

Department of Defense
Department of the Navy
CONSOLIDATED BALANCE SHEET
As of June 30, 2008 and 2007

	2008 Consolidated	2007 Consolidated
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1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	155,463,353,604.58	143,156,199,615.21
2. Investments (Note 4)	10,354,583.22	9,672,362.11
3. Accounts Receivable (Note 5)	326,491,104.56	214,045,664.13
4. Other Assets (Note 6)	387,575,118.77	549,939,618.28
5. Total Intragovernmental Assets	<u>\$ 156,187,774,411.13</u>	<u>\$ 143,929,857,259.73</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 142,410,532.48	\$ 172,854,810.28
C. Accounts Receivable, Net (Note 5)	3,606,834,451.22	3,283,509,969.79
E. Inventory and Related Property, Net (Note 9)	61,297,328,049.37	58,135,281,428.61
F. General Property, Plant and Equipment, Net (Note 10)	201,193,965,920.34	187,045,111,250.57
H. Other Assets (Note 6)	8,197,530,615.30	7,965,181,119.50
2. TOTAL ASSETS	<u>\$ 430,625,843,979.84</u>	<u>\$ 400,531,795,838.48</u>
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 1,114,109,766.86	\$ 1,157,388,604.43
3. Other Liabilities (Note 15 & 16)	4,622,114,924.79	4,386,226,032.35
4. Total Intragovernmental Liabilities	<u>\$ 5,736,224,691.65</u>	<u>\$ 5,543,614,636.78</u>
B. Accounts Payable (Note 12)	\$ 2,392,840,731.12	\$ 1,220,506,803.97
C. Military Retirement and Other Federal Employment Benefits (Note 17)	1,648,124,694.05	1,519,670,441.50
D. Environmental and Disposal Liabilities (Note 14)	18,033,470,222.05	19,016,848,983.36
F. Other Liabilities (Note 15 & Note 16)	7,290,837,903.24	6,059,700,742.99
5. TOTAL LIABILITIES	<u>\$ 35,101,498,242.11</u>	<u>\$ 33,360,341,608.60</u>
6. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 1,114,365.97
B. Unexpended Appropriations - Other Funds	158,173,462,033.19	147,108,327,595.81
C. Cumulative Results of Operations - Earmarked Funds	27,137,628.73	18,838,438.77
D. Cumulative Results of Operations - Other Funds	237,323,746,075.81	220,043,173,829.33
7. TOTAL NET POSITION	<u>\$ 395,524,345,737.73</u>	<u>\$ 367,171,454,229.88</u>
8. TOTAL LIABILITIES AND NET POSITION	<u>\$ 430,625,843,979.84</u>	<u>\$ 400,531,795,838.48</u>

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CONSOLIDATED STATEMENT OF NET COST
 For the periods ended June 30, 2008 and 2007

	2008 Consolidated	2007 Consolidated
1. Program Costs		
A. Gross Costs	\$ 104,359,400,889.27	\$ 111,653,897,053.06
B. (Less: Earned Revenue)	(3,609,845,356.66)	(4,044,289,494.11)
C. Net Program Costs	<u>\$ 100,749,555,532.61</u>	<u>\$ 107,609,607,558.95</u>
4. Net Cost of Operations	<u>\$ 100,749,555,532.61</u>	<u>\$ 107,609,607,558.95</u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2008 and 2007

	2008 Earmarked Funds	2008 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 24,257,702.12	\$ 221,830,612,310.96
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>24,257,702.12</u>	<u>221,830,612,310.96</u>
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	112,449,815,111.63
4.C. Nonexchange revenue	500,459.74	61,669,825.38
4.D. Donations and forfeitures of cash	18,253,450.98	0.00
4.E. Transfers-in/out without reimbursement	0.00	102,833,000.00
5. Other Financing Sources:		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	242,036,510.89
5.C. Imputed financing from costs absorbed by others	0.00	469,372,747.54
5.D. Other (+/-)	<u>(2,734.59)</u>	<u>2,901,090,852.50</u>
6. Total Financing Sources	<u>18,751,176.13</u>	<u>116,226,818,047.94</u>
7. Net Cost of Operations (+/-)	<u>15,871,249.52</u>	<u>100,733,684,283.09</u>
8. Net Change	<u>2,879,926.61</u>	<u>15,493,133,764.85</u>
9. Cumulative Results of Operations	<u>27,137,628.73</u>	<u>237,323,746,075.81</u>
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 109,221,611,222.61
11. Prior Period Adjustments:		
12. Beginning balances, as adjusted	<u>0.00</u>	<u>109,221,611,222.61</u>
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	162,543,140,922.21
13.B. Appropriations transferred-in/out	0.00	32,704,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(1,174,179,000.00)
13.D. Appropriations used	0.00	(112,449,815,111.63)
14. Total Budgetary Financing Sources	<u>0.00</u>	<u>48,951,850,810.58</u>
15. Unexpended Appropriations	<u>0.00</u>	<u>158,173,462,033.19</u>
16. Net Position	<u>27,137,628.73</u>	<u>395,497,208,109.00</u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2008 and 2007

	2008 Eliminations	2008 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 221,854,870,013.08
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	0.00	221,854,870,013.08
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	112,449,815,111.63
4.C. Nonexchange revenue	0.00	62,170,285.12
4.D. Donations and forfeitures of cash	0.00	18,253,450.98
4.E. Transfers-in/out without reimbursement	0.00	102,833,000.00
5. Other Financing Sources:		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	242,036,510.89
5.C. Imputed financing from costs absorbed by others	0.00	469,372,747.54
5.D. Other (+/-)	0.00	2,901,088,117.91
6. Total Financing Sources	0.00	116,245,569,224.07
7. Net Cost of Operations (+/-)	0.00	100,749,555,532.61
8. Net Change	0.00	15,496,013,691.46
9. Cumulative Results of Operations	0.00	237,350,883,704.54
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 109,221,611,222.61
11. Prior Period Adjustments:		
12. Beginning balances, as adjusted	0.00	109,221,611,222.61
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	162,543,140,922.21
13.B. Appropriations transferred-in/out	0.00	32,704,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(1,174,179,000.00)
13.D. Appropriations used	0.00	(112,449,815,111.63)
14. Total Budgetary Financing Sources	0.00	48,951,850,810.58
15. Unexpended Appropriations	0.00	158,173,462,033.19
16. Net Position	0.00	395,524,345,737.73

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2008 and 2007

	2007 Earmarked Funds	2007 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 18,843,309.18	\$ 223,833,047,703.09
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>18,843,309.18</u>	<u>223,833,047,703.09</u>
4. Budgetary Financing Sources:		
4.B. Appropriations used	435,332.86	103,100,324,720.59
4.C. Nonexchange revenue	487,261.34	178,166,194.72
4.D. Donations and forfeitures of cash	13,393,886.32	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
5. Other Financing Sources:		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	68,965,030.39
5.C. Imputed financing from costs absorbed by others	0.00	498,034,166.56
5.D. Other (+/-)	0.00	(40,077,778.00)
6. Total Financing Sources	<u>14,316,480.52</u>	<u>103,805,412,334.26</u>
7. Net Cost of Operations (+/-)	14,321,350.93	107,595,286,208.02
8. Net Change	<u>(4,870.41)</u>	<u>(3,789,873,873.76)</u>
9. Cumulative Results of Operations	18,838,438.77	220,043,173,829.33
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 1,549,698.83	\$ 99,697,751,327.68
11. Prior Period Adjustments:		
12. Beginning balances, as adjusted	<u>1,549,698.83</u>	<u>99,697,751,327.68</u>
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	150,734,094,988.72
13.B. Appropriations transferred-in/out	0.00	269,092,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(492,286,000.00)
13.D. Appropriations used	(435,332.86)	(103,100,324,720.59)
14. Total Budgetary Financing Sources	(435,332.86)	47,410,576,268.13
15. Unexpended Appropriations	<u>1,114,365.97</u>	<u>147,108,327,595.81</u>
16. Net Position	<u>19,952,804.74</u>	<u>367,151,501,425.14</u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2008 and 2007

	2007 Eliminations	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 223,851,891,012.27
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	0.00	223,851,891,012.27
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	103,100,760,053.45
4.C. Nonexchange revenue	0.00	178,653,456.06
4.D. Donations and forfeitures of cash	0.00	13,393,886.32
4.E. Transfers-in/out without reimbursement	0.00	0.00
5. Other Financing Sources:		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	68,965,030.39
5.C. Imputed financing from costs absorbed by others	0.00	498,034,166.56
5.D. Other (+/-)	0.00	(40,077,778.00)
6. Total Financing Sources	0.00	103,819,728,814.78
7. Net Cost of Operations (+/-)	0.00	107,609,607,558.95
8. Net Change	0.00	(3,789,878,744.17)
9. Cumulative Results of Operations	0.00	220,062,012,268.10
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 99,699,301,026.51
11. Prior Period Adjustments:		
12. Beginning balances, as adjusted	0.00	99,699,301,026.51
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	150,734,094,988.72
13.B. Appropriations transferred-in/out	0.00	269,092,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(492,286,000.00)
13.D. Appropriations used	0.00	(103,100,760,053.45)
14. Total Budgetary Financing Sources	0.00	47,410,140,935.27
15. Unexpended Appropriations	0.00	147,109,441,961.78
16. Net Position	0.00	367,171,454,229.88

Department of Defense
 Department of the Navy
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended June 30, 2008 and 2007

	2008 Combined	2007 Combined
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BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 23,934,546,394.28	\$ 20,835,974,465.33
2. Recoveries of prior year unpaid obligations	16,001,151,225.55	15,142,351,074.68
3. Budget authority		
3.A. Appropriation	162,561,948,452.79	150,748,080,835.58
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	5,399,994,822.42	5,451,890,276.82
3.D.1.b. Change in receivables from Federal sources	195,564,363.41	116,587,586.49
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	212,547,537.44	94,674,508.93
3.D.2.b. Without advance from Federal sources	2,854,057,377.60	2,189,998,844.27
3.E. Subtotal	<hr/> 171,224,112,553.66	<hr/> 158,601,232,052.09
4. Nonexpenditure transfers, net, anticipated and actual	135,537,000.00	269,092,000.00
6. Permanently not available	(1,174,179,000.00)	(492,286,000.00)
7. Total Budgetary Resources	<hr/> <hr/> \$ 210,121,168,173.49	<hr/> <hr/> \$ 194,356,363,592.10

Department of Defense
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COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2008 and 2007

	2008 Combined	2007 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 136,977,436,181.00	\$ 129,545,647,684.71
8.B. Reimbursable	6,331,569,686.74	5,223,049,125.49
8.C. Subtotal	<u>143,309,005,867.74</u>	<u>134,768,696,810.20</u>
9. Unobligated balance:		
9.A. Apportioned	49,288,039,413.42	56,628,646,529.69
9.B. Exempt from apportionment	73,797.00	73,005.00
9.C. Subtotal	<u>49,288,113,210.42</u>	<u>56,628,719,534.69</u>
10. Unobligated balance not available	17,524,049,095.33	2,958,947,247.21
11. Total status of budgetary resources	<u><u>\$ 210,121,168,173.49</u></u>	<u><u>\$ 194,356,363,592.10</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	86,191,076,974.13	78,088,019,583.29
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ (3,296,095,096.10)	\$ (2,971,157,160.24)
12.C. Total unpaid obligated balance	<u>82,894,981,878.03</u>	<u>75,116,862,423.05</u>
13. Obligations incurred net (+/-)	\$ 143,309,005,867.74	\$ 134,768,696,810.20
14. Less: Gross outlays	(118,943,321,629.69)	(109,401,004,191.91)
15. Obligated balance transferred, net payments from Federal sources (+/-)		
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(16,001,151,225.55)</u>	<u>(15,142,351,074.68)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(3,049,621,741.01)	(2,306,586,430.76)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	94,555,609,986.63	88,313,361,126.90
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(6,345,716,837.11)	(5,277,743,591.00)
18.C. Total, unpaid obligated balance, net, end of period	<u>88,209,893,149.52</u>	<u>83,035,617,535.90</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	118,943,321,629.69	109,401,004,191.91
19.B. Less: Offsetting collections	(5,612,542,359.86)	(5,546,564,785.75)
19.C. Less: Distributed Offsetting receipts	(65,404,334.90)	(199,163,203.99)
19.D. Net Outlays	<u><u>\$ 113,265,374,934.93</u></u>	<u><u>\$ 103,655,276,202.17</u></u>

Note 1. Significant Accounting Policies**1.A. Basis of Presentation**

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

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

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

The DoD currently has several auditor identified financial statement material weaknesses including those for financial management systems, intragovernmental eliminations, and unsupported accounting entries. Of the DoD reported material weaknesses, the DON has the following: (1) General Property, Plant, and Equipment, (2) Operating Materials and Supplies, (3) Accounts Payable, and (4) Environmental Liabilities.

1.B. Mission of the Reporting Entity

The DON was created on April 30, 1798 by an act of Congress (1 Stat. 533; 5 U.S.C. 411-12). The overall mission of DON is to maintain, train, and equip combat-ready Navy and Marine Corps forces capable of winning wars, deterring aggression, and maintaining freedom of the seas.

1.C. Appropriations and Funds

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

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

Working capital funds (WCF), or revolving funds, received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus. The National Defense Sealift Fund is DON GF's only revolving fund.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Certain trust and special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits, or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use, and retention of revenues and other financing sources that distinguish them from general revenues.

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

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. The DON GF is acting as an agent or a custodian for funds awaiting distribution.

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

The DON GF is a party to allocation transfers as the child from the EOP for the Foreign Military Financing Program, as well as for the International Military Education and Training program. These funds meet the OMB exception; however, activities for these funds are reported in the DoD financial statements, not the DON's. The DON GF also receives allocation transfers, as the child, from the U.S. Forest Service and the Federal Highway Administration and reports financial activity for those funds to the parent.

The asset accounts used to prepare financial statements are categorized as either 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 an entity but are not available for use in the operations of the entity.

Entity Accounts:

General Accounts

17 X 0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps
17 0730	Family Housing Construction, Navy and Marine Corps
17 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
17 X 0810	Environmental Restoration, Navy
17 1000	Medicare Eligible Retiree Health Care Fund, Military Personnel Navy
17 1001	Medicare Eligible Retiree Health Care Fund, Military Personnel Marine Corps
17 1002	Medicare Eligible Retiree Health Care Fund, Reserve Personnel Navy
17 1003	Medicare Eligible Retiree Health Care Fund, Reserve Personnel Marine Corps
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1205	Military Construction, Navy and Marine Corps
17 1235	Military Construction, Navy Reserve
17 1236	Payments to Kaho Olawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test and Evaluation, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion, Navy
17 1804	Operation and Maintenance, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1810	Other Procurement, Navy

Revolving Funds

17 X 4557	National Defense Sealift Fund, Navy
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Earmarked Trust Funds

17 X 8716	Department of the Navy General Gift Fund
17 X 8723	Ships Stores Profits, Navy
17 X 8733	United States Naval Academy General Gift Fund

Earmarked Special Funds

17 X 5095	Wildlife Conservation, Military Reservations, Navy
17 X 5185	Kaho Olawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy
17 X 5429	Roosmoor Liquidating Trust Settlement Account
17 X 5562	Ford Island Improvement Account

General Fund Receipt, Deposit, Suspense, and Clearing Accounts

17 1XXX	Receipt Accounts
17 3XXX	Receipt Accounts
17 X 6XXX	Deposit Funds

Parent-Child (Allocation) Transfer Accounts

17 11 1081	International Military Education and Training Funds, appropriated to the President
17 11 X 1081	International Military Education and Training Funds, appropriated to the President
17 11 1082	Foreign Military Financing Program Funds, appropriated to the President
17 12 X 1105B	State and Private Forestry, Forest Service
17 69 X 8083	Federal-Aid Highways (Liquidation of Contract Authorization), Federal Highway Administration

1.D. Basis of Accounting

For FY 2008, DON's GF financial management systems are unable to meet all of the requirements for full accrual accounting. Many of DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of 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. Most of DON's (financial and nonfinancial) legacy systems were designed to record information on a budgetary basis.

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

In addition, DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD reporting entities are working towards a cost reporting methodology that meets the need for cost information

required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government.”

1.E. Revenues and Other Financing Sources

The DON GF receives congressional appropriations as financing sources on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The DON GF recognizes revenue as a result of costs incurred for goods or services provided to other federal agencies and the public. The price charged for goods and services furnished by DON GF depends on whether that good or service is provided to, or for the benefit of, a DoD Component, a non-DoD federal agency, a private party, or a foreign military sales customer. Full cost pricing is DON GF’s standard policy for services provided as required by OMB Circular A-25, “User Charges.” The DON GF recognizes revenue when earned within the constraints of current system capabilities. In some instances, revenue is recognized when bills are issued.

The DON GF does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with other countries. 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 DON’s GF financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materials and Supplies (OM&S), operating expenses are initially recognized when the items are purchased. Subsequent adjustments to operating expenses are recognized when OM&S is recorded as an asset or consumed in operations. Efforts are underway to transition 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 sub-entities within DoD or between two or more federal agencies. However, DON GF cannot accurately identify all intragovernmental transactions by customer because DON’s GF systems do not track the necessary detail at the transaction level. For the DON GF, balances between sub-entities are eliminated prior to the preparation of the DON GF financial statements. Generally, seller entities within 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. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished

effectively with existing or foreseeable resources. The DoD is developing long-term system improvements to ensure accurate intragovernmental information and to include sufficient up-front edits and controls eliminating the need for after-the-fact reconciliations.

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

The DoD’s proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD’s financial statements, 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 DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such interest costs to the benefiting agencies.

1.H. Transactions with Foreign Governments and International Organizations

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

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

The DON GF’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 DON’s 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, these disbursing offices submit reports to the U.S. Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable Fund Balance with Treasury

(FBWT) account. Differences between DON GF's recorded balance in FBWT accounts and U.S. Treasury's FBWT accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

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

The majority of cash and foreign currency is classified as nonentity and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. Cash seized during Operation Iraqi Freedom is restricted for use to assist the Iraqi people and support the restoration of Iraq.

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

1.K. Accounts Receivable

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

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

Related property is comprised of Operating Materials and Supplies (OM&S). The DON GF uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as an asset. When current systems cannot fully support the consumption method, DON GF uses the purchase method. Under the purchase method, materials and supplies are not recorded as an asset, but rather, are expensed when purchased. During FY 2007,

DON GF expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for DoD and DON GF and systems are under development to correct this weakness. Once the proper systems are in place, these items will be accounted for using the consumption method of accounting.

The DON GF values OM&S assets using several valuation methods. Most OM&S is valued at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy logistics systems were designed for materiel management rather than accounting purposes. Although these systems provide visibility and accountability over inventory and related property items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these legacy inventory systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). By utilizing new systems development processes, DON is continuing to transition the balance of the OM&S to the moving average cost method. However, since the on-hand balances which were transitioned were not, for the most part, baselined to auditable historical cost, the reported values remain noncompliant with SFFAS No. 3 and GAAP.

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

The DON GF recognizes condemned materiel as "Excess, Obsolete, and Unserviceable." The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero. Materiel that potentially may be redistributed, 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.

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

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

The DON GF trust funds invest in nonmarketable securities. The two types of nonmarketable securities are par value and market-based intragovernmental securities. The Bureau of Public Debt issues nonmarketable par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

1.O. General Property, Plant and Equipment

The DON GF uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to

program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to create a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposals information.

The DoD real property capitalization threshold is currently \$20 thousand. The DON GF has not implemented this threshold due to system and process limitations and is currently using the capitalization threshold of \$100 thousand.

General 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 thousand. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100 thousand for General PP&E. The DoD depreciates all General PP&E, other than land, on a straight-line basis. Land is not depreciated.

General PP&E previously capitalized at amounts below \$100 thousand was written off DON GF financial statements in FY 1998.

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

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

1.P. Advances and Prepayments

The DoD policy is to record advances and prepayments in accordance with GAAP. As such, payments made in advance of the receipt of goods and services are to be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are subsequently received. Not all DoD entities have implemented this policy primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. The DON GF currently has no capital leases. An operating lease does not substantially transfer all of the benefits or risks 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 DON GF 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 Interservice 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 DON will strive to displace commercial leases with more economical GSA leases.

1.R. Other Assets

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

The DON GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, DON GF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisition Regulation Supplement authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments for real property are reported as Construction in Progress. It is DoD policy to record certain contract financing payments as Other Assets.

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 DON GF's risk of loss and resultant contingent liabilities arise from pending or

threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

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

1.T. Accrued Leave

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

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended Appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfers in and out of assets without reimbursement.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The DON purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow DON 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. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Comparative Data

The DON GF's financial statements and notes are presented on a comparative basis.

1.X. Unexpended Obligations

The DON GF 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, unless title passes.

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 monthly accounting reports. In-transit payments are those payments that have been made but not recorded in the fund holder's accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are applied to accounts receivable.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in accounts receivable.

1.Z. Significant Events

Beginning 4th Quarter, FY 2007, DoD reporting entities began presenting the Statement of Financing (SOF) as a note in accordance with OMB Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as "Reconciliation of Net Cost of Operations to Budget."

1.AA. Data Collection Approach

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

Note 2.	Nonentity Assets
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As of June 30	2008	2007
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 446,422,615.68	\$ 531,483,436.90
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 446,422,615.68	\$ 531,483,436.90
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 142,410,532.48	\$ 172,854,810.28
B. Accounts Receivable	3,362,686,992.58	3,256,828,340.51
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 3,505,097,525.06	\$ 3,429,683,150.79
3. Total Nonentity Assets	\$ 3,951,520,140.74	\$ 3,961,166,587.69
4. Total Entity Assets	\$ 426,674,323,839.10	\$ 396,570,629,250.79
5. Total Assets	\$ 430,625,843,979.84	\$ 400,531,795,838.48

Standard Disclosures

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

Intragovernmental Fund Balance with Treasury.

This nonentity asset category represents amounts in DON's deposit fund accounts such as the savings plans that were established by Congress to benefit deployed sailors and Marines, and receipts fund accounts such as the General Fund Proprietary Receipts account that is used to temporarily hold amounts until they are remitted to the U.S. Treasury. Amounts in deposit and receipt accounts are not available for DON's use in normal operations.

Cash and Other Monetary Assets.

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

Nonentity Nonfederal Accounts Receivable (Public).

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

Note 3.	Fund Balance with Treasury
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As of June 30	2008	2007
1. Fund Balances		
A. Appropriated Funds	\$ 153,231,647,701.28	\$ 140,350,407,899.07
B. Revolving Funds	1,767,087,670.48	2,262,851,349.63
C. Trust Funds	15,877,258.31	9,080,112.17
D. Special Funds	2,318,358.83	2,376,817.44
E. Other Fund Types	446,422,615.68	531,483,436.90
F. Total Fund Balances	\$ 155,463,353,604.58	\$ 143,156,199,615.21
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 141,512,321,229.29	\$ 143,207,947,276.00
B. Fund Balance per	155,463,353,604.58	143,156,199,615.21
3. Reconciling Amount	\$ (13,951,032,375.29)	\$ 51,747,660.79

Standard Disclosures

The total reconciling amount of \$14.0 billion in Fund Balance with Treasury (FBWT) is primarily due to supplemental appropriations received on June 30, 2008. The funding authority was not received in time for Treasury to issue warrants, therefore, was not included in FBWT, per Treasury.

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

Status of Fund Balance with Treasury

As of June 30	2008	2007
1. Unobligated Balance		
A. Available	\$ 49,288,039,413.42	\$ 56,628,646,529.69
B. Unavailable	17,524,049,095.33	2,958,947,247.21
2. Obligated Balance not yet Disbursed	\$ 94,555,609,986.63	\$ 88,313,361,126.90
3. Nonbudgetary FBWT	\$ 451,533,946.31	\$ 542,506,775.38
4. NonFBWT Budgetary Accounts	\$ (6,355,878,837.11)	\$ (5,287,262,063.97)
5. Total	\$ 155,463,353,604.58	\$ 143,156,199,615.21

Standard Disclosures

The Status of FBWT reflects the budgetary resources to support the proprietary FBWT.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year end that remain available only for obligation adjustments until the account is closed.

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

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

Non-FBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. For DON GF, Non-FBWT Budgetary Accounts include Trust Fund investments in U.S. Treasury securities, unfilled customer orders without advance, and reimbursements receivable. This category reduces the Status of FBWT.

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

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

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 - 2008
Account				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Budget Clearing Account Suspense	7,711,619.93	7,772,567.00	4,547,812.20	(3,224,754.80)
F3880 – Lost or Cancelled Treasury Checks	3,632,473.15	3,330,090.87	3,681,971.53	351,880.66
F3882 – Uniformed Services Thrift Savings Plan Suspense	46,659,229.62	50,718,433.41	54,307,103.03	3,588,669.62
F3885 – Interfund/IPAC Suspense	(24,517,874.05)	(79,319.39)	(3,118,453.10)	(3,039,133.71)
F3886 – Thrift Savings Plan Suspense	1,292,636.05	(185,686.80)	(157,894.88)	27,791.92
Total	\$ 34,778,084.70	\$ 61,556,085.09	\$ 59,260,538.78	(2,295,546.31)

Disclosures Related to Problem Disbursements

As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 to 2008
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 1,664,145,704.52	\$ 945,197,133.32	\$ 1,577,241,609.81	\$ 632,044,476.49
B. Negative Unliquidated Obligations (NULO)	38,849,757.01	26,668,613.91	30,922,208.11	4,253,594.20
C. In-Transit Disbursements	864,586,712.00	941,325,062.12	727,193,303.75	(214,131,758.37)
Total	<u>\$ 2,567,582,173.53</u>	<u>\$ 1,913,190,809.35</u>	<u>\$ 2,335,357,121.67</u>	<u>\$ 422,166,312.32</u>

Note 4.	Investments and Related Interest
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As of June 30	2008				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	10,276,636.57		(24,550.90)	10,252,085.67	10,255,722.82
5. Total Nonmarketable, Market-Based	10,276,636.57		(24,550.90)	10,252,085.67	10,255,722.82
B. Accrued Interest	102,497.55			102,497.55	102,497.55
C. Total Intragovernmental Securities	\$ 10,379,134.12		\$ (24,550.90)	\$ 10,354,583.22	\$ 10,358,220.37
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
As of June 30	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	9,552,868.60		14,750.92	9,567,619.52	9,566,070.94
5. Total Nonmarketable, Market-Based	9,552,868.60		14,750.92	9,567,619.52	9,566,070.94
B. Accrued Interest	104,742.59			104,742.59	104,742.59
C. Total Intragovernmental Securities	\$ 9,657,611.19		\$ 14,750.92	\$ 9,672,362.11	\$ 9,670,813.53
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Standard Disclosures

Intragovernmental Investments for Earmarked Funds.

The Federal Government does not set aside assets to pay future expenditures associated with the Department of the Navy's (DON) earmarked Trust Funds. The cash generated from earmarked funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. The U.S. Treasury securities are issued to DON as evidence of earmarked fund receipts. The U.S. Treasury securities are an asset to the DON and a liability to the U.S. Treasury. Because DON and the U.S. Treasury are both entities of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. The U.S. Treasury securities provide the DON with authority to draw upon the U.S. Treasury to make future expenditures. When DON requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

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

Note 5.	Accounts Receivable
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As of June 30	2008			2007
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 326,491,104.56	N/A	\$ 326,491,104.56	\$ 214,045,664.13
2. Nonfederal Receivables (From the Public)	\$ 3,635,808,738.46	\$ (28,974,287.24)	\$ 3,606,834,451.22	\$ 3,283,509,969.79
3. Total Accounts Receivable	\$ 3,962,299,843.02	\$ (28,974,287.24)	\$ 3,933,325,555.78	\$ 3,497,555,633.92

Aged Accounts Receivable

As of June 30	2008		4th Quarter 2007	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 252,688,758.49	\$ 381,155,279.44	\$ 387,830,654.02	\$ 518,742,518.18
Noncurrent	2,755,118.00	110,734,124.00	29,654,035.00	(1,573,196.00)
Delinquent				
1 to 30 days	\$ 27,089,480.99	\$ 16,325,422.78	\$ 17,579,442.52	\$ 10,409,665.01
31 to 60 days	6,048,789.24	8,014,294.54	5,321,255.84	4,928,278.20
61 to 90 days	12,583,464.24	8,559,307.80	784,801.83	13,781,120.87
91 to 180 days	8,378,225.37	11,841,120.99	3,927,727.42	48,513,528.90
181 days to 1 year	26,097,467.99	25,092,713.69	406,700.97	51,843,805.72
Greater than 1 year and less than or equal to 2 years	859,822.00	106,212,860.31	354,684.00	35,640,734.08
Greater than 2 years and less than or equal to 6 years	3,943,546.00	40,238,349.45	5,429,552.00	35,643,568.66
Greater than 6 years and less than or equal to 10 years	0.00	385,679,132.17	227,778.00	376,441,206.34
Greater than 10 years	0.00	2,731,596,069.78	0.00	2,679,506,255.72
Subtotal	\$ 340,444,672.32	\$ 3,825,448,674.95	\$ 451,516,631.60	\$ 3,773,877,485.68
Less Supported Undistributed Collections	(178,256,816.73)	(155,790,471.52)	(148,318,976.89)	(145,765,367.28)
Less Eliminations	(178,072,543.92)	0.00	(97,108,697.15)	0.00
Less Other	342,375,792.89	(33,849,464.97)	0.00	0.00
Total	\$ 326,491,104.56	\$ 3,635,808,738.46	\$ 206,088,957.56	\$ 3,628,112,118.40

Note 6.	Other Assets
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As of June 30

	2008	2007
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 387,575,118.77	\$ 549,939,618.28
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 387,575,118.77	\$ 549,939,618.28
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 7,778,604,603.26	\$ 7,567,331,313.72
B. Advances and Prepayments on behalf of Foreign Governments	0.00	0.00
C. Advances and Prepayments	408,919,507.04	397,849,805.78
D. Other Assets (With the Public)	10,006,505.00	0.00
E. Total Nonfederal Other Assets	\$ 8,197,530,615.30	\$ 7,965,181,119.50
3. Total Other Assets	\$ 8,585,105,734.07	\$ 8,515,120,737.78

Standard DisclosuresNonfederal Other Assets - Outstanding Contract Financing Payments.

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

The Outstanding Contract Financing Payment balance of \$7.8 billion is comprised of \$7.5 billion in contract financing payments and an additional \$240.6 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Nonfederal Other Assets, Other Assets (With the Public).

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

Note 7.	Cash and Other Monetary Assets
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As of June 30	2008	2007
1. Cash	\$ 108,923,256.46	\$ 105,537,621.46
2. Foreign Currency	33,487,276.02	67,317,188.82
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 142,410,532.48	\$ 172,854,810.28

Standard Disclosures

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

Restriction on Cash, Foreign Currency and Other Monetary Assets – total cash, foreign currency, and other monetary assets reported are nonentity assets that are not available for DON's use in normal operations. Therefore, the \$142.4 million in cash and foreign currency is restricted as to its use.

Note 8.	Direct Loan and/or Loan Guarantee Programs
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As of June 30

Direct Loan and/or Loan Guarantee Programs

Summary of Direct Loans and Loan Guarantees
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As of June 30	2008	2007
Loans Receivable		
<u>Direct Loans</u>		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Foreign Military Financing Account	0.00	0.00
4. Military Debt Reduction Financing Account	0.00	0.00
5. Total Direct Loans	\$ 0.00	\$ 0.00
<u>Defaulted Loan Guarantees</u>		
6. A. Foreign Military Financing Account	\$ 0.00	\$ 0.00
B. Military Housing Privatization Initiative	0.00	0.00
C. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
7. Total Default Loan Guarantees	\$ 0.00	\$ 0.00
8. Total Loans Receivable	\$ 0.00	\$ 0.00

As of June 30	2008	2007
Loan Guarantee Liability		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
4. Total Loan Guarantee Liability	\$ 0.00	\$ 0.00

Direct Loans Obligated

As of June 30	2008	2007
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):		
1. Foreign Military Loan Liquidating Account		
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 Loan Losses	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
 Direct Loans Obligated After FY 1991 (Present Value Method):		
2. Military Housing Privatization Initiative		
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
3. Foreign Military Financing Account		
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
4. Military Debt Reduction Financing Account		
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, Net	\$ 0.00	\$ 0.00
5. Total Direct Loans Receivable	\$ 0.00	\$ 0.00

Total Amount of Direct Loans Disbursed

As of June 30	2008	2007
Direct Loan Programs		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account	0.00	0.00
3. Military Debt Reduction Financing Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

2008	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2008	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2008	2007		
5. Total Direct Loan Subsidy Expense:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Foreign Military Financing Account	0.00	0.00			
Military Debt Reduction Financing Account	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

Subsidy Rate for Direct Loans by Program

As of June 30	Interest Differential	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Direct Loans:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%
3. Military Debt Reduction Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY1991 Direct Loans

As of June 30	2008	2007
Beginning Balances, Changes and Ending Balance:		
1. Beginning Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
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
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
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
G. Total of the above Adjustment Components	\$ 0.00	\$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
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
6. Ending Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00

Defaulted Guaranteed Loans

As of June 30

	2008	2007
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):		
1. Foreign Military Liquidating Account		
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 Loan Losses	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$ 0.00
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):		
2. Military Housing Privatization Initiative		
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
3. Armament Retooling & Manufacturing Support Initiative		
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
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable		
	\$ 0.00	\$ 0.00

Guaranteed Loans Outstanding

As of June 30	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00
2008		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00
2007		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

Liabilities for Post FY 1991 Loan Guarantees, Present Value
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As of June 30	2008	2007
Liabilities for Loan Guarantee Programs from Pre-FY 1992 (Allowance for Loss):		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Total Loan Guarantee Liability (Pre-FY 1992)	\$ 0.00	\$ 0.00
Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):		
3. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
4. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
5. Total Loan Guarantee Liability (Post-FY 1991)	\$ 0.00	\$ 0.00
6. Total Loan Guarantee Liability	\$ 0.00	\$ 0.00

Subsidy Expense for Loan Guarantees by Program

As of June 30

2008	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
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
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
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
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2008	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
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
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
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
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
	2008	2007			
5. Total Loan Guarantee:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

Subsidy Rates for Loan Guarantees by Program

As of June 30	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Loan Guarantees:					
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%

Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees

As of June 30	2008	2007
Beginning Balance, Changes, and Ending Balance:		
1. Beginning Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
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
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
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
H. Total of the above Adjustments	\$ 0.00	\$ 0.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00

Administrative Expenses

Note 9.	Inventory and Related Property
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As of June 30	2008	2007
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materiel & Supplies, Net	61,297,328,049.37	58,135,281,428.61
3. Stockpile Materiel, Net	0.00	0.00
4. Total	\$ 61,297,328,049.37	\$ 58,135,281,428.61

Inventory, Net

As of June 30	2008			2007		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
1. Inventory Categories						
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	LAC,MAC
B. Held for Repair		0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable		0.00	0.00	0.00	0.00	NRV
D. Raw Materiel		0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process		0.00	0.00	0.00	0.00	AC
F. Total	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	

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

Not applicable.

Operating Materiel and Supplies, Net

As of June 30	2008			2007	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
1. OM&S Categories					
A. Held for Use	\$ 55,148,780,108.24	\$ 0.00	\$ 55,148,780,108.24	\$ 52,569,265,284.95	SP, LAC, MAC
B. Held for Repair	7,492,369,520.43	(1,343,821,579.30)	6,148,547,941.13	5,566,016,143.66	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	800,037,491.43	(800,037,491.43)	0.00	0.00	NRV
D. Total	\$ 63,441,187,120.10	\$ (2,143,859,070.73)	\$ 61,297,328,049.37	\$ 58,135,281,428.61	

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

Standard Disclosures

Restrictions on the use of Operating Materiel and Supplies (OM&S)

There are no known restrictions on the use of OM&S.

General Composition of OM&S.

OM&S includes spare and repair parts, ammunition, conventional missiles, torpedoes, aircraft configuration pods, and centrally managed aircraft engines. The general composition of OM&S is Ammunitions and Munitions, Principal End and Secondary Items, Sponsor Owned Materiel (SOM), Real-time Reutilization Asset Management (RRAM) Materiel and Other OM&S.

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

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

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

Materiel maintained and valued in RRAM is considered excess to the owner, or materiel manager responsible for the materiel, but may not be excess to the DON. Standard price is used to value all stock-numbered items. Part-numbered items are valued by best available information.

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

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

In order to standardize the reporting categories of Held for Use; Held for Repair; and Excess, Obsolete and Unserviceable, DON implemented the Under Secretary of Defense (Comptroller) (USD(C)) condition code crosswalk as defined in the memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materiel and Supplies" dated August 12, 2002. In addition, the condition code crosswalk was amended to include code "V" in the Excess, Obsolete, Unserviceable category in September 2002. OM&S is reported as follows:

OM&S Category	Condition Codes
Held for Use	A, B, C, D
Held for Repair	E, F, G, J, K, L, M, N, R
Excess, Obsolete, Unserviceable	P, H, S, V

Condition Codes are used for materiel management purposes and are defined in the Naval Supply Systems Command Publication 409.

Valuation Method for OM&S.

On July 6, 2001, OUSD(C) issued a memorandum directing each Military Department and Defense Agency to implement the Moving Average Cost (MAC) valuation method for Inventory Held for Sale and OM&S as they renovated or replaced their systems. MAC will be implemented as existing OM&S systems are renovated or replaced. Until then, DON continues to value OM&S using different valuation methodologies such as standard purchase price or historical cost. These valuation methodologies vary by system.

Stockpile Materiel, Net

As of June 30	2008			2007		Valuation Method
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Stockpile Materiel, Net		
1. Stockpile Materiel Categories						
A. Held for Sale	\$ 0.00	\$ 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	0.00	AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

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 June 30	2008					2007
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	\$ 616,495,034.00	N/A	\$ 616,495,034.00	\$ 605,775,187.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	33,397,409,825.00	\$ (20,061,790,273.64)	13,335,619,551.36	12,968,264,103.98
C. Leasehold Improvements	S/L	lease term	7,282,835.00	(1,365,531.58)	5,917,303.42	6,281,445.17
D. Software	S/L	2-5 Or 10	10,390,784.44	(9,022,897.78)	1,367,886.66	893,730.37
E. General Equipment	S/L	5 or 10	11,008,405,206.70	(5,927,316,808.87)	5,081,088,397.83	475,037,693.04
F. Military Equipment	S/L	Various	321,146,840,703.00	(141,864,886,620.00)	179,281,954,083.00	170,551,333,052.00
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	2,871,523,664.07	N/A	2,871,523,664.07	2,437,526,039.01
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			<u>\$ 369,058,348,052.21</u>	<u>\$ (167,864,382,131.87)</u>	<u>\$ 201,193,965,920.34</u>	<u>\$ 187,045,111,250.57</u>

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Standard Disclosures**Restrictions on the use or Convertibility of General Property, Plant, & Equipment (PP&E).**

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

Adjustments Resulting from Changes in the Accounting Standards for Military Equipment.

DON estimates values for Capitalized Military Equipment using department internal records. In 4th Quarter, FY 2007, DON GF implemented the revised DoD definition of military equipment, which excludes training devices and simulators. Implementing the new definition resulted in a reduction of \$4.2 billion in the net book value of Military Equipment with an offsetting increase to General Equipment.

Heritage Assets and Stewardship Land.**Relationship of Heritage Assets to DON's Mission.**

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

components of the nation's heritage assets and stewardship land is an essential part of DON's mission; DON is committed to responsible cultural resources stewardship.

Stewardship Policies for Heritage Assets and Description of Each Major Category of Heritage Assets.

The overall policy for DON's stewardship policies for heritage assets is contained in the Secretary of the Navy Instruction 4000.35A, "DON Cultural Resources Program."

- Heritage Assets are items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. The process used to define items as having heritage significance varies between categories and type of assets being evaluated.
- Consultation, as appropriate, is initiated with State Historic Preservation Officers, Tribal Historic Preservation Officers, Advisory Council on Historic Preservation, Native Americans, Native Hawaiians, and other interested agencies whenever DON conducts or supports undertakings that may affect any National Register resource. Preservation considerations are incorporated into routine DON management of historic buildings, structures, districts, sites, ships, aircraft, and other cultural resources.
- Archaeological Sites are locations that contain the remains of past human activity of various sorts that are listed or eligible for listing on the National Register of Historic Places. These sites are excavated only to the extent required for evaluation and identification.
- Buildings and Structures are listed as or determined eligible for listing on the National Register of Historic Places, including Multi-Use Heritage Assets.
- Cemeteries are government owned burial grounds on which gravesites of prominent historical figures may be located in addition to other gravesites.
- Major Collections include archeological artifacts that are maintained and inventoried by cubic feet, archival items that are maintained and inventoried by linear feet, and artwork and historical artifacts that are maintained and inventoried by individual items.
- Monuments and Memorials are those items that are built or placed to commemorate a person or event, preserve the memory of a historical event, or are shown or maintained for its historical interest.

Stewardship Land Policy.

The DON Stewardship Land policy is the same as that which DON maintains over all land and installations. The DON strives to be a responsible steward of the land and to maintain it in a way that both protects human health and the environment and allows training and support of fleet readiness. For DON, Stewardship Land includes land acquired through public domain, land set aside, and donated land. Some of this land is used as a buffer around the perimeter of DON installations and may include, but is not limited to, grazing lands and forestry maintenance areas.

The DON's heritage asset system does not identify the method by which heritage assets were obtained nor does it maintain costs, therefore we are unable to determine the number and value of heritage assets, other than land, that may have been obtained through donation or devise. Examples of heritage assets that are obtained on a regular basis include artwork and historical artifacts, such as papers and mementos that have been donated by former sailors, Marines, and their families.

Assets Under Capital Lease

As of June 30	2008	2007
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	\$ 0.00	\$ 0.00

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2008	2007
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	4,076,360,285.32	3,835,850,263.83
D. Total Intragovernmental Liabilities	\$ 4,076,360,285.32	\$ 3,835,850,263.83
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 10,450,502.74	\$ 37,298,941.02
B. Military Retirement and Other Federal Employment Benefits	1,646,485,651.00	1,513,643,894.37
C. Environmental Liabilities	18,033,470,222.05	17,713,179,976.91
D. Other Liabilities	5,204,687,639.62	4,684,700,348.99
E. Total Nonfederal Liabilities	\$ 24,895,094,015.41	\$ 23,948,823,161.29
3. Total Liabilities Not Covered by Budgetary Resources	\$ 28,971,454,300.73	\$ 27,784,673,425.12
4. Total Liabilities Covered by Budgetary Resources	\$ 6,130,043,941.38	\$ 5,575,668,183.48
5. Total Liabilities	\$ 35,101,498,242.11	\$ 33,360,341,608.60

Standard Disclosures

Conversely, Liabilities Not Covered by Budgetary Resources are those liabilities that are not considered covered by realized budgetary resources as of the balance sheet date. Budgetary Authority to satisfy these liabilities is expected to be provided in a future Department of Defense Appropriations Act. To prevent overstatement on the Balance Sheet and Statement of Net Cost, the liabilities previously recorded as Not Covered by Budgetary Resources and the associated unfunded expenses are reversed.

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

Realized budgetary resources include:

- New budget authority
- Spending authority from offsetting collections (credited to an appropriation or fund account)
- Recoveries of unexpired budget authority through downward adjustments of prior year obligations

- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and
- Permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met.

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

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

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

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

Note 12.	Accounts Payable
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As of June 30	2008			2007
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 1,114,109,766.86	\$ N/A	\$ 1,114,109,766.86	\$ 1,157,388,604.43
2. Nonfederal Payables (to the Public)	2,392,840,731.12	0.00	2,392,840,731.12	1,220,506,803.97
3. Total	\$ 3,506,950,497.98	\$ 0.00	\$ 3,506,950,497.98	\$ 2,377,895,408.40

Standard Disclosures

Department of the Navy (DON) General Fund (GF) accounting systems do not track intragovernmental transactions by customer at the transaction level which is required to facilitate reconciliation of intragovernmental accounts payable to the related intragovernmental accounts receivable on other agencies' records that generated the DON GF payable. Therefore, DON GF buyer-side accounts payable and expense balances were adjusted to match seller-side accounts receivable and revenue balances. This is accomplished by reclassifying amounts between federal and nonfederal cost categories, and accruing additional costs when necessary.

Note 13.	Debt
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As of June 30	2008			2007	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities--				
Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 267,836,740.00	\$ 1,867,169,759.00	\$ 2,135,006,499.00	\$ 2,311,405,000.00
2. Active Installations—Military Munitions Response Program (MMRP)	43,256,248.00	804,914,812.00	848,171,060.00	794,465,000.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Non-BRAC				
1. Environmental Corrective Action	1,347,369.00	44,628,943.00	45,976,312.00	46,641,777.00
2. Environmental Closure Requirements	129,232.00	730,551,810.00	730,681,042.00	773,848,964.00
3. Environmental Response at Operational Ranges	876,820.00	24,687,672.00	25,564,492.00	41,287,486.00
4. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	971,299.00	971,299.00	2,618,615.00
C. Base Realignment and Closure Installations				
1. Installation Restoration Program	335,745,078.00	1,241,810,999.90	1,577,556,077.90	1,723,530,921.00
2. Military Munitions Response Program	58,550,654.00	110,874,000.07	169,424,654.07	148,635,395.00
3. Environmental Corrective Action / Closure Requirements	30,402,031.00	19,250,000.02	49,652,031.02	81,137,612.00
4. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Military Equipment / Weapons Programs				
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	102,022,632.89	9,243,174,116.61	9,345,196,749.50	9,648,121,372.66
2. Non-Nuclear Powered Military Equipment	51,906,764.54	176,785,816.66	228,692,581.20	0.00
3. Other National Defense Weapons Systems	1,535,794.65	193,189,647.71	194,725,442.36	207,750,735.70
4. Other	0.00	2,681,851,982.00	2,681,851,982.00	3,237,406,105.00
E. Chemical Weapons Disposal Programs				
1. Chemical Agents and Munitions Destruction (CAMD)	0.00	0.00	0.00	0.00
2. CAMD Assembled Chemical Weapons Assessment (ACWA)	0.00	0.00	0.00	0.00
3. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 893,609,364.08	\$ 17,139,860,857.97	\$ 18,033,470,222.05	\$ 19,016,848,983.36

Standard Disclosures

	2008	2007
(Amounts in thousands)		
Other Accrued Environmental Costs – Other	\$971	\$2,619

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

	2008	2007
(Amounts in thousands)		
Environmental Disposal for Weapon Systems Programs - Other	\$2,681,852	\$3,237,406

The “Other” type of environmental liabilities under Disposal for Weapons Systems Programs (Line 1.D.4) represents Spent Nuclear Fuel, which is the used fuel that is removed from the nuclear reactors of nuclear powered ships and submarines. The estimate includes shipping, processing, and storing the Spent Nuclear Fuel.

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

1. Applicable Laws and Regulations of Cleanup Requirements

The following is a summary of significant laws that affect DON’s conduct of environmental policy and regulations.

The National Environmental Policy Act (NEPA) of 1970 requires DON to consider the environmental impacts of proposed actions in the decision making process. Per DON regulations, the action proponent will determine the level or amount of NEPA documentation required. The Resource Conservation and Recovery Act (RCRA) of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984, was the first comprehensive federal effort to deal with safe disposal of all types of hazardous wastes, and provides for “cradle to grave” tracking of hazardous wastes. Permits are required for treatment, storage, or disposal. Requirements for underground storage tanks are also contained in RCRA.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), commonly referred to as the Superfund legislation, provided Federal agencies authority to respond to the release or the substantial threat of release of hazardous substances into the environment. CERCLA was amended several times; one of which was the Superfund Amendments and Reauthorization Act of 1986. It established procedures to ensure that actual or threatened hazardous substance releases have proper responses. Another amendment to CERCLA was the Community Environmental Response Facilitation Act of 1992. The DON must identify real property on each facility that is not contaminated and that offers the greatest opportunity for expedited reuse and redevelopment. When property is transferred, DON is still responsible for any remediation or corrective action or any response action found to be necessary after the transfer.

The Clean Water Act (CWA) of 1977, Section 405 Disposal of Sewage Sludge, amended the Federal Water Pollution Control Act. The purpose of CWA is to restore and maintain the integrity of the nation's waters and the implementing regulations established closure and post closure requirements for sewage sludge disposal. To help protect the nation's drinking water supply, including underground injections through a permitting scheme, the Safe Drinking Water Act of 1974 (Well Head Protection Areas) was created. The Clean Air Act of 1990 established standards/limitations to prevent and control air pollutant discharges that could harm human health and natural resources. Requirements ensure that units can no longer operate when they are shut down. Finally, the Toxic Substances Control Act of 1976 was implemented to understand the health risks of chemical substances by developing production and health risk data from the manufacturers. The control of PCBs is a good example.

For the nuclear powered aircraft carriers and submarines, other nuclear powered ships, and spent nuclear fuel, the following significant laws affect DON's conduct of environmental policy and regulations. The Atomic Energy Act of 1954, as amended, assures the proper management of source, special nuclear, and byproduct material. As in all cases with nuclear power, DON coordinates all actions with the Department of Energy (DOE). The Nuclear Waste Policy Act of 1982 required all owners and generators of high-level nuclear waste and spent nuclear fuel to pay their respective shares of the full cost of the program. Finally, the Low Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

2. Methods for Assigning Total Cleanup Costs to Current Operating Periods

Accrued Environmental Restoration (Defense Environmental Restoration Program (DERP) Funded Liabilities).

Active Installations – Environmental Restoration: Accrued restoration (cleanup) liabilities represent the cost to correct past environmental areas that are funded under the Defense Environmental Restoration Program in accordance with “Management Guidance for DERP,” and “Environmental and Non-Environmental Liabilities,” Chapter 13 of Volume 4 of Department of Defense Financial Management Regulation (DoD FMR). These liabilities relate to Plant, Property, and Equipment, including acquired land and Stewardship Land, as those major asset categories are described in Chapter 6 of Volume 4 of DoD FMR. Environmental restoration activities may be conducted at operating installations, at Formerly Used Defense Sites, and at Closed, Transferred, and Transferring Ranges. Environmental restoration measurements involve the use of cost estimates that consider, on a current cost basis, the anticipated costs of the level of effort required to affect the restoration, as well as applicable legal and/or regulatory requirements. Program management and support costs are included in the estimates. The estimates are based on DON's cost-to-complete (CTC) module of the Normalization of Data System (NORM). Verification, validation, and accreditation of CTC module was completed in FY 2002. Such cost estimates are based on the current technology available. The DON, as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services), used the site inventory and estimated cost data prepared for DERP report to the Congress. The Accrued Environmental Restoration (Cleanup) Costs do not include the costs of environmental compliance; pollution prevention, conservation activities, contamination, or spills associated with current operations or treaty obligations, all of which are accounted for as part of ongoing operations. The DON Environmental Restoration Program includes 3,725 clean-up sites at active installations while those installations covered by Base Realignment and Closure (BRAC) funding include 1,140

clean-up sites. The Marine Corps is included in these programs. In addition, the DON Environmental Corrective Action Program at BRAC installations includes 609 sites.

Active Installations – Military Munitions Response Program: This area represents the environmental liabilities associated with the identification, investigation and removal and remedial actions to address environmental contamination at ranges that were closed prior to September 30, 2002. The contamination may include munitions, chemical residues from military munitions and munitions scrap at ranges on active installations that pose a threat to human health or the environment. The amount reported is the portion of the liability that can be estimated based on site level investigations and characterizations. The estimate produced is based on site-specific information and use of cost models validated in accordance with DoD Instruction 5000.61, "DoD Modeling and Simulation, Verification, Validation, and Accreditation" of May 2003. Total liabilities (CTC) are not estimated until there is sufficient site-specific data available to estimate the total liability. However, DON uses the cost of the study as the estimate until the study is completed. Beginning in FY 2001, DON began an inventory of closed ranges and transferring ranges under the Military Munitions Response Program (MMRP) or Unexploded Ordnance (UXO) program and completed it in September 2002. Currently there are 221 closed ranges at active installations and 22 sites (transferring ranges) at BRAC installations.

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

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

Accrued Environmental Restoration (DERP Funded) Liabilities.

The DON Environmental Restoration includes those sites that have been identified as legacy cleanup sites. For FY 2008, DON estimated and reported \$2.9 billion for environmental restoration liabilities. This amount is comprised of \$2.1 billion in Active Installations – Installation Restoration Program (IRP) liabilities and \$848.2 million in Active Installations – MMRP, liabilities, which represents UXO. The DoD FMR, Volume 6B, Chapter 10 requires that "any estimate produced must be based on site specific information and use cost models validated in accordance with DoD Instruction 5000.61." The DON is supporting this requirement by continuing to validate its range inventory as well as by pursuing the process of obtaining valid cost estimates for each range.

Other Accrued Environmental Costs (Non-DERP funds).

The DON defines Non-DERP environmental units as those sites associated with on-going operations such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retro fill, and/or disposal of PCBs transformers, underground storage tank remedial investigation and closure. As part of the DON FIP efforts, the Navy completed surveying, identifying, and estimating, Non-DERP units and began recognizing the estimated environmental liability 1st Quarter, FY 2007. For FY 2008, the total Other Accrued

Environmental Liabilities is \$803.2 million. Of the total, the Navy portion is \$578.6 million while the Marine Corps portion is \$224.6 million.

Base Realignment and Closure.

BRAC environmental sites are environmental sites at DON installations that are or will be closed under the congressionally mandated BRAC process. For FY 2008, DON estimated and reported \$1.8 billion for BRAC funded environmental restoration liabilities. This amount includes \$1.6 billion for IRP, \$169.4 million for MMRP, and \$49.7 million for environmental corrective action and closure requirements. MMRP includes military munitions, chemical residues from military munitions, and munitions scrap at locations on or associated with a military range on a BRAC installation.

Environmental Disposal for Weapons Systems Programs.

Environmental Disposal for Weapons Systems are those estimates associated with the environmental disposal costs for DON Nuclear Weapons Programs that includes Nuclear Powered Aircraft Carriers and Submarines and Other Nuclear Powered Ships, Conventional Ships, and Spent Nuclear Fuel. The DON reported an environmental disposal liability for Weapons Systems Programs of \$12.5 billion in FY 2008. This amount includes Nuclear Powered Aircraft Carriers of \$5.7 billion, Nuclear Powered Submarines of \$3.7 billion, Other Nuclear Powered Ships of \$228.7 million, Other National Defense Weapons Systems (Conventional Ships) of \$194.7 million, and Spent Nuclear Fuel (Other) of \$2.7 billion.

4. Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

For both current and prior periods, the changes due to price growth (inflation) and increases in labor rates and materials have been offset by a change in the estimating methodology for weapons systems. This change in estimating methodology resulted in an overall decrease in the estimated environmental disposal liability. However, this decrease was offset by recognizing an estimated liability for spent nuclear fuel beginning with 3rd Quarter, FY 2006. Currently, there are no indications that any of the environmental liabilities for any category will be adjusted due to deflation. As of FY 2008, there are no changes to the environmental liability estimates due to changes in laws, regulations, and in agreements with regulatory agencies. The DON does not have any estimates that were changed due to advances in technology.

5. Description of the Level of Uncertainty Regarding the Accounting Estimates used to calculate the Reported Environmental Liabilities

The environmental liabilities for DON are based on accounting estimates that require certain judgments and assumptions that DON believes are reasonable based upon information available to us at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation of the environmental sites discloses contamination different than known at the time of the estimates.

Overall, DON has a reasonable level of confidence in the estimates recognized on the face of the financial statements. This reasonable level of confidence in the estimates is because the estimates for DERP/BRAC programs are based on the CTC module of the NORM System. A

verification, validation, and accreditation were completed by a third party for CTC module of NORM, while the environmental program managers continue to validate the data.

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

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

The DON believes that the environmental liabilities for Other Accrued Environmental Liabilities (Non-DERP) for FY 2008 are reasonable, based upon the information available at the time in calculating the estimates and completing the fence to fence survey. However, as internal controls are implemented to sustain this effort, changes to some of the estimates could occur. In addition to the possibility of some of the estimates changing for the current list of identified units, DON may incur additional units and changes to estimates as the inventory of units are reviewed annually.

Environmental Disclosures

As of June 30	2008	2007
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	1,504,879,343.71	1,522,395,960.77
B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
C. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Line A. The unrecognized portion of the estimated total cleanup costs is associated with Nuclear Powered Carriers and Submarines, Conventional Ships, Spent Nuclear Fuel, and Non-DERP. Of the total \$1.5 billion, \$1.4 billion is associated with Nuclear Powered Carriers and Submarines and Spent Nuclear Fuel, \$47.9 million is associated with conventional ships while the remainder of \$54.3 million is associated with Non-DERP. Contributing to the increase is a result of DON, in 1st Quarter, FY 2007, recognizing and accruing environmental liabilities (Non-DERP) associated with assets placed in service after September 30, 1997.

Lines B. and C. Through our quarterly data call process for FY 2008, DON determined that there were no changes to the environmental liability estimates due to changes in laws, regulations, in agreements with regulatory agencies, and advances in technology.

Note 15.	Other Liabilities
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As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 131,698,775.97	\$ 0.00	\$ 131,698,775.97	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	384,752,790.30	0.00	384,752,790.30	353,317,242.18
C. Disbursing Officer Cash	145,460,265.27	0.00	145,460,265.27	172,854,810.28
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	238,949,903.78	257,166,223.55	496,116,127.33	499,135,801.91
F. Custodial Liabilities	3,359,637,309.79	0.00	3,359,637,309.79	3,256,828,340.51
G. Employer Contribution and Payroll Taxes Payable	26,712,210.54	0.00	26,712,210.54	21,142,870.93
H. Other Liabilities	77,737,445.59	0.00	77,737,445.59	82,946,966.54
I. Total Intragovernmental Other Liabilities	\$ 4,364,948,701.24	\$ 257,166,223.55	\$ 4,622,114,924.79	\$ 4,386,226,032.35
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 1,423,185,056.64	\$ 0.00	\$ 1,423,185,056.64	\$ 580,199,784.33
B. Advances from Others	336,883,712.39	0.00	336,883,712.39	300,218,358.53
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(57,659,330.34)	0.00	(57,659,330.34)	4,210,349.11
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	5,783,179.27	246,468,027.93	252,251,207.20	256,692,088.46
(2) Excess/Obsolete Structures	75,955,000.00	587,018,000.00	662,973,000.00	685,618,000.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	2,568,859,854.42	0.00	2,568,859,854.42	2,287,741,746.97
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Contract Holdbacks	102,884,580.43	10,268,466.22	113,153,046.65	171,248,026.19
J. Employer Contribution and Payroll Taxes Payable	121,482.79	0.00	121,482.79	397,622.09
K. Contingent Liabilities	9,993,000.00	1,981,076,873.49	1,991,069,873.49	1,773,374,767.31
L. Other Liabilities	0.00	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 4,466,006,535.60	\$ 2,824,831,367.64	\$ 7,290,837,903.24	\$ 6,059,700,742.99
3. Total Other Liabilities	\$ 8,830,955,236.84	\$ 3,081,997,591.19	\$ 11,912,952,828.03	\$ 10,445,926,775.34

Standard Disclosures

Nonfederal Other Liabilities includes Contingent Liabilities of \$270.5 million for estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance of a satisfactory product. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payments is made; thereby protecting taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The Department of the Navy (DON) General Fund (GF) is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance of a satisfactory product. As it is probable that the contractor will complete its efforts and deliver a satisfactory product and the amount of potential future payments are estimable, the DON GF has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Government acceptance of a satisfactory product.

Intragovernmental Other Liabilities - Other (Line 1.H).

Other Liabilities - Other consists primarily of a liability to the U.S. Treasury. The liability represents principal and accrued interest associated with pending litigation.

Nonfederal Other Liabilities - Other Liabilities - Other (Line 2.L).

Other Liabilities - Other consists primarily of estimated legal contingent liabilities and outstanding contract financing contingent liabilities.

Methodology used for Estimated Legal Contingent Liabilities.

Due to the inherent uncertainties of litigation, lawyers generally refrain from expressing judgments as to outcomes except in those relatively few clear cases. In response to a Department of Defense (DoD), Inspector General Audit, "DoD Process for Reporting Contingent Legal Liabilities," DON developed a methodology to determine an estimate for contingent legal liabilities. Beginning with 1st Quarter, FY 2007 DON recognized and disclosed an estimate for contingent legal liabilities. The methodology considers the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual case basis. The likelihood of an unfavorable or potential liability was determined by using an average of the data from current year-to-date and the preceding four years. The total dollar amount of the cases closed was divided by the total dollar amount claimed in those closed cases for each of the last four years plus current year, which were then used to calculate the average. This average is based entirely on historical data and represents the percentage that has historically been paid on claims. The merits of each individual case have not been taken into consideration. Until sufficient historical data can be collected for the Navy Working Capital Fund, the estimated legal liability for the DON GF will consider all DON funding sources together. The estimate for those cases considered probable to result in an adverse judgment against DON is \$1.7 billion.

Abnormal Balance

D. Deposit Funds and Suspense Accounts.

On a quarterly basis, the funds are received by the services to pay medical bills for the recipients from the Medicare Eligible Retiree Health Care Fund. The Navy receives approximately \$30 million per quarter, thus, a total of \$90 million was received as of 3rd Quarter, FY 2008. One quarter's receipt of these funds is cleared and the remaining

\$57.7 million is in process. Until they are cleared, they reside in Military Personnel (Appropriation 1453) as undistributed collections.

Capital Lease Liability

As of June 30	2008				2007	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2008	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
B. 2009	0.00	0.00	0.00	0.00	0.00	0.00
C. 2010	0.00	0.00	0.00	0.00	0.00	0.00
D. 2011	0.00	0.00	0.00	0.00	0.00	0.00
E. 2012	0.00	0.00	0.00	0.00	0.00	0.00
F. 2013	0.00	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	0.00

Note 16. Commitments and Contingencies**Standard Disclosures**

The Department of the Navy (DON) is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. The DON will accrue contingent liabilities for legal actions in those instances where DON's Office of General Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. Others may be payable from DON's resources, either directly or by reimbursement to the Judgment Fund. The DON records Judgment Fund liabilities in Note 12, "Accounts Payable." See Note 12 for details.

For FY 2007, DON General Fund (GF) materiality threshold for reporting litigation, claims, or assessments is \$64.4 million. The DON Office of General Counsel conducts a review of litigation and claims threatened or asserted involving DON General Fund to which Office of General Counsel attorneys devoted substantial attention in the form of legal consultation or representation. However, the FY 2008 preliminary and final Legal Representation letters are not due until the 4th Quarter.

The DON currently has 12 cases; 11 associated with the Navy and 1 associated with the United States Marine Corps that meet the existing FY 2007 DON GF materiality threshold of \$64.4 million. DON legal counsel was unable to express an opinion concerning the likely outcome of 11 of 12 cases. Based on information contained in the FY 2007 preliminary and final Legal Representation Letters, management does not have sufficient reason to believe that it is likely that the Government will be liable for the amounts claimed in individual or aggregated cases.

Due to the inherent uncertainties of litigation, lawyers generally refrain from expressing judgments as to outcomes except in those relatively few clear cases. In response to a Department of Defense (DoD), Inspector General Audit, "DoD Process for Reporting Contingent Legal Liabilities," DON developed a methodology to determine an estimate for contingent legal liabilities. Beginning with 1st Quarter, FY 2007 DON recognized and disclosed an estimate for contingent legal liabilities. The methodology considers the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual case basis. The likelihood of an unfavorable or potential liability was determined by using an average of the data from the current year-to-date and the preceding four years. The total dollar amount of the cases closed was divided by the total dollar amount claimed in those closed cases for each of the last four years plus current year which were then used to calculate the average. This average is based entirely on historical data and represents the percentage that has historically been paid on claims. The merits of each individual case have not been taken into consideration. The estimate for those cases considered reasonably possible to result in an adverse judgment against DON is \$1.7 billion. Until sufficient historical data can be collected for the Navy Working Capital Fund, the DON GF estimate will consider all DON funding sources together.

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

The DON GF has recorded in Note 12 a contingent liability in the amount of \$10.6 million for obligations related to cancelled appropriations.

The DON GF has recorded in Note 15 a contingent liability in the amount of \$74.3 million for Contract Incentives.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of June 30	2008				2007
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
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 Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Actuarial Benefits					
A. FECA	\$ 1,646,485,651.00		\$ 0.00	\$ 1,646,485,651.00	\$ 1,513,643,894.37
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 1,646,485,651.00		\$ 0.00	\$ 1,646,485,651.00	\$ 1,513,643,894.37
3. Other Federal Employment Benefits	\$ 1,639,043.05		\$ (1,639,043.05)	\$ 0.00	\$ 6,026,547.13
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,648,124,694.05		\$ (1,639,043.05)	\$ 1,646,485,651.00	\$ 1,519,670,441.50

Actuarial Cost Method Used:

Assumptions:

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

Federal Employees' Compensation Act.

Actuarial Cost Method Used and Assumptions:

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

FY 2007

4.930 % in Year 1

5.078 % in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2007 were also used to adjust the methodology's historical payments to current year constant dollars.

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

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2008	2.63%	3.74%
2009	2.90%	4.04%
2010	2.47%	4.00%
2011	2.37%	3.94%
2012+	2.30%	3.94%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitive analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2007 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the 2007 projection to the average pattern for the projections of the most recent three years.

Other Federal Employment Benefits

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

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of June 30	2008	2007

As of June 30	2008	2007
1. Intragovernmental Costs	\$ 32,042,755,143.57	\$ 30,049,081,768.24
2. Public Costs	72,316,645,745.70	81,604,815,284.82
3. Total Costs	\$ 104,359,400,889.27	\$ 111,653,897,053.06
4. Intragovernmental Earned Revenue	\$ (2,542,527,602.34)	\$ (2,189,890,071.49)
5. Public Earned Revenue	(1,067,317,754.32)	(1,854,399,422.62)
6. Total Earned Revenue	\$ (3,609,845,356.66)	\$ (4,044,289,494.11)
7. Net Cost of Operations	\$ 100,749,555,532.61	\$ 107,609,607,558.95

Standard Disclosures

Intragovernmental costs and revenues are related to transactions made between two reporting entities, one entity being the Department of the Navy (DON) General Fund (GF), within the Federal Government.

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

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

The Statement of Net Cost is unique because its principles are driven on understanding the net cost of programs and/or organizations that the Federal Government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

In conjunction with Department of Defense, the DON has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of GAAP. One such action is the revision of its accounting systems to record transactions based on the U.S. Standard General Ledger. Until such time as all of the DON's financial and nonfinancial feeder

systems and processes are updated to collect and report financial information as required by GAAP, DON's GF financial data will be largely based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

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

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

As of June 30	2008		2007	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments				
Increases (Decreases) to Net Position Beginning Balance				
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
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 167,971,754.37	\$ 0.00	\$ 168,028,173.57	\$ 0.00
B. Civilian Health	272,192,253.00	0.00	295,456,980.00	0.00
C. Civilian Life Insurance	933,125.73	0.00	844,547.64	0.00
D. Judgment Fund	28,275,614.44	0.00	33,704,465.35	0.00
E. Other	0.00	0.00	0.00	0.00
F. IntraEntity	0.00	0.00	0.00	0.00
G. Total Imputed Financing	\$ 469,372,747.54	\$ 0.00	\$ 498,034,166.56	\$ 0.00

Standard Disclosures

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations Received on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference of \$18.8 million is due to the values for Trust Funds and Special Receipt Accounts not being included in the Appropriations Received line of the SCNP. Refer to Note 20 for additional details.

In the SCNP, all offsetting balances (i.e. transfers-in and transfers-out, revenues and expenses) for intra-Department of the Navy (DON) General Fund activity between earmarked and other (non-earmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line.

The Earmarked Cumulative Results of Operations ending balance on the SCNP does not agree with the Earmarked Cumulative Results reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations.

Description of Other Lines on the SCNP.

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

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

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of June 30	2008	2007
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 97,623,297,421.43	\$ 93,246,247,690.56
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

Standard DisclosuresApportionment Categories for Obligations Incurred.

On the Statement of Budgetary Resources (SBR): Obligations Incurred includes \$137.0 billion of Direct Program Obligations and \$6.3 billion of Reimbursable Program Obligations.

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

- Direct Obligations, Category A, amounts apportioned quarterly, are \$74.9 billion.
- Direct Obligations, Category B, amounts apportioned on a basis other than quarterly, are \$61.4 billion.
- Total Direct Obligations are therefore \$136.3 billion.
- The \$640.8 million difference in direct obligations between the SBR and SF-133 is due to adjustments on the SBR to recognize fringe benefits, reclassify reimbursable obligations as noted below, and recognize other adjustments not captured in the field accounting systems.
- Category B Reimbursable Obligations are \$6.3 billion.
- The \$6.1 million difference in reimbursable obligations between the SBR and SF-133 results from a reclassification adjustment to record trading partner data.

Other Disclosures.

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

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

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations Received on the SBR due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference of \$18.8 million is due to the values for Trust Funds and Special Receipt Accounts not being included in the Appropriations Received line of the SCNP.

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

Permanent, Indefinite Appropriations.

The National Defense Sealift Fund (NDSF) is operated under the authority of 10 U.S. Code 2218, which provides for the construction (including design of vessels), purchase, alteration, and conversion of Department of Defense (DoD) sealift vessels; operation, maintenance, and lease or charter of DoD vessels for national defense purposes; installation and maintenance of defense features for national defense purposes on privately owned and operated vessels that are constructed in the United States and documented under the laws of the United States; research and development relating to national defense sealift; and expenses for maintaining the National Defense Reserve Fleet, including the acquisition, alteration or conversion of vessels. For FY 2008, no transfers to or from NDSF occurred.

The Environmental Restoration, Navy (ER, N) appropriation is a transfer account that funds environmental restoration, reduction, and recycling of hazardous waste, removal of unsafe buildings and debris, and similar purposes. Funds remain available until transferred and remain available for the same purpose and same time period as the appropriations to which transferred. For FY 2008, four transfers from ER, N for \$312.6 million to the Operations and Maintenance, Navy appropriation was recorded; no transfers to ER, N occurred.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of June 30	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 143,309,005,867.74	\$ 134,768,696,810.20
2. Less: Spending authority from offsetting collections and recoveries (-)	(24,663,315,326.42)	(22,995,502,291.19)
3. Obligations net of offsetting collections and recoveries	\$ 118,645,690,541.32	\$ 111,773,194,519.01
4. Less: Offsetting receipts (-)	(65,404,334.90)	(199,163,203.99)
5. Net obligations	\$ 118,580,286,206.42	\$ 111,574,031,315.02
Other Resources:		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	242,036,510.89	68,965,030.39
8. Imputed financing from costs absorbed by others	469,372,747.54	498,034,166.56
9. Other (+/-)	2,901,088,117.91	(40,077,778.00)
10. Net other resources used to finance activities	\$ 3,612,497,376.34	\$ 526,921,418.95
11. Total resources used to finance activities	\$ 122,192,783,582.76	\$ 112,100,952,733.97
Resources Used to Finance Items not Part of the Net Cost of Operations:		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ (8,718,206,866.26)	\$ (10,196,478,640.50)
12b. Unfilled Customer Orders	3,066,604,915.04	2,284,673,353.20
13. Resources that fund expenses recognized in prior Periods (-)	(850,706,934.50)	(4,011,291,885.19)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	65,404,334.90	199,163,203.99
15. Resources that finance the acquisition of assets (-)	(21,517,350,073.72)	(8,001,410,877.52)
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 (+/-)	(3,143,127,363.39)	(28,887,252.39)
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (31,097,381,987.93)	\$ (19,754,232,098.41)
18. Total resources used to finance the Net Cost of Operations	\$ 91,095,401,594.83	\$ 92,346,720,635.56

As of June 30	2008	2007
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$ 181,971,303.53	\$ 1,679,683,607.28
20. Increase in environmental and disposal liability	0.00	1,748,070,360.46
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 (+/-)	2,951.66	3,176,765,116.42
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 181,974,255.19	\$ 6,604,519,084.16
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 8,090,922,951.37	\$ 8,091,072,689.92
26. Revaluation of assets or liabilities (+/-)	(573,670,138.30)	(140,396,956.42)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material and Supplies Used	1,956,326,517.89	659,352,481.01
27d. Other	(1,399,648.37)	48,339,624.72
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 9,472,179,682.59	\$ 8,658,367,839.23
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ 9,654,153,937.78	\$ 15,262,886,923.39
30. Net Cost of Operations	\$ 100,749,555,532.61	\$ 107,609,607,558.95

Standard Disclosures

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

Due to DON financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. Differences between budgetary and proprietary data are a previously identified deficiency. This causes a difference in net cost between the SNC and the SOF that requires an adjustment to the SOF. For 3rd Quarter, FY 2008, an adjustment of \$153.2 million was made to Resources that Finance the Acquisition of Assets of the SOF so that proprietary accounts reconcile with the budgetary accounts.

The SOF is presented as a consolidated statement. However, the following SOF lines are presented as combined instead of consolidated due to interagency budgetary transactions not being eliminated:

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

Other

Description of Other Lines on the SOF.

Resources Used to Finance Activities – Budgetary Resources Obligated --

The balance of \$2.9 billion represents net gains and losses recorded in relation to the capitalization of assets such as Real Property, Construction in Progress, Operating Materials and Supplies, and Military Equipment.

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

The balance of \$3.1 billion reflects net gains and losses recorded in relation to the net change of the value of assets such as Military Construction, Ammunition, Real Property, and Shipbuilding and Conversion.

Components not Requiring or Generating Resources --

The balance of \$1.4 million consists primarily of bad debt expense and expenses not requiring budgetary resources.

Beginning 4th Quarter, FY 2007, Department of Defense (DoD) began presenting the Statement of Financing (SOF) as a note in accordance with the Office of Management and Budget Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as “Reconciliation of Net Cost of Operations to Budget.”

Note 22.

Disclosures Related to Incidental Custodial Collections

Note 23.**Earmarked Funds****BALANCE SHEET**
As of June 30, 2008

Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
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ASSETS

Fund balance with Treasury	\$ 0.00	\$ 0.00	\$ 18,195,617.14	\$ 0.00	\$ 18,195,617.14
Investments	0.00	0.00	10,354,583.22	0.00	10,354,583.22
Accounts and Interest Receivable	0.00	0.00	0.00	0.00	0.00
Other Assets	0.00	0.00	12,181.94	0.00	12,181.94
Total Assets	\$ 0.00	\$ 0.00	\$ 28,562,382.30	\$ 0.00	\$ 28,562,382.30

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other Liabilities	0.00	0.00	1,424,753.57	0.00	1,424,753.57
Total Liabilities	\$ 0.00	\$ 0.00	\$ 1,424,753.57	\$ 0.00	\$ 1,424,753.57
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	27,137,628.73	0.00	27,137,628.73
Total Liabilities and Net Position	\$ 0.00	\$ 0.00	\$ 28,562,382.30	\$ 0.00	\$ 28,562,382.30

STATEMENT OF NET COST

For the period ended June 30, 2008

Program Costs	\$ 0.00	\$ 0.00	\$ 15,871,249.52	\$ 0.00	\$ 15,871,249.52
Less Earned Revenue	0.00	0.00	0.00	0.00	0.00
Net Program Costs	\$ 0.00	\$ 0.00	\$ 15,871,249.52	\$ 0.00	\$ 15,871,249.52
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ 0.00	\$ 15,871,249.52	\$ 0.00	\$ 15,871,249.52

Navy General Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended June 30, 2008	Military Retirement Fund		Medicare Eligible Retiree Health Care Fund		Other Earmarked Funds		Eliminations		Total
Net Position Beginning of the Period	\$	0.00	\$	0.00	\$	24,257,702.12	\$	0.00	\$ 24,257,702.12
Net Cost of Operations		0.00		0.00		15,871,249.52		0.00	15,871,249.52
Budgetary Financing Sources		0.00		0.00		18,753,910.72		0.00	18,753,910.72
Other Financing Sources		0.00		0.00		(2,734.59)		0.00	(2,734.59)
Change in Net Position	\$	0.00	\$	0.00	\$	2,879,926.61	\$	0.00	\$ 2,879,926.61
Net Position End of Period	\$	0.00	\$	0.00	\$	27,137,628.73	\$	0.00	\$ 27,137,628.73

Standard Disclosures

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

Special Earmarked Funds.

Wildlife Conservation, Military Reservations, Navy --

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

Kaho'olawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy --

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

Roosmoor Liquidating Trust Settlement Account --

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

Ford Island Improvement Account --

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

Trust Earmarked Funds.

DON General Gift Fund --

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

Ships Stores Profit, Navy --

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

U.S. Naval Academy General Gift Fund --

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

Note 24.	Other Disclosures
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As of June 30	2008 Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due

Fiscal Year

2008	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2009	33,737,938.88	0.00	171,078.00	33,909,016.88
2010	34,480,173.53	0.00	0.00	34,480,173.53
2011	35,238,737.35	0.00	0.00	35,238,737.35
2012	36,013,989.57	0.00	0.00	36,013,989.57
2013	36,806,297.35	0.00	0.00	36,806,297.35
After 5 Years	37,616,035.89	0.00	0.00	37,616,035.89

**Total Future Lease
Payments Due**

	\$ 213,893,172.57	\$ 0.00	\$ 171,078.00	\$ 214,064,250.57
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Note 25.

Restatements