

Department of Defense
 Department of the Navy
CONSOLIDATED BALANCE SHEET
 As of June 30, 2009 and 2008

	2009 Consolidated	Restated 2008 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	\$ 164,735,409,205.59	\$ 155,463,353,604.58
2. Investments (Note 4)	4,134,815.09	10,354,583.22
3. Accounts Receivable (Note 5)	247,063,373.19	326,491,104.56
4. Other Assets (Note 6)	433,485,650.96	387,575,118.77
5. Total Intragovernmental Assets	<u>\$ 165,420,093,044.83</u>	<u>\$ 156,187,774,411.13</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 214,888,383.36	\$ 142,410,532.48
C. Accounts Receivable, Net (Note 5)	4,127,274,125.39	3,860,361,844.84
E. Inventory and Related Property, Net (Note 9)	61,568,250,313.40	61,297,328,049.37
F. General Property, Plant and Equipment, Net (Note 10)	214,829,310,055.61	201,197,117,977.92
H. Other Assets (Note 6)	31,552,170,882.64	28,802,864,327.89
2. TOTAL ASSETS	<u><u>\$ 477,711,986,805.23</u></u>	<u><u>\$ 451,487,857,143.63</u></u>
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 1,058,268,144.08	\$ 1,114,109,766.86
3. Other Liabilities (Note 15 & 16)	4,567,393,993.81	4,959,343,846.42
4. Total Intragovernmental Liabilities	<u>\$ 5,625,662,137.89</u>	<u>\$ 6,073,453,613.28</u>
B. Accounts Payable (Note 12)	\$ 9,450,374,920.04	\$ 1,909,256,584.40
C. Military Retirement and Other Federal Employment Benefits (Note 17)	1,650,037,760.55	1,648,124,694.05
D. Environmental and Disposal Liabilities (Note 14)	18,566,123,053.39	18,033,470,222.05
F. Other Liabilities (Note 15 & Note 16)	6,794,412,056.21	7,290,837,903.24
5. TOTAL LIABILITIES	<u>\$ 42,086,609,928.08</u>	<u>\$ 34,955,143,017.02</u>
6. COMMITMENTS AND CONTINGENCIES (NOTE 16)		
7. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 141,075.54	\$ 0.00
B. Unexpended Appropriations - Other Funds	184,396,919,203.21	179,166,933,893.16
C. Cumulative Results of Operations - Earmarked Funds	22,341,092.49	27,137,628.73
D. Cumulative Results of Operations - Other Funds	251,205,975,505.91	237,338,642,604.72
8. TOTAL NET POSITION	<u>\$ 435,625,376,877.15</u>	<u>\$ 416,532,714,126.61</u>
9. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 477,711,986,805.23</u></u>	<u><u>\$ 451,487,857,143.63</u></u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2009 and 2008

	<u>2009 Earmarked Funds</u>	<u>2009 All Other Funds</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 24,087,944.30	\$ 235,972,528,599.75
2. Prior Period Adjustments:		
2.B. Corrections of errors (+/-)	0.00	26,909,554,857.44
3. Beginning balances, as adjusted	<u>24,087,944.30</u>	<u>262,882,083,457.19</u>
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	97,083,680,150.79
4.C. Nonexchange revenue	134,503.74	15,836,756.60
4.D. Donations and forfeitures of cash	15,191,480.62	137,653.75
4.E. Transfers-in/out without reimbursement	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	(395,245.40)
5.B. Transfers-in/out without reimbursement (+/-)	0.00	227,773,027.62
5.C. Imputed financing from costs absorbed by others	0.00	561,201,185.40
5.D. Other (+/-)	0.00	4,267,314,202.71
6. Total Financing Sources	<u>15,325,984.36</u>	<u>102,155,547,731.47</u>
7. Net Cost of Operations (+/-)	<u>17,072,836.17</u>	<u>113,831,655,682.75</u>
8. Net Change	<u>(1,746,851.81)</u>	<u>(11,676,107,951.28)</u>
9. Cumulative Results of Operations	22,341,092.49	251,205,975,505.91
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 141,075.54	\$ 121,305,222,750.63
11. Prior Period Adjustments:		
11.B. Corrections of errors	0.00	(4,110,420,396.63)
12. Beginning balances, as adjusted	<u>141,075.54</u>	<u>117,194,802,354.00</u>
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	165,233,492,000.00
13.B. Appropriations transferred-in/out	0.00	951,914,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(1,899,609,000.00)
13.D. Appropriations used	0.00	(97,083,680,150.79)
14. Total Budgetary Financing Sources	0.00	67,202,116,849.21
15. Unexpended Appropriations	<u>141,075.54</u>	<u>184,396,919,203.21</u>
16. Net Position	<u>22,482,168.03</u>	<u>435,602,894,709.12</u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2009 and 2008

	<u>2009 Eliminations</u>	<u>2009 Consolidated</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 235,996,616,544.05
2. Prior Period Adjustments:		
2.B. Corrections of errors (+/-)	0.00	26,909,554,857.44
3. Beginning balances, as adjusted	<u>0.00</u>	<u>262,906,171,401.49</u>
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	97,083,680,150.79
4.C. Nonexchange revenue	0.00	15,971,260.34
4.D. Donations and forfeitures of cash	0.00	15,329,134.37
4.E. Transfers-in/out without reimbursement	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	(395,245.40)
5.B. Transfers-in/out without reimbursement (+/-)	0.00	227,773,027.62
5.C. Imputed financing from costs absorbed by others	0.00	561,201,185.40
5.D. Other (+/-)	0.00	4,267,314,202.71
6. Total Financing Sources	<u>0.00</u>	<u>102,170,873,715.83</u>
7. Net Cost of Operations (+/-)	<u>0.00</u>	<u>113,848,728,518.92</u>
8. Net Change	<u>0.00</u>	<u>(11,677,854,803.09)</u>
9. Cumulative Results of Operations	<u>0.00</u>	<u>251,228,316,598.40</u>
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 121,305,363,826.17
11. Prior Period Adjustments:		
11.B. Corrections of errors	0.00	(4,110,420,396.63)
12. Beginning balances, as adjusted	<u>0.00</u>	<u>117,194,943,429.54</u>
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	165,233,492,000.00
13.B. Appropriations transferred-in/out	0.00	951,914,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(1,899,609,000.00)
13.D. Appropriations used	0.00	(97,083,680,150.79)
14. Total Budgetary Financing Sources	<u>0.00</u>	<u>67,202,116,849.21</u>
15. Unexpended Appropriations	<u>0.00</u>	<u>184,397,060,278.75</u>
16. Net Position	<u>0.00</u>	<u>435,625,376,877.15</u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2009 and 2008

	2008 Eliminations	Restated 2008 Consolidated
	<u>0.00</u>	<u>0.00</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 221,854,870,013.08
2. Prior Period Adjustments:		
2.B. Corrections of errors (+/-)	0.00	19,746,490,569.72
3. Beginning balances, as adjusted	<u>0.00</u>	<u>241,601,360,582.80</u>
4. Budgetary Financing Sources:		
4.B. Appropriations used	0.00	87,345,922,855.03
4.C. Nonexchange revenue	0.00	62,170,285.12
4.D. Donations and forfeitures of cash	0.00	18,253,450.98
4.E. Transfers-in/out without reimbursement	0.00	102,833,000.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	242,036,510.89
5.C. Imputed financing from costs absorbed by others	0.00	469,372,747.54
5.D. Other (+/-)	0.00	2,901,088,117.91
6. Total Financing Sources	<u>0.00</u>	<u>91,141,676,967.47</u>
7. Net Cost of Operations (+/-)	<u>0.00</u>	<u>95,377,257,316.82</u>
8. Net Change	<u>0.00</u>	<u>(4,235,580,349.35)</u>
9. Cumulative Results of Operations	<u>0.00</u>	<u>237,365,780,233.45</u>
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 109,221,611,222.61
11. Prior Period Adjustments:		
11.B. Corrections of errors	0.00	(4,110,420,396.63)
12. Beginning balances, as adjusted	<u>0.00</u>	<u>105,111,190,825.98</u>
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	162,543,140,922.21
13.B. Appropriations transferred-in/out	0.00	32,704,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(1,174,179,000.00)
13.D. Appropriations used	0.00	(87,345,922,855.03)
14. Total Budgetary Financing Sources	<u>0.00</u>	<u>74,055,743,067.18</u>
15. Unexpended Appropriations	<u>0.00</u>	<u>179,166,933,893.16</u>
16. Net Position	<u>0.00</u>	<u>416,532,714,126.61</u>

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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 28,028,795,509.96	\$ 23,934,546,394.28
2. Recoveries of prior year unpaid obligations	17,890,718,045.33	16,001,151,225.55
3. Budget authority		
3.A. Appropriation	165,249,032,693.21	162,561,948,452.79
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	5,415,738,458.79	5,399,994,822.42
3.D.1.b. Change in receivables from Federal sources	(43,626,505.85)	195,564,363.41
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	476,059,344.99	212,547,537.44
3.D.2.b. Without advance from Federal sources	2,345,072,509.74	2,854,057,377.60
3.E. Subtotal	<u>173,442,276,500.88</u>	<u>171,224,112,553.66</u>
4. Nonexpenditure transfers, net, anticipated and actual	951,914,000.00	135,537,000.00
6. Permanently not available	(1,899,609,000.00)	(1,174,179,000.00)
7. Total Budgetary Resources	<u><u>\$ 218,414,095,056.17</u></u>	<u><u>\$ 210,121,168,173.49</u></u>

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COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 144,196,713,802.88	\$ 136,977,436,181.00
8.B. Reimbursable	7,161,445,035.24	6,331,569,686.74
8.C. Subtotal	<u>151,358,158,838.12</u>	<u>143,309,005,867.74</u>
9. Unobligated balance:		
9.A. Apportioned	62,602,932,701.70	49,288,039,413.42
9.B. Exempt from apportionment	61,813.00	73,797.00
9.C. Subtotal	<u>62,602,994,514.70</u>	<u>49,288,113,210.42</u>
10. Unobligated balance not available	4,452,941,703.35	17,524,049,095.33
11. Total status of budgetary resources	<u><u>\$ 218,414,095,056.17</u></u>	<u><u>\$ 210,121,168,173.49</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	93,776,543,908.59	86,191,076,974.13
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ (3,864,217,550.27)	\$ (3,296,095,096.10)
12.C. Total unpaid obligated balance	<u>89,912,326,358.32</u>	<u>82,894,981,878.03</u>
13. Obligations incurred net (+/-)	\$ 151,358,158,838.12	\$ 143,309,005,867.74
14. Less: Gross outlays	(123,725,141,194.49)	(118,943,321,629.69)
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(17,890,718,045.33)</u>	<u>(16,001,151,225.55)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(2,301,446,003.89)	(3,049,621,741.01)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	103,518,843,506.89	94,555,609,986.63
18.B. Less: Uncollected customer payments from Federal sources (-)	(6,165,663,554.16)	(6,345,716,837.11)
18.C. Total, unpaid obligated balance, net, end of period	<u>97,353,179,952.73</u>	<u>88,209,893,149.52</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	123,725,141,194.49	118,943,321,629.69
19.B. Less: Offsetting collections	(5,891,797,803.78)	(5,612,542,359.86)
19.C. Less: Distributed Offsetting receipts	(248,915,333.31)	(65,404,334.90)
19.D. Net Outlays	<u><u>\$ 117,584,428,057.40</u></u>	<u><u>\$ 113,265,374,934.93</u></u>

1.A. Basis of Presentation

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

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

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

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

The Department of Defense Inspector General (DoDIG) issued an audit report dated November 8, 2008 and identified several financial statement material weaknesses: Financial Management Systems; Fund Balance with Treasury; Accounts Receivable; Inventory and Related Property; General Plant, Property, and Equipment (GPP&E);

Accounts Payable; Environmental Liabilities; Statement of Net Cost; Problem Disbursements; and Unobligated Balances. The DON GF (as identified in the DON Fiscal Year (FY) 2008 Annual Statement of Assurance dated August 28, 2008) recognizes those weaknesses as well as weaknesses associated with Collections and Disbursements, Procure to Pay Processes, General Equipment, Military Equipment, and Real Property as related to the GPP&E line on the Balance Sheet and Operating Materials and Supplies (OM&S) (and the associated weaknesses with Inventory).

1.B. Mission of the Reporting Entity

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

1.C. Appropriations and Funds

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

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

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

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

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

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

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

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

1.D. Basis of Accounting

For FY 2009, DON GF's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of DON's (financial and nonfinancial) legacy systems were designed to record information on a budgetary basis.

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

1.E. Revenues and Other Financing Sources

The DON GF receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The DON GF recognizes revenue as a result of costs incurred for goods or services provided to other federal agencies and the public. Full cost pricing is the DON GF's standard policy for services provided as required by OMB Circular A-25, Transmittal Memorandum #1, User Charges. The DON GF recognizes revenue when earned within

the constraints of current system capabilities. In some instances, revenue is recognized when bills are issued.

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because DON GF'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, DON GF cannot accurately eliminate intragovernmental transactions by customer because DON GF's systems do not track at the transaction level. Generally, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD intragovernmental balances are then eliminated. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements to ensure accurate intragovernmental information and to include sufficient up-front edits and controls eliminating the need for after-the-fact reconciliations.

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

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, 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 DON sells defense articles and services to foreign governments and international organizations under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the U.S. Government. Payment in U.S. dollars is required in advance.

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

The DON GF's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of DON's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on 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 these transactions to the applicable Fund Balance with Treasury (FBWT) account. The DON GF's recorded balance in FBWT accounts and U.S. Treasury's FBWT accounts must balance monthly.

1.J. Foreign Currency

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

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

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

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.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

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

The DON GF 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 DON GF's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The

DON GF holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for “inventory held for sale” and “inventory held in reserve for future sale,” with a completion date of year-end FY 2010 reporting.

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

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

Excess, obsolete, or unserviceable operating materiel and supplies are reported at their net realizable value. The DON GF recognizes condemned materiel as “Excess, Obsolete, and Unserviceable.” The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero. 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.

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

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

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

1.O. General Property, Plant and Equipment

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

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is \$100 thousand except for real property, which is \$20 thousand. The DoD has not fully implemented the threshold for real property due to system and process limitations.

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

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

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

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances or prepayments in accordance with GAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The DON GF has not implemented this policy, primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of 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), DON GF records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. The DON GF records the amount 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 DON GF, as the lessee, receives the use and possession of leased property, for example real estate, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits or 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 DON GF in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Interservice Support Agreements. Future year projections use the Consumer Price Index (CPI) rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites.

1.R. Other Assets

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

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

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 based on percentage or stage of completion are reported as Construction in Progress.

1.S. Contingencies and Other Liabilities

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

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

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

1.T. Accrued Leave

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

1.U. Net Position

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Unexpended Obligations

The DON GF obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations includes both obligations for which goods and services have been delivered (title passed) and a liability recognized, and obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources, and is referred to as, "Total, unpaid obligated balances, net, end of period."

1.X. Undistributed Disbursements and Collections

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

1.Y. Significant Events

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

1.Z. Fiduciary Activities

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

Note 2.	Nonentity Assets
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As of June 30	2009	Restated 2008
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 261,198,377.85	\$ 446,422,615.68
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 261,198,377.85	\$ 446,422,615.68
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 214,888,383.36	\$ 142,410,532.48
B. Accounts Receivable	3,444,460,957.80	3,387,940,282.13
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 3,659,349,341.16	\$ 3,530,350,814.61
3. Total Nonentity Assets	\$ 3,920,547,719.01	\$ 3,976,773,430.29
4. Total Entity Assets	\$ 473,791,439,086.22	\$ 447,511,083,713.34
5. Total Assets	\$ 477,711,986,805.23	\$ 451,487,857,143.63

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

Intragovernmental Fund Balance with Treasury.

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

Cash and Other Monetary Assets.

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

Nonentity Nonfederal Accounts Receivable (Public).

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

Note 3.	Fund Balance with Treasury
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As of June 30	2009	2008
1. Fund Balances		
A. Appropriated Funds	\$ 162,561,784,605.76	\$ 153,231,647,701.28
B. Revolving Funds	1,892,823,217.64	1,767,087,670.48
C. Trust Funds	17,209,437.58	15,877,258.31
D. Special Funds	2,393,566.76	2,318,358.83
E. Other Fund Types	261,198,377.85	446,422,615.68
F. Total Fund Balances	<u>\$ 164,735,409,205.59</u>	<u>\$ 155,463,353,604.58</u>
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 164,916,642,390.95	\$ 141,512,321,229.29
B. Fund Balance per	164,735,409,205.59	155,463,353,604.58
3. Reconciling Amount	<u>\$ 181,233,185.36</u>	<u>\$ (13,951,032,375.29)</u>

The total reconciling amount of \$181.2 million in Fund Balance with Treasury (FBWT) is primarily due to a difference in the recognition of Savings Deposit Program Funds (SDP). Currently, U.S. Treasury captures the entirety of the Armed Forces SDP funds under the Department of Navy (DON) agency code. The portion of these funds that represent DON efforts are recognized in Footnote 24, disclosure on Fiduciary Activity.

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

Status of Fund Balance with Treasury

As of June 30	2009	2008
1. Unobligated Balance		
A. Available	\$ 62,602,932,701.70	\$ 49,288,039,413.42
B. Unavailable	4,452,941,703.35	17,524,049,095.33
2. Obligated Balance not yet Disbursed	\$ 103,518,843,506.89	\$ 94,555,609,986.63
3. Nonbudgetary FBWT	\$ 330,419,847.81	\$ 451,533,946.31
4. NonFBWT Budgetary Accounts	\$ (6,169,728,554.16)	\$ (6,355,878,837.11)
5. Total	\$ 164,735,409,205.59	\$ 155,463,353,604.58

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support the FBWT.

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

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

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

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

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

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

Note 4. Investments and Related Interest

As of June 30	2009				
	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	4,131,471.11		(41,461.48)	4,090,009.63	4,098,331.26
5. Total Nonmarketable, Market-Based	4,131,471.11		(41,461.48)	4,090,009.63	4,098,331.26
B. Accrued Interest	44,805.46			44,805.46	44,805.46
C. Total Intragovernmental Securities	\$ 4,176,276.57		\$ (41,461.48)	\$ 4,134,815.09	\$ 4,143,136.72
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of June 30	2008				
	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	10,276,636.57		(24,550.90)	10,252,085.67	10,255,722.82
5. Total Nonmarketable, Market-Based	10,276,636.57		(24,550.90)	10,252,085.67	10,255,722.82
B. Accrued Interest	102,497.55			102,497.55	102,497.55
C. Total Intragovernmental Securities	\$ 10,379,134.12		\$ (24,550.90)	\$ 10,354,583.22	\$ 10,358,220.37
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Intragovernmental Investments for Earmarked Funds.

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

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

Note 5.	Accounts Receivable
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As of June 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 247,063,373.19	N/A	\$ 247,063,373.19
2. Nonfederal Receivables (From the Public)	\$ 4,162,494,734.11	\$ (35,220,608.72)	\$ 4,127,274,125.39
3. Total Accounts Receivable	\$ 4,409,558,107.30	\$ (35,220,608.72)	\$ 4,374,337,498.58

As of June 30	Restated 2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 326,491,104.56	N/A	\$ 326,491,104.56
2. Nonfederal Receivables (From the Public)	\$ 3,889,336,132.08	\$ (28,974,287.24)	\$ 3,860,361,844.84
3. Total Accounts Receivable	\$ 4,215,827,236.64	\$ (28,974,287.24)	\$ 4,186,852,949.40

The Department of the Navy completed a restatement to adjust beginning balances for USSGL accounts 3100 and 3310. These accounts were adjusted as part of the implementation of the DDRS-B/AFS export in 3rd Quarter, FY 2009. This affected Accounts Receivable and Interest Receivable and increased the overall balance by \$253.5 million. Accounts Receivable increased \$228.3 million and Interest Receivable increased \$25.2 million. Refer to Note 26, Restatements, for additional details.

Note 6.	Other Assets
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As of June 30

	2009	Restated 2008
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 433,485,650.96	\$ 387,575,118.77
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 433,485,650.96	\$ 387,575,118.77
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 30,035,965,229.02	\$ 28,380,426,641.83
B. Advances and Prepayments	1,506,279,038.58	408,919,507.04
C. Other Assets (With the Public)	9,926,615.04	13,518,179.02
D. Total Nonfederal Other Assets	\$ 31,552,170,882.64	\$ 28,802,864,327.89
3. Total Other Assets	\$ 31,985,656,533.60	\$ 29,190,439,446.66

The Department of the Navy (DON) restated the FY 2008 balance in Outstanding Contract Financing Payments (OCFP) by \$20.6 billion. The DON incorrectly reported shipbuilding payments as expenses rather than assets through FY 2008. These payments include progress payments based on percentage or stage of completion, which cannot be identified due to systems limitations. In addition, DON also completed a restatement to adjust beginning balances for USSGL accounts 3100 and 3310. These accounts were adjusted as part of the implementation of the DDRS-B/AFS export in 3rd Quarter, FY 2009. Refer to Note 26, Restatements, for additional details.

Nonfederal Other Assets - Outstanding Contract Financing Payments.

Contract terms and conditions for certain types of contract financing payments convey certain rights to DON that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and DON is not obligated to make payment to the contractor until delivery and acceptance. Some of the amounts reported as OCFP may be progress payments based on percentage or stage of completion. However, DON is unable to identify these due to system limitations and all amounts are reported as OCFP.

The OCFP balance of \$30.0 billion is comprised of \$29.7 billion in contract financing payments and an additional \$376.5 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

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

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

Note 7. Cash and Other Monetary Assets

As of June 30	2009	2008
1. Cash	\$ 116,407,034.67	\$ 108,923,256.46
2. Foreign Currency	98,481,348.69	33,487,276.02
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ 214,888,383.36</u>	<u>\$ 142,410,532.48</u>

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

Restriction on Cash, Foreign Currency and Other Monetary Assets.

Total cash, foreign currency, and other monetary assets reported are nonentity assets that are not available for DON's use in normal operations. Therefore, the \$214.9 million in cash and foreign currency is restricted as to its use.

Note 9.	Inventory and Related Property
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As of June 30	2009	2008
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materiel & Supplies, Net	61,568,250,313.40	61,297,328,049.37
3. Stockpile Materiel, Net	0.00	0.00
4. Total	\$ 61,568,250,313.40	\$ 61,297,328,049.37

Operating Materiel and Supplies, Net

As of June 30	2009			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
1. OM&S Categories				
A. Held for Use	\$ 56,720,051,306.48	\$ 0.00	\$ 56,720,051,306.48	SP, LAC, MAC
B. Held for Repair	6,206,639,455.06	(1,358,440,448.14)	4,848,199,006.92	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	722,133,473.93	(722,133,473.93)	0.00	NRV
D. Total	\$ 63,648,824,235.47	\$ (2,080,573,922.07)	\$ 61,568,250,313.40	

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

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

MAC = Moving Average Cost

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

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

General Composition of OM&S.

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

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

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

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

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

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

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

The DON GF assigns OM&S items to a category based upon the type and condition of the asset. OM&S Available and Purchased for Resale includes spare and repair parts, clothing and textiles, and petroleum products. OM&S Held for Repair consists of damaged materiel held as inventory that is more economical to repair than to dispose. Excess, Obsolete, and Unserviceable OM&S consists of scrap materiel or items that cannot be economically repaired and are awaiting disposal. Raw Materials consists of items consumed in the production of goods for sale or in the provision of services for a fee.

Note 10. General PP&E, Net

As of June 30	2009				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 570,871,219.00	N/A	\$ 570,871,219.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	34,356,914,899.42	\$ (20,235,525,306.80)	14,121,389,592.62
C. Leasehold Improvements	S/L	lease term	6,529,953.17	(1,690,114.71)	4,839,838.46
D. Software	S/L	2-5 Or 10	11,593,705.42	(10,214,330.78)	1,379,374.64
E. General Equipment	S/L	5 or 10	11,549,384,256.97	(6,162,908,574.88)	5,386,475,682.09
F. Military Equipment	S/L	Various	342,527,144,970.66	(150,543,494,678.69)	191,983,650,291.97
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0.00	0.00	0.00
H. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	2,760,704,056.83	N/A	2,760,704,056.83
J. Other			0.00	0.00	0.00
K. Total General PP&E			\$ 391,783,143,061.47	\$ (176,953,833,005.86)	\$ 214,829,310,055.61

As of June 30	Restated 2008				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 616,495,034.00	N/A	\$ 616,495,034.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	33,397,409,825.00	\$ (20,061,790,273.64)	13,335,619,551.36
C. Leasehold Improvements	S/L	lease term	7,282,835.00	(1,365,531.58)	5,917,303.42
D. Software	S/L	2-5 Or 10	10,390,784.44	(9,022,897.78)	1,367,886.66
E. General Equipment	S/L	5 or 10	11,008,405,206.70	(5,924,164,751.29)	5,084,240,455.41
F. Military Equipment	S/L	Various	321,146,840,703.00	(141,864,886,620.00)	179,281,954,083.00
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0.00	0.00	0.00
H. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	2,871,523,664.07	N/A	2,871,523,664.07
J. Other			0.00	0.00	0.00
K. Total General PP&E			\$ 369,058,348,052.21	\$ (167,861,230,074.29)	\$ 201,197,117,977.92

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

The Department of the Navy completed a restatement to adjust beginning balances for USSGL accounts 3100 and 3310. These accounts were adjusted as part of the implementation of the DDRS-B/AFS export in 3rd Quarter, FY 2009. This affected Accumulated Depreciation on Equipment and increased the balance by \$3.2 million. Refer to Note 26, Restatements, for additional details.

Restrictions on the Use or Convertibility of General Property, Plant, & Equipment (PP&E).

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

Accounting Standards for Military Equipment.

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

Relationship of Heritage Assets to DON's Mission.

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

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

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

- Heritage Assets are items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. The process used to define items as having heritage significance varies between categories and type of assets being evaluated.
- Consultation, as appropriate, is initiated with State Historic Preservation Officers, Tribal Historic Preservation Officers, Advisory Council on Historic Preservation, Native Americans, Native Hawaiians, and other interested agencies whenever DON conducts or supports undertakings that may affect any National Register resource. Preservation considerations are incorporated into routine DON management of historic buildings, structures, districts, sites, ships, aircraft, and other cultural resources.
- Archaeological Sites are locations that contain the remains of past human activity of various sorts that are listed or eligible for listing on the National Register of Historic Places. These sites are excavated only to the extent required for evaluation and identification. DON currently has 17,699 Archaeological sites.

- Buildings and Structures are listed as or determined eligible for listing on the National Register of Historic Places, including Multi-Use Heritage Assets. DON currently has 4,956 Buildings and Structures.
- Cemeteries are government owned burial grounds on which gravesites of prominent historical figures may be located in addition to other gravesites. DON currently has 62 Cemeteries.
- Major Collections include archeological artifacts that are maintained and inventoried by cubic feet, archival items that are maintained and inventoried by linear feet, and artwork and historical artifacts that are maintained and inventoried by individual items.
- Monuments and Memorials are those items that are built or placed to commemorate a person or event, preserve the memory of a historical event, or are shown or maintained for its historical interest. DON currently has 537 Monuments and Memorials.

Stewardship Land Policy.

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

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

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2009	2008
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	400,347,736.24	4,413,589,206.95
D. Total Intragovernmental Liabilities	\$ 400,347,736.24	\$ 4,413,589,206.95
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 62,424,636.90	\$ 10,450,502.74
B. Military Retirement and Other Federal Employment Benefits	1,650,037,760.55	1,646,485,651.00
C. Environmental Liabilities	18,566,123,053.39	18,033,470,222.05
D. Other Liabilities	4,606,423,349.91	5,204,687,639.62
E. Total Nonfederal Liabilities	\$ 24,885,008,800.75	\$ 24,895,094,015.41
3. Total Liabilities Not Covered by Budgetary Resources	\$ 25,285,356,536.99	\$ 29,308,683,222.36
4. Total Liabilities Covered by Budgetary Resources	\$ 16,801,253,391.09	\$ 5,646,459,794.66
5. Total Liabilities	\$ 42,086,609,928.08	\$ 34,955,143,017.02

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

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

Realized budgetary resources include:

- New budget authority
- Spending authority from offsetting collections (credited to an appropriation or fund account)
- Recoveries of unexpired budget authority through downward adjustments of prior year obligations
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and
- Permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be

apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met.

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

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

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

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

Note 12.	Accounts Payable
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As of June 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 1,058,268,144.08	\$ N/A	\$ 1,058,268,144.08
2. Nonfederal Payables (to the Public)	9,450,347,879.25	27,040.79	9,450,374,920.04
3. Total	\$ 10,508,616,023.33	\$ 27,040.79	\$ 10,508,643,064.12

As of June 30	Restated 2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 1,114,109,766.86	\$ N/A	\$ 1,114,109,766.86
2. Nonfederal Payables (to the Public)	1,909,256,584.40	0.00	1,909,256,584.40
3. Total	\$ 3,023,366,351.26	\$ 0.00	\$ 3,023,366,351.26

The Department of the Navy (DON) completed a restatement to adjust beginning balances for USSGL accounts 3100 and 3310. These accounts were adjusted as part of the implementation of the DDRS-B/AFS export in 3rd Quarter, FY 2009. This affected Accounts Payable and decreased the balance by \$483.6 million. Refer to Note 26, Restatements, for additional details.

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

Note 14.**Environmental Liabilities and Disposal Liabilities**

As of June 30

2009

2008

1. Environmental Liabilities--Nonfederal**A. Accrued Environmental Restoration Liabilities**

1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$	2,336,308,797.00	\$	2,135,006,499.00
2. Active Installations—Military Munitions Response Program (MMRP)		910,367,984.00		848,171,060.00
3. Formerly Used Defense Sites—IRP and BD/DR		0.00		0.00
4. Formerly Used Defense Sites--MMRP		0.00		0.00

B. Other Accrued Environmental Liabilities—Non-BRAC

1. Environmental Corrective Action		128,652,995.00		45,976,312.00
2. Environmental Closure Requirements		627,019,402.00		730,681,042.00
3. Environmental Response at Operational Ranges		10,398,607.00		25,564,492.00
4. Asbestos		0.00		0.00
5. Non-Military Equipment		64,269,770.00		0.00
6. Other		1,006,928.00		971,299.00

C. Base Realignment and Closure Installations

1. Installation Restoration Program		1,482,794,864.41		1,577,556,077.90
2. Military Munitions Response Program		113,723,928.28		169,424,654.07
3. Environmental Corrective Action / Closure Requirements		23,175,735.11		49,652,031.02
4. Asbestos		0.00		0.00
5. Non-Military Equipment		0.00		0.00
6. Other		617,245.00		0.00

D. Environmental Disposal for Military Equipment / Weapons Programs

1. Nuclear Powered Military Equipment / Spent Nuclear Fuel		12,672,447,931.84		9,345,196,749.50
2. Non-Nuclear Powered Military Equipment		0.00		228,692,581.20
3. Other National Defense Weapons Systems		195,338,865.75		194,725,442.36
4. Other		0.00		2,681,851,982.00

E. Chemical Weapons Disposal Program

1. Chemical Agents and Munitions Destruction (CAMD)		0.00		0.00
2. CAMD Assembled Chemical Weapons Assessment (ACWA)		0.00		0.00
3. Other		0.00		0.00

2. Total Environmental Liabilities

\$	18,566,123,053.39	\$	18,033,470,222.05
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Environmental Disclosures

As of June 30	2009	2008
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	1,685,992,211.17	1,504,879,343.71
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 “Other” type of environmental liabilities under Other Accrued Environmental Costs (Line 1.B.6) represents an environmental estimate for disposal of Polychlorinated Biphenyls (PCBs) transformers located at various Naval installations.

The “Other” type of environmental liabilities under Base Realignment and Closure (BRAC) Installations (Line 1.C.6) represents Unliquidated Obligations for National Environmental Policy Act work driven by BRAC legislation. This data was reported for the first time in 3rd Quarter, FY 2009.

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

1. Applicable Laws and Regulations of Cleanup Requirements

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

- The National Environmental Policy Act of 1970
- The Resource Conservation and Recovery Act of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984
- The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, commonly referred to as the Superfund legislation
- The Clean Water Act of 1977, Section 405 Disposal of Sewage Sludge, amended the Federal Water Pollution Control Act
- The Atomic Energy Act of 1954
- The Nuclear Waste Policy Act of 1982
- The Low Level Radioactive Waste Policy Amendments Act of 1986

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

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

Active Installations – Environmental Restoration: Accrued restoration (cleanup) liabilities represent the cost to correct past environmental areas that are funded under the Defense Environmental Restoration Program in accordance with “Management Guidance for DERP,” and “Environmental and Non-Environmental Liabilities,” Chapter 13 of Volume 4 of Department of Defense Financial Management Regulation (DoD FMR). These liabilities relate to Plant, Property, and Equipment, including acquired land and Stewardship Land, as those major asset categories are described in Chapter 6 of Volume 4 of DoD FMR. Environmental restoration activities may be conducted at operating installations, at Formerly Used Defense Sites, and at Closed, Transferred, and Transferring Ranges. Environmental restoration measurements involve the use of cost estimates that consider, on a current cost basis, the anticipated costs of the level of effort required to affect the restoration, as well as applicable legal and/or regulatory requirements. Program management and support costs are included in the estimates. The estimates are based on DON’s cost-to-complete (CTC) module of the Normalization of Data System (NORM). Verification, validation, and accreditation of CTC module was completed in FY 2002. Such cost estimates are based on the current technology available. The DON, as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services), used the site inventory and estimated cost data prepared for DERP report to the Congress. The Accrued Environmental Restoration (Cleanup) Costs do not include the costs of environmental compliance; pollution prevention, conservation activities, contamination, or spills associated with current operations or treaty obligations, all of which are accounted for as part of ongoing operations. The DON Environmental Restoration Program includes 3,981 clean-up sites at active installations while those installations covered by Base Realignment and Closure (BRAC) funding include 1,129 IRP sites and 32 MMRP sites. The Marine Corps is included in these programs. In addition, the DON Environmental Corrective Action Program at BRAC installations includes 608 sites.

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

Environmental Disposal for Weapons Systems Programs: This area represents environmental liabilities associated with the Nuclear Powered Aircraft Carriers and Submarines, Other Nuclear Powered Ships, Conventional Ships, and Spent Nuclear Fuel. During FY 2006, under DON Financial Improvement Program (FIP), DON completed a review of the estimating methodology for determining the cost for disposal of ships and submarines. This review resulted in an environmental and nonenvironmental liability estimate that more accurately

reflects the true costs of disposal. The estimating methodology is based on average cost per class of ship rather than an average applied to all ships regardless of class.

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

Accrued Environmental Restoration (DERP Funded) Liabilities.

The DON Environmental Restoration includes those sites that have been identified as legacy cleanup sites. For FY 2009, DON estimated and reported \$3.2 billion for environmental restoration liabilities. This amount is comprised of \$2.3 billion in Active Installations – Installation Restoration Program (IRP) liabilities and \$910.4 million in Active Installations – MMRP, liabilities, which represents UXO. The DoD FMR, Volume 6B, Chapter 10 requires that “any estimate produced must be based on site specific information and use cost models validated in accordance with DoD Instruction 5000.61.” The DON is supporting this requirement by continuing to validate its range inventory as well as by pursuing the process of obtaining valid cost estimates for each range.

Other Accrued Environmental Costs (Non-BRAC funds).

The DON defines Non-BRAC environmental units as those sites associated with on-going operations such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retro fill, and/or disposal of PCBs transformers, underground storage tank remedial investigation and closure. As part of the DON FIP efforts, the Navy completed surveying, identifying, and estimating, Non-BRAC units and began recognizing the estimated environmental liability 1st Quarter, FY 2007. For FY 2009, the total Other Accrued Environmental Liabilities is \$831.3 million. Of the total, the Navy portion is \$569.6 million while the Marine Corps portion is \$261.7 million.

Base Realignment and Closure.

BRAC environmental sites are environmental sites at DON installations that are or will be closed under the congressionally mandated BRAC process. For FY 2009, DON estimated and reported \$1.6 billion for BRAC funded environmental liabilities. This amount includes \$1.5 billion for IRP, \$113.4 million for MMRP, and \$23.2 million for environmental corrective action and closure requirements. MMRP includes military munitions, chemical residues from military munitions, and munitions scrap at locations on a BRAC installation.

Environmental Disposal for Weapons Systems Programs.

Environmental Disposal for Weapons Systems are those estimates associated with the environmental disposal costs for DON Nuclear Weapons Programs that includes Nuclear Powered Aircraft Carriers and Submarines and Other Nuclear Powered Ships, Conventional Ships, and Spent Nuclear Fuel. The DON reported an environmental disposal liability for Weapons Systems Programs of \$12.9 billion in FY 2009. This amount includes Nuclear Powered Military Equipment of \$10.0 billion, Spent Nuclear Fuel (Other) of \$2.7 billion, and Other Weapons Systems of \$195.3 million.

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

Estimated environmental liabilities are adjusted for price growth (inflation) and increases in labor rates and materials. Currently, there are no indications that any of the environmental liabilities for any category will be adjusted due to deflation. As of FY 2009, there are no changes to the environmental liability estimates due to changes in laws, regulations, and

agreements with regulatory agencies. The DON does not have any estimates that were changed due to advances in technology.

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

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

Overall, DON has a reasonable level of confidence in the estimates recognized on the face of the financial statements. This reasonable level of confidence in the estimates is because the estimates for DERP/BRAC programs are based on the CTC module of the NORM System. A verification, validation, and accreditation were completed by a third party for CTC module of NORM, while the environmental program managers continue to validate the data.

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

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

The DON believes that the current environmental liabilities for Other Accrued Environmental Liabilities (Non-DERP) for FY 2009 are reasonable, based upon the information available at the time in calculating the estimates and completing the fence to fence survey. However, as internal controls are implemented to sustain this effort, changes to some of the estimates could occur. In addition to the possibility of some of the estimates changing for the current list of identified units, DON may incur additional units and changes to estimates as the inventory of units are reviewed annually.

Note 15.**Other Liabilities**

As of June 30

2009

Current
LiabilityNoncurrent
Liability

Total

1. Intragovernmental

A. Advances from Others	\$	210,363,247.15	\$	0.00	\$	210,363,247.15
B. Deposit Funds and Suspense Account Liabilities		261,198,377.85		0.00		261,198,377.85
C. Disbursing Officer Cash		216,145,670.32		0.00		216,145,670.32
D. Judgment Fund Liabilities		0.00		0.00		0.00
E. FECA Reimbursement to the Department of Labor		151,422,994.21		157,788,547.55		309,211,541.76
F. Custodial Liabilities		3,443,203,670.84		0.00		3,443,203,670.84
G. Employer Contribution and Payroll Taxes Payable		34,684,644.68		0.00		34,684,644.68
H. Other Liabilities		92,586,841.21		0.00		92,586,841.21
I. Total Intragovernmental Other Liabilities	\$	4,409,605,446.26	\$	157,788,547.55	\$	4,567,393,993.81

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	702,408,303.95	\$	0.00	\$	702,408,303.95
B. Advances from Others		957,667,898.66		0.00		957,667,898.66
C. Deferred Credits		0.00		0.00		0.00
D. Deposit Funds and Suspense Accounts		0.00		0.00		0.00
E. Temporary Early Retirement Authority		0.00		0.00		0.00
F. Nonenvironmental Disposal Liabilities						
(1) Military Equipment (Nonnuclear)		25,050,409.99		242,247,488.06		267,297,898.05
(2) Excess/Obsolete Structures		116,171,000.00		616,611,000.00		732,782,000.00
(3) Conventional Munitions Disposal		0.00		0.00		0.00
G. Accrued Unfunded Annual Leave		2,751,062,602.06		0.00		2,751,062,602.06
H. Capital Lease Liability		0.00		0.00		0.00
I. Contract Holdbacks		115,401,206.85		0.00		115,401,206.85
J. Employer Contribution and Payroll Taxes Payable		5,559,709.14		0.00		5,559,709.14
K. Contingent Liabilities		9,947,000.00		1,221,845,743.88		1,231,792,743.88
L. Other Liabilities		30,439,693.62		0.00		30,439,693.62
M. Total Nonfederal Other Liabilities	\$	4,713,707,824.27	\$	2,080,704,231.94	\$	6,794,412,056.21

3. Total Other Liabilities

	\$	9,123,313,270.53	\$	2,238,492,779.49	\$	11,361,806,050.02
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As of June 30	Restated 2008		
	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	\$ 131,698,775.97	\$ 0.00	\$ 131,698,775.97
B. Deposit Funds and Suspense Account Liabilities	384,752,790.30	0.00	384,752,790.30
C. Disbursing Officer Cash	145,460,265.27	0.00	145,460,265.27
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	238,949,903.78	257,166,223.55	496,116,127.33
F. Custodial Liabilities	3,696,866,231.42	0.00	3,696,866,231.42
G. Employer Contribution and Payroll Taxes Payable	26,712,210.54	0.00	26,712,210.54
H. Other Liabilities	77,737,445.59	0.00	77,737,445.59
I. Total Intragovernmental Other Liabilities	<u>\$ 4,702,177,622.87</u>	<u>\$ 257,166,223.55</u>	<u>\$ 4,959,343,846.42</u>
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 1,423,185,056.64	\$ 0.00	\$ 1,423,185,056.64
B. Advances from Others	336,883,712.39	0.00	336,883,712.39
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(57,659,330.34)	0.00	(57,659,330.34)
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	5,783,179.27	246,468,027.93	252,251,207.20
(2) Excess/Obsolete Structures	75,955,000.00	587,018,000.00	662,973,000.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	2,568,859,854.42	0.00	2,568,859,854.42
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	102,884,580.43	10,268,466.22	113,153,046.65
J. Employer Contribution and Payroll Taxes Payable	121,482.79	0.00	121,482.79
K. Contingent Liabilities	9,993,000.00	1,981,076,873.49	1,991,069,873.49
L. Other Liabilities	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	<u>\$ 4,466,006,535.60</u>	<u>\$ 2,824,831,367.64</u>	<u>\$ 7,290,837,903.24</u>
3. Total Other Liabilities	<u>\$ 9,168,184,158.47</u>	<u>\$ 3,081,997,591.19</u>	<u>\$ 12,250,181,749.66</u>

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

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

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

Contingent Liabilities includes \$376.5 million related to contracts authorizing Progress Payments Based on Cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The DON General Fund (GF) is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, DON GF has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

Total Contingent Liabilities for Progress Payments Based on Cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under Progress Payments Based on Cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated Progress Payments Based on Cost by the contract-authorized progress payment rate. The balance of unliquidated Progress Payments Based on Cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

Note 16. Commitments and Contingencies

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

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

The DON currently has 10 cases that meet the existing FY 2009 DON GF materiality threshold of \$41.3 million. DON legal counsel was unable to express an opinion concerning the likely outcome on 9 of 11 cases. Based on information contained in the FY 2009 Interim Legal Representation Letters, management does not have sufficient reason to believe that it is likely the Government will be liable for the amounts claimed in individual or aggregated cases.

Due to the inherent uncertainties of litigation, lawyers generally refrain from expressing judgments as to outcomes except in those relatively few clear cases. In response to a Department of Defense (DoD), Inspector General Audit, "DoD Process for Reporting Contingent Legal Liabilities," DON developed a methodology to determine an estimate for contingent legal liabilities. Beginning with 1st Quarter, FY 2007, DON recognized and disclosed an estimate for contingent legal liabilities. The methodology considers the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual case basis. The likelihood of an unfavorable or potential liability was determined by using an average of the data from the current year-to-date and the preceding two years. The total dollar amount of the cases closed was divided by the total dollar amount claimed in those closed cases for each of the last two years plus current year, which were then used to calculate the average. This average is based entirely on historical data and represents the percentage that has historically been paid on claims. The merits of each individual case have not been taken into consideration. The estimate for those cases considered reasonably possible to result in an adverse judgment against DON is \$0. Until sufficient historical data can be collected for the Navy Working Capital Fund, the DON GF estimate will consider all DON funding sources together.

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

The DON GF has recorded in Note 12 a contingent liability in the amount of \$62.4 million for obligations related to cancelled appropriations.

The DON GF has recorded in Note 15 a contingent liability in the amount of \$142.3 million for Contract Incentives.

Note 17.**Military Retirement and Other Federal Employment Benefits**

As of June 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
2. Other Actuarial Benefits				
A. FECA	\$ 1,650,037,760.55		\$ 0.00	\$ 1,650,037,760.55
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 1,650,037,760.55		\$ 0.00	\$ 1,650,037,760.55
3. Other Federal Employment Benefits	\$ 0.00		\$ 0.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,650,037,760.55		\$ 0.00	\$ 1,650,037,760.55

Actuarial Cost Method Used:

Assumptions:

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

As of June 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
2. Other Actuarial Benefits				
A. FECA	\$ 1,646,485,651.00		\$ 0.00	\$ 1,646,485,651.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 1,646,485,651.00		\$ 0.00	\$ 1,646,485,651.00
3. Other Federal Employment Benefits				
	\$ 1,639,043.05		\$ (1,639,043.05)	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:				
	\$ 1,648,124,694.05		\$ (1,639,043.05)	\$ 1,646,485,651.00

Actuarial Cost Method Used:

Assumptions:

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

Federal Employees' Compensation Act.

Actuarial Cost Method Used and Assumptions:

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

Discount Rates

4.368% in Year 1

4.770% in Year 2, and thereafter

To provide more specifically for the effects of inflation on the liability for future workers compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2008 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>
2009	3.87%	4.01%
2010	2.73%	3.86%
2011	2.20%	3.87%
2012	2.23%	3.93%
2013+	2.30%	3.93%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitive analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2008 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the 2008 projection to the average pattern for the projections of the most recent three years.

Other Federal Employment Benefits

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

Note 18.**General Disclosures Related to the Statement of Net Cost****Intragovernmental Costs and Exchange Revenue**

As of June 30	2009	Restated 2008
1. Intragovernmental Costs	\$ 32,798,186,064.25	\$ 32,042,755,143.57
2. Public Costs	84,313,932,912.49	66,944,347,529.91
3. Total Costs	\$ 117,112,118,976.74	\$ 98,987,102,673.48
4. Intragovernmental Earned Revenue	\$ (2,353,809,270.27)	\$ (2,542,527,602.34)
5. Public Earned Revenue	(909,581,187.55)	(1,067,317,754.32)
6. Total Earned Revenue	\$ (3,263,390,457.82)	\$ (3,609,845,356.66)
7. Net Cost of Operations	\$ 113,848,728,518.92	\$ 95,377,257,316.82

The Department of the Navy (DON) restated the FY 2008 balance in Outstanding Contract Financing Payments (OCFP) by \$25.1 billion. The DON incorrectly reported this amount as expenses rather than assets through FY 2008. These payments include progress payments based on percentage or stage of completion, which cannot be identified due to systems limitations. For the Statement of Net Cost (SNC), a credit to Operating Expenses reduced the Total Costs balance by \$5.4 billion. Refer to Note 26, Restatements, for additional details.

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

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

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

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

Act. The DON is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

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

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

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

The Department of the Navy (DON) restated its financial statements as of June 30, 2008 to properly recognize payments related to Shipbuilding procurement costs from October 1, 2005 through June 30, 2008 as contract financing payments. During this period, DON incorrectly expensed Shipbuilding payments that met the definition of contract financing payments because of a limitation with legacy accounting and reporting systems. As a result, DON understated Other Assets (Nonfederal) and overstated expenses in the period the payments were made. Using a data call from the Capital Asset Management System – Military Equipment (CAMS-ME), DON calculated an inception-to-date amount for 3rd Quarter, FY 2008. The error impacted assets, expenses, unexpended appropriations, cumulative results of operations, and net position. It impacted DON's Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. Refer to Note 6, Other Assets, for additional details and disclosures.

In addition, DON also completed a restatement to adjust beginning balances for USSGL accounts 3100 and 3310. These accounts were adjusted as part of the implementation of the DDRS-B/AFS export in 3rd Quarter, FY 2009. The adjustment impacted assets, liabilities, unexpended appropriations, and cumulative results of operations. It impacted the Balance Sheet and the Statement of Changes in Net Position. Refer to Note 26, Restatements, for additional details on both Prior Period Adjustments.

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

FY 2008 Statement of Changes in Net Position	
Cumulative Results of Operations	
Prior Period Adjustments:	
Corrections of Errors	19,746.5
Budgetary Financing Sources:	
Expended Appropriations	(25,103.9)
Net Cost of Operations	(5,372.3)
Cumulative Results of Operations	14.9
Unexpended Appropriations	
Prior Period Adjustments:	
Corrections of Errors	(4,110.4)
Budgetary Financing Sources:	
Expended Appropriations	25,103.9
Unexpended Appropriations	20,993.5
Net Position	21,008.4

FY 2009 Statement of Changes in Net Position	
Cumulative Results of Operations	
Prior Period Adjustments:	
Corrections of Errors	26,909.6
Unexpended Appropriations	
Prior Period Adjustments:	
Corrections of Errors	(4,110.4)

Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations Received on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference of \$15.5 million is due to Trust Funds and Special Receipt Accounts included in the Appropriations Received line of the SBR. Refer to Note 20 for additional details.

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

Description of Other Lines on the SCNP

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

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

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of June 30	2009	2008
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 123,890,408,841.41	\$ 122,727,189,678.03
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

Apportionment Categories for Obligations Incurred.

On the Statement of Budgetary Resources (SBR): Obligations Incurred includes \$144.2 billion of Direct Program Obligations and \$7.2 billion of Reimbursable Program Obligations.

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

- Direct Obligations, Category A, amounts apportioned quarterly, are \$78.7 billion.
- Direct Obligations, Category B, amounts apportioned on a basis other than quarterly, are \$65.5 billion.
- Total Direct Obligations are therefore \$144.2 billion.
- The \$12.9 million difference in direct obligations between the SBR and SF-133 is due to adjustments on the SBR to recognize fringe benefits, reclassify reimbursable obligations as noted below, and recognize other adjustments not captured in the field accounting systems.
- Category B Reimbursable Obligations are \$7.2 billion.
- The \$66.8 thousand difference in reimbursable obligations between the SBR and SF-133 results from a reclassification adjustment to record trading partner data.

Other Disclosures.

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

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

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations Received on the SBR due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference of \$15.5 million is due to the values for Trust Funds and Special Receipt Accounts not being included in the Appropriations Received line of the SCNP.

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

Permanent, Indefinite Appropriations.

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

The Environmental Restoration, Navy (ER, N) appropriation is a transfer account that funds environmental restoration, reduction, and recycling of hazardous waste, removal of unsafe buildings and debris, and similar purposes. Funds remain available until transferred and remain available for the same purpose and same time period as the appropriations to which transferred. For FY 2009, one transfer from ER, N for \$290.2 million to the Operations and Maintenance, Navy appropriation was recorded; no transfers to ER, N occurred.

The DON restated the FY 2008 balance in Outstanding Contract Financing Payments (OCFP) by \$25.1 billion. The DON incorrectly reported this amount as expenses rather than assets through FY 2008. These payments include progress payments based on percentage or stage of completion, which cannot be identified due to systems limitations. On the SBR, the Prior Period Adjustment had a net effect of zero. For Gross Outlays, a debit to Delivered Orders – Obligations, Paid was offset by a credit to Undelivered Orders – Obligations, Prepaid. Refer to Note 26, Restatements, for additional details.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of June 30

2009

2008

Resources Used to Finance Activities:

Budgetary Resources Obligated:

1. Obligations incurred	\$ 151,358,158,838.12	\$ 143,309,005,867.74
2. Less: Spending authority from offsetting collections and recoveries (-)	(26,083,961,853.00)	(24,663,315,326.42)
3. Obligations net of offsetting collections and recoveries	\$ 125,274,196,985.12	\$ 118,645,690,541.32
4. Less: Offsetting receipts (-)	(248,915,333.31)	(65,404,334.90)
5. Net obligations	\$ 125,025,281,651.81	\$ 118,580,286,206.42

Other Resources:

6. Donations and forfeitures of property	(395,245.40)	0.00
7. Transfers in/out without reimbursement (+/-)	227,773,027.62	242,036,510.89
8. Imputed financing from costs absorbed by others	561,201,185.40	469,372,747.54
9. Other (+/-)	4,267,314,202.71	2,901,088,117.91
10. Net other resources used to finance activities	\$ 5,055,893,170.33	\$ 3,612,497,376.34
11. Total resources used to finance activities	\$ 130,081,174,822.14	\$ 122,192,783,582.76

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 (-)	\$ (30,958,810,985.69)	\$ (33,822,099,122.86)
12b. Unfilled Customer Orders	2,821,131,854.73	3,066,604,915.04
13. Resources that fund expenses recognized in prior Periods (-)	(2,755,703,719.78)	(850,706,934.50)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	248,915,333.31	65,404,334.90
15. Resources that finance the acquisition of assets (-)	(21,095,220,738.35)	(21,517,350,073.72)
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 (+/-)	22,399,966,343.60	16,588,466,677.42
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (29,339,721,912.18)	\$ (36,469,680,203.72)
18. Total resources used to finance the Net Cost of Operations	\$ 100,741,452,909.96	\$ 85,723,103,379.04

As of June 30		
	2009	Restated 2008

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Period:

19. Increase in annual leave liability	\$	202,464,673.91	\$	181,971,303.53
20. Increase in environmental and disposal liability		275,424,811.56		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 (+/-)		23,118,723.12		2,951.66
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	501,008,208.59	\$	181,974,255.19
Components not Requiring or Generating Resources:				
25. Depreciation and amortization	\$	7,480,888,337.42	\$	8,090,922,951.37
26. Revaluation of assets or liabilities (+/-)		1,238,770,758.33		(573,670,138.30)
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0.00		0.00
27b. Cost of Goods Sold		0.00		0.00
27c. Operating Material and Supplies Used		3,203,040,606.21		1,956,326,517.89
27d. Other		683,567,698.41		(1,399,648.37)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	12,606,267,400.37	\$	9,472,179,682.59
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$	13,107,275,608.96	\$	9,654,153,937.78
30. Net Cost of Operations	\$	113,848,728,518.92	\$	95,377,257,316.82

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

Due to DON financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. Differences between budgetary and proprietary data are a previously identified deficiency. This causes a difference in net cost between the SNC and

the Reconciliation of Net Cost of Operations to Budget that requires an adjustment to the Reconciliation of Net Cost of Operations to Budget. For 3rd Quarter, FY 2009, an adjustment of \$181.4 million was made to Resources that Finance the Acquisition of Assets so that proprietary accounts reconcile with the budgetary accounts.

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

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

Description of Other Lines.

Resources Used to Finance Activities – Budgetary Resources Obligated --

The balance of \$4.3 billion represents net gains and losses recorded in relation to the capitalization of assets such as Real Property, Construction in Progress, Operating Materials and Supplies, and Military Equipment.

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

The balance of \$22.4 billion reflects net gains and losses recorded in relation to the net change of the value of assets such as Military Construction, Ammunition, Real Property, and Shipbuilding and Conversion.

Components Requiring or Generating Resources in Future Periods --

The balance of \$23.1 million consists primarily of accrued expenses for Non-Environmental Liabilities and the Unemployment Unfunded Liability.

Components not Requiring or Generating Resources --

The balance of \$683.6 million consists primarily of bad debt expense and expenses not requiring budgetary resources.

Note 23.**Earmarked Funds**

BALANCE SHEET As of June 30	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 0.00	\$ 0.00	\$ 19,603,004.34	\$ 0.00	19,603,004.34
Investments	0.00	0.00	4,134,815.09	0.00	4,134,815.09
Accounts and Interest Receivable	0.00	0.00	0.00	0.00	0.00
Other Assets	0.00	0.00	6,616.87	0.00	6,616.87
Total Assets	\$ 0.00	\$ 0.00	\$ 23,744,436.30	\$ 0.00	23,744,436.30
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
Other Liabilities	0.00	0.00	1,262,268.27	0.00	1,262,268.27
Total Liabilities	\$ 0.00	\$ 0.00	\$ 1,262,268.27	\$ 0.00	1,262,268.27
Unexpended Appropriations	0.00	0.00	141,075.54	0.00	141,075.54
Cumulative Results of Operations	0.00	0.00	22,341,092.49	0.00	22,341,092.49
Total Liabilities and Net Position	\$ 0.00	\$ 0.00	\$ 23,744,436.30	\$ 0.00	23,744,436.30
STATEMENT OF NET COST					
For the period ended June 30					
Program Costs	\$ 0.00	\$ 0.00	\$ 17,072,836.17	\$ 0.00	17,072,836.17
Less Earned Revenue	0.00	0.00	0.00	0.00	0.00
Net Program Costs	\$ 0.00	\$ 0.00	\$ 17,072,836.17	\$ 0.00	17,072,836.17
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	\$ 17,072,836.17	\$ 0.00	17,072,836.17

STATEMENT OF CHANGES IN NET POSITION For the period ended June 30	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0.00	\$ 0.00	24,229,019.84	\$ 0.00	24,229,019.84
Net Cost of Operations	0.00	0.00	17,072,836.17	0.00	17,072,836.17
Budgetary Financing Sources	0.00	0.00	15,325,984.36	0.00	15,325,984.36
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 0.00	(1,746,851.81)	\$ 0.00	(1,746,851.81)
Net Position End of Period	\$ 0.00	\$ 0.00	22,482,168.03	\$ 0.00	22,482,168.03

		2008				
BALANCE SHEET As of June 30		Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total

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

LIABILITIES and NET POSITION

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

STATEMENT OF NET COST

For the period ended June 30						
Program Costs	\$	0.00 \$	0.00 \$	15,871,249.52 \$	0.00 \$	15,871,249.52
Less Earned Revenue		0.00	0.00	0.00	0.00	0.00
Net Program Costs	\$	0.00 \$	0.00 \$	15,871,249.52 \$	0.00 \$	15,871,249.52
Less Earned Revenues Not Attributable to Programs		0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$	0.00 \$	0.00 \$	15,871,249.52 \$	0.00 \$	15,871,249.52

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

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

Special Earmarked Funds.

Wildlife Conservation, Military Reservations, Navy --

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

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

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

Rossmoor Liquidating Trust Settlement Account --

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

Ford Island Improvement Account --

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

Trust Earmarked Funds.

DON General Gift Fund --

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

Ships Stores Profit, Navy --

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

U.S. Naval Academy General Gift Fund --

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

Note 24. Fiduciary Activities**Schedule of Fiduciary Activity**

For the period ended June 30

2009

1. Fiduciary net assets, beginning of year	\$	20,569,677.29
2. Fiduciary revenues		0.00
3. Contributions		28,387,164.09
4. Investment earnings		1,600,877.81
5. Gain (Loss) on disposition of investments, net		0.00
6. Administrative and other expenses		0.00
7. Distributions to and on behalf of beneficiaries		(27,254,554.93)
8. Increase/(Decrease) in fiduciary net assets	\$	<u>2,733,486.97</u>
9. Fiduciary net assets, end of period	\$	<u><u>23,303,164.26</u></u>

Schedule of Fiduciary Net Assets

For the period ended June 30

2009

FIDUCIARY ASSETS		
1. Cash and cash equivalents	\$	23,303,164.26
2. Investments		0.00
3. Other Assets		0.00
		0.00
FIDUCIARY LIABILITIES		
4. Less: LIABILITIES	\$	<u>0.00</u>
5. TOTAL FIDUCIARY NET ASSETS	\$	<u><u>23,303,164.26</u></u>

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

Note 25.	Other Disclosures
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As of June 30	2009			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

1. ENTITY AS LESSEE-

Operating Leases

Future Payments Due

Fiscal Year

2009	0.00	0.00	0.00	0.00
2010	97,733,564.90	0.00	9,157,387.39	106,890,952.29
2011	99,523,146.53	0.00	9,386,322.07	108,909,468.60
2012	98,428,068.46	0.00	9,620,920.13	108,048,988.59
2013	101,003,794.19	0.00	9,861,504.63	110,865,298.82
2014	103,652,565.42	0.00	10,105,042.25	113,757,607.67
After 5 Years	106,376,703.01	0.00	10,360,743.31	116,737,446.32

**Total Future Lease
Payments Due**

\$	606,717,842.51	\$	0.00	\$	58,491,919.78	\$	665,209,762.29
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Note 26.	Restatements
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The Department of the Navy (DON) restated its financial statements as of June 30, 2008 to properly recognize payments related to Shipbuilding procurement costs from October 1, 2005 through June 30, 2008 as contract financing payments. During this period, DON incorrectly expensed Shipbuilding payments that met the definition of contract financing payments because of a limitation with legacy accounting and reporting systems. As a result, DON understated Other Assets (Nonfederal) and overstated expenses in the period the payments were made. Using a data call from the Capital Asset Management System – Military Equipment (CAMS-ME), DON calculated an inception-to-date amount for 3rd Quarter, FY 2008. The error impacted assets, expenses, unexpended appropriations, cumulative results of operations, and net position. It impacted DON’s Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. Refer to Note 6, Other Assets, for additional details and disclosures.

In addition, DON also completed a restatement to adjust beginning balances for USSGL accounts 3100 and 3310. These accounts were adjusted as part of the implementation of the DDRS-B/AFS export in 3rd Quarter, FY 2009. The adjustment impacted assets, liabilities, unexpended appropriations, and cumulative results of operations. It impacted the Balance Sheet and the Statement of Changes in Net Position.

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

FY 2008 Balance Sheet	
Accounts Receivable	228.3
Interest Receivable	25.3
Advances and Prepayments	20,601.8
Accumulated Depreciation on Equipment	3.2
Other Assets	3.5
Total Assets	20,862.1
Accounts Payable	(483.6)
Liability for Non-Entity Assets	337.2
Total Liabilities	(146.4)
Unexpended Appropriations - Prior Period	(4,110.4)
Unexpended Appropriations - Used	25,103.9
Cumulative Results of Operations	14.9
Net Position	21,008.4
FY 2008 Statement of Net Costs	
Gross Costs	(5,372.3)

FY 2008 Statement of Changes in Net Position
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Cumulative Results of Operations	
Prior Period Adjustments:	
Corrections of Errors	19,746.5
Budgetary Financing Sources:	
Expended Appropriations	(25,103.9)
Net Cost of Operations	(5,372.3)
Cumulative Results of Operations	14.9

Unexpended Appropriations	
Prior Period Adjustments:	
Corrections of Errors	(4,110.4)
Budgetary Financing Sources:	
Expended Appropriations	25,103.9
Unexpended Appropriations	20,993.5

Net Position	21,008.4
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The following chart reflects the cumulative effect on DON's balances reported in the current period:

FY 2009 Statement of Changes in Net Position	
Cumulative Results of Operations	
Prior Period Adjustments:	
Corrections of Errors	26,909.6
Unexpended Appropriations	
Prior Period Adjustments:	
Corrections of Errors	(4,110.4)