

**Department of Defense**  
**Navy Working Capital Fund**  
**CONSOLIDATED BALANCE SHEET**  
**As of June 30, 2009 and 2008**

		<b>Restated</b>
	<b>2009 Consolidated</b>	<b>2008 Consolidated</b>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	\$ 583,585,002.17	\$ 621,502,120.58
3. Accounts Receivable (Note 5)	312,140,291.90	508,953,248.10
4. Other Assets (Note 6)	634,846.51	2,843,624.23
5. Total Intragovernmental Assets	\$ 896,360,140.58	\$ 1,133,298,992.91
B. Cash and Other Monetary Assets (Note 7)	\$ 271,314.54	\$ (5,358,209.86)
C. Accounts Receivable, Net (Note 5)	139,708,811.57	(157,162,399.18)
E. Inventory and Related Property, Net (Note 9)	12,264,449,231.07	12,759,461,250.03
F. General Property, Plant and Equipment, Net (Note 10)	3,066,778,387.17	3,128,283,625.87
H. Other Assets (Note 6)	387,882,949.54	344,743,981.58
<b>2. TOTAL ASSETS</b>	<b>\$ 16,755,450,834.47</b>	<b>\$ 17,203,267,241.35</b>
<b>3. STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>4. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 92,007,607.02	\$ 166,059,286.50
2. Debt (Note 13)	2,375,986.41	71,956,076.46
3. Other Liabilities (Note 15 & 16)	455,603,116.27	242,593,952.47
4. Total Intragovernmental Liabilities	\$ 549,986,709.70	\$ 480,609,315.43
B. Accounts Payable (Note 12)	\$ 2,986,348,514.22	\$ 2,694,017,727.44
C. Military Retirement and Other Federal Employment Benefits (Note 17)	1,035,873,339.45	1,047,588,349.00
F. Other Liabilities (Note 15 & Note 16)	1,578,772,274.59	1,970,153,292.46
<b>5. TOTAL LIABILITIES</b>	<b>\$ 6,150,980,837.96</b>	<b>\$ 6,192,368,684.33</b>
<b>6. COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>		
<b>7. NET POSITION</b>		
B. Unexpended Appropriations - Other Funds	32,428,860.89	33,594,700.00
D. Cumulative Results of Operations - Other Funds	10,572,041,135.62	10,977,303,857.02
<b>8. TOTAL NET POSITION</b>	<b>\$ 10,604,469,996.51</b>	<b>\$ 11,010,898,557.02</b>
<b>9. TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 16,755,450,834.47</b>	<b>\$ 17,203,267,241.35</b>

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF NET COST**  
For the periods ended June 30, 2009 and 2008

		Restated
	2009 Consolidated	2008 Consolidated
<b>1. Program Costs</b>		
A. Gross Costs	\$ 17,756,885,046.30	\$ 18,643,958,403.97
B. (Less: Earned Revenue)	(16,685,590,742.20)	(15,801,860,376.50)
C. Net Program Costs	\$ 1,071,294,304.10	\$ 2,842,098,027.47
<b>4. Net Cost of Operations</b>	\$ 1,071,294,304.10	\$ 2,842,098,027.47

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2009 and 2008

	<b>2009 Earmarked Funds</b>	<b>2009 All Other Funds</b>
	<hr/>	<hr/>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 9,894,935,593.61
<b>2. Prior Period Adjustments:</b>		
2.B. Corrections of errors (+/-)	0.00	983,293,738.98
<b>3. Beginning balances, as adjusted</b>	<hr/> 0.00	<hr/> 10,878,229,332.59
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	29,302,839.11
4.C. Nonexchange revenue	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(339,848,413.53)
5.C. Imputed financing from costs absorbed by others	0.00	334,450,695.06
5.D. Other (+/-)	0.00	741,200,986.49
<b>6. Total Financing Sources</b>	<hr/> 0.00	<hr/> 765,106,107.13
<b>7. Net Cost of Operations (+/-)</b>	0.00	1,071,294,304.10
<b>8. Net Change</b>	<hr/> 0.00	<hr/> (306,188,196.97)
<b>9. Cumulative Results of Operations</b>	<hr/> 0.00	<hr/> 10,572,041,135.62
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 60,155,700.00
<b>12. Beginning balances, as adjusted</b>	<hr/> 0.00	<hr/> 60,155,700.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	1,576,000.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	(29,302,839.11)
<b>14. Total Budgetary Financing Sources</b>	0.00	(27,726,839.11)
<b>15. Unexpended Appropriations</b>	0.00	32,428,860.89
<b>16. Net Position</b>	<hr/> 0.00	<hr/> 10,604,469,996.51

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2009 and 2008

	<b>2009 Eliminations</b>	<b>2009 Consolidated</b>
	<hr/>	<hr/>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 9,894,935,593.61
<b>2. Prior Period Adjustments:</b>		
2.B. Corrections of errors (+/-)	0.00	983,293,738.98
<b>3. Beginning balances, as adjusted</b>	<hr/> 0.00	<hr/> 10,878,229,332.59
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	29,302,839.11
4.C. Nonexchange revenue	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(339,848,413.53)
5.C. Imputed financing from costs absorbed by others	0.00	334,450,695.06
5.D. Other (+/-)	0.00	741,200,986.49
<b>6. Total Financing Sources</b>	<hr/> 0.00	<hr/> 765,106,107.13
<b>7. Net Cost of Operations (+/-)</b>	0.00	1,071,294,304.10
<b>8. Net Change</b>	<hr/> 0.00	<hr/> (306,188,196.97)
<b>9. Cumulative Results of Operations</b>	<hr/> 0.00	<hr/> 10,572,041,135.62
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 60,155,700.00
<b>12. Beginning balances, as adjusted</b>	<hr/> 0.00	<hr/> 60,155,700.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	1,576,000.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	(29,302,839.11)
<b>14. Total Budgetary Financing Sources</b>	0.00	(27,726,839.11)
<b>15. Unexpended Appropriations</b>	0.00	32,428,860.89
<b>16. Net Position</b>	<hr/> 0.00	<hr/> 10,604,469,996.51

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2009 and 2008

		Restated
	2008 Earmarked Funds	2008 All Other Funds
	<hr/>	<hr/>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 11,947,778,159.23
<b>2. Prior Period Adjustments:</b>		
2.B. Corrections of errors (+/-)	0.00	666,760,687.34
<b>3. Beginning balances, as adjusted</b>	<hr/> 0.00	<hr/> 12,614,538,846.57
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	14,000,000.00
4.C. Nonexchange revenue	0.00	(3,397,221.29)
4.E. Transfers-in/out without reimbursement	0.00	(102,833,000.00)
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	328,532,116.26
5.D. Other (+/-)	0.00	968,561,142.95
<b>6. Total Financing Sources</b>	<hr/> 0.00	<hr/> 1,204,863,037.92
<b>7. Net Cost of Operations (+/-)</b>	0.00	2,842,098,027.47
<b>8. Net Change</b>	<hr/> 0.00	<hr/> (1,637,234,989.55)
<b>9. Cumulative Results of Operations</b>	<hr/> 0.00	<hr/> 10,977,303,857.02
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 33,594,700.00
<b>12. Beginning balances, as adjusted</b>	<hr/> 0.00	<hr/> 33,594,700.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	14,052,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(52,000.00)
13.D. Appropriations used	0.00	(14,000,000.00)
<b>14. Total Budgetary Financing Sources</b>	0.00	0.00
<b>15. Unexpended Appropriations</b>	0.00	33,594,700.00
<b>16. Net Position</b>	<hr/> 0.00	<hr/> 11,010,898,557.02

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2009 and 2008

		Restated
	2008 Eliminations	2008 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 11,947,778,159.23
<b>2. Prior Period Adjustments:</b>		
2.B. Corrections of errors (+/-)	0.00	666,760,687.34
<b>3. Beginning balances, as adjusted</b>	0.00	12,614,538,846.57
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	14,000,000.00
4.C. Nonexchange revenue	0.00	(3,397,221.29)
4.E. Transfers-in/out without reimbursement	0.00	(102,833,000.00)
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	328,532,116.26
5.D. Other (+/-)	0.00	968,561,142.95
<b>6. Total Financing Sources</b>	0.00	1,204,863,037.92
<b>7. Net Cost of Operations (+/-)</b>	0.00	2,842,098,027.47
<b>8. Net Change</b>	0.00	(1,637,234,989.55)
<b>9. Cumulative Results of Operations</b>	0.00	10,977,303,857.02
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 33,594,700.00
<b>12. Beginning balances, as adjusted</b>	0.00	33,594,700.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	14,052,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(52,000.00)
13.D. Appropriations used	0.00	(14,000,000.00)
<b>14. Total Budgetary Financing Sources</b>	0.00	0.00
<b>15. Unexpended Appropriations</b>	0.00	33,594,700.00
<b>16. Net Position</b>	0.00	11,010,898,557.02

Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 2,822,888,703.80	\$ 1,525,166,790.30
2. Recoveries of prior year unpaid obligations	143,109,748.25	26,986,572.00
3. Budget authority		
3.A. Appropriation	1,576,000.00	14,052,000.00
3.C. Contract authority	6,653,552,000.00	6,251,517,326.32
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	18,838,641,914.20	17,810,053,408.60
3.D.1.b. Change in receivables from Federal sources	(609,779,026.28)	(408,875,439.63)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	83,328,615.95	64,654,991.98
3.D.2.b. Without advance from Federal sources	4,755,001,828.92	4,736,099,807.92
3.D.3. Anticipated for rest of year, without advances	902,952,290.40	5,103,339,589.16
3.E. Subtotal	<u>30,625,273,623.19</u>	<u>33,570,841,684.35</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	(102,833,000.00)
6. Permanently not available	(4,605,407,432.82)	(4,263,640,108.51)
<b>7. Total Budgetary Resources</b>	<u><u>\$ 28,985,864,642.42</u></u>	<u><u>\$ 30,756,521,938.14</u></u>

**Department of Defense**  
**Navy Working Capital Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended June 30, 2009 and 2008**

	<b>2009 Combined</b>	<b>2008 Combined</b>
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.B. Reimbursable	19,700,800,032.47	18,797,112,616.81
8.C. Subtotal	19,700,800,032.47	18,797,112,616.81
9. Unobligated balance:		
9.A. Apportioned	8,302,173,798.15	7,090,259,062.49
9.B. Exempt from apportionment	91,059,639.56	(45,490,360.44)
9.C. Subtotal	8,393,233,437.71	7,044,768,702.05
10. Unobligated balance not available	891,831,172.24	4,914,640,619.28
<b>11. Total status of budgetary resources</b>	<b>\$ 28,985,864,642.42</b>	<b>\$ 30,756,521,938.14</b>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	11,825,672,214.10	12,129,800,225.92
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ (8,259,918,834.61)	\$ (7,281,917,839.14)
12.C. Total unpaid obligated balance	3,565,753,379.49	4,847,882,386.78
13. Obligations incurred net (+/-)	\$ 19,700,800,032.47	\$ 18,797,112,616.81
14. Less: Gross outlays	(19,110,230,286.74)	(18,320,774,557.20)
16. Less: Recoveries of prior year unpaid obligations, actual	(143,109,748.25)	(26,986,572.00)
17. Change in uncollected customer payments from Federal sources (+/-)	(4,145,222,802.64)	(4,327,224,368.29)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	12,273,132,211.58	12,579,151,713.53
18.B. Less: Uncollected customer payments from Federal sources (-)	(12,405,141,637.25)	(11,609,142,207.43)
18.C. Total, unpaid obligated balance, net, end of period	(132,009,425.67)	970,009,506.10
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	19,110,230,286.74	18,320,774,557.20
19.B. Less: Offsetting collections	(18,921,970,530.15)	(17,874,708,400.58)
<b>19.D. Net Outlays</b>	<b>\$ 188,259,756.59</b>	<b>\$ 446,066,156.62</b>



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

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

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

The NWCF currently has 7 auditor identified financial statement material weaknesses: (1) Financial Management Systems, (2) Fund Balance with Treasury, (3) Accounts Receivable, (4) Inventory and Related Property, (5) General Equipment, (6) Accounts Payable, and (7) Other Liabilities.

The NWCF currently has 5 management identified material weaknesses: (1) Intergovernmental Eliminations, (2) Unsupported Accounting Entries, (3) Statement of Net Costs, (4) Operating Materials and Supplies, (5) Reconciliation of Net Cost of Operations to Budget.

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

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

**1.C. Appropriations and Funds**

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

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

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

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

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

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

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

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

#### **1.F. Recognition of Expenses**

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the NWCF's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items, such as payroll expenses, accounts payable, and unbilled revenue. In the case of OM&S, operating expenses are generally recognized when the items are purchased. Efforts are underway to transition towards the consumption method for recognizing OM&S expenses.

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

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, the NWCF cannot accurately eliminate intragovernmental transactions by customer because the NWCF's systems do not track at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD intragovernmental balances are then eliminated. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, to include sufficient up-front edits and controls eliminating the need for after-the-fact reconciliations.

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

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

Financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such interest costs to the benefiting agencies.

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

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

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

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

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. The NWCF’s recorded balance in FBWT accounts and U.S. Treasury’s FBWT accounts must balance monthly.

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

Not applicable.

#### **1.K. Accounts Receivable**

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

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

Not applicable.

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

The NWCF values 100% of its inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with the SFFAS No. 3, “Accounting for Inventory and Related Property.” Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). At the current time, NWCF does not report any inventory using the moving average cost

method. However, by utilizing new system development processes, the NWCF will be transitioning to the moving average cost method with the implementation of the Navy Enterprise Resource Planning (ERP).

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

Related property includes OM&S and stockpile materiels. The OM&S, including munitions not held for sale, are valued at standard purchase price. The NWCF uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the NWCF uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2009, the NWCF expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

Excess, obsolete, or unserviceable operating materiels and supplies are reported at their net realizable value. The NWCF recognizes condemned materiel as “Excess, Obsolete, and Unserviceable.” The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero. Potentially redistributed materiel, presented in previous years as “Excess, Obsolete, and Unserviceable,” is included in the “Held for Use” or “Held for Repair” categories according to its condition.

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

process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. Work in process also includes the value of finished products or completed services that are yet to be placed in service and transferred to an asset account. Work in process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

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

Not applicable.

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

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

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 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.

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

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

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

**1.P. Advances and Prepayments**

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances and prepayments in accordance with GAAP. As

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

Office space and leases entered into by NWCF in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Services Administration (GSA) bills, and Interservice Support Agreements. Future year projections use the Consumer Price Index (CPI) rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites.

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

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

The NWCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, NWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. 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 NWCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

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

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

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

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

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

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



**1.W. Unexpended Obligations**

The NWCF 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 have not been recorded in the fund holder's accounting records. These payments are applied to the NWCF's outstanding accounts payable balance. In transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are applied to the NWCF's 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 converted its internal operations to ERP; this did not include inventory. 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. The implementation of ERP materially affected advances and accounts receivable causing them to be misstated during FY 2008 and 2009. We are currently working these misstatements and should see improvement by the end of the fiscal year.

**1.Z. Fiduciary Activities**

Not applicable.

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of June 30	2009	2008
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	3,734,529.71	3,397,724.19
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 3,734,529.71	\$ 3,397,724.19
<b>3. Total Nonentity Assets</b>	\$ 3,734,529.71	\$ 3,397,724.19
<b>4. Total Entity Assets</b>	\$ 16,751,716,304.76	\$ 17,199,869,517.16
<b>5. Total Assets</b>	\$ 16,755,450,834.47	\$ 17,203,267,241.35

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

The Nonentity Accounts Receivable amount represents interest, penalties, fines and administrative fees. These fees do not belong to NWCF and will be distributed directly to the U.S. Treasury.

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of June 30

2009

2008

**1. Fund Balances**

A. Appropriated Funds	\$	0.00	\$	0.00
B. Revolving Funds		583,585,002.17		621,502,120.58
C. Trust Funds		0.00		0.00
D. Special Funds		0.00		0.00
E. Other Fund Types		0.00		0.00
F. Total Fund Balances	\$	583,585,002.17	\$	621,502,120.58

**2. Fund Balances Per Treasury Versus Agency**

A. Fund Balance per Treasury	\$	583,585,002.17	\$	621,502,120.58
B. Fund Balance per Navy Working Capital Fund		583,585,002.17		621,502,120.58

**3. Reconciling Amount**

	\$	0.00	\$	0.00
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## Status of Fund Balance with Treasury

As of June 30	2009	2008
<b>1. Unobligated Balance</b>		
A. Available	\$ 8,372,212,137.04	\$ 6,808,050,340.02
B. Unavailable	12,199,365.50	101,015,003.35
<b>2. Obligated Balance not yet Disbursed</b>	\$ 12,273,132,211.58	\$ 12,579,151,713.53
<b>3. Nonbudgetary FBWT</b>	\$ 0.00	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (20,073,958,711.95)	\$ (18,866,714,936.32)
<b>5. Total</b>	<u>\$ 583,585,002.17</u>	<u>\$ 621,502,120.58</u>

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

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

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

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

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

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

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of June 30	2009			
	Gross Amount Due		Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$	312,140,291.90	N/A	\$ 312,140,291.90
2. Nonfederal Receivables (From the Public)	\$	139,737,725.68	\$ (28,914.11)	\$ 139,708,811.57
3. Total Accounts Receivable	\$	451,878,017.58	\$ (28,914.11)	\$ 451,849,103.47

As of June 30	2008			
	Gross Amount Due		Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$	508,953,248.10	N/A	\$ 508,953,248.10
2. Nonfederal Receivables (From the Public)	\$	(157,133,485.07)	\$ (28,914.11)	\$ (157,162,399.18)
3. Total Accounts Receivable	\$	351,819,763.03	\$ (28,914.11)	\$ 351,790,848.92

<b>Note 6.</b>	<b>Other Assets</b>
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As of June 30

	2009	2008
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 634,846.51	\$ 2,843,624.23
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 634,846.51	\$ 2,843,624.23
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 35,681,662.47	\$ 19,500,181.51
B. Advances and Prepayments	333,790,624.87	233,167,698.77
C. Other Assets (With the Public)	18,410,662.20	92,076,101.30
D. Total Nonfederal Other Assets	\$ 387,882,949.54	\$ 344,743,981.58
<b>3. Total Other Assets</b>	<u>\$ 388,517,796.05</u>	<u>\$ 347,587,605.81</u>

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

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

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

The Contract Financing Payment balance of \$35.7 million is entirely comprised of estimated future funded payments that will be paid to the contractor upon future delivery and Federal Government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of June 30

	2009	2008
<b>1. Cash</b>	\$ 271,314.54	\$ (5,358,209.86)
<b>2. Foreign Currency</b>	0.00	0.00
<b>3. Other Monetary Assets</b>	0.00	0.00
<b>4. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	<u>\$ 271,314.54</u>	<u>\$ (5,358,209.86)</u>

There are no restrictions on cash.

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of June 30	2009	Restated 2008
1. Inventory, Net	\$ 11,992,921,417.24	\$ 12,432,923,501.44
2. Operating Materiel & Supplies, Net	271,527,813.83	326,537,748.59
3. Stockpile Materiel, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 12,264,449,231.07</b>	<b>\$ 12,759,461,250.03</b>



## Inventory, Net

As of June 30	2009			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	

### 1. Inventory Categories

A. Available and Purchased for Resale	\$ 31,621,443,476.79	\$ (21,890,705,910.56)	9,730,737,566.23	LAC,MAC
B. Held for Repair	6,043,008,764.49	(4,101,532,465.35)	1,941,476,299.14	LAC,MAC
C. Excess, Obsolete, and Unserviceable	1,023,619,878.04	(1,023,287,847.88)	332,030.16	NRV
D. Raw Materiel	0.00	0.00	0.00	MAC,SP,LA
E. Work in Process	320,375,521.71	0.00	320,375,521.71	AC
<b>F. Total</b>	<b>\$ 39,008,447,641.03</b>	<b>\$ (27,015,526,223.79)</b>	<b>11,992,921,417.24</b>	

As of June 30	Restated 2008			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	

### 1. Inventory Categories

A. Available and Purchased for Resale	\$ 20,932,557,979.25	\$ (21,056,146,486.66)	(123,588,507.41)	LAC,MAC
B. Held for Repair	16,153,460,679.34	(4,000,639,608.08)	12,152,821,071.26	LAC,MAC
C. Excess, Obsolete, and Unserviceable	977,799,411.10	(977,799,411.10)	0.00	NRV
D. Raw Materiel	0.00	0.00	0.00	MAC,SP,LA
E. Work in Process	403,690,937.59	0.00	403,690,937.59	AC
<b>F. Total</b>	<b>\$ 38,467,509,007.28</b>	<b>\$ (26,034,585,505.84)</b>	<b>12,432,923,501.44</b>	

#### Legend for Valuation Methods:

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

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

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

- 1) Distributions without reimbursement are made when authorized by Department of Defense (DoD) directives;
- 2) War reserve materiel in the amount of \$4.7 million includes repair items that are considered restricted; and
- 3) Inventory, with the exception of safety stocks, may be sold to foreign, state, and local governments; private parties; and contractors in accordance with current policies and guidance or at the direction of the President.

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

Inventory available and purchased for resale includes consumable spare and repair parts as well as repairable items owned and managed by the Navy Working Capital Fund (NWCF) and includes all materiel available for customer purchase. Inventory held for repair consists of damaged materiel that requires repair to make it usable and all economically reparable materiel. Excess inventory includes scrap materials or items that are uneconomical to repair and are awaiting disposal. Work in process includes costs related to the production or servicing of items, including direct materiel, direct labor, applied overhead, and other direct costs. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer.

Federal Accounting Standards require disclosure of the amount of inventory held for “future sale.” The NWCF currently has no inventory held for future sale reported for 3<sup>rd</sup> Quarter, FY 2009 in Inventory Held for Sale, Net. All inventory is currently planned for sale within the next fiscal year.

Inventory is assigned to categories based upon condition of the inventory items, or in the case of raw materiel and work-in-process based upon stage of fabrication.

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

NWCF has restated FY 2008 prior year column for Inventory and Related Property, Net.

## 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	\$	271,527,813.83	\$	0.00	\$	271,527,813.83	SP, LAC, MAC
B. Held for Repair		0.00		0.00		0.00	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		0.00		0.00		0.00	NRV

<b>D. Total</b>	<b>\$</b>	<b>271,527,813.83</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>271,527,813.83</b>	
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As of June 30	2008			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

### 1. OM&S Categories

A. Held for Use	\$	326,537,748.59	\$	0.00	\$	326,537,748.59	SP, LAC, MAC
B. Held for Repair		0.00		0.00		0.00	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		0.00		0.00		0.00	NRV

<b>D. Total</b>	<b>\$</b>	<b>326,537,748.59</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>326,537,748.59</b>	
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#### 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

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

The NWCF determines categories to which OM&S are assigned based upon readiness for issue and use as determined by condition of the individual inventory items.

Federal Accounting Standards require disclosure of the amount of OM&S held for “future use.” The NWCF reports that \$4.2 million of OM&S is held for future use and is included in the “held for use” category. These items are not readily available in the market and there is a more than remote chance that they will eventually be needed.

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

## Note 10. General PP&E, Net

As of June 30	2009				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>1. Major Asset Classes</b>					
A. Land	N/A	N/A	\$ 39,336,368.76	N/A	\$ 39,336,368.76
B. Buildings, Structures, and Facilities	S/L	20 Or 40	6,418,072,827.74	\$ (4,590,210,667.07)	1,827,862,160.67
C. Leasehold Improvements	S/L	lease term	45,671.50	(7,992.60)	37,678.90
D. Software	S/L	2-5 Or 10	483,004,061.59	(356,454,900.91)	126,549,160.68
E. General Equipment	S/L	5 or 10	2,604,996,058.04	(2,121,343,510.76)	483,652,547.28
F. Military Equipment	S/L	Various	0.00	0.00	0.00
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	586,717,177.40	N/A	586,717,177.40
J. Other			2,623,293.48	0.00	2,623,293.48
K. Total General PP&E			\$ 10,134,795,458.51	\$ (7,068,017,071.34)	\$ 3,066,778,387.17

As of June 30	2008				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>1. Major Asset Classes</b>					
A. Land	N/A	N/A	\$ 39,335,160.76	N/A	\$ 39,335,160.76
B. Buildings, Structures, and Facilities	S/L	20 Or 40	5,794,569,745.70	\$ (3,944,224,370.83)	1,850,345,374.87
C. Leasehold Improvements	S/L	lease term	347,974.32	(280,536.30)	67,438.02
D. Software	S/L	2-5 Or 10	475,498,977.15	(335,054,277.43)	140,444,699.72
E. General Equipment	S/L	5 or 10	2,510,319,745.68	(2,034,105,763.65)	476,213,982.03
F. Military Equipment	S/L	Various	0.00	0.00	0.00
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	619,643,386.47	N/A	619,643,386.47
J. Other			2,233,584.00	0.00	2,233,584.00
K. Total General PP&E			\$ 9,441,948,574.08	\$ (6,313,664,948.21)	\$ 3,128,283,625.87

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

Legend for Valuation Methods:

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

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

The acquisition cost for GPP&E is captured and maintained in the applicable property accountability systems. There are no material amounts or types of GPP&E for which the acquisition cost is unknown.

Military equipment, heritage assets and stewardship land are reported on the financial statements of the Department of the Navy General Fund (DON GF).

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

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of June 30

	2009	2008
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	185,683,276.37	5,878,920.90
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 185,683,276.37</b>	<b>\$ 5,878,920.90</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	1,035,873,339.45	1,047,588,349.00
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	494,676,576.82
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 1,035,873,339.45</b>	<b>\$ 1,542,264,925.82</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 1,221,556,615.82</b>	<b>\$ 1,548,143,846.72</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 4,929,424,222.14</b>	<b>\$ 4,644,224,837.61</b>
<b>5. Total Liabilities</b>	<b>\$ 6,150,980,837.96</b>	<b>\$ 6,192,368,684.33</b>

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided.

The amount in Liabilities Not Covered by Budgetary Resources is primarily comprised of an actuarial liability for Military Retirement and Other Federal Employment Benefits not due and payable during the current fiscal year. These liabilities are primarily comprised of Federal Employees' Compensation Act Actuarial liability of \$1.0 billion. See Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Other Intragovernmental Liabilities consist of custodial liabilities for interest, penalties, fines and administrative fees receivable held on behalf of the U.S. Treasury. These fees will be distributed directly to the U.S. Treasury when collected, and the corresponding liabilities reduced.

<b>Note 12.</b>	<b>Accounts Payable</b>
-----------------	-------------------------

As of June 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

1. Intragovernmental Payables	\$	92,007,607.02	\$	N/A	\$	92,007,607.02
2. Nonfederal Payables (to the Public)		2,986,348,514.22		0.00		2,986,348,514.22
<b>3. Total</b>	<b>\$</b>	<b>3,078,356,121.24</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>3,078,356,121.24</b>

As of June 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

1. Intragovernmental Payables	\$	166,059,286.50	\$	N/A	\$	166,059,286.50
2. Nonfederal Payables (to the Public)		2,694,017,727.44		0.00		2,694,017,727.44
<b>3. Total</b>	<b>\$</b>	<b>2,860,077,013.94</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>2,860,077,013.94</b>

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

<b>Note 13.</b>	<b>Debt</b>
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As of June 30	2009		
	Beginning Balance	Net Borrowing	Ending Balance

**1. Agency Debt**
**(Intragovernmental)**

A. Debt to the Treasury	\$	0.00	\$	0.00	\$	0.00
B. Debt to the Federal Financing Bank		16,880,861.66		(14,504,875.25)		2,375,986.41
C. Total Agency Debt	\$	16,880,861.66	\$	(14,504,875.25)	\$	2,375,986.41

**2. Total Debt**

\$	16,880,861.66	\$	(14,504,875.25)	\$	2,375,986.41
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As of June 30	2008		
	Beginning Balance	Net Borrowing	Ending Balance

**1. Agency Debt**
**(Intragovernmental)**

A. Debt to the Treasury	\$	0.00	\$	0.00	\$	0.00
B. Debt to the Federal Financing Bank		70,696,517.90		1,259,558.56		71,956,076.46
C. Total Agency Debt	\$	70,696,517.90	\$	1,259,558.56	\$	71,956,076.46

**2. Total Debt**

\$	70,696,517.90	\$	1,259,558.56	\$	71,956,076.46
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The Afloat Prepositioning Force program, with congressional approval, provides ships for time charter to meet requirements not available in the marketplace. These ships are built or converted by private interim vessel owners using private, nongovernment financing obtained from various banking institutions. There were no payments made by the government during the building/conversion phase. Afloat Prepositioning Force program time charters are for five years with four option renewal periods of five years each, for a total of 25 years. At the end of the contract, each ship returns to the vessel's owner.

The Federal Financing Bank (FFB) is one of the institutions that provided loans to the vessel owners. The FFB reports that Transportation, Military Sealift Command (MSC) has a debt in the amount of \$2.4 million, which represents an outstanding principal balance of \$2.3 million and accrued interest payable of \$76.8 thousand. MSC does not owe this debt to FFB. This debt is a public debt owed by the private vessel owners. In order to simplify the payments to FFB and to meet its requirements, FFB cross disburses the semi-annual principal and interest payments directly from the Navy Working Capital Fund (NWCF). This is done instead of having MSC make capital hire payments to the vessel owners, who would in turn make loan obligation payments to FFB. It is not uncommon for the Federal Government to make payments directly to the bank (FFB) and mirrors other time charters where payment is assigned directly to a bank. However, when establishing the loan, FFB coded the loan as a government debt instead of a public debt. This coding shall remain until the loan has been liquidated.



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

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

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of June 30

2009

Current  
Liability

Noncurrent  
Liability

Total

**1. Intragovernmental**

A. Advances from Others	\$	239,688,274.25	\$	0.00	\$	239,688,274.25
B. Deposit Funds and Suspense Account Liabilities		0.00		0.00		0.00
C. Disbursing Officer Cash		0.00		0.00		0.00
D. Judgment Fund Liabilities		0.00		0.00		0.00
E. FECA Reimbursement to the Department of Labor		90,865,138.13		94,818,138.24		185,683,276.37
F. Custodial Liabilities		4,601,981.27		0.00		4,601,981.27
G. Employer Contribution and Payroll Taxes Payable		25,629,584.38		0.00		25,629,584.38
H. Other Liabilities		0.00		0.00		0.00
I. Total Intragovernmental Other Liabilities	\$	360,784,978.03	\$	94,818,138.24	\$	455,603,116.27

**2. Nonfederal**

A. Accrued Funded Payroll and Benefits	\$	785,976,958.98	\$	0.00	\$	785,976,958.98
B. Advances from Others		257,993,780.38		0.00		257,993,780.38
C. Deferred Credits		0.00		0.00		0.00
D. Deposit Funds and Suspense Accounts		53,767.80		0.00		53,767.80
E. Temporary Early Retirement Authority		0.00		0.00		0.00
F. Nonenvironmental Disposal Liabilities						
(1) Military Equipment (Nonnuclear)		0.00		0.00		0.00
(2) Excess/Obsolete Structures		0.00		0.00		0.00
(3) Conventional Munitions Disposal		0.00		0.00		0.00
G. Accrued Unfunded Annual Leave		0.00		0.00		0.00
H. Capital Lease Liability		0.00		0.00		0.00
I. Contract Holdbacks		1,409,839.76		0.00		1,409,839.76
J. Employer Contribution and Payroll Taxes Payable		0.00		0.00		0.00
K. Contingent Liabilities		491,474,873.71		35,681,662.47		527,156,536.18
L. Other Liabilities		6,181,391.49		0.00		6,181,391.49
M. Total Nonfederal Other Liabilities	\$	1,543,090,612.12	\$	35,681,662.47	\$	1,578,772,274.59

**3. Total Other Liabilities**

\$	1,903,875,590.15	\$	130,499,800.71	\$	2,034,375,390.86
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As of June 30	Restated 2008		
	Current Liability	Noncurrent Liability	Total

### 1. Intragovernmental

A. Advances from Others	\$	216,068,982.84	\$	0.00	\$	216,068,982.84
B. Deposit Funds and Suspense Account Liabilities		0.00		0.00		0.00
C. Disbursing Officer Cash		0.00		0.00		0.00
D. Judgment Fund Liabilities		0.00		0.00		0.00
E. FECA Reimbursement to the Department of Labor		0.00		0.00		0.00
F. Custodial Liabilities		5,878,920.90		0.00		5,878,920.90
G. Employer Contribution and Payroll Taxes Payable		20,646,048.73		0.00		20,646,048.73
H. Other Liabilities		0.00		0.00		0.00
I. Total Intragovernmental Other Liabilities	\$	242,593,952.47	\$	0.00	\$	242,593,952.47

### 2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	729,929,733.43	\$	0.00	\$	729,929,733.43
B. Advances from Others		241,548,639.45		0.00		241,548,639.45
C. Deferred Credits		0.00		0.00		0.00
D. Deposit Funds and Suspense Accounts		(10,052,345.19)		0.00		(10,052,345.19)
E. Temporary Early Retirement Authority		0.00		0.00		0.00
F. Nonenvironmental Disposal Liabilities						
(1) Military Equipment (Nonnuclear)		0.00		0.00		0.00
(2) Excess/Obsolete Structures		0.00		0.00		0.00
(3) Conventional Munitions Disposal		0.00		0.00		0.00
G. Accrued Unfunded Annual Leave		0.00		0.00		0.00
H. Capital Lease Liability		0.00		0.00		0.00
I. Contract Holdbacks		1.00		0.00		1.00
J. Employer Contribution and Payroll Taxes Payable		0.00		0.00		0.00
K. Contingent Liabilities		489,513,460.22		19,500,181.51		509,013,641.73
L. Other Liabilities		499,713,622.04		0.00		499,713,622.04
M. Total Nonfederal Other Liabilities	\$	1,950,653,110.95	\$	19,500,181.51	\$	1,970,153,292.46

### 3. Total Other Liabilities

\$	2,193,247,063.42	\$	19,500,181.51	\$	2,212,747,244.93
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During FY 2009, the Navy Working Capital Fund (NWCF) and the Defense Finance and Accounting Service (DFAS) reconciled unsupported undistributed collections and disbursements, and per Office of Under Secretary of Defense (Comptroller) policy, the last NWCF activity cleared stabilized unsupported undistributed collections and disbursements.

Contingent Liabilities includes \$35.7 million in estimated future contract financing payments that will be paid to the contractors upon delivery and Federal Government acceptance. In accordance with contract terms, specific rights to the contractor's work vest with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The NWCF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Federal Government acceptance. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to NWCF and the amount of potential future payments is estimable, NWCF has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Federal Government acceptance.

The balance in Other Liabilities reflected at Naval Shipyard. Naval Shipyards balance is the residual accrued liability balance of five closed/transitioned shipyards (Long Beach, Charleston, Philadelphia, Mare Island, and Pearl Harbor) reported at NSY Long Beach, and the transitioned NSY Puget Sound balance. These balances are currently being examined. The expected conclusion is that the balances are no longer necessary and will be candidates for near future adjustment (write-off). Naval Facilities Engineering Command balance is residual accrued liability that is being examined.

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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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 (OGC) 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.

The NWCF currently has 2 cases that meet the existing FY 2009 NWCF materiality threshold of \$2.2 million. The DON OGC was unable to express an opinion concerning the likely outcome of 2 of the 2 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 1<sup>st</sup> 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 and is provided as an overall assessment of all cases currently pending and not on an individual case basis. The likelihood of an unfavorable or potential liability was determined by using an average of the data from the current year-to-date and the preceding four years. The total dollar amount of the cases closed was divided by the total dollar amount claimed in those closed cases for each of the last four years plus current year, which were then used to calculate the average. This average is based entirely on historical data and represents the percentage that has historically been paid on claims for all DON cases. The merits for each individual case have not been taken into consideration. As a result, estimates cannot be allocated between NWCF and DON General Fund (GF).

**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	\$	1,035,873,339.45	\$	0.00	\$	1,035,873,339.45
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	\$	1,035,873,339.45	\$	0.00	\$	1,035,873,339.45

**3. Other Federal  
Employment Benefits**

	\$	0.00	\$	0.00	\$	0.00
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**4. Total Military  
Retirement and Other  
Federal Employment  
Benefits:**

	\$	1,035,873,339.45	\$	0.00	\$	1,035,873,339.45
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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	\$	1,047,588,349.00	\$	0.00	\$	1,047,588,349.00
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	\$	1,047,588,349.00	\$	0.00	\$	1,047,588,349.00

**3. Other Federal Employment Benefits**

	\$	0.00	\$	0.00	\$	0.00
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**4. Total Military Retirement and Other Federal Employment Benefits:**

	\$	1,047,588,349.00	\$	0.00	\$	1,047,588,349.00
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Actuarial Cost Method Used:

Assumptions:

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

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

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

The interest rate assumptions utilized when discounting were as follows:

2008

4.3680% in Year 1

4.770% in Year 2 and thereafter

To provide more specificity concerning the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) or medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 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:

<b><u>CBY</u></b>	<b><u>COLA</u></b>	<b><u>CPIM</u></b>
2008	N/A	N/A
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 sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2008 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2008 projection to the average pattern for the projections of the most recent three years.

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



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

As of June 30	2009	Restated 2008
1. Intragovernmental Costs	\$ 3,390,970,379.59	\$ 3,528,392,912.91
2. Public Costs	14,365,914,666.71	15,115,565,491.06
<b>3. Total Costs</b>	<b>\$ 17,756,885,046.30</b>	<b>\$ 18,643,958,403.97</b>
4. Intragovernmental Earned Revenue	\$ (15,811,528,346.65)	\$ (15,066,867,217.98)
5. Public Earned Revenue	(874,062,395.55)	(734,993,158.52)
<b>6. Total Earned Revenue</b>	<b>\$ (16,685,590,742.20)</b>	<b>\$ (15,801,860,376.50)</b>
<b>7. Net Cost of Operations</b>	<b>\$ 1,071,294,304.10</b>	<b>\$ 2,842,098,027.47</b>

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

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

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

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

The NWCF does not meet accounting standards and that information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

NWCF has restated FY 2008 prior year column for Net Cost of Operations.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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In order to clean up the data before fully converting to Enterprise Resource Planning (ERP), a Prior Period Adjustment (PPA) was recorded to correct the effects of Cost of Goods Sold inventory valuation process. Therefore, FY 2009 and Comparative FY 2008 have been restated as explained in Note 26.

The current 2009 and comparative 2008 Statement of Changes in Net Position were impacted.

1. The beginning FY 2009 Cumulative Results of Operations was restated by \$983.3 million in FY 2009 and by \$666.8 million in FY 2008.
2. The FY 2008 Other Financing Sources, Other was restated by \$752.0 million.
3. The FY 2008 Net Cost of Operations was restated by \$494.7 million.

Line 5D.Other is comprised of a gain reported during the trading partner elimination process and an adjustment made to reclassify the COGS model PPA amount properly to Other Losses.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of June 30	2009	2008
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 8,669,267,999.20	\$ 9,188,902,732.81
2. Available Borrowing and Contract Authority at the End of the Period	1,778,566,752.51	1,417,303,769.37

Downward Adjustments of Prior-Year Unpaid has an abnormal balance of \$1.7 million due to a Navy ERP posting logic issue that occurred at Naval Air Warfare Center (NAWC) while correcting a current year obligation. The Department of the Navy (DON) is currently researching the issue and working with the NAWC to resolve.

Obligations Incurred – Direct	Category A	\$0
Obligations Incurred – Reimbursable	Category B	\$19.7 billion
Obligations Incurred – Reimbursable	Exempt from Apportionment	(\$32.9) million

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

Obligations Incurred Exempt from Apportionment is abnormal due to a crosswalk issue. We are researching accounts that map to the Obligations Incurred categories between Navy ERP and DDRS-B to identify and correct this crosswalk issue by next quarter for fiscal year end. The commands affected are Naval Air Warfare Center and NAVSUP.

<b>Note 21.</b>	<b>Reconciliation of Net Cost of Operations to Budget</b>
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As of June 30

2009

2008

**Resources Used to Finance Activities:**

Budgetary Resources Obligated:

1. Obligations incurred	\$ 19,700,800,032.47	\$ 18,797,112,616.81
2. Less: Spending authority from offsetting collections and recoveries (-)	(23,210,303,081.04)	(22,228,919,340.87)
3. Obligations net of offsetting collections and recoveries	\$ (3,509,503,048.57)	\$ (3,431,806,724.06)
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	\$ (3,509,503,048.57)	\$ (3,431,806,724.06)

Other Resources:

6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	(339,848,413.53)	0.00
8. Imputed financing from costs absorbed by others	334,450,695.06	328,532,116.26
9. Other (+/-)	741,200,986.49	968,561,142.95
10. Net other resources used to finance activities	\$ 735,803,268.02	\$ 1,297,093,259.21
<b>11. Total resources used to finance activities</b>	<b>\$ (2,773,699,780.55)</b>	<b>\$ (2,134,713,464.85)</b>

**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 (-)	\$ (875,011,012.53)	\$ (1,313,643,857.61)
12b. Unfilled Customer Orders	4,838,330,444.87	4,800,754,799.90
13. Resources that fund expenses recognized in prior Periods (-)	(25,052,294.92)	0.00
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0.00	0.00
15. Resources that finance the acquisition of assets (-)	(3,784,251,191.44)	(3,500,917,073.45)
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 (+/-)	(401,352,572.96)	(968,561,142.95)
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$ (247,336,626.98)</b>	<b>\$ (982,367,274.11)</b>
<b>18. Total resources used to finance the Net Cost of Operations</b>	<b>\$ (3,021,036,407.53)</b>	<b>\$ (3,117,080,738.96)</b>

As of June 30

2009

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	\$	0.00	\$	0.00
20. Increase in environmental and disposal liability		0.00		0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0.00		0.00
22. Increase in exchange revenue receivable from the public (-)		0.00		0.00
23. Other (+/-)		0.00		0.00
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	0.00	\$	0.00

Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	165,083,854.03	\$	181,015,865.19
26. Revaluation of assets or liabilities (+/-)		850,728,185.74		848,486,103.19
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0.00		0.00
27b. Cost of Goods Sold		9,501,495,324.78		10,902,363,767.84
27c. Operating Material and Supplies Used		0.00		0.00
27d. Other		(6,424,976,652.92)		(5,972,686,969.79)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	4,092,330,711.63	\$	5,959,178,766.43
<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	\$	4,092,330,711.63	\$	5,959,178,766.43
<b>30. Net Cost of Operations</b>	\$	1,071,294,304.10	\$	2,842,098,027.47

Due to Navy Working Capital Fund (NWCF) financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency. As a result of these system limitations, resources that finance the acquisition of assets on the reconciliation of Net Cost of Operations to Budget was adjusted downward by \$2.4 billion (absolute amount) at the end of 3<sup>rd</sup> Quarter, FY 2009 to bring it into balance with the Statement of Net Cost.

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

- Obligations Incurred

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

Line 9 -Other Resources Used to Finance Activities consists of gains and losses associated with the financial closure of NWCF activities.

Line 16b - Other Resources Used to Finance Items not Part of the Net Cost of Operations consists of transfers of assets out of NWCF.

Line 27d - Line Other Components not Requiring or Generating Resources consists of overhead costs distributed to work in process, as well as costs originally recorded into another expense account that are transferred to one of three accounts: inventory work in process, internal use software in development, or completed assets.

**Note 22.****Disclosures Related to Incidental Custodial Collections**

Navy Working Capital Fund (NWCF) collected \$3.7 million of incidental custodial revenues generated primarily from interest, penalties, fines and administrative fees. The NWCF will distribute the \$3.7 million to U.S. Treasury.

## Note 26. Restatements

In the current environment, inventory is recorded in the Material Financial and Control System (MFCS) at standard cost. The inventory is then converted in the Central Database (CDB) from standard costs to Latest Acquisition Costs (LAC). And finally, the LAC costs from the CDB are revalued in the cost of good sold (COGS) model to an approximation of historical cost. This model was developed by Office of Secretary of Defense (OSD) in the early 1990s.

Embedded in this COGS model inventory revaluation process, is a calculation that records a portion of the revaluation as a Prior Period Adjustment (PPA) monthly. Essentially, this PPA allowed the supply activities the ability to revalue a portion of their inventory without adversely affecting their Net Operating Results (NOR). Adjusting the beginning balance in cumulative results of operations (U.S. Standard General Ledger (USSGL) account 3310) based on the COGS model calculation was initially designed as a temporary solution but evolved into a business practice for the military supply communities.

In October 2003, representatives from Defense Finance and Accounting Service - Cleveland (DFAS-CL), DFAS-Arlington, OSD, Navy Financial Management Office (FMO), and Supply Management, Navy (NAVSUP) met to discuss the proper handling of these adjustments as they related to the Budget Execution (BE) (DDRS-B 1307 reports) and the financial statements (DDRS-AFS Financial Statements). During this collaborative meeting, it was decided that the PPA would not be changed for BE reporting but would be reclassified from PPA to an inventory allowance adjustment for the quarterly financial statements (i.e. reclassifying it from USSGL account 7400 to USSGL account 1529).

Based on the team's (DFAS-CL, FMO, and NAVSUP) continuing analysis and focus on eliminating the contributing factors causing NWCF fluctuations in inventory and to clean up the data before fully converting to Enterprise Resource Planning (ERP) architecture, we have done the following:

1. Removed the permanent entry in DDRS-AFS used to reverse the cumulative effects of year-end adjustments reclassifying the COGS model calculated Prior Period Adjustment (PPA) (USSGL account 7400) to the inventory allowance account (USSGL account 1529).
2. Processed a PPA to remove the cumulative value inappropriately posted to the inventory allowance account (USSGL account 1529) in the previous years and move this cumulative value to other gains/losses (USSGL account 7190/7290).
3. Changed the reclassification of PPA (USSGL 7400) from the inventory allowance account (USSGL 1529) to other gains/losses (USSGL 7190/7290), as applicable. This will accomplish two things:



- a. It will systematically update cumulative results (USSGL 3310) during the year-end close and
- b. It will eliminate the need to process a reversing entry in the subsequent year.

FY 2009 and Comparative FY 2008 have been restated.

The current 2009 and comparative 2008 Balance Sheet, Statement of Changes in Net Position, and Statement of Net Cost were impacted.

1. Inventory and related Property was increased by \$1.5 billion in FY 2009 and by \$1.4 billion in FY 2008 due to adjustments made to Supply Management USSGL account 1529.
2. The beginning FY 2009 Cumulative Results of Operations was restated by \$983.3 million in FY 2009 and by \$666.8 million in FY 2008.
3. The FY 2008 Other Financing Sources, Other was restated by \$752.0 million.
4. The FY 2008 Net Cost of Operations was restated by \$494.7 million.

In the future, we will be booking Other Gains (USSGL account 7190) and/or Other Losses (USSGL account 7290) instead of the inventory allowance account (USSGL account 1529) when reclassifying the PPA (USSGL account 7400) for inventory adjustments.