

**Department of Defense**  
**Navy Working Capital Fund**  
**CONSOLIDATED BALANCE SHEET**  
**As of December 31, 2005 and 2004**

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 326,691,016.80	\$ 377,799,217.51
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	0.00	0.00
3. Accounts Receivable (Note 5)	202,537,745.43	14,045,249.53
4. Other Assets (Note 6)	336,578.86	723.96
5. Total Intragovernmental Assets	\$ 529,565,341.09	\$ 391,845,191.00
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	63,250,636.50	142,608,138.84
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	14,719,728,503.53	19,267,550,315.48
F. General Property, Plant and Equipment (Note 10)	3,811,595,608.28	3,827,335,532.79
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	588,634,285.45	748,685,010.67
<b>2. TOTAL ASSETS</b>	<b>\$ 19,712,774,374.85</b>	<b>\$ 24,378,024,188.78</b>
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 216,974,859.01	\$ 156,134,082.60
2. Debt (Note 13)	388,455,709.07	515,471,217.78
3. Other Liabilities (Note 15 & 16)	396,639,384.20	408,140,412.07
4. Total Intragovernmental Liabilities	\$ 1,002,069,952.28	\$ 1,079,745,712.45
B. Accounts Payable (Note 12)	\$ 1,962,696,594.82	\$ 1,477,284,890.78
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,192,551,548.64	1,168,225,461.54
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	2,993,914,089.67	5,010,496,534.18
<b>4. TOTAL LIABILITIES</b>	<b>\$ 7,151,232,185.41</b>	<b>\$ 8,735,752,598.95</b>
<b>5. NET POSITION</b>		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	6,286,014.67	0.00
C. Cumulative Results of Operations - Earmarked Funds	0.00	0.00
D. Cumulative Results of Operations - Other Funds	12,555,256,174.77	15,642,271,589.83
<b>6. TOTAL NET POSITION</b>	<b>\$ 12,561,542,189.44</b>	<b>\$ 15,642,271,589.83</b>
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 19,712,774,374.85</b>	<b>\$ 24,378,024,188.78</b>

**Department of Defense**  
**Navy Working Capital Fund**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended December 31, 2005 and 2004**

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 5,714,412,797.33	\$ 4,765,590,894.92
B. (Less: Earned Revenue)	(4,594,012,633.28)	(4,374,017,629.10)
C. Net Program Costs	\$ 1,120,400,164.05	\$ 391,573,265.82
<b>2. Cost Not Assigned to Programs</b>	0.00	0.00
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0.00	0.00
<b>4. Net Cost of Operations</b>	\$ 1,120,400,164.05	\$ 391,573,265.82

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 13,540,238,799.85	\$ 16,021,873,283.75
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	13,540,238,799.85	16,021,873,283.75
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc.) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	0.00	0.00
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	33,439,000.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	(154,879,326.30)
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	(222,970.32)	0.00
5.C. Imputed financing from costs absorbed by others	133,298,898.23	133,411,898.20
5.D. Other (+/-)	2,341,611.06	0.00
<b>6. Total Financing Sources</b>		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	135,417,538.97	11,971,571.90
<b>7. Net Cost of Operations (+/-)</b>		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds	1,120,400,164.05	391,573,265.82
<b>8. Net Change</b>		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	(984,982,625.08)	(379,601,693.92)
<b>9. Ending Balances</b>		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	12,555,256,174.77	15,642,271,589.83

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
<b>10. Total all funds</b>	\$ 12,555,256,174.77	\$ 15,642,271,589.83

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>1. Beginning Balances</b>	\$ 6,286,014.67	\$ 0.00
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	6,286,014.67	0.00
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	0.00	0.00
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	0.00	0.00
<b>7. Net Cost of Operations (+/-)</b>		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds		
<b>8. Net Change</b>		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	0.00	0.00
<b>9. Ending Balances</b>		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	6,286,014.67	0.00

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended December 31, 2005 and 2004

	2006 Consolidated		2005 Consolidated	
10. Total all funds	\$	6,286,014.67	\$	0.00

Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended December 31, 2005 and 2004

	2006 Combined	2005 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 2,816,659,416.98	\$ 2,749,721,572.48
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	2,100,000.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	6,881,138,410.43	5,017,311,132.96
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	5,109,604,881.42	5,278,878,202.82
3.D.1.b. Change in receivables from Federal sources	(229,165,597.95)	(351,613,408.47)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	(47,573,272.38)	49,095,363.99
3.D.2.b. Without advance from Federal sources	2,057,135,958.76	4,951,171,941.12
3.D.3. Anticipated for rest of year, without advances	16,418,502,467.05	7,793,708,480.91
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	30,189,642,847.33	22,740,651,713.33
4. Nonexpenditure transfers, net, anticipated and actual	3,903,000.00	33,439,000.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(1,355,710,620.21)	0.00
<b>7. Total Budgetary Resources</b>	<b>\$ 31,654,494,644.10</b>	<b>\$ 25,523,812,285.81</b>

**Department of Defense**  
**Navy Working Capital Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended December 31, 2005 and 2004**

	<b>2006 Combined</b>	<b>2005 Combined</b>
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 0.00	\$ 0.00
8.B. Reimbursable	5,772,761,333.01	6,462,823,988.84
8.C. Subtotal	5,772,761,333.01	6,462,823,988.84
9. Unobligated balance:		
9.A. Apportioned	21,749,532,538.25	18,854,803,296.97
9.B. Exempt from apportionment	(139,903,985.33)	2,100,000.00
9.C. Subtotal	21,609,628,552.92	18,856,903,296.97
10. Unobligated balance not available	4,272,104,758.17	204,085,000.00
<b>11. Total status of budgetary resources</b>	<b>\$ 31,654,494,644.10</b>	<b>\$ 25,523,812,285.81</b>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	12,667,319,650.50	11,860,610,248.99
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ (7,638,228,489.28)	\$ (7,621,902,197.34)
12.C. Total unpaid obligated balance	5,029,091,161.22	4,238,708,051.65
13. Obligations incurred net (+/-)	\$ 5,772,761,333.01	\$ 6,462,823,988.84
14. Less: Gross outlays	(5,717,107,751.01)	(5,846,595,540.98)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	0.00	0.00
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	(1,827,970,360.81)	(4,599,558,532.65)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	12,722,973,232.50	12,476,838,696.85
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(9,466,198,850.09)	(12,221,460,729.99)
18.C. Total, unpaid obligated balance, net, end of period	3,256,774,382.41	255,377,966.86
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	5,717,107,751.01	5,846,595,540.98
19.B. Less: Offsetting collections	(5,062,031,609.04)	(5,327,973,566.81)
19.C. Less: Distributed Offsetting receipts	0.00	0.00
<b>19.D. Net Outlays</b>	<b>\$ 655,076,141.97</b>	<b>\$ 518,621,974.17</b>



Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended December 31, 2005 and 2004

	2006 Combined		2005 Combined
<b>NONBUDGETARY FINANCING ACCOUNTS</b>			
<b>BUDGETARY RESOURCES</b>			
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$	0.00
2. Recoveries of prior year unpaid obligations	0.00		0.00
3. Budget authority			
3.A. Appropriation	0.00		0.00
3.B. Borrowing authority	0.00		0.00
3.C. Contract authority	0.00		0.00
3.D. Spending authority from offsetting collections			
3.D.1 Earned			
3.D.1.a. Collected	0.00		0.00
3.D.1.b. Change in receivables from Federal sources	0.00		0.00
3.D.2 Change in unfilled customer orders			
3.D.2.a. Advance received	0.00		0.00
3.D.2.b. Without advance from Federal sources	0.00		0.00
3.D.3 Anticipated for rest of year, without advances	0.00		0.00
3.D.4 Previously unavailable	0.00		0.00
3.D.5 Expenditure transfers from trust funds	0.00		0.00
3.E. Subtotal	0.00		0.00
4. Nonexpenditure transfers, net, anticipated and actual	0.00		0.00
5. Temporarily not available pursuant to Public Law	0.00		0.00
6. Permanently not available	0.00		0.00
<b>7. Total Budgetary Resources</b>	<b>\$ 0.00</b>	<b>\$</b>	<b>0.00</b>

Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended December 31, 2005 and 2004

	2006 Combined		2005 Combined
<b>Status of Budgetary Resources:</b>			
8. Obligations incurred:			
8.A. Direct	\$ 0.00	\$	0.00
8.B. Reimbursable	0.00		0.00
8.C. Subtotal	0.00		0.00
9. Unobligated balance:			
9.A. Apportioned	0.00		0.00
9.B. Exempt from apportionment	0.00		0.00
9.C. Subtotal	0.00		0.00
10. Unobligated balance not available	0.00		0.00
<b>11. Total Status of Budgetary Resources</b>	<b>\$ 0.00</b>	<b>\$</b>	<b>0.00</b>
<b>Change in Obligated Balance:</b>			
12. Obligated balance, net			
12.A. Unpaid obligations, brought forward, October 1	0.00		0.00
12.B. Less: Uncollected customer payments	\$ 0.00	\$	0.00
from Federal sources, brought forward, October 1			
12.C. Total unpaid obligated balance	0.00		0.00
13. Obligations incurred net (+/-)	\$ 0.00	\$	0.00
14. Less: Gross outlays	0.00		0.00
15. Obligated balance transferred, net			
15.A. Actual transfers, unpaid obligations (+/-)	0.00		0.00
15.B. Actual transfers, uncollected customer	0.00		0.00
payments from Federal sources (+/-)			
15.C. Total Unpaid obligated balance transferred, net	0.00		0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00		0.00
17. Change in uncollected customer	0.00		0.00
payments from Federal sources (+/-)			
18. Obligated balance, net, end of period			
18.A. Unpaid obligations	0.00		0.00
18.B. Less: Uncollected customer payments (+/-)	0.00		0.00
from Federal sources (-)			
18.C. Total, unpaid obligated balance, net, end of period	0.00		0.00
<b>Net Outlays</b>			
<b>19. Net Outlays:</b>			
19.A. Gross outlays	0.00		0.00
19.B. Less: Offsetting collections	0.00		0.00
19.C. Less: Distributed Offsetting receipts	0.00		0.00
<b>19.D. Net Outlays</b>	<b>\$ 0.00</b>	<b>\$</b>	<b>0.00</b>

**Department of Defense**  
**Navy Working Capital Fund**  
**CONSOLIDATED STATEMENT OF FINANCING**  
**For the periods ended December 31, 2005 and 2004**

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 5,772,761,333.01	\$ 6,462,823,988.84
2. Less: Spending authority from offsetting collections and recoveries (-)	(6,890,001,969.85)	(9,927,532,099.46)
3. Obligations net of offsetting collections and recoveries	(1,117,240,636.84)	(3,464,708,110.62)
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	(1,117,240,636.84)	(3,464,708,110.62)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	(222,970.32)	0.00
8. Imputed financing from costs absorbed by others	133,298,898.23	133,411,898.20
9. Other (+/-)	2,341,611.06	0.00
10. Net other resources used to finance activities	135,417,538.97	133,411,898.20
<b>11. Total resources used to finance activities</b>	<b>\$ (981,823,097.87)</b>	<b>\$ (3,331,296,212.42)</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(603,754,573.94)	(1,491,454,019.40)
12b. Unfilled Customer Orders	2,009,562,686.38	5,000,267,305.11
13. Resources that fund expenses recognized in prior periods	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	(1,164,378,756.02)	(1,226,250,260.74)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	(2,118,640.74)	0.00
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<b>\$ 239,310,715.68</b>	<b>\$ 2,282,563,024.97</b>
<b>18. Total resources used to finance the net cost of operations</b>	<b>\$ (742,512,382.19)</b>	<b>\$ (1,048,733,187.45)</b>

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF FINANCING**  
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	0.00	0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	51,382,795.14	51,783,538.27
26. Revaluation of assets or liabilities (+/-)	205,619,487.36	210,883,431.37
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	1,605,549,454.10	1,177,661,849.35
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	360,809.64	(22,365.72)
28. Total components of Net Cost of Operations that will not require or generate resources	1,862,912,546.24	1,440,306,453.27
<b>29. Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>\$ 1,862,912,546.24</b>	<b>\$ 1,440,306,453.27</b>
<b>30. Net Cost of Operations</b>	<b>\$ 1,120,400,164.05</b>	<b>\$ 391,573,265.82</b>

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

These financial statements have been prepared to report the financial position and results of operations of the Navy Working Capital Fund (NWCF), 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 NWCF in accordance with the “DoD Financial Management Regulation,” the Office of Management and Budget Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the NWCF is responsible. 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 no longer classified.

The NWCF is unable to fully implement all elements of GAAP and the Office of Management and Budget Circular A-136, due to limitations of its financial management processes and systems and nonfinancial systems and processes that feed into the financial statements. The NWCF derives its reported values and information for major asset and liability categories, largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of Federal appropriations rather than preparing financial statements in accordance with GAAP. The NWCF continues to implement processes and system improvements addressing these limitations. The Department currently has eleven auditor identified financial statement weaknesses: (1) Financial Management Systems, (2) Intragovernmental Eliminations, (3) Accounting Entries, (4) Fund Balance with Treasury, (5) Environmental Liabilities, (6) General Property, Plant and Equipment, (7) Government Property and Material in Possession of Contractors, (8) Inventory, (9) Operating Materials and Supplies, (10) Statement of Net Cost, and (11) Statement of Financing.

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

The overall mission of the Department of the Navy (DON) is to organize, train, and equip forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. The NWCF provides goods, services, and infrastructure to DON and other DoD customers to help ensure our military forces are mobile, ready, and have the most advanced technology.

The NWCF has prepared annual financial statements pursuant to the CFO Act of 1990, as amended for the past sixteen years. The Act requires that financial statements be prepared and audited for each revolving fund and account that performed substantial commercial functions, such as those performed by the NWCF.

### **1.C. Appropriations and Funds**

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

Working Capital Funds (WCF) receive their initial funding through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial startup. The WCF entities provide goods and services on a reimbursable basis. Reimbursable receipts fund ongoing operations generally are available in their entirety for use without further congressional action.

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

For FY 2006, the NWCF financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the NWCF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP.

The NWCF has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Standard General Ledger (USSGL). Until all of the NWCF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, the NWCF financial data will be based on obligations, disbursements, collections, transactions from nonfinancial feeder systems, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

In addition, the NWCF identifies program costs based upon major business area. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government and Performance and Results Act (GPRA). The NWCF is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

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

Revenue is recognized according to the percentage of completion method for depot maintenance activities. Research and Development activities recognize revenue according to the percentage of completion method or as actual costs are incurred and billed. Revenue is recognized when an inventory item is sold for supply management activities and at the time service is rendered for base support activities. Revenue for the transportation activity group is recognized on either a reimbursable or per diem basis,

which is when revenue is recognized when earned. The preponderance of per diem projects are billed and collected in the month services are rendered. In the case of reimbursables, some per diems, and point-to-point voyages, the revenue is accrued in the month services are rendered and collection is made the following month.

The NWCF does not include nonmonetary support provided by U.S. Allies for common defense and mutual security in its list of other financing sources that appears in the Statement of Financing. The U.S. has agreements with foreign countries that include both direct or indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is 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. However, because the NWCF's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. The NWCF's expenditures for capital and other long-term assets are recognized as operating expenses based on depreciation. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to migrate towards the consumption method for recognizing OM&S expenses.

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

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within the DoD or between two or more federal agencies. However, the NWCF cannot accurately identify most of its intragovernmental transactions by customer because the NWCF's systems do not track buyer and seller data needed to match related transactions. Seller entities within the DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. Intra-DoD intragovernmental balances are then eliminated. Starting in FY 2005, the NWCF properly eliminates the revenue results from intra-DoD sales of capitalized assets. The DoD is developing long-term system improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources.

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between the DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government” and the Treasury’s “Federal Intragovernmental Transactions Accounting Policy Guide,” provide guidance for

reporting and reconciling intragovernmental balances. While the NWCF is unable to fully reconcile intragovernmental transactions with all federal partners, the NWCF is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the Office of Personnel Management (OPM).

The DON's proportionate share of public debt and related expenses of the federal government are not included. The federal government does not apportion debt and its related costs to federal agencies. The NWCF's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DON 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 Department of the Treasury does not allocate such interest costs to the benefiting agencies.

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

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

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

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

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between the NWCF recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled.

##### **1.J. Foreign Currency**



Not Applicable.

**1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for doubtful accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated doubtful amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies (per Code of Federal Regulations 4CFR 101).

DoD Components use a variety of techniques for estimating the allowance for doubtful accounts receivable from the public. The NWCF bases the estimate of doubtful accounts receivable on a percentage of the total that was billed after the total project cost has been adjusted to reflect the advance deposit. NWCF requires an advance deposit from all public entities prior to the commencement of work. Therefore, as assumption is made that the amount of uncollectible accounts should be negligible.

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

Not Applicable.

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

Most of the NWCF inventories are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed to capture material 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 the 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 plans to utilize new systems development processes to transition the inventory to the moving average cost method. However, since the on-hand balances which transitioned were not, for the most part, baselined to auditable historical cost, the reported values remain noncompliant with SFFAS 3 and GAAP.

The NWCF manages only military or government specific materiel under normal conditions. Items commonly used in and are available from the commercial sector are not managed in the NWCF 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. Therefore, the DoD does not attempt to account separately for "inventory held for sale" and "inventory held in reserve for future sale" based on SFFAS No. 3 definitions.

Related property includes operating materials and supplies (OM&S) and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The DoD uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the NWCF uses the purchase method. Under this method, materials and supplies are expensed when purchased. For FY 2006, the 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.

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

The DoD recognizes condemned material as “Excess, Obsolete, and Unserviceable.” The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned material is zero. Potentially redistributed material, presented in previous years as “Excess, Obsolete, and Unserviceable,” is included in the “Held for Use” or “Held for Repair” categories according to its condition.

Past audits identified uncertainties about completeness and existence of reported values of inventory. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the NWCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. It is more economical to repair than to procure these inventory items. Because the NWCF often relies on weapon systems and machinery no longer in production, the 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 costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer. The work in process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other government plants for accrued costs of end items of material ordered but not delivered. Work in process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

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

Not Applicable.

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

General Property, Plant and Equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of \$15,000, \$25,000, and \$50,000 for fiscal years 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below \$100,000 were written off General fund financial statements. No adjustment was made for WCF assets. These assets remain capitalized and reported on WCF financial statements.

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

The NWCF records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. The NWCF recognizes advances and prepayments as expenses when it receives the related goods and services.

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

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), the NWCF records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. The NWCF records the amounts as 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 charged to expense over the lease term as it becomes payable.

Office space and leases entered into by the NWCF in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms which are not expected to be renewed upon expiration. Other operating leases are generally one year leases. The NWCF expects to continue to reduce the level of owned assets while increasing the number of leased assets. The NWCF will strive to displace commercial leases with more economical GSA leases.

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

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, the NWCF provides financing payments. One type of financing payment that the NWCF makes for real property is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line on the Balance Sheet and in the related note.

The Federal Acquisition Regulation allows the NWCF to make financing payments, under fixed price contracts. The NWCF reports these financing payments as "Other Assets" because the NWCF becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the NWCF is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the NWCF for the full amount of the advance.

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

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

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

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

The NWCF reports as liabilities civilian annual leave and military leave that has been accrued and not used as of the Balance Sheet date. The liability reported at the end of the accounting period reflects the current pay rates.

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

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

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

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

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

The NWCF have the use the land, building, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The NWCF purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow the NWCF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. This takes place after negotiations between the U.S. and the host country have determined the amount to be paid the U.S. for such capital investments.

#### **1.W. Comparative Data**

Financial statement fluctuations greater than two percent of total assets on the Balance Sheet or 10 percent from the previous period presented are explained within the notes to the financial statements.

#### **1.X. Unexpended Obligations**

The NWCF obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered.

#### **1.Y. Undistributed Disbursements and Collections**

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

DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and

nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The NWCF follows this procedure.

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of December 31	2006	2005
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Investments	0.00	0.00
C. Accounts Receivable	0.00	0.00
D. Other Assets	0.00	0.00
E. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	2,718,543.79	5,231,053.55
C. Loans Receivable	0.00	0.00
D. Inventory & Related Property	0.00	0.00
E. General PP&E	0.00	0.00
F. Investments	0.00	0.00
G. Other Assets	0.00	0.00
H. Total Nonfederal Assets	\$ 2,718,543.79	\$ 5,231,053.55
<b>3. Total Nonentity Assets</b>	\$ 2,718,543.79	\$ 5,231,053.55
<b>4. Total Entity Assets</b>	\$ 19,710,055,831.06	\$ 24,372,793,135.23
<b>5. Total Assets</b>	\$ 19,712,774,374.85	\$ 24,378,024,188.78

**6. Information Related to Nonentity and Entity Assets:****Fluctuations and/or Abnormalities**

The Total Nonentity Assets decreased \$2,512 thousand, 48 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 in nonfederal accounts receivable. This reduction is the result of an increase in the level of collections of outstanding interest, penalties, fines and administrative fees.

**Definitions**

Asset accounts are categorized either as entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by the entity, but not available for use in the operations of the entity.

**Composition of Nonentity Assets**

Nonentity Nonfederal Accounts Receivable represents interest, penalties, fines, and administrative fees. These fees do not belong to the Navy Working Capital Fund and when collected, will be submitted to the Department of Treasury.

**Other Disclosures Related to Nonentity Assets**

No further disclosures required.

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of December 31

	2006	2005
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	326,691,016.80	377,799,217.51
C. Trust Funds	0.00	0.00
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 326,691,016.80	\$ 377,799,217.51
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 326,691,016.80	\$ 377,799,217.51
B. Fund Balance per	326,691,016.80	377,799,217.51
<b>3. Reconciling Amount</b>	\$ 0.00	\$ 0.00
<b>4. Explanation of Reconciliation Amount:</b>		

No reconciling amount needs to be explained for Fund Balance with Treasury.

**5. Information Related to Fund Balance with Treasury:****Fluctuations and/or Abnormalities**

Fund Balance with Treasury (FBWT) decreased \$51,108 thousand, 14 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary drivers of the net decrease in FBWT are summarized as follows:

\$000s

Business Activity	Increases	Decreases	Explanations
Space and Naval Warfare Systems Center		\$103,910	The decrease is primarily due to the cash transfer in September 2005 pursuant to Public Law 108-287. Additional reductions relate to improvements in cash matching processes made during FY 2005.
Naval Surface Warfare Center		\$63,704	The 31 December 2004 payroll was not recorded as a treasury cash disbursement in December 2004, leaving a higher cash balance at the end of the 1 <sup>st</sup> Quarter FY 2005.



<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Military Sealift Command		\$52,665	The decrease is due to the cash transfer in September 2005 pursuant to Public 108-287 and Public Law 108-375.
Depot Maintenance - Shipyards		\$37,365	The decrease is primarily due to the cash transfer in September 2005 pursuant to Public Law 108-287. Additional decreases resulted from the FY 2005 Net Operating Result (NOR) loss.
Naval Air Warfare Center		\$27,343	The decrease is attributed to continuous disbursements against contracts accrued in the prior year. Additionally, there were manual cross disbursing transactions that were expected to clear by the end of December 2005, however, due to an error they were not received in time. The remaining difference is a direct result of the DON operating under a Continuing Resolution that effected a reduction in orders and collections.
Supply Management - Navy	\$158,703		A portion of the increase results from the cash transfer in September 2005 pursuant to Public Law 108-287. Additional amounts are due to the sales of consumable material without inventory replenishment and a higher rate of collections than disbursements in the 1 <sup>st</sup> Quarter FY 2006.
Depot Maintenance - Aviation	\$82,238		Increase is the result of the cash transfer in September 2005 pursuant to Public Law 108-287.
<b>Totals</b>	<b>\$240,941</b>	<b>\$284,987</b>	

**Composition of Fund Balance with Treasury**

The FBWT of \$326,691 thousand reflects the FY 2005 ending balance of \$977,865 thousand plus current FY 2006 collections, disbursements, and other cash transactions recorded in the Navy Working Capital Fund (NWCF) Treasury sub-limit 97X4930.002. The following table details the amounts recorded as of December 31, 2005.

*(Amounts in thousands)*

Collections	\$ 5,062,032
Disbursements	\$ (5,717,109)
Other Cash Transactions, Net	\$ 3,903

The following table provides a breakout of Other Cash Transactions, Net:

*(Amounts in thousands)*

Activity

Navy Base Support	Public Law 109-62	\$70
Depot Maintenance, Aviation	Public Law 109-62	\$23
Navy Component	Public Law 109-62	<u>\$3,810</u>
Total		\$3,903

**Intragovernmental Payment and Collection (IPAC)**

IPAC differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. IPAC differences for the Department of the Navy cannot be differentiated between NWCF and General Funds, therefore no IPAC differences are being reported for the NWCF. All amounts, if applicable, will be reported on the Department of the Navy General Fund statement.

**Other Disclosures Related to Fund Balance with Treasury**

No further disclosures required.

## Status of Fund Balance with Treasury

As of December 31	2006	2005
<b>1. Unobligated Balance</b>		
A. Available	\$ 9,270,909,403.42	\$ 11,140,668,030.40
B. Unavailable	192,321,440.62	204,085,000.00
<b>2. Obligated Balance not yet Disbursed</b>	\$ 12,722,973,232.50	\$ (10,918,785,766.93)
<b>3. Nonbudgetary FBWT</b>	\$ 0.00	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (21,859,413,534.47)	\$ 0.00
<b>5. Total</b>	\$ 326,790,542.07	\$ 425,967,263.47

### 6. Information Related to Status of Fund Balance with Treasury:

#### Fluctuations and/or Abnormalities

Unobligated Balance Available decreased \$1,869,759 thousand, 17 percent from 1st Quarter FY 2005 to 1st Quarter FY 2006. This decrease is a direct result of the continuing resolution and a reduction in orders received in 1st Quarter FY 2006 as compared to the 1st Quarter FY 2005.

Pursuant to “DoD Financial Management Regulation,” the Office of Management and Budget Circular A-136, Financial Reporting Requirements, NonFBWT Budgetary Accounts were separated from Obligated Balance not yet Disbursed and added as a separate line in FY 2006. In FY 2005, the Obligated Balance not yet Disbursed included NonFBWT Budgetary Accounts. Therefore, Obligated Balance not yet Disbursed increased \$23,641,759 thousand, 217 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 and NonFBWT Budgetary Accounts decreased \$21,859,414 thousand, 100 percent, from 1st Quarter FY2005 to 1st Quarter FY 2006. The net change resulted in a increase of \$1,782,345, 16 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006.

This increase is attributable to the implementation of new Contract Authority Guidance issued by the Office of the Under Secretary of Defense on September 8, 2005, establishing comprehensive accounting and reporting requirements for DWCF Contract Authority. The guidance changes the nature of some previously established accounting processes and balances reported and carried forward.

There is a difference of \$99 thousand between the Total of the Status of Fund Balance with Treasury and the Total of the Fund Balance with Treasury. This difference is a result of an internal weakness of creating budgetary accounts from proprietary accounts in the footnotes. DFAS is working with the Department of Navy (DON) in the Financial Improvement Plan to correct this weakness.

#### Disclosure of Restrictions

Certain unobligated balances may be restricted to future use and are not apportioned for current use.

**Disclosures Related to Suspense/Budget Clearing Accounts**

As of December 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
<b>Account</b>				
F3875	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3880	0.00	0.00	0.00	0.00
F3882	0.00	0.00	0.00	0.00
F3885	0.00	0.00	0.00	0.00
F3886	0.00	0.00	0.00	0.00
<b>Total</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>0.00</u>

**Information Related to Suspense/Budget Clearing Accounts:**

The NWCF Suspense/Budget Clearing Accounts are being reported under Navy General Funds, Index 17.

<b>Disclosures Related to Problem Disbursements and In-Transit Disbursements</b>
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As of December 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDs)	\$ 171,000,000.00	\$ 135,972,737.00	\$ 142,530,560.66	6,557,823.66
B. Negative Unliquidated Obligations (NULO)	0.00	0.00	316,140.75	316,140.75
<b>2. Total In-transit Disbursements, Net</b>	\$ 171,846,000.00	\$ 135,973,000.00	\$ 60,465,046.33	(75,507,953.67)

### 3. Information Related to Disclosures Related to Problem Disbursements and In- Transit Disbursements

#### Fluctuations and/or Abnormalities

Total In-Transit Disbursements, Net decreased \$75,508 thousand, 56 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This decrease is attributable to the Navy and Defense Finance and Accounting Service (DFAS) efforts in improving business systems processes in order to post in-transit data timelier during FY 2005.

#### Unmatched Disbursements (UMDs)

An unmatched disbursement (UMD) occurs when a payment is not matched to a corresponding obligation in the accounting system.

#### Negative Unliquidated Obligations (NULOs)

A negative unliquidated obligation (NULO) occurs when a payment is made against a valid obligation. However, the payment is greater than the amount of the obligation recorded in the accounting system.

#### In-transit Disbursements

In-transit disbursements represent the net value of disbursements and collections made by a Department of Defense disbursing activity on behalf of an accountable activity and have not yet been recorded in the accounting system.

<b>Note 4.</b>	<b>Investments and Related Interest</b>
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As of December 31	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>1. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Other Investments</b>					
A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of December 31	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>3. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>4. Other Investments</b>					
A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Not applicable.

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of December 31	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 202,537,745.43	N/A	\$ 202,537,745.43	\$ 14,045,249.53
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 63,276,828.56	\$ (26,192.06)	\$ 63,250,636.50	\$ 142,608,138.84
<b>3. Total Accounts Receivable</b>	\$ 265,814,573.99	\$ (26,192.06)	\$ 265,788,381.93	\$ 156,653,388.37

**4. Other Information Related to Accounts Receivable:****Fluctuations and/or Abnormalities**

Intragovernmental Accounts Receivable increased \$188,493 thousand, 1,342 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary driver of the increase in Intragovernmental Accounts Receivable was the adjustments for unsupported or undistributed receivables in the current quarter were greater than similar adjustments made in 1st Quarter FY 2005.

Nonfederal Accounts Receivable decreased \$79,357 thousand, 56 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary drivers of the decrease are attributed to:

\$000s

Business Activity	Increases	Decreases	Explanations
Component		\$19,146	Adjustments for Foreign Military Sales (FMS) reclassifications and unsupported or undistributed receivables in current quarter were less than similar adjustments made in 1st Quarter FY 2005.
Naval Air Warfare Center		\$51,194	Programming problems within the financial system previously prevented the liquidation of receivables for customers paying in advance, causing the accounts receivable to increase. These problems were corrected at the end of the 2nd Quarter FY 2005 and efforts began at that time to liquidate these receivables, thus resulting in the decrease.
Naval Surface Warfare Center		\$6,183	The decrease in Accounts Receivable is due to the continuing effort by DFAS and Naval Surface Warfare Center Activities to reduce Accounts Receivable during FY 2005 and continuing into FY 2006.
<b>Totals</b>		<b>\$76,523</b>	

### Allowance Method

The Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities", and the Department of Defense (DoD) Financial Management Regulation require that federal agencies establish an allowance for doubtful accounts receivable nonfederal. This account has been established within the Navy Working Capital Fund (NWCF). This amount is low, as the NWCF requires an advance deposit from all nonfederal entities prior to the commencement of work. Therefore, an assumption is made that the amount of doubtful accounts should be negligible. The allowance amount represents a percentage of the total that was billed after the total project cost has been adjusted to reflect the advance deposit.

### Allocation of Undistributed Collections

The DoD policy is to allocate supported undistributed collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts receivable. Supported undistributed collections in the amount of \$226,044 thousand were applied against accounts receivable. Unsupported undistributed collections should be recorded in United States Standard General Ledger account 2400, Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections. The NWCF follows this allocation procedure. This is required because the potential exists that some of these unsupported undistributed collections do not belong to the NWCF and will have to be paid to the appropriate fund holder.

### Trading Partner Data

The NWCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF is unable to reconcile intragovernmental accounts receivable balances with most trading partners. Through an ongoing Business Management Modernization Program, the DoD intends to develop long-term systems improvements that will capture the data necessary to perform reconciliations. The Department of the Navy (DON) is also working on short-term solutions to gather the required information as outlined in the DON Financial Improvement Plan.

### Nonfederal Refunds Receivable

The total amount of nonfederal refunds receivables does not exceed 10 percent of the nonfederal accounts receivable, net amount on the Balance Sheet.

### Aging of Accounts Receivable

AGED ACCOUNTS RECEIVABLE GROUPS		
CATEGORY	Intragovernmental	Nonfederal
<b>Nondelinquent</b>		
Current	\$174,718	\$23,251
Noncurrent	\$2,945	\$8,012
<b>Delinquent</b>		
1 to 30 days	\$15,276	\$6,186
31 to 60 days	\$1,663	\$(7,982)
61 to 90 days	\$2,402	\$16,728
91 to 180 days	\$1,246	\$2,519
181 days to 1 year	\$1,518	\$3,000
Greater than 1 year and less than or equal to 2 years	\$2,757	\$2,973
Greater than 2 years and less than or equal to 6 years	\$13	\$2,429



Greater than 6 years and less than 10 years	\$0	\$1,254
Greater than 10 years	\$0	\$4,907
<b>Total</b>	\$202,538	\$63,277

Current systems do not allow for the identification of the aging of the undistributed amounts. Therefore, total undistributed amounts were applied to all aging groups on a prorated basis. Also, aging information is not automatically generated and readily available in all feeder financial systems and therefore must be manually reported.

Delinquent Intragovernmental Receivables over 30 days old total \$9,599 thousand. Nondelinquent Noncurrent Intragovernmental Receivables total \$2,945 thousand.

There are various reasons for the existence of intragovernmental receivables greater than 30 days. Some of these reasons include, but are not limited to:

- Standard Accounting and Reporting System (STARS) rejects that are being researched by DFAS. When errors occur that result in a STARS reject, additional time is needed to resolve the error, thus resulting in a longer period before the receivable is liquidated. Efforts are underway at all Commands to team with DFAS in clearing existing rejects and implementing business rules/processes that will reduce or eliminate these rejects in the future.
- Receivables that are awaiting liquidation via pending Intragovernmental Payment and Collection (IPAC) processing. IPAC processing requires a greater amount of time between the time the receivable is established until the time the receivable is liquidated due to coordination with Agencies outside the Department of the Navy.
- Varying business practices and financial systems at different federal agencies sometimes requires longer processing of billing transactions. When agencies manually validate billing transactions, liquidation of the receivable is delayed longer than 30 days.
- Non standard lines of accounting within DoD also result in errors that take additional time to research and correct.

Delinquent Nonfederal Receivables over 30 days old total \$25,828 thousand. Nondelinquent Noncurrent Nonfederal Receivables total \$8,012 thousand.

There are various reasons for the existence of nonfederal receivables greater than 30 days. Some of these reasons include, but are not limited to:

- When an airline ticket is cancelled it generally takes longer than 30 days to receive a credit for that charge. Nonfederal receivables are established at the time of cancellation for the majority of the NWCF Commands. NWCF Commands are actively monitoring and establishing business rules/process that ensure that receivables are liquidated in a timely manner.
- Bankcard disputes are major contributors to the nonfederal receivables over 30 days old for most NWCF Commands. Input of disputed bankcard transactions into feeder systems are generally performed by non-financial personnel, this leads to various errors in financial systems due to the incorrect coding of transactions. These errors are researched and corrected by financial personnel in the NWCF and therefore result in longer time to liquidate. Also,

some vendors do not issue credits as soon as they are notified due to various billing cycles/processes. Efforts are underway at all NWCF Commands to resolve these nonfederal receivables in a timely manner and are teaming with local non-financial personnel to reduce the number of errors.

**Other Disclosures Related to Accounts Receivable**

No further disclosures required.

<b>Note 6.</b>	<b>Other Assets</b>
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As of December 31	2006	2005
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 336,578.86	\$ 723.96
B. Total Intragovernmental Other Assets	\$ 336,578.86	\$ 723.96
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Other Assets (With the Public)	588,634,285.45	748,685,010.67
C. Total Nonfederal Other Assets	\$ 588,634,285.45	\$ 748,685,010.67
<b>3. Total Other Assets</b>	<b>\$ 588,970,864.31</b>	<b>\$ 748,685,734.63</b>

**4. Information Related to Other Assets:****Fluctuations and/or Abnormalities**

Intragovernmental Other Assets, Advances and Prepayments increased \$336 thousand, 46,391 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary drivers that attributed to the increase are summarized below:

\$000s			
Business Activity	Increases	Decreases	Explanations
Component	\$405		Buyer side trading partner adjustments for Advances to Others in current quarter exceeded the value of similar adjustments made in 1 <sup>st</sup> quarter FY 2005. The trading partner contributing the largest amount to this adjustment for the 1 <sup>st</sup> Quarter 2006 was Defense Information Systems Agency (DISA).
Naval Surface Warfare Center	\$70		This increase is a result of an process error at Port Hueneme, which will be reviewed and corrected during 2 <sup>nd</sup> Quarter FY 2006.
Depot Maintenance - Marine Corps		\$140	Decrease was the result of the December 2005 correction of the misclassification of travel advances. The correction moved the classification of

			travel advances from Other Intragovernmental Assets to Other Assets (with the Public).
<b>Totals</b>	<b>\$475</b>	<b>\$140</b>	

Nonfederal Other Assets (Other Assets With the Public) decreased \$160,051 thousand, 21 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary drivers that attributed to the decrease are summarized below:

\$000s			
<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Military Sealift Command		\$122,871	Decrease is a result of outstanding Federal Financing Bank (FFB) debt principal payment.
Depot Maintenance - Shipyards		\$34,045	There was a decrease in the revenue recognition account used to record amounts that have been earned but not billed. This is primarily a reflection of reductions at Puget Sound Naval Shipyard, as this account decreases consistent with that activity moving from the NWCF to mission funded.
<b>Totals</b>		<b>\$156,916</b>	

### **Advances and Prepayments**

The buyer-side advances to others account balances were adjusted to agree with seller-side advances from others account balances as reported on the books of other Department of Defense (DoD) reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits as reported on the books of other DoD reporting entities.

### **Composition of Other Assets (With the Public)**

Other Assets (With the Public) includes an amount of \$375,712 thousand relating to the outstanding debt principal amount reported for the Transportation Activity Group involving Time Charter arrangements made for the long-term use of the Afloat Prepositioning Force – Navy ships. The outstanding debt principal amount is reported in the Navy Working Capital Fund Balance Sheet Other Assets (With the Public). See Note 13 for material disclosures.

### **Other Disclosures Related to Other Assets (With the Public)**

None.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of December 31	2006	2005
<b>1. Cash</b>	\$ 0.00	\$ 0.00
<b>2. Foreign Currency (Nonpurchased)</b>	0.00	0.00
<b>3. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	\$ 0.00	\$ 0.00

Not Applicable.

<b>Note 8.</b>	<b>Direct Loan and/or Loan Guarantee Programs</b>
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As of December 31

**Direct Loan and/or Loan Guarantee Programs** The entity operates the following direct loan and/or Loan guarantee program(s)

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Not applicable.

## Direct Loans Obligated After FY 1991

As of December 31	2006	2005
<b>Loan Programs</b>		
<b>1. Military Housing Privatization Initiative</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
<b>2. Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Total Amount of Direct Loans Disbursed</b>
---

As of December 31	2006	2005
<b>Direct Loan Programs</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
<b>2. Total</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>



## Subsidy Expense for Post FY 1991 Direct Loan

As of December 31

2006	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2006	2005		
<b>5. Total Direct Loan Subsidy Expense:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00		

## Subsidy Rate for Direct Loans

As of December 31	Interest Differential	Defaults	Fees and other Collections	Other	Total
<b>Direct Loan Programs</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

## Schedule for Reconciling Subsidy Cost Allowance Balances for Post 1991 Direct Loans

As of December 31	2006	2005
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$ 0.00	\$ 0.00
<b>3. Adjustments</b>		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
<b>G. Total of the above Adjustment Components</b>	\$ 0.00	\$ 0.00
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	\$ 0.00	\$ 0.00
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/Default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00

**Defaulted Guaranteed Loans from Post FY 1991 Guarantees**

As of December 31	2006		2005	
<b>Loan Guarantee Program(s)</b>				
<b>1. Military Housing Privatization Initiative</b>				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	0.00	\$	0.00
B. Interest Receivable		0.00		0.00
C. Foreclosed Property		0.00		0.00
D. Allowance for Subsidy Cost (Present Value)		0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0.00	\$	0.00
<b>2. Armament Retooling &amp; Manufacturing Support Initiative</b>				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	0.00	\$	0.00
B. Interest Receivable		0.00		0.00
C. Foreclosed Property		0.00		0.00
D. Allowance for Subsidy Cost (Present Value)		0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0.00	\$	0.00
<b>3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>				
	\$	0.00	\$	0.00

<b>Guaranteed Loans Outstanding</b>
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As of December 31	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2006</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2005</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**Liabilities for Post FY 1991 Loan Guarantees, Present Value**

As of December 31	2006	2005
<b>Loan Guarantee Program(s)</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Post FY 1991 Loan Guarantees

As of December 31

2006	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2005	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006	2005				
<b>5. Total Loan Guarantee:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>			

**Subsidy Rates for Loan Guarantees**

As of December 31	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Loan Guarantee Programs:</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%



<b>Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees</b>
--

As of December 31	2006	2005
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>3. Adjustments</b>		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
<b>H. Total of the above Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>4. Ending Balance of the Loan Guarantee Liability before Reestimates</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>5. Add or Subtract Subsidy Reestimates by Component</b>		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
<b>C. Total of the above Reestimate Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Administrative Expenses</b>
--------------------------------

As of December 31	2006	2005
<b>1. Direct Loans</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Loan Guarantees</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of December 31	2006	2005
1. Inventory, Net	\$ 13,948,169,823.87	\$ 18,558,572,284.05
2. Operating Materials & Supplies, Net	771,558,679.66	708,978,031.43
3. Stockpile Materials, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 14,719,728,503.53</b>	<b>\$ 19,267,550,315.48</b>

<b>Inventory, Net</b>
-----------------------

As of December 31	2006			2005	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
<b>1. Inventory Categories</b>					
A. Available and Purchased for Resale	\$ 26,165,305,247.63	\$ (21,877,979,591.15)	4,287,325,656.48	\$ 6,554,597,378.04	LAC,MAC
B. Held for Repair	11,566,868,225.30	(2,336,726,309.83)	9,230,141,915.47	11,636,086,798.13	LAC,MAC
C. Excess, Obsolete, and Unserviceable	1,245,378,767.55	(1,245,378,767.55)	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	430,702,251.92	0.00	430,702,251.92	367,888,107.88	AC
<b>F. Total</b>	<b>\$ 39,408,254,492.40</b>	<b>\$ (25,460,084,668.53)</b>	<b>13,948,169,823.87</b>	<b>\$ 18,558,572,284.05</b>	

## Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

MAC = Moving Average Cost

## 2. Information Related to Inventory, Net:

### Fluctuations and/or Abnormalities

Inventory Available and Purchased for Resale decreased \$2,267,376 thousand, 35 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The majority of the decrease is attributed to Supply Management, Navy (NAVSUP) and is comprised of an increase in inventory disposals, reduction in purchases at cost, net inventory transfers, and adjustments attributable to the Cost of Goods Sold model.

Inventory Held for Repair decreased \$2,405,945 thousand, 21 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary decrease is in the Supply Management, Navy business area and is comprised of a correction in the depot level repairable carcass liability and inventory in-transit accounts that occurred in May 2005. Reconciliation was performed between Material Financial Control System (MFCS) and PR04 (Carcass Tracking). NAVSUP was able to identify process irregularities between MFCS and PR04 where the liability and in-transit accounts were not relieved in MFCS. An automated transaction was entered into MFCS correcting the accounts. This reconciliation and automated transaction entry will be performed monthly.

Work in Process (WIP) increased \$62,814 thousand, 17 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary drivers of the fluctuation are listed below:

\$000

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Depot Maintenance Shipyards	\$52,632		This increase is primarily the result of the DFAS Norfolk and Puget Sound Naval Shipyard's effort to correct the WIP balance. This is consistent with that activity moving from the NWCF to mission funded.
Naval Surface Warfare Center	\$25,215		The large increase in WIP is due to two reasons. First, a change in timing of the billing run caused billings to be processed earlier in the quarter this year than last, which resulted in an increase in the accumulated unbilled WIP at the end of December 2005. Second, at Port Hueneme, there was a single document with a large accumulation in costs that had an error that kept it from billing in December 2005, and

			consequently increased WIP. This error was corrected in January 2006 and will be reflected in 2 <sup>nd</sup> Quarter FY 2006.
Naval Air Warfare Center		\$17,175	Billing process improvements in FY 2005 have allowed the complete billing of the carry over WIP. In addition partial billings are now performed on a monthly basis, which were not available for use in prior years.
<b>Total</b>	<b>\$77,847</b>	<b>\$17,175</b>	

### **Changes in Accounting Methods**

The Enterprise Resource Planning (ERP) Supply Maintenance Aviation Re-engineering Team (SMART) Pilot shut down in April 2005, transferring \$1,876,496 thousand at Latest Acquisition Cost (LAC) into Material Financial Control System (MFCS).

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

Generally, there are no restrictions with regard to the use, sale, or disposition to applicable Department of Defense (DoD) activities and personnel. Other than certain safety and war reserve levels, inventory may be sold to foreign, state and local governments, private parties and contractors in accordance with DoD and the Department of the Navy (DON) policies and guidance or at the direction of the President.

### **Composition of Inventory**

Except for the Work in Process, all Inventory categories shown in the table above apply to the Supply Management Activities only.

Inventory Categories. Inventory represents property that is (1) held for sale, (2) in the process of production for sale or (3) to be consumed in the production of goods for sale or in the provision of services for a fee.

Inventory Available and Purchased for Resale includes consumable spare and repair parts and repairable items owned and managed by the DON. In some cases, the consumable and repairable items are managed by other Military Services, such as the Defense Logistics Agency or the General Services Administration. Material available and purchased for resale includes material held due to a managerial determination that it should be retained to support military or national contingencies. Federal Accounting Standards requires disclosure of the amount of Inventory Held for "Future Sale." The Navy Working Capital Fund currently has no Inventory Held for Future Sale reported for FY 2006 in Inventory Held for Sale, Net. All inventory is currently planned for sale next fiscal year. There is no management or valuation difference between the two categories.

Included in Line 1.A., Inventory Available and Purchased for Resale, is an amount of \$171,358 thousand for War Reserve Material for Supply Management, Navy. Supply Management, Marine Corps currently has no War Reserve Material.

Inventory Held for Repair is inventory that requires repair to make suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because the DON often relies on weapon systems and machinery no longer in production, the DON supports a process that encourages the repair and rebuilding of certain items. This repair cycle is an essential part of maintaining a ready, mobile, and armed military force.

Excess, Obsolete, and Unserviceable inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. The DON does not anticipate recovering any significant costs as result of final disposal of these items. Therefore, Excess, Obsolete, and Unserviceable inventory reflects a net realizable value of zero.

Work in Process balances 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 billing to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered.

#### **Inventory Work in Process**

Work in Process at Depot Maintenance activities and Research and Development activities of approximately \$179,050 thousand and \$251,651 thousand respectively, is included as inventory Work in Process in Note 9.A. This amount represents work that has been completed, expenses incurred, and waiting to be billed to the customer.

#### **Other Disclosures Related to Inventory**

The general ledger values in the accounting system do not reconcile with the supporting detail record in the Navy segment of the Supply Management Activity logistics system. Supply Management, Navy (NAVSUP) has determined that program changes must be made to MFCS to correct systemic posting problems, which contribute to a reconciling difference between the systems. Twenty-four (24) reconciliation System Change Requests (SCR) for Phase 2 have been implemented at the NAVSUP field activity. NAVSUP is working with the field activity to determine journal voucher accounts and values. Once that is completed, the journal vouchers will be submitted to the Office of Financial Operations (FMO) and the Defense Finance and Accounting Service (DFAS). Once the journal vouchers and the adjustments posting logic SCR is approved, funded and developed, the final adjustments will be made to inventory and financial systems to align data.

## Operating Materials and Supplies, Net

As of December 31	2006			2005		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
<b>1. OM&amp;S Categories</b>						
A. Held for Use	\$ 771,558,679.66	\$ 0.00	\$ 771,558,679.66	\$ 708,978,031.43		SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00		SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00		NRV
<b>D. Total</b>	<b>\$ 771,558,679.66</b>	<b>\$ 0.00</b>	<b>\$ 771,558,679.66</b>	<b>\$ 708,978,031.43</b>		

### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses      NRV = Net Realizable Value  
 SP = Standard Price      O = Other  
 AC = Actual Cost

## 2. Information Related to Operating Materials and Supplies (OM&S), Net:

### Fluctuations and/or Abnormalities

No abnormalities to report and fluctuation is less than 10% for this period.

### Restrictions on OM&S

Generally, there are no restrictions with regard to the use, sale, or disposition of OM&S applicable to the Department of Defense (DoD) activities.

### Composition of OM&S

OM&S Held for Use represents property that is consumed during normal operations and includes consumable spare and repair parts for use on customer work by various activities. The items are recorded using different methodologies including actual, weighted-average and historical cost. Federal Accounting Standards requires disclosure of the amount of OM&S Held for "Future Use." The Navy Working Capital Fund (NWCF) reports that \$13,527 thousand of OM&S is categorized as Held for Future Use and is included in the "Held for Use" category.

### Government Furnished Material (GFM) and Contractor Acquired Material (CAM)

Generally, the values of the NWCF's GFM and CAM in the hands of contractors are not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems in accordance with Volume 6B, Chapter 10 of the DoD Financial Management Regulation (FMR).

### Other Disclosures Related to OM&S

No further disclosures required.



## Stockpile Materials, Net

As of December 31	2006			2005	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
<b>1. Stockpile Materials Categories</b>					
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM
C. Total	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	

**Legend for Valuation Methods:**

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

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

Not Applicable.

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

As of December 31	2006					2005	
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value	
<b>1. Major Asset Classes</b>							
A. Land	N/A	N/A	\$ 45,822,108.76	N/A	\$ 45,822,108.76	\$ 45,842,495.76	
B. Buildings, Structures, and Facilities	S/L	20 Or 40	5,923,331,962.64	\$ (3,829,030,319.56)	2,094,301,643.08	1,994,897,831.15	
C. Leasehold Improvements	S/L	lease term	302,302.82	(201,535.20)	100,767.62	130,997.90	
D. Software	S/L	2-5 Or 10	443,970,082.63	(241,308,149.76)	202,661,932.87	212,392,761.15	
E. General Equipment	S/L	5 or 10	3,306,493,520.14	(2,539,758,724.24)	766,734,795.90	871,882,395.91	
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00	
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00	
H. Construction-in- Progress	N/A	N/A	693,479,602.67	N/A	693,479,602.67	690,714,956.14	
I. Other			8,494,757.38	0.00	8,494,757.38	11,474,094.78	
J. Total General PP&E			\$ 10,421,894,337.04	\$ (6,610,298,728.76)	\$ 3,811,595,608.28	\$ 3,827,335,532.79	

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

Legend for Valuation Methods:

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

### 3. Information Related to General Property, Plant and Equipment (GPP&E): Fluctuations and/or Abnormalities

Although the Total GPP&E only decreased \$15,739 thousand, less than one percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006, the following categories within GPP&E changed as follows:

- Leasehold Improvements decreased at the Transportation Activity Group as a result of the annual amortization of the lease during FY 2005 and continuing in FY 2006.
- General Equipment primarily decreased as a result of the Supply Management, Navy reconciliation and interface of the Defense Property Accountability System (DPAS) with the Defense Business Management System (DBMS) and the Central Data Base (CDB) that was finalized in September 2005.
- Other GPP&E decreased as a result of a decrease at Naval Air Warfare Center (NAWC). System/process enhancements provided the capability to move assets out of Assets Under Development (AUD) and into production more efficiently at NAWC. The ERP solution implemented in FY 2004 did not include a module for transitioning AUDs into production. This system/process enhancement was implemented in FY 2005. There was an increased value in Other GPP&E in FY 2004 due to the system inability to transition AUD into production. Once this module was implemented prior AUDs were correctly posted in FY 2005.

#### Military Equipment

Military equipment is reported on the books of the Department of Navy General Fund.

#### Contractor Held GPP&E

For those activities with GPP&E real property in the possession of contractors, the value of this real property is included in the values reported for the Major Asset Classes of Buildings, Structures, and Facilities. The value of personal property in Major Asset Classes of Automated Data Processing Software and Equipment does not include

all of the GPP&E in the possession of contractors. The net book amount of such property is immaterial in relation to the total GPP&E net book value. In accordance with an approved strategy with the Office of Management and Budget, the Government Accountability Office, and the Inspector General Department of Defense, the Department of Defense is developing new policies and a contractor reporting process to capture GPP&E information for future reporting purposes for compliance with federal-wide accounting standards.

**Other Disclosures Related to GPP&E**

Supply Management, Navy has initiatives underway to identify corrective actions for the reporting of land, buildings, and software during FY 2006. These deficiencies were identified in the Department of the Navy's Financial Improvement Plan.

<b>Assets Under Capital Lease</b>
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As of December 31	2006		2005
<b>1. Entity as Lessee, Assets Under Capital Lease</b>			
A. Land and Buildings	\$ 0.00	\$	0.00
B. Equipment	0.00		0.00
C. Other	0.00		0.00
D. Accumulated Amortization	0.00		0.00
E. Total Capital Leases	\$ 0.00	\$	0.00

**Information Related to Assets Under Capital Lease:**

The Navy Working Capital Fund has no assets under capital lease.

**Other Disclosures Related to Assets Under Capital Lease**

No further disclosures required.

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of December 31	2006	2005
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	2,718,543.79	5,231,053.55
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 2,718,543.79</b>	<b>\$ 5,231,053.55</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,192,551,548.64	1,168,225,461.54
C. Environmental Liabilities	0.00	0.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	0.00	0.00
<b>F. Total Nonfederal Liabilities</b>	<b>\$ 1,192,551,548.64</b>	<b>\$ 1,168,225,461.54</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 1,195,270,092.43</b>	<b>\$ 1,173,456,515.09</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 5,955,962,092.98</b>	<b>\$ 7,562,296,083.86</b>
<b>5. Total Liabilities</b>	<b>\$ 7,151,232,185.41</b>	<b>\$ 8,735,752,598.95</b>
<b>6. Information Related to Liabilities Not Covered and Covered by Budgetary Resources:</b>		

**Fluctuations and/or Abnormalities**

Other Intragovernmental Liabilities decreased \$2,512 thousand, 48 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This is a result of reduced outstanding refunds receivable and interest. The cause of this decrease is related to collections of interest, penalties, fines, & administrative fees.

**Definitions**

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered as of the balance sheet date.

The Other Intragovernmental Liabilities amount of \$2,719 thousand represents interest, penalties, fines & administrative fees. These fees do not belong to the Navy Working Capital Fund and will be distributed directly to the Department of Treasury.

**Other Disclosures Related to Liabilities Not Covered by Budgetary Resources**

The \$1,192,552 thousand included in Military Retirement Benefits and Other Employment-Related Actuarial Liabilities represents Federal Employees' Compensation Act liabilities.

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of December 31	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 216,974,859.01	\$ N/A	\$ 216,974,859.01	\$ 156,134,082.60
2. Nonfederal Payables (to the Public)	1,962,696,594.82	0.00	1,962,696,594.82	1,477,284,890.78
<b>3. Total</b>	<u>\$ 2,179,671,453.83</u>	<u>\$ 0.00</u>	<u>\$ 2,179,671,453.83</u>	<u>\$ 1,633,418,973.38</u>

**4. Information Related to Accounts Payable:**

**Fluctuations and/or Abnormalities**

Intragovernmental Accounts Payable increased \$60,841 thousand, 39 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary drivers of the increase are summarized below:

\$ 000s			
Business Activity	Increases	Decreases	Explanations
Naval Surface Warfare Center	\$159,958		A majority of the increase is due to ongoing efforts to validate accounts payable during FY 2005 and continuing into FY 2006.
Military Sealift Command	\$108,975		The increase is due to increased program cost for the Naval Fleet Auxiliary Program and for increased fuel cost from Defense Energy Service Center (DESC).
Naval Air Warfare Center	\$56,148		The increase is the result of implementing a new labor posting process in October 2005, coupled with the December 30, 2005 Gross Pay Reconciliation file that was not processed until January 2006. During FY 2005, a major effort was made to reconcile detailed Cash transactions in the financial system to Treasury. An error in categorization between disbursements and collections was discovered and corrections were processed during 2nd Quarter FY 2005.

Depot Maintenance - Aviation	\$45,332		The increase is due to an increase in Undistributed Disbursements in the during FY 2005.
Component		\$276,777	Buyer side trading partner adjustments, NWCF eliminations, and adjustments for unsupported or undistributed payables in current quarter were less then similar adjustments made in 1st quarter FY 2005.
Naval Facilities Engineering Service Center		\$12,556	Decreased due to the Activity's continued effort in cleaning up old delinquent and erroneous accounts payable records.
Depot Maintenance - Shipyards		\$12,308	This decrease is the result of posting unmatched disbursements to accounts payable. This adjustment is temporary and occurred because the Centralized Expenditure Reporting System (CERPS) run was received after month end.
Supply Management - Navy		\$6,632	Decreased due to the continued effort in cleaning up old delinquent and erroneous accounts payable records.
Ordnance		\$5,146	Decreased due to items being reconciled and cleared as part of the close out process.
<b>Total</b>	<b>\$370,053</b>	<b>\$313,419</b>	

Intragovernmental accounts payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties, and administrative fees are not applicable to intragovernmental accounts payables. Nonfederal accounts payable are payments to nonfederal government entities (to the public).

Nonfederal Accounts Payable increased \$485,412 thousand, 33 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary drivers of the increase are summarized below.

\$ 000s			
<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Component	\$651,123		Buyer side trading partner adjustments, and adjustments for unsupported or undistributed payables in current quarter were

			greater than similar adjustments made in 1st quarter FY 2005.
Naval Air Warfare Center		\$129,419	The December 2004 balance was overstated by two gross pay reconciliation files that did not clear before month-end. Also, a process change in FY 2005 resulted in continuous validating and processing of the interfund suspense files. This change has allowed for the liquidation of many aged payables.
Naval Surface Warfare Center		\$64,061	A majority of the decrease is due to ongoing efforts to validate and reduce aged accounts payable during FY 2005 and continuing into FY 2006.
Military Sealift Command		\$57,434	The decrease is attributed to an adjustment that was made in September 2005 as a result of Tri-annual reviews, which identified excessive/overstated accounts payable. Clearing the transactions during the 4th Quarter of FY 2005 lowered the public accounts payable accordingly.
<b>Totals</b>	<b>\$651,123</b>	<b>\$250,914</b>	

### Undistributed Disbursements

Undistributed disbursements are the difference between disbursements/collections recorded at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury via the reconciled DD1329 and DD1400. The total undistributed disbursement amounts displayed in this note should agree with the undistributed amounts reported on the accounting reports (SF133/AR(M)1307). In-transit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to each entity's outstanding accounts payable balance at year-end.

### Allocation of Undistributed Disbursements

The Department of Defense (DoD) policy is to allocate supported undistributed disbursements between federal and nonfederal categories based on the percentage of Federal and Nonfederal Accounts Payable. Supported undistributed disbursements in the amount of \$(934,294) thousand have been applied against accounts payable. Unsupported undistributed disbursements have been recorded in United States Standard General Ledger account 2120, Disbursements in Transit. Accounts Payable was adjusted downward by \$624,396 thousand for in-transit payments. The Navy Working Capital Fund (NWCF) followed this allocation policy.



**Composition of Undistributed Disbursements**

The majority of the undistributed disbursements represent Mechanization of Contract Administration Services (MOCAS) payments, which have not been liquidated. MOCAS payments represent those payments made to contractors for materials or services. Accruals are made when the service is performed and remain in this account until the provider submits an invoice for payment. Therefore, if a copy of the invoice is not received by the NWCF activity prior to the Defense Finance and Accounting Service making payment, the payment will go to undistributed disbursements. The amounts accrued to cover the anticipated materials and services are captured as Contract Accruals on the Other Accrued Expense line (Note 15.A., Other Liabilities, Nonfederal: Other Liabilities) and are not considered accounts payable.

**Trading Partner Data**

For the majority of intra-agency sales, NWCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF was unable to reconcile the majority of its intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. Through an ongoing Business Management Modernization Program, DoD intends to develop long-term systems improvements that will capture the data necessary to perform reconciliations. The Department of the Navy (DON) has outlined some processes for review and implementation in the DON Financial Improvement Plan, which should provide some near-term solutions.

**Eliminating Adjustments**

The DoD summary level seller accounts receivables were compared to NWCF's accounts payable. An adjustment was posted to the NWCF's accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to the NWCF. As required, adjustments were made to reclassify accounts payable from federal to nonfederal.

**Other Disclosures Related to Accounts Payable**

No further disclosures required.

<b>Note 13.</b>	<b>Debt</b>
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As of December 31	2006			2005	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
<b>1. Agency Debt (Intragovernmental)</b>					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	381,518,390.03	6,937,319.04	388,455,709.07	9,193,500.42	515,471,217.78
C. Total Agency Debt	\$ 381,518,390.03	\$ 6,937,319.04	\$ 388,455,709.07	\$ 9,193,500.42	\$ 515,471,217.78
<b>2. Total Debt</b>	<b>\$ 381,518,390.03</b>	<b>\$ 6,937,319.04</b>	<b>\$ 388,455,709.07</b>	<b>\$ 9,193,500.42</b>	<b>\$ 515,471,217.78</b>

**3. Information Related to Debt:****Fluctuations and/or Abnormalities**

Intragovernmental Debt increased \$6,937 thousand, 2 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 as a result of the accrual of interest for the Maritime Prepositioning Ships (MPS) loan.

**Other Information Related to Debt**

The Afloat Prepositioning Force – Navy (APF-N) program, with Congressional approval, provides ships for time charter to meet requirements not available in the marketplace. These ships are built or converted by private interim vessel owners using private, non-government financing obtained from various banking institutions. There were no payments made by the government during the building/conversion phase. APF-N time charters are for five years with four option renewal periods of five years each, for a total of 25 years. At the end of the contract, each ship returns to the vessel's owner.

The Federal Financing Bank (FFB) is one of the institutions that provided loans to the vessel owners. The FFB is reporting a debt in the amount of \$388,456 thousand, which represents an outstanding principal balance of \$375,712 thousand and accrued interest payable of \$12,744 thousand, for the Transportation Activity Group. The Transportation Activity Group does not owe this debt to the FFB. This debt is a public debt owed by the private vessel owners. In order to simplify the payments to the FFB and to meet its requirements, the FFB cross-disburses the semi-annual principal and interest payments directly from the Navy Working Capital Fund (NWCF). This is done instead of having the Transportation Activity Group make Capital Hire payments to the vessel owners, who would in turn make its loan obligation payments to the FFB.

The direction of the vessel owner to have the government make payments directly to a bank, in this case the FFB, is not an uncommon practice, and mirrors other time charters where payment is assigned directly to a bank. This occurred when the ownership of these vessels was transferred to private vessel owners; however, FFB when establishing the loan coded the loan as a government debt.

As required by the Under Secretary of Defense (Comptroller) memorandum of January 22, 1999, Transportation Activity Group is correctly recording these payments as an operating expense. The outstanding debt principal amount is reported in the NWCF Balance Sheet as an Other Asset in order to reconcile with the amount reported by FFB. The misclassification by FFB has generated this long-standing reporting problem. See Note 6 for additional disclosures.

As required by the Department of Defense Appropriations Act passed in December 1985, 10 percent of the fifth year termination value of the vessels must be obligated from Operation and Maintenance, Navy funds. This was completed as each vessel was delivered.

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of December 31	2006			2005	
	Current Liability	Noncurrent Liability	Total	Total	
<b>1. Environmental Liabilities-- Nonfederal</b>					
A. Accrued Environmental Restoration (DERP funded) Costs:					
1. Active Installations-- Environmental Restoration (ER)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
2. Active Installations--ER for Closed Ranges	0.00	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites (FUDS)--ER	0.00	0.00	0.00	0.00	0.00
4. FUDS--ER for Transferred Ranges	0.00	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Costs (Non-DERP funds)					
1. Active Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00	0.00
2. Active Installations-- Environmental Closure Requirements	0.00	0.00	0.00	0.00	0.00
3. Active Installations-- Environ. Response at Active Ranges	0.00	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)					
1. BRAC Installations-- Environmental Restoration (ER)	0.00	0.00	0.00	0.00	0.00
2. BRAC Installations--ER for Transferring Ranges	0.00	0.00	0.00	0.00	0.00
3. BRAC Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs					
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00	0.00
<b>2. Total Environmental Liabilities</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>
Not Applicable.					

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of December 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 374,251,549.06	\$ 0.00	\$ 374,251,549.06	\$ 346,297,738.78
B. Deposit Funds and Suspend Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00
F. Other Liabilities	22,387,835.14	0.00	22,387,835.14	61,842,673.29
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 396,639,384.20</b>	<b>\$ 0.00</b>	<b>\$ 396,639,384.20</b>	<b>\$ 408,140,412.07</b>
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 603,928,501.72	\$ 0.00	\$ 603,928,501.72	\$ 619,654,534.38
B. Advances from Others	136,539,860.05	0.00	136,539,860.05	252,690,638.48
C. Deferred Credits	11,800,000.00	0.00	11,800,000.00	0.00
D. Deposit Funds and Suspend Accounts	100,403,762.08	0.00	100,403,762.08	(149,031,876.35)
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
(4) Other	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	2,141,234,819.01	7,146.81	2,141,241,965.82	4,287,183,237.67
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 2,993,906,942.86</b>	<b>\$ 7,146.81</b>	<b>\$ 2,993,914,089.67</b>	<b>\$ 5,010,496,534.18</b>
<b>3. Total Other Liabilities</b>	<b>\$ 3,390,546,327.06</b>	<b>\$ 7,146.81</b>	<b>\$ 3,390,553,473.87</b>	<b>\$ 5,418,636,946.25</b>

**4. Information Related to Other Liabilities:**

## Fluctuations and/or Abnormalities

The Total Intragovernmental Other Liabilities only decreased by \$11,501 thousand, 3 percent, from 1<sup>st</sup> Quarter FY 2005 to 1<sup>st</sup> Quarter FY 2006. However, this net change is primarily attributable to the business areas discussed below:

Intragovernmental Other Liabilities decreased by \$39,455 thousand, 64 percent, from 1<sup>st</sup> Quarter FY 2005 to 1<sup>st</sup> Quarter FY 2006. The primary driver of the decrease in Intragovernmental Other Liabilities was the fact that Other Accrued Liabilities in 1<sup>st</sup> Quarter FY 2005 included contract accruals. Contract accruals are the costs of contractual services rendered by either commercial or government organizations, which are accrued over the anticipated life of each service contract. Accruals were rolled-up in the accounting system as Other Liabilities, however due to clean up efforts by the NWCF and correction of system process, these amounts have been removed from Other Liabilities in FY 2006.

The Total Nonfederal Other Liabilities decreased \$2,016,583 thousand, 40 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The net change is primarily attributable to the business areas discussed below:

Nonfederal Advances from Others decreased \$116,151 thousand, 46 percent, from 1<sup>st</sup> Quarter FY 2005 to 1<sup>st</sup> Quarter FY2006. The primary drivers of the decrease in Nonfederal Advances from Others is as follows:

\$000s

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Component		\$55,203	The decrease is related to a reclassification of FY 2005 Intragovernmental Advances to public since trading partner data was not available. The reclassification was not required in 1 <sup>st</sup> Quarter FY 2006 since the trading partner data was available due to enhancements of collecting elimination data.
Naval Air Warfare Center		\$46,841	The decrease is due to a system/process fix that provided the capability to liquidate customer advance amounts more efficiently.
<b>Total</b>		<b>\$102,044</b>	

Deferred credits increased \$11,800 thousand, 100 percent, in 1<sup>st</sup> Quarter FY 2006 to 1<sup>st</sup> Quarter FY 2006. Deferred credits consists of unfilled customers orders-Advances from Others, Unearned Revenue received by Supply Management, Marine Corps in 3<sup>rd</sup> Quarter FY 2005. This balance was moved to nonfederal due to lack of trading partner data.

Deposit Funds and Suspense Accounts increased \$249,436 thousand, 167 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The Navy and Defense Finance Accounting Service (DFAS) have been working on better identification of the breakdown of supported vs. unsupported undistributed on the Report 8 to aid in clearing these amounts from the systems.

Nonfederal Other Liabilities decreased \$2,145,347 thousand, 50 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary driver of the decrease in Nonfederal Other Liabilities is as follows:

\$000s

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Supply Management -Navy		\$2,060,082	The decrease in Advance Return of Depot Level Reparable carcasses was primarily attributable to identifying processing

			irregularities and performing a reconciliation between MFCS and Carcass Tracking in May 2005. Carcass Tracking does not pass the 'A' condition asset issue transaction back to MFCS to close the liability. A monthly reconciliation and an automated transaction entry is being performed and processed to update the account in MFCS.
<b>Total</b>		<b>\$2,060,082</b>	

### Composition of Other Liabilities

Intragovernmental Other Liabilities represents liabilities of:

• Health Benefits	\$ 7,384 thousand
• Life Insurance	170 thousand
• Retirement Benefits	9,379 thousand
• Voluntary Separation Incentive Program	2,736 thousand
• Custodial Liabilities	<u>2,719 thousand</u>
Total	<u>\$ 22,388 thousand</u>

Nonfederal Deposit Funds and Suspense Account Liabilities include amounts for unsupported undistributed collections.

Nonfederal Other Liabilities includes amounts that are significant portions of the total liabilities presented in the Navy Working Capital Fund (NWCF) Balance Sheet. A breakout of the major components of Nonfederal Other Liabilities follows:

a. Accrual of Contractual Services represents an accrued liability for direct work performed by contractors or material and supplies purchased for a direct order in which a request for payment has not been received. The accrual is based on the level of effort performed for the direct order on a monthly basis.

b. Depot Level Repairable Carcass Return Liability represents the value of returned depot level repairable carcasses that have been received by an accountable activity from an end-use activity but an "A" condition (serviceable) asset has not been issued.

c. In addition, the Other Liabilities amount includes Property Furnished by Other Liability. This account is used to record intra-fund transfers of assets when such transfers are between activities with different reporting systems (e.g. Financial Inventory Reporting activities transfer assets with Transactions Item Reporting activities). The logic currently in place was approved by DFAS upon implementation of Material Financial Control System (MFCS).

The remainder of the Other Liabilities amount consists of Progress Payments, which are maintained to show the balance of payments taken for accrued costs charged to Work in Process or the value of material procured and held for specific orders received from customers within the DoD.

### Intragovernmental Reconciliation for Fiduciary Transactions with Department of Labor (DOL)

With respect to the major fiduciary balances, the NWCF was able to reconcile with the DOL.

### Other Disclosures Related to Other Liabilities

No further disclosures required.

## Capital Lease Liability

As of December 31	2006				2005	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
<b>1. Future Payments Due</b>						
A. 2006	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. 2007	0.00	0.00	0.00	0.00	0.00	0.00
C. 2008	0.00	0.00	0.00	0.00	0.00	0.00
D. 2009	0.00	0.00	0.00	0.00	0.00	0.00
E. 2010	0.00	0.00	0.00	0.00	0.00	0.00
F. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
G. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
H. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
I. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	\$ 0.00
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	\$ 0.00

**Information Related to Capital Lease Liability:**

The Navy Working Capital Fund (NWCF) has no capital lease liability.

**Other Disclosures Related to Capital Lease Liability**

No further disclosures required.



**Note 16.**

**Commitments and Contingencies**

**Information Related to Commitments and Contingencies:**

**Legal Contingencies:**

The Department of the Navy is a party in various administrative proceedings and legal actions, 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. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. Others may be payable from the Department's resources, either directly or by reimbursement to the Judgment Fund.

For fiscal year 2005, the Navy Working Capital Fund materiality threshold for reporting litigation, claims, or assessments was \$6.0 million. The materiality threshold for FY 2006 has not yet been set. Legal actions affecting the DON include those for civil and environmental litigation, claims, and assessments. Based on information contained in the Legal Representation Letters, management does not have sufficient reason to believe that it is likely that the Government will be liable for the maximum amounts claimed.

The NWCF currently has 8 cases that meet the existing FY 2005 materiality threshold. However, DON legal counsel was unable to express an opinion concerning the likely outcome of these cases. The Legal Representation Letters will be updated in the 4<sup>th</sup> Quarter FY 2006.

**Other Disclosures Related to Commitments and Contingencies**

No further disclosures required.

<b>Note 17.</b>	<b>Military Retirement Benefits and Other Employment Related Actuarial Liabilities</b>
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As of December 31	2006				2005
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
<b>1. Pension and Health Benefits</b>					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Other</b>					
A. FECA	\$ 1,192,551,548.64		\$ 0.00	\$ 1,192,551,548.64	\$ 1,168,225,461.54
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Other	\$ 1,192,551,548.64		\$ 0.00	\$ 1,192,551,548.64	\$ 1,168,225,461.54
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	<b>\$ 1,192,551,548.64</b>		<b>\$ 0.00</b>	<b>\$ 1,192,551,548.64</b>	<b>\$ 1,168,225,461.54</b>

Actuarial Cost Method Used:

Assumptions:

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

#### 4. Information Related to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

##### Fluctuations and/or Abnormalities:

No abnormalities to report and no fluctuations greater than 10 percent for this period.

##### Actuarial Cost Method Used

The Department of the Navy (DON) 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. The liability is distributed between the Navy Working Capital Fund and DON General Fund based upon the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments.

##### Assumptions

The projected annual benefit payments are discounted to the present value using OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost-of-living adjustments and medical

inflation factors are also applied to the calculation of projected future benefits. The interest rate assumptions used in the discount calculations are as follows for December 31, 2005:

4.5285 percent in year 1,  
5.020 percent in year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensations benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2005 were also used to adjust the methodology's historical payments to current year constant dollars.

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

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2006	3.33%	4.09%
2007	2.93%	4.01%
2008	2.40%	4.01%
2009	2.40%	4.01%
2010+	2.40%	4.01%

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

Not Applicable.

<b>Note 18.</b>	<b>General Disclosures Related to the Statement of Net Cost</b>
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Intragovernmental Costs and Exchange Revenue		
As of December 31	2006	2005

As of December 31	2006	2005
1. Intragovernmental Costs	\$ 987,737,869.85	\$ 1,436,998,253.81
2. Public Costs	4,726,674,927.48	3,328,592,641.11
<b>3. Total Costs</b>	<u>\$ 5,714,412,797.33</u>	<u>\$ 4,765,590,894.92</u>
4. Intragovernmental Earned Revenue	\$ (4,377,514,596.46)	\$ (4,293,670,948.27)
5. Public Earned Revenue	(216,498,036.82)	(80,346,680.83)
<b>6. Total Earned Revenue</b>	<u>\$ (4,594,012,633.28)</u>	<u>\$ (4,374,017,629.10)</u>
<b>7. Net Cost of Operations</b>	<u>\$ 1,120,400,164.05</u>	<u>\$ 391,573,265.82</u>

**Information Related to the Statement of Net Cost:****Fluctuations and/or Abnormalities**

Intragovernmental Costs decreased by \$449,260 thousand, 31 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary driver of this decrease is attributed to the Component business area adjusting expenses to recognize the data received for the trading partner from other federal reporting entities.

Public Costs increased by \$1,398,082 thousand, 42 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The primary drivers of this increase are:

- Component business area adjustment to reclassify expenses from Intragovernmental to Public relating to trading partner adjustments.
- Supply Management, Navy increased due to an increase in costs of goods sold items such as repair expenses, net inventory transfers and allowance for repair account.

Public Earned Revenue increased \$136,151 thousand, 169 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The increase in Public Earned Revenue is related to increases in workload and stabilized rates.

**Composition of Statement of Net Cost**

The Navy Working Capital Fund (NWCF) generally records transactions on an accrual basis as required by federal generally accepted accounting principles. Information presented on the Statement of Net Cost represents the net result of post-closing adjustments and eliminating entries made in compiling and consolidating the NWCF financial statements. These entries significantly affected the reported amounts of Intragovernmental Program Cost, Program Cost

with the Public, Earned Revenue and Net Program Cost. The post-closing adjustments were made in order to increase or decrease certain NWCF account balances reported as of December 31, 2005 to ensure agreement with related balances reported by other Department of Defense (DoD) and other federal reporting entities. Eliminating entries are required adjustments made as part of the financial process. This process enables the matching of trading partner data recorded at each financial statement consolidation level -- the NWCF, DoD and Federal Government levels.

**Other Disclosures Related to the Statement of Net Cost**

No further disclosures required.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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As of December 31	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments</b>				
<b>Increases (Decreases) to Net Position Beginning Balance</b>				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
<b>C. Total Prior Period Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 52,013,363.89	\$ 0.00	\$ 54,799,344.69	\$ 0.00
B. Civilian Health	81,054,428.00	0.00	78,383,635.00	0.00
C. Civilian Life Insurance	231,106.34	0.00	228,918.51	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
<b>F. Total Imputed Financing</b>	<b>\$ 133,298,898.23</b>	<b>\$ 0.00</b>	<b>\$ 133,411,898.20</b>	<b>\$ 0.00</b>

**3. Information Related to the Statement of Changes in Net Position:****Fluctuations and/or Abnormalities**

No abnormalities to report and no fluctuations greater than 10 percent for this period.

**Imputed Financing**

The amounts remitted to the Office of Personnel Management (OPM) by and for employees covered by the Civil Service Retirement System, Federal Employee Retirement System, Federal Employees Health Benefits Program and the Federal Employee Group Life Insurance Program do not fully cover the Government's cost to provide these benefits. An imputed cost is recognized as the difference between the Government's cost of providing these benefits to the employees and contributions made by and for them. OPM provides the cost factors to the Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. DFAS provides the costs to Office of the Under Secretary of Defense (Personnel and Readiness) for validation. Approved imputed costs are provided to the reporting components for inclusion in their financial statements.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of December 31	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 8,189,604,817.74	\$ 8,392,561,864.34
2. Available Borrowing and Contract Authority at the End of the Period	12,393,214,684.38	11,174,163,733.79

### 3. Information Related to the Statement of Budgetary Resources:

The Statement of Budgetary Resources (SBR) is an image of the monthly Report on Budget Execution (Standard Form 133 (SF 133)). These reports should be produced using budgetary accounts. However, the Navy Working Capital Fund (NWCF) uses proprietary accounts because its financial accounting systems were not designed to produce budgetary accounting data. The Department of the Navy and the Defense Finance and Accounting Service continue with the implementation of new accounting systems designed to produce both proprietary and budgetary reports and use the U.S. Standard General Ledger. The Defense Industrial Financial Management System (DIFMS) has been fully implemented at all Research and Development (R&D) activities that were scheduled for conversion. R&D activity Space and Naval Warfare Systems Center, San Diego has successfully implemented the Enterprise Resource Planning (ERP) pilot program (Project Cabrillo) thus moving off DIFMS. Also, the Naval Air Warfare Centers (NAWCs) have moved from DIFMS to their ERP pilot program "Sigma". The ERPs are programmed to complete the SBR at the activity level. The Defense Working Capital Fund Accounting System (DWAS) implementations have been completed. Although, these legacy systems have been replaced, the capability to produce the SBR and SF 133 is still being developed by the DON.

The change in Receivables from Federal Source line of the SBR includes USSGL 4251, Reimbursements and Other income Earned. The amount posted on this line is the ending balance less the beginning balance for the current fiscal year. In this case the ending balance is less than the beginning balance, which nets to a negative balance change for this fiscal year. This is a reflection of the Department of Navy's (DON) aggressive efforts to collect on reimbursable operations; the fuel business transferred to Defense Logistics Agency; collections of aged outstanding fuel receivables and the continuing efforts between the Defense Finance and accounting service partnering with the DON to reduce accounts receivable.

As of December 31, 2005, the SBR does not measure the NWCF's budget execution against budgetary resources. Budgetary resources are recorded in the accounting records and reported on the basis of customer orders received and contract authority invoked. On these reports, the spending authority from offsetting collections during the period of execution is based upon the approved President's Budget estimate of anticipated customer orders.

For the SBR, Supply Management's revenue is defined as gross sales less credit returns. For the balance sheet, revenue does not include credit returns because the inventory valuation model considers credit returns as inventory allowances. The difference in "meanings" causes variances in the reports. On these budgetary reports, the net outlays (collections and disbursements) year to date is reported based on the amounts reported to U.S. Treasury from the Defense Cash Accountability System and Centralized Expenditures/Reimbursement Processing System.

As of December 31, 2005, the differences between the U.S. Treasury and the NWCF activity ledgers have been minimal, and the cause is related to timing or the type of transactions. The differences are recorded as undistributed disbursements and collections on the departmental reports. While there may be no impact upon the U.S. Treasury balance, the above differences have created distortions in the accounts receivable and accounts payable from a budgetary reporting perspective on the SBR. Also, problems with undistributed collections and disbursements have created abnormal balances for accounts receivable and accounts payable on the SBR.

### **Intra-entity Transactions**

The SBR does include intra-entity transactions, which have not been eliminated because the statements are presented as combined and combining.

### **Apportionment Categories**

OMB Circular A-136 requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B and exempt from apportionment. These amounts are as follows:

*(Amounts in thousands)*

Obligations Incurred – Direct	Line 8.A.	\$	0
Obligations Incurred – Reimbursable	Line 8.B.	\$	5,772,761
Exempt from apportionment	Line 9.B.	\$	0

### **Undelivered Orders**

Undelivered Orders presented in the SBR includes Undelivered Orders-Unpaid for both direct and reimbursable funds.

### **Spending Authority from Offsetting Collections**

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the SBR), are not included in the Spending Authority from Offsetting Collections and Adjustments line on the SBR or the Spending Authority for Offsetting Collections and Adjustments line on the Statement of Financing.

### **Other Disclosures Related to the Statement of Budgetary Resources**

No further disclosures required.



<b>Note 21.</b>	<b>Disclosures Related to the Statement of Financing</b>
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**Information Related to the Statement of Financing:**

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

The Defense Finance and Accounting Service (DFAS), Navy Working Capital Fund (NWCF) accounting systems, and Navy Enterprise Resource Planning include budgetary accounts. However, some of the legacy accounting systems does not. As a result, the Statement of Budgetary Resources (SBR) is generated by DFAS using data extracted from the proprietary accounts.

The detailed level of information required to appropriately complete the SBR is being developed for those activities that cannot provide the data due to system deficiencies. As a result of these system deficiencies, the Statement of Financing line, Resources that Finance the Acquisition of Assets, was adjusted upward by \$618,702 thousand at the end of 1st Quarter FY 2006.

**Other Disclosures Related to the Statement of Financing**

No further disclosures required.

<b>Note 22.</b>	<b>Disclosures Related to the Statement of Custodial Activity</b>
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Not Applicable.

<b>Note 23.</b>	<b>Earmarked Funds</b>
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<b>BALANCE SHEET</b>				
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As of December 31

	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds
<b>ASSETS</b>				
Fund balance with Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Investments	0.00	0.00	0.00	0.00
Accounts and Interest Receivable	0.00	0.00	0.00	0.00
Other Assets	0.00	0.00	0.00	0.00
<b>Total Assets</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>LIABILITIES and NET POSITION</b>				
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Military Retirement Benefits and Other Employment Related Actuarial Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other Liabilities Unexpended Appropriations	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	0.00	0.00
<b>Total Liabilities and Net Position</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>STATEMENT OF NET COST</b>				
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As of December 31

Program Costs	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Less Earned Revenue	0.00	0.00	0.00	0.00
<b>Net Program Costs</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00
<b>Net Cost of Operations</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>STATEMENT OF CHANGES IN NET POSITION</b>				
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As of December 31

Net Position Beginning of the Period	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net Cost of Operations	0.00	0.00	0.00	0.00
Other Nonexchange Revenue	0.00	0.00	0.00	0.00
<b>Change in Net Position</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Net Position End of Period</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not Applicable.

<b>Note 24.</b>	<b>Other Disclosures</b>
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As of December 31	2006			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

**1. ENTITY AS LESSEE-****Operating Leases**

## Future Payments Due

Fiscal Year

2006	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2007		0.00		0.00		0.00		0.00
2008		0.00		0.00		0.00		0.00
2009		0.00		0.00		0.00		0.00
2010		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease**

<b>Payments Due</b>	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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**Entity As Lessee - Operating Leases****Fluctuations and Abnormalities**

No fluctuations or abnormalities to report.

**Definitions**

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

Operating Lease - A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

**Land and Building Leases consist of:**

None.

**Equipment Leases consist of:**

None.

**Other Leases consist of:**

None.

**Description of lease arrangements**

None.

**Other Disclosures**

No further disclosures required.