and Payroll Taxes Payable	18,382	-	18,382
Contingent Liabilities	18,350	2,470,129	2,488,479
Other Liabilities	59,681	-	59,681
Total Other Liabilities	$ 7,033,124	$ 2,979,791	$ 10,012,915

As of September 30 *(Amounts in thousands)*	2014 Current Liability	 Noncurrent Liability	 Total
Intragovernmental			
Advances from Others	$ 110,448	$ -	$ 110,448
Disbursing Officer Cash	87,272	-	87,272
Judgment Fund Liabilities	12,925	-	12,925
FECA Reimbursement to the Dept of Labor	154,276	186,642	340,918
Custodial Liabilities	332,806	-	332,806
Employer Contribution and Payroll Taxes Payable	43,379	-	43,379
Other Liabilities	79,854	-	79,854
Total Intragovernmental	820,960	186,642	1,007,602
Accrued Funded Payroll and Benefits	1,653,698	-	1,653,698
Advances from Others	727,380	-	727,380
Deposit Funds and Suspense Accounts	97,134	-	97,134
Nonenvironmental Disposal Liabilities			
Military Equipment (Nonnuclear)	151,795	73,927	225,722
Excess/Obsolete Structures	63,780	277,424	341,204
Accrued Unfunded Annual Leave	2,997,339	-	2,997,339
Contract Holdbacks	234,931	40	234,971
Employer Contribution and Payroll Taxes Payable	20,866	-	20,866
Contingent Liabilities	22,438	2,338,812	2,361,250
Other Liabilities	16,671	-	16,671
Total Other Liabilities	$ 6,806,992	$ 2,876,845	$ 9,683,837

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

Deposit Funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash represents liabilities for currency on hand, cash on deposit at designated depositories, cash in the hands of depositories, cash in the hands of deputy disbursing officers, cashiers and agents, negotiable instruments on hand, etc.

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

Intragovernmental Other Liabilities consists primarily of Unemployment Compensation unfunded liabilities.

Contingent Liabilities includes $1.3 billion related to contracts authorizing progress payments based on cost as defined in the 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 is under no obligation to pay contractors for amounts in excess of progress payments 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 contractor costs incurred but not yet paid are estimable, the DON has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

The estimate of total contingent liabilities for progress payments are based on cost that represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The 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 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. The DON records contingent liabilities in Note 13, Other Liabilities.

For FY 2015, DON materiality threshold for reporting litigation, claims, or assessments is $60.7 million. The DON OGC conducts a review of litigation and claims threatened or asserted involving the DON to which the OGC attorneys devoted substantial attention in the form of legal consultation or representation.

The DON currently has 20 cases that meet the existing FY 2015 materiality threshold. The DON legal counsel was unable to express an opinion concerning the likely outcome on 10 of 20 cases.

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, the DON has limited automated system processes by which it captures or assesses these potential liabilities; therefore, the amounts reported may not fairly present the DON's commitments and contingencies.

NOTE 15. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2015		
(Amounts in thousands)	Liability	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	$ 1,536,102	$ -	$ 1,536,102
Other	1,457	(1,457)	-
Total Other Benefits	$ 1,537,559	$ (1,457)	$ 1,536,102
Total	$ 1,537,559	$ (1,457)	$ 1,536,102

As of September 30	2014		
(Amounts in thousands)	Liability	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	$ 1,671,680	$ -	$ 1,671,680
Other	556	(556)	-
Total Other Benefits	$ 1,672,236	$ (556)	$ 1,671,680
Total	$ 1,672,236	$ (556)	$ 1,671,680

The obligations and liabilities for military pensions, military retirement health benefits, military Medicare-eligible retiree benefits, the Voluntary Separation Incentive Program, and the DoD Education Benefits Fund are reported at the Department of Defense level.

Actuarial Cost Method Used and Assumptions:
The DON's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the DON only at the end of each fiscal year.

The estimate 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.

The "Other" category under Other Benefits represents other post-employment benefits which can include salary continuation, severance benefits, counseling, training, funded unemployment liability for Federal employees, funded Federal Employees' Compensation Act liability, and the current portion of veterans' disability compensation benefits.

NOTE 16. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

As of September 30	2015	2014
(Amounts in thousands)		
Intragovernmental Costs	$ 46,902,797	$ 46,055,025
Nonfederal Cost	115,244,766	116,263,951
Total Cost	$ 162,147,563	$ 162,318,976
Intragovernmental Revenue	$ (2,392,638)	$ (2,756,334)
Nonfederal Revenue	(5,767,995)	(2,446,493)
Total Revenue	$ (8,160,633)	$ (5,202,827)
Total Net Cost	$ 153,986,930	$ 157,116,149

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 capture costs based on appropriations groups as presented in the schedule above. The lower level costs for major programs are not present as required by the Government Performance and Results Act (GPRA). The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the

SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

Intra-governmental costs and revenue represent transactions made between two reporting entities within the Federal Government.

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

The DON's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP for federal agencies. Most of the DON's legacy systems were designed to record information on a budgetary basis and do not track intra-governmental transactions by customer at the transaction level. Considering these systems limitations, the DON is unable to accurately compare its intra-governmental costs and revenues with the corresponding balances of its intra-governmental 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. Intra-department revenues and expenses are then eliminated.

In conjunction with the DoD, the 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 USGAAP. One such action is the revision of its accounting systems to record transactions based on the USSGL. 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 USGAAP, the DON'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. The DON is unable to separately identify the cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets.

NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Appropriations Received on the Statement of Changes in Net Position (SCNP) does 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 $501.2 million is due to certain cash receipts recorded as "Appropriations Received" on the SBR but recognized as exchange or non-exchange revenue (usually in special and trust fund accounts) and reported on the SCNP in accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." See Note 18, Disclosures Related to the Statement of Budgetary Resources for further information.

Other Financing Sources - Other consists primarily of gains and losses associated with General Equipment, Operating Materials & Supplies, and Real Property.

Cumulative Results of Operations represents the net results of operations since inception. Included as a reduction in Cumulative Results of Operations are accruals for which related expenses require funding from future appropriations. These future funding requirements include, among others (a) accrued annual leave earned but not taken, (b) expenses for contingent liabilities and (c) expenses for environmental liabilities.

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn.

In accordance with SFFAS No. 43, "Funds from Dedicated Collection: Amending Statement of Federal Financial Accounting Standards 27. Identifying and Reporting Earmarked Funds", the Department has elected to display a combined presentation of the non-exchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated with all other funds, See Note 20, Funds from Dedicated Collections, for additional discussion regarding dedicated collections.

NOTE 18. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Intragovernmental Costs and Exchange Revenue As of September 30	2015	2014
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 151,436,183	$ 156,501,742

The SBR includes intra-entity transactions because the statements are presented as combined.

Apportionment Categories for Obligations Incurred

The direct and reimbursable obligations under Categories A, B and Exempt from apportionment are reported in the table below. Apportionment categories are determined in accordance with the guidelines provided in Part 4 "Instructions on Budget Execution" of OMB Circular A-11 Preparation, Submission and Execution of the Budget. Category A represents resources apportioned for calendar quarters and Category B represents resources apportioned for other time periods or for activities, projects, objectives or for a combination thereof.

DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2015		
(Amounts in thousands)	Direct Obligations	Reimbursable Obligations	Total
Obligations Apportioned Under			
Category A	$ 100,319,522	$ -	$ 100,319,522
Category B	65,591,633	6,628,927	72,220,560
Exempt	20,612	-	20,612
Total	$ 165,931,767	$ 6,628,927	$ 172,560,694

As of September 30	2014		
(Amounts in thousands)	Direct Obligations	Reimbursable Obligations	Total
Obligations Apportioned Under			
Category A	$ 103,643,844	$ -	$ 103,643,844
Category B	63,833,150	7,074,722	70,907,872
Exempt	20,192	-	20,192
Total	$ 167,497,186	$ 7,074,722	$ 174,571,908

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 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 U.S.; 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. There were no transfers in or out of NDSF during this period.

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. During FY 2015, there were 3 transfers from ER, N for $290.9 million to the Operation and Maintenance, Navy appropriation. There were no transfers into ER, N during this period.

Appropriations Received on the SCNP does not agree with Appropriations Received on the SBR due to differences between proprietary and budgetary accounting concepts and reporting requirements. Please refer to Note 17, Disclosures Related to the Statement of Changes in Net Position.

NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30		2015		2014
(Amounts in thousands)				
Resources Used to Finance Activities				
Budgetary Resources Obligated:				
Obligations Incurred	$	172,560,694	$	174,587,531
Less: Spending Authority from Offsetting Collections and Recoveries		(16,082,777)		(16,343,807)
Obligations Net of Offsetting Collections and Recoveries		156,477,917		158,243,724
Less: Offsetting Receipts		(196,776)		(237,198)
Net Obligations		156,281,141		158,006,526
Other Resources:				
Donations and Forfeitures of Property		-		1,141
Transfers In/Out without Reimbursement		(1,012,788)		(843,837)
Imputed Financing from Costs Absorbed by Others		704,140		782,721
Other		11,343,517		6,176,260
Net Other Resources Used to Finance Activities		11,034,869		6,116,285
Total Resources Used to Finance Activities	$	167,316,010	$	164,122,811
Resources Used to Finance Items not Part of the Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided:				
Undelivered Orders	$	5,065,559	$	(8,635,773)
Unfilled Customer Orders		710,695		317,991
Resources that Fund Expenses Recognized in Prior Periods		(1,015,639)		(435,814)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		54,209		237,198
Resources that Finance the Acquisition of Assets		(11,020,789)		(12,379,394)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations:				
Other		(10,438,797)		(5,552,963)
Total Resources Used to Finance Items not part of the Net Cost of Operations	$	(16,644,762)	$	(26,448,755)
Total Resources Used to Finance the Net Cost of Operations	$	150,671,248	$	137,674,056
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:				
Increase in Annual Leave Liability	$	14,042	$	18,808
Increase in Environmental and Disposal Liability		18,297		193,856
Increase in Exchange Revenue Receivable from the Public		(2,605,386)		2,607,419
Other		254,673		121,520
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$	(2,318,374)	$	2,941,603
Components not Requiring or Generating Resources:				
Depreciation and Amortization	$	2,846,644	$	2,532,417
Revaluation of Assets or Liabilities		(691,135)		(1,464,937)
Other				
Operating Materials and Supplies Used		2,161,169		4,676,267
Other		1,317,378		10,756,743
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	5,634,056	$	16,500,490
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$	3,315,682	$	19,442,093
Net Cost of Operations	$	153,986,930	$	157,116,149

The Reconciliation of Net Cost of Operations to Budget is designed to reconcile the Net Cost of Operations (reported in the Statement of Net Cost) to the current year obligations (reported in the Statement of Budgetary Resources). This reconciliation is required due to the inherent differences in timing and recognition between the accrual proprietary accounting method used to calculate net cost and the budgetary accounting method used to calculate budgetary resources and obligations.

Due to the DON financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency.

The absolute value of the adjustments to the Reconciliation of Net Cost of Operations to Budget to bring it into balance with the Statement of Net Cost is $1.98 billion. The adjustments were recorded in Components of the Net Cost of Operations Not Requiring or Generating Resources in the Current Period.

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 as interagency budgetary transactions are not eliminated:

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

NOTE 20. FUNDS FROM DEDICATED COLLECTIONS

As of September 30	2015	2014
(Amounts in thousands)		
Assets		
Fund Balance with Treasury	$ 24,380	$ 24,805
Investments	6,543	6,140
Total Assets	$ 30,923	$ 30,945
Liabilities and Net Position		
Other Liabilities	$ 633	$ 3,400
Total Liabilities	$ 633	$ 3,400
Cumulative Results of Operations	$ 30,290	$ 27,545
Total Liabilities & Net Position	$ 30,923	$ 30,945
Statement of Net Cost		
Program Costs	$ 21,013	$ 21,463
Net Cost of Operations	$ 21,013	$ 21,463
Statement of Changes in Net Position		
Net Position Beginning of the Period	$ 27,545	$ 27,762
Net Cost of Operations	21,013	21,463
Budgetary Financing Sources	23,758	21,254
Other Financing Sources	-	(8)
Change in Net Position	$ 2,745	$ (217)
Net Position End of Period	$ 30,290	$ 27,545

Funds from Dedicated Collections are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes. The DON currently has four funds from dedicated collections, for which a brief description follows below. There have been no changes in legislation during or subsequent to the reporting period that significantly changes the purpose or that redirects a material portion of the accumulated balances of any of these four funds. Generally, revenues for the DON's funds from dedicated collections are inflows of resources to the Government.

Special Funds from Dedicated Collections

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 DON 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.

Trust Funds from Dedicated Collections

DON General Gift Fund
This fund is authorized by 10 United States Code 2601. Under the provisions of this statute, the Secretary of the Navy (SECNAV) may accept, hold, administer, and spend any gift, devise, or bequest of real or personal property, made on the condition that it 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 the DON.

Ships Stores Profit, Navy
This 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 fund is authorized by 10 United States Code 6973. Under the provisions of this statute, the SECNAV 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 21. FIDUCIARY ACTIVITIES

As of September 30	2015	2014
(Amounts in thousands)		
Fiduciary Net Assets, Beginning of Year	$ 81,559	$ 24,905
Contributions	88,841	53,582
Investment Earnings	275	562
Distributions to and on Behalf of Beneficiaries	(97,036)	2,510
Increase/(Decrease) in Fiduciary Net Assets	(7,920)	56,654
Fiduciary Net Assets, End of Period	$ 73,639	$ 81,559

FIDUCIARY ASSETS

As of September 30	2015	2014
(Amounts in thousands)		
Cash and Cash Equivalents	$ 73,639	$ 81,559

Fiduciary activities are the collection or receipt, and management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which Non-Federal individuals or entities have an ownership interest that the Federal Government must uphold.

The DON's Fiduciary Activity consists of funds in the Savings Deposit Program. Under 10, USC, §1035, and Department of Defense Financial Management Regulation (FMR), Volume 7A, Chapter 51, service members of both the Navy and Marine Corps who are on a permanent duty assignment outside the United States or its possessions can earn interest at a rate prescribed by the president, not to exceed 10 percent a year, on up to $10 thousand deposited into the program. This limitation shall not apply to deposits made on or after September 1, 1966 in the case of those members in a missing status during the Vietnam conflict, the Persian Gulf conflict, or a contingency operation.

A permanent duty assignment is defined as any active duty assignment that contemplates duty in the designated area as a permanent change of station, or more than 30 days on temporary additional duty, temporary duty, or with a deployed ship or unit. This definition of a permanent duty assignment applies specifically to this program, effective as of July 1, 1991. Interest accrual shall terminate 90 days after the member's return to the United States or its possessions. The deposit funds included in the balance are 17X6025 for Navy and 17X6026 for Marine Corps.

NOTE 22. LEASES

As of September 30 *(Amounts in thousands)*	2015 Land and Buildings	Equipment	Other	Total
Entity as Lessee - Operating Leases				
Future Payments Due				
Fiscal Year				
2016	$ 153,604	$ 587	$ 19	$ 154,210
2017	156,421	597	19	157,037
2018	159,291	607	19	159,917
2019	162,214	618	20	162,852
2020	165,192	628	20	165,840
After 5 Years	168,226	639	20	168,885
Total	$ 964,948	$ 3,676	$ 117	$ 968,741

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

AROUND THE GLOBE, AROUND THE CLOCK.

INVESTMENTS IN RESEARCH AND DEVELOPMENT
($ in millions)

Categories	FY15	FY14	FY13	FY12	FY11
Basic Research	$ 572	$ 552	$ 556	$ 554	$ 547
Applied Research	804	792	776	738	728
Development					
Advanced Technology Development	613	631	653	761	821
Advanced Component Development and Prototypes	4,522	3,006	3,956	3,950	4,080
System Development and Demonstration	4,934	4,811	4,655	5,382	6,429
Research, Development, Test, and Evaluation Management Support	1,144	1,142	1,061	1,298	1,285
Operational Systems Development	3,581	3,403	3,863	4,137	4,285
Totals	**$ 16,170**	**$ 14,337**	**$ 15,520**	**$ 16,820**	**$ 18,175**

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Investment values are based on Research and Development (R&D) outlays (expenditures). Outlays are used because currently the DON systems are unable to fully capture and summarize costs in accordance with USGAAP.

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

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.

Basic Research Examples:

Monsoon Research:
To better understand global weather patterns and increase scientific collaboration between the U.S. and India, basic researchers supported by the Office of Naval Research (ONR) studied summer monsoon conditions in the Bay of Bengal.

Summer, or southwest, monsoons are moisture-soaked seasonal winds that bring critical rainfall to the Indian subcontinent during the June-September wet season. An abundant season provides sustaining rainfall that replenishes water reservoirs and reaps bountiful crop harvests. By contrast, a weak season could lead to drought, soaring food prices and a battered economy.

Incomplete knowledge of the dynamics of monsoons makes it difficult to accurately predict the onset, strength and intraseasonal variations in the monsoon season. ONR's collaborative research will gather data to help improve and refine the forecasting of these winds.

The predictability of ocean weather is very important to the Navy's global operations and the safety of ships at seas. Fundamental studies of monsoon air-sea interaction are crucial for better weather and climate prediction for the entire global community.

Approximately 25 American and Indian scientists worked aboard the ONR research vessel R/V Roger Revelle, which is operated by the Scripps Institution of Oceanography under a charter agreement. Another team of Indian and U.S. scientists on the Indian research vessel Sagar Nidhi worked jointly with those on the Roger Revelle.

What this research will accomplish:

- Improve understanding and prediction of the ocean and atmosphere
- Test new and innovative oceanography technology, as well as develops stronger partnerships with Indian researchers

High-Speed Hull Designs:
Planing hulls are like those used on a speedboat—they're designed to produce lift and allow the watercraft to glide on top of the water, skimming more quickly over its surface. At higher speeds, waves become a problem. The higher the crests of the waves, the more the boat will rise to the top of the wave and then fall back down to the wave's trough with great force. This is known as "wave slam." https://www.youtube.com/watch?v=Rcg0WWriOgA&feature=youtu be When a hull is going at speed and it hits a wave, it's like hitting a wall—it's a violent collision, and the forces are very large. This causes injuries to Sailors—commonly back and leg injuries—and also can degrade the structure of the vessel. To deal with the effects of wave slams, the Navy must have strong boats that are forced to reduce speed in higher seas. Mitigating the problem of wave slams will allow Navy boats to travel faster in higher seas as well as allow for lighter boat structural designs.

This research was motivated by a series of workshops ONR program officers held with personnel from the Navy small combatant craft commands about high-priority challenges that ONR could help with. One identified challenge was the need to carry greater loads while maintaining their speed capabilities. To do this, some structural weight would need to be shed. Since the hull is the heaviest part of a vessel, ONR began there, investigating ways to save weight.

Working with Naval Surface Warfare Center (NSWC) Carderock Division, USNA, and the University of Iowa, ONR is considering ways to reduce hull weight while maintaining structural adequacy. For unmanned craft, it might be possible to reduce weight even further, allowing additional payload to be carried.

ONR is working to understand the pressures on the hull that are due to the wave slamming, since right now, they are not well understood. ONR aims to be able to save weight in the structure so the Navy can carry more fuel and payload, but ONR doesn't understand those pressures well enough to be able to start taking weight out of the structures. Computer simulations for planing hulls are being developed by the University of Iowa, a challenging problem due to the complexity of planing hull physics. The model results will be used to develop computer simulations that are more realistic and accurate. This will vastly increase the numbers of tests that can be run since the computer simulations are much less expensive than experimental testing.

What this research will accomplish:

- Design hulls to carry greater loads while maintaining their speed capabilities
- Investigate ways to save hull weight and travel faster in higher seas states
- Model results will be used to develop computer simulations that are more realistic, accurate and far less expensive than testing actual prototypes

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 defining 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 non-system specific development efforts.

Applied Research Examples:

Mobile, Virtual Enhancements for Rehabilitation: For warfighters recovering from traumatic brain injuries (TBI), the benefits of home-based, outpatient physical rehabilitation programs are numerous—they can exercise at home on their own schedules, be among family and friends and spend less time in treatment facilities. Regular physical therapy can keep tendons and joints flexible, maintain bodily strength and improve balance and walking ability. Unfortunately, because of confusion about exercises, forgetfulness or feelings of helplessness, many TBI patients don't perform their independent therapy—or they do it improperly. Consequently, they don't make steady progress toward a full recovery, and even risk further injury.

To provide patients with a safe, engaging and easy way to maintain their therapy regimens, ONR is supporting efforts to develop the Mobile, Virtual Enhancements for Rehabilitation (MOVER). MOVER is a software system that can be installed on any laptop or PC equipped with a camera function. When operating MOVER, a user just turns on the computer and camera, stands still and the software maps out a virtual "skeleton" on screen. This skeleton consists of brightly colored lines and shapes—mirroring the person's movements through each therapy exercise. To increase screen visibility, users can connect MOVER to a television with a Microsoft Kinect sensor.

During workout sessions, users receive coaching in the form of pop-up text boxes or color shading in a certain area of the virtual skeleton. For example, if someone is leaning too far right, a colored shape will appear on the left side of the screen, highlighting where and how to correct.

There are times when patients don't feel motivated to work out. They also risk hurting themselves by exercising incorrectly. These challenges are much more difficult for someone with a brain injury. They may need help, which is where MOVER comes in. Potential MOVER users would be approved by their physical therapists according to individual capability and mobility, tech savviness and even video game experience. The exercises featured in the software are standard for TBI therapy, including lunges, knee raises and squats. Patients would meet with their therapists at the beginning of a week to design a customized weekly exercise schedule and review their progress, which is tracked by MOVER.

MOVER so far has been successfully tested by researchers. Later this year, ONR will launch a six-month, on-site pilot study of the software among nearly 40 TBI patients and therapists at Boston-based Spaulding Rehabilitation Hospital. If the study is successful, they may initiate a home-based outpatient test study among other participants.

What this research will accomplish:

- Ensure our warfighters are well cared for
- Provide patients with a safe, engaging, and easy way to maintain their therapy regimens

Shipboard Autonomous Firefighting Robot:
The Shipboard Autonomous Firefighting Robot (SAFFiR), sponsored by ONR, walked across uneven floors, used thermal imaging to identify overheated equipment, and used a hose to extinguish a small fire in a series of experiments. https://www.youtube.com/watch?v=K4OtS534oYU

Developed by researchers at Virginia Tech, the two-legged, or bipedal, humanoid robot is helping ONR evaluate the applications of unmanned systems in damage control and inspections aboard naval vessels, supporting the autonomy and unmanned systems focus area in the Navy's Science and Technology Strategy.

ONR set out to build and demonstrate a humanoid capable of mobility aboard a ship, manipulating doors and fire hoses, and equipped with sensors to see and navigate through smoke. The long-term goal is to keep Sailors from the danger of direct exposure to fire.

SAFFiR stands 5 feet 10 inches and weighs 143 pounds. The unique mechanism design on the robot equips it with super-human range of motion to maneuver in complex spaces. Balancing on any type of terrain that's unstable – especially for bipedal robots – is very difficult. Whole-body momentum control allows for the robot to optimize the locations of all of its joints so that it maintains its center of mass on uncertain and unstable surfaces.

Sensors, including infrared stereovision and a rotating laser for light detection and ranging, enable the humanoid to see through dense smoke. It is programmed to take measured steps and handle hoses on his own, but for now, takes his instruction from researchers at computer console. The robot has the ability to do autonomous tasks, but a human is in the loop to allow an operator to intervene in any type of task that the robot is doing.

ONR will investigate other kinds of sensors to put on these robots. For instance, a bipedal robot could be configured to take shipboard measurements, scan for corrosion and leaks, and identify changes to the shape of the room from its original configuration. By taking on these time-consuming tasks, SAFFiR could free up Sailors for jobs that more fully take advantage of their training and technical skillsets.

Even with added intelligence, however, SAFFiR will take its instruction from Sailors and "fire bosses" working remotely in the event of a fire or other dangerous event. ONR is working toward human-robot teams. It's what ONR calls the hybrid force: humans and robots working together.

What this research will accomplish:

- Keep Sailors from the danger of direct exposure to fire
- Investigate bipedal robot design for shipboard measurements, scan for corrosion and leaks, and identify changes to the shape of the room from its original configuration
- Free Sailors for jobs that more fully take advantage of their training and technical skillsets

DEVELOPMENT RESEARCH

Developmental research 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 Research Examples:

Low-Cost Unmanned Aerial Vehicles Swarming Technology:
A new era in autonomy and unmanned systems for naval operations is on the horizon. The recent demonstrations of swarming unmanned aerial vehicles (UAVs) — part of the Low-Cost UAV Swarming Technology (LOCUST) program at ONR - are an important step on the way to the 2016 ship-based demonstration of 30 rapidly launched autonomous, swarming UAVs. The LOCUST program includes a tube-based launcher that can send UAVs into the air in rapid succession. The breakthrough technology then utilizes information-sharing between the UAVs, enabling autonomous collaborative behavior in either defensive or offensive missions. LOCUST can launch swarming UAVs to autonomously overwhelm an adversary. The deployment of UAV swarms will provide Sailors and Marines a decisive tactical advantage. https://www.youtube.com/watch?v=AyguXoum3rk&feature=youtube Since the launcher and the UAVs themselves have a small footprint, the technology enables swarms of compact UAVs to take off from ships, tactical vehicles, aircraft or other unmanned platforms. The ONR demonstrations, which took place over the last month in multiple locations, included the launch of Coyote UAVs capable of carrying varying payloads for different missions. Another technology demonstration of nine UAVs accomplished completely autonomous UAV synchronization and formation flight. While the LOCUST autonomy is cutting edge compared to remote-controlled UAVs, there will always be a human monitoring the mission, able to step in and take control as desired. This level of autonomous swarming flight is a first-of-its-kind achievement.

UAVs that are expendable and reconfigurable will free manned aircraft and traditional weapon systems to do more, and essentially multiply combat power at decreased risk to the warfighter. UAVs reduce hazards and free personnel to perform more complex tasks, as well as requiring fewer people to do multiple missions.

Lowering costs is a major benefit of UAVs as well. Even hundreds of small autonomous UAVs cost less than a single tactical aircraft—having this capability will force adversaries to focus on UAV swarm response.

What this research will accomplish:

- Enable swarms of compact UAVs to take off from ships, tactical vehicles, aircraft or other unmanned platforms
- Expendable and reconfigurable swarms will free manned aircraft and traditional weapon systems to do more, multiplying combat power
- Hundreds of small autonomous UAVs cost less than a single tactical aircraft

Resilient Hull, Mechanical, and Electrical Security:
In this networked world, hackers are not only a threat to virtual cyber security but may try to disable or take control of machines in the physical world—from large systems like electric power grids and industrial plants, to transportations assets like cars, trains, planes or even ships at sea. In response the Navy is developing the Resilient Hull, Mechanical, and Electrical Security (RHIMES) system, a cyber protection system designed to make its shipboard mechanical and electrical control systems resilient to cyber attacks.

RHIMES is designed to prevent an attacker from disabling or taking control of programmable logic controllers—the hardware components that interface with physical systems on the ship. Some examples of the types of shipboard systems that RHIMES is looking to protect include damage control and firefighting, anchoring, climate control, electric power, hydraulics, steering and engine control.

Traditionally, computer security systems protect against previously identified malicious code. When new threats appear, security firms have to update their databases and issue new signatures. Because security companies react to the appearance of new threats, they are always one step behind. Plus, a hacker can make small changes to their virus to avoid being detected by a signature.

Instead, RHIMES relies on advanced cyber resiliency techniques to introduce diversity and stop entire classes of attacks at once. Most physical controllers have redundant backups in place that have the same core programming. These backups allow the system to remain operational in the event of a controller failure. But without diversity in their programming, if one gets hacked, they all get hacked. Functionally, all of the controllers do the same thing, but RHIMES introduces diversity via a slightly different implementation for each controller's program. In the event of a cyber attack, RHIMES makes it so that a different hack is required to exploit each controller. The same exact exploit can't be used against more than one controller.

What this research will accomplish:

- Help the Navy protect its shipboard physical systems
- Develop important applications to protect our nation's physical infrastructure

Marine Corp Examples:

Augmented Immersive Team Trainer:
Marines enrolled in the Infantry Officer Course were able to use ONR -developed augmented reality technology for the first time as part of live-fire training exercises. The Marines, as part of the Infantry Officer Course, had the opportunity to try out ONR's Augmented Immersive Team Trainer (AITT) system at a test range on the southern edge of Marine Corps Base Quantico in Virginia. The AITT system—which is comprised of a laptop, software, battery pack, and a helmet-mounted display—can support a wide array of live, virtual and cutting-edge training scenarios. It uses augmented reality, which means that virtual objects are superimposed onto a real environment—like the yellow first-down lines added to television broadcasts of football games for the benefit of viewers at home. This differs from virtual reality, which is a wholly computer-generated environment in which users immerse themselves.

The AITT system is like the Marine Corps itself: lean, agile and adaptable. This affordable lightweight system can be taken anywhere—turning any environment into a training ground—and could be used to prepare Marines for real-world situations and environments they will face.

The field portion of the "call-for-fire" training included aircraft and munitions, which are costly and time-consuming to set up, staff and equip, but an important part of the training experience for the student officers. The wait time for a test range can be six to 12 months, rain can cancel the testing and it can be difficult to get assets in place, since equipment can break down. The AITT completely bypasses these challenges by using virtual ground vehicles, aircraft and munitions. The system makes the training easier and eliminates the maintenance issues or weather-related restrictions that can pare down or cancel training. For instance, this system can use virtual air support, so even if it's raining, the students can still be training, getting confidence and learning the points of employing aviation assets. The system will enable the student officers to use virtual assets to complement live training or to get additional practice repetitions without having to use live assets. And instead of using imagination, now they can see virtual effects from the blasts, like smoke. Rather than having the instructor paint a picture to the student without anything happening, now the student can get a visual of the aircraft they've been controlling in support of a maneuver on the deck.

The AITT program—part of the ONR Capable Manpower Future Naval Capability—will wrap up its fifth and final year with a large-scale demonstration. Pending the results of a Marine Corps assessment in October 2015, the program will transition to the Marine Corps Program Manager for Training Systems for further testing and development.

What this research will accomplish:

Affordable lightweight, virtual training system

- Can support a wide array of live, virtual and cutting-edge training scenarios
- Prepare Marines for real-world situations and environments

Enhanced Technologies for Optimization of Warfighter Load:

Modern-day warfighters face heavy—literally—odds on the battlefield, as they often carry more than 100 pounds of gear, including body armor, weapons, and night-vision technology. Such loads can slow them down, reduce agility, and result in fatigue, joint sprains or long-term ailments like arthritis or chronic back problems.

To remedy this, ONR has presented the Marine Corps with a 3-D computer simulation program that measures equipment weight, distribution and effects on body mechanics, and individual warfighter performance.

The program—called ETOWL (Enhanced Technologies for Optimization of Warfighter Load)—and its companion software is being delivered to the Gruntworks Marine Expeditionary Rifle Squad, which focuses on individual mobility. Gruntworks serves as a "workshop" to test existing and emerging equipment that would help infantry Marines. Once given to the Marine Corps, ETOWL will be renamed GruntSim.

ETOWL is similar to popular combat-themed video games such as "Call of Duty." Users can create a Marine avatar, load it with as much or as little equipment as desired and run it through a virtual obstacle course featuring different warfighting scenarios. Using a color-coded system, ETOWL measures the stress placed on each avatar's joints as well as its balance, flexibility, and center of gravity. Green is good and red is dangerous. The 3-D simulation program features seven different male and female Marine Corps body types.

The benefits of ETOWL are numerous. For example, the Marine Corps can use data from the virtual tests to quickly design real-world prototypes for testing by live Marines. This will prevent future injuries and reduce the time and financial cost of unnecessary field trials. In addition, military vehicle manufacturers can improve their product designs to enable Marines to fit better in seats and through escape hatches.

The ETOWL program was developed by the Center for Computer Aided Design at the University of Iowa. Once the future GruntSim is handed off to the Marine Corps, its design software (called the SANTOS human simulation environment) will be made available to the academic community to access free of charge from the center's website.

What this research will accomplish:

- Use data from the virtual tests to quickly design real-world prototypes for testing by Marines
- Reduce the time and financial cost of unnecessary field trials
- Military vehicle manufacturers can improve their product designs to enable Marines to fit better in seats and through escape hatches

REQUIRED SUPPLEMENTARY INFORMATION

AROUND THE GLOBE, AROUND THE CLOCK.

Real Property Deferred Maintenance and Repair

For Fiscal Year Ended September 30, 2015

($ in thousands)

Property Type	FY 2015: 1. Plant Replacement Value	FY 2015: 2. Required Work (Deferred Maintenance and Repair)	FY 2015: 3. Percentage	FY 2014: 1. Plant Replacement Value	FY 2014: 2. Required Work (Deferred Maintenance and Repair)	FY 2014: 3. Percentage
Category 1: Enduring Facilities						
Navy	$ 168,216,220	40,384,450	24.01%	$ 167,611,400	38,662,330	23.07%
Marine Corps	$ 53,188,865	8,603,642	16.18%	$ 48,188,762	8,625,368	17.90%
Category 2: Heritage Assets						
Navy	$ 168,350	47,510	28.22%	$ -	-	
Marine Corps	$ 2,787,887	390,862	14.02%	$ 2,397,057	331,289	13.8%
Category 3: Excess Facilities or Planned for Replacement						
Navy	$ 4,244,940	1,401,450	33.01%	$ 1,616,500	818,210	50.62%
Marine Corps	$ 72,347	-	0.00%	$ 23,781	0	0.00%

Note: In the table above, Navy real property deferred maintenance and repair data represent both Department of the Navy 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.

Description of Property Type categories:

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

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets. The deferred maintenance and repair information excludes assets on Navy installations where a defense agency is responsible for maintenance and repair. For these assets, defense agencies are responsible for funding the condition assessment of facilities and reporting a facility condition index.

1. The Navy assesses facility condition using software and facilities inspections that incorporate the Sustainment Management System (SMS) standard process. The Navy's Facility Condition Index (FCI) is calculated using the below formula:

$$FCI = 1 - \frac{(Requirements)}{PRV} X\ 100$$

The Navy models the "Requirements" value from the condition rating and configuration rating.

The method used to assess facilities conditions is two-fold. All buildings, paving, bridges, dams, and rail assets are inspected using the SMS methodology developed by the US Army Corps of Engineers Civil Engineering (USACOE) Research Laboratory (CERL) which provides a FCI for these assets. Other assets are assessed via local facilities inspections to address the adequacy of the facilities to meet its intended purpose. Assets inspected using both methods take the FCI to determine the asset's Quality rating (Q-rating) as follows: FCI of 100%-90% Q1 (Good); 90%-80% Q2 (Fair); 80%-60% Q3 (Poor); and less than 60% Q4 (Failing).

When assessing whether an asset is in acceptable condition, the Navy generally considers a calculated FCI of 60% or greater acceptable. The DON considers mission, health and safety, and quality of life when assigning priority to maintenance needs.

2. The Condition Rating is a measure (0 - 100) of an asset's physical condition at a particular point in time. The Navy's condition rating is updated using the SMS process, which combines the results of on-site assessments with modeling software to establish system/component condition ratings. The condition assessment is an 'eyes-on' field assessment that confirms facility component inventory and assesses material condition.

3. 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, including obsolescence of facility components that do not meet new standards.

4. Office of the Under Secretary of Defense (OUSD) for Acquisition, Technology, and Logistics (AT&L) Facility Sustainment and Recapitalization Memo of 29 April 2014, sets an average of 80 as a minimum inventory-wide FCI goal. With deferred maintenance for the Navy valued at 24.01%, 28.22%, and 33.01% of PRV for categories 1 through 3, respectively. The deferred maintenance and repair estimates are based on the facility condition and configuration ratings.

   The USMC 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 is valued at approximately 16.18%, 14.02%, and 0% of PRV for categories 1 and 3, respectively. Category 3 is zero because the USMC does not hold deferred maintenance backlogs on facilities to be demolished.

5. The updated Deferred Maintenance and Repair (DM&R) guidance for FY 2015 resulted in changes to the factors used to determine DM&R. For instance, the updated guidance required that the DM&R report should only include facilities where the Asset Allocation Sustainment Fund Code equated to a DoD appropriation. The FY 2014 report included Nonappropriated Funds (NAF) and contractor-operated facilities, which were excluded from the FY 2015 report. The Navy's FY 2015 report includes facilities assigned Operational Status Codes Excess, Surplus, Caretaker, or Closed, as required by the current guidance. The FY 2014 report did not include facilities assigned these Operational Status Codes.

   In addition, in the past, the Navy considered all Heritage Assets to be multi-use. Although the vast majority of Navy Heritage Assets are multi-use, the Navy's current stance is that museums, cemeteries, and monuments/memorials are considered single-use Heritage Assets, and these are now included in Category 2.

   Since the factors used to determine the Navy's DM&R changed for FY 2015 reporting, an accurate comparison of DM&R variance cannot be calculated. DM&R increased by 6% from FY 2014 to FY 2015. As the Navy continues to migrate towards fully utilizing SMS to perform condition assessments, more current and complete condition and DM&R data was obtained during FY 2015.

   In past years, the Marine Corps DM&R Report only included assets assigned to a Marine Corps installation and assigned one of the following Maintenance Fund Sources: Operation and Maintenance, Marine Corps; and Operation and Maintenance, Marine Corps Reserve. The Marine Corps' FY 2015 DM&R Report includes all Marine Corps Activity Unit Identification Codes (UICs) and all capitalized assets. Prior year calculations were updated to reflect the guidance in Paragraph 1a Section 602 supplemental guidance to DoD Financial Management Regulations (FMR), Volume 6B, Chapter 12.

6. In addition, Category 1 only includes assets assigned a Real Property Asset (RPA) Operational Status Code of "Active", "Outgranted", "Semi-Active", or "Non-Functional". Category 2 only includes assets assigned an RPA Operational Status Code of "Excess" or "Surplus". Category 1 excludes assets identified in Categories 2 and 3. The Navy's FY 2014 Real Property Inventory did not identify any Navy assets as single-use Heritage Assets; therefore, the amounts recorded for this category are zero.

Equipment Deferred Maintenance and Repair

For Fiscal Year Ended September 30, 2015

($ in thousands)

Major Category	PY DM&R (End of Year Actuals)	CY OP-30/PB-45/ PB-61 Amounts	Adjustments	Totals
1. Aircraft	$103,752	$237,784	$(37,979)	$199,805
2. Automotive Equipment	4,363	359	47,412	47,771
3. Combat Vehicles	15,245	29,614	(29,614)	-
4. Construction Equipment	23,426	7,326	(7,326)	-
5. Electronics and Communications Systems	23,161	10,201	(4,725)	5,476
6. Missiles	49,108	63,571	16,480	80,051
7. Ships	418,810	393,120	(393,120)	-
8. Ordnance Weapons and Munitions	11,081	28,560	2,435	30,995
9. All Other Items Not Identified Above	13,812	4,468	(4,468)	-
Total	**$662,758**	**$775,003**	**$(410,905)**	**$364,098**

Note: The deferred maintenance amounts reported in the Budget Exhibit Operations (OP) Depot Maintenance (30) that accompanied the most recent President's Budget was used as the basis to identify and report amounts in the Military Equipment Deferred Maintenance. Material amounts of deferred maintenance beyond the scope of the OP-30 Budget Exhibit, that warrant reporting are in the "Adjustments" column.

AIRCRAFT

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 have reached their Fixed Induction Date (FID) or that have failed an Aircraft Service Period Adjustment (ASPA) inspection 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 the Integrated Maintenance Concept (IMC) program. 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.

AUTOMOTIVE EQUIPMENT

The automotive equipment deferred maintenance is attributed to the planned workload for commercial repair. The following equipment are deferred: 1) 35 Medium Tactical Vehicle Recovery vehicles; 2) 87 Mine-Resistant Ambush Protected vehicles; 3) 36 Logistics Vehicle System Replacement vehicles.

COMBAT VEHICLES

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. The decrease is attributed to the change in the annual rotational plan for the M1A1 Tank from a requirement of 60 to a requirement of 40.

CONSTRUCTION EQUIPMENT

The construction equipment category refers to deferred equipment maintenance for active and reserve Marine Corps assets. This category consists of maintenance performed on a variety of tractors and earth moving equipment. In part, the equipment includes the Aardvark Tactical, the 277C Multi-Terrain Loader, the Medium Crawler Tractor, the Armored Excavator with Brush Hog, and Bridge Erection equipment. The total requirement is the planned quantity of equipment that requires depot level maintenance in a year as determined by program managers and the operating forces. The deferred maintenance is the difference between the validated requirements and funding received for that fiscal year. The decrease is attributed to a reduction in the requirement of 18 boat bridges and 2 medium Girder Bridges. These assets are demand-based weapon systems dependent on the assets becoming non-mission capable and the assets did not materialize from the operating forces as planned.

ELECTRONICS AND COMMUNICATIONS SYSTEMS

The electronics and communications systems category refers to deferred systems maintenance for active and reserve Navy and Marine Corps assets. This category consists of maintenance performed on a variety of radar, radio, and wire and communications equipment. In part, the systems include or are associated with the Surveillance Towed-Array Sensor System (SURTASS), P-3 Beartrap, satellite subsystems, the Multi-Band Deployable Antenna, the Multi-Mode Inter/Intra Team Radio, and a variety of radio and radar sets used within the Department of the Navy. The total requirement is the planned quantity of systems and their components that require depot level maintenance in a year as determined by program managers and the operating forces. The deferred maintenance is the difference between the validated requirements and funding received for that fiscal year. The decrease is attributed to several weapon systems not being repaired as planned due to a change in rotation plans for radars and demand-based weapon systems not materializing. This resulted in a change in the requirement for the following weapon systems: 1) Firefinder Radar; 2) AN/TPS 63 Radar System; 3) 2 Tactical Command Systems; and 4) Mobile Tactical Air Operation Center.

MISSILES

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. In FY 2015, the actual number of units repaired was less than estimated.

SHIPS

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

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. These assets are demand based weapon systems. The decrease is attributed to the LW 155 Howitzer unit repair cost being lower than planned. Additionally, the requirement for 328 Night Sights was reduced.

ALL OTHER ITEMS NOT IDENTIFIED ABOVE

This category comprises deferred maintenance for software, arrest gear, lighting and surfacing equipment, and external fuel transfer module (ETFM). 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).

Department of Defense

DEPARTMENT OF THE NAVY

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2015 and 2014

($ in Thousands)

	Research, Development, Test & Evaluation	Procurement	Military Personnel	Family Housing & Military Construction
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 2,012,559	$ 22,229,863	$ 1,818,615	$ 3,049,844
Recoveries of Prior Year Unpaid Obligations	579,769	4,799,105	772,937	156,875
Other Changes in Unobligated Balance	(195,303)	(516,589)	(298,700)	(119,809)
Unobligated Balance from Prior Year Budget Authority, Net	2,397,025	26,512,379	2,292,852	3,086,910
Appropriations	15,875,695	42,286,015	45,817,655	1,126,554
Spending Authority from Offsetting Collections	164,294	515,678	449,542	789,615
Total Budgetary Resources	$ 18,437,014	$ 69,314,072	$ 48,560,049	$ 5,003,079
Status of Budgetary Resources:				
Obligations Incurred	$ 16,114,151	$ 46,192,824	$ 46,805,897	$ 2,504,713
Unobligated Balance, End of Year				
Apportioned	1,956,072	22,022,234	209,405	2,343,526
Exempt from Apportionment	-	-	-	-
Unapportioned	366,791	1,099,014	1,544,747	154,840
Total Unobligated Balance, End of Year	2,322,863	23,121,248	1,754,152	2,498,366
Total Budgetary Resources	$ 18,437,014	$ 69,314,072	$ 48,560,049	$ 5,003,079
Change in Obligated Balance:				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1	$ 9,876,192	$ 67,959,408	$ 3,258,824	$ 3,272,347
Obligations Incurred	16,114,151	46,192,824	46,805,897	2,504,713
Outlays, Gross	(16,342,058)	(41,927,178)	(46,245,045)	(2,290,831)
Recoveries of Prior Year Unpaid Obligations	(579,769)	(4,799,105)	(772,937)	(156,875)
Unpaid Obligations, End of Year, Gross	9,068,516	67,425,949	3,046,739	3,329,354
Uncollected Payments				
Uncollected Payments from Federal Sources, Brought Forward, October 1	(163,924)	(278,303)	(34,476)	(441,133)
Change in Uncollected Payments from Federal Sources	17,886	88,889	1,326	(248,373)
Uncollected Payments from Federal Sources, End of Year	(146,038)	(189,414)	(33,150)	(689,506)
Obligated Balance, Start of Year	9,712,268	67,681,105	3,224,348	2,831,214
Obligated Balance, End of Year	$ 8,922,478	$ 67,236,535	$ 3,013,589	$ 2,639,848
Budget Authority and Outlays, Net:				
Budget Authority, Gross	$ 16,039,989	$ 42,801,693	$ 46,267,197	$ 1,916,169
Actual Offsetting Collections	(182,180)	(604,567)	(450,868)	(541,242)
Change in Uncollected Payments from Federal Sources	17,886	88,889	1,326	(248,373)
Budget Authority, Net	$ 15,875,695	$ 42,286,015	$ 45,817,655	$ 1,126,554
Outlays, Gross	$ 16,342,058	$ 41,927,178	$ 46,245,045	$ 2,290,831
Actual Offsetting Collections	(182,180)	(604,567)	(450,868)	(541,242)
Outlays, Net	16,159,878	41,322,611	45,794,177	1,749,589
Distributed Offsetting Receipts	-	-	-	-
Agency Outlays, Net	$ 16,159,878	$ 41,322,611	$ 45,794,177	$ 1,749,589

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2015 and 2014

($ in Thousands)

	Operations, Readiness & Support	2015 Combined	2014 Combined
Budgetary Resources:			
Unobligated Balance, Brought Forward, October 1	$ 6,134,738	$ 35,245,619	$ 33,316,125
Recoveries of Prior Year Unpaid Obligations	3,410,669	9,719,355	9,670,220
Other Changes in Unobligated Balance	(1,337,169)	(2,467,570)	(1,872,092)
Unobligated Balance from Prior Year Budget Authority, Net	8,208,238	42,497,404	41,114,253
Appropriations	54,618,449	159,724,368	161,825,911
Spending Authority from Offsetting Collections	4,694,928	6,614,057	6,892,986
Total Budgetary Resources	$ 67,521,615	$ 208,835,829	$ 209,833,150
Status of Budgetary Resources:			
Obligations Incurred	$ 60,943,109	$ 172,560,694	$ 174,587,531
Unobligated Balance, End of Year			
Apportioned	3,552,802	30,084,039	29,251,281
Exempt from Apportionment	25,813	25,813	22,834
Unapportioned	2,999,891	6,165,283	5,971,504
Total Unobligated Balance, End of Year	6,578,506	36,275,135	35,245,619
Total Budgetary Resources	$ 67,521,615	$ 208,835,829	$ 209,833,150
Change in Obligated Balance:			
Unpaid Obligations			
Unpaid Obligations, Brought Forward, October 1	$ 26,299,160	$ 110,665,931	$ 112,478,843
Obligations Incurred	60,943,109	172,560,694	174,587,531
Outlays, Gross	(59,331,536)	(166,136,648)	(166,730,223)
Recoveries of Prior Year Unpaid Obligations	(3,410,669)	(9,719,355)	(9,670,220)
Unpaid Obligations, End of Year, Gross	24,500,064	107,370,622	110,665,931
Uncollected Payments			
Uncollected Payments from Federal Sources, Brought Forward, October 1	(2,356,419)	(3,274,255)	(3,229,494)
Change in Uncollected Payments from Federal Sources	(23,339)	(163,611)	(44,761)
Uncollected Payments from Federal Sources, End of Year	(2,379,758)	(3,437,866)	(3,274,255)
Obligated Balance, Start of Year	23,942,741	107,391,676	109,249,349
Obligated Balance, End of Year	$ 22,120,306	$ 103,932,756	$ 107,391,676
Budget Authority and Outlays, Net:			
Budget Authority, Gross	$ 59,313,377	$ 166,338,425	$ 168,718,897
Actual Offsetting Collections	(4,671,589)	(6,450,446)	(6,848,225)
Change in Uncollected Payments from Federal Sources	(23,339)	(163,611)	(44,761)
Budget Authority, Net	$ 54,618,449	$ 159,724,368	$ 161,825,911
Outlays, Gross	$ 59,331,536	$ 166,136,648	$ 166,730,223
Actual Offsetting Collections	(4,671,589)	(6,450,446)	(6,848,225)
Outlays, Net	54,659,947	159,686,202	159,881,998
Distributed Offsetting Receipts	(196,776)	(196,776)	(237,198)
Agency Outlays, Net	$ 54,463,171	$ 159,489,426	$ 159,644,800

OTHER INFORMATION

AROUND THE GLOBE, AROUND THE CLOCK.

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Disclaimer

Restatement: No

Areas of Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Systems	1	2	0	0	3
Financial Reporting of Order to Cash	3	3	1	0	5
Financial Reporting of Operating Material and Supplies	1	0	0	0	1
Financial Reporting of General Property, Plant and Equipment	1	1	0	0	2
Financial Reporting of Real Property	0	1	0	0	1
Financial Reporting of Procure to Pay	2	3	0	0	5
Financial Reporting of MILSTRIPS	2	1	0	0	3
Financial Reporting of Transportation of Things	0	3	0	0	3
Financial Statement Compilation and Reporting	2	1	0	2	1

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

The DON Financial Reporting / Financial Systems Material Weaknesses

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance: Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Reimbursable Work Orders - Performer, Order-to-Cash	4	0	0	0	4
Reimbursable Work Orders - Grantor, Procure-to-Pay	4	0	0	0	4
Existence and Completeness	4	0	0	0	4
Financial Statement Compilation and Reporting	1	3	0	0	4
Contract Vendor Pay	2	0	0	0	2
Military Standard Requisitioning and Issue Procedures	3	0	0	0	3
Military Pay	0	1	0	0	1
Transportation of Things	3	0	0	0	3
Various Segments (Improper Payments)	0	1	0	0	1
Total Material Weaknesses	21	5	0	0	26

The DON Operational Material Weaknesses

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Service Contracts	1	0	0	0	1
Attenuating Hazardous Noise in Acquisition & Weapon System Design	1	0	0	0	1
Management of Communications Security (COMSEC) Equipment	1	0	0	0	1
Safeguarding Personally Identifiable Information (PII)	1	0	0	0	1
Effective Use of Earned Value Management (EVM) Across Shipbuilding Programs	1	0	0	0	1
Execution of Husbanding Contracts	0	1	0	0	1
Total Material Weaknesses	5	1	0	0	6

The DON Financial Reporting / Financial Systems Nonconformance

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Qualified

Nonconformance	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial System	1	16	0	0	17
Total Nonconformance	1	16	0	0	17

Conformance with Federal Financial Management Improvement Act (FFMIA)

Overall Substantial Compliance: Qualified

USMC Financial Reporting / Financial Systems Material Weaknesses

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance: Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Real Property Assets	2	1	0	0	3
Reimbursable Work Orders - Grantor, Procure-to-Pay	2	1	0	0	3
Military Standard Requisitioning and Issue Procedures	1	0	0	0	1
Financial Statement Compilation and Reporting	0	1	0	0	1
Total Material Weaknesses	5	3	0	0	8

USMC Financial Reporting / Financial Systems Nonconformance

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Qualified

Nonconformance	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Systems	5	0	2	0	3
Total Nonconformance	5	0	2	0	3

Conformance with Federal Financial Management Improvement Act (FFMIA)

Overall Substantial Compliance: Qualified

APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE PRINCIPAL STATEMENTS

ENTITY ACCOUNTS

General Funds

017X0380	Coastal Defense Augmentation, Navy
017X0513	Ship Modernization, Operations and Sustainment Fund, Navy
017 0703	Family Housing, Navy and Marine Corps
017X0730	Family Housing Construction, Navy and Marine Corps
017 0730	Family Housing Construction, Navy and Marine Corps
017 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
017X0810	Environmental Restoration, Navy
017 1000	Medicare-Eligible Retiree Health Fund Contribution, Navy
017 1001	Medicare-Eligible Retiree Health Fund Contribution, Marine Corps
017 1002	Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy
017 1003	Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps
017X1105	Military Personnel, Marine Corps
017 1105	Military Personnel, Marine Corps
017X1106	Operation and Maintenance, Marine Corps
017 1106	Operation and Maintenance, Marine Corps
017 1107	Operation and Maintenance, Marine Corps Reserve
017 1108	Reserve Personnel, Marine Corps
017 1109	Procurement, Marine Corps
017 1116	Operation and Maintenance - Recovery Act, Marine Corps
017 1117	Operation and Maintenance - Recovery Act, Marine Corps Reserve
017X1205	Military Construction, Navy and Marine Corps
017 1205	Military Construction, Navy and Marine Corps
017 1206	Military Construction - Recovery Act, Navy and Marine Corps
017 1235	Military Construction, Naval Reserve
017X1236	Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
017X1319	Research, Development, Test, and Evaluation, Navy
017 1319	Research, Development, Test, and Evaluation, Navy
017 1320	Research, Development, Test and Evaluation - Recovery Act, Navy
017 1405	Reserve Personnel, Navy
017X1453	Military Personnel, Navy
017 1453	Military Personnel, Navy
017 1506	Aircraft Procurement, Navy
017X1507	Weapons Procurement, Navy
017 1507	Weapons Procurement, Navy
017 1508	Procurement of Ammunition, Navy and Marine Corps
017X1611	Shipbuilding and Conversion, Navy
017 1611	Shipbuilding and Conversion, Navy
017X1804	Operation and Maintenance, Navy
017 1804	Operation and Maintenance, Navy
017 1805	Operation and Maintenance - Recovery Act, Navy
017X1806	Operations and Maintenance, Navy Reserve
017 1806	Operation and Maintenance, Navy Reserve
017 1807	Operation and Maintenance - Recovery Act, Navy Reserve
017X1810	Other Procurement, Navy
017 1810	Other Procurement, Navy

Revolving Funds

017X4557	National Defense Sealift Fund, Navy
017 4557	National Defense Sealift Fund, Navy

Special Funds

017X5095	Wildlife Conservation, etc., Military Reservations, Navy
017X5185	Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
017X5562	Ford Island Improvement Account

Deposit Funds

017X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy (T)
017X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy (T)
017X6025	Pay of the Navy, Deposit Fund (T)
017X6026	Pay of the Marine Corps, Deposit Fund (T)
017X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
017X6705	Civilian Employees Allotment Account, Navy
017X6706	Commercial Communication Service, Navy
017 6763	Gains and Deficiencies on Exchange Transactions, Navy
017X6850	Housing Rentals, Navy
017X6999	Accounts Payable, Check Issue Underdrafts, Navy

Trust Funds

017X8716	Department of the Navy General Gift Fund
017X8723	Ships Stores Profits, Navy
017X8733	United States Naval Academy General Gift Fund

PRINCIPAL STATEMENTS

NAVY WORKING CAPITAL FUND

The fiscal year 2015 Navy Working Capital Fund (NWCF) 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 NWCF for the fiscal year ending September 30, 2015, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2014.

The following statements comprise the NWCF 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.

*Note that amounts may vary slightly due to rounding.

CONSOLIDATED BALANCE SHEET

As of September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 879,569	$ 757,326
Accounts Receivable (Note 4)	848,832	1,206,541
Other Assets (Note 5)	46	46
Total Intragovernmental Assets	1,728,447	1,963,913
Cash and Other Monetary Assets (Note 6)	3,778	2,448
Accounts Receivable, Net (Note 4)	100,286	71,483
Inventory and Related Property, Net (Note 7)	31,932,757	31,453,485
General Property, Plant and Equipment, Net (Note 8)	2,022,148	2,058,679
Other Assets (Note 5)	2,545,095	2,386,545
TOTAL ASSETS	$ 38,332,511	$ 37,936,553
LIABILITIES		
Intragovernmental:		
Accounts Payable (Note 10)	$ 323,831	$ 329,022
Other Liabilities (Note 11 & Note 12)	325,261	332,239
Total Intragovernmental Liabilities	649,092	661,261
Accounts Payable (Note 10)	4,290,247	3,844,119
Federal Employee and Veteran Benefits (Note 14)	681,052	740,686
Other Liabilities (Note 11 & Note 12)	1,179,461	1,367,027
TOTAL LIABILITIES	6,799,852	6,613,093
Commitments and Contingencies (Note 13)		
NET POSITION		
Unexpended Appropriations - Other Funds	1,531	19,613
Cumulative Results of Operations - Other Funds	31,531,128	31,303,847
TOTAL NET POSITION	31,532,659	31,323,460
TOTAL LIABILITIES AND NET POSITION	$ 38,332,511	$ 37,936,553

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
Program Costs		
Gross Costs		
Operations, Readiness, & Support	$ 29,508,310	$ 29,405,197
Less: Earned Revenue	(26,867,111)	(38,994,539)
Net Cost of Operations	$ 2,641,199	$ (9,589,342)

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	$ 31,303,847	$ 22,355,597
Budgetary Financing Sources:		
Appropriations Used	18,082	5,694
Nonexchange Revenue	122,083	(219)
Transfers In/Out without Reimbursement	-	(442,000)
Other Budgetary Financing Sources	(138)	(98)
Other Financing Sources:		
Transfers In/Out without Reimbursement	1,202,731	453,830
Imputed Financing	493,567	544,010
Other	1,032,155	(1,202,309)
Total Financing Sources	2,868,480	(641,092)
Net Cost of Operations	2,641,199	(9,589,342)
Net Change	227281	8,948,250
Cumulative Results of Operations	$ 31,531,128	$ 31,303,847
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ 19,613	$ 25,307
Budgetary Financing Sources:		
Appropriations Received	-	-
Appropriations Used	(18,082)	(5,694)
Total Budgetary Financing Sources	(18,082)	(5,694)
Unexpended Appropriations	1,531	19,613
Net Position	$ 31,532,659	$ 31,323,460

The accompanying notes are an integral part of the statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2015 and 2014

($ in Thousands)

		2015 Combined		2014 Combined
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$	3,265,931	$	3,635,290
Recoveries of Prior Year Unpaid Obligations		2,039,359		1,689,418
Other Changes in Unobligated Balance		(1,477,091)		(1,608,468)
Unobligated Balance from Prior Year Budget Authority, Net		3,828,199		3,716,240
Appropriations		-		-
Contract Authority		8,007,408		7,755,197
Spending Authority from Offsetting Collections		20,270,660		20,207,180
Total Budgetary Resources	$	32,106,267	$	31,678,617
Status of Budgetary Resources:				
Obligations Incurred	$	29,825,783	$	28,412,686
Unobligated Balance, End of Year				
Apportioned		2,186,221		3,193,616
Unapportioned		94,263		72,315
Unobligated Balance Brought Forward, End of Year		2,280,484		3,265,931
Total Budgetary Resources	$	32,106,267	$	31,678,617
Change in Obligated Balance:				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1	$	12,574,832	$	12,937,255
Obligations Incurred		29,825,783		28,412,686
Outlays, Gross		(27,392,921)		(27,085,691)
Recoveries of Prior Year Unpaid Obligations		(2,039,359)		(1,689,418)
Unpaid Obligations, End of Year, Gross		12,968,335		12,574,832
Uncollected Payments				
Uncollected Payments from Federal Sources, Brought Forward, October 1		(12,754,427)		(13,814,194)
Change in Uncollected Payments from Federal Sources		639,093		1,059,767
Uncollected payments from Federal Sources, End of Year		(12,115,334)		(12,754,427)
Obligated Balance, Start of Year		(179,595)		(876,939)
Obligated Balance, End of Year	$	853,001	$	(179,595)
Budget Authority and Outlays, Net:				
Budget Authority, Gross	$	28,278,068	$	27,962,377
Actual Offsetting Collections		(27,515,162)		(26,803,066)
Change in Uncollected Payments from Federal Sources		639,093		1,059,767
Budget Authority, Net	$	1,401,999	$	2,219,078
Outlays, Gross	$	27,392,921	$	27,085,691
Actual Offsetting Collections		(27,515,162)		(26,803,066)
Outlays, Net		(122,241)		282,625
Agency Outlays, Net	$	(122,241)	$	282,625

The accompanying notes are an integral part of the 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), 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; 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 the NWCF is responsible unless otherwise noted.

The NWCF is unable to fully implement all elements of USGAAP and OMB Circular No. 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 14 auditor-identified financial statement material weaknesses: (1) Financial Management Systems; (2) Reimbursable Work Order – Performer; (3) Financial Reporting of Operating Materials and Supplies; (4) Financial Reporting of General Equipment; (5) Financial Reporting of Inventory; (6) Financial Reporting of Real Property; (7) Reimbursable Work Order – Grantor; (8) Contract Vendor Pay; (9) Visual Inter-fund System Transaction Accountability Validation; (10) Unliquidated Liabilities; (11) Transportation Account Codes Authorization and Funds Validation; (12) Access to Key Supporting documentation; (13) Standardization of System and Data Requirements; (14) Financial System – Schedule of Budgetary Activity.

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 the 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 the DON and other DoD customers to help ensure our military forces are mobile, ready, and have the most advanced technology.

The NWCF is a revolving fund that finances the DON activities providing products and services on a reimbursable basis, based on a relationship between operating units and NWCF support organizations. Customers send funded orders to the NWCF providers who furnish the services or products, pay for incurred expenses, and bill the customers, who in turn authorize payment. NWCF activities strive to break even over the budget cycle. NWCF has five programs: Depot Maintenance, Supply Management, Research and Development, Base Support, and Transportation.

1.C. Appropriations and Funds

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

NWCF 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 NWCF obtains 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 NWCF as an infusion of cash when revenues are inadequate to cover costs within the corpus. In FY 2013, the NWCF received appropriated dollars for Hurricane Sandy-related expenses.

1.D. Basis of Accounting

The NWCF's financial management systems are unable to meet all full accrual accounting requirements. This is primarily because many of the NWCF's financial and nonfinancial feeder systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

Although the accrual basis of accounting is not fully implemented, under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

The NWCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the NWCF 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, Federal Employees' Compensation Act (FECA) liabilities 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 NWCF 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 the U.S. Standard General Ledger (USSGL). NWCF activities currently use USGAAP compliant and non-compliant systems. Until all NWCF financial and nonfinancial feeders systems and processes are updated to collect and report financial information as required by USGAAP, there will be instances when the NWCF's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

The preparation of the financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

1.E. Revenues and Other Financing Sources

Depot Maintenance NWCF activities recognize revenue according to the percentage of completion method. Supply Management NWCF activities recognize revenue from the sale of inventory items. Research and Development NWCF activities recognize revenue according to the percentage of completion method or as actual costs are incurred and billed. Base Support NWCF activities recognize revenue at the time service is rendered. Transportation NWCF activities recognize revenue on either a reimbursable or per diem basis. The majority of per diem projects are billed and collected in the month services are rendered. The remaining per diem projects accrue revenue in the month the services are rendered. For reimbursable projects, costs and revenue are recognized in the month services are rendered.

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 18, 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, FECA liabilities, environmental liabilities, and unbilled revenue. In the case of Operating Material & 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 expensed when consumed. Due to system limitations, some 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 an entity to eliminate intra-entity activity and balances from consolidated financial statements 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 accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure incorporating the necessary elements to will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government", provides 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 FECA transactions with the Department of Labor and benefit program transactions with the Office of Personnel Management.

Imputed Financing represents the costs paid on behalf of the NWCF by another Federal entity. The NWCF recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under FECA; and (3) losses in litigation proceedings.

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 Departments, 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 and the 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, NWCF's FBWT is reviewed and adjusted, as required to agree with the U.S. Treasury accounts.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of NWCF including 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.

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. The NWCF does not recognize an allowance for estimated uncollectible amounts from other federal agencies as receivables from other federal agencies are considered to be inherently collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.L. Inventories and Related Property

The NWCF values approximately 97% of its resale inventory using the Moving Average Cost (MAC) method. The NWCF reports the remaining 3% of 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 Statement of Federal Financial Accounting Standards (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). The NWCF is continuing to transition the balance of the inventories to the MAC method. Most transitioned balances, however, were not base-lined to auditable historical cost and remain noncompliant with SFFAS No. 3.

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" under the provisions of SFFAS No. 3, "Accounting for Inventory and Related Property."

Related property includes OM&S. NWCF OM&S is categorized as operating material and supplies held for use. The OM&S is valued at MAC and LAC. 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, material and supplies are expensed when purchased. During FY 2015 and FY 2014, 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 excess, obsolete, and unserviceable inventory and OM&S at a net realizable value of $0 pending development of an effective means of valuing such material.

Inventory available and purchased for resale includes consumable spare and repair parts and repairable 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 it 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, 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.M. General Property, Plant and Equipment

Property, Plant and Equipment (PP&E) consists of two categories: General PP&E, and Stewardship PP&E. Heritage Assets and Stewardship Land (classifications of Stewardship PP&E) are reported on the financial statements of the DON General Fund. The NWCF classifies all PP&E assets in the General PP&E category.

The NWCF's General PP&E capitalization threshold is $250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment and $20 thousand for real property) and are carried at the remaining net book value.

NWCF capitalizes all PP&E used in the performance of its mission. These assets are capitalized as General PP&E whether or not they meet the definition of any other PP&E category. The NWCF depreciates all General PP&E, other than land, on a straight-line basis.

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 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.N. 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.

Due to inconsistencies in the posting logic for non-Federal Advances and Prepayments, NWCF is noncompliant with the Federal Financial Management Improvement Act of 1996 (FFMIA),which requires agencies to comply with the Federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the USSGL at the transaction level.

1.O. 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 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.P. Other Assets

Other assets include non-Federal advances and prepayments, military and civil service employee pay advances, travel advances, and certain contract financing payments 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.Q. Contingencies and Other Liabilities

The DON is party to various administrative proceedings, legal actions, and claims. Under SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," the Balance Sheet should include estimated liabilities for these items, when an adverse decision is probable, reasonably possible, and estimable. When the amount of the potential loss cannot be estimated, or the likelihood of an unfavorable outcome is remote, the contingency is not disclosed.

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.

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

1.R. Accrued Leave

Military leave, compensatory and annual leave earned by civilians, but not yet used, is reported as accrued liabilities. The accrued balance is adjusted annually to reflect current pay rates. Any portions of the accrued leave, for which funding is not available, are recorded as an unfunded liability. Sick leave for civilians is expensed as taken.

1.S. Net Position

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

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

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

1.T. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported undistributed disbursements and collections have corroborating documentation for the summary level adjustments made to accounts payable and receivable. Unsupported undistributed disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the NWCF Accounts Payable and Receivable trial balances prior to validating underlying transactions.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD generally cannot determine whether undistributed disbursements and collections should be applied to Federal or non-Federal accounts payables/receivables at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between Federal and non-Federal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

1.U. Military Retirement and Federal Employment Benefits

For financial reporting purposes, the DON's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the DON at the end of each fiscal year. Military retirement is accounted for in the audited financial statements of the Military Retirement fund; as such, NWCF does not record any liabilities or obligations for pensions or healthcare retirement benefits.

NOTE 2. NONENTITY ASSETS

As of September 30	2015	2014
(Amounts in thousands)		
Accounts Receivable with the Public	$ 25,818	$ 15,974
Total Entity Assets	$ 38,306,693	$ 37,920,579
Total Assets	$ 38,332,511	$ 37,936,553

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

Nonentity Nonfederal Accounts Receivable (Public)
The Nonentity Nonfederal Accounts Receivable amount represents interest, penalties, fines and administrative fees that will be remitted to the U.S. Treasury.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2015	2014
(Amounts in thousands)		
Fund Balances		
Revolving Funds	$ 879,569	$ 757,326

STATUS OF FUND BALANCE WITH TREASURY

As of September 30	2015	2014
(Amounts in thousands)		
Unobligated Balance		
Available	$ 2,186,219	$ 3,193,617
Unavailable	94,263	72,313
Obligated Balance not yet Disbursed	12,968,336	12,574,833
Non-FBWT Budgetary Accounts	(14,369,249)	(15,083,437)
Total	$ 879,569	$ 757,326

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 amount primarily relates to Research and Development funding. Certain unobligated balances are restricted for future use and are not apportioned for current use.

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

Non-FBWT Budgetary Accounts reduces the Status of FBWT. This amount is comprised of contract authority, accounts receivable, and unfilled orders without advance from customers for the NWCF. Due to the DON systems inability to segregate Budgetary FBWT balances, Non-FBWT Budgetary Accounts are used to reconcile the Status of FBWT.

OTHER

As of September 30	2015	2014
(Amounts in thousands)		
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 879,569	$ 757,326
Fund Balance per DON	879,569	757,326
Reconciling Amount	$ -	$ -

NOTE 4. ACCOUNTS RECEIVABLE

As of September 30	2015		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 848,832	$ -	$ 848,832
Nonfederal Receivables (From the Public)	106,016	(5,730)	100,286
Total	$ 954,848	$ (5,730)	$ 949,118

As of September 30	2014		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 1,206,541	$ -	$ 1,206,541
Nonfederal Receivables (From the Public)	74,936	(3,453)	71,483
Total	$ 1,281,477	$ (3,453)	$ 1,278,024

The Accounts Receivable represent the NWCF's claim for payment from other entities. Intragovernmental Receivables primarily represents amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act and other statutory authority. Claims with other Federal agencies are resolved in accordance with the Intragovernmental Business Rules. Non-Federal Accounts Receivable is mainly held with Naval Facilities Engineering Command and Naval

Supply Systems Command. The NWCF only recognizes an allowance for uncollectible amounts from the public. The methodology used in determining the allowance amount is discussed in Note 1.K, Accounts Receivable.

NOTE 5. OTHER ASSETS

As of September 30	2015		2014	
(Amounts in thousands)				
Intragovernmental Other Assets				
Advances and Prepayments	$	46	$	46
Outstanding Contract Financing Payments		654,265		646,089
Advances and Prepayments		1,890,004		1,739,740
Other Assets (With the Public)		826		716
Total Nonfederal Other Assets		2,545,095		2,386,545
Total	$	2,545,141	$	2,386,591

Nonfederal Other Assets - Outstanding Contract Financing Payments consist of contract terms and conditions for certain types of contract financing payments convey certain rights to the NWCF protecting the contract work from state or local taxation, liens or attachment by the contractor's creditors', transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean 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. The NWCF is not obligated to make payment to the contractor until delivery and acceptance. As a result, cash outlays and payments are made by the NWCF to contractors, grantees, or others to cover the recipients' anticipated and periodic expenses before those expenses are incurred. Outstanding Contract Financing Payments are reduced when goods and services are received, contract terms are met, progress is made on a contract, or prepaid expenses expire.

Outstanding Contract Financing Payments includes $604.4 million in contract financing payments and an additional $49.9 million in estimated future funded payments to contractors upon delivery and Government acceptance of a satisfactory product. Refer to Note 12, Other Liabilities, for further information.

Due to reclassification of intragovernmental activity and inaccurate posting logic, Nonfederal Advances and Prepayments are recognized within the NWCF.

Nonfederal Other Assets - Advances and Prepayments increased primarily due to Navy Supply Management reclassification of Federal Advances and Prepayments to Nonfederal Advances and Prepayments in order to reconcile seller side trading partner data.

Nonfederal Other Assets consists of prepayments made to vendors and travel advances made to employees.

NOTE 6. CASH AND OTHER MONETARY ASSETS

As of September 30	2015		2014	
(Amounts in thousands)				
Cash	$	3,778	$	2,448

NWCF Cash consists of coins, paper currency and readily negotiable instruments; such as money orders, checks, and bank drafts on hand or in transit for deposit.

There are no restrictions on cash, or the use, or conversion of foreign currencies.

NOTE 7. INVENTORY AND RELATED PROPERTY

As of September 30	2015		2014	
(Amounts in thousands)				
Inventory, Net	$	31,765,896	$	31,283,575
Operating Materials & Supplies, Net		166,861		169,910
Total	$	31,932,757	$	31,453,485

INVENTORY AND RELATED PROPERTY

As of September 30	2015						
(Amounts in thousands)	Inventory Gross Value		Revaluation Allowance		Inventory, Net		Valuation Method
Inventory, Net							
Inventory Categories							
Available and Purchased for Resale	$	18,662,262	$	54,700	$	18,716,962	MAC, LAC
Held for Repair		13,074,070		(49,999)		13,024,071	MAC, LAC
Excess, Obsolete, and Unserviceable		19,996		(19,996)		-	NRV
Work in Process		24,863		-		24,863	AC
Total	$	31,781,191	$	(15,295)	$	31,765,896	

As of September 30	2014						
(Amounts in thousands)	Inventory Gross Value		Revaluation Allowance		Inventory, Net		Valuation Method
Inventory, Net							
Inventory Categories							
Available and Purchased for Resale	$	18,071,562	$	80,020	$	18,151,582	MAC, LAC
Held for Repair		13,140,298		(34,792)		13,105,506	MAC, LAC
Excess, Obsolete, and Unserviceable		28,156		(28,156)		-	NRV
Work in Process		26,487		-		26,487	AC
Total	$	31,266,503	$	17,072	$	31,283,575	

Legend for Valuation Methods:
LAC = Latest Acquisition Cost   NRV = Net Realizable Value
MAC = Moving Average Cost   SP = Standard Price   LCM = Lower of Cost or Market

As a result of audit readiness efforts, adjustments had to be made to mission critical asset balances that resulted from events that could not be identified to specific accounting periods, and that those adjustments were made against current year gain/loss accounts. Significant accounting adjustments have been made to the NWCF's mission critical assets as a result of the Department's ongoing audit readiness efforts. These accounting adjustments were recognized in current year gain/loss accounts when auditable data was not available to support restatement of prior period financial statements.

General Composition of Inventory
Inventory available and purchased for resale includes consumable spare and repair parts as well as reparable items owned and managed by the NWCF. Inventory includes all materiel available for customer purchase. Inventory is assigned to categories based upon condition of the inventory items, or in the case of raw material and work-in-process based upon stage of fabrication. Inventory held for repair consists of damaged materiel that requires repair to make it usable. Excess inventory includes scrap materials 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 material, direct labor, applied overhead, and other direct costs. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer.

Federal Accounting Standards require disclosure of the amount of Inventory Held for "Future Use". The NWCF currently has $654.7 million and $637.6 million reported for September 30, 2015 and September 30, 2014, respectively, in Inventory Held for Future Sale, Net.

Inventory Valuation
NWCF's inventory is reported using two methods: the approximation of historical cost method and MAC. The approximation of historical cost is calculated by using the LAC less the allowance for holding gains and losses. MAC is calculated each time costs are incurred for a purchase or a repairable item is remanufactured by dividing the cost of total units available at the time. Legacy inventory systems are 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 SFFAS No. 3, "Accounting for Inventory and Related Property." The Office of Under Secretary of Defense, Comptroller (OUSD (C)) Cost of Goods Sold Model revalued inventory causing NWCF to be non-compliant with SFFAS No. 3. The Navy Enterprise Resource Planning System (ERP) values inventory at MAC in accordance with USGAAP. As of 4th Quarter, FY 2015, 100% of NWCF inventory was valued at MAC. For compliance, the revaluation of the inventory to MAC occurred in the field accounting system to be compliant with SFFAS No. 3.

NWCF previously used the LAC (inventory allowance method) for valuing inventory. Inventory is now valued using the MAC method. This change resulted in a $10 billion gain in FY 2014.

Restrictions on Use of Inventory
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 DoD directives;
2) War reserve materiel in the amount of $33.7 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.

Operating Materials and Supplies, Net

As of September 30 *(Amounts in thousands)*	2015 OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
OM&S Categories				
Held for Use	$ 166,853	$ -	$ 166,853	LAC, MAC
Held for Repair	8	-	8	LAC, MAC
Total	$ 166,861	$ -	$ 166,861	

As of September 30 *(Amounts in thousands)*	2014 OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
OM&S Categories				
Held for Use	$ 169,902	$ -	$ 169,902	LAC, MAC
Held for Repair	8	-	8	LAC, MAC
Total	$ 169,910	$ -	$ 169,910	

Legend for Valuation Methods:
LAC = Latest Acquisition Cost MAC = Moving Average Cost

The NWCF assigns OM&S to a category based upon the type and condition of the asset. OM&S includes spare and repair parts, ammunition, conventional missiles, torpedoes, aircraft configuration pods, and centrally managed aircraft engines. OM&S Held for Use includes spare and repair parts, clothing and textiles, and petroleum products. OM&S Held for Repair consists of damaged material held as inventory that is more economical to repair than to dispose. Excess, Obsolete, and Unserviceable OM&S consists of scrap material or items that cannot be economically repaired and are awaiting disposal.

The consumption method is applied when accounting for OM&S. Exceptions to the consumption method are provided when (1) the OM&S are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost beneficial to apply the consumption method. In any of these events, the purchase method is allowed. Legacy accounting systems cannot support the consumption method of accounting, thus the various reporting activities are currently using the purchase method. As financial reporting entities begin to purchase material in Navy ERP, the consumption method will be properly applied.

The moving average cost valuation method using historical cost is used for a majority of the OM&S categories; however actual cost and latest acquisition cost are also valuation methods applied depending on the legacy inventory system used to forecast OM&S cost. The NWCF is currently using the allowance method of accounting for repairables in the legacy accounting system and the direct method of accounting for repairables in Navy ERP.

Federal Accounting Standards require disclosure of the amount of OM&S Held for "Future Use". The NWCF reports that $0.4 million and $0.3 million of OM&S is Held for Future Use and is included in the "held for use" category as of September 30, 2015 and September 30, 2014, respectively. These items are not readily available in the market and there is a more than a remote chance that they will eventually be needed.

NOTE 8. GENERAL PP&E, NET

As of September 30	2015							
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life		Acquisition Value		(Accumulated Depreciation/ Amortization)		Net Book Value
Major Asset Classes								
Land	N/A	N/A	$	3,231	$	-	$	3,231
Buildings, Structures, and Facilities	S/L	20 or 40		6,195,251		(4,997,090)		1,198,161
Software	S/L	2-5 or 10		295,679		(247,439)		48,240
General Equipment	S/L	5 or 10		2,866,149		(2,329,667)		536,482
Construction-in-Progress	N/A	N/A		236,034		-		236,034
Other	N/A	N/A		-		-		-
Total General PP&E			$	9,596,344	$	(7,574,196)	$	2,022,148

As of September 30	2014							
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life		Acquisition Value		(Accumulated Depreciation/ Amortization)		Net Book Value
Major Asset Classes								
Land	N/A	N/A	$	3,235	$	-	$	3,235
Buildings, Structures, and Facilities	S/L	20 or 40		6,159,269		(4,909,608)		1,249,661
Software	S/L	2-5 or 10		383,091		(313,769)		69,322
General Equipment	S/L	5 or 10		2,688,191		(2,204,061)		484,130
Construction-in-Progress	N/A	N/A		252,257		-		252,257
Other	N/A	N/A		74		-		74
Total General PP&E			$	9,486,117	$	(7,427,438)	$	2,058,679

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

General Composition of General Property, Plant and Equipment
NWCF General PP&E consists of buildings and structures, lease hold improvements, software, general equipment and Construction-in-Progress. General PP&E, Other consists of assets awaiting disposal.

General Property, Plant and Equipment Valuation
The acquisition cost for General PP&E is captured and maintained in the applicable accountable property systems of record. The methodology used in capitalizing General PP&E assets is discussed in Note 1.M, General Property, Plant and Equipment.

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

As a result of audit readiness efforts, adjustments had to be made to mission critical asset balances that resulted from events that could not be identified to specific accounting periods, and that those adjustments were made against current year gain/loss accounts. Significant accounting adjustments have been made to the DON's mission critical assets as a result of the Department's ongoing audit readiness efforts. These accounting adjustments were recognized in current year gain/loss accounts when auditable data was not available to support restatement of prior period financial statements.

For FY 2014 the capitalization threshold for NWCF General PP&E was increased from $100 thousand to $250 thousand. This change is prospective and applies to asset acquisitions and modifications/improvements placed into service October 1, 2013 and after.

NOTE 9. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2015	2014
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 145,686	$ 151,227
Federal Employee and Veteran Benefits	681,052	740,686
Total Liabilities Not Covered by Budgetary Resources	$ 826,738	$ 891,913
Total Liabilities Covered by Budgetary Resources	$ 5,973,114	$ 5,721,180
Total Liabilities	$ 6,799,852	$ 6,613,093

Liabilities Not Covered by Budgetary Resources includes liabilities for which Congressional action is needed before budgetary resources can be provided. These include liabilities resulting from the receipt of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods, for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or earnings of the entity.

Intragovernmental Liabilities – Other consists of the unfunded portion of FECA liability due to the Department of Labor and unemployment compensation due to applicable States. These liabilities will be funded by future year's budgetary resources.

Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities represent FECA Actuarial liabilities that will be funded in future periods. Refer to Note 14, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

NOTE 10. ACCOUNTS PAYABLE

As of September 30	2015		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 323,831	$ -	$ 323,831
Nonfederal Payables (to the Public)	4,290,247	-	4,290,247
Total	$ 4,614,078	$ -	$ 4,614,078

As of September 30	2014		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 329,022	$ -	$ 329,022
Nonfederal Payables (to the Public)	3,844,119	-	3,844,119
Total	$ 4,173,141	$ -	$ 4,173,141

Accounts Payable includes amounts owed to Federal and Nonfederal entities for goods and services received by NWCF. The NWCF's systems do not track intra-governmental transactions by customer at the transaction level. As a result, in the intragovernmental eliminations process, buyer-side accounts payable are adjusted to agree with supportable inter/intra-agency seller-side accounts receivable. Accounts payable was adjusted by (1) reclassifying amounts between Federal and Nonfederal accounts payable: (2) accruing additional accounts payable and expenses; and (3) applying both supported and unsupported undistributed disbursements at the reporting entity level.

NOTE 11. ENVIRONMENTAL LIABILITIES AND DISPOSAL LIABILITIES

The NWCF Environmental Liabilities are reported under the DON GF financial statements and accompanying Note 12, Environmental Liabilities and Disposal Liabilities.

NOTE 12. OTHER LIABILITIES

As of September 30 *(Amounts in thousands)*	2015 Current Liability	 Noncurrent Liability	 Total
Intragovernmental			
Advances from Others	$ 111,821	$ -	$ 111,821
FECA Reimbursement to the Dept of Labor	65,549	80,137	145,686
Custodial Liabilities	25,818	-	25,818
Employer Contribution and Payroll Taxes Payable	41,936	-	41,936
Total Intragovernmental	245,124	80,137	325,261
Accrued Funded Payroll and Benefits	873,542	-	873,542
Advances from Others	250,688	-	250,688
Deposit Funds and Suspense Accounts	40	-	40
Contract Holdbacks	1,207	-	1,207
Employer Contribution and Payroll Taxes Payable	2,604	-	2,604
Contingent Liabilities	-	49,908	49,908
Other Liabilities	1,472	-	1,472
Total Other Liabilities	$ 1,374,677	$ 130,045	$ 1,504,722

As of September 30 *(Amounts in thousands)*	2014 Current Liability	 Noncurrent Liability	 Total
Intragovernmental			
Advances from Others	$ 134,095	$ -	$ 134,095
FECA Reimbursement to the Dept of Labor	68,511	82,716	151,227
Custodial Liabilities	15,974	-	15,974
Employer Contribution and Payroll Taxes Payable	30,943	-	30,943
Total Intragovernmental	249,523	82,716	332,239
Accrued Funded Payroll and Benefits	1,036,276	-	1,036,276
Advances from Others	273,560	-	273,560
Deposit Funds and Suspense Accounts	49	-	49
Contract Holdbacks	871	-	871
Employer Contribution and Payroll Taxes Payable	4,162	-	4,162
Contingent Liabilities	-	52,402	52,402
Other Liabilities	(293)	-	(293)
Total Other Liabilities	$ 1,564,148	$ 135,118	$ 1,699,266

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

Deposit funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner.

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

Nonfederal Other Liabilities is attributed to improperly recorded unfunded liability transactions in the field accounting system. The posting issues creating this condition have been documented in a Navy ERP management tracking database to support identification and prioritization of corrective action.

Contingent Liabilities includes $49.9 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 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 the rights of ownership. The NWCF is under no obligation to pay the contractor for amounts in excess of progress payments 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 contractor costs incurred but yet unpaid are estimable, the NWCF has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR.

Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

NOTE 13. COMMITMENTS AND CONTIGENCIES

The NWCF 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 NWCF has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) 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. The NWCF records contingent liabilities in Note 12, Other Liabilities.

For FY 2015, NWCF materiality threshold for reporting litigation, claims, or assessments is $5.4 million. The NWCF OGC conducts a review of litigation and claims threatened or asserted involving NWCF to which the OGC attorneys devoted substantial attention in the form of legal consultation or representation.

The NWCF currently has 5 cases that meet the existing FY 2015 materiality threshold. NWCF legal counsel was unable to express an opinion concerning the likely outcome on 2 of 5 cases.

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.

NOTE 14. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2015 Liabilities	2015 (Less: Assets Available to Pay Benefits)	2015 Unfunded Liabilities
(Amounts in thousands)			
Other Actuarial Benefits			
FECA	$ 681,052	$ -	$ 681,052

As of September 30	2014 Liabilities	2014 (Less: Assets Available to Pay Benefits)	2014 Unfunded Liabilities
(Amounts in thousands)			
Other Actuarial Benefits			
FECA	$ 740,686	$ -	$ 740,686

The NWCF reports an actuarial liability for FECA. FECA provides Federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death. FECA is administered by the Office of Workers' Compensation Programs. The obligations and liabilities for military pensions, military retirement health benefits, military Medicare-eligible retiree benefits, the Voluntary Separation Incentive Program, and the DoD Education Benefits Fund are reported at the Department level.

Actuarial Cost Method Used

The NWCF's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to NWCF only at the end of each fiscal year.

The estimate 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.

NOTE 15. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Intragovernmental Costs and Exchange Revenue As of September 30	2015		2014	
(Amounts in thousands)				
Intragovernmental Costs	$	5,019,198	$	5,250,361
Nonfederal Costs		24,489,112		24,154,836
Total Costs	$	29,508,310	$	29,405,197
Intragovernmental Earned Revenue	$	(25,150,622)	$	(24,167,002)
Nonfederal Revenue		(1,716,489)		(14,827,537)
Total Revenue	$	(26,867,111)	$	(38,994,539)
Total Net Cost	$	2,641,199	$	(9,589,342)

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government that are 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 SFFAS No. 4. "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

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

Large balances in the public costs and revenue lines are a result of the current process in Navy ERP. The process produces inflated gains and offsetting losses on separate financial statement and note schedule lines, however, the impact on Net Cost is reduced when the gains and losses are combined. The Navy is currently working to resolve the business process that results in daily postings to the gain and loss accounts for in-transit inventory.

The NWCF's financial management systems do not track intragovernmental transactions by customer. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between Federal and Nonfederal expenses. Intradepartment revenues and expenses are then eliminated.

NOTE 16. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position (SCNP) reports the change in net position during the reporting period. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations.

NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2015		2014	
(Amounts in thousands)				
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	9,755,190	$	9,564,655

As of September 30	2015 Direct Obligations	2015 Reimbursable Obligations	2015 Total
(Amounts in thousands)			
Obligations Apportioned Under			
Category A	$ -	$ -	$ -
Category B	-	29,825,783	29,825,783
Exempt	-	-	-
Total	$ -	$ 29,825,783	$ 29,825,783

As of September 30	2014 Direct Obligations	2014 Reimbursable Obligations	2014 Total
(Amounts in thousands)			
Obligations Apportioned Under			
Category A	$ -	$ -	$ -
Category B	-	28,400,000	28,400,000
Exempt	-	-	-
Total	$ -	$ 28,400,000	$ 28,400,000

The table above discloses apportionment categories for obligations incurred for direct and reimbursable obligations in the apportionment category they are under (Category A, B and Exempt from apportionment).

Other Disclosures
The Statement of Budgetary Resources includes intra-entity transactions because the statements are presented as combined.

NOTE 18. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30		2015		2014
(Amounts in thousands)				
Resources Used to Finance Activities				
Budgetary Resources Obligated:				
Obligations Incurred	$	29,825,783	$	28,412,686
Less: Spending Authority from Offsetting Collections and Recoveries		(28,915,431)		(27,432,715)
Net Obligations		910,352		979,971
Other Resources:				
Transfers In/Out without Reimbursement		1,202,731		453,830
Imputed Financing from Costs Absorbed by Others		493,567		544,010
Other		1,032,155		(1,202,309)
Net Other Resources Used to Finance Activities		2,728,453		(204,469)
Total Resources Used to Finance Activities	$	3,638,805	$	775,502
Resources Used to Finance Items not Part of the Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided:				
Undelivered Orders	$	(190,534)	$	(65,829)
Unfilled Customer Orders		(395,003)		(665,858)
Resources that Fund Expenses Recognized in Prior Periods		(65,175)		(43,881)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		-		-
Resources that Finance the Acquisition of Assets		(5,406,684)		(5,677,013)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations:				
Other		(2,234,886)		748,478
Total Resources Used to Finance Items not part of the Net Cost of Operations	$	(8,292,282)	$	(5,704,103)
Total Resources Used to Finance the Net Cost of Operations	$	(4,653,477)	$	(4,928,601)
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	$	-	$	-
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$	-	$	-
Components not Requiring or Generating Resources:				
Depreciation and Amortization	$	352,464	$	265,127
Revaluation of Assets or Liabilities		1,712,800		(10,052,031)
Other				
Cost of Goods Sold		8,680,395		8,382,276
Operating Materials and Supplies Used		213		1,443
Other		(3,451,196)		(3,257,556)
Total Components of Net Cost of Operations that will not Require or Generate Resources		7,294,676		(4,660,741)
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$	7,294,676	$	(4,660,741)
Net Cost of Operations	$	2,641,199	$	(9,589,342)

Due to NWCF financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference 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 were adjusted upward by $5.9 billion (absolute amount) as of September 30, 2015 to bring it into balance with the SNC.

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

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries

- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Resources Used to Finance Activities - Other, is presented as the net increase to inventory for the period. DON is working to resolve the business postings for in-transit inventory that are creating distortions in the reported revenues and expenses.

Resources Used to Finance Items Not Part of Net Cost of Operations - Other, are amounts related to supply management of inventory available and purchased for resale including consumable spare and repair parts and reparable items as well as goods transferred for reissue from inventory.

Components Not Requiring or Generating Resources - Other, consists of Applied Overhead and Cost Capitalization Offset. These balances represent overhead costs distributed to work in process and costs transferred to an “in-process” asset accounts such as construction in progress.

NOTE 19. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

NWCF collected $35 million of incidental custodial revenues generated primarily from surcharges, 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.

REQUIRED SUPPLEMENTARY INFORMATION

AROUND THE GLOBE, AROUND THE CLOCK.

Real Property Deferred Maintenance and Repair

For Fiscal Year Ended September 30, 2015

The Navy Working Capital Fund real property deferred maintenance and repair information for fiscal year ended September 30, 2015 is reported with the Department of the Navy deferred maintenance and repair. See Department of the Navy Required Supplementary Information.

OTHER INFORMATION

AROUND THE GLOBE, AROUND THE CLOCK.

APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE PRINCIPAL STATEMENTS

ENTITY ACCOUNTS

Navy Working Capital Fund

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 in FY 2007. The Depot Maintenance, Shipyards information included in this report represents residual NWCF accounting.

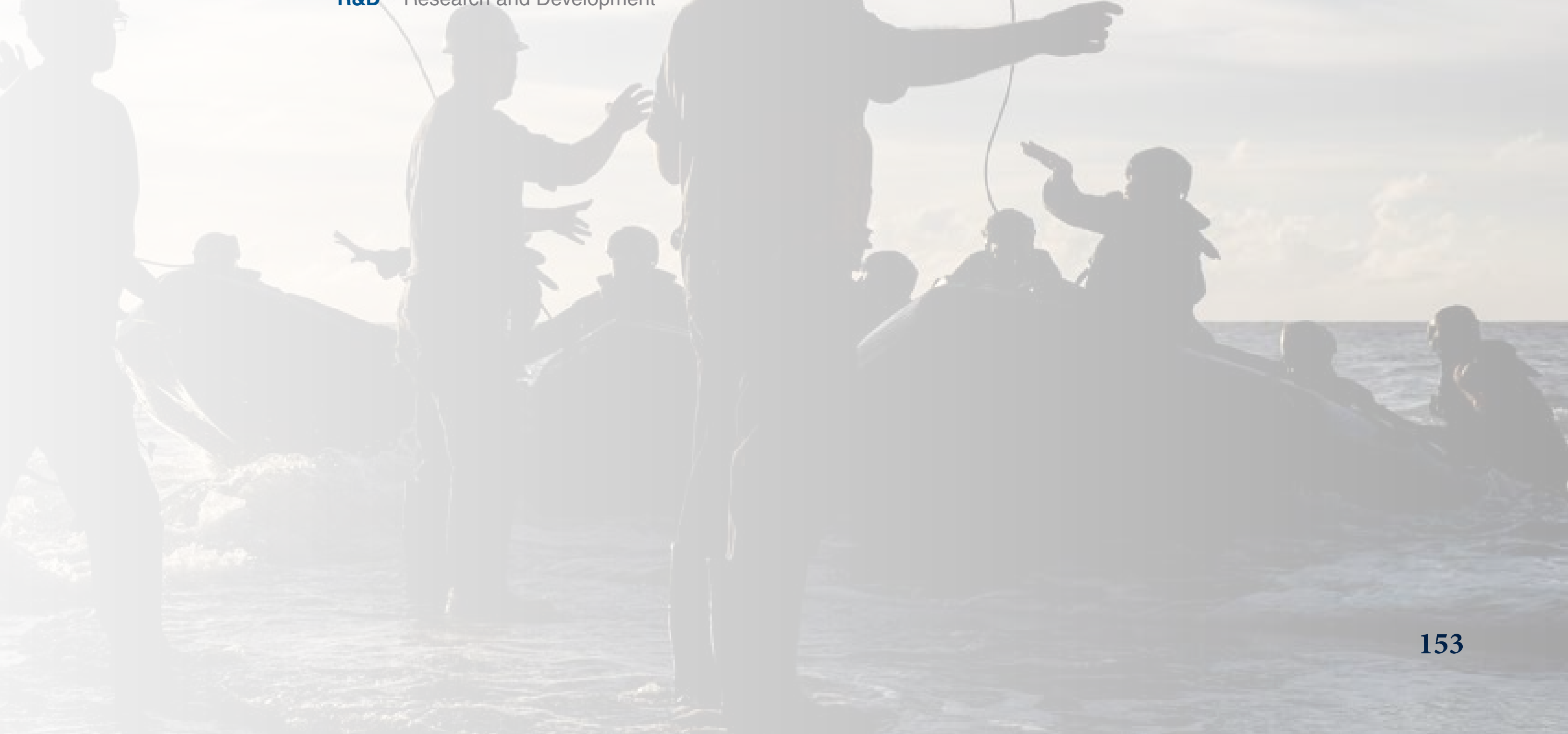
b The Ordnance activity group became a part of the DON in FY 2000. The Ordnance information included in this report represents residual NWCF accounting for this group.

APPENDIX

AROUND THE GLOBE, AROUND THE CLOCK.

ACRONYM	DEFINITION
AAR	Autonomous Aerial Refueling
AC	Active Component
AIO	Acquisition Integrity Office
AITT	Augmented Immersive Team Trainer
ASPA	Aircraft Service Period Adjustment
ATFP	Anti-Terrorism/Force Protection
BALTOPS	Baltic Operations
BBP	Better Buying Power
BRAC	Base Closure and Realignment Commission
BSO	Budget Submitting Office
BUMED	Bureau of Medicine and Surgery
BUPERS	Bureau of Naval Personnel
CARAT	Cooperation Afloat Readiness and Training
CFO	Chief Financial Officer
CGFMFLANT	Commanding General, Fleet Marine Forces Atlantic
CIO	Chief Information Officer
CIP	Construction in Process
CNIC	Commander, Navy Installations Command
CNO	Chief of Naval Operations
CNRF	Commander, Navy Reserve Force
COMPACFLT	Commander U.S. Pacific Fleet
COMSEC	Communications Security
COMUSFLTFORCOM	U.S. Fleet Forces Command
CSMP	Current Ships' Maintenance Plan
CTC	Cost to Complete
CYBERCOM	U.S. Cyber Command
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)
DC	Direct Current
DCAS	Defense Cash Accountability System
DDRS	Defense Department Reporting System
DDRS-DCM	Defense Department Reporting System Data Collection Module
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DFAS-CL	Defense Finance and Accounting Service - Cleveland
DM&R	Deferred Maintenance and Repair
DNS	Director, Navy Staff
DoD	Department of Defense
DoD FMR	Department of Defense Financial Management Regulation
Do DIG	Department of Defense Inspector General
DOL	Department of Labor
DON	Department of the Navy
DON/AA	Department of the Navy Assistant for Administration
EFTM	External Fuel Transfer Module
EOD	Explosive Ordnance Disposal
EOP	Executive Office of the President
EPR	Evaluation, Prioritization, and Remediation
ER, N	Environmental Restoration, Navy
ERP	Enterprise Resource Planning
ETOWL	Enhanced Technologies for Optimization of Warfighter Load
EVM	Earned Value Management
FAR	Federal Acquisition Regulations
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCI	Facilities Condition Index
FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FID	Fixed Induction Date
FIP	Financial Improvement Program
FISCAM	Federal Information System Controls Audit Manual
FMFIA	Federal Managers' Financial Integrity Act
FSA	Field Support Activity
FTE	Full Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
GCSS-MC	Global Combat Support System – Marine Corps
GE	General Equipment
GPRA	Government Performance and Results Act
GSA	General Services Administration
GW	Gigawatt
HED	Hybrid Electric Drive System
HQMC	Headquarter, U.S. Marine Corps
HSP	Husbanding Service Provider
IA	Individual Augmentees
ICOFR	Internal Controls Over Financial Reporting
ICOFS	Internal Controls Over Financial Systems
ICONO	Internal Controls Over Non-Financial Operations
IMC	Integrated Maintenance Concept
IMCMEX	International Mine Countermeasures Exercise
iNFADS	Internet Navy Facility Assets Data Store
IPA	Independent Public Accounting
iRAPT	Inventory, Receipt, Acceptance, and Property Transfer
IRP	Installation Restoration Program
IRR	Inactive Ready Reserve
ISIL	The Islamic State of Iraq and the Levant
JIE	Joint Information Environment
LAC	Latest Acquisition Cost
LOCUST	Low-Cost UAV Swarming Technology
LOGCOM	Marine Corps Logistics Command
MAC	Moving Average Cost
MARFORCOM	U.S. Marine Corps Forces Command
MARFORCYBER	U.S. Marine Corps Forces, Cyberspace Command
MARFORNORTH	Marine Forces Northern Command
MARFORPAC	U.S. Marine Corps Forces, Pacific
MARFORRES	U.S. Marine Corps Forces Reserve
MARFORSOC	U.S. Marine Corps Forces, Special Operations Command
MAU	Major Assessable Unit
MCICOM	Marine Corps Installations Command
MCTFS	Marine Corps Total Force System
ME	Military Equipment
MHS	Military Health Service
MICP	Managers' Internal Control Program
MMRP	Military Munitions Response Program
MOVER	Mobile, Virtual Enhancements for Rehabilitation
MSC	Military Sealift Command
MSOR	Marine Special Operations Regiment
MSOS	Marine Special Operations School
MSOSG	Marine Special Operations Support Group
MUOS	Mobile User Objective System

MW Megawatt
NAF Nonappropriated Funds
NASF Naval Air Station Fallon
NAVAIR Naval Air Systems Command
NAVAUDSVC Naval Audit Service
NAVFAC Naval Facilities Engineering Command
NAVSEA Naval Sea Systems Command
NAVSUP Naval Supply Systems Command
NDSF National Defense Sealift Fund
NETC Naval Education Training Command
NGEN Next Generation Enterprise Network
NORM Normalization of Data System
NPC Navy Personnel Command
NPS Naval Postgraduate School
NRC Navy Recruiting Command
NRV Net Realizable Value
NSSC National Strategy to Secure Cyberspace
NSW Naval Special Warfare
NSWC Naval Special Warfare Command
NSWC Naval Surface Warfare Center
NWC Naval War College
NWCF Navy Working Capital Fund
OCFP Outstanding Contract Financing Payments
OCONUS Outside Contiguous United States
OEL Other Environmental Liabilities
OFRP Optimized Fleet Response Plan
OGC Office of General Counsel
OM&S Operating Materials & Supplies
OMB Office of Management and Budget
ONI Office of Naval Intelligence
ONR Office of Naval Research
OSD Office of Secretary of Defense
OUSD AT&L Office of the Under Secretary of Defense, Acquisition, Technology, and Logistics
OUSD(C) Office of Under Secretary of Defense, Comptroller
PAO Principal Administering Office
PCBs Polychlorinated Biphenyls
PII Personally Identifiable Information
PMI Planned Maintenance Intervals
PP&E Property Plant & Equipment
PRV Plant Replacement Value
Q-rating Quality Rating
R&D Research and Development
RHIMES Resilient Hull, Mechanical, and Electrical Security
RIS Refueling Interface System
RPA Real Property Asset
S&T Science and Technology
S/L Straight Line
SABRS Standard Accounting Budgeting and Reporting System
SAFFiR Shipboard Autonomous Firefighting Robot
SBA Schedule of Budgetary Activity
SBR Statement of Budgetary Resources
SCNP Statement of Changes in Net Position
SEAL Special Warfare Operators
SECNAV Secretary of the Navy
SFFAS Statement of Federal Financial Accounting Standards
SMS Sustainment Management System
SNC Statement of Net Cost
SOA Statement of Assurance
SOF Special Operations Forces
SP Standard Price
SPAWAR Space and Naval Warfare Systems Command
SPMAGTF-CR-AF Marine Corps Special Purpose Marine Air Ground Task Force for Crisis Response Africa
SSGN Guided Missile Submarine
SSP Strategic Systems Program
STR Service Treatment Record
SURTASS Surveillance Towed-Array Sensor System
TBI Traumatic Brain Injury
U.S. United States of America
UAV Unmanned Aerial Vehicle
UIC Unit Identification Code
USACE U.S. Army Corps of Engineers
USACOE - CERL U.S. Army Corps of Engineers Civil Engineering Research and Development
USFK U.S. Forces Korea
USGAAP U.S. Generally Accepted Accounting Principles
USNA United States Naval Academy
USPACOM U.S. Pacific Command
USSOCOM U.S. Special Operations Command
USV Unmanned Surface Vehicle
VA Department of Veterans Affairs



AROUND THE GLOBE,
AROUND THE CLOCK.

COVER PHOTO CREDITS

1. Sailors observe as an aircraft carrier sails alongside another aircraft carrier. (U.S. Navy photo by Mass Communication Specialist 2nd Class Jacob Estes/Released)
2. Waiting to board a helicopter on an amphibious assault ship. (U.S. Navy photo by Mass Communication Specialist Seaman Derry Todd/Released)
3. Saluting the national ensign during morning colors. (U.S. Navy photo by Mass Communication Specialist 3rd Class Jonathan B. Trejo/Released)
4. Sailors coordinate to transport a Marine assault amphibious vehicle aboard a dock landing. (U.S. Navy photo by Mass Communication Specialist Seaman Chelsea Troy Milburn/Released)
5. Positioning a rack of high-explosive guided bomb units for mounting onto AV-8B Harriers. (U.S. Navy photo by Mass Communication Specialist 2nd Class Christopher B. Janik/Released)
6. U.S. Marines assigned drive high mobility multipurpose wheeled vehicles to the beach from a Causeway ferry. (U.S. Navy photo by LT Russell Wolfkiel/Released)
7. Using an alidade and sound-powered telephone as an aircraft carrier departs for its 2015 patrol. (U.S. Navy photo by Mass Communication Specialist 2nd Class Paolo Bayas/Released)
8. Monitoring inbound supplies from a Military Sealift Command fleet replenishment oiler. (U.S. Navy photo by Mass Communication Specialist 3rd Class Robert S. Price/Released)
9. An F/A-18E Super Hornet launches from an aircraft carrier. (U.S. Navy photo by Mass Communication Specialist 2nd Class John Philip Wagner, Jr./Released) 150530-N-TP834-647
10. A moored attack submarine. (U.S. Navy photo/Released)
11. An amphibious transport dock ship, a dry cargo and ammunition ship, and an amphibious dock landing ship prepare to conduct a vertical replenishment-at-sea. (U.S. Navy photo by Mass Communication Specialist 3rd Class Jonathan B. Trejo/Released)
12. Marines depart the well deck of an amphibious transport dock ship. (U.S. Navy photo by Mass Communication Specialist 3rd Class Derek A. Harkins/Released)
13. A Quartermaster Seaman makes deck log entries during a strait transit exercise. (U.S. Navy photo by Mass Communication Specialist 3rd Class Liam Kennedy/Released)
14. A Steelworker cuts rebar beams with an oxygen acetylene torch during a seaplane ramp construction project. (U.S. Navy photo by Mass Communication Specialist 2nd Class Mark El-Rayes/Released)
15. Sailors and Marines aboard an amphibious dock landing ship man the rails. (U.S. Navy photo by Mass Communication Specialist 3rd Class Adam Austin/Released)

Preparation of this report cost the Department of the Navy approximately $88,000 in Fiscal Year 2015.
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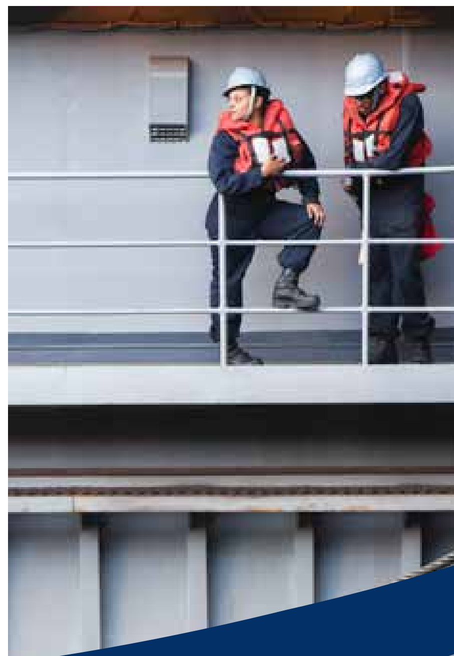


FOR MORE INFORMATION

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http://www.finance.hq.navy.mil/FMC

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