

**Department of Defense**  
**Navy Working Capital Fund**  
**CONSOLIDATED BALANCE SHEET**  
**As of June 30, 2005 and 2004**

	<b>2005 Consolidated</b>	<b>2004 Consolidated</b>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 1,085,784,243.29	\$ 527,621,588.13
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	0.00	0.00
3. Accounts Receivable (Note 5)	462,618,589.54	781,868,379.23
4. Other Assets (Note 6)	2,376,062.90	93.71
5. Total Intragovernmental Assets	<u>\$ 1,550,778,895.73</u>	<u>\$ 1,309,490,061.07</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	58,611,923.76	37,302,801.30
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	16,141,900,509.77	18,678,807,210.09
F. General Property, Plant and Equipment (Note 10)	3,786,538,840.12	4,308,658,822.57
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	703,478,391.32	877,465,481.72
<b>2. TOTAL ASSETS</b>	<u><u>\$ 22,241,308,560.70</u></u>	<u><u>\$ 25,211,724,376.75</u></u>
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 169,552,270.73	\$ 158,748,204.15
2. Debt (Note 13)	503,910,102.26	615,912,721.51
3. Other Liabilities (Note 15 & Note 16)	620,071,127.64	245,792,621.32
4. Total Intragovernmental Liabilities	<u>\$ 1,293,533,500.63</u>	<u>\$ 1,020,453,546.98</u>
B. Accounts Payable (Note 12)	\$ 2,066,850,851.06	\$ 1,763,959,873.15
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,168,225,461.54	1,409,853,104.57
D. Environmental Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	3,331,666,264.07	4,884,941,171.96
<b>4. TOTAL LIABILITIES</b>	<u>\$ 7,860,276,077.30</u>	<u>\$ 9,079,207,696.66</u>
<b>5. NET POSITION</b>		
A. Unexpended Appropriations	\$ 140,695,000.00	\$ 0.00
B. Cumulative Results of Operations	14,240,337,483.40	16,132,516,680.09
<b>6. TOTAL NET POSITION</b>	<u>\$ 14,381,032,483.40</u>	<u>\$ 16,132,516,680.09</u>
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 22,241,308,560.70</u></u>	<u><u>\$ 25,211,724,376.75</u></u>

**Department of Defense**  
**Navy Working Capital Fund**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended June 30, 2005 and 2004**

	<b>2005 Consolidated</b>	<b>2004 Consolidated</b>
<b>1. Program Costs</b>		
A. Intragovernmental Gross Costs	\$ 3,244,443,057.15	\$ 3,733,834,278.71
B. (Less: Intragovernmental Earned Revenue)	(15,161,140,739.66)	(15,686,241,743.48)
C. Intragovernmental Net Costs	\$ (11,916,697,682.51)	\$ (11,952,407,464.77)
D. Gross Costs With the Public	15,207,926,946.68	13,553,040,454.16
E. (Less: Earned Revenue From the Public)	(1,412,115,445.99)	(436,653,818.08)
F. Net Costs With the Public	\$ 13,795,811,500.69	\$ 13,116,386,636.08
G. Total Net Cost	\$ 1,879,113,818.18	\$ 1,163,979,171.31
<b>2. Cost Not Assigned to Programs</b>	0.00	0.00
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0.00	0.00
<b>4. Net Cost of Operations</b>	\$ 1,879,113,818.18	\$ 1,163,979,171.31

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 16,021,873,283.75	\$ 18,136,829,027.30
<b>2. Prior period adjustments (+/-)</b>		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	(1,044,715,064.79)
2.B. Beginning Balance, Restated	16,021,873,283.75	17,092,113,962.51
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	0.00
<b>3. Beginning Balances, as adjusted</b>	16,021,873,283.75	17,092,113,962.51
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used	146,405,000.00	130,446,000.00
4.E. Nonexchange revenue	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	65,385,000.00	(287,800,000.00)
4.H. Other budgetary financing sources (+/-)	(505,937,928.27)	(41,257,296.66)
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	(17,036,620.27)	291,085.25
5.C. Imputed financing from costs absorbed by others	408,762,566.37	402,702,100.30
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	97,578,017.83	204,381,888.89
<b>7. Net Cost of Operations (+/-)</b>	1,879,113,818.18	1,163,979,171.31
<b>8. Ending Balances</b>	\$ 14,240,337,483.40	\$ 16,132,516,680.09

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 0.00
<b>2. Prior period adjustments (+/-)</b>		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	0.00
2.B. Beginning Balance, Restated	0.00	0.00
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	0.00
<b>3. Beginning Balances, as adjusted</b>	0.00	0.00
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received	287,100,000.00	130,446,000.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used	(146,405,000.00)	(130,446,000.00)
4.E. Nonexchange revenue	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	140,695,000.00	0.00
<b>7. Net Cost of Operations (+/-)</b>		
<b>8. Ending Balances</b>	\$ 140,695,000.00	\$ 0.00

Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Budget Authority:		
1a. Appropriations received	\$ 287,100,000.00	\$ 130,446,000.00
1b. Borrowing authority	0.00	0.00
1c. Contract authority	2,396,551,259.52	2,274,522,602.72
1d. Net transfers (+/-)	0.00	0.00
1e. Other	0.00	0.00
2. Unobligated balance:		
2a. Beginning of period	2,749,721,572.48	4,513,327,255.26
2b. Net transfers, actual (+/-)	65,385,000.00	(287,800,000.00)
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	16,766,007,699.46	17,204,534,590.88
2. Receivable from Federal sources	(356,002,428.18)	(85,883,573.30)
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	143,645,824.02	157,396,593.24
2. Without advance from Federal sources	3,543,352,136.98	2,410,579,522.41
3c. Anticipated for the rest of year, without advances	1,676,219,967.34	2,187,439,783.67
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	<u>21,773,223,199.62</u>	<u>21,874,066,916.90</u>
4. Recoveries of prior year obligations	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(42,846,184.93)	(10,161,921.35)
<b>7. Total Budgetary Resources</b>	<u><u>\$ 27,229,134,846.69</u></u>	<u><u>\$ 28,494,400,853.53</u></u>

Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended June 30, 2005 and 2004

	<b>2005 Combined</b>	<b>2004 Combined</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
8. Obligations incurred:		
8a. Direct	\$ 0.00	\$ 0.00
8b. Reimbursable	17,616,058,733.99	18,273,955,882.66
8c. Subtotal	<u>17,616,058,733.99</u>	<u>18,273,955,882.66</u>
9. Unobligated balance:		
9a. Apportioned	9,036,368,128.68	10,162,131,195.69
9b. Exempt from apportionment	287,100,000.00	0.00
9c. Other available	0.00	0.00
10. Unobligated Balances Not Available	289,607,984.02	58,313,775.18
<b>11. Total, Status of Budgetary Resources</b>	<b>\$ 27,229,134,846.69</b>	<b>\$ 28,494,400,853.53</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>		
12. Obligated Balance, Net - beginning of period	\$ 4,238,708,051.65	\$ 3,274,113,317.22
13. Obligated Balance transferred, net (+/-)	0.00	0.00
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	(234,438,476.79)	(255,213,381.23)
14b. Unfilled customer order from Federal sources	(10,574,813,429.35)	(11,166,708,608.10)
14c. Undelivered orders	7,691,420,346.16	7,871,242,777.76
14d. Accounts payable	4,758,912,349.88	4,199,198,696.62
15. Outlays:		
15a. Disbursements	17,026,336,286.94	18,574,853,765.72
15b. Collections	(16,909,653,523.48)	(17,361,931,184.12)
15c. Subtotal	<u>116,682,763.46</u>	<u>1,212,922,581.60</u>
16. Less: Offsetting receipts	0.00	0.00
<b>17. Net Outlays</b>	<b>\$ 116,682,763.46</b>	<b>\$ 1,212,922,581.60</b>

**Department of Defense**  
**Navy Working Capital Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended June 30, 2005 and 2004**

	<b>2005 Combined</b>	<b>2004 Combined</b>
	<hr/>	<hr/>
<b>NONBUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Budget Authority:		
1a. Appropriations received	\$ 0.00	\$ 0.00
1b. Borrowing authority	0.00	0.00
1c. Contract authority	0.00	0.00
1d. Net transfers (+/-)	0.00	0.00
1e. Other	0.00	0.00
2. Unobligated balance:		
2a. Beginning of period	0.00	0.00
2b. Net transfers, actual (+/-)	0.00	0.00
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	0.00	0.00
2. Receivable from Federal sources	0.00	0.00
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	0.00	0.00
2. Without advance from Federal sources	0.00	0.00
3c. Anticipated for the rest of year, without advances	0.00	0.00
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	<hr/> 0.00	<hr/> 0.00
4. Recoveries of prior year obligations	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
<b>7. Total Budgetary Resources</b>	<hr/> <hr/> \$ 0.00	<hr/> <hr/> \$ 0.00

**Department of Defense**  
**Navy Working Capital Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended June 30, 2005 and 2004**

	<b>2005 Combined</b>	<b>2004 Combined</b>
	<hr/>	<hr/>
<b>STATUS OF BUDGETARY RESOURCES</b>		
8. Obligations incurred:		
8a. Direct	\$ 0.00	\$ 0.00
8b. Reimbursable	0.00	0.00
8c. Subtotal	<hr/> 0.00	<hr/> 0.00
9. Unobligated balance:		
9a. Apportioned	0.00	0.00
9b. Exempt from apportionment	0.00	0.00
9c. Other available	0.00	0.00
10. Unobligated Balances Not Available	0.00	0.00
<b>11. Total, Status of Budgetary Resources</b>	<hr/> <b>\$ 0.00</b> <hr/>	<hr/> <b>\$ 0.00</b> <hr/>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>		
12. Obligated Balance, Net - beginning of period	\$ 0.00	\$ 0.00
13. Obligated Balance transferred, net (+/-)	0.00	0.00
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	0.00	0.00
14b. Unfilled customer order from Federal sources	0.00	0.00
14c. Undelivered orders	0.00	0.00
14d. Accounts payable	0.00	0.00
15. Outlays:		
15a. Disbursements	0.00	0.00
15b. Collections	0.00	0.00
15c. Subtotal	<hr/> 0.00	<hr/> 0.00
16. Less: Offsetting receipts	0.00	0.00
<b>17. Net Outlays</b>	<hr/> <b>\$ 0.00</b> <hr/>	<hr/> <b>\$ 0.00</b> <hr/>



**Department of Defense**  
**Navy Working Capital Fund**  
**COMBINED STATEMENT OF FINANCING**  
**For the periods ended June 30, 2005 and 2004**

	<b>2005 Combined</b>	<b>2004 Combined</b>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 17,616,058,733.99	\$ 18,273,955,882.66
2. Less: Spending authority from offsetting collections and recoveries (-)	(20,097,003,232.28)	(19,686,627,133.23)
3. Obligations net of offsetting collections and recoveries	(2,480,944,498.29)	(1,412,671,250.57)
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	(2,480,944,498.29)	(1,412,671,250.57)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	(17,036,620.27)	291,085.25
8. Imputed financing from costs absorbed by others	408,762,566.37	402,702,100.30
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	391,725,946.10	402,993,185.55
<b>11. Total resources used to finance activities</b>	<b>(2,089,218,552.19)</b>	<b>(1,009,678,065.02)</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(908,155,214.51)	163,424,118.44
12b. Unfilled Customer Orders	3,686,997,961.00	2,567,976,115.65
13. Resources that fund expenses recognized in prior periods	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	(3,223,977,148.99)	(4,234,907,008.24)
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	0.00	0.00
16b. Other (+/-)	17,036,620.27	(291,085.25)
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<b>(428,097,782.23)</b>	<b>(1,503,797,859.40)</b>
<b>18. Total resources used to finance the net cost of operations</b>	<b>(2,517,316,334.42)</b>	<b>(2,513,475,924.42)</b>

**Department of Defense**  
**Navy Working Capital Fund**  
**COMBINED STATEMENT OF FINANCING**  
**For the periods ended June 30, 2005 and 2004**

	<b>2005 Combined</b>	<b>2004 Combined</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	0.00	0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	156,062,117.34	181,224,744.77
26. Revaluation of assets or liabilities (+/-)	254,466,345.06	32,000,973.92
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	3,985,802,649.53	3,455,742,284.74
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	99,040.67	8,487,092.30
28. Total components of Net Cost of Operations that will not require or generate resources	4,396,430,152.60	3,677,455,095.73
<b>29. Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>4,396,430,152.60</b>	<b>3,677,455,095.73</b>
<b>30. Net Cost of Operations</b>	<b>1,879,113,818.18</b>	<b>1,163,979,171.31</b>

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

These financial statements have been prepared to report the financial position and results of operations of the Navy Working Capital Fund (NWCF), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the NWCF in accordance with the Department of Defense (DoD) Financial Management Regulation, Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible Federal Generally Accepted Accounting Principals (GAAP). The accompanying financial statements account for all resources for which the NWCF is responsible except that information relative to classified assets, programs, and operations have been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The NWCF financial statements are in addition to the financial reports also prepared by the NWCF pursuant to OMB directives that are used to monitor and control the NWCF use of budgetary resources.

The NWCF is unable to fully implement all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including feeder systems and processes. Reported values and information for NWCF major asset and liability categories are derived in part from feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. The NWCF continues to implement process and system improvements addressing the limitation of its financial and feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable note.

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

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

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

The NWCF financial statements include all activities previously financed through the Navy Industrial Fund and DON Stock Fund. DoD converted these activities to the Defense Business Operations Fund (DBOF) in October 1991. In December 1996, Under

Secretary of Defense (Comptroller) replaced the DBOF with four working capital funds, one of which is the NWCF. This action did not change the previous organizational reporting structure.

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

The DON's appropriations and funds are divided into the general, working capital (revolving funds), trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the DON's missions.

The NWCF (a revolving fund) received its initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and used those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The NWCF operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

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

The NWCF generally records transactions on an accrual accounting basis as required by Federal GAAP. However, some of the NWCF's financial and feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis. The NWCF has undertaken efforts to determine the actions required to bring all of its financial and feeder systems and processes into compliance with all elements of Federal GAAP.

In addition, the NWCF identifies programs based upon the major appropriation groups provided by Congress. The NWCF is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statements of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

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

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

some per diems, and point-to-point voyages, the revenue is accrued in the month services are rendered and collection is made the following month.

The NWCF does not include non-monetary support provided by U.S. Allies for common defense and mutual security in its list of other financing sources that appears in the Statement of Financing. The U.S. has agreements with foreign countries that include both direct or indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. Troops are stationed, or where the U.S. fleet is in a port. DoD is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

#### **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 feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and contracts. Expenditures for capital and other long-term assets are not recognized as expenses in the NWCF's operations until depreciated in the case of Property, Plant, and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Operating expenses were adjusted as a result of the elimination of balances between DoD Components.

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

The NWCF, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the NWCF as though the agency was a stand-alone entity.

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

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

The NWCF's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS); while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The NWCF funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The NWCF recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

To prepare reliable financial statements, transactions occurring between components or activities within the NWCF must be eliminated. However, the NWCF cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the NWCF. For FY 1999 and beyond, seller entities within the Department provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intra-governmental balances were then eliminated.

The Department of the Treasury, Financial Management Service is responsible for eliminating transactions between the Department of Defense or Navy and other federal agencies. In September 2000, the Financial Management Service issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department of the Navy was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The NWCF, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," was revised July 1, 2005, for reconciling intra-governmental transactions. It can be found at <http://www.fms.treas.gov/irri>. These transactions pertain to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

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

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of this 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. Customers are required to make payments in advance.

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

The NWCF's financial resources are maintained in U.S. Treasury accounts. Cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the U.S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the NWCF's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3.

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

Not Applicable

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

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against another federal agency are to be resolved between the agencies. Material disclosures are provided in Note 5.

### **1.L. Loans Receivable**

Not Applicable.

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

Effective FY 2003, SFFAS No.23, "Eliminating the Category National Defense Property, Plant, and Equipment," revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). The standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. Likewise, military equipment also includes items, which will now be classified as Operating Materials and Supplies. Military equipment is reported on the books of the Department of the Navy General Fund.

The majority of the NWCF inventories are reported at approximate historical cost using Latest Acquisition Cost (LAC) adjusted for holding gains and losses. The remaining

inventory is valued using Moving Average Cost (MAC). The NWCF uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the U.S. Standard General Ledger (USSGL), as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). DoD is transitioning to a MAC methodology for valuing inventory that when fully implemented will allow the NWCF to comply with SFFAS No. 3.

The SFFAS No. 3 distinguishes between "inventory held for sale" and "inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DoD holds material based on military need and support for contingencies.

Related property includes Operating Materials and Supplies (OM&S) and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The NWCF uses various methods of accounting for OM&S.

The DoD policy is to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Material that can be potentially redistributed, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in the "Held for Use" or "Held for Repair" categories according to its condition.

In FY 2003, DoD adopted the use of an allowance to reflect impaired assets, i.e., Inventory Held for Repair. Previously, the DoD financial statements have presented its impaired assets at other than historical cost. The NWCF will implement the allowance method in conjunction with the transition to MAC.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to Inventory and Related Property are provided at Note 9.

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

Not Applicable

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

Effective FY 2003, SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). The



standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. Military equipment is reported on the books of the Department of the Navy General Fund.

General PP&E assets and any improvements to the asset are capitalized at historical acquisition cost when the asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100 thousand. Improvement costs over the DoD capitalization threshold of \$100 thousand for General PP&E are required to be capitalized. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Effective February 20, 2003, Public Law 108-7, the Consolidated Appropriations Resolution, 2003, Section 106 increased the expense/investment unit value threshold from \$100 thousand to \$250 thousand. The revised threshold is not applicable to FY 2002 and other prior fiscal year appropriations. Since the NWCF receives its funds through the Capital Purchases Program (CPP), the threshold for DON remains at \$100 thousand.

General PP&E has been capitalized and reported on the NWCF financial statements using the following DoD capitalization thresholds: FY 1996 through FY 2005 - \$100 thousand; FY 1995 - \$50 thousand; FY 1994 - \$25 thousand; and FY 1993 - \$15 thousand.

For NWCF activities, all PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. Military Equipment, Heritage Assets and Stewardship Land owned or maintained on a NWCF installation are reported in the Supplemental Stewardship Report of the applicable Military Department. To prevent duplicate reporting of the same Heritage Assets within DON, the total number of DON-wide Heritage Assets are reported in the Required Supplementary Stewardship Information of the Annual Audited Financial Statements of the DON General Funds (Treasury Index 17).

Material disclosures are provided at Note 10.

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

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

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

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) the NWCF records the applicable

asset and liability if the value equals or exceeds the current DoD 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 value. The NWCF deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases. In addition, the NWCF classifies leases that do not transfer substantially all of the benefits or risks of ownership as operating leases and records payment expenses over the lease term.

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

The NWCF conducts business with commercial contractors under two primary types of contracts - fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the NWCF provides financing payments. One type of financing payment that the NWCF makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net.

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

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

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the NWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss 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 that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The NWCF's loss contingencies arising as a result of pending or threatened litigation or claims and assessments that occur due to events such as property damages and contract disputes.

**1.T. Accrued Leave**

Civilian annual leave that has been accrued and not used as of the balance sheet date is reported as a liability. The liability reported at the end of accounting period reflects the current pay rates.

**1.U. Net Position**

Net Position consists of unexpended appropriations and cumulative results of operations (CRO). Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated but for which legal liabilities for payments have not been incurred.

CRO for the NWCF represents the excess/loss of revenues over expenses less refunds to customers and returns to the U.S. Treasury since fund inception.

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

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

**1.W. Comparative Data**

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for 3rd Quarter, FY 2005. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between 3rd Quarter, FY 2004 and 3rd Quarter, FY 2005, are explained within the Notes to the Financial Statements.

**1.X. Unexpended Obligations**

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

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

Unmatched Disbursements (UMDs) occur when payments do not match to a corresponding obligation in the accounting system. Negative Unliquidated Obligations (NULO) occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts. In-transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet posted in an accounting system.

Unmatched Disbursements, NULO, and In-transit Disbursement, Net represent disbursements of the NWCF funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

The elimination of both Problem Disbursements and In-transits is one of the highest financial management priorities of the Office of the Under Secretary of Defense (Comptroller). Problem Disbursements and In-transits represent a significant financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the age of the problem disbursements increase. As a result the NWCF has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements. NWCF problem disbursements continue to decrease from the prior years largely due to improving system functionality and business processes. Additional emphasis on further reducing NWCF problem disbursements has resulted in corresponding efforts to analyze and improve DFAS processes and determine solutions to reduce current inflow and their root causes. Material disclosures are provided at Note 3.

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports.

The Department of Defense policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The NWCF follows this procedure.

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of June 30	2005	2004
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Investments	0.00	0.00
C. Accounts Receivable	0.00	0.00
D. Other Assets	0.00	0.00
E. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	5,220,619.84	6,803,618.56
C. Loans Receivable	0.00	0.00
D. Inventory & Related Property	0.00	0.00
E. General PP&E	0.00	0.00
F. Investments	0.00	0.00
G. Other Assets	0.00	0.00
H. Total Nonfederal Assets	\$ 5,220,619.84	\$ 6,803,618.56
<b>3. Total Nonentity Assets</b>	\$ 5,220,619.84	\$ 6,803,618.56
<b>4. Total Entity Assets</b>	\$ 22,236,087,940.86	\$ 25,204,920,758.19
<b>5. Total Assets</b>	\$ 22,241,308,560.70	\$ 25,211,724,376.75

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

The Nonentity Assets decreased \$1,583 thousand, 23 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005 in nonfederal accounts receivable. This reduction is the result of an increase in the level of collections of outstanding interest, penalties, fines and administrative fees.

Definitions

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

Composition of Nonentity Assets

The \$5,221 thousand in nonentity nonfederal accounts receivable represents interest, penalties, fines, and administrative fees. These fees do not belong to the Navy Working Capital Fund and will be submitted to the Department of Treasury.

Other Disclosures Related to Nonentity Assets

No further disclosures required.

Note Reference

For additional line item discussion on Entity Assets, see Note 3, Fund Balance with Treasury; Note 5, Accounts Receivable; Note 6, Other Assets; Note 9, Inventory and Related Property; and Note 10, General Property, Plant, and Equipment. For regulatory discussion on Entity and Nonentity Assets, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 104.

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of June 30	2005	2004
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	1,085,784,243.29	527,621,588.13
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	<u>\$ 1,085,784,243.29</u>	<u>\$ 527,621,588.13</u>
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 1,085,784,243.29	\$ 527,621,588.13
B. Fund Balance per	<u>1,085,784,243.29</u>	<u>527,621,588.13</u>
<b>3. Reconciling Amount</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**Explanation of Reconciliation Amount:**

None.

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

Fund Balance with Treasury (FBWT) increased \$558,163 thousand, 106 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The discussion of the overall FBWT net increases/decreases are summarized as follows:

\$000s

Business Activity	Increases	Decreases	Explanations
Component Level	1,015,657		The net increase is primarily attributable to the Office of the Under Secretary of Defense (OUSD) directed cash rebuild in the Navy Supply Management Business Area and the transfer out of cash to the Navy General Fund in accordance with the Department's FY 2004 President's Budget.
Military Sealift Command (MSC)	128,103		The majority of the increase is attributable to MSC receiving a \$67,000

			thousand supplemental from Congress in May to support the increase in fuel cost.
Public Works Centers	104,970		<p>The Installation Claimant Consolidation (ICC2) was established in Program Budget Decision 430, December 2003, in the President's budget. ICC2s were funded by a direct reimbursement from Operation and Maintenance, Navy appropriation to the Navy Working Capital Fund. The supplemental appropriation received was \$231 million in the 1<sup>st</sup> quarter, FY 2004.</p> <p>This increase is due to new customer funding of \$53,000 thousand from the establishment of new ICC2 sites.</p> <p>As part of a process change at Defense Finance and Accounting Service (DFAS) that took effect in 2<sup>nd</sup> quarter FY 2005, in the acceleration of the Financial Reporting System (FRS) closing date, this resulted in June month end collections being processed whereas they were typically processed in July's business which amounted to \$33,500 thousand. This will cause a fluctuation the remainder of FY 2005.</p> <p>Higher than projected Yen variance of \$18,500 thousand at Naval Facilities Engineering Command</p>



			(NAVFAC) Far East.
Naval Shipyard	100,564		The increase is the result of advance billings directed by the Department of the Navy, Office of Budget in February.
Naval Aviation Depots	162,910		The increase is due to an appropriation received in May in support of the cost incurred in FY 2004 from the Global War on Terrorism and the Tsunami Relief.
Naval Air Warfare Center	170,859		The increase is mainly due to the billing of large work-in-process balances at the end of FY 2003 due to system implementation problems. Those problems have been corrected and the variance is becoming more stable throughout FY 2005.
Supply Management, Marine Corps		42,914	FBWT decreased primarily due to a cash transfer of \$38,400 thousand in February 2005 from Marine Corps Supply to Navy Supply.
Depot Maintenance, Marine Corps		44,539	The decrease results primarily from a DFAS adjustment to balance the activity to the Treasury cash balance.
Navy Supply Management		1,095,994	The decrease is mainly attributed to the \$1,017,100 thousand which OUSD directed that cash rebuild adjustments be made to this business area as a result of: <ul style="list-style-type: none"> <li>• Reclassification of register 21 errors;</li> <li>• Proper posting of accumulated operating result</li> </ul>

			<ul style="list-style-type: none"> <li>transfer;</li> <li>• Correction of a non-expenditure transfer;</li> <li>• Reclassification of prior year collections and disbursements</li> </ul> <p>The increase in disbursements is due to liquidating accounts payables, as a result of receiving supplies.</p>
<b>Totals</b>	<b>1,683,063</b>	<b>1,183,447</b>	

**Note:** The cash rebuild adjustments created fluctuations between the Component and the Navy Supply Management FBWT balance. Although these adjustments created variances within the NWCF, the overall impact to the FBWT is zero.

Composition of Fund Balance with Treasury

The FBWT of \$1,085,784 thousand reflects the 4th Quarter, FY 2004 ending balance of \$861,243 thousand plus current FY 2005 collections, disbursements, and other cash transactions recorded in the Navy Working Capital Fund (NWCF) Treasury sub-limit 97X4930.002. The following table details the amounts recorded as of June 30, 2005.

Collections	\$ 16,909,648
Disbursements	(17,026,698)
Other Cash Transactions, Net	341,584

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

(Amounts in thousands)

Activity

Supply Management, Navy	Appropriations Received	\$ 65,385
Research & Development	Public Law 108-384	904
Navy Component	Public Law 108-384	1,195
Transportation	Principal Payment to FFB	(10,900)
Base Support	Appropriation Received	18,000
Transportation	Appropriation Received	67,000
Aviation Depots	Appropriation Received	<u>200,000</u>
Total		\$341,584

The principal payment of \$10,900 thousand to the Federal Financing Bank relates to an outstanding debt principal amount reported by the Transportation Activity Group. See Note 6 for additional disclosures.

Intra-governmental Payment and Collection (IPAC)

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

Other Disclosures Related to Fund Balance with Treasury

No further disclosures required.

Note Reference

See Note Disclosure 1.I., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

For regulatory discussion on Fund Balance with Treasury, see Department of Defense Financial Management Regulation (FMR), Volume 6B, Chapter 10.

<b>Status of Fund Balance with Treasury</b>		
As of June 30	2005	2004
<b>1. Unobligated Balance</b>		
A. Available	\$ 7,775,687,737.52	\$ 8,028,481,670.05
B. Unavailable	161,168,407.84	4,523,517.15
<b>2. Obligated Balance not yet Disbursed</b>	<u>\$ (6,880,377,070.45)</u>	<u>\$ (7,506,546,080.54)</u>
<b>3. Total</b>	<u>\$ 1,056,479,074.91</u>	<u>\$ 526,459,106.66</u>

**Information Related to Status of Fund Balance with Treasury:**

Fluctuations and/or Abnormalities

Unobligated Balance – Unavailable increased \$156,645 thousand, 3,463 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005 in the Navy Supply Management Business Area. An appropriation was provided in December 2004 as a funding mechanism for the purchase of pipeline spares (material-in-transit). The Defense Finance and Accounting Service (DFAS) posted the appropriation to Unapportioned Authority per DFAS-Arlington memorandum dated June 26, 2003, Subject: Posting FY 2003 Appropriation Received by Defense Working Capital Fund (DWCF) Components. The account transaction used is in accordance with the Treasury Financial Manual (A104).

Disclosure of Restrictions

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

## Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
<b><u>Account</u></b>				
F3875	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3880	0.00	0.00	0.00	0.00
F3882	0.00	0.00	0.00	0.00
F3885	0.00	0.00	0.00	0.00
F3886	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>

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

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

## Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDS)	\$ 211,270,000.00	\$ 126,000,000.00	\$ 724,747,000.00	\$ 598,747,000.00
B. Negative Unliquidated Obligations (NULO)	0.00	0.00	0.00	0.00
<b>2. Total In-transit Disbursements, Net</b>				
	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

#### Fluctuations and/or Abnormalities

Total Problem Disbursements, Absolute Value – Unmatched Disbursements (UMD) increased \$598,747 thousand, 83 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005 which is primarily attributed to an increase in the Component business area. During FY 2004, the Navy Working Capital Fund (NWCF) made a disbursement (transfer) of \$448,000 thousand to the Navy general fund. This transfer was made in accordance with the Department of the Navy's FY 2004 President's budget. This resulted in an UMD because no obligations and payables were recorded on the accounting records that related to this disbursement. The Navy and DFAS management are analyzing how best to clear this UMD by the end of FY 2005.

#### Unmatched Disbursements (UMDs)

An unmatched disbursement (UMD) occurs when a payment is not matched to a corresponding obligation in the accounting system. The breakdown for this category is: disbursements are \$457,599 thousand and collections are \$267,148 thousand.

#### Negative Unliquidated Obligations (NULOs)

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

#### In-transit Disbursements

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

<b>Note 4.</b>	<b>Investments and Related Interest</b>
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As of June 30	2005				2004	
	Par Value/Cost	Amorti- zation Method	Unamortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
<b>1. Intragovernmental Securities</b>						
A. Non-Marketable, Market-Based	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00	0.00
C. Total Intragovernmental Securities	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
<b>2. Other Investments</b>	<u>\$ 0.00</u>		<u>0.00</u>	<u>\$ 0.00</u>	N/A	<u>\$ 0.00</u>

Not Applicable.

<b>Note 5.</b>	<b>Accounts Receivable</b>
----------------	----------------------------

As of June 30	2005			2004
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 462,618,589.54	N/A	\$ 462,618,589.54	\$ 781,868,379.23
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 58,613,523.76	\$ (1,600.00)	\$ 58,611,923.76	\$ 37,302,801.30
<b>3. Total Accounts Receivable</b>	\$ 521,232,113.30	\$ (1,600.00)	\$ 521,230,513.30	\$ 819,171,180.53

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

Intragovernmental Accounts Receivable decreased \$319,250 thousand, 41 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The primary drivers of the decrease in Intragovernmental Accounts Receivable are summarized in the table below:

\$000s			
Business Activity	Increases	Decreases	Explanations
Component		90,067	Decrease is the result of the unsupported undistributed collections for the total Navy Working Capital Fund and the reclassification of FMS from intragovernmental to nonfederal.
Public Works Centers		41,557	Decrease is the result of the field activities working closely with Defense Finance and Accounting Services (DFAS) - Oakland and San Diego researching and clearing old unmatched accounts receivables records.
Naval Surface Warfare Center		35,116	Decrease was attributed to a change in Port Hueneme's business practices due to conversion from legacy information system to current accounting system resulting in a change in their reporting process of undistributed collections to the accounts receivables.
Navy Research Laboratory (NRL)		13,539	The DFAS processing time of billing files have improved during the past year which results in a more timely receipt of collection records from Treasury in order to liquidate the receivable balances.
Naval Aviation Depots		5,997	Process change at DFAS by accelerating closing dates has resulted in posting of collections at month end which results in a



			decrease to accounts receivable.
Ordnance		11	As part of the closing, letters were written and phone calls made to reconcile and obtain corrections to allow billings to clear STARS edits and collections process. All funding documents have been final billed and collected. The last collection processed was October 2004.
Supply Management Navy		128,337	The decrease of \$102,357 thousand is the result of an adjustment that was made during July 2004 by departmental reporting to correct an overstatement of the accounts.  Remainder is attributed to a decrease in the data stream processing errors in May and June 2004 that understated undistributed collections by about \$27,380 thousand. The errors were corrected in July 2004.
<b>Total</b>		<b>314,624</b>	

Nonfederal Accounts Receivable increased \$21,309 thousand, 57 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The primary drivers of the increase is attributed to:

\$000s

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Component	40,462		Increase is the result of the unsupported undistributed collections for the total Navy Working Capital Fund (NWCF) and the reclassification of FMS funding.
Naval Surface Warfare Center	3,135		Increase is largely due to the reclassification of FMS funding (during FY 2005) which is now considered Nonfederal vs. Intragovernmental.
Naval Air Warfare Center		22,505	The decrease is attributed to a change from Prior Period to Current Period processing in Accounts Receivable, Credits pending, and Unmatched Collections. This change was the direct result from a system/process solution fix that provided the ability to process collections previously sitting in unmatched collections Other Liabilities.  These unmatched collections were supported. System logic posting errors prevented the clearing of the advances from public customers. Even though the funds were

			liquidated they still appeared as accounts receivable in the system.  Aggressive actions were taken in early March 2005 when the fix was implemented to reduce outstanding amounts. Prior year accounts receivable amounts were overstated by the unmatched collections, which could not be processed. June FY 2005 Daily Expenditure File (DEF) detail line items were received and processed in enough time to impact outstanding FY 2005 Accounts Receivable balances. June FY 2004 detail DEF line items were not received until after the month closed increasing both outstanding accounts receivable and unmatched disbursements.
<b>Total</b>	<b>43,597</b>	<b>22,505</b>	

Allowance Method

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

Allocation of Undistributed Collections

The DoD policy is to allocate supported undistributed collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts receivable. Supported undistributed collections in the amount of \$139,181 thousand were applied against accounts receivable. Unsupported undistributed collections should be recorded in United States Standard General Ledger account 2400, Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections. The NWCF follows this allocation procedure. This is required because the potential exists that some of these unsupported undistributed collections do not belong to the NWCF and will have to be paid to the appropriate fund holder.

Trading Partner Data

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

Accounts Receivable Greater than 180 days

The amount of nonfederal and intragovernmental receivables over 180-days old is \$39,506 thousand and \$13,430 thousand, respectively. Significant improvements have continued during 3rd Quarter, FY 2005.

Nonfederal Refunds Receivable

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

Other Disclosures Related to Accounts Receivable

No further disclosures required.

Note Reference

For additional discussion on financial reporting requirements and DoD policies governing Trading Partner Data and Accounts Receivable, see Notes 1.G. and 1.K, Significant Accounting Policies, respectively.

For regulatory discussion on Accounts Receivable, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1007.

<b>Note 6.</b>	<b>Other Assets</b>
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As of June 30	2005	2004
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 2,376,062.90	\$ 93.71
B. Total Intragovernmental Other Assets	\$ 2,376,062.90	\$ 93.71
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Other Assets (With the Public)	703,478,391.32	877,465,481.72
C. Total Nonfederal Other Assets	\$ 703,478,391.32	\$ 877,465,481.72
<b>3. Total Other Assets</b>	\$ 705,854,454.22	\$ 877,465,575.43

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

Intragovernmental Other Assets, Advances and Prepayments, increased \$2,376 thousand, 2,535,449 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The primary drivers that attributed to the increase are summarized below:

\$000s			
Business Activity	Increases	Decreases	Explanations
Component	1,888		Increase attributed to posting the buyer-side elimination adjustments in accordance with DoD Financial Management Regulation (FMR), Vol 6B, Chapter 13. The FMR requires the trial balance and trading partner data to reconcile to each other for all federal costs. These buyer side adjustments are required reconcile the trial balance data to all of the seller side trading partner data within the system.
Depot Maintenance, Marine Corps	441		Intragovernmental Other Assets increased due to an increase in outstanding travel advance made and unallocated labor and material costs as a result of increased operating tempo in

			support of the Global War on Terrorism (GWOT).
<b>Totals</b>	<b>2,329</b>		

Nonfederal Other Assets (Other Assets With the Public) decreased \$173,987 thousand, 20 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The primary drivers that attributed to the decrease are summarized below:

\$000s

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Shipyards		23,560	The amount of work performed at the end of the period may not be billed until the following month. Until billed, this balance is recorded as Other Assets. This decrease represents a lower balance in 3 <sup>rd</sup> quarter 2005 that existed during 3 <sup>rd</sup> quarter 2004.
Supply Management Navy		19,464	Decrease due to a reduction in progress payments made to others as a result of the reduction in NAVSUP's budget authorization in FY 2005.
Naval Surface Warfare		13,944	The incorrect processing of a disbursement correction made in 3 <sup>rd</sup> quarter FY 2005 caused the decrease. This error is being researched.
Military Sealift Command		108,192	Decrease is result of outstanding FFB debt principal payment, which was made in 4 <sup>th</sup> quarter, FY 2004.
<b>Totals</b>		<b>165,160</b>	

#### Advances and Prepayments

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

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

Other Assets (With the Public) includes an amount of \$487,683 thousand relating to the outstanding debt principal amount reported for the Transportation Activity Group involving Time Charter arrangements made by Military Sealift Command for the long-term use of the Afloat Prepositioning Force – Navy ships. the outstanding debt principal amount is reported in the Navy Working Capital Fund Balance Sheet Other Assets (With the Public) in order to reconcile with the amount reported by the Federal Financing Bank through the trading partner elimination process. See Note 13 for material disclosures.

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

None.

#### Note Reference

See Note 1.R., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

For regulatory discussion on Other Assets, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1008.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of June 30	2005	2004
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency (non-purchased)	0.00	0.00
<b>3. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not Applicable.

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

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Not Applicable.



## Direct Loans Obligated After FY 1991

As of June 30

	2005		2004	
Loan Programs				
<b>Military Housing Privatization Initiative</b>				
A. Loans Receivable Gross	\$	0.00	\$	0.00
B. Interest Receivable		0.00		0.00
C. Foreclosed Property		0.00		0.00
D. Allowance for Subsidy Cost (Present Value)		0.00		0.00
E. Value of Assets Related to Direct Loans	\$	0.00	\$	0.00
<b>Total Loans Receivable</b>	\$	0.00	\$	0.00

Navy Working Capital Fund

**Total Amount of Direct Loans Disbursed**

As of June 30

	2005	2004
<b>Direct Loan Programs</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Post-1991 Direct Loans

As of June 30

2005	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2004	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2005	2004		
<b>5. Total Direct Loan Subsidy Expense:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			

Navy Working Capital Fund

## Subsidy Rate for Direct Loans

As of June 30	Interest Differential	Defaults	Fees	Other	Total
Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

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

As of June 30

	2005	2004
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$ 0.00	\$ 0.00
<b>3. Adjustments</b>		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
<b>G. Total of the above Adjustment Components</b>	\$ 0.00	\$ 0.00
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	\$ 0.00	\$ 0.00
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/default Re-estimate	0.00	0.00
<b>C. Total of the above Re-estimate Components</b>	\$ 0.00	\$ 0.00
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00

## Defaulted Guaranteed Loans from Post-1991 Guarantees

As of June 30

	2005	2004
<b>Loan Guarantee Program(s)</b>		
<b>1. Military Housing Privatization Initiative</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00
<b>2. Armament Retooling &amp; Manufacturing Support Initiative</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00
<b>3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>	\$ 0.00	\$ 0.00

<b>Guaranteed Loans Outstanding</b>		
As of June 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2005</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2004</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Liability for Post-1991 Loan Guarantees, Present Value

As of June 30

	2005	2004
<b>Loan Guarantee Program</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>



## Subsidy Expense for Post-1991 Loan Guarantees

As of June 30

2005	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2004	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005					
2004					
<b>5. Total Loan Guarantee:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

## Subsidy Rate for Loan Guarantees

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

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

As of June 30	2005	2004
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>3. Adjustments</b>		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
<b>H. Total of the above Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>4. Ending Balance of the Loan Guarantee Liability before Re-estimates</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	0.00	0.00
B. Technical/default Re-estimate	0.00	0.00
<b>C. Total of the above Re-estimate Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**Administrative Expense**

As of June 30

	2005	2004
<b>1. Direct Loans</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Total	\$ 0.00	\$ 0.00
<b>2. Loan Guarantees</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	\$ 0.00	\$ 0.00

<b>Note 9.</b>	<b>Inventory and Related Property</b>
----------------	---------------------------------------

As of June 30	2005	2004
<b>1. Inventory, Net</b>	\$ 15,432,367,134.89	\$ 17,869,258,347.21
<b>2. Operating Materials &amp; Supplies, Net</b>	709,533,374.88	809,548,862.88
<b>3. Stockpile Materials, Net</b>	0.00	0.00
<b>4. Total</b>	\$ 16,141,900,509.77	\$ 18,678,807,210.09

**Inventory, Net**

As of June 30

	2005			2004		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
<b>1. Inventory Categories</b>						
A. Available and Purchased for Resale	\$ 24,510,742,978.55	\$ (20,151,681,084.48)	4,359,061,894.07	\$ 4,066,899,517.99		LAC,MAC
B. Held for Repair	11,138,223,156.71	(442,753,308.32)	10,695,469,848.39	13,350,363,416.23		LAC,MAC
C. Excess, Obsolete, and Unserviceable	689,537,641.20	(689,537,641.20)	0.00	0.00		NRV
D. Raw Materials	0.00	0.00	0.00	0.00		MAC,SP,LAC
E. Work in Process	377,835,392.43	0.00	377,835,392.43	451,995,412.99		AC
<b>F. Total</b>	<b>\$ 36,716,339,168.89</b>	<b>\$ (21,283,972,034.00)</b>	<b>15,432,367,134.89</b>	<b>\$ 17,869,258,347.21</b>		

**Legend for Valuation Methods:**

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses  
 SP = Standard Price  
 AC = Actual Cost

NRV = Net Realizable Value  
 O = Other  
 MAC = Moving Average Cost

**Information Related to Inventory, Net:**Fluctuations and/or Abnormalities

Inventory Available and Purchased for Resale – No fluctuations and/or Abnormalities need to be explained.

Inventory Held for Repair decreased \$2,654,894 thousand, 20 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The primary decrease is in the Navy Supply (NAVSUP) Management business area because:

The primary driver of the decrease is a correction in the depot level reparable carcass liability and inventory in-transit accounts for about \$1,922,333 thousand. Reconciliation was performed between Material Financial Control System (MFCS) and PR04 (Carcass Tracking). NAVSUP was able to identify process irregularities between MFCS and PR04 where the liability and in-transit accounts were not relieved in MFCS when the 'A' condition asset was issued. An automated transaction was entered into MFCS correcting the accounts. This reconciliation and automated transaction entry will be performed monthly.

Work in Process decreased \$74,160 thousand, 16 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The primary drivers of the fluctuation are listed below:

\$000

Business Activity	Increases	Decreases	Explanations
Naval Aviation Depots		37,218	The majority of the decrease is attributed to a process change at the Aviation Depots, which implemented

			<p>Revenue Recognition in the Components program.</p> <p>The revenue recognition program is the amount of work performed during the month and is billed at the end of the month.</p> <p>There was a systems change request (SCR) in the Defense Industrial Financial Management System (DIFMS) during FY 2004 resulting in properly capturing the revenue recognition.</p>
Naval Air Warfare Center (NAWC)		102,509	<p>Since the implementation of SIGMA in October 2002 (FY 2003), the NAWC has continued to implement system fixes. The decrease was primarily due to a system fix in SIGMA to correct the billing process. Work In Process (WIP) in FY 2003 and FY 2004 was incorrect as a result of this system problem. In FY 2005, this problem was corrected which accounts for the significant variances from year to year comparison.</p>
Naval Shipyards	59,813		<p>The increase is a result of the change of the balance of negative progress payments.</p>
<b>Total</b>	<b>59,813</b>	<b>139,727</b>	

Changes in Accounting Methods

The Enterprise Resource Planning (ERP) Supply Maintenance Aviation Re-engineering Team (SMART) Pilot shut down in April 2005, transferring \$1,833,447 thousand at Latest Acquisition Cost (LAC) (\$1,015,518 thousand at Moving Average Cost (MAC) plus \$807,645 thousand other gains – inventory valuation method adjustment) into MFCS.

### Valuation Methods

The valuation method O (Other) included in the numeric note table above for inventory categories Available and Purchased for Resale and Held for Repair were provided because the amounts reported are valued at both LAC and MAC. A breakout of these amounts by valuation method is as follows:

(Amounts in thousands)

#### **Inventory Available and Purchased for Resale, Net**

Latest Acquisition Cost	\$4,250,682
Moving Average Cost	<u>101,424</u>
Total	<u>\$4,352,106</u>

#### **Inventory Held for Repair, Net**

Latest Acquisition Cost	\$10,695,345
Moving Average Cost	<u>124</u>
Total	<u>\$10,695,469</u>

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

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

### Composition of Inventory

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

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

Inventory Available and Purchased for Resale includes consumable spare and repair parts and repairable items owned and managed by the DON. In some cases, the consumable and repairable items are managed by other Military Services, such as the Defense Logistics Agency or the General Services Administration. Material available and purchased for resale includes material held due to a managerial determination that it should be retained to support military or national contingencies. Federal Accounting Standards requires disclosure of the amount of Inventory Held for "Future Sale." The Navy Working Capital Fund currently has no Inventory Held for Future Sale reported for the 3rd Quarter, FY 2005 in Inventory Held for Sale, Net. All inventory is currently planned for sale this fiscal year. There is no management or valuation difference between the two categories.



Included in Line 1.A., Inventory Available and Purchased for Resale, is an amount of \$176,786 thousand for War Reserve Material for Supply Management, Navy. Supply Management, Marine Corps currently has no War Reserve Material.

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

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

Work in Process balances includes costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in Process also includes the value of finished products or completed services pending billing to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered.

#### Inventory Work in Process

Work in process at Depot Maintenance activities and Research and Development activities of approximately \$118,927 thousand and \$258,909 thousand respectively, is included as inventory Work in Process in Note 9.A. This amount represents work that has been completed, expenses incurred, and waiting to be billed to the customer.

#### Other Disclosures Related to Inventory

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

#### Note Reference

See Note 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

For regulatory discussion on Inventory, Net, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10.

## Operating Materials and Supplies, Net

As of June 30

	2005			2004		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
<b>1. OM&amp;S Categories</b>						
A. Held for Use	\$ 709,533,374.88	\$ 0.00	\$ 709,533,374.88	\$ 809,548,862.88		SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00		SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00		NRV
D. Total	\$ 709,533,374.88	\$ 0.00	\$ 709,533,374.88	\$ 809,548,862.88		

### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost  
adjusted for holding gains and losses  
SP = Standard Price  
AC = Actual Cost

NRV = Net Realizable Value  
O = Other

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

#### Fluctuations and/or Abnormalities

Operating Materials and Supplies (OM&S) decreased \$100,016 thousand, 12 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The majority of the decrease is attributed to the Naval Shipyards reflecting a reduction at Puget Sound. This account decrease is consistent with that activity leaving the Navy Working Capital Fund and transitioning to the Navy General Fund that started in FY 2004.

#### Restrictions on OM&S

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

#### Composition of OM&S

OM&S Held for Use represents property that is consumed during normal operations and includes consumable spare and repair parts for use on customer work by various activities. The items are recorded using different methodologies including actual, weighted-average and historical cost. Federal Accounting Standards requires disclosure of the amount of OM&S Held for "Future Use." The Navy Working Capital Fund estimates that \$14,330 thousand of OM&S is categorized as Held for Future Use.

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

Generally, the values of the NWCF's GFM and CAM in the hands of contractors are not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems in accordance with paragraph 101107, Volume 6B, Chapter 10 of the DoD Financial Management Regulation (FMR).

#### Other Disclosures Related to OM&S

No further disclosures required.

Note Reference

See Note 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

For regulatory discussion on OM&S, Net, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 101107.

## Stockpile Materials, Net

As of June 30

	2005			2004		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
<b>1. Stockpile Materials Categories</b>						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00		AC, LCM
<b>C. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>		

**Legend for Valuation Methods:**

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

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

Not Applicable.

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

As of June 30	2005					2004
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes</b>						
A. Land	N/A	N/A	\$ 45,842,495.76	N/A	\$ 45,842,495.76	\$ 63,644,951.76
B. Buildings, Structures, and Facilities	S/L	20 Or 40	5,712,915,212.29	\$ (3,727,682,713.08)	1,985,232,499.21	2,457,556,565.87
C. Leasehold Improvements	S/L	lease term	302,302.82	(186,420.06)	115,882.76	146,113.04
D. Software	S/L	2-5 Or 10	436,388,943.74	(229,235,521.51)	207,153,422.23	202,264,874.35
E. General Equipment	S/L	5 or 10	3,402,378,631.26	(2,540,369,259.18)	862,009,372.08	901,103,779.02
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00
H. Construction-in-Progress	N/A	N/A	674,723,501.18	N/A	674,723,501.18	680,060,227.70
I. Other			11,461,666.90	0.00	11,461,666.90	3,882,310.83
<b>2. Total General PP&amp;E</b>			<b>\$ 10,284,012,753.95</b>	<b>\$ (6,497,473,913.83)</b>	<b>\$ 3,786,538,840.12</b>	<b>\$ 4,308,658,822.57</b>

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

Legend for Valuation Methods:

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

### Information Related to General Property, Plant and Equipment (GPP&E):

#### Fluctuations and/or Abnormalities

The GPP&E decreased \$522,120 thousand or 12 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The Navy Working Capital Fund transferred land, buildings and structures to the Commander, Navy Installations (CNI) at the end of FY 2004. The majority of the decrease is in the Research and Development Business Area as discussed below:

- Land transferred from the Naval Air Warfare Center (NAWC), the Naval Surface Warfare Center (NSWC) and the Naval Undersea Warfare Center (NUWC) which resulted in a decrease of \$17,803 thousand.
- Buildings and structures were also transferred from the NAWC, the NSWC and the NUWC, which resulted in a decrease of \$441,759 thousand.
- Leasehold Improvements decreased \$30 thousand at the Military Sealift Command because it is depreciated over the life of the lease and the decrease is the result of depreciation.
- The primary increase in Other Assets of \$7,579 thousand at NAWC was the result of assets transferred to CNI/Naval District Washington (NDW) and recorded as Assets Awaiting Disposal until receipt confirmation is completed.

#### Military Equipment

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

### Contractor Held GPP&E

For those activities with GPP&E real property in the possession of contractors, the value of this real property is included in the values reported for the Major Asset Classes of Buildings, Structures, and Facilities. The value of personal property in Major Asset Classes of Automated Data Processing Software and Equipment does not include all of the GPP&E in the possession of contractors. The net book amount of such property is immaterial in relation to the total GPP&E net book value. In accordance with an approved strategy with the Office of Management and Budget, the Government Accountability Office, and the Inspector General Department of Defense, the Department of Defense is developing new policies and a contractor reporting process to capture GPP&E information for future reporting purposes for compliance with federal-wide accounting standards.

### Other Disclosures Related to GPP&E

For the Naval Supply Systems Command, the value of GPP&E is potentially overstated. The value of equipment (Class 3 and 4) is overstated in the Central Data Base (CDB) due to lack of an interface between the source system, Defense Property Accountability System (DPAS), and the Defense Business Management System (DBMS). The CDB has not been updated since at least 1999. The June 30, 2005 acquisition value and accumulated depreciation for Class 3 and 4 assets was \$21,164 thousand and \$19,606 thousand, respectively. The value of fully depreciated assets, per DPAS, is \$17,108 thousand. NWCF-SM has initiated the DPAS-DBMS interface for all activities. Current plan is to complete and correct the residual balances for inactive UICs by the end of FY05. There are initiatives underway to identify corrective actions for the reporting of land and buildings (Class 1 and 2 assets) and software during FY 2006. The values reported for these assets are also not correct. These deficiencies were identified to FMO in the NWCF-SM FY 2004 Qualified Opinion Financial Statement Plan.

### Note Reference

See Note 1.O., Significant Accounting Policies, for additional discussion on financial reporting requirements and the Department of Defense (DoD) policies governing GPP&E.

For regulatory discussion on GPP&E, Net, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10.

<b>Assets Under Capital Lease</b>				
As of June 30	2005		2004	
<b>1. Entity as Lessee, Assets Under Capital Lease</b>				
A. Land and Buildings	\$	0.00	\$	0.00
B. Equipment		0.00		0.00
C. Other		0.00		0.00
D. Accumulated Amortization		0.00		0.00
E. Total Capital Leases	\$	0.00	\$	0.00

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

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

Other Disclosures Related to Assets Under Capital Lease

No further disclosures required.

Note References

See Note 1.Q., Significant Accounting Policies, for additional discussion on financial reporting requirements and the DoD policies governing Leases.



<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of June 30	2005	2004
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	5,220,619.84	6,803,618.56
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 5,220,619.84</b>	<b>\$ 6,803,618.56</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,168,225,461.54	1,409,853,104.57
C. Environmental Liabilities	0.00	0.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	0.00	0.00
<b>F. Total Nonfederal Liabilities</b>	<b>\$ 1,168,225,461.54</b>	<b>\$ 1,409,853,104.57</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 1,173,446,081.38</b>	<b>\$ 1,416,656,723.13</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 6,686,829,995.92</b>	<b>\$ 7,662,550,973.53</b>
<b>5. Total Liabilities</b>	<b>\$ 7,860,276,077.30</b>	<b>\$ 9,079,207,696.66</b>

**Information Related to Liabilities Not Covered and Covered by Budgetary Resources:**

Fluctuations and/or Abnormalities

The decrease of \$241,628 thousand, or 17 percent in Military Retirement Benefits and Other Employment-Related Actuarial Liabilities is based on the amount received from the Department of Labor which represents Federal Employees' Compensation Act.

Definitions

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

The Intragovernmental Liabilities, Other amount of \$5,221 thousand represents interest, penalties, fines & administrative fees. These fees do not belong to the Navy Working Capital Fund and will be distributed directly to the Department of Treasury.

Other Disclosures Related to Liabilities Not Covered by Budgetary Resources

The \$1,168,225 thousand included in Military Retirement Benefits and Other Employment-Related Actuarial Liabilities represents Federal Employees' Compensation Act.

Note Reference

For additional line item discussion, see Note 12, Accounts Payable; Note 13, Debt; Note 15, Other Liabilities; Note 16, Commitments and Contingencies; and Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities.

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of June 30	2005			2004
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
<b>1. Intragovernmental Payables</b>	\$ 169,552,270.73	\$ N/A	\$ 169,552,270.73	\$ 158,748,204.15
<b>2. Non-Federal Payables (to the Public)</b>	2,066,850,851.06	0.00	2,066,850,851.06	1,763,959,873.15
<b>3. Total</b>	<u>\$ 2,236,403,121.79</u>	<u>\$ 0.00</u>	<u>\$ 2,236,403,121.79</u>	<u>\$ 1,922,708,077.30</u>

**Information Related to Accounts Payable:**Fluctuations and/or Abnormalities

No fluctuations and/or Abnormalities need to be explained for Intragovernmental Accounts Payable.

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

Nonfederal Accounts Payable increased \$302,891 thousand, 17 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. A summary of the Nonfederal Accounts payable net increase is discussed in the table below:

\$ 000s			
Business Activity	Increases	Decreases	Explanations
Component	415,298		The increase is due to the buyer side adjustment to reconcile to trading partner data and the decrease in unsupported undistributed disbursements. The transfer (reclassification) for buyer side affects both the federal and Nonfederal accounts payable.
Supply Management Navy	65,087		The increase is attributable to an increase of undistributed disbursements of \$103,776 thousand netted against accounts payables is the cause of the actual increase.

Transportation		78,103	Decrease in commercial A/P was the result of fuel correctly shifting to intergovernmental A/P. Military Sealift command changed its process in 4 <sup>th</sup> quarter, FY 2004. This decrease is the result of that change.
Naval Air Warfare Center		27,180	Decrease is primarily due to the processing of the last Daily Expenditure File (DEF) at the detail line level prior to month end close. In FY 2004 the DEF details were not received in time to process against an outstanding payable, requiring a posting of a manual JV to the 1542 account overstating both 1542 and 2150. In addition to the concentrated effort to process month end DEF line items a change was made to the posting of Accrued Labor and Fringe amounts to DBC 2150 account summary in FY 2005 until liquidated by the processing of the DEF payroll file. In FY 2004 summary Accrued Payroll and Fringe amounts were not posted to the 2150 account. In FY 2004 Accrued Payroll and Fringe summary amounts were posted to DBC 2220.
Naval Surface Warfare Centers		87,044	A majority of the decrease is due to ongoing efforts to validate and reduce aged accounts payable resulting in overall reductions to account payable accounts
<b>Total</b>	<b>480,385</b>	<b>192,327</b>	

Undistributed Disbursements

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

### Allocation of Undistributed Disbursements

The Department of Defense (DoD) policy is to allocate supported undistributed disbursements between federal and nonfederal categories based on the percentage of Federal and Nonfederal Accounts Payable. Supported undistributed disbursements in the amount of \$(598,282) thousand have been applied against accounts payable.

Unsupported undistributed disbursements should be recorded in United States Standard General Ledger account 2120, Disbursements in Transit. Accounts Payable was adjusted downward by \$289,491 thousand for In-transit payments. The Navy Working Capital Fund (NWCF) followed this allocation policy.

### Composition of Undistributed Disbursements

The majority of the undistributed disbursements represent Mechanization of Contract Administration Services (MOCAS) payments, which have not been liquidated. MOCAS payments represent those payments made to contractors for materials or services.

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

### Trading Partner Data

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

### Eliminating Adjustments

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

### Other Disclosures Related to Accounts Payable

No further disclosures required.

### Note Reference

See Note 1.G., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Trading Partner Data and Eliminating Adjustments.

<b>Note 13.</b>	<b>Debt</b>
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As of June 30	2005			2004
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
<b>1. Agency Debt</b>				
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	506,277,717.36	(2,367,615.10)	503,910,102.26	615,912,721.51
C. Total Agency Debt	\$ 506,277,717.36	\$ (2,367,615.10)	\$ 503,910,102.26	\$ 615,912,721.51
<b>2. Total Debt</b>	\$ 506,277,717.36	\$ (2,367,615.10)	\$ 503,910,102.26	\$ 615,912,721.51

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

Intragovernmental Debt decreased \$112,003 thousand, 18 percent, from 3rd Quarter, FY 2004 to 3rd Quarter, FY 2005 as a result of the reduction of the outstanding debt principal amount reported for the Maritime Prepositioning Ships (MPS) loan.

Other Information Related to Debt

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

The Federal Financing Bank (FFB) is one of the institutions that provided loans to the vessel owners. The FFB is reporting a debt in the amount of \$503,910 thousand, which represents an outstanding principal balance of \$487,683 thousand and accrued interest payable of \$16,227 thousand, for the Transportation Activity group. This information is being presented in error as the Transportation Activity group does not owe this debt to the FFB. This debt is a public debt owed by the private vessel owners. In order to simplify the payments to the FFB and to meet its requirements, the FFB cross-disburses the semi-annual principal and interest payments directly from the Navy Working Capital Fund (NWCF). This is done instead of having the Military Sealift Command (MSC) make Capital Hire payments to the vessel owners, who would in turn make its loan obligation payments to the FFB.

The direction of the vessel owner to have the government make payments directly to a bank, in this case the FFB, is not an uncommon practice, and mirrors other Time Charters where payment is assigned directly to a bank. This occurred when the ownership of these

vessels was transferred to private vessel owners; however, the FFB when establishing the loan coded the loan as a government debt.

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

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

#### Note References

See Note 3, Fund Balance with Treasury and Note 6, Other Assets, for additional discussion on the Debt to the Federal Financing Bank.

For regulatory discussion on Debt, Net, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1015.



<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities – Non Federal</b>				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations-- Environmental Restoration (ER)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations--ER for Closed Ranges	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites (FUDS) -- ER	0.00	0.00	0.00	0.00
4. FUDS--ER for Transferred Ranges	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Active Installations-- Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Active Installations-- Environ.Response at Active Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations-- Environmental Restoration (ER)	0.00	0.00	0.00	0.00
2. BRAC Installations--ER for Transferring Ranges	0.00	0.00	0.00	0.00
3. BRAC Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
<b>2. Total Environmental Liabilities:</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not Applicable.

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 561,277,244.67	\$ 0.00	\$ 561,277,244.67	\$ 185,785,891.08
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00
F. Other Liabilities	58,793,882.97	0.00	58,793,882.97	60,006,730.24
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 620,071,127.64</b>	<b>\$ 0.00</b>	<b>\$ 620,071,127.64</b>	<b>\$ 245,792,621.32</b>
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 743,420,984.17	\$ 0.00	\$ 743,420,984.17	\$ 779,602,361.42
B. Advances from Others	132,243,880.80	0.00	132,243,880.80	432,057,641.28
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	348,307,342.91	0.00	348,307,342.91	351,760,163.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) National Defense PP&E (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
(4) Other	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	2,107,686,909.38	7,146.81	2,107,694,056.19	3,321,521,006.26
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 3,331,659,117.26</b>	<b>\$ 7,146.81</b>	<b>\$ 3,331,666,264.07</b>	<b>\$ 4,884,941,171.96</b>
<b>3. Total Other Liabilities</b>	<b>\$ 3,951,730,244.90</b>	<b>\$ 7,146.81</b>	<b>\$ 3,951,737,391.71</b>	<b>\$ 5,130,733,793.28</b>

**Information Related to Other Liabilities:**Fluctuations and/or Abnormalities

Intragovernmental had an overall increase of \$374,279 thousand, 152 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The overall increase is discussed below:

- Intragovernmental Advances from Others increased \$375,491 thousand. This increase is primarily attributed to the business areas listed in the table below:

\$000s

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Naval Shipyards	77,806		The increase is primarily the result of the Advance billing in February 2005 that was directed by the Office of Budget (FMB).
Space and Naval Warfare Systems Center	119,494		Emergent workload from non-DoD agencies associated with the Global War on Terrorism.
Marine Corps Supply Management	11,800		This advance was received from Operation and Maintenance, Marine Corps.
<b>Total</b>	<b>209,100</b>		

The remaining increase is attributed to normal business in the other business areas.

- Nonfederal Accrued Funded Payroll and Benefits decreased \$36,181 thousand because:

\$000s

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Naval Air Warfare Center		19,879	The decrease in the fringe benefits account from FY 2004 is due to the timely processing of the DCPS bi-weekly gross payroll file through the end of the month. In FY 2004, there was a timing variance in processing the Gross Payroll file resulting in an outstanding fringe benefit balance for June 12-30.
Public Works Center		13,391	Accrued funded payroll and benefits decreased due to VERA/SIP at the Naval Facilities Engineering Command (NAVFAC) Washington, Mid Lant, Mid West and the Public Works Center San Diego.
<b>Total</b>		<b>33,270</b>	

- Nonfederal from Others decreased \$299,813 thousand. This decrease is primarily attributed to business areas listed in the table below:

\$000s

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Naval Air Warfare Center		38,531	Decrease due to a system/process fix that provided the capability to liquidate the customer advance amount from both the outstanding accounts receivable and related outstanding government liability account 2310.  The decrease in the fringe benefits account from FY 2004 is due to the timely processing of the DCPS bi-weekly gross payroll file through the end of the month. In FY 2004, there was a timing variance in processing the Gross Payroll file resulting in

			an outstanding fringe benefit balance for June 12-30.
Naval Surface Warfare Center		18,734	Foreign Military Sales customers billed this 3 <sup>rd</sup> Quarter, FY 2005.
Component		180,126	Journal voucher processed to reclassify advances to support the seller side trading partner data.
<b>Total</b>		<b>237,391</b>	

Nonfederal Other Liabilities decreased \$1,553,275 thousand, 32 percent, from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The net change is primarily attributable to the business areas discussed in the table below:

\$000s

<b>Business Activity</b>	<b>Increases</b>	<b>Decreases</b>	<b>Explanations</b>
Component		132,447	This decrease represents fewer unsupported/undistributed disbursements reported in Component.
Navy Supply Management		1,350,235	The decrease was attributable to identifying processing irregularities and performing reconciliations between MFCS and Carcass Tracking. The Advance Return of Depot Level Repairable carcasses (SGL 29201) were reduced by \$1,922,333 thousand. Carcass Tracking does not pass the 'A' condition asset issue transaction back to MFCS to close the liability. A monthly reconciliation and an automated transaction entry is performed and processed to update the account in MFCS.  The reclassification of the \$512,504 thousand abnormal balance was a debit to the Inventory Allowance account and a credit to the Other Liabilities. This adjustment applies to the Other Supply Officer, which is not a true liability within the Navy Supply Management business activity, because it is the movement of an asset from one supply officer to another supply officer.
<b>Total</b>		<b>1,482,682</b>	

#### Composition of Other Liabilities

Intragovernmental Other Liabilities represents liabilities of:

- Health Benefits \$20,641 thousand
- Life Insurance 1,449 thousand
- Retirement Benefits 26,705 thousand
- Voluntary Separation Incentive Program 4,778 thousand
- Custodial Liabilities 5,221 thousand
- Total \$58,794 thousand

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

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

- a. Accrual of Contractual Services represents an accrued liability for direct work performed by contractors or material and supplies purchased for a direct order in which a request for payment has not been received. The accrual is based on the level of effort performed for the direct order on a monthly basis.
- b. Depot Level Repairable Carcass Return Liability represents the value of returned depot level repairable carcasses that have been received by an accountable activity from an end-use activity but for which an issue has not yet been processed.
- c. In addition, the Other Liabilities amount includes Property Furnished by Others Liability. This account is used to record intra-fund transfers of assets when such transfers are between activities with different reporting systems (e.g. Financial Inventory Reporting activities transfer assets with Transactions Item Reporting activities). The logic currently in place was approved by DFAS upon implementation of MFCS.

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

Intragovernmental Reconciliation for Fiduciary Transactions with Department of Labor (DOL)  
With respect to the major fiduciary balances, the NWCF was able to reconcile with the DOL.

Other Disclosures Related to Other Liabilities  
No further disclosures required.

#### Note References

See Note 1.S., Significant Accounting Policies, for additional discussion on financial reporting requirements and the DoD policies governing Contingencies and Other Liabilities.

**Capital Lease Liability**

As of June 30

	2005				2004	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
<b>1. Future Payments Due</b>						
A. 2005	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
B. 2006	0.00	0.00	0.00	0.00	0.00	0.00
C. 2007	0.00	0.00	0.00	0.00	0.00	0.00
D. 2008	0.00	0.00	0.00	0.00	0.00	0.00
E. 2009	0.00	0.00	0.00	0.00	0.00	0.00
F. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
G. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
H. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
I. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	0.00
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	0.00

**Information Related to Capital Lease Liability:**

The NWCF has no capital lease liability.

Other Disclosures Related to Capital Lease Liability

No further disclosures required.

Note Reference

See Note 1.Q., Significant Accounting Policies, for additional discussion on financial reporting requirements and the DoD policies governing Leases.

For regulatory discussion on Capital Lease Liability, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1017.

**Note 16.**

**Commitments and Contingencies**

**Information Related to Commitments and Contingencies:**

**Legal Contingencies:**

The Navy Working Capital Fund (NWCF) is a party in various administrative proceedings and legal actions, which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. In the event of an adverse judgment against the Federal Government, some of the liabilities may be payable from the Judgment Fund. Others may be payable from the Department of the Navy's resources, either directly or by reimbursement to the Judgment Fund. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the Department of the Navy.

The amount set forth for civil and environmental litigation, claims, and assessments represent the aggregate of the amounts of claims, litigation or assessments considered to be significant for reporting purposes based on the established materiality threshold. This amount represents the maximum amount of any potential liability of the Government based on the amounts claimed. Management does not consider it to be at all likely that the Government will be liable for such maximum amounts.

The NWCF reported a total of 10 cases as of September 30, 2004 that met the FY 2004 materiality threshold of \$3.5 million. However, DON legal counsel is unable to express an opinion concerning the likely outcome of these cases. The Legal Representation Letter process will be updated in 4<sup>th</sup> Quarter, FY 2005. For FY 2005, the materiality threshold for reporting litigation, claims, or assessments is \$6.0 million.

Other Disclosures Related to Commitments and Contingencies

No further disclosures required.

Note Reference

See Note 1.S., Significant Accounting Policies, for additional discussion on financial reporting requirements and the Department of Defense (DoD) policies governing Commitments and Contingencies.

For regulatory discussion on Commitments and Contingencies, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1018.

<b>Note 17.</b>	<b>Military Retirement Benefits and Other Employment Related Actuarial Liabilities</b>
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As of June 30	2005				2004
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
<b>1. Pension and Health Benefits</b>					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Other</b>					
A. FECA	\$ 1,168,225,461.54	4.883%	\$ 0.00	\$ 1,168,225,461.54	\$ 1,409,853,104.57
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. <u>[Enter Program Name]</u>	0.00		0.00	0.00	0.00
E. Total Other	\$ 1,168,225,461.54		\$ 0.00	\$ 1,168,225,461.54	\$ 1,409,853,104.57
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	<b>\$ 1,168,225,461.54</b>		<b>\$ 0.00</b>	<b>\$ 1,168,225,461.54</b>	<b>\$ 1,409,853,104.57</b>

Actuarial Cost Method Used:

Assumptions:

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

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

#### Fluctuations and/or Abnormalities:

Military Retirement Benefits and Other Employment-Related Actuarial Liabilities decreased \$241,628 thousand, 17 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. The amount reported in this account is based upon the actuarial estimates provided by the Department of Labor for the Federal Employee's Compensation Account.

#### Actuarial Cost Method Used

The Department of the Navy (DON) actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the DON at the end of each fiscal year. The liability is distributed between the Navy Working Capital Fund and DON General Fund based upon the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System. The liability includes the expected liability for death, disability, medical, and miscellaneous



costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments.

Assumptions

The projected annual benefit payments are discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost-of-living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. The interest rate assumptions used in the discount calculations were as follows as of June 30, 2005:

- 4.88 percent in year 1,
- 5.24 percent in year 2 and thereafter

Market Value of Investments in Market-based and Marketable Securities

Not Applicable.

<b>Note 18.</b>	<b>Disclosures Related to the Statement of Net Cost</b>
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### Gross Cost and Earned Revenue by Budget Functional Classification

As of June 30

	2005			2004
	Gross Cost	(Less: Earned Revenue)	Net Cost	Net Cost
<b>Budget Functional Classification</b>				
1. Department of Defense Military (051)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Water Resources by U.S. Army Corps of Engineers (301)	0.00	0.00	0.00	0.00
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0.00	0.00	0.00	0.00
4. Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	0.00	0.00	0.00	0.00
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0.00	0.00	0.00	0.00
6. Medicare Eligible Retiree Health Care Fund (551)	0.00	0.00	0.00	0.00
<b>7. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

#### Information Related to the Statement of Net Cost:

##### Fluctuations and/or Abnormalities

The Intragovernmental Gross Costs decreased \$489,391 thousand, 13 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. This decrease is discussed below:

The majority of the decrease is attributed to the Military Sealift Command process change where they transitioned from the consumption method to the purchase method to account for fuel. Intragovernmental fuel purchases and accounts payable are now accurately recorded. Using the previous consumption (inventory) method, fuel government indicator was not specified but with the process change, it is now properly grouped with commercial.

Less: Intragovernmental Earned Revenue decreased \$525,101 thousand, 3 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. This increase is discussed below:

Component business area is the primary contributor to the decrease because of the reclassification of foreign military sales (FMS) from intragovernmental to nonfederal revenue.

The Gross Costs With the Public increased \$1,654,886 thousand, 12 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. This increase is discussed below:

- Component business area increased \$766,551 thousand is a reclassification of foreign military sales (FMS) from intragovernmental to nonfederal costs.
- Military Sealift Command (MSC) increased \$647,687 thousand because intragovernmental and nonfederal costs were recatergorized for the periods ending September 2004, December 2004, March 2005 and June 2005 to reflect the correct breakdown of intragovermental and nonfederal costs. Incorrect categorization of these costs as nonfederal in June 2004 is the primary cause of this variance. Some errors requiring correction will continue to occur as old records are reflected in the statement which should be corrected by the end of FY 2005.

Less: Earned Revenue From the Public increased \$975,462 thousand, 223 percent from 3<sup>rd</sup> Quarter, FY 2004 to 3<sup>rd</sup> Quarter, FY 2005. This increase is discussed below:

- Component business area increased \$199,174 thousand. The general ledgers from the field level accounting systems submit all revenue as federal. The Defense Finance and Accounting Service-Cleveland reclassifies the revenue public and Foreign Military Sales (FMS) based upon seller side trading partner data as collected from the field sites. As a result of this adjustment, it reflected an increase this quarter.
- Navy Supply Management increased \$787,218 thousand. This increase is the result of moving from the Enterprise Resource Planning (ERP) system shut down in April 2005 which valued inventory at the moving average cost (MAC) (values inventory at a lower price) to MFCS that values inventory at standard price. This resulted in an increase in other gains with the public.

#### Composition of Statement of Net Cost

The Navy Working Capital Fund (NWCF) generally records transactions on an accrual basis as required by federal generally accepted accounting principles. Information presented on the Statement of Net Cost represents the net result of post-closing adjustments and eliminating entries made in compiling and consolidating the NWCF financial statements. These entries significantly affected the reported amounts of Intragovernmental Program Cost, Program Cost with the Public, Earned Revenue and Net Program Cost. The post-closing adjustments were made in order to increase or decrease certain NWCF account balances reported as of June 30, 2005 to ensure agreement with related balances reported by other Department of Defense (DoD) and other federal reporting entities. Eliminating entries are required adjustments made as part of the financial process. This process enables the matching of trading partner data recorded at each financial statement consolidation level -- the NWCF, DoD and Federal Government levels.

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

The Statement of Net Cost was impacted by the recording of Prior Period Adjustments, other than the inventory valuation model, in the amount of \$(1,730) thousand as current year transactions.

Navy Working Capital Fund

**Gross Cost to Generate Intragovernmental Revenue and Earned Revenue (Transactions with Other Federal—Non-DoD—Entities) by Budget Functional Classification**

As of June 30

	2005			2004
	Gross Cost to Generate Intragovernmental Revenue	(Less: Earned Revenue)	Net Cost	Net Cost
1. Department of Defense Military (051)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Water Resources by U.S. Army Corps of Engineers (301)	0.00	0.00	0.00	0.00
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0.00	0.00	0.00	0.00
4. Federal Employees Retirement and Disability Department of Defense Military Retirement Trust Fund (602)	0.00	0.00	0.00	0.00
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0.00	0.00	0.00	0.00
6. Medicare Eligible Retiree Health Care Fund (551)	0.00	0.00	0.00	0.00
<b>7. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not Applicable.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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As of June 30	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position</b>				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Other Prior Period Adjustments	0.00	0.00	(1,044,715,064.79)	0.00
D. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ (1,044,715,064.79)	\$ 0.00
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 172,700,842.14	\$ 0.00	\$ 178,517,494.14	\$ 0.00
B. Civilian Health	235,329,295.60	0.00	223,471,625.50	0.00
C. Civilian Life Insurance	732,428.63	0.00	712,980.66	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. Intra-Entity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 408,762,566.37	\$ 0.00	\$ 402,702,100.30	\$ 0.00

**Information Related to the Statement of Changes in Net Position:**Composition of Statement of Net Position

Reclassified to current year operations were prior period adjustments generated in the Navy Activity accounting systems in the amount of (\$1,730) thousand. These amounts were reclassified as their individual values did not meet the materiality threshold outlined in the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) memo of June 8, 2003.

Imputed Financing

The amounts remitted to the Office of Personnel Management (OPM) by and for employees covered by the Civil Service Retirement System, Federal Employee Retirement System, Federal Employees Health Benefits Program and the Federal Employee Group Life Insurance Program do not fully cover the Government's cost to provide these benefits. An imputed cost is recognized as the difference between the Government's cost of providing these benefits to the employees and contributions made

by and for them. The OPM provides the cost factors to the Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. DFAS provides the costs to Office of the Under Secretary of Defense (Personnel and Readiness) for validation. Approved imputed costs are provided to the reporting components for inclusion in their financial statements.

Other Disclosures Related to the Statement of Net Position

Included in the NWCF's Net Position, Cumulative Results of Operations (CRO) are amounts that were approved by OUSD(C) as a deferral for recovery from, or return to, customers in later fiscal years' billing rates. As of June 30, 2005, the total NWCF amount of CRO-Deferred was (\$507,496) thousand. This amount primarily consists of system development costs incurred during FY 1992-1998 totaling (\$389,533) thousand by the Joint Logistics Service Center (JLSC). With the closure of JLSC, OUSD(C) directed in August 1998 that this JLSC system development cost be deferred from cost recovery. As instructed by the OUSD(C), the Department of the Navy distributed this amount among affected NWCF activities.

In Emergency Supplemental Appropriations Act for Defense, the Global War on Terror and Tsunami Relief (P.L. 109-13), Naval Aviation Depot Jacksonville received a direct appropriation of \$140,695 thousand, which hasn't been expended (used) yet.

For regulatory disclosure related to the Statement of Changes in Net Position, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of June 30	2005	2004
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 7,809,263,059.45	\$ 7,880,204,742.48
2. Available Borrowing and Contract Authority at the End of the Period	8,521,457,860.35	8,155,065,565.59

**Information Related to the Statement of Budgetary Resources:**

The Statement of Budgetary Resources (SBR) is an image of the monthly Report on Budget Execution (Standard Form (SF) 133). These reports should be produced using budgetary accounts. However, the Navy Working Capital Fund (NWCF) uses proprietary accounts because its financial accounting systems were not designed to produce budgetary accounting data. The Department of the Navy and the Defense Finance and Accounting Service continue with the implementation of new accounting systems designed to produce both proprietary and budgetary reports and use the U.S. Standard General Ledger. The Defense Industrial Financial Management System (DIFMS) has been fully implemented at all Research and Development (R&D) activities that were scheduled for conversion. R&D activity Space and Naval Warfare Systems Center, San Diego has successfully implemented the Enterprise Resource Planning (ERP) pilot program (Project Cabrillo) thus moving off DIFMS. Also, the Naval Air Warfare Centers (NAWCs) have moved from DIFMS to their ERP pilot program "Sigma". The ERPs are programmed to complete the SBR at the activity level. The Defense Working Capital Fund Accounting System (DWAS) implementation continues to be implemented at the Base Support Activities and is currently ahead of schedule. DWAS implementations should be completed by year-end FY 2005. Once the legacy systems have been replaced, the capability to produce the SBR and SF133 should be accomplished.

As of June 30, 2005, the SBR does not measure the NWCF's budget execution against budgetary resources. Budgetary resources are recorded in the accounting records and reported on the basis of customer orders received and contract authority invoked. On these reports, the spending authority from offsetting collections during the period of execution is based upon the approved President's Budget estimate of anticipated customer orders.

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

As of June 30, 2005, the differences between the U.S. Treasury and the NWCF activity ledgers have been minimal, and the cause is related to timing or the type of transactions. The differences are recorded as undistributed disbursements and collections on the departmental reports. While there may be no impact upon the U.S. Treasury balance, the above differences have created distortions in the accounts receivable and accounts payable from a budgetary reporting perspective on the SBR. Also, problems with undistributed collections and disbursements have created abnormal balances for accounts receivable and accounts payable on the SBR.

Intra-entity Transactions

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

Apportionment Categories

OMB Bulletin 01-09, requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B and exempt from apportionment. These amounts are as follows:

(Amounts in thousands)

Obligations Incurred – Direct	Line 8.A.	\$	0
Obligations Incurred – Reimbursable	Line 8.B.	\$	17,581,890
Exempt from apportionment	Line 9.B.	\$	0

Undelivered Orders

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

Spending Authority from Offsetting Collections

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

Other Disclosures Related to the Statement of Budgetary Resources

No further disclosures required.



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

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

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

The detailed level of information required to appropriately complete the SBR is being developed for those activities that cannot provide the data due to system deficiencies. As a result of these system deficiencies, the Statement of Financing line, Resources that Finance the Acquisition of Assets, was adjusted upward by \$1,505,098 thousand at the end of 3<sup>rd</sup> Quarter, FY 2005.

Intra-entity transactions have not been eliminated because statements are presented as combined and combining.

Other Disclosures Related to the Statement of Financing

No further disclosures required.

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

<b>Note 23.</b>	<b>Other Disclosures</b>
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As of June 30

2005

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

Future Payments Due Fiscal Year	<u>Land and Buildings</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
2005	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	0.00	0.00	0.00	0.00
2007	0.00	0.00	0.00	0.00
2008	0.00	0.00	0.00	0.00
2009	0.00	0.00	0.00	0.00
After 5 Years	0.00	0.00	0.00	0.00
<b>Total Future Lease Payments Due</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**Entity As Lessee - Operating Leases**Fluctuations and Abnormalities

None.

Definitions

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

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

Land and Building Leases consist of:

None.

Equipment Leases consist of:

None.

Other Leases consist of:

None.

Description of lease arrangements

None.

**NOTE 23.B. OTHER DISCLOSURES**

No further disclosures required.