

Department of Defense
Navy Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2008 and 2007

	2008 Consolidated	2007 Consolidated
	<hr/>	<hr/>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	621,502,120.58	952,811,706.59
3. Accounts Receivable (Note 5)	508,953,248.10	351,849,538.28
4. Other Assets (Note 6)	2,843,624.23	1,780,989.24
5. Total Intragovernmental Assets	\$ 1,133,298,992.91	\$ 1,306,442,234.11
B. Cash and Other Monetary Assets (Note 7)	\$ (5,358,209.86)	\$ 0.00
C. Accounts Receivable, Net (Note 5)	(157,162,399.18)	76,326,486.58
E. Inventory and Related Property, Net (Note 9)	11,340,681,112.86	12,824,015,582.82
F. General Property, Plant and Equipment, Net (Note 10)	3,128,283,625.87	3,667,618,204.60
H. Other Assets (Note 6)	344,743,981.58	348,543,590.80
2. TOTAL ASSETS	<hr/> \$ 15,784,487,104.18	<hr/> \$ 18,222,946,098.91
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 166,059,286.50	\$ 176,232,908.38
2. Debt (Note 13)	71,956,076.46	147,534,653.12
3. Other Liabilities (Note 15 & 16)	242,593,952.47	221,048,714.53
4. Total Intragovernmental Liabilities	\$ 480,609,315.43	\$ 544,816,276.03
B. Accounts Payable (Note 12)	\$ 2,694,017,727.44	\$ 1,510,079,026.35
C. Military Retirement and Other Federal Employment Benefits (Note 17)	1,047,588,349.00	1,185,039,105.63
F. Other Liabilities (Note 15 & Note 16)	1,475,476,715.64	3,039,709,553.63
5. TOTAL LIABILITIES	<hr/> \$ 5,697,692,107.51	<hr/> \$ 6,279,643,961.64
6. NET POSITION		
B. Unexpended Appropriations - Other Funds	33,594,700.00	33,796,153.95
D. Cumulative Results of Operations - Other Funds	10,053,200,296.67	11,909,505,983.32
7. TOTAL NET POSITION	<hr/> \$ 10,086,794,996.67	<hr/> \$ 11,943,302,137.27
8. TOTAL LIABILITIES AND NET POSITION	<hr/> \$ 15,784,487,104.18	<hr/> \$ 18,222,946,098.91

Department of Defense
 Navy Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
 For the periods ended June 30, 2008 and 2007

	<u>2008 Consolidated</u>	<u>2007 Consolidated</u>
1. Program Costs		
A. Gross Costs	\$ 18,149,281,827.15	\$ 16,971,097,667.63
B. (Less: Earned Revenue)	(15,801,860,376.50)	(15,766,765,355.17)
C. Net Program Costs	<u>\$ 2,347,421,450.65</u>	<u>\$ 1,204,332,312.46</u>
4. Net Cost of Operations	<u>\$ 2,347,421,450.65</u>	<u>\$ 1,204,332,312.46</u>

Department of Defense
Navy Working Capital Fund
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	\$ 0.00	\$ 11,947,778,159.23
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>0.00</u>	<u>11,947,778,159.23</u>
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	14,000,000.00
4.C. Nonexchange revenue	0.00	(3,397,221.29)
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	0.00
5.C. Imputed financing from costs absorbed by others	0.00	328,532,116.26
5.D. Other (+/-)	0.00	216,541,693.12
6. Total Financing Sources	<u>0.00</u>	<u>452,843,588.09</u>
7. Net Cost of Operations (+/-)	0.00	2,347,421,450.65
8. Net Change	<u>0.00</u>	<u>(1,894,577,862.56)</u>
9. Cumulative Results of Operations	0.00	10,053,200,296.67
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 33,594,700.00
11. Prior Period Adjustments:		
12. Beginning balances, as adjusted	<u>0.00</u>	<u>33,594,700.00</u>
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	14,052,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(52,000.00)
13.D. Appropriations used	0.00	(14,000,000.00)
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	<u>0.00</u>	<u>33,594,700.00</u>
16. Net Position	<u>0.00</u>	<u>10,086,794,996.67</u>

Department of Defense
Navy Working Capital Fund
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	\$ 11,947,778,159.23
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	0.00	11,947,778,159.23
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	14,000,000.00
4.C. Nonexchange revenue	0.00	(3,397,221.29)
4.E. Transfers-in/out without reimbursement	0.00	(102,833,000.00)
5. Other Financing Sources:		
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UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 33,594,700.00
11. Prior Period Adjustments:		
12. Beginning balances, as adjusted	0.00	33,594,700.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	14,052,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(52,000.00)
13.D. Appropriations used	0.00	(14,000,000.00)
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	33,594,700.00
16. Net Position	0.00	10,086,794,996.67

Department of Defense
Navy Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2008 and 2007

	<u>2007 Earmarked Funds</u>	<u>2007 All Other Funds</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 12,928,685,207.90
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>0.00</u>	<u>12,928,685,207.90</u>
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	84,965,025.50
4.C. Nonexchange revenue	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	112,504,000.00
5. Other Financing Sources:		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	17,103,671.17
5.C. Imputed financing from costs absorbed by others	0.00	344,501,727.32
5.D. Other (+/-)	0.00	(373,921,336.11)
6. Total Financing Sources	<u>0.00</u>	<u>185,153,087.88</u>
7. Net Cost of Operations (+/-)	0.00	1,204,332,312.46
8. Net Change	<u>0.00</u>	<u>(1,019,179,224.58)</u>
9. Cumulative Results of Operations	0.00	11,909,505,983.32
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 2,896,179.45
11. Prior Period Adjustments:		
12. Beginning balances, as adjusted	<u>0.00</u>	<u>2,896,179.45</u>
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	116,192,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(327,000.00)
13.D. Appropriations used	0.00	(84,965,025.50)
14. Total Budgetary Financing Sources	0.00	30,899,974.50
15. Unexpended Appropriations	<u>0.00</u>	<u>33,796,153.95</u>
16. Net Position	0.00	11,943,302,137.27

Department of Defense
Navy Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2008 and 2007

	<u>2007 Eliminations</u>	<u>2007 Consolidated</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 12,928,685,207.90
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>0.00</u>	<u>12,928,685,207.90</u>
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	84,965,025.50
4.C. Nonexchange revenue	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	112,504,000.00
5. Other Financing Sources:		
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6. Total Financing Sources	<u>0.00</u>	<u>185,153,087.88</u>
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8. Net Change	<u>0.00</u>	<u>(1,019,179,224.58)</u>
9. Cumulative Results of Operations	0.00	11,909,505,983.32
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 2,896,179.45
11. Prior Period Adjustments:		
12. Beginning balances, as adjusted	<u>0.00</u>	<u>2,896,179.45</u>
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	116,192,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(327,000.00)
13.D. Appropriations used	0.00	(84,965,025.50)
14. Total Budgetary Financing Sources	0.00	30,899,974.50
15. Unexpended Appropriations	<u>0.00</u>	<u>33,796,153.95</u>
16. Net Position	0.00	11,943,302,137.27

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

	2008 Combined	2007 Combined
	<hr/>	<hr/>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 1,525,166,790.30	\$ 2,547,952,741.29
2. Recoveries of prior year unpaid obligations	26,986,572.00	(3,185.45)
3. Budget authority		
3.A. Appropriation	14,052,000.00	116,192,000.00
3.C. Contract authority	6,251,517,326.32	5,932,303,517.75
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	17,810,053,408.60	17,372,958,502.48
3.D.1.b. Change in receivables from Federal sources	(408,875,439.63)	(214,986,989.84)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	64,654,991.98	53,336,810.59
3.D.2.b. Without advance from Federal sources	4,736,099,807.92	3,728,250,822.97
3.D.3. Anticipated for rest of year, without advances	5,103,339,589.16	3,743,265,860.31
3.E. Subtotal	<hr/> 33,570,841,684.35	<hr/> 30,731,320,524.26
4. Nonexpenditure transfers, net, anticipated and actual	(102,833,000.00)	112,504,000.00
6. Permanently not available	(4,263,640,108.51)	(4,725,775,574.82)
7. Total Budgetary Resources	<hr/> \$ 30,756,521,938.14 <hr/>	<hr/> \$ 28,665,998,505.28 <hr/>

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

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

The NWCF is unable to fully implement all elements of GAAP and OMB Circular A-136 due to limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The NWCF 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 NWCF continues to implement process and system improvements addressing these limitations.

The NWCF currently has two auditor identified financial statement material weaknesses: (1) valuation of inventory and operating materiel and supplies (OM&S) and (2) valuation of Real Property.

1.B. Mission of the Reporting Entity

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

1.C. Appropriations and Funds

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

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

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

1.D. Basis of Accounting

For FY 2008, the NWCF's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the NWCF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of the NWCF's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The DoD has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all of the NWCF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, the NWCF's financial data will be derived from budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and accruals made of 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 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 is working towards a cost reporting methodology that meets the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

1.E. Revenues and Other Financing Sources

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

The NWCF does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost-sharing

agreements with 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 the NWCF's 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 OM&S, operating expenses are generally recognized when the items are purchased. 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 entities within DoD or between two or more federal agencies. However, the NWCF cannot accurately eliminate intragovernmental transactions by customer because the NWCF's systems do not track at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. Intra-DoD intragovernmental balances are then eliminated. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, 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 Treasury Financial Manual Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government,” and the U.S. Treasury’s “Federal Intragovernmental Transactions Accounting Policy Guide” provide guidance for reporting and reconciling intragovernmental balances. While the NWCF is unable to fully reconcile intragovernmental transactions with all federal partners, the NWCF is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees’ Compensation Act transactions with the Department of Labor, 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, the NWCF sells defense articles and services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the U.S. Government. Payment in U.S. dollars is required in advance.

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

The NWCF's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Services, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the NWCF'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, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable FBWT account. Differences between the NWCF's recorded balance in FBWT accounts and U.S. Treasury's FBWT accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes 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

All (100%) of NWCF's inventories are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide

visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). At the current time, NWCF does not report any inventory using the moving average cost method. However, by utilizing new system development processes, the NWCF will be transitioning to the moving average cost method with the implementation of the Navy Enterprise Resource Planning (ERP).

The NWCF manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management and includes all items (including ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment, but excluding real property, installations, and utilities) necessary to equip, operate, maintain, and support military activities without distinction as to its application for administrative or combat purposes. Items commonly used in and available from the commercial sector are not managed in the NWCF materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The NWCF holds materiel based on military need and support for contingencies. The DoD does not attempt to account separately for "inventory held for sale" and "inventory held in reserve for future sale" based on SFFAS No. 3 definitions, unless otherwise noted.

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

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

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

Past audits identified uncertainties about the completeness and existence of the reported values of inventory. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the NWCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. Often, it is more economical to repair these inventory items rather than to procure these items. The NWCF often relies on weapon systems and machinery no longer in production. As a result, the NWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

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

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

Not applicable.

1.O. General Property, Plant and Equipment

The DoD real property capitalization threshold is currently \$20 thousand. The NWCF 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.

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

When it is in the best interest of the government, the NWCF provides government property to contractors to complete contract work. The NWCF either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on the NWCF's 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, NWCF reports only government property in the possession of contractors that is maintained in NWCF's property systems. The DoD has issued new property accountability and reporting requirements that require NWCF to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

1.P. Advances and Prepayments

The DoD's 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 reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. 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. When a lease is essentially equivalent to an installment purchase of property (a capital lease), NWCF records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. The NWCF records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The NWCF as the lessee receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by NWCF in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Services 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 NWCF 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 NWCF's Balance Sheet.

The NWCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, NWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements 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 and ships 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 NWCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

1.T. Accrued Leave

The NWCF reports 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 that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The NWCF purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow the NWCF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. 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

Not applicable.

1.X. Unexpended Obligations

The NWCF obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered, 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 have not been recorded in the fund holder's accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

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

1.Z. Significant Events

Beginning in 4th Quarter, FY 2007, DoD 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.” During 1st Quarter, FY 2008, DON started implementing the Navy ERP which will subsequently be rolled out to additional Navy Commands.

Note 2.	Nonentity Assets
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As of June 30	2008	2007
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	3,397,724.19	2,924,416.38
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 3,397,724.19	\$ 2,924,416.38
3. Total Nonentity Assets	\$ 3,397,724.19	\$ 2,924,416.38
4. Total Entity Assets	\$ 15,781,089,379.99	\$ 18,220,021,682.53
5. Total Assets	\$ 15,784,487,104.18	\$ 18,222,946,098.91

Standard Disclosures

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

The Nonentity Accounts Receivable amount represents interest, penalties, fines and administrative fees. These fees do not belong to NWCF and will be distributed directly 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	\$ 0.00	\$ 0.00
B. Revolving Funds	621,502,120.58	952,811,706.59
C. Trust Funds	0.00	0.00
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 621,502,120.58	\$ 952,811,706.59
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 621,502,120.58	\$ 952,811,706.59
B. Fund Balance per NWCF	621,502,120.58	952,811,706.59
3. Reconciling Amount	\$ 0.00	\$ 0.00

Status of Fund Balance with Treasury

As of June 30	2008	2007
1. Unobligated Balance		
A. Available	\$ 6,808,050,340.02	\$ 10,546,076,961.54
B. Unavailable	101,015,003.35	114,717,404.50
2. Obligated Balance not yet Disbursed	\$ 12,579,151,713.53	\$ 8,510,442,880.71
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (18,866,714,936.32)	\$ (18,218,425,540.16)
5. Total	\$ 621,502,120.58	\$ 952,811,706.59

Standard Disclosures

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support 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 yet been received, services that have not been performed, and goods and services that have been delivered/received but not yet paid.

Nonbudgetary FBWT includes entity and nonentity FBWT accounts which represent adjustments that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

NonFBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. This amount is comprised of contract authority, accounts receivable, and unfilled orders without advance from customers for the Navy Working Capital Fund (NWCF). This category reduces the Status of FBWT.

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

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	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

Per OUSD(C) direction, the NWCF Suspense/Budget Clearing Accounts are being reported under the Department of the Navy General Fund, Index 17.

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)	\$ 112,860,456.20	\$ 80,905,575.55	\$ 104,483,803.17	23,578,227.62
B. Negative Unliquidated Obligations (NULO)	260,537.61	696,517.63	396,647.45	(299,870.18)
C. In-Transit Disbursements	730,408,911.90	556,696,811.95	861,303,536.82	304,606,724.87
Total	\$ 843,529,905.71	\$ 638,298,905.13	\$ 966,183,987.44	327,885,082.31

Standard Disclosures

A portion of the amounts reported on the metric furnished by Defense Finance and Accounting Service (DFAS) Arlington is not supported by NWCF accounting systems. These discrepancies exist within DFAS Columbus reports.

Problem Disbursements are reported as an absolute value amount. Absolute value is the sum of the positive values of debit and credit transactions without regard to the plus or minus signs.

An Unmatched Disbursement occurs when a payment is not matched to a corresponding obligation in the accounting system.

A Negative Unliquidated Obligation occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system.

The In-transit Disbursements represent the absolute value of disbursements and collections made by a Department of Defense disbursing activity on behalf of an accountable activity and have not yet been posted to the accounting system.

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	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
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	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. 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

0.00

0.00

0.00

0.00

5. Total Nonmarketable, Market-Based

0.00

0.00

0.00

0.00

B. Accrued Interest

0.00

0.00

0.00

C. Total

Intragovernmental Securities

\$

0.00

\$

0.00

\$

0.00

\$

0.00

4. Other Investments

A. Total Other Investments

\$

0.00

\$

0.00

\$

0.00

N/A

Not Applicable

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	\$ 508,953,248.10	N/A	\$ 508,953,248.10	\$ 351,849,538.28
2. Nonfederal Receivables (From the Public)	\$ (157,133,485.07)	\$ (28,914.11)	\$ (157,162,399.18)	\$ 76,326,486.58
3. Total Accounts Receivable	\$ 351,819,763.03	\$ (28,914.11)	\$ 351,790,848.92	\$ 428,176,024.86

Aged Accounts Receivable

As of June 30	2008		4th Quarter 2007	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 720,272,402.63	\$ 56,218,172.30	\$ 806,068,142.61	\$ 37,057,212.09
Noncurrent	1,006,970.48	6,848,717.14	0.00	7,179,187.99
Delinquent				
1 to 30 days	\$ 4,679,937.89	\$ 4,978,568.08	\$ 10,203,351.03	\$ 7,681,520.53
31 to 60 days	2,053,502.64	2,391,013.43	1,693,392.71	4,577,663.08
61 to 90 days	569,467.41	1,263,016.37	1,920,990.76	6,171,171.49
91 to 180 days	2,328,171.63	12,580,586.16	1,742,327.10	6,467,818.76
181 days to 1 year	3,569,595.68	19,198,897.03	1,015,602.68	6,493,492.70
Greater than 1 year and less than or equal to 2 years	500,999.76	6,259,586.25	1,072,050.53	2,272,145.52
Greater than 2 years and less than or equal to 6 years	72,645.80	4,623,549.91	43,620.04	4,113,765.05
Greater than 6 years and less than or equal to 10 years	0.00	1,468,682.07	0.00	1,588,582.33
Greater than 10 years	0.00	5,463,835.33	0.00	4,736,828.40
Subtotal	\$ 735,053,693.92	\$ 121,294,624.07	\$ 823,759,477.46	\$ 88,339,387.94
Less Supported Undistributed Collections	(177,567,637.06)	(280,676,636.12)	(79,559,897.17)	(4,114,075.75)
Less Eliminations	(47,625,554.81)	0.00	(46,521,036.39)	0.00
Less Other	(907,253.95)	2,248,526.98	360,371.46	1,881,746.54
Total	\$ 508,953,248.10	\$ (157,133,485.07)	\$ 698,038,915.36	\$ 86,107,058.73

Standard Disclosures

The nondelinquent noncurrent nonfederal accounts receivable represents the remaining balance of the Guam Water Authority (GWA) debt to Base Support, Navy. The Department of the Navy (DON) filed a civil suit against the Government of Guam and GWA for failure to pay for water from January 1995 to October 1999. The court ordered final settlement allowed the Government of Guam and GWA to pay the debt of \$9 million plus interest by making 105 monthly payments beginning October 1, 2003. Base Support, Navy has received the scheduled monthly payments to date and the account is current.

The DON is taking various collection actions to eliminate intragovernmental and nonfederal receivables older than 30 days. The NWCF and Defense Finance and Accounting Service (DFAS) are working together to ensure timely collection/resolution of delinquent receivables, as well as timely submission of receivables to debt collection in accordance with guidance. The NWCF Commands are also actively contacting agencies by phone, email or one-on-one visits to resolve disputed accounts receivable. The DFAS is setting up a Government Receivables Debt Collection Office to act as a liaison between government agencies, ensuring timely collection of government receivables.

The NWCF has an abnormal Accounts Receivable Nonfederal balance of a negative \$157.1 million. This abnormal balance is due to interim business reporting processes at Naval Air System Command (NAVAIR) as a result of the transition to the Navy's Enterprise Resource Planning (ERP) System. NAVAIR is coordinating with the Navy ERP Program Office and the Office of Financial Operations (FMO) to implement a solution to this ERP implementation issue. This issue was discovered during 2nd Quarter FY 08 Reporting. A systems change request (SCR) is currently in process to automate the accrual process and account for accruals on outgoing funding documents. The implementation date of the SCR is unknown.

In the aging schedule above, the other consists of required adjustments to reconcile account totals with the Seller Elimination Report. The NWCF is working with DFAS as part of the DON Financial Improvement Program to correct this issue.

Note 6.	Other Assets
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As of June 30	2008	2007
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 2,843,624.23	\$ 1,780,989.24
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 2,843,624.23	\$ 1,780,989.24
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 19,500,181.51	\$ 27,481,547.28
B. Advances and Prepayments on behalf of Foreign Governments	0.00	0.00
C. Advances and Prepayments	233,167,698.77	142,224,812.16
D. Other Assets (With the Public)	92,076,101.30	178,837,231.36
E. Total Nonfederal Other Assets	\$ 344,743,981.58	\$ 348,543,590.80
3. Total Other Assets	\$ 347,587,605.81	\$ 350,324,580.04

Standard Disclosures

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

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

The Contract Financing Payment balance of \$19.5 million is entirely comprised of estimated future funded payments that will be paid to the contractor upon future delivery and Federal Government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

Other Disclosures

The outstanding debt principal amount in Other Assets (With the Public) is reported in order to reconcile with the amount incorrectly reported by the Federal Financing Bank (FFB). As required by the Office of Under Secretary of Defense (Comptroller) memorandum of January 22, 1999, Transportation, Military Sealift Command is correctly recording payments to FFB as operating expense. The misclassification by FFB has generated this long-standing reporting problem. See additional discussion in Note 13, Debt.

Note 7.	Cash and Other Monetary Assets
----------------	---------------------------------------

As of June 30	2008	2007
1. Cash	\$ (5,358,209.86)	\$ 0.00
2. Foreign Currency	0.00	0.00
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ (5,358,209.86)</u>	<u>\$ 0.00</u>

Cash has an abnormal balance of \$5.4 million due to a disconnect within a feeder system used by the Naval Facilities Engineering Command (NAVFAC). The disconnect is a result of a posting issue within the feeder system that DON will need to research and resolve during 4th Quarter, FY 2008.

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

Direct Loan and/or Loan Guarantee Programs

Not Applicable

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	\$ 11,014,143,364.27	\$ 12,380,971,140.43
2. Operating Materiel & Supplies, Net	326,537,748.59	443,044,442.39
3. Stockpile Materiel, Net	0.00	0.00
4. Total	\$ 11,340,681,112.86	\$ 12,824,015,582.82

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	\$ 20,932,557,979.25	\$ (22,474,926,623.83)	(1,542,368,644.58)	\$ 4,026,350,841.13	LAC,MAC
B. Held for Repair	16,153,460,679.34	(4,000,639,608.08)	12,152,821,071.26	7,964,440,650.92	LAC,MAC
C. Excess, Obsolete, and Unserviceable	977,799,411.10	(977,799,411.10)	0.00	0.00	NRV
D. Raw Material	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	403,690,937.59	0.00	403,690,937.59	390,179,648.38	AC
F. Total	\$ 38,467,509,007.28	\$ (27,453,365,643.01)	11,014,143,364.27	\$ 12,380,971,140.43	

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

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

- 1) Distributions without reimbursement are made when authorized by Department of Defense (DoD) directives;
- 2) War reserve material in the amount of \$79.8 million includes repair items that are considered restricted; and
- 3) Inventory, with the exception of safety stocks, may be sold to foreign, state, and local governments; private parties; and contractors in accordance with current policies and guidance or at the direction of the President.

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

Inventory available and purchased for resale includes consumable spare and repair parts as well as repairable items owned and managed by the Navy Working Capital Fund (NWCF) and include all material available for customer purchase. Inventory Available and Purchased for Resale reflects an abnormal balance of \$1.5 billion for 3rd Quarter, FY 2008 due to reclassification of stock-in-transit receipts to material turned into store allowance account. The stock in transit account is a normal credit balance account. As defined in the Office of Secretary of Defense (OSD) approved Cost of Goods Model, the stock in transit account is a child account to USSGL 1523 – Inventory Held for Repair. The reclassification of the values is a debit to the stock-in-transit account, increasing the value of Inventory Held for Repair and a credit to the material turned into store allowance account, inventory Held for Sales Allowance account decreasing the Inventory Available and Purchased for Resale to an

abnormal balance. There is no effect on Net Inventory. Inventory held for repair consists of damaged material that requires repair to make it usable and all economically repairable material. Excess inventory includes scrap materials or items that are uneconomical to repair and are awaiting disposal. Work in process includes costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer.

Federal Accounting Standards require disclosure of the amount of inventory held for "future sale." The NWCF currently has no inventory held for future sale reported for 3rd Quarter, FY 2008 in Inventory Held for Sale, Net. All inventory is currently planned for sale next fiscal year.

Inventory is assigned to categories based on guidance in the DoD Financial Management Regulation, Volume 11B, Chapter 55.

Other Disclosures

The Supply Management, Navy's inventory is reported using the approximation of historical cost method as discussed in the FMR Volume 11B, Chapter 55. The approximation of historical cost is calculated by using the latest acquisition cost less the allowance for holding gains and losses. Legacy inventory systems were designed to capture materiel management information rather than accounting data. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with the Statement of Federal Financial Accounting Standards (SFFAS) No.3, Accounting for Inventory and Related Property. Since the implementation of the Office of Under Secretary of Defense, Comptroller (OUSD (C)) Cost of Goods Sold Model, prior year values in equity, inventory, and inventory allowance accounts have been impacted and remain noncompliant with SFFAS No.3 and generally accepted accounting principles. The Navy Enterprise Resource Planning System will value inventory at moving average cost and will be compliant with necessary guidance.

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	\$ 326,537,748.59	\$ 0.00	\$ 326,537,748.59	\$ 443,044,442.39		SP, LAC, MAC
B. Held for Repair	0.00	0.00	0.00	0.00		SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00		NRV
D. Total	\$ 326,537,748.59	\$ 0.00	\$ 326,537,748.59	\$ 443,044,442.39		

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

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

Federal Accounting Standards require disclosure of the amount of OM&S held for "future use." The NWCF reports that \$14.9 million of OM&S is held for future use and is included in the "held for use" category.

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

In order to standardize reporting of the categories held for use, held for repair, and excess, obsolete, unserviceable, the Department of the Navy implemented the OUSD(C) condition code crosswalk as defined in the memorandum, "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies," of August 12, 2002. In addition, the condition code crosswalk was amended to include code "V" in the excess, obsolete, unserviceable category in September 2002.

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	\$ 39,335,160.76	N/A	\$ 39,335,160.76	\$ 42,987,819.74
B. Buildings, Structures, and Facilities	S/L	20 Or 40	5,794,569,745.70	\$ (3,944,224,370.83)	1,850,345,374.87	2,015,250,666.91
C. Leasehold Improvements	S/L	lease term	347,974.32	(280,536.30)	67,438.02	55,422.20
D. Software	S/L	2-5 Or 10	475,498,977.15	(335,054,277.43)	140,444,699.72	161,036,006.65
E. General Equipment	S/L	5 or 10	2,510,319,745.68	(2,034,105,763.65)	476,213,982.03	740,540,673.00
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00
H. Construction-in- Progress	N/A	N/A	619,643,386.47	N/A	619,643,386.47	703,731,924.70
I. Other			2,233,584.00	0.00	2,233,584.00	4,015,691.40
J. Total General PP&E			<u>\$ 9,441,948,574.08</u>	<u>\$ (6,313,664,948.21)</u>	<u>\$ 3,128,283,625.87</u>	<u>\$ 3,667,618,204.60</u>

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Standard Disclosures

There are no known restrictions on the use or convertibility of General Property, Plant and Equipment (PP&E), nor are there any adjustments resulting from changes in the accounting standards.

Military equipment is reported on the financial statements of the Department of the Navy General Fund (DON GF).

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

Heritage assets and stewardship land are reported on the financial statements of the DON GF.

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

Not Applicable

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	5,878,920.90	2,924,764.64
D. Total Intragovernmental Liabilities	\$ 5,878,920.90	\$ 2,924,764.64
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	1,047,588,349.00	1,185,039,105.63
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	0.00
E. Total Nonfederal Liabilities	\$ 1,047,588,349.00	\$ 1,185,039,105.63
3. Total Liabilities Not Covered by Budgetary Resources	\$ 1,053,467,269.90	\$ 1,187,963,870.27
4. Total Liabilities Covered by Budgetary Resources	\$ 4,644,224,837.61	\$ 5,091,680,091.37
5. Total Liabilities	\$ 5,697,692,107.51	\$ 6,279,643,961.64

Standard Disclosures

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

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

Other Intragovernmental Liabilities consists of interest, penalties, fines and administrative fees. These fees do not belong to Navy Working Capital Fund (NWCF), but are assessed to contracts and legal documents that cite NWCF lines of accounting. These fees will be distributed directly to the U.S. Treasury.

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 Federal Employees' Compensation Act Actuarial liability of \$1.0 billion. See Note 17, Military Retirement and Other Federal Employment Benefits, for additional disclosures.

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	\$ 166,059,286.50	\$ N/A	\$ 166,059,286.50	\$ 176,232,908.38
2. Nonfederal Payables (to the Public)	2,694,017,727.44	0.00	2,694,017,727.44	1,510,079,026.35
3. Total	\$ 2,860,077,013.94	\$ 0.00	\$ 2,860,077,013.94	\$ 1,686,311,934.73

Standard Disclosures

The Navy Working Capital Fund's (NWCF) systems do not track Intragovernmental transactions by customer at the transaction level. Therefore, internal Department of Defense buyer-side balances are adjusted to agree with internal seller-side balances for revenue, accounts receivable and unearned revenue. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

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	70,696,517.90	1,259,558.56	71,956,076.46	(25,689,418.70)	147,534,653.12
C. Total Agency Debt	\$ 70,696,517.90	\$ 1,259,558.56	\$ 71,956,076.46	\$ (25,689,418.70)	\$ 147,534,653.12
2. Total Debt	\$ 70,696,517.90	\$ 1,259,558.56	\$ 71,956,076.46	\$ (25,689,418.70)	\$ 147,534,653.12

Standard Disclosures

The increase in Federal Financing Bank (FFB) debt for Net Borrowing FY 2008 is the accrued interest on the loan. The decrease in FFB debt for Net Borrowing FY 2007 reflects payments of interest and principal.

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

The FFB is one of the institutions that provided loans to the vessel owners. The FFB reports that Transportation, Military Sealift Command (MSC) has a debt in the amount of \$72.0 million, which represents an outstanding principal balance of \$69.6 million and accrued interest payable of \$2.3 million. The MSC does not owe this debt to FFB. This debt is a public debt owed by the private vessel owners. In order to simplify the payments to FFB and to meet its requirements, FFB cross disburses the semi-annual principal and interest payments directly from the Navy Working Capital Fund (NWCF). This is done instead of having MSC make capital hire payments to the vessel owners, who would in turn make loan obligation payments to FFB. It is not uncommon for the Federal Government to make payments directly to the bank (FFB) and mirrors other time charters where payment is assigned directly to a bank. However, when establishing the loan, FFB coded the loan as a government debt instead of a public debt. This coding shall remain until the loan has been liquidated.

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

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

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)	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00		0.00
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	0.00	0.00	0.00		0.00
2. Environmental Closure Requirements	0.00	0.00	0.00		0.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00		0.00
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
C. Base Realignment and Closure Installations					
1. Installation Restoration Program	0.00	0.00	0.00		0.00
2. Military Munitions Response Program	0.00	0.00	0.00		0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00		0.00
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	0.00	0.00	0.00		0.00
2. Non-Nuclear Powered Military Equipment	0.00	0.00	0.00		0.00
3. Other National Defense Weapons Systems	0.00	0.00	0.00		0.00
4. Other	0.00	0.00	0.00		0.00
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	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00

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.	0.00	0.00
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

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

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	\$ 216,068,982.84	\$ 0.00	\$ 216,068,982.84	\$ 201,922,963.24
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00
F. Custodial Liabilities	5,878,920.90	0.00	5,878,920.90	2,924,764.64
G. Employer Contribution and Payroll Taxes Payable	20,646,048.73	0.00	20,646,048.73	16,200,986.65
H. Other Liabilities	0.00	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 242,593,952.47	\$ 0.00	\$ 242,593,952.47	\$ 221,048,714.53
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 729,929,733.43	\$ 0.00	\$ 729,929,733.43	\$ 641,266,627.96
B. Advances from Others	241,548,639.45	0.00	241,548,639.45	248,543,626.15
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(10,052,345.19)	0.00	(10,052,345.19)	89,039,522.50
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Contract Holdbacks	1.00	0.00	1.00	1.00
J. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00	0.00
K. Contingent Liabilities	489,513,460.22	19,500,181.51	509,013,641.73	505,925,010.37
L. Other Liabilities	5,037,045.22	0.00	5,037,045.22	1,554,934,765.65
M. Total Nonfederal Other Liabilities	\$ 1,455,976,534.13	\$ 19,500,181.51	\$ 1,475,476,715.64	\$ 3,039,709,553.63
3. Total Other Liabilities	\$ 1,698,570,486.60	\$ 19,500,181.51	\$ 1,718,070,668.11	\$ 3,260,758,268.16

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
<hr/>						
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
<hr/>						
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<hr/>						
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

Standard Disclosures

Deposit funds and suspense accounts consist of an abnormal unsupported undistributed collections balance of \$12.2 million for this reporting period. During FY 2007, the Navy Working Capital Fund (NWCF) and the Defense Finance and Accounting Service (DFAS) reconciled unsupported undistributed collections and disbursements, and per Office of Under Secretary of Defense (Comptroller) policy, 26 NWCF activities cleared stabilized unsupported undistributed collections and disbursements. However, Transportation, Military Sealift Command (MSC) did not complete reconciliation of their abnormal balance in unsupported undistributed collections during FY 2008. The reconciliation of unsupported undistributed collections at MSC will be completed during 4th Quarter, FY 2008.

Intragovernmental Other Liabilities consists of liabilities for depot level repairable carcass returns and liability for future contract financing payments.

Contingent Liabilities includes \$19.5 million in estimated future contract financing payments that will be paid to the contractors upon delivery and Federal Government acceptance. In accordance with contract terms, specific rights to the contractor's work vest with the Federal Government when a specific type of contract financing payment is made. This action protects

taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The NWCF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Federal Government acceptance. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to NWCF and the amount of potential future payments is estimable, NWCF has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Federal Government acceptance.

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. 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 Federal 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 General Fund (GF) records all Judgment Fund liabilities, including any related to Navy Working Capital Fund (NWCF), in Note 11, Liabilities not Covered by Budgetary Resources, and Note 12, Accounts Payable. See DON GF Notes 11 and 12 for details.

The NWCF currently has four cases that meet the existing FY 2006 NWCF materiality threshold of \$5.0 million. All four cases are against the NWCF. DON legal counsel was unable to express an opinion concerning the likely outcome of these cases. This declaration is fully supported by the preliminary and final Legal Representation letters and the subsidiary management summary schedule.

Based on 4th Quarter FY 2007, NWCF materiality threshold for reporting litigation, claims, or assessments is \$4.5 million. The Office of Navy General Counsel conducts a review of litigation and claims involving NWCF. The FY 2008 preliminary and final Legal Representation letters are not due until the 4th Quarter.

In response to a Department of Defense, 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 GF recognized and disclosed an estimate for contingent legal liabilities. The methodology considers the likelihood of an unfavorable outcome or potential liability and is provided as an overall assessment of all cases currently pending litigation. This average represents the percentage that has historically been paid on claims and is based entirely on historical data. Until sufficient historical data can be collected for NWCF, the estimate recorded on the DON GF financial statements will consider all DON funding sources together.

Other Commitments and Contingencies

The NWCF does not have obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment.

The NWCF has contractual arrangements which may require future financial obligations (i.e. undelivered orders). These undelivered orders are estimated at \$9.2 billion as of June 30, 2008. Included in this total is \$19.5 million that is also included in the balance for nonfederal other liabilities related to contracting financing payments.

The NWCF 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, NWCF does not have a systemic process by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present NWCF's contingent liabilities.

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	\$ 1,047,588,349.00		\$ 0.00	\$ 1,047,588,349.00	\$ 1,185,039,105.63
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	\$ 1,047,588,349.00		\$ 0.00	\$ 1,047,588,349.00	\$ 1,185,039,105.63
3. Other Federal Employment Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,047,588,349.00		\$ 0.00	\$ 1,047,588,349.00	\$ 1,185,039,105.63

Actuarial Cost Method Used:

Assumptions:

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

Standard Disclosures

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

The assumptions relate to Federal Employees' Compensation Act (FECA). The projected annual benefit payments are discounted to the present value using Office of Management and Budget's economic assumptions for ten year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also taken into consideration when calculating projected future benefits.

The interest rate assumptions utilized when discounting were as follows:

2007

4.930% in Year 1

5.078% in Year 2 and thereafter

To provide more specificity concerning the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) or 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 sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2007 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2007 projection to the average pattern for the projections of the most recent three years.

There have been no changes in the calculation of actuarial liability since last reporting period.

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	\$ 3,528,392,912.91	\$ 3,408,455,307.94
2. Public Costs	14,620,888,914.24	13,562,642,359.69
3. Total Costs	\$ 18,149,281,827.15	\$ 16,971,097,667.63
4. Intragovernmental Earned Revenue	\$ (15,066,867,217.98)	\$ (15,033,287,615.99)
5. Public Earned Revenue	(734,993,158.52)	(733,477,739.18)
6. Total Earned Revenue	\$ (15,801,860,376.50)	\$ (15,766,765,355.17)
7. Net Cost of Operations	\$ 2,347,421,450.65	\$ 1,204,332,312.46

Standard Disclosures

Intragovernmental costs and revenues are related to transactions made between two reporting entities within the Federal Government.

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

The Navy Working Capital Fund's (NWCF) financial management systems do not track intragovernmental transactions by customer at the transactional level. Therefore, internal Department of Defense buyer-side balances are adjusted to agree with internal seller-side balances for revenue or by other means. Expenses were adjusted by reclassifying amounts between federal and nonfederal expenses.

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

The NWCF financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the NWCF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Generally Accepted Accounting Principles (GAAP) for federal agencies. These systems were not designed to collect and record financial information as required by GAAP. The NWCF has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance. Until all of NWCF's financial and nonfinancial feeder systems and processes are corrected, NWCF's financial data will be based on transactions from nonfinancial feeder systems, and adjustments for known accruals of major items such as payroll expenses and accounts payable will continue. The

NWCF assertion date is December 2012 following the Navy Enterprise Resource Planning System implementation.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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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	\$ 125,023,684.13	\$ 0.00	\$ 123,847,640.48	\$ 0.00
B. Civilian Health	202,811,208.00	0.00	220,019,748.00	0.00
C. Civilian Life Insurance	697,224.13	0.00	634,338.84	0.00
D. Judgment Fund	0.00	0.00	0.00	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	\$ 328,532,116.26	\$ 0.00	\$ 344,501,727.32	\$ 0.00

Standard Disclosures

The Cumulative Results of Operations, Other Financing Sources, Other consists of gains and losses associated with the financial closure of Navy Working Capital Fund activities.

The Cumulative Results of Operations, Budgetary Financing Sources, Other adjustments (rescissions, etc) consists of a rescission of an appropriation.

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	\$ 9,188,902,732.81	\$ 4,694,137,556.55
2. Available Borrowing and Contract Authority at the End of the Period	1,417,303,769.37	7,328,900,859.37

Standard Disclosures

An abnormal balance occurred as a result of a reprogramming from the Navy Working Capital Fund (NWCF) to Navy General Fund (GF). Per Legal Authority: PL 109-148 (119 STAT 2735), the NWCF 97X4930.2 processed a balance transfer of \$82.8 million to the Navy GF.

The NWCF reports all amounts for obligations incurred under apportionment category B. Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories. All NWCF obligations incurred (\$18.8 billion), were through reimbursables.

The Statement of Budgetary Resources (SBR) includes intraentity transactions, which have not been eliminated because the statements are presented as combined.

The SBR is an image of the monthly Report on Budget Execution, Standard Form 133 (SF 133). There is a presentational difference between the SF 133 and Statement of Budgetary Resources (SBR). The SF 133 reports the net value of all activities. The SBR reports positive numbers on Line 3.D.3. and negative numbers on Line 10 resulting in an absolute value appearance. Since overstatements of Anticipated Reimbursements have occurred, the corrective actions taken at the business area level have resulted in a \$4.9 billion difference. The majority of this difference is a result of the Navy Enterprise Resource Planning System (Navy ERP) implementation and the subsequent overstatement of their annual operating budget (AOB) amounts first noted in 2nd Quarter FY 2008. The NWCF and Defense Finance and Accounting Service (DFAS) are working to resolve these system deficiencies by the start of FY 2009.

This note has been modified to accurately report the remaining available balance of borrowing and contract authority. Previously, the NWCF reported the amount of the contract/borrowing authority that had been initially used and not subsequently replaced by reimbursement or appropriation. In addition, contract authority within the NWCF feeder systems is reported as of the start of the fiscal year and is not updated upon use.

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	\$ 18,797,112,616.81	\$ 14,316,482,852.34
2. Less: Spending authority from offsetting collections and recoveries (-)	(22,228,919,340.87)	(20,939,555,960.75)
3. Obligations net of offsetting collections and recoveries	\$ (3,431,806,724.06)	\$ (6,623,073,108.41)
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	\$ (3,431,806,724.06)	\$ (6,623,073,108.41)
Other Resources:		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	17,103,671.17
8. Imputed financing from costs absorbed by others	328,532,116.26	344,501,727.32
9. Other (+/-)	216,541,693.12	(373,921,336.11)
10. Net other resources used to finance activities	\$ 545,073,809.38	\$ (12,315,937.62)
11. Total resources used to finance activities	\$ (2,886,732,914.68)	\$ (6,635,389,046.03)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ (1,313,643,857.61)	\$ 3,005,081,738.95
12b. Unfilled Customer Orders	4,800,754,799.90	3,781,587,633.56
13. Resources that fund expenses recognized in prior Periods (-)	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0.00	0.00
15. Resources that finance the acquisition of assets (-)	(3,500,917,073.45)	(3,347,440,942.74)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	(216,541,693.12)	356,817,664.94
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (230,347,824.28)	\$ 3,796,046,094.71
18. Total resources used to finance the Net Cost of Operations	\$ (3,117,080,738.96)	\$ (2,839,342,951.32)

Navy Working Capital Fund

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	\$ 0.00	\$ 0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 0.00	\$ 0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 181,015,865.19	\$ 163,422,647.86
26. Revaluation of assets or liabilities (+/-)	848,486,103.19	1,451,674,279.34
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	10,407,687,191.02	8,311,532,280.50
27c. Operating Material and Supplies Used	0.00	0.00
27d. Other	(5,972,686,969.79)	(5,882,953,943.92)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 5,464,502,189.61	\$ 4,043,675,263.78
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ 5,464,502,189.61	\$ 4,043,675,263.78
30. Net Cost of Operations	\$ 2,347,421,450.65	\$ 1,204,332,312.46

Standard Disclosures

Due to Navy Working Capital Fund (NWCF) financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency. As a result of these system limitations, resources that finance the acquisition of assets on the reconciliation of Net Cost of Operations to Budget was adjusted upward by \$1.8 billion (absolute amount) at the end of FY 2007 to bring it into balance with the Statement of Net Cost.

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

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

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

Other Resources Used to Finance Items not Part of the Net Cost of Operations consists of transfers of assets out of NWCF.

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

There is a difference of \$2.8 million between the amounts reported as Liabilities not Covered by Budgetary Resources and amounts reported as Components Requiring or Generating Resources in Future Periods on the Statement of Financing. This difference is attributable to the increase in nonentity receivables through 3rd Quarter, FY 2008, as the collection of nonentity receivables will not require or generate resources for NWCF. These balances are deposited to U.S. Treasury and belong to the general cash balances of the Federal Government.

Note 22.

Disclosures Related to Incidental Custodial Collections

Not Applicable

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
ASSETS					
Fund balance with					
Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Investments	0.00	0.00	0.00	0.00	0.00
Accounts and Interest Receivable	0.00	0.00	0.00	0.00	0.00
Other Assets	0.00	0.00	0.00	0.00	0.00
Total Assets	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
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	0.00	0.00	0.00
Total Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	0.00	0.00	0.00
Total Liabilities and Net Position	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
STATEMENT OF NET COST					
For the period ended June 30, 2008					
Program Costs	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Less Earned Revenue	0.00	0.00	0.00	0.00	0.00
Net Program Costs	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
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	\$ 0.00	\$ 0.00	\$ 0.00

Navy Working Capital 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	\$ 0.00	\$ 0.00	\$ 0.00
Net Cost of Operations	0.00	0.00	0.00	0.00	0.00
Budgetary Financing Sources	0.00	0.00	0.00	0.00	0.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net Position End of Period	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not Applicable

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		0.00		0.00		0.00	0.00
2010		0.00		0.00		0.00	0.00
2011		0.00		0.00		0.00	0.00
2012		0.00		0.00		0.00	0.00
2013		0.00		0.00		0.00	0.00
After 5 Years		0.00		0.00		0.00	0.00

**Total Future Lease
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	0.00
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Not Applicable

Note 25.	Restatements
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Not Applicable