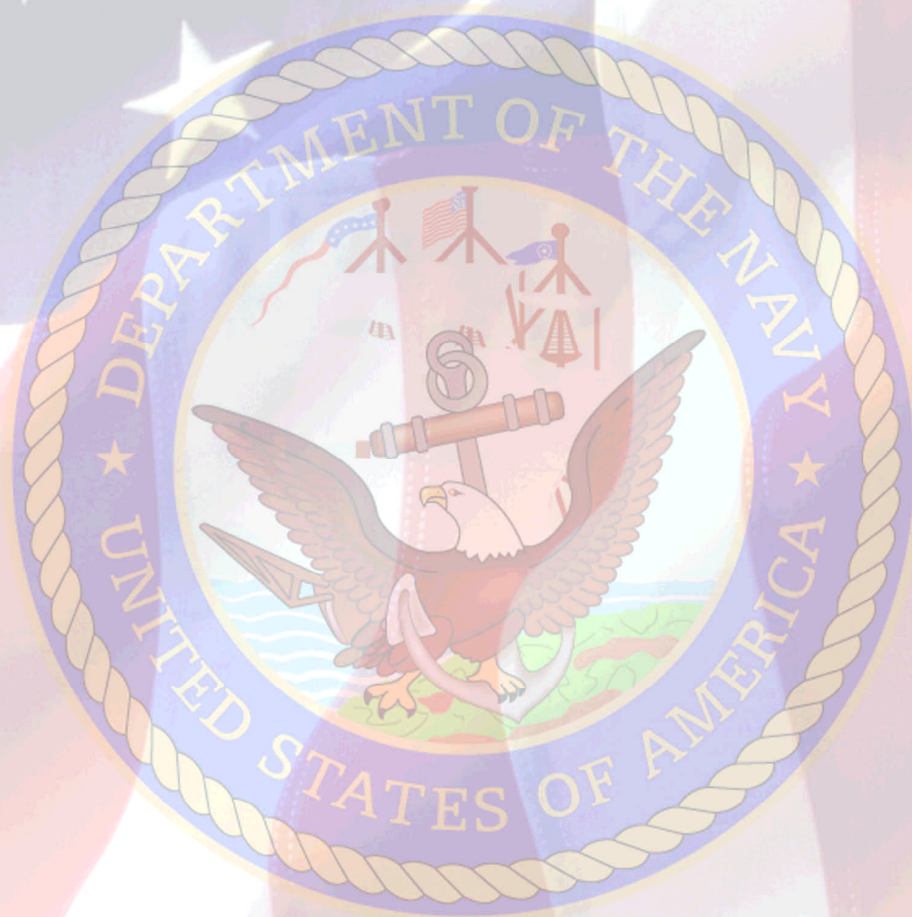


DEPARTMENT OF THE NAVY

# GENERAL FUND PRINCIPAL STATEMENTS



## **LIMITATIONS OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

## **LIMITATIONS CONCERNING NATIONAL DEFENSE PP&E STEWARDSHIP**

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for ND PP&E. The Department cannot fully comply with existing reporting requirements, because many of the Department's accountability and logistics systems do not contain the cost of the ND PP&E assets. These systems were designed for the purpose of maintaining accountability and meeting other logistics requirements and not for capturing the cost of ND PP&E. Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing the temporary requirements and their temporary nature, the Department is suspending the reporting of ND PP&E information until such time as the FASAB adopts permanent reporting requirements.

## PRINCIPAL STATEMENTS

The DON's FY 2001 Principal Financial Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B of January 2002. The statements and related notes summarize financial information for individual funds and accounts within the Department for the fiscal year ending September 30, 2001.

The following statements are included in the Department of the Navy's Principal Statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Combined Statement of Financing

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The accompanying notes should be considered an integral part of the Principal Statements.

# DEPARTMENT OF THE NAVY

**Department of Defense**  
**Department of the Navy**  
**CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2001**  
(\$ in Thousands)

<b>ASSETS (Note 2)</b>	<b>FY 2001</b>	<b>FY 2000</b>
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 66,338,979	\$ 62,547,052
Investments (Note 4)	9,517	10,539
Accounts Receivable (Note 5)	1,042,814	1,221,608
Other Assets (Note 6)	47,170	157,582
Total Intragovernmental Assets	<u>\$ 67,438,480</u>	<u>\$ 63,936,781</u>
Cash and Other Monetary Assets (Note 7)	\$ 160,589	\$ 134,783
Accounts Receivable (Note 5)	1,682,230	1,437,164
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	61,061,553	38,189,438
General Property, Plant and Equipment (Note 10)	24,961,487	25,485,691
Other Assets (Note 6)	6,056,832	4,201,524
<b>TOTAL ASSETS</b>	<u>\$ 161,361,171</u>	<u>\$ 133,385,381</u>
<b>LIABILITIES (Note 11)</b>		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 1,002,282	\$ 804,072
Debt (Note 13)	61	56
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	1,066,185	1,570,471
Total Intragovernmental Liabilities	<u>\$ 2,068,528</u>	<u>\$ 2,374,599</u>
Accounts Payable (Note 12)	\$ 2,075,026	\$ 2,705,842
Military Retirement Benefits and Other		
Employment-Related Actuarial Liabilities (Note 17)	1,595,890	1,441,520
Environmental Liabilities (Note 14)	15,584,458	16,065,888
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	3,610,899	2,078,680
<b>TOTAL LIABILITIES</b>	<u>\$ 24,934,801</u>	<u>\$ 24,666,529</u>
<b>NET POSITION</b>		
Unexpended Appropriations (Note 18)	\$ 61,982,518	\$ 64,902,672
Cumulative Results of Operations	74,443,852	43,816,180
<b>TOTAL NET POSITION</b>	<u>136,426,370</u>	<u>\$ 108,718,852</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 161,361,171</u>	<u>\$ 133,385,381</u>

The accompanying notes are an integral part of these statements.



**Department of Defense  
Department of the Navy  
CONSOLIDATED STATEMENT OF NET COST  
As of September 30, 2001**  
(\$ in Thousands)

	FY 2001	FY 2000
<b>Program Costs</b>		
Intragovernmental	\$ 26,952,412	\$ 21,940,052
With the Public	72,044,615	76,097,612
Total Program Cost	\$ 98,997,027	\$ 98,037,664
(Less: Earned Revenue)	(3,688,245)	(3,515,802)
Net Program Costs	\$ 95,308,782	\$ 94,521,862
 <b>Costs Not Assigned to Programs</b>	 0	 0
 <b>(Less: Earned Revenue not attributable to Programs)</b>	 0	 0
 <b>Net Costs of Operations</b>	 \$ 95,308,782	 \$ 94,521,862

The accompanying notes are an integral part of these statements.

**Department of Defense  
Department of the Navy  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
As of September 30, 2001**  
(\$ in Thousands)

	FY 2001	FY 2000
<b>Net Cost of Operations</b>	\$ 95,308,782	\$ 94,521,866
<b>Financing Sources (other than exchange revenues)</b>		
Appropriations Used	93,245,566	93,160,110
Taxes and Other Nonexchange Revenue	0	0
Donations - Nonexchange Revenue	0	0
Imputed Financing (Note 20)	490,458	437,862
Transfers - In	359,094	468,218
Transfers - Out	(325)	0
Other	0	0
Total Financing Sources (other than Exchange Revenues)	<u>\$ 94,094,793</u>	<u>\$ 94,066,190</u>
<b>Net Results of Operations</b>	\$ (1,213,989)	\$ (455,676)
<b>Prior Period Adjustments (Note 20)</b>	<u>31,841,659</u>	<u>38,445,615</u>
<b>Net Change in Cumulative Results of Operations</b>	\$ 30,627,670	\$ 37,989,939
<b>Increase (Decrease) in Unexpended Appropriations</b>	(2,920,154)	(683,772)
<b>Change in Net Position</b>	<u>\$ 27,707,516</u>	<u>\$ 37,306,167</u>
<b>Net Position-Beginning of the Period</b>	108,718,854	71,412,687
<b>Net Position-End of the Period</b>	<u>\$ 136,426,370</u>	<u>\$ 108,718,854</u>

The accompanying notes are an integral part of these statements.

**Department of Defense  
Department of the Navy  
COMBINED STATEMENT OF BUDGETARY RESOURCES  
As of September 30, 2001**  
(\$ in Thousands)

	FY 2001	FY 2000
<b>BUDGETARY RESOURCES</b>		
Budget Authority	\$ 95,235,754	\$ 89,318,717
Unobligated Balance - Beginning of Period	13,624,083	12,185,512
Net Transfers Prior-Year Balance, Actual	365,723	70,392
Spending Authority from Offsetting Collections	5,596,960	5,449,884
Adjustments	1,503,681	369,012
<b>Total Budgetary Resources</b>	<b>\$ 116,326,201</b>	<b>\$ 107,393,517</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred	\$ 102,489,939	\$ 93,769,433
Unobligated Balances - Available	12,391,407	12,141,968
Unobligated Balances - Not Available	1,444,855	1,482,116
<b>Total, Status of Budgetary Resources</b>	<b>\$ 116,326,201</b>	<b>\$ 107,393,517</b>
<b>OUTLAYS</b>		
Obligations Incurred	\$ 102,489,939	\$ 93,769,433
Less: Spending Authority for Offsetting Collections and Adjustments	(8,874,558)	(7,956,973)
Obligated Balance, Net - Beginning of Period	48,385,598	50,425,879
Obligated Balance Transferred, Net	0	0
Less: Obligated Balance, Net - End of Period	(52,333,542)	(48,385,598)
<b>Total Outlays</b>	<b>\$ 89,667,437</b>	<b>87,852,741</b>

The accompanying notes are an integral part of these statements.

# DEPARTMENT OF THE NAVY

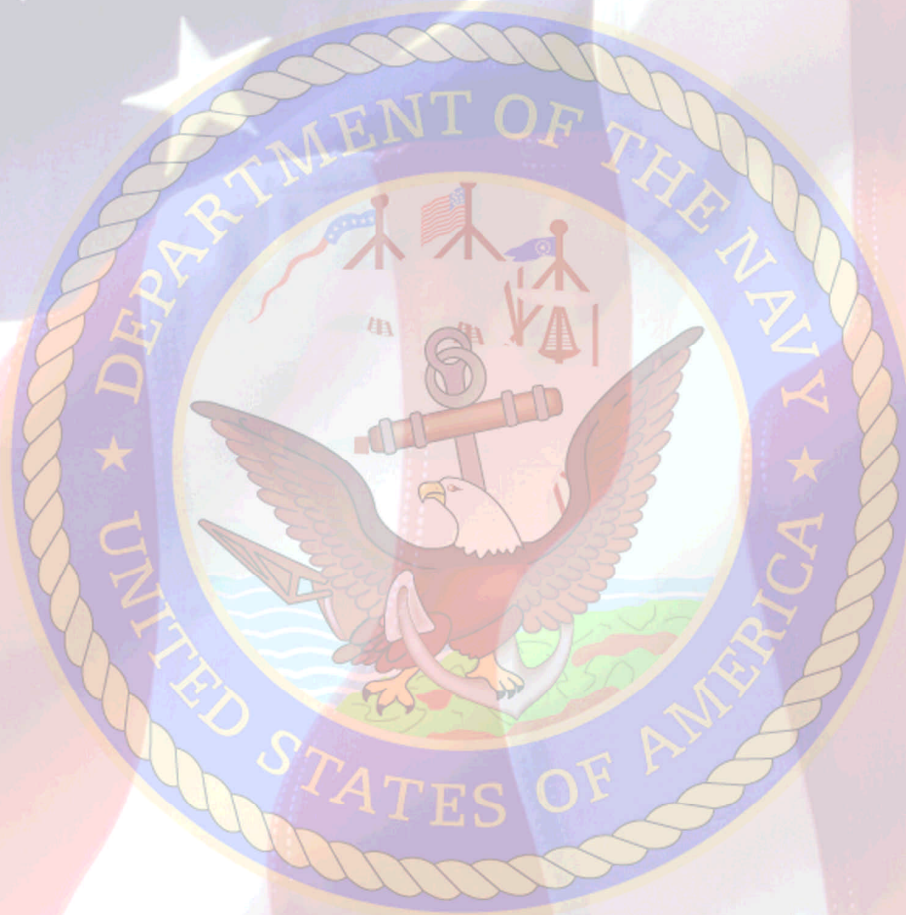
**Department of Defense**  
**Department of the Navy**  
**COMBINED STATEMENT OF FINANCING**  
**As of September 30, 2001**  
(\$ in Thousands)

	FY 2001	FY 2000
<b>OBLIGATIONS AND NONBUDGETARY RESOURCES:</b>		
Obligations Incurred	\$ 102,489,939	\$ 93,769,433
Less: Spending Authority from Offsetting Collections and Adjustments	(8,874,558)	(7,956,973)
Donations Not in the Entity's Budget	0	0
Financing Imputed for Cost Subsidies	490,458	437,862
Transfers-In (Out)	353,201	0
Less: Exchange Revenue Not in the Entity's Budget	(22,039)	(31,394)
Nonexchange Revenue Not in the Entity's Budget	0	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0
Other	0	0
Total Obligations as Adjusted and Nonbudgetary Resources	<u>\$ 94,437,001</u>	<u>\$ 86,218,928</u>
<b>RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:</b>		
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	\$ (142,028)	\$ 7,011,290
Change in Unfilled Customer Orders	(197,557)	221,395
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(656,355)	(270,174)
Financing Sources that Fund Costs of Prior Periods	(65,407)	(52,431)
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0
Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0
Other - (Increases)/Decrease	0	22,689
Total Resources That Do Not Fund Net Costs of Operations	<u>\$ (1,061,347)</u>	<u>\$ 6,932,769</u>
<b>COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES:</b>		
Depreciation and Amortization	\$ 714,583	\$ 578,198
Bad Debts Related to Uncollectable Non-Credit Reform Receivables	32,135	175,142
Revaluation of Assets and Liabilities - Increases/(Decreases)	0	34,018
Loss of Disposition of Assets	0	0
Other - (Increases)/Decrease	0	10,663
Total Costs That Do Not Require Resources	<u>\$ 746,718</u>	<u>\$ 798,021</u>
<b>FINANCING SOURCES YET TO BE PROVIDED</b>	<u>\$ 1,186,410</u>	<u>\$ 572,148</u>
<b>NET COST OF OPERATIONS</b>	<u>\$ 95,308,782</u>	<u>\$ 94,521,866</u>

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE NAVY

# GENERAL FUND NOTES TO THE PRINCIPAL STATEMENTS



## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation.

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

The DON is unable to fully implement all elements of Federal GAAP and the OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the DON's major asset and liability categories are derived largely from nonfinancial 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. As a result, the DON cannot currently implement every aspect of Federal GAAP and the OMB Bulletin No. 01-09. The DON continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems.

A more detailed explanation of these financial statement elements is discussed in the applicable footnote.

### B. Mission of the Reporting Entity.

The DON was created on 30 April 1798 by an act of Congress (1 Stat. 533; 5 U.S.C. 411-12). The Marine Corps and the Navy joined as the DON by an act of Congress on 11 July 1798. The overall mission of the DON is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal Year (FY) 2001 represents the sixth year that the DON has prepared audited financial statements as required by the Chief Financial Officers Act and the Government Management Reform Act.

### C. Appropriations and Funds.

The DON's appropriations and funds are divided into the general, revolving, 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.



## NOTES TO THE PRINCIPAL STATEMENTS

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

### Entity Accounts:

#### General Funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps
17X0810	Environmental Restoration, Navy
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1205	Military Construction, Navy
17 1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test, and Evaluation, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion, Navy
17 1804	Operation and Maintenance, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1810	Other Procurement, Navy

#### Revolving funds

17 4557	National Defense Sealift Fund, Navy
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#### Trust funds

17X8423	Midshipmens Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
17X8733	United States Naval Academy General Gift Fund

## Special funds

17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account

## Non Entity Accounts:

### Special funds (Receipt Accounts)

17 3041	Recoveries Under the Foreign Military Sales Program
17 3210	General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified

## Deposit funds

17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
17X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
17X6025	Pay of the Navy, Deposit Fund
17X6026	Pay of the Marine Corps
17X6050	Employee Payroll Allotment Account (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
17X6083	Withheld Allotment of Compensation for Charitable Contributions, Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Income Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotment Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense, Navy
17X6999	Accounts Payable, Check Issue Underdrafts, Navy

The accompanying financial statements account for all resources for which the DON is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified.

When possible, the financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. For FY 2001, the DON's financial management systems are unable to meet all the requirements for full accrual accounting. Efforts are underway to bring the Department of Defense's (DoD) systems into compliance with all elements of Federal GAAP and OMB Bulletin No. 01-09.

General funds represent financial transactions arising under Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

## NOTES TO THE PRINCIPAL STATEMENTS

Revolving funds accounts are funds authorized by specific provisions of law to finance a continuing cycle of operations in which expenditures generate receipts and the receipts are available for expenditure without further action by Congress. The National Defense Sealift Fund is the DON's only revolving fund.

Trust funds represent the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the DON or, trust agreement, or statute.

Special funds account for receipts of the government that are earmarked for a specific purpose.

Deposit funds generally are used to (1) hold assets for which the DON is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

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

The DON generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2001, the DON's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as is required by Federal GAAP. The DON has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of the DON's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the DON's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement on Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs. In addition, the DON identifies programs based upon the major appropriation groups provided by Congress. The DON 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 Statement 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.

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

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The DON recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

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

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the DON's financial and nonfinancial 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 environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in the DON'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.

Certain expenses, such as civilian and military annual leave earned but not taken, are financed in the period in which payment is made.

Operating expenses were adjusted as a result of the elimination of balances between DoD Components. See Note 19.1, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

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

The DON, 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 DON 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 DON's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through 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 DON's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while the Military Retirement System (MRS) covers military personnel. Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The DON 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 DON 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.

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column of the DoD Agency-wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between components or activities within the DON must be eliminated. However, the DON, as well as the rest of the federal government, 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 DON. For FYs 1999, 2000, and 2001, the DON provided summary seller-side balances for revenue, accounts receivable (A/R), and unearned revenue to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the Department of the Treasury, FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department 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. However, the DON 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," for reconciling intragovernmental transactions pertaining 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 (DoL), and benefit program transactions with the OPM.

### **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 the Act, the 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.

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

The DON's financial resources are maintained in U.S. Treasury accounts. The majority of 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 appropriation Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the DON'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. Differences between accounting office's detail-level records and Treasury's FBWT are

disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

**J. Foreign Currency.**

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

**K. Accounts Receivable.**

As presented in the Balance Sheet statement, 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. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. If the claim cannot be resolved by the agencies involved, it should be referred to the General Accounting Office. Material disclosures are provided at Note 5.

**L. Loans Receivable.**

Not applicable.

**M. Inventories and Related Property.**

The DON manages and reports OM&S, which consists of spare and repair parts, and ammunition and munitions that are not held for sale. OM&S are reported in numerous systems using different valuation methodologies. Some of these systems utilize the standard price methodology while others use actual cost. Secondary items, ammunition, and munitions are valued at latest acquisition cost (LAC). No gains or losses are recognized in the Statement of Net Cost as a result of changes in valuation for general fund operating supplies and materials. Such changes are reflected in the asset valuations and related invested capital as reported in the Balance Sheet. The LAC method is used because data is maintained in logistics systems designed for material management purposes. These legacy systems do not maintain the historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these legacy systems provide controls to ensure accountability and visibility over inventory items, they were not designed to ensure that all of the inventory items are included in the values reported on the Balance Sheet. Specific procedures for implementing moving average cost are being developed under the auspices of the Under Secretary of Defense (Comptroller) (USD(C)) with contractual support from a major public accounting firm.

Material disclosures related to inventory and related property are provided at Note 9.



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

Investments in U.S. Treasury securities are reported at cost, net of amortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The DON's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities. Material disclosures are provided at Note 4.

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

The only type of PP&E that the DON has reported on the FY 2001 Balance Sheet is General PP&E. General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E are required to be capitalized. The Department contracted with two certified public accounting (CPA) firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. At the conclusion of the studies, both CPA firms recommended that the Department retain its current capitalization threshold of \$100,000. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

When it is in the best interest of the government, the DON provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the DON, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the DON's Balance Sheet. The Department completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the DON currently reports only government property in the possession of contractors that is maintained in the DON's property systems.

To bring the DON into fuller compliance with federal accounting standards, the DoD has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

Material disclosures are provided at Note 10.

### **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 expenses when the related goods and services are received.

### **Q. Leases.**

Generally, lease payments are for the rental of equipment, space, 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) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability should be recorded. While the DON is making progress in this area, there is currently no process in place for capturing the lease liability associated with leased assets. Therefore, for FY 2001 a liability was recorded equal to the net value of the assets (i.e. gross value less accumulated amortization) for those Commands unable to report a liability figure. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease terms.

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

The DON 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 these long-term contracts can cause, the DON provides financing payments. One type of financing payment that the DON 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 Regulations, the DON makes financing payments under fixed price contracts that are not based on a percentage of completion. The DON reports these financing payments as advances or prepayments in the "Other Assets" line item. The DON treats these payments as advances or prepayments because the DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the DON for the full amount of the advance. The DoD has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." The DoD has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

### **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 DON. 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 DON's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the DON's assets. This type of liability has two components—nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon the DON's policies and consistent with SFFAS No. 5 "Accounting for Liabilities of The Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The Department has agreed to the recognition of nonenvironmental disposal liability for National Defense PP&E (ND PP&E) nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with and not easily separately identifiable from environmental disposal costs. Material disclosures are provided at Notes 14 and 15.

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

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of non-vested leave are expensed as taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Accrued leave for the DON is recorded based on data received from the Defense Civilian Payroll System (DCPS).

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

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

Cumulative results of operations represents the balance that results from subtracting expenses and losses, from financing sources including appropriations, revenue, and gains since the inception of the activity. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

### **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 DoD. 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 non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid to the U.S. for such capital investments.

### **W. Comparative Data.**

Beginning in FY 2001, the DON will present the current and previous year's financial data for comparative purposes. This data will be presented in the financial statements, as well as in the Notes to the principal statements.

### **X. Unexpended Obligations.**

The DON records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

### **Y. Data Collection Approach.**

The DON financial statements include information from both financial systems and non-financial feeder systems. The Defense Finance Accounting Service Cleveland Center (DFAS-CL) collects the financial system information and incorporates it into the financial statements. The DON collects financial information from non-financial feeder systems through a data call process and submits it to DFAS-CL for incorporation into the financial statements. For FY 2001, the DON utilized a web-based data collection instrument (DCI) that captures all required financial information from non-financial feeder systems for both the General Fund (GF) statements and Required Supplementary Stewardship Information (RSSI). This is the third year the DON has used the DCI to collect non-financial feeder information. The DCI identifies the information requirements to the source provider, provides an audit trail, and integrates into the DFAS-CL financial statement preparation process.

## NOTES TO THE PRINCIPAL STATEMENTS

### NOTE 2. NONENTITY AND ENTITY ASSETS

As of September 30, 2001

(Amounts in thousands)

	Nonentity	2001 Entity	Total	2000
<b>1. Intragovernmental Assets:</b>				
A. Fund Balance with Treasury	\$ 178,939	\$ 66,160,040	\$ 66,338,979	\$ 62,547,052
B. Investments	0	9,517	9,517	10,539
C. Accounts Receivable	0	1,042,814	1,042,814	1,221,608
D. Other Assets	0	47,170	47,170	157,582
E. Total Intragovernmental Assets	\$ 178,939	\$ 67,259,541	\$ 67,438,480	\$ 63,936,781
<b>2. Nonfederal Assets:</b>				
A. Cash and Other Monetary Assets	\$ 160,589	\$ 0	\$ 160,589	\$ 134,783
B. Accounts Receivable	1,268,905	413,325	1,682,230	1,437,164
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	61,061,553	61,061,553	38,189,438
E. General Property, Plant & Equipment	0	24,961,487	24,961,487	25,485,691
F. Other Assets	0	6,056,832	6,056,832	4,201,524
G. Total Nonfederal Assets	\$ 1,429,494	\$ 92,493,197	\$ 93,922,691	\$ 69,448,600
<b>3. Total Assets:</b>				
	\$ 1,608,433	\$ 159,752,738	\$ 161,361,171	\$ 133,385,381

**Other Information.** Asset accounts are either categorized 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 an entity, but are not available for use in the operations of the entity.

**Non-Entity Accounts Receivable (public).** Non-Entity Accounts Receivable with the public contains \$1,352,460 thousand (gross) in advance payments made to contractors for the A-12 aircraft program, which was subsequently cancelled and remains in litigation. This balance is being reported in Non-Entity Accounts Receivable since the original appropriation year has been cancelled, and any funds collected as a result of this litigation would not be available for the DON's use in normal operations. See Note 5 for additional information.

**NOTE 3. FUND BALANCE WITH TREASURY**

**As of September 30, 2001**

(Amounts in thousands)

	2001	2000
<b>1. Fund Balances:</b>		
A. Appropriated Funds	\$ 65,459,616	\$ 61,694,911
B. Revolving Funds	665,726	753,469
C. Trust Funds	14,033	17,016
D. Other Fund Types	199,604	81,656
E. Total Fund Balances	<u>\$ 66,338,979</u>	<u>\$ 62,547,052</u>
<b>2. Fund Balances Per Treasury Versus Agency:</b>		
A. Fund Balance per Treasury	\$ 66,338,979	\$ 62,547,052
B. Fund Balance per DON	66,338,979	62,547,052
C. Reconciling Amount	<u>\$ 0</u>	<u>\$ 0</u>

**3. Explanation of Reconciliation Amount:**

Not applicable.

**Additional Disclosures Concerning Fund Balance With Treasury (FBWT).** The following provides additional disclosures of amounts included in the FBWT reporting process. These are internal reconciliation mechanisms verifying the disbursing process. These differences may ultimately affect FBWT, but until they can be verified as valid transactions or amounts they are not considered differences between the DON and Treasury FBWT. Many of these items represent timing differences, supporting identifying data is not or is no longer available or Treasury will not support the identification of certain aged items.

**Statement of Differences.** The following table exhibits aged deposit differences as reported on the Treasury Statement of Differences:

**Statement of Differences – Aging**

(Amounts in thousands)

	Net Amount	Absolute Amount
0-30 Days	\$ (831,774)	\$ 872,248
31-60 Days	357,773	369,185
61-90 Days	304	979
91-120 Days	(162)	267
121-180 Days	(112)	178
181-365 Days	(279)	350
365 Days and Over	78	190
Total	<u>\$ (474,172)</u>	<u>\$ 1,243,397</u>



## NOTES TO THE PRINCIPAL STATEMENTS

**Check Issue Discrepancy.** The DON is in the process of collecting information for all check issue discrepancy data that are unsupported because: (1) records have been lost during deactivation of disbursing offices; (2) the Department of the Treasury will not assist in research efforts for transactions over 1-year old; or (3) corrections were processed for transactions that the Department of the Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations shall be provided to the Department of the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the DON and the Department of the Treasury for processing checks. Further, no empirical evidence has been presented that demonstrates check issue discrepancies adversely affect the FBWT. The following table exhibits the aged check issue differences:

### Check Issue Differences – Aging

(Amounts in thousands)

	Net Amount	Absolute Amount
0-30 Days	\$ 447,047	\$ 450,696
31-90 Days	21,617	36,836
91-180 Days	(1,760)	1,919
181-365 Days	(38)	116
Greater than 1 year	(7,952)	10,758
Total	<u>\$ 458,914</u>	<u>\$ 500,325</u>

**On Line Payment and Collection (OPAC) Differences.** The OPAC differences represent amounts reported by an organization but not reported by its trading partner. A majority of the differences represent internal DoD transactions and therefore do not affect FBWT at the DoD consolidated level. However, for individual entity level statements these differences would affect the amount reported for FBWT. The DoD is working with the DFAS Sites, Treasury, and Treasury's contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The web based real time process is expected to be implemented for FY 2002. These actions will aid the DON in clearing many of the old balances and establishing better internal controls over the OPAC process. The following table exhibits the aged OPAC differences:

### OPAC Differences – Aging

(Amounts in thousands)

	Net Amount	Absolute Amount
90 Days or Less	\$ 634	\$ 7,624
91-180 Days	17,937	17,938
181 Days and Over	1,135	6,768
Total	<u>\$ 19,706</u>	<u>\$ 32,330</u>

**NOTE 4. INVESTMENTS**

**As of September 30, 2001**

(Amounts in thousands)

	2001					2000
	Cost	Amorti- zation Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
<b>1. Intragovernmental Securities:</b>						
A. Marketable	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	9,469	N/A	(152)	9,317	9,317	10,313
D. Subtotal	\$ 9,469		\$ (152)	\$ 9,317	\$ 9,317	\$ 10,313
E. Accrued Interest	\$ 200			\$ 200	\$ 200	\$ 226
F. Total Intragovernmental Securities	\$ 9,669		\$ (152)	\$ 9,517	\$ 9,517	\$ 10,539

**2. Other Information:**

During FY 2001, per HR 4205, section 912, the DON consolidated the Naval Academy Museum Fund together with the Naval Academy General Gift Fund and the Naval Records and History Fund together with the Navy General Gift Fund. The two remaining Trust Funds are the Naval Academy General Gift Fund and the Navy General Gift Fund, which have a total net investment of \$9,517 thousand. These investments are Non-Marketable Market-Based securities reported at cost, net of amortized premiums and discounts. The details for each Trust Fund are as follows:

(Amounts in thousands)

	Cost	Amortized [Premium]/ Discount	Net
Navy General Gift Fund	\$ 2,286	\$ (26)	\$ 2,260
Naval Academy General Gift Fund	7,383	(126)	7,257
Total	\$ 9,669	\$ (152)	\$ 9,517

## NOTES TO THE PRINCIPAL STATEMENTS

### NOTE 5. ACCOUNTS RECEIVABLE

As of September 30, 2001

(Amounts in thousands)

	2001		2000	
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables:</b>	\$ 1,042,814	N/A	\$ 1,042,814	\$1,221,608
<b>2. Nonfederal Receivables (From the Public):</b>	\$ 1,941,170	\$ (258,940)	\$1,682,230	\$1,437,164
<b>3. Total Accounts Receivable:</b>	\$ 2,983,984	\$ (258,940)	\$ 2,725,044	\$2,658,772

**Allowance method.** The DON does not have a standard Department wide rate for the allowance for estimated uncollectible receivables. For all program groups except Military Personnel appropriations, the DON estimate for uncollectible accounts is 2.93%. Accounts receivable uncollectible allowance balances in the Military Personnel appropriations are estimated to be 14.49%. Each estimate is based on write-offs of accounts receivable over the last three-year period.

**Intragovernmental Accounts Receivable.** The DON's accounting systems generally do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DON was unable to reconcile intragovernmental accounts receivable balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

Intrafund transactions are eliminated based upon trading partner information obtained from the Bureau of Naval Personnel System (BUPERS), Standard Accounting and Reporting System — Field Level (STARS-FL), and the Standard Accounting and Reporting System — Headquarters Module (STARS-HQ). The elimination data obtained from these systems included seller appropriation, grantor (buyer) appropriation, grantor subhead, grantor code, reimbursable source code, accounts receivable, revenue and unearned revenue.

Per guidance issued on 2 November 2001 by DFAS Arlington, the DON reclassified Foreign Military Sales (FMS), from intragovernmental to nonfederal. Due to this reclassification, Intragovernmental Accounts Receivable decreased and Nonfederal Accounts Receivable increased on the Balance Sheet from FY 2000 to FY 2001.

**Nonfederal Receivables (From the Public).** During FY 2001 Nonfederal Accounts Receivable included refunds receivable accounted for by Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) and refunds due from contract carriers reported by the Judge Advocate General (JAG). The following table lists the MOCAS, DDMS, and JAG receivable balances:

(Amounts in thousands)	<u>FY 2001</u>
A-12 Program Advance (DDMS)	\$ 1,352,460
MOCAS system debts	6,876
DDMS Navy and DLA	16,512
JAG	3,859

Included in DDMS (separately identified above) are unliquidated progress payments of \$1,352,460 thousand made for the A-12 aircraft program that was subsequently cancelled and remains in litigation. The entire amount is reported in accordance with a 1994 General Accounting Office audit recommendation.

**Undistributed.** Undistributed disbursements and collections are allocated between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable as submitted in the field level general ledgers. This allocation was suggested as appropriate in a DFAS Arlington memorandum dated 4 October 2000, which required disclosure to the audit community of the applicable methodology used to allocate undistributed.

**Abnormal Account Balances.** Abnormal accounts payable and accounts receivable balances may occur for two main reasons: 1) the application of undistributed disbursement/collections and 2) as a result of the intragovernmental transaction elimination process. DFAS Arlington has provided guidance in a memorandum dated March 1, 2001 to record accruals, for financial statement presentation purposes, to correct abnormal balances.

Undistributed disbursements/collections are recorded in accounts payable and accounts receivable, respectively. For a variety of reasons, the application of undistributed transactions may result in abnormal balances.

In accordance with the DoD FMR, Volume 6B, Chapter 13, adjustments are recorded, at the appropriation level, to bring DON's intragovernmental accounts into agreement with its trading partners' intragovernmental accounts. These elimination process adjustments may also result in abnormal accounts payable and accounts receivable.

## NOTES TO THE PRINCIPAL STATEMENTS

### NOTE 6. OTHER ASSETS

#### As of September 30, 2001

(Amounts in thousands)

	2001	2000
<b>1. Intragovernmental Other Assets:</b>		
A. Advances and Prepayment	\$ 47,170	\$ 157,582
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 47,170	\$ 157,582
<b>2. Nonfederal Other Assets:</b>		
A. Outstanding Contract Financing Payments	\$ 5,873,494	\$ 4,086,142
B. Other Assets (With the Public)	183,338	115,382
C. Total Nonfederal Other Assets	\$ 6,056,832	\$ 4,201,524
<b>3. Total Other Assets:</b>	\$ 6,104,002	\$ 4,359,106

**Advances and Prepayments.** The decrease from FY 2000 to FY 2001 reflected in Intragovernmental Advances and Prepayments is attributed to the seller side adjustments required by the DoD FMR, Volume 6B, Chapter 13. Other Assets (With the Public) in the amount of \$183,338 thousand is contributed from outstanding travel advances to Civilian or Military Personnel.

**Outstanding Contract Financing Payments.** The DON has reported outstanding financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. The following table displays the Outstanding Contract Financing Payments attributed by program:

(Amounts in millions)	FY 2001
Aircraft Procurement	\$ 3,682
Shipbuilding and Conversion	664
Weapons Procurement	1,020
Other Procurement	387
Other	120
<b>Total</b>	<b>\$ 5,873</b>

The Aircraft Procurement and Shipbuilding and Conversion programs are the major contributors of the increase in Outstanding Contract Financing Payments from FY 2000 to FY 2001.

**NOTE 7. CASH AND OTHER MONETARY ASSETS**

**As of September 30, 2001**

(Amounts in thousands)

	2001	2000
1. Cash	\$ 160,291	\$ 134,585
2. Foreign Currency (non-purchased)	298	198
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ 160,589</u>	<u>\$ 134,783</u>

**5. Other Information Pertaining to Entity Cash & Other Monetary Assets:**

All cash and other monetary assets reported are classified as nonentity, which means that the assets are not available for the DON's use in normal operations.

Cash and Other Monetary Assets reflected an increase from FY 2000 of \$25,806 thousand. The change is due to an increase in Disbursing Officer cash, which is reported on the DON Consolidated Statement of Accountability (SF 1219).

Foreign currency has been translated into US dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the US Government for the acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

**NOTE 8. DIRECT LOANS AND LOAN GUARANTEES, NONFEDERAL BORROWERS.**

The DoD has entered into contract authority under Public Law 104-106 110 Stat 186 for Military Housing Privatization Initiative of direct loan and/or loan guarantee programs. In FY 2001 this initiative is reported under the DoD Other General Fund financial statements.

**NOTES 8. A. - 8. M.**

Not Applicable.



## NOTES TO THE PRINCIPAL STATEMENTS

### NOTE 9. INVENTORY AND RELATED PROPERTY

#### As of September 30, 2001

(Amounts in thousands)

	2001	2000
1. Inventory, Net (Note 9.A.)	\$ 0	\$ 0
2. Operating Materials & Supplies, Net (Note 9.B.)	61,061,553	38,189,438
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	\$ 61,061,553	\$ 38,189,438

#### NOTE 9.A. INVENTORY, NET

Not Applicable.

#### NOTE 9.B. OPERATING MATERIALS AND SUPPLIES, NET

#### As of September 30, 2001

(Amounts in thousands)

	2001			2000	
	OM&S	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
<b>1. OM&amp;S Categories:</b>					
A. Held for Use	\$ 58,175,833	\$ 0	\$ 58,175,833	\$ 37,586,712	LAC,SP,AC
B. Held for Repair	2,285,399	(1,074,996)	1,210,403	0	LAC,SP,AC
C. Excess, Obsolete, and Unserviceable	1,678,032	(2,715)	1,675,317	602,726	LAC,SP,AC
D. Total	\$ 62,139,264	\$ (1,077,711)	\$ 61,061,553	\$ 38,189,438	

#### Legend for Valuation Methods:

**Adjusted LAC** = Latest Acquisition Cost  
adjusted for holding gains and losses

**NRV** = Net Realizable Value  
**O** = Other

**SP** = Standard Price  
**AC** = Actual Cost

**2. Restrictions on Operating Materials & Supplies:** Not Applicable.

**3. Other Information:**

The general composition of Operating Materials and Supplies is as follows:  
(Amounts in thousands)

	<b>FY 2001</b>
Ammunition and Munitions	\$ 35,645,300
Appropriation Purchase Account (APA) Principal End Items	15,489,404
Sponsor Owned Material	7,872,426
APA Secondary Inventory	962,145
Residual Assets	834,276
Other	258,002
<b>Total</b>	<b>\$ 61,061,553</b>

**Operating Materials & Supplies (OM&S) Value.** The OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, they do not directly support the categorization of OM&S as held for use, held for repair, or excess, obsolete, and unserviceable. The DoD manages only military or government specific material under normal circumstances. Material includes material held due to operational economies. Similarly, material held for use includes material held due to a managerial determination that it should be retained to support Departmental contingencies.

Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Further, unlike the commercial sector, the Department's operational cycles, based on national need, are irregular. In addition, the military risks associated with stock-out positions (e.g., weapon systems that are not mission capable due to lack of supplies) are totally different from a commercial activity's risk of losing sales. Therefore, the Department does not attempt to account separately for items held for "current" or future use. In FY 2001, the DON has not stratified its OM&S as held for "current" or "future" use. Due to the emerging requirement request from the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), the DON will collect and report that information in future periods. Past audit results have led to uncertainties pertaining to the completeness and existence of the OM&S quantities used to derive the values reported in the financial statements. For the most part, the DON is using the consumption method of accounting for OM&S, since OM&S is defined in SFFAS No. 3 as material which has not yet been issued to the end user. Once issued, the material is expensed. As stated above, current financial and logistics systems cannot fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost beneficial to expense OM&S when purchased (purchase method).

## NOTES TO THE PRINCIPAL STATEMENTS

The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, (3) identifying feeder systems that are used to manage OM&S items, and (4) developing plans to revise those systems to support the consumption method.

Effective July 2001, the DoD adopted the moving average cost method of valuing inventory at all DoD components. In September 2001, OUSD (C) awarded a six-month contract to a major public accounting firm as part of its efforts to implement an inventory valuation method that provides historical cost on a transaction-driven basis per the federal accounting standards. The accounting firm also will develop a methodology to derive an acceptable valuation of the historical cost of inventory and related materials owned at the time of changing to a historical cost valuation method. The scope of this effort is DoD Agency wide and will also apply to OM&S. The contractor's analysis and recommendations will apply to DON, other Military Departments, and the DLA and will encompass appropriated fund activities. It also will include inventory and related material owned by DoD Components and in the hands of commercial entities.

**Excess Obsolete and Unserviceable OM&S.** Excess Obsolete and Unserviceable OM&S consists of the following:  
(Amounts in thousands)

	<u>FY 2001</u>
Ammunition and Munitions	\$ 1,666,643
APA Secondary Inventory	8,626
Sponsor Owned Material	48
<u>Total</u>	<u>\$ 1,675,317</u>

Ammunition and Munitions is not devalued per the DoD Material Management Regulation ("Super Reg"). Both APA Secondary Inventory Items and Sponsored Owned Materials were devalued to 1.9% of gross value.

**Principal End Items.** Principal End Items includes OM&S items such as shipboard hull, mechanical and electronic equipment, and uninstalled aircraft engines. Principal End Items are items of such importance that central inventory control is required. They normally possess one of the following characteristics: (a) essential for combat or training; (b) high dollar value; (c) difficult to procure or produce; or (d) critical basic materials or components. In FY 1999, these items were neither captured on the Balance Sheet or in the Required Supplementary Stewardship Information (RSSI) reports. FY 2000 was the first year these items were reported as a result of the DON OM&S working group determining that it was appropriate to report these items on the Balance Sheet, as they meet the definition of OM&S.

**Ammunition and Munitions.** The Conventional Ammunition Integrated Management System (CAIMS) database does not meet all the requirements of the SFFAS No. 3, particularly regarding valuation at historical cost. DON has begun the analysis and cost benefit identification of making CAIMS compliant with Federal accounting standards.

In FY 2001, prior period adjustments of \$24,765,804 thousand were made to the ammunitions and munitions category. Of this adjustment, \$21,100,853 thousand is the result of the addition of tactical missiles and torpedoes that were previously reported as National Defense Property, Plant and Equipment (ND PP&E) all-up rounds unit counts in the RSSI. This change is a result of early implementation of the ND PP&E Federal Accounting Standard exposure draft. The remaining \$3,664,951 thousand is the reclassification of pieces and parts associated with the tactical missiles and torpedoes that were reported as principal end items in FY 2000. This prior period adjustment is also reflected in Note 20 Line 1.A, Changes in Accounting Standards.

An estimated 45% of the amount reported for Ammunition and Munitions as Held for Use is classified as unserviceable - but repairable. A weighted-average calculation was used to create these figures, based on the latest acquisition price of the National Stock Number (NSN). Cost figures are not available to bring the unserviceable items into serviceable condition.

**Sponsor Owned Material (SOM).** Per General Accounting Office (GAO) subject letter GAO-01-37R "Financial Management: Improvements Needed in the Navy's Reporting of General Fund Inventory", dated 27 October 2000, the DON has been identifying and validating SOM to gain total asset visibility. As a result of this effort, the amount of SOM reported has increased from \$5,387,544 thousand in FY 2000 to \$7,872,426 thousand in FY 2001.

**Residual Assets.** This material is considered excess to the owner, but may not be excess to the Navy. Standard price is used to value all stock-numbered items. Part-numbered items are valued by best available information.

**Operating Materials and Supplies Held for Repair.** The USSGL does not include an account for OM&S held for repair and the OMB Bulletin 01-09, "Form and Content of Agency Financial Statements" does not provide for specific footnote disclosure of the OM&S held for repair. The DON reported OM&S held for repair in accordance with the DoD FMR, Volume 6B.

**Other Operating Material & Supplies.** Other OM&S totaled \$258,002 thousand, and included the following items:  
(Amounts in thousands)

	<b>FY 2001</b>
Fleet Hospitals and War Reserves	\$ 201,114
Material in the possession of the US Coast Guard	56,888
<b>Total</b>	<b>\$ 258,002</b>

**Fleet Hospitals and War Reserves.** The Fleet Hospital Program is reporting a balance of \$201,114 thousand for FY 2001. This reflects a \$195,127 thousand increase from the FY 2000 balance due to a revaluation of inventories maintained by the Fleet Hospital Support Office. Per Naval Audit Service Audit No. N2001-0016, the subject Command has completed their review of the Fleet Hospital inventory valuation. This

## NOTES TO THE PRINCIPAL STATEMENTS

information was computed based on the best estimates available of the value of Fleet Hospitals. This system will be used until the automated information system (AIS) becomes fully operational.

**Government Furnished Material (GFM) and Contractor Acquired Material (CAM).** The value of the DON's GFM and CAM in the hands of contractors is generally 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. Per the DoD FMR, Volume 6B, the DON is not reporting this type of OM&S in FY 2001.

### NOTE 9.C. STOCKPILE MATERIALS, NET

Not Applicable.

### NOTE 10. GENERAL PP&E, NET

#### As of September 30, 2001

(Amounts in thousands)

			2001			2000
	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	\$ 655,751	N/A	\$ 655,751	\$ 659,725
B. Buildings, Structures, and Facilities	S/L	20 Or 40	31,437,010	\$ (11,953,703)	19,483,307	18,792,923
C. Leasehold Improvements	S/L	lease term	0	0	0	0
D. Software	S/L	5	1,081	(14)	1,067	109
E. Equipment	S/L	5 Or 10	2,635,472	(1,718,534)	916,938	1,472,424
F. Assets Under Capital Lease <sup>1</sup>	S/L	lease term	16,928	(9,775)	7,153	7,413
G. Construction-in-Progress	N/A	N/A	3,896,679	N/A	3,896,679	4,549,916
H. Other			592	0	592	3,181
I. Total General PP&E			\$ 38,643,513	\$ (13,682,026)	\$ 24,961,487	\$ 25,485,691

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

#### Legend for Valuation Methods:

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

**Real Property.** The Internet Naval Facility Asset Database Store (iNFADS) is used to derive real property values for financial reporting purposes.

**Leasehold Improvements.** No leasehold improvements are reported for FY 2001, since DON’s real property system is not tracking leasehold improvements as a separate component of a building’s total value.

**Preponderant Use.** Per the DoD FMR, Volume 4, Chapter 6, legal ownership is not always the determinant factor when establishing which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes. If the following four criteria are met, the preponderant user should report the property regardless of legal ownership or funding:

- The asset embodies a probable future benefit;
- The DoD Component that reports the asset obtains the benefit and controls access to the benefit inherent in the asset;
- The transaction or event giving the Component the right to, and control over, the benefit has already occurred; and
- The predominantly used assets, taken as a whole, are material to the Component's financial statements.

During the course of FY 2001, the DON has continued to identify properties whose preponderant users are other DoD Components. Those entities utilizing material amounts of DON owned property are as follows (dollar values include both acquisition value and improvements meeting the capitalization threshold):

(Amounts in thousands)

	<u>FY 2001</u>
Defense Commissary Agency (DeCA)	\$ 46,816
DoD Schools	39,951
DLA	16,168

While the DON has begun identifying the major parties involved, we continue to report the asset values of preponderant use assets in FY 2001. This is due to difficulties encountered when comparing our property records with those of the other entities. We will continue to work with the other DoD Components to come to agreement on the recording of preponderant use asset values for FY 2002.

**Software.** Software balance increased from FY 2000 to FY 2001 due to DON’s implementation of SFFAS No. 10, “Accounting for Internal Use Software”.

**Construction-in-Progress (CIP).** CIP balances were obtained from the Facilities Information System (FIS).

**Other (line 1.H.).** During the deployment of the Defense Property Accountability System (DPAS) and data base conversion, some of the personal property assets were coded as “Other”. The DON has been reviewing those items coded as “Other” and will make the appropriate adjustments to reflect these changes in corrected asset classification. The balance should be reported as \$1,457 thousand acquisition value, \$865 thousand accumulated depreciation, and \$592 thousand net book value. Since there is no USSGL account corresponding to accumulated depreciation for the Other category, the balance is presented as net book value.

## NOTES TO THE PRINCIPAL STATEMENTS

**Defense Property Accountability System (DPAS).** As of 30 September 2001 the DON has successfully converted personal property records (software, equipment, assets under capital lease, and other) to the Defense Property Accountability System (DPAS). Inventories and reconciliations performed during the conversion stage have led to significant adjustments to personal property records. These adjustments include writing off old property balances and properly identifying additional assets as ND PP&E.

**Property in the Possession of Contractors.** The value of the DON's General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. Per the DoD FMR Volume 6B Chapter 10, the DON is not supplementing General PP&E information with values from the Defense Contract Management Agency's CPMS (DD Form 1662) database. In accordance with an approved strategy with OMB, the GAO and the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal generally accepted accounting standards.

**Navy Marine Corps Intranet (NMCI).** The Navy-Marine Corps Intranet (NMCI) represents a consolidation of more than 150 separate and stovepiped local area networks into a single, privately managed network, accessible to all certified users throughout the DON. With the award of the NMCI contract in October 2000, the DON embarked on a path that will see a commercial team build and maintain all aspects of the network. By pursuing economies of scale, the DON will acquire greatly improved services with the same funding that the DON previously spent on numerous incompatible networks. Through NMCI, the DON will establish a common end-to-end information system capability for voice, video, and data communications, improving access, interoperability, and security for the DON.

### NOTE 10.A. ASSETS UNDER CAPITAL LEASE

#### As of September 30, 2001

(Amounts in thousands)

<b>1. Entity as Lessee, Assets Under Capital Lease:</b>	<b>2001</b>	<b>2000</b>
A. Land and Buildings	\$ 0	\$ 0
B. Equipment	16,928	24,595
C. Other	0	0
D. Accumulated Amortization	(9,775)	(17,182)
E. Total Capital Leases	\$ 7,153	\$ 7,413

#### 2. Description of Lease Arrangements:

**Other Information.** Leased assets consist primarily of personal property reported via the DPAS system. Disclosures pertaining to future payments due are provided at Note 15.



**NOTE 11. LIABILITIES NOT COVERED AND COVERED BY BUDGETARY RESOURCES**

**As of September 30, 2001**

(Amounts in thousands)

	2001			2000
	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	
<b>1. Intragovernmental Liabilities:</b>				
A. Accounts Payable	\$ 1,000,929	\$ 1,353	\$ 1,002,282	\$ 804,072
B. Debt	0	61	61	56
C. Environmental Liabilities	0	0	0	0
D. Other	371,895	694,290	1,066,185	1,570,471
E. Total Intragovernmental Liabilities	\$ 1,372,824	\$ 695,704	\$ 2,068,528	\$ 2,374,599
<b>2. Nonfederal Liabilities:</b>				
A. Accounts Payable	\$ 2,075,026	\$ 0	\$ 2,075,026	\$ 2,705,842
B. Military Retirement Benefits Other Employment-Related Actuarial Liabilities	0	1,595,890	1,595,890	1,441,520
C. Environmental Liabilities	0	15,584,458	15,584,458	16,065,888
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	1,074,440	2,536,459	3,610,899	2,078,680
F. Total Nonfederal Liabilities	\$ 3,149,466	\$ 19,716,807	\$ 22,866,273	\$22,291,930
<b>3. Total Liabilities:</b>	\$ 4,522,290	\$ 20,412,511	\$ 24,934,801	\$24,666,529

**Other Information.** Liabilities not covered by budgetary resources are the result of a transaction or event that is known or has occurred and the appropriation has not been enacted. In FY2001, DON reported \$20,412,511 thousand for liabilities not covered by budgetary resources.

Other Intragovernmental Liabilities Not Covered by Budgetary Resources include the following:

(Amounts in thousands)

	Current	Non-Current	Total
Unfunded FECA Liability	\$ 241,585	\$ 316,989	\$ 558,574
Judgment Fund	135,716	0	135,716
Total	\$ 377,301	\$ 316,989	\$ 694,290

## NOTES TO THE PRINCIPAL STATEMENTS

The DON total liability amounts of the Workers' Compensation (FECA) and Judgment Fund for both General Fund and Working Capital Fund are reported in the DON's General Fund financial statements. This methodology is necessary due to the current accounting systems not identifying these liabilities as General Fund or Working Capital Fund.

**Workers' Compensation.** The current FECA liability of \$241,585 represents the balance due for remittance in FY 2002. The remaining balance of \$316,989 will be billed beyond FY 2002. These balances are provided by DFAS Arlington and confirmed with the Department of Labor.

**Judgment Fund.** During FY 2001 the DON has made substantial progress in identifying and resolving Judgment Fund liabilities. It is in compliance with USD(C) action to resolve any outstanding debt due to the Department of Treasury for repayment of the Judgment Fund. The DON is in the process of working with the appropriate Management Commands either to provide documentation that these amounts have been remitted to the Treasury, or to provide necessary funding to liquidate these liabilities. The DON is working with Treasury to secure further detailed information concerning the amounts owed. In FY 2001 DON reported \$135,716 as an outstanding Judgment Fund liability.

Additional disclosures are in Notes 12, 13, 14, 15 and 17.

### NOTE 12. ACCOUNTS PAYABLE

**As of September 30, 2001**

(Amounts in thousands)

	2001			2000
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
<b>1. Intragovernmental Payables:</b>	\$ 1,002,282	N/A	\$ 1,002,282	\$ 804,072
<b>2. Nonfederal Payables (to the Public):</b>	\$ 2,074,778	\$ 248	\$ 2,075,026	\$2,705,842
<b>3. Total</b>	\$ 3,077,060	\$ 248	\$ 3,077,308	\$3,509,914

**Intragovernmental Accounts Payable.** The DoD FMR, Volume 6B, Chapter 13, recognizes that intragovernmental accounts receivable, revenue and advances from others (unearned revenue) reported by the seller are more accurate. Therefore, intragovernmental accounts payable was adjusted per the seller's records. The DoD summary level of the seller accounts receivable was used for the adjustment since the DON's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. The DON was unable to reconcile intragovernmental accounts payable balances with its trading partners. In addition, the volume of intragovernmental transactions is so immense that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources. In order to improve the elimination process, a system change request (SCR) is in place. This improvement will include an up-front edit and will facilitate elimination entries.

**Undistributed.** Undistributed disbursements and collections are allocated between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable as submitted in the field level general ledgers. This allocation was suggested as appropriate in a DFAS Arlington memorandum dated 4 October 2000, which required disclosure to the audit community of the applicable methodology used to allocate undistributed.

**Abnormal Account Balances.** Abnormal accounts payable and accounts receivable balances may occur for two main reasons — 1) the application of undistributed disbursement/collections and 2) as a result of the intragovernmental transaction elimination process. DFAS Arlington has provided guidance in a memorandum dated March 1, 2001 to record accruals, for financial statement presentation purposes, to correct abnormal balances.

Undistributed disbursements/collections are recorded in accounts payable and accounts receivable, respectively. For a variety of reasons, the application of undistributed transactions may result in abnormal balances.

In accordance with the DoD FMR, Volume 6B, Chapter 13, adjustments are recorded, at the appropriation level, to bring DON's intragovernmental accounts into agreement with its trading partners' intragovernmental accounts. These elimination process adjustments may also result in abnormal accounts payable and accounts receivable.

**Other.** Interest of \$248 thousand is comprised of the Prompt Payment Act accrued interest payable.

The DON has formed a team to analyze the recording and reporting of accounts payable for the Navy and Marine Corps. The team is identifying processes used by field activities to record the receipt of goods and services from both commercial and governmental activities. The team will recommend process and system changes necessary to record and report accounts payable and to identify trading partners to facilitate intragovernmental eliminating entries.

The increase in intragovernmental accounts payable and the decrease in nonfederal accounts payable from FY 2000 to FY 2001 is attributed to the seller side elimination adjustments made in accordance with the DOD FMR, Volume 6B, Chapter 13.

## NOTES TO THE PRINCIPAL STATEMENTS

### NOTE 13. DEBT

**As of September 30, 2001**

(Amounts in thousands)

	2001			2000
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
<b>1. Public Debt:</b>				
A. Held by Government Accountt	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
<b>2. Agency Debt:</b>				
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	57	4	61	56
D. Total Agency Debt	\$ 57	\$ 4	\$ 61	\$ 56
<b>3. Total Debt:</b>	\$ 57	\$ 4	\$ 61	\$ 56
<b>4. Classification of Debt:</b>				
A. Intragovernmental Debt			\$ 61	\$ 56
B. Nonfederal Debt			N/A	N/A
C. Total Debt			\$ 61	\$ 56

**Other Information.** Debt to Other Federal Agencies is related to interest owed to the Education Benefit Trust Fund.

The FY 2001 beginning balance of \$57 thousand does not equal the FY 2000 ending balance of \$56 thousand due to rounding.

**NOTE 14. ENVIRONMENTAL LIABILITIES AND ENVIRONMENTAL DISPOSAL LIABILITIES**

**As of September 30, 2001**

(Amounts in thousands)

	2001			2000	
	Current Liability	Noncurrent Liability	Total	Total	
<b>1. Environmental Liabilities:</b>					
A. Intragovernmental:					
1. Accrued Environmental Restoration (DERP funded) Costs:					
a. Active Installations-Environmental Restoration (ER)	\$ 0	\$ 0	\$ 0	\$ 0	0
b. Active Installations—ER for Closed Ranges	0	0	0	0	0
c. Formerly Used Defense Sites (FUDS) —ER	0	0	0	0	0
d. FUDS—ER for Transferred Ranges	0	0	0	0	0
2. Other Accrued Environmental Costs (Non-DERP funds)					
a. Active Installations— Environmental Corrective Action	0	0	0	0	0
b. Active Installations— Environmental Closure Requirements	0	0	0	0	0
c. Active Installations— Environ. Response at Active Ranges	0	0	0	0	0
d. Other	0	0	0	0	0
3. Base Realignment and Closure (BRAC)					
a. BRAC Installations — Environmental Restoration (ER)	0	0	0	0	0
b. BRAC Installations— ER for Transferring Ranges	0	0	0	0	0
c. BRAC Installations— Environmental Corrective Action	0	0	0	0	0
d. Other	0	0	0	0	0
4. Environmental Disposal for Weapon Systems Programs					
a. Nuclear Powered Aircraft Carriers	0	0	0	0	0
b. Nuclear Powered Submarines	0	0	0	0	0
c. Other Nuclear Powered Ships	0	0	0	0	0
d. Other National Defense Weapon Systems	0	0	0	0	0
e. Chemical Weapons Disposal Program	0	0	0	0	0
f. Other	0	0	0	0	0
<b>5. Total Intragovernmental Environmental Liabilities:</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>0</b>

## NOTES TO THE PRINCIPAL STATEMENTS

	2001			2000
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities:</b>				
B. Nonfederal:				
1. Accrued Environmental Restoration (DERP funded) Costs:				
a. Active Installations-Environmental Restoration (ER)	\$ 151,544	\$ 3,509,630	\$ 3,661,174	\$ 3,990,023
b. Active Installations—ER for Closed Ranges	0	88,239	88,239	53,580
c. Formerly Used Defense Sites (FUDS) —ER	0	0	0	0
d. FUDS—ER for Transferred Ranges	0	0	0	0
2. Other Accrued Environmental Costs (Non-DERP funds)				
a. Active Installations—Environmental Corrective Action	0	0	0	0
b. Active Installations—Environmental Closure Requirements	0	0	0	0
c. Active Installations— Environ. Response at Active Ranges	0	0	0	0
d. Other	0	0	0	0
3. Base Realignment and Closure (BRAC)				
a. BRAC Installations — Environmental Restoration (ER)	134,242	1,182,053	1,316,295	1,209,515
b. BRAC Installations— ER for Transferring Ranges	0	0	0	0
c. BRAC Installations— Environmental Corrective Action	0	0	0	0
d. Other	0	0	0	0
4. Environmental Disposal for Weapon Systems Programs				
a. Nuclear Powered Aircraft Carriers	0	4,890,000	4,890,000	4,890,000
b. Nuclear Powered Submarines	155,200	4,967,200	5,122,400	5,270,700
c. Other Nuclear Powered Ships	0	269,100	269,100	269,100
d. Other National Defense Weapon Systems	0	237,250	237,250	382,970
e. Chemical Weapons Disposal Program	0	0	0	0
f. Other	0	0	0	0
5. Total Nonfederal Environmental Liabilities:	\$ 440,986	\$ 15,143,472	\$ 15,584,458	\$ 16,065,888
<b>2. Total Environmental Liabilities:</b>	<b>\$ 440,986</b>	<b>\$ 15,143,472</b>	<b>\$ 15,584,458</b>	<b>\$ 16,065,888</b>

**Accrued Environmental Restoration (DERP Funded) Costs.** For FY2001, the DON estimated and reported \$3,749,413 thousand for environmental restoration liabilities as of 30 September 2001. This is comprised of \$3,661,174 thousand in Environmental Restoration Program (DERP) liabilities and \$88,239 thousand of DERP-Closed Ranges liabilities which represents Unexploded Ordnance Cost (UXO) related to twelve sites. Among the \$88,239 thousand approximately \$12 thousand represents preliminary site

investigation costs for closed ranges. Prior to FY 2001, UXO was not segregated and reported as part of the total amount disbursed. The DoD FMR, Volume 6B, Chapter 10 requires that "any estimate produced must be based on site specific information and use cost models validated in accordance with DoD instruction 5000.61." The DON plans to support this requirement and continue validating its range inventory and pursuing the process of obtaining valid cost estimates for each range. Once this process is complete, the DON will begin to report the liability for sites that have been processed.

**Other Accrued Environmental Costs (Non-DERP Funds).** The DON is participating in the Department of Defense Environmental Quality Liabilities Working Group. The purpose of the working group is to define the scope of ongoing operations at DoD installations that have potential associated environmental cleanup costs (Non-DERP) and the potential magnitude of the cleanup costs associated with those operations. During FY 2001, the DON began a preliminary review of sixteen program areas such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retrofill, and/or disposal of PCB transformers, underground storage tank remedial investigation and closure, that identified an estimated total potential long term liability of \$17,344 thousand. In addition to cleanup costs associated with ongoing operations, the Kaho-Olawe Island Trust Fund provides for cleanup of Kaho-Olawe Island. Congress initially set a funding limit of \$400,000 thousand with annual execution of \$25,000 thousand. Further investigation is needed prior to recognizing an estimate on the financial statements for cleanup of Kaho-Olawe Island.

**Environmental Disposal for Weapon Systems Programs.** DON reported an environmental disposal liability for Weapons Systems Programs of \$10,518,750 thousand in FY 2001. DON reported Weapons Systems, which includes nuclear powered aircraft carriers, nuclear powered submarines, other nuclear powered ships and other national defense weapons systems. The liability for Other National Defense Weapons Systems of \$237,250 thousand includes scrapping of inactive conventionally powered warships of \$195,323 thousand and \$41,927 thousand for the environmental disposal of strategic missiles.



## NOTES TO THE PRINCIPAL STATEMENTS

### NOTE 15.A. OTHER LIABILITIES

**As of September 30, 2001**

(Amounts in thousands)

	2001			2000
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental:</b>				
A. Advances from Others	\$ 0	\$ 0	\$ 0	\$ 0
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	178,939	0	178,939	548,056
D. Resources Payable to Treasury	480	0	480	7,277
E. Disbursing Officer Cash	160,589	0	160,589	134,786
F. Nonenvironmental Disposal Liabilities:				
(1) ND PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable--Cancelled Appropriations	0	0	0	79,645
H. Judgement Fund Liabilities	135,716	0	135,716	186,994
I. FECA Reimbursement to the Department of Labor	241,585	316,989	558,574	551,125
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	31,887	0	31,887	62,588
L. Total Intragovernmental Other Liabilities	\$ 749,196	\$ 316,989	\$ 1,066,185	\$ 1,570,471
<b>2. Nonfederal:</b>				
A. Accrued Funded Payroll and Benefits	\$ 986,194	\$ 0	\$ 986,194	\$ 197,838
B. Advances from Other	0	0	0	0
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	12,471	0	12,471	38,316
H. Nonenvironmental Disposal Liabilities:				
(1) ND PP&E (Nonnuclear)	586,316	1,709	588,025	0
(2) Excess/Obsolete Structures	35,000	82,000	117,000	77,500
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable—Cancelled Appropriations	0	0	0	1,823
J. Accrued Unfunded Annual Leave	1,768,195	0	1,768,195	1,632,522

	2001		2000	
	Current Liability	Noncurrent Liability	Total	Total
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	10,134	0	10,134	7,413
M. Other Liabilities	77,654	51,226	128,880	123,268
N. Total Nonfederal Other Liabilities	\$ 3,475,964	\$ 134,935	\$ 3,610,899	\$ 2,078,680
<b>3. Total Other Liabilities:</b>	\$ 4,225,160	\$ 451,924	\$ 4,677,084	\$ 3,649,151

**Deposit Funds and Suspense Accounts.** Deposit Funds and Suspense Account balances decreased \$369,117 thousand from FY 2000 to FY 2001. Factors contributing to the changes were decreases in receipt account collections, recoveries of Foreign Military Sales, and a decrease in other suspense accounts.

**Intragovernmental Reconciliations for Fiduciary Transactions with the DOL and the OPM.** With respect to the major fiduciary balances the DON was able to reconcile with the OPM and the DOL. In FY 2001, DON reported \$31,887 thousand of employer contributions of employment benefit in other liability. It is comprised of \$22,336 thousand for employer contribution and \$9,551 thousand for the Voluntary Separation Incentive liabilities. No material differences were identified during the reconciliation.

**Judgment Fund.** In FY 2001, DON made great strides in reconciling and identifying outstanding liability due to the Department of the Treasury Judgment Fund. As of 30 September 2001 the DON identified \$135,716 thousand of outstanding Judgment Fund liability. The DON is working closely with the Treasury to reconcile and to resolve the outstanding liabilities.

**Accrued Funded Payroll and Benefits.** Accrued Funded Payroll and Benefits increased by \$788,356 thousand from FY 2000 to FY 2001 due to the September 2001 month end Military payroll being paid in October 2001.

**Nonenvironmental Disposal Liabilities for ND PP&E (Non-nuclear Assets).** In FY 2000 an aircraft disposal liability of \$36,587 thousand was incorrectly categorized as an environmental liability when it should have been recognized as a non-environmental disposal liability. After further investigation and meeting with the Department of Defense Comptroller, Acquisition Technology and Logistics (OUSD(C), AT&L) and Aerospace Maintenance Regeneration Center (AMARC), it was determined that the disposal liability for aircraft is composed of only non-environmental costs. Based on the DoD FMR, Volume 6B Chapter 10, the DON is now properly recording the non-environmental portion of conventional disposal liabilities. The aircraft component of the non-environmental liability is \$2,000 thousand. Additionally, the DON has a potential liability of \$4,200 thousand for the number of aircraft, which have a potential for disposal, but a formal

## NOTES TO THE PRINCIPAL STATEMENTS

management decision for disposal has not been made as of 30 September 2001. For FY 2000 reporting, the DON used all aircraft that met the definition of Category 5 per OPNAVINST 5442.8, "Management of the Naval Aircraft Inventory", of 18 April 1995 which includes all aircraft that have a potential for disposal. Category 5 type aircraft are aircraft that have been stricken awaiting final reclamation or disposition. After further investigation and discussion with OUSD(C), AT&L and AMARC, the DON is only recognizing the number of aircraft that management has made a final decision for disposal reported in FY 2001. The DON is currently investigating the total number of aircraft that have been stricken but are not at AMARC to determine if there could be an additional potential disposal liability.

In FY 2001, the calculation methodology for conventional warship scrapping changed to meet the requirements of the DoD FMR Volume 6B Chapter 10. Also, the inventory of inactive ships was adjusted upwards from the prior year. This has resulted in a total disposal liability of \$781,000 thousand, of which \$586,000 thousand is recognized as non-environmental. The remaining portion is recognized as an environmental liability in Note 14. In FY 2000, the total disposal liability was \$295,000 thousand and reported entirely as an environmental liability.

**Nonenvironmental Disposal Liabilities for Excess/Obsolete Structures.** For FY 2001, the DON reported non-environmental disposal liability for the preliminary cost estimate for completing the disposal or demolition of excess and or obsolete real property and structures at active installations. Included in the reported amounts is the current cost basis estimates of disposing of, or demolishing, approximately \$117,000 thousand worth of excess/obsolete structures at active installations, per disposal plans directed by Defense Reform Initiative Directive (DRID) 36, dated 5 May 1998. The expected completion date is FY 2003. This target includes both the Navy and the Marine Corps real property assets.

**Other Nonfederal Liabilities.** Other Nonfederal Liabilities includes contract incentives of \$63,239 thousand and contract holdbacks of \$65,641 thousand.

**NOTE 15.B. CAPITAL LEASE LIABILITY**

**As of September 30, 2001**

(Amounts in Thousands)

	2001				2000
	Land and Buildings	Equipment	Other	Total	Total
<b>1. Future Payments Due:</b>					
A. 2002	\$ 0	\$ 7,309	\$ 0	\$ 7,309	\$ 7,413
B. 2003	0	2,184	0	2,184	0
C. 2004	0	641	0	641	0
D. 2005	0	0	0	0	0
E. 2006	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 10,134	\$ 0	\$ 10,134	\$ 7,413
H. Less: Imputed Interest Executory Costs	0	0	0	0	0
I. Net Capital Lease Liability	\$ 0	\$ 10,134	\$ 0	\$ 10,134	\$ 7,413
<b>2. Capital Lease Liabilities Covered by Budgetary Resources:</b>				\$ 10,134	\$ 7,413
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources:</b>				\$ 0	\$ 0

**Other Information.** The liabilities associated with capital leases are captured in legacy systems and are often not recorded. The DON has recognized a liability equal to the net value of the assets (i.e. gross value less accumulated amortization) for those Commands who were unable to identify the liability. The resulting liability was recorded as a payment due in FY 2002. The proper breakout of future payments to appropriate years will be done when a process for capturing lease liabilities is implemented.

**NOTE 16. COMMITMENTS AND CONTINGENCIES**

For FY 2001, the DON is subject to various asserted claims. These claims are in various stages ranging from investigation to appeal. While remaining unresolved as of the close of FY 2001, prior experience affords the DON the ability to forecast the possible loss associated with the claims. It is to be noted that most claims are settled for less than the amount initially claimed, dismissed outright, or fail to materialize. As of 30 September 2001, contingent liabilities consist of an estimated \$207,000 thousand resulting from contractual actions; \$66,000 thousand for tax related issues; \$5,000 thousand for damage to personal effects; and approximately \$5,000 thousand for employee related actions.

The Department of the Navy Litigation Office has thirteen litigation cases, claims, assessments, or contingencies in excess of \$40 million. These cases are in the early stages of discovery to appeal. The DON Judge Advocate General has a group of cases that has the potential collective loss that could exceed \$100 million.

## NOTES TO THE PRINCIPAL STATEMENTS

### NOTE 17. MILITARY RETIREMENT BENEFITS AND OTHER EMPLOYMENT RELATED ACTUARIAL LIABILITIES

As of September 30, 2001

			2001		2000
	Actuarial Present Value of Projected Plan Benefits	Assumed 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	0.00%	\$ 0	\$ 0	\$ 0
B. Military Retirement Health Benefits	0	0.00%	0	0	0
C. Total Pension and Health Benefits	\$ 0		\$ 0	\$ 0	\$ 0
<b>2. Other:</b>					
A. Workmen s Compensation (FECA)	\$ 1,595,890	5.21%	\$ 0	\$ 1,595,890	\$ 1,441,520
B. Voluntary Separation Incentive Programs	0	0.00%	0	0	
C. DoD Education Benefits Fund	0	0.00%	0	0	
D. Other	0	0.00%	0	0	
E. Total Other	\$ 1,595,890		\$ 0	\$ 1,595,890	\$ 1,441,520
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities</b>					
	\$ 1,595,890		\$ 0	\$ 1,595,890	\$ 1,441,520

**Reporting of Military Retirement Benefits by MRF.** The portion of the military retirement benefits actual liability applicable to the DON is reported on the financial statements of the Military Retirement Fund.

**Reporting of Liability Pertaining to Military Health Benefits Compensation.** Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to the DON is reported only on the DoD Agency-wide financial statements.

**Liability Pertaining to Federal Employees Compensation Act (FECA).** The DON's actuarial liability for workers' compensation benefits is developed by the DoL and provided to the DON at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are

then discounted to the present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

**FY 2001**

- 5.21% in year 1
- 5.21% in year 2 and thereafter

Inflation factors were applied to provide more specifically the effects of inflation on the liability for future workers' compensation benefits. Cost of living adjustments (COLAs) were used as a wage inflation factor and consumer price index medical (CPIMs) were used as medical inflation factors. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

<b><u>CBY</u></b>	<b><u>COLA</u></b>	<b><u>CPIM</u></b>
2001	3.33%	4.44%
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

The estimate was allocated between General Fund and Navy Working Capital Fund using a percentage based on the number of civilian employees taken from the Navy Budget Tracking System. The following table details the numbers used in support of the DON allocation:

	<b><u>Personnel</u></b>	<b><u>Allocation %</u></b>
DON General Fund	104,672	54%
DON Working Capital Fund	89,212	46%
<b>Total</b>	<b>193,884</b>	<b>100%</b>

**NOTE 18. UNEXPENDED APPROPRIATIONS**

**As of September 30, 2001**

(Amounts in Thousands)

	2001	2000
<b>1. Unexpended Appropriations:</b>		
A. Unobligated, Available	\$ 12,391,407	\$ 12,144,961
B. Unobligated, Unavailable	1,444,855	7,669,855
C. Unexpended Obligations	48,146,256	45,087,856
D. Total Unexpended Appropriations	<u>\$ 61,982,518</u>	<u>\$ 64,902,672</u>

**Other Information Pertaining to Unexpended Appropriations.** Unexpended obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for Direct Appropriated funds. This amount is distinct from Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received reported on the Statement of Financing, which includes the change during the fiscal year in unexpended obligations against budget authority from all sources.

**NOTE 19.A. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST**

The amounts presented in the Statement of Net Cost are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The DON generally records transactions on a cash basis and not an accrual basis as is required by generally accepted accounting principles. Therefore, the DON's systems do not capture actual costs. As such, information presented in the Statement of Net Cost is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems and adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

**NOTE 19.B. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION**

Not Applicable.

GENERAL FUND



**NOTE 19.C. GROSS COST TO GENERATE INTRAGOVERNMENTAL REVENUE AND EARNED REVENUE (TRANSACTIONS WITH OTHER FEDERAL-NON-DOD-ENTITIES) BY BUDGET FUNCTIONAL CLASSIFICATION**

Not applicable.

**NOTE 19.D. IMPUTED EXPENSES**

**As of September 30, 2001**

(Amounts in thousands)

	2001	2000
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 186,162	\$ 168,327
2. Civilian Health	244,331	227,142
3. Civilian Life Insurance	835	1,036
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund/Litigation	59,130	41,357
7. Total Imputed Expenses	\$ 490,458	\$ 437,862

The DON financial statements have recognized an imputed expense for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed expenses for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

### **NOTE 19.E. BENEFIT PROGRAM EXPENSES**

Not Applicable.

### **NOTE 19.F. EXCHANGE REVENUE**

Not Applicable.

### **NOTE 19.G. AMOUNTS FOR FOREIGN MILITARY SALES (FMS) PROGRAM PROCUREMENTS FROM CONTRACTORS**

Not Applicable.

### **NOTE 19.H. STEWARDSHIP ASSETS**

Stewardship assets include National Defense PP&E, Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The current year cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost. Material yearly investment amounts related to Research and Development are provided in the Required Supplementary Stewardship Information section of this financial statement.

### **NOTE 19.I. INTRAGOVERNMENTAL REVENUE AND EXPENSE**

Intragovernmental Revenue. The DON's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DON was unable to reconcile intragovernmental revenue balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished with the existing or foreseeable resources.

### **NOTE 19.J. SUBORGANIZATION PROGRAM COSTS**

Not Applicable.

**NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION**

**As of September 30, 2001**

(Amounts in thousands)

	2001	2000
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:</b>		
A. Changes in Accounting Standards	\$ 24,765,804	\$ 0
B. Errors and Omissions in Prior Year Accounting Reports	8,693,901	33,755,587
C. Other Prior Period Adjustments	(1,618,046)	4,690,028
D. Total Prior Period Adjustments	<u>\$ 31,841,659</u>	<u>\$ 38,445,615</u>
<b>2. Imputed Financing:</b>		
A. Civilian CSRS/FERS Retirement	\$ 186,162	\$ 168,327
B. Civilian Health	244,331	227,142
C. Civilian Life Insurance	835	1,036
D. Military Retirement Pension	0	0
E. Military Retirement Health	0	0
F. Judgement Fund/Litigation	59,130	41,357
G. Total Imputed Financing	<u>\$ 490,458</u>	<u>\$ 437,862</u>

**Prior Period Adjustments.** The following table exhibits the composition of Prior Period Adjustments:

(Amounts in thousands)

	FY 2001
Ammunition	\$ 24,765,804
Environmental Cleanup	(736,759)
Property, Plant and Equipment	(386,964)
Operating Materials and Supplies	(396,543)
Correction of Prior Period Errors:	
Progress payment, Travel Advance, A/R	8,396,504
Cancel A/P and A/R	284,875
Miscellaneous	(85,258)
Total	<u>\$ 31,841,659</u>

Changes in Accounting Standards of \$24,765,804 thousand are primarily the result of partial implementation of the ND PP&E Federal Accounting Standard exposure draft. Additional disclosure related to this change is included in Note 9B.

## NOTES TO THE PRINCIPAL STATEMENTS

**Imputed Financing.** The DON financial statements have recognized an imputed financing source for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed financing sources for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

**Judgment Fund.** Treasury provided information related to amounts paid for Judgment Fund liabilities on behalf of the DON, which the DON may or may not be required to repay. Judgment Fund payments made out of the following Treasury appropriations do not require reimbursement, and therefore represent imputed financing to the DON: 20X1740, 20X1741, and 20X1742. Only those payments made from Treasury appropriation 20X1743 are required to be repaid by the DON.

### NOTE 21.A. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

#### As of September 30, 2001

(Amounts in thousands)

	2001	2000
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 50,965,920	\$ 47,610,754
2. Available Borrowing and Contract Authority at the End of the Period	0	0

**Other Information.** Due to accounting system deficiencies, intragovernmental transactions were not eliminated for the presentation of a Consolidated Statement of Budgetary Resources (SBR). As a result a Disaggregated SBR is presented in the Required Supplementary Information (RSI) section of the Statements.

The Unexpended Obligations and Undelivered Orders presented in the DON's SBR includes both Direct and Reimbursable funds. 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 "Spending Authority From Offsetting Collections and Adjustments," line of the SBR, or the "Spending Authority From Offsetting Collections and Adjustments," line of the Statement of Financing.

In FY2001, DoD treated Foreign Military Sales (FMS) Trust Fund transactions as nonfederal, and are presented as such in the Balance Sheet (BS) and the Statement of Net Cost. Accounts Receivable and Revenues related to FMS are recognized in the SBR. Therefore, reconciling differences exist between the SBR and the BS. OUSD(C) Accounting Policy is currently researching the issue to determine the proper treatment of FMS Trust Fund transactions to ensure proper reporting.

**NOTE 21.B. DISCLOSURES RELATED TO PROBLEM DISBURSEMENTS, IN-TRANSIT DISBURSEMENTS AND SUSPENSE/BUDGET CLEARING ACCOUNTS**

**As of September 30, 2001**

(Amounts in thousands)

	2000	2001	(Decrease)/Increase
<b>1. Problem Disbursements</b>	\$ 1,281,000	\$ 332,000	\$ (949,000)
<b>2. In-transit Disbursements, Net</b>	\$ 530,000	\$ 65,256	\$ (464,744)

**Other Information Related to Problem Disbursements and In-transit Disbursements.** Problem Disbursements amounts shown in the table above are net figures.

The following table presents aged unmatched disbursements, negative unliquidated obligations, and in-transit disbursements as of 30 September 2001 for the DON, including Foreign Military Sales:

(Amounts in thousands)

Aging	In-Transit Disbursements	Unmatched Disbursements (UMD's)	Negative Unliquidated Obligations (NULO's)
0-30 Days	\$ 747,453	\$ 98,000	\$ 3,000
31-60 Days	727,243	53,000	15,000
61-120 Days	79,790	50,000	8,000
121-180 Days	50,601	31,000	6,000
181-360 Days	10,589	53,000	8,000
Over 360 Days	152,437	81,000	29,000
Total - Absolute	\$ 1,768,113	\$ 366,000	\$ 69,000
Total - Net	\$ 65,256	\$ 261,000	\$ 71,000

Problem Disbursements generally fall into two major categories — Unmatched Disbursements (UMDs) and Negative Unliquidated Obligations (NULOs). An UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. A NULO occurs when a payment is made against a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. In-Transit Disbursements generally represent payments made by a DON disbursing activity on behalf of an accountable activity that has not posted the disbursement to the accounting system.

## NOTES TO THE PRINCIPAL STATEMENTS

The Problem Disbursements and In-Transit Disbursements arise when the DON's various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. The DON has efforts underway to improve the systems and to resolve all previous Problem Disbursements and process all In-Transit Disbursements. The elimination of both Problem Disbursements and aged in-transits is one of the highest financial management priorities 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 of 30 September 2001, these efforts resulted in a decrease (absolute) of \$86,887 thousand in In-Transit Disbursements, a decrease (absolute) of \$508,000 thousand in UMD's and a decrease (absolute) of \$649,000 thousand in NULO's over the balances reported as of 30 September 2000.

#### 4. Suspense/Budget Clearing Accounts

Account	Sep 2000	Sep 2001	(Decrease)/Increase
F3875	\$ 246,619	\$ 219,762	\$ (26,857)
F3880	2,118	1,749	(369)
F3885	566,223	812,222	245,999
F3886	47	(1)	(48)
Total	\$ 815,007	\$ 1,033,732	\$ 218,725

**Other Information Related to Suspense/Budget Clearing Accounts.** The DON has made a concerted effort to reduce balances in the suspense budget clearing accounts related to disbursements that are disclosed as Suspense/Budget Clearing Accounts in this Note. Additionally, the DON is establishing policies and procedures to ensure accurate and consistent use of these accounts. The information presented indicates the significant reductions the DON has achieved in the various suspense/budget clearing accounts.

The suspense accounts F3875/3885/3886 temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation. Each suspense account represents the source of transaction coming from, i.e. Disbursing Officer's (DO) suspense (F3875), Interfund/OPAC (F3885), and Payroll (TSP) (F3886) suspense. DFAS-CL has implemented several initiatives to improve the suspense clearing process and works with DOs to reduce suspense. Matching criteria are currently being developed that will automate the manual process now used to clear Interfund transactions from suspense. These initiatives should result in reduced suspense balances at year end. The suspense F3880 represents the Treasury checks that have either been lost by the payee and need reissued or never cashed by the payee, cancelled by Treasury and require to be transferred to the original appropriation in accordance to the DoD FMR, Volume 5, Chapter 8.

As of 30 September fiscal year end, per the Department of Treasury requirement, all uncleared suspense/budget clearing account balances were transferred to appropriation accounts. The suspense/budget clearing account balances are reinstated at the beginning of the following fiscal year.

## **NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING**

The Statement of Financing is presented as combined or combining statements rather than consolidated statements due to intragovernmental transactions not being eliminated. 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 Statement of Budgetary Resources), are not included in "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or on the Statement of Financing.

## **NOTE 23. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY**

Not Applicable.



**NOTE 24. OTHER DISCLOSURES**

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

**A. Description of lease arrangements:**

*Asset Category 1* represents land and buildings and consists primarily of overseas family housing, administrative offices, service centers and warehouses.

*Asset Category 2* represents leased equipment, such as vehicle rentals and runway equipment.

*Asset Category 3* represents other assets and consists primarily of generators and maintenance equipment.

**As of September 30, 2001**

(Amounts in thousands)

	2001				2000
<b>B. Future Payments Due:</b>	<b>Asset</b>	<b>Asset</b>	<b>Asset</b>	<b>Total</b>	<b>Total</b>
<b>Fiscal Year</b>	<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>		
2002	\$ 11,031	\$ 10	\$ 96	\$ 11,137	\$ 0
2003	12,321	10	189	12,520	0
2004	15,325	207	166	15,698	0
2005	12,943	214	150	13,307	0
2006	10,874	220	155	11,249	0
After 5 Years	0	0	0	0	0
<b>Total Future Lease Payments Due</b>	<b>\$ 62,494</b>	<b>\$ 661</b>	<b>\$ 756</b>	<b>\$ 63,911</b>	<b>\$ 0</b>

**2. Entity as Lessor:**

A. Capital Leases:

1. Description of lease arrangements:
2. Future Projected Receipts,

Capital Leases:

Fiscal Year	2001				2000
	Asset Category 1	Asset Category 2	Asset Category 3	Total	Total
2002	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2003	0	0	0	0	0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
After 5 Years					
Total Future Capital Lease Receivables	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

**As of September 30, 2001**

(Amounts in thousands)

**B. Operating Leases:**

1. Description of lease arrangements:
2. Future Projected Receipts:

Fiscal Year	2001				2000
	Asset Category 1	Asset Category 2	Asset Category 3	Total	
2002	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2003	0	0	0	0	0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
After 5 Years	0	0	0	0	0
Total Future Operating Leases Receivables	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

**NOTE 24.A. OTHER DISCLOSURES**

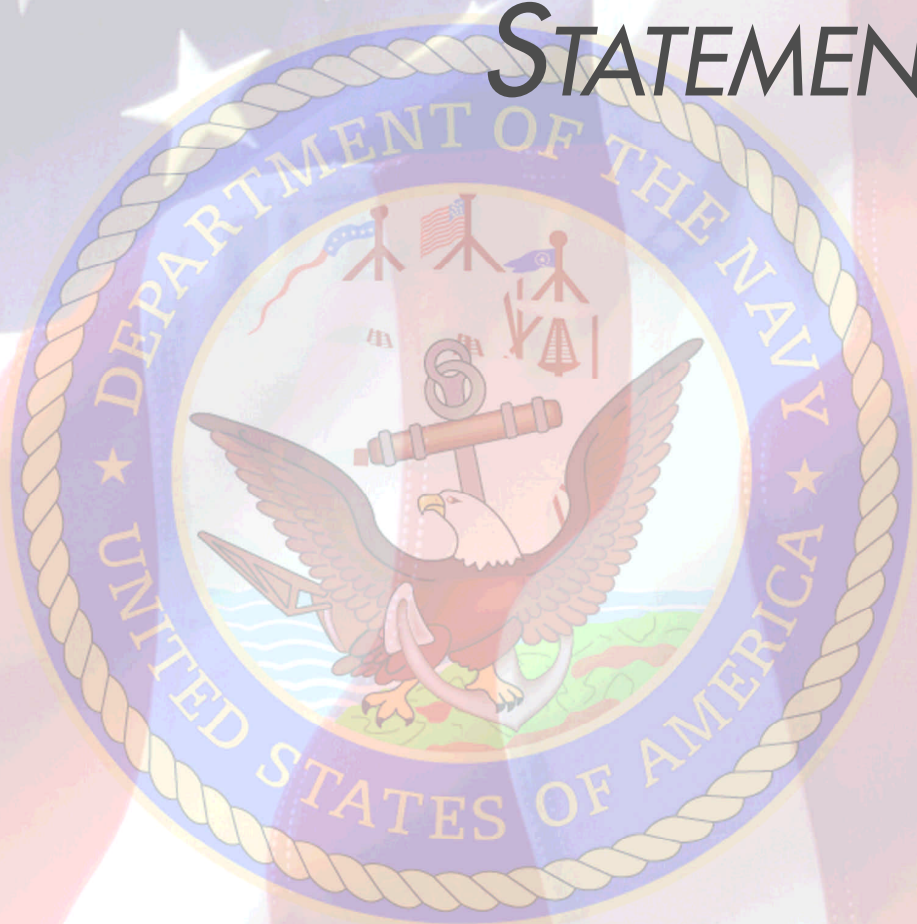
Not Applicable.





DEPARTMENT OF THE NAVY

# GENERAL FUND SUPPORTING CONSOLIDATING/COMBINING STATEMENTS



# DEPARTMENT OF THE NAVY

## Department of Defense Department of the Navy

### CONSOLIDATING BALANCE SHEET

As of September 30, 2001

(\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>2001 Combined</u>	<u>Eliminations</u>	<u>2001 Consolidated</u>	<u>2000 Consolidated</u>
<b>Assets (Note 2)</b>						
Intragovernmental:						
Fund Balance with Treasury (Note 3)	\$ 62,911,372	\$ 3,427,607	\$ 66,338,979	\$ 0	\$ 66,338,979	\$ 62,547,052
Investments (Note 4)	9,517	0	9,517	0	9,517	10,539
Accounts Receivable (Note 5)	1,020,346	59,604	1,079,950	37,136	1,042,814	1,221,608
Other Assets (Note 6)	47,167	3	47,170	0	47,170	157,582
<b>Total Intragovernmental Assets</b>	<b>\$ 63,988,402</b>	<b>\$ 3,487,214</b>	<b>\$ 67,475,616</b>	<b>\$ 37,136</b>	<b>\$ 67,438,480</b>	<b>\$ 63,936,781</b>
Cash and Other Monetary Assets (Note 7)	\$ 158,265	\$ 2,324	\$ 160,589	\$ 0	\$ 160,589	\$ 134,783
Accounts Receivable (Note 5)	1,525,982	156,248	1,682,230	0	1,682,230	1,437,164
Loans Receivable (Note 8)	0	0	0	0	0	0
Inventory and Related Property (Note 9)	60,493,863	567,690	61,061,553	0	61,061,553	38,189,438
General Property, Plant and Equipment (Note 10)	20,559,606	4,401,881	24,961,487	0	24,961,487	25,485,691
Other Assets (Note 6)	6,034,549	22,283	6,056,832	0	6,056,832	4,201,524
<b>Total Assets</b>	<b>\$ 152,760,667</b>	<b>\$ 8,637,640</b>	<b>\$ 161,398,307</b>	<b>\$ 37,136</b>	<b>\$ 161,361,171</b>	<b>\$ 133,385,381</b>
<b>Liabilities (Note 11)</b>						
Intragovernmental:						
Accounts Payable (Note 12)	\$ 951,326	\$ 88,092	\$ 1,039,418	\$ 37,136	\$ 1,002,282	\$ 804,072
Debt (Note 13)	42	19	61	0	61	56
Environmental Liabilities (Note 14)	0	0	0	0	0	0
Other Liabilities (Note 15 & Note 16)	1,007,159	59,026	1,066,185	0	1,066,185	1,570,471
<b>Total Intragovernmental Liabilities</b>	<b>\$ 1,958,527</b>	<b>\$ 147,137</b>	<b>\$ 2,105,664</b>	<b>\$ 37,136</b>	<b>\$ 2,068,528</b>	<b>\$ 2,374,599</b>
Accounts Payable (Note 12)	\$ 1,471,163	\$ 603,863	\$ 2,075,026	\$ 0	\$ 2,075,026	\$ 2,705,842
Military Retirement Benefits and Other						
Employment Actuarial Liabilities (Note 17)	1,379,809	216,081	1,595,890	0	1,595,890	1,441,520
Environmental Liabilities (Note 14)	15,584,458	0	15,584,458	0	15,584,458	16,065,888
Loan Guarantee Liability (Note 8)	0	0	0	0	0	0
Other Liabilities (Note 15 and Note 16)	3,264,228	346,671	3,610,899	0	3,610,899	2,078,680
<b>TOTAL LIABILITIES</b>	<b>\$ 23,658,185</b>	<b>\$ 1,313,752</b>	<b>\$ 24,971,937</b>	<b>\$ 37,136</b>	<b>\$ 24,934,801</b>	<b>\$ 24,666,529</b>
<b>NET POSITION</b>						
Unexpended Appropriations (Note 18)	\$ 59,019,439	\$ 2,963,079	\$ 61,982,518	\$ 0	\$ 61,982,518	\$ 64,902,672
Cumulative Results of Operations	70,083,043	4,360,809	74,443,852	0	74,443,852	43,816,180
<b>TOTAL NET POSITION</b>	<b>\$ 129,102,482</b>	<b>\$ 7,323,888</b>	<b>\$ 136,426,370</b>	<b>\$ 0</b>	<b>\$ 136,426,370</b>	<b>108,718,852</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 152,760,667</b>	<b>\$ 8,637,640</b>	<b>\$ 161,398,307</b>	<b>\$ 37,136</b>	<b>\$ 161,361,171</b>	<b>\$ 133,385,381</b>

The accompanying notes are an integral part of these statements.

# SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

**Department of Defense  
Department of the Navy  
CONSOLIDATING STATEMENT OF NET COST  
As of September 30, 2001  
(\$ in Thousands)**

Program Costs	<u>Navy</u>	<u>Marine Corps</u>	<u>2001 Combined</u>	<u>Eliminations</u>	<u>2001 Consolidated</u>	<u>2000 Consolidated</u>
<b>A. Military Personnel</b>						
Intragovernmental	\$ 3,204,652	\$ 1,244,999	\$ 4,449,651	\$ 2	\$ 4,449,649	\$ 4,715,476
With the Public	16,776,942	5,762,301	22,539,243	0	22,539,243	21,420,070
Total Program Cost	\$ 19,981,594	\$ 7,007,300	\$ 26,988,894	\$ 2	\$ 26,988,892	\$ 26,135,546
(Less: Earned Revenue)	(241,019)	(14,856)	(255,875)	(112)	(255,763)	(273,379)
Net Program Costs	\$ 19,740,575	\$ 6,992,444	\$ 26,733,019	\$ (110)	\$ 26,733,129	\$ 25,862,167
<b>B. Operation and Maintenance</b>						
Intragovernmental	\$ 15,452,426	\$ 1,335,753	\$ 16,788,179	\$ 243,704	\$ 16,544,475	\$ 14,273,144
With the Public	17,510,456	1,889,630	19,400,086	0	19,400,086	23,580,335
Total Program Cost	\$ 32,962,882	\$ 3,225,383	\$ 36,188,265	\$ 243,704	\$ 35,944,561	\$ 37,853,479
(Less: Earned Revenue)	(1,958,327)	(476,934)	(2,435,261)	(255,756)	(2,179,505)	(2,011,418)
Net Program Costs	\$ 31,004,555	\$ 2,748,449	\$ 33,753,004	\$ (12,052)	\$ 33,765,056	\$ 35,842,061
<b>C. Procurement</b>						
Intragovernmental	\$ 3,377,108	\$ 51,921	\$ 3,429,029	\$ 532	\$ 3,428,497	\$ 1,816,763
With the Public	21,246,316	1,292,008	22,538,324	0	22,538,324	22,398,799
Total Program Cost	\$ 24,623,424	\$ 1,343,929	\$ 25,967,353	\$ 532	\$ 25,966,821	\$ 24,215,562
(Less: Earned Revenue)	(803,367)	0	(803,367)	0	(803,367)	(789,562)
Net Program Costs	\$ 23,820,057	\$ 1,343,929	\$ 25,163,986	\$ 532	\$ 25,163,454	\$ 23,426,000
<b>D. Research, Development, Test &amp; Evaluation</b>						
Intragovernmental	\$ 2,425,775	\$ 0	\$ 2,425,775	\$ 12,531	\$ 2,413,244	\$ 1,048,353
With the Public	7,160,451	0	7,160,451	0	7,160,451	7,817,762
Total Program Cost	\$ 9,586,226	\$ 0	\$ 9,586,226	\$ 12,531	\$ 9,573,695	\$ 8,866,115
(Less: Earned Revenue)	(104,965)	0	(104,965)	(943)	(104,022)	(86,716)
Net Program Costs	\$ 9,481,261	\$ 0	\$ 9,481,261	\$ 11,588	\$ 9,469,673	\$ 8,779,399

The accompanying notes are an integral part of these statements.

# DEPARTMENT OF THE NAVY

## Department of Defense Department of the Navy CONSOLIDATING STATEMENT OF NET COST As of September 30, 2001 (\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>2001 Combined</u>	<u>Eliminations</u>	<u>2001 Consolidated</u>	<u>2000 Consolidated</u>
<b>E. Military Construction/Family Housing</b>						
Intragovernmental	\$ 68,783	\$ 0	\$ 68,783	\$ 42	\$ 68,741	\$ 71,338
With the Public	357,946	0	357,946	0	357,946	808,517
Total Program Cost	\$ 426,729	\$ 0	\$ 426,729	\$ 42	\$ 426,687	\$ 879,855
(Less: Earned Revenue)	(323,549)	0	(323,549)	0	(323,549)	(323,333)
Net Program Costs	\$ 103,180	\$ 0	\$ 103,180	\$ 42	\$ 103,138	\$ 556,522
<b>F. Other</b>						
Intragovernmental	\$ 47,806	\$ 0	\$ 47,806	\$ 0	\$ 47,806	\$ 14,978
With the Public	48,565	0	48,565	0	48,565	72,129
Total Program Cost	\$ 96,371	\$ 0	\$ 96,371	\$ 0	\$ 96,371	\$ 87,107
(Less: Earned Revenue)	(22,039)	0	(22,039)	0	(22,039)	(31,394)
Net Program Costs	\$ 74,332	\$ 0	\$ 74,332	\$ 0	\$ 74,332	\$ 55,713
<b>G. Total Program Costs</b>						
Intragovernmental	\$ 24,576,550	\$ 2,632,673	\$ 27,209,223	\$ 256,811	\$ 26,952,412	\$ 21,940,052
With the Public	63,100,676	8,943,939	72,044,615	0	72,044,615	76,097,612
Total Program Cost	\$ 87,677,226	\$ 11,576,612	\$ 99,253,838	\$ 256,811	\$ 98,997,027	\$ 98,037,664
(Less: Earned Revenue)	(3,453,266)	(491,790)	(3,945,056)	(256,811)	(3,688,245)	(3,515,802)
Net Program Costs	\$ 84,223,960	\$ 11,084,822	\$ 95,308,782	\$ 0	\$ 95,308,782	\$ 94,521,862
<b>Costs Not Assigned to Programs (Less: Earned Revenue not attributable to Programs)</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Net Costs of Operations</b>	\$ 84,223,960	\$ 11,084,822	\$ 95,308,782	\$ 0	\$ 95,308,782	\$ 94,521,862

The accompanying notes are an integral part of these statements.



## SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

**Department of Defense  
Department of the Navy  
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION  
As of September 30, 2001**  
(\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>2001 Combined</u>	<u>Eliminations</u>	<u>2001 Consolidated</u>	<u>2000 Consolidated</u>
<b>Net Cost of Operations</b>	\$ 84,223,960	\$ 11,084,822	\$ 95,308,782	\$ 0	\$ 95,308,782	\$ 94,521,866
<b>Financing Sources (other than exchange revenues)</b>						
Appropriations Used	82,308,828	10,936,738	93,245,566	0	93,245,566	93,160,110
Taxes and Other Nonexchange Revenue	0	0	0	0	0	0
Donations - Nonexchange Revenue	0	0	0	0	0	0
Imputed Financing (Note 20)	433,405	57,053	490,458	0	490,458	437,862
Transfers - in	353,525	5,569	359,094	0	359,094	468,218
Transfers - out	(325)	0	(325)	0	(325)	0
Other	0	0	0	0	0	0
Total Financing Sources (other than Exchange Revenue)	\$ 83,095,433	\$ 10,999,360	\$ 94,094,793	\$ 0	94,094,793	94,066,190
<b>Net Results of Operations</b>	\$ (1,128,527)	\$ (85,462)	\$ (1,213,989)	\$ 0	\$ (1,213,989)	\$ (455,676)
<b>Prior Period Adjustments (Note 20)</b>	31,365,657	476,002	31,841,659	0	31,841,659	38,445,615
<b>Net Change in Cumulative Results of Operations</b>	\$ 30,237,130	\$ 390,540	\$ 30,627,670	\$ 0	\$ 30,627,670	\$ 37,989,939
<b>Increase (Decrease) in Unexpended Appropriations</b>	(3,417,688)	497,534	(2,920,154)	0	(2,920,154)	(683,772)
<b>Change in Net Position</b>	\$ 26,819,442	\$ 888,074	\$ 27,707,516	\$ 0	\$ 27,707,516	\$ 37,306,167
<b>Net Position-Beginning of the Period</b>	102,283,040	6,435,814	108,718,854	0	108,718,854	71,412,687
<b>Net Position-End of the Period</b>	\$ 129,102,482	\$ 7,323,888	\$ 136,426,370	\$ 0	\$ 136,426,370	\$108,718,854

The accompanying notes are an integral part of these statements.

# DEPARTMENT OF THE NAVY

**Department of Defense  
Department of the Navy  
COMBINING STATEMENT OF BUDGETARY RESOURCES  
As of September 30, 2001**  
(\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>2001 Combined</u>	<u>2000 Combined</u>
<b>Budgetary Resources</b>				
Budget Authority	\$ 83,680,280	\$ 11,555,474	\$ 95,235,754	\$ 89,318,717
Unobligated Balance - Beginning of Period	13,051,621	572,462	13,624,083	12,185,512
Net Transfers Prior - Year Balance, Actual	343,385	22,338	365,723	70,392
Spending Authority from Offsetting Collections	5,132,760	464,200	5,596,960	5,449,884
Adjustments	1,245,202	258,479	1,503,681	369,012
<b>Total Budgetary Resources</b>	<b>\$ 103,453,248</b>	<b>\$ 12,872,953</b>	<b>\$ 116,326,201</b>	<b>\$ 107,393,517</b>
<b>Status of Budgetary Resources</b>				
Obligations Incurred	\$ 90,068,311	\$ 12,421,628	\$ 102,489,939	\$ 93,769,433
Unobligated Balances - Available	12,044,086	347,321	12,391,407	12,141,968
Unobligated Balances - Not Available	1,340,851	104,004	1,444,855	1,482,116
<b>Total, Status of Budgetary Resources</b>	<b>\$ 103,453,248</b>	<b>\$ 12,872,953</b>	<b>\$ 116,326,201</b>	<b>\$ 107,393,517</b>
<b>Outlays</b>				
Obligations Incurred	\$ 90,068,311	\$ 12,421,628	\$ 102,489,939	\$ 93,769,433
Less: Spending Authority from Offsetting Collections and Adjustments	(8,020,547)	(854,011)	(8,874,558)	(7,956,973)
Obligated Balance, Net - Beginning of Period	45,749,980	2,635,618	48,385,598	50,425,879
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net - End of Period	(49,357,260)	(2,976,282)	(52,333,542)	(48,385,598)
<b>Total Outlays</b>	<b>\$ 78,440,484</b>	<b>\$ 11,226,953</b>	<b>\$ 89,667,437</b>	<b>\$ 87,852,741</b>

The accompanying notes are an integral part of these statements.

## SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

**Department of Defense  
Department of the Navy  
COMBINING STATEMENT OF FINANCING  
As of September 30, 2001**  
(\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>2001 Combined</u>	<u>2000 Combined</u>
<b>Obligations and Nonbudgetary Resources:</b>				
Obligations Incurred	\$ 90,068,311	\$ 12,421,628	\$ 102,489,939	\$ 93,769,433
Less: Spending Authority from Offsetting Collections and Adjustments	(8,020,547)	(854,011)	(8,874,558)	(7,956,973)
Donations Not in the Entity's Subsidies	0	0	0	0
Financing Imputed for Cost Subsidies	433,405	57,053	490,458	437,862
Transfers-In (Out)	353,201	0	353,201	0
Less: Exchange Revenue Not in the Entity's Budget	(22,039)	0	(22,039)	(31,394)
Nonexchange Revenue Not in the Entity's Budget	0	0	0	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0	0
Other	0	0	0	0
Total Obligations as Adjusted and Nonbudgetary Resources	<u>\$ 82,812,331</u>	<u>\$ 11,624,670</u>	<u>\$ 94,437,001</u>	<u>\$ 86,218,928</u>
<b>Resources that Do Not Fund Net Cost of Operations:</b>				
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	\$ 322,732	\$ (464,760)	\$ (142,028)	\$ 7,011,290
Change in Unfilled Customer Orders	(37,007)	(160,550)	(197,557)	221,395
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(656,355)	0	(656,355)	(270,174)
Financing Sources that Fund Costs of Prior Periods	0	(65,407)	(65,407)	(52,431)
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
Other - (Increases)/Decreases	0	0	0	22,689
Total Resources That Do Not Fund Net Costs of Operations	<u>\$ (370,630)</u>	<u>\$ (690,717)</u>	<u>\$ (1,061,347)</u>	<u>\$ 6,932,769</u>

The accompanying notes are an integral part of these statements.

**Department of Defense  
Department of the Navy  
COMBINING STATEMENT OF FINANCING  
As of September 30, 2001**  
(\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>2001 Combined</u>	<u>2000 Combined</u>
<b>Components of Costs of Operations that Do Not Require or Generate Resources</b>				
Depreciation and Amortization	\$ 597,700	\$ 116,883	\$ 714,583	\$ 578,198
Bad Debts Related to Uncollectable Non-Credit Reform Receivables	22,389	9,746	32,135	175,142
Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	34,018
Loss of Disposition of Assets	0	0	0	0
Other - (Increases)/Decreases	0	0	0	10,663
Total Costs That Do Not Require Resources	\$ 620,089	\$ 126,629	\$ 746,718	\$ 798,021
<b>Financing Sources Yet to be Provided</b>	<u>\$ 1,162,170</u>	<u>\$ 24,240</u>	<u>\$ 1,186,410</u>	<u>\$ 572,148</u>
<b>Net Cost of Operations</b>	<u>\$ 84,223,960</u>	<u>\$ 11,084,822</u>	<u>\$ 95,308,782</u>	<u>\$ 94,521,866</u>

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE NAVY

# GENERAL FUND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION



**NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT (ND PP&E)  
For Fiscal Year Ended September 30, 2001**

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for ND PP&E. The Department cannot fully comply with the existing reporting requirements, because many of the Department's accountability and logistics systems do not contain the cost of the ND PP&E assets. These systems were designed for the purpose of maintaining accountability and meeting other logistics requirements and not for capturing the cost of ND PP&E.

Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing the temporary requirements and their temporary nature, the Department is suspending the reporting of ND PP&E information until such time as the FASAB adopts permanent reporting requirements.

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

### HERITAGE ASSETS

For Fiscal Year Ended September 30, 2001

(a)	(b) Measurement Quantity	(c) As of 10/1/00	(d) Additions	(e) Deletions	(f) As of 9/30/01
1. Museums	Each	20	-	-	20
2. Monuments & Memorials	Each	1,179	-	-	1,179
3. Cemeteries & Archeological Sites	Sites	23,258	-	-	23,258
4. Buildings and Structures	Each	9,123	-	-	9,123
5. Major Collections (See Supplemental Reporting)					

### Narrative Statement

The Department of the Navy (DON) is required to report Heritage Assets in accordance with the following public laws:

- 10 USC 2721
- USC 483(b)
- Antiquities Act of 1906
- Historic Sites Act of 1935
- USC 470 National Historic Preservation Act of 1966
- National Environmental Policy Act of 1969
- American Indian Religious Freedom Act of 1978
- Archeological Resources Protection Act of 1979
- Native American Graves Protection & Repatriation Act of 1990
- Presidential Memorandum for Heads of Executive Departments and Agencies: Government to Government Relations with Native American Tribal Governments Act of 1994
- 36 CFR 79 - Curation of Federally Owned and Administered Archeological Collections

In general, the DON defines Heritage Assets as items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant architectural characteristics.

#### Museums

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value.

#### Monuments and Memorials

Monuments and Memorials have significant monetary and/or historical value to the DON.

**Cemeteries and Archeological Sites**

Cemeteries are government owned burial grounds located on DON Installations. Archeological Sites are listed on or determined eligible for listing on the National Register of Historic Places. Criteria for evaluating National Register eligibility of these sites may be referenced at 36 CFR 60.4.

Process used to establish assets as Heritage Assets. The processes used to establish items as having heritage significance varies between categories and type of assets being evaluated. Subject matter experts play a significant role in addition to other criteria such as listing on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

Criteria used to determine condition. The condition assessment of Heritage Assets is based on whether the assets are being cared for and safeguarded in accordance with relevant Federal Government regulations. The majority of the DON Heritage Assets are being cared for and managed in accordance with relevant Federal Government regulations. The DON believes that an immaterial amount of Heritage Assets are not being cared for or safeguarded in accordance with relevant Federal Government regulations. This is primarily the result of inadequate resources to cover all storage requirements.

Multi-Use Heritage Assets. Per DoD FMR Volume 6B, Multi-Use Heritage Assets are reported both as Heritage Assets and on the Balance Sheet.

Supplemental Reporting. In addition to the data presented in the table above, the following supplemental information was reported as of 9/30/01:

Category	Measurement Quantity	As of 10/1/00	Additions	Deletions	As of 9/30/01
Archeological Artifacts	Cubic Feet	12,701	38	-	12,739
Archival	Linear Feet	101,672	92	-	101,764
Artwork	Item	38,425	198	7	38,616
Historical Artifacts	Item	831,232	3,122	1,361	832,993



## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

### STEWARDSHIP LAND

For Fiscal Year Ended September 30, 2001

(Acres in Thousands)

<b>(a)</b> <b>Land Use</b>	<b>(b)</b> <b>As of 10/1/00</b>	<b>(c)</b> <b>Additions</b>	<b>(d)</b> <b>Deletions</b>	<b>(e)</b> <b>As of 9/30/01</b>
1. Mission	2,021	0	0	2,021
2. Parks & Historic Sites	-	-	-	-
Totals	2,021	0	0	2,021

### *Narrative Statement*

The DON followed the definition of Stewardship Land per DoD Guidance to include Public Domain, Land Set Aside, and Donated Land. The Internet Naval Facility Asset Database Store (iNFADS) was used to derive acres for Stewardship Land. Within the definition of Stewardship Land, land can be further defined as improved, semi-improved and other categories of land.

### NON-FEDERAL PHYSICAL PROPERTY

The Department of the Navy does not fund this type of Activity.

**INVESTMENTS IN RESEARCH AND DEVELOPMENT**  
**Yearly Investment in Research and Development**  
**For Fiscal Years 1997 through 2001**  
 (Amounts in Millions)

(a) Categories	(b) FY97	(c) FY98	(d) FY99	(e) FY00	(f) FY01
1. Basic Research	\$ 387	\$ 341	\$ 344	\$ 345	\$ 383
2. Applied Research	490	496	510	538	597
3. Development					
- Advanced Technology Development	468	518	532	607	738
- Demonstration and Validation	2,035	2,407	2,234	2,216	2,418
- Engineering and Manufacturing Development	2,114	2,125	2,019	2,225	2,086
- Research, Development, Test, and Evaluation Management Support	736	695	709	750	782
- Operational Systems Development	2,060	1,556	1,696	2,047	2,266
Total	<u>\$ 8,290</u>	<u>\$ 8,138</u>	<u>\$ 8,044</u>	<u>\$ 8,728</u>	<u>\$ 9,270</u>

**Narrative Statement**

**Investments in Research and Development**

Investment values included in this Report are based on Research and Development (R&D) outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with FASAB standards.

**A. Basic Research**

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind.

A narrative discussion of a representative sample of major new discoveries achieved by the program during FY 2001 follows.

**Electrical Power Switching Technology**

The advancement of silicon carbide (SiC) technology, which is crucial to all-electric ship power switching devices, previously had been stymied by the inability of researchers to achieve high electron mobility in p-type

material. Recently however, DON-supported researchers at Mississippi State University have demonstrated a ten-fold increase in electron mobility in p-type SiC. This accomplishment takes a major step towards the development of an all-electric ship.

### **Revolutionary Hearing Protection**

A United States Patent was issued on January 23, 2001 for an invention that introduces antioxidants into the inner ear to promote the prevention or reversal of sensorineural hearing. Research to prevent and/or reverse hearing loss and inner ear damage due to noise and toxins, is being conducted at the Naval Hospital center, San Diego and is funded by the Office of Naval Research.

### **B. Applied Research**

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met.

A narrative discussion of a representative sample of major new discoveries achieved by the program during FY 2001 follows.

### **Prototype Chemical Agent Detectors**

For FY 2001, the DON awarded contracts to develop two prototype chemical agent detectors, devices, which must be inexpensive, portable and function reliably in a chemically complex battlefield. The detectors also are expected to meet most Joint Chemical Agent Detection (JCAD) specifications and be capable of the following:

- Real-time detection with no preconcentration
- Identifying nerve, mustard, and blood agents by group
- Identifying "novel" agents by individual compound

### **Unmanned Air Vehicle (UAV)**

Draper labs and the DON will research the state of avionics technology for Naval UAVs by developing a technology database, providing technical expertise to determine UAV capabilities and performing a risk assessment. The cooperative project aims to reduce the need for human intervention during Naval UAV operations in dynamic and unstructured environments.

### **C. Development**

Development is the systematic use of knowledge and understanding gained from research for the production of useful materials, devices, system or methods, including the design and development of prototypes and processes.

A narrative discussion of a representative sample of major new discoveries achieved by the program during FY 2001 follows.

**Advanced Technology Development** (Budget Activity 3)

**Dragon Eye Robotic Airborne Sensor System**

The Naval Research Lab (NRL) requested proposals to build its *Dragon Eye* airborne sensor system. The device is a man-portable, two-kilogram, hand-launched, fixed wing aerial reconnaissance vehicle. The *Dragon Eye*, which comes with a wearable Ground Control System, will provide Marines with the ability to see over obstacles and terrain.

**Nuclear Quadrupole Resonance (NQR)**

NQR, a physical chemical technique, which detects explosives and/or volatile traces buried beneath the surface, has seen limited use in chemistry labs for 50 years. Recently, the NRL has developed a workable NQR system that can find buried RDX and TNT mines, regardless of the material they are encased in. This technology has been licensed to Quantum Magnetics for continued development. This project builds on previous US Federal Aviation Authority work to build explosive detectors for airports, as well as on the efforts of US Customs to develop ways to detect illicit drugs.

**Demonstration and Validation** (Budget Activity 4)

**Joint Strike Fighter (JSF)**

The DON accomplished the following with regard to the JSF program for FY 2001:

- Completed Concept Demonstrations, including on ground and in flight demonstrations, by Boeing, Lockheed Martin and Pratt & Whitney.
- Completed transition risk reduction, Engine Phase 111A effort, modeling and simulation activities to support further analyses and testing.

**Aviation Survivability**

The DON accomplished the following with regard to Aviation Survivability for FY 2001:

- Completed the development of a rotary wing InfraRed survivability signature suppression system.
- Completed the enhanced resolution Crusader day/night all weather helmet mounted display system.
- Continued the development of Survivability Analysis Methodology and Unmanned Air Vehicles (UAV) survivability studies.

**Land Attack Technology**

The Land Attack Technology program supports the Naval Surface Fire Support (NSFS) mission. In order to meet the United States Marine Corp (USMC) requirements for NSFS in support of Operational Maneuvers from the Sea (OMFTS), the DON is developing a variety of weapons systems including both gun and missile systems that can provide the required range, lethality, accuracy, and responsiveness.

### **Ship Self Defense Technology**

The Ship Self Defense program incorporates efforts dedicated to the enhancement of ship self defense against Anti-Air Warfare (AAW) threats. Its primary focus is on the development of technologies, systems, and procedures necessary to defeat the evolving Anti-Ship Cruise Missile (ASCM) threat. These projects focus on ship defense improvements through the development of advanced concepts and capabilities that will enhance both single ship defenses and multi-ship defenses in a littoral war-fighting environment. Quick Reaction Combat Capability (QRCC), Project K2133, provides advanced concepts and technology developments for the multi-sensor integration of ship detection equipment, the integration of ship self defense weapons, and the coordination of hard-kill and soft-kill assets to improve individual ship self defense capabilities against the ASCM threat.

### **Engineering and Manufacturing Development** (Budget Activity 5)

#### **ASW and other Helo Developments**

The DON accomplished the following with regard to ASW and Helo development for FY 2001:

- Continued development of Carriage, Stream, Tow & Recovery System (CSTRS) prototypes as well as common Airborne Mine Countermeasures (AMCM) sensor consoles.
- Performed live fire test and evaluation for the MH-60S program.

#### **AV-8B (Harrier) Aircraft**

- Commenced design, development, and integration of the Joint Mission Planning System (JMPS).
- Continued investigating improvements in handling and performance, including the Escape System Performance.

#### **Virginia Class Submarine**

The DON has designated the VIRGINIA Class Submarine (formerly the New Attack Submarine (SSN) as the next class of submarines responsible for protecting American interests. The VIRGINIA Class Submarine is a multi-mission capable submarine, which can provide covert and sustained operations in hostile and/or denied waters. The VIRGINIA Class Submarine program will evaluate a number of system and technology alternatives to reduce costs, improve production and manage technical risks.

### **Research, Development, Test and Evaluation Management Support**

(Budget Activity 6)

#### **Test and Evaluation**

- Completed Air Reconnaissance Search Radar (ASR-3) radar integration at San Nicholas Island.
- Completed Network Centric Warfare (NCW) Implementations.

### **Operational Systems Development**

#### **F/A 18 (Hornet)**

The DON accomplished the following with regard to F/A 18 development for FY 2001:

- Completed integration and testing of avionics subsystems.
- Continued Integrated Logistics Support efforts, radar development and development and integration of mission software.
- Conducted engineering analysis and developed improvements to existing systems and subsystems.
- Continued to develop and integrate enhancements to the effectiveness, operability, and safety of the following systems:
  - The F/A-18 Weapon Systems (airframe, avionics, and weapons) and subsystems to include MIDS, AIM-9X (air to air missiles), and TAMMAC.
  - The F/A 18 Avionics Systems and subsystems to include Forward Looking Infrared (FLIR) pods, Positive Identification System (PIDS), Combined Interrogator Transponder (CIT), and Identification Friend or Foe (IFF).

#### **E-2 (Hawkeye)**

The DON accomplished the following with regard to E-2 development for FY 2001:

- Improved the Composite Rotordome.
- Provided ground and flight test of an Eight-Blade Composite Propeller.
- Provided software conversions.
- Provided weapons system performance analysis requirements for the E-2C Radar Modernization Program (RMP) Littoral Surveillance aircraft.

#### **Maritime Technology (MARITECH)**

The mission of the National Shipbuilding Research Program Advanced Shipbuilding Enterprise (NSRP ASE) is to manage and focus national research funding on technologies that will enhance U.S. commercial shipbuilding competitiveness and reduce the cost of naval ships. Industry has developed a landmark long range Strategic Investment Plan that will guide NSRP ASE investments. This Strategic Investment Plan provides a framework to guide collaborative research and development among all segments of the U.S. ship construction and repair industry, educational and research institutions, and Government.

DEPARTMENT OF THE NAVY

# GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION





**Department of Defense  
Department of the Navy  
DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES  
As of September 30, 2001**  
(\$ in Thousands)

	<u>Military Personnel</u>	<u>Operation and Maintenance</u>	<u>Procurement</u>	<u>Research Development, Test &amp; Evaluation</u>
<b>Budgetary Resources</b>				
Budget Authority	\$ 26,873,743	\$ 29,861,447	\$ 27,300,220	\$ 9,702,125
Unobligated Balance - Beginning of Period	310,442	1,167,656	10,479,113	706,800
Net Transfers Prior - Year Balance, Actual	(24,644)	399,522	30,300	4,627
Spending Authority from Offsetting Collections	271,685	4,041,175	760,420	174,595
Adjustments	581,795	1,442,570	(526,765)	(103,968)
Total Budgetary Resources	<u>\$ 28,062,309</u>	<u>\$ 36,912,370</u>	<u>\$ 38,043,288</u>	<u>\$ 10,484,179</u>
<b>Status of Budgetary Resources</b>				
Obligations Incurred	\$ 27,908,630	\$ 35,837,894	\$ 26,923,282	\$ 9,633,153
Unobligated Balances - Available	44,627	178,536	10,846,782	799,330
Unobligated Balances - Not Available	109,052	895,940	273,224	51,696
Total, Status of Budgetary Resources	<u>\$ 28,062,309</u>	<u>\$ 36,912,370</u>	<u>\$ 38,043,288</u>	<u>\$ 10,484,179</u>
<b>Outlays</b>				
Obligations Incurred	\$ 27,908,630	\$ 35,837,894	\$ 26,923,282	\$ 9,633,153
Less: Spending Authority from Offsetting Collections and Adjustments	(959,316)	(5,815,730)	(1,340,411)	(269,795)
Obligated Balance, Net - Beginning of Period	1,238,306	8,568,671	32,857,798	4,470,586
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net - End of Period	(1,989,955)	(8,806,746)	(35,381,535)	(4,372,212)
Total Outlays	<u>\$ 26,197,665</u>	<u>\$ 29,784,089</u>	<u>\$ 23,056,134</u>	<u>\$ 9,461,732</u>



## REQUIRED SUPPLEMENTARY INFORMATION

**Department of Defense  
Department of the Navy  
DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES  
As of September 30, 2001**  
(\$ in Thousands)

	<u>Military Construction/Family Housing</u>	<u>Other</u>	<u>2001 Combined</u>	<u>2000 Combined</u>
<b>Budgetary Resources</b>				
Budget Authority	\$ 1,415,301	\$ 82,918	\$ 95,235,754	\$ 89,318,717
Unobligated Balance - Beginning of Period	914,378	45,694	13,624,083	12,185,513
Net Transfers Prior - Year Balance, Actual	(93,370)	0	365,723	70,392
Spending Authority from Offsetting Collections	349,085	0	5,596,960	5,449,885
Adjustments	107,625	2,424	1,503,681	369,012
Total Budgetary Resources	<u>\$ 2,693,019</u>	<u>\$ 131,036</u>	<u>\$ 116,326,201</u>	<u>\$ 107,393,519</u>
<b>Status of Budgetary Resources</b>				
Obligations Incurred	\$ 2,087,401	\$ 99,579	\$ 102,489,939	\$ 93,769,432
Unobligated Balances - Available	490,675	31,457	12,391,407	12,141,969
Unobligated Balances - Not Available	114,943	0	1,444,855	1,482,115
Total, Status of Budgetary Resources	<u>\$ 2,693,019</u>	<u>\$ 131,036</u>	<u>\$ 116,326,201</u>	<u>\$ 107,393,516</u>
<b>Outlays</b>				
Obligations Incurred	\$ 2,087,401	\$ 99,579	\$ 102,489,939	\$ 93,769,432
Less: Spending Authority from Offsetting Collections and Adjustments	(485,971)	(3,335)	(8,874,558)	(7,956,974)
Obligated Balance, Net - Beginning of Period	1,129,390	120,847	48,385,598	50,425,880
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net - End of Period	(1,666,491)	(116,603)	(52,333,542)	(48,385,598)
Total Outlays	<u>\$ 1,064,329</u>	<u>\$ 100,488</u>	<u>\$ 89,667,437</u>	<u>\$ 87,852,740</u>

**DON GENERAL PROPERTY, PLANT, AND EQUIPMENT  
REAL PROPERTY DEFERRED SUSTAINMENT AMOUNTS  
As of September 30, 2001**  
(Amounts in Millions)

Property		FY 2001			
	Restoration Prior	Annual Sustainment			Restoration Ending
		Required	Actual	Difference	
Total	-	2,353	1,852	501	-

Property		Annual Deferred Sustainment Trend			
	FY2001	FY2002	FY2003	FY2004	FY2005
Total	501				

***Narrative Statement***

Navy General Fund Facilities are transitioning from Real Property Maintenance to Facility Sustainment via use of the new OSD Facility Sustainment Model. This is the first financial statement utilizing this methodology. The methodology in the draft DoD Financial Regulation, Volume 6B, Chapter 12, June 2001 was utilized to calculate the deferred amounts. FY 2001 facility investments were programmed, budgeted and executed, before application of the Facility Sustainment Model, when the metrics of real property maintenance were utilized.

The quality of the data used as Facility Sustainment Model input continues to undergo quality checks to ensure its' accuracy in facility type, facility units of measure and applicable funding source.

Data is shown as total property data versus buildings and structures data due to the Facility Sustainment Model output not breaking out the total requirements into subcategories.

The Facility Sustainment Model calculates facility sustainment investment based on the Navy property inventory, facility type, key units of measure, geographic location and industry standards. The variables are constantly being examined to reduce errors and disconnects for unique Navy facility requirements.

Real Property Condition Information is unavailable awaiting completion of the FY 2001 Installation Readiness Report.

The DON general funds do not have any material amounts of deferred sustainment for General PP&E Personal Property, Heritage Assets, or Stewardship Land.

**NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT  
DEFERRED MAINTENANCE AMOUNTS  
As of September 30, 2001**  
(Amounts in Thousands)

<u>Major Type/ Major Class</u>	<u>Amount</u>
1. Aircraft	\$176,912
2. Ships	903,758
3. Missiles	34,824
4. Combat Vehicles	766
5. Other Weapons Systems	189,994
6. Total	<u>\$1,306,254</u>

***Narrative Statement***

**Aircraft Deferred Maintenance**

There are four sub-categories that define the aircraft maintenance program, and they include airframe rework and maintenance (active and reserve), engine rework and maintenance (active and reserve), component repair and software maintenance. Airframe rework deferred maintenance calculation reflects executable unfunded requirements, which represent aircraft that failed its Aircraft Service Period Adjustment (ASPA) or reached its fixed Period End Date (PED) at year-end. Engine rework deferred maintenance calculation reflects year-end actual requirements minus actual funded units. For the most part, component repair deferred maintenance cost is simply the difference between requirement and funding. Aircraft deferred maintenance reflects only executable deferred maintenance. Unexecutable deferred maintenance is not reported in the Exhibit OP-30, nor is it collected.

**Ship Deferred Maintenance**

Deferred Ship Maintenance data was provided by Fleet Type Commanders. Data was collected from the Current Ships Maintenance Plan (CSMP) database. This database captures maintenance actions at all levels (organizational, intermediate, depot) for all active and reserve ships. Only depot level deferred maintenance had been provided in this report. This includes maintenance actions that were deferred from actual depot maintenance work packages as well as maintenance that was deferred prior to inclusion in a work package due to either fiscal, operational, or capacity constraints. Although there is a significant amount of deferred maintenance actions, there are no ships that fall into the category of "unacceptable operating condition." Any ship that would be at risk of being in unacceptable operating condition would receive priority for maintenance funding to maintain acceptable operating condition.

**Missile Maintenance**

Four categories are used to determine missile maintenance. They include strategic missiles, tactical missiles, software maintenance, and other. Deferred maintenance is defined as the difference between the total weapon maintenance requirement as determined by requirements modeling processes and the weapon maintenance that

is funded in accordance with the annual budget controls for the Missile Maintenance program. The maintenance requirements model projects the quantity of missiles and missile components per weapon system that are required to be maintained (reworked) annually.

### **Combat Vehicles**

The combat vehicles category is for vehicle overhaul for the active and reserve Marine Corps.

### **Other Weapons Systems**

The "Other Weapons Systems" category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of repairables. Three categories define ordnance maintenance, and they include ordnance maintenance, software maintenance and other. Although the various programs vary in the methodology in defining requirements, all programs define deferred maintenance as the difference between requirements and funding.

### **Software Maintenance**

Software maintenance requirements and deferred maintenance for aircraft, missiles and other equipment are determined using the same methodology and, therefore will not be addressed separately for each National Defense Property, Plant and Equipment Deferred Maintenance reporting category. Software maintenance includes the operational and system test software that runs in the airborne avionics systems (e.g., mission computer, display computer, radar) and the software that runs the ground based support labs used to perform software sustainment (e.g., compilers, editors, simulation, configuration management). The deferred maintenance reported for the execution year are those requirements below the funding threshold and up to, but not exceeding, the capacity of the Software Support Activity (SSA) in that particular fiscal year. There may be deferred requirements that exceed the capacity of the SSA, but these are not reported in the Exhibit OP-30 for the execution year, but rather identified as an out year requirement.

No changes have been made to the condition requirements or standards from the previous reporting year.

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amounts with Other Federal Agencies (S Amounts In Thousands)	Treasury Index:	Funds Balance with Treasury:	Accounts Receivable	Loans Receivable:	Investments	Other:
Department of Commerce	13		96			
Department of the Interior	14		60			
Department of Justice	15		890			
Department of Labor	16					4,116
Navy General Fund	17					
Department of State	19		7,263			
Department of the Treasury	20	66,338,979	414		9,517	
Army General Fund	21		153,573			6,808
Department of Veterans Affairs	36		2			
General Service Administration	47		193			
Air Force General Fund	57		78,359			5,164
National Labor Relations Board	63		12			
Federal Maritime Commission	65		258			
Department of Transportation	69		8,222			
National Aeronautics and Space Administration	80		3,766			
Armed Forces Retirement Home	84		15			
Department of Energy	89		224			
Independent Agencies	95		1,017			
US Army Corps of Engineers	96		1,191			
Other Defense Organizations General Funds	97		323,065			13
Other Defense Organizations Working Capital Funds	97-4930		160,007			
Army Working Capital Fund	97-4930.001		2,659			5,683
Navy Working Capital Fund	97-4930.002		298,833			25,386
Air Force Working Capital Fund	97-4930.003		2,695			
<b>Totals:</b>		<b>\$ 66,338,979</b>	<b>\$ 1,042,814</b>		<b>\$ 9,517</b>	<b>\$ 47,170</b>

# DEPARTMENT OF THE NAVY

Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies (\$ Amounts in Thousands)	Treasury Index:	Accounts Payable	Debts/Borrowings from Other Agencies	Other:
Department of Labor	16			558,574
Department of the Treasury	20			475,724
Army General Fund	21	139,565		
Office of Personnel Management	24			31,887
Air Force General Fund	57	23,659		
US Army Corps of Engineers	96	4,302		
Other Defense Organizations General Funds	97	32,263		
Other Defense Organizations Working Capital Funds	97-4930	215,370	61	
Army Working Capital Fund	97-4930.001	8,392		
Navy Working Capital Fund	97-4930.002	568,593		
Air Force Working Capital Fund	97-4930.003	10,138		
<b>Totals:</b>		<b>\$ 1,002,282</b>	<b>\$ 61</b>	<b>\$ 1,066,185</b>

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies (S Amounts in Thousands)	Treasury Index:	Earned Revenue
Department of Agriculture	12	532
Department of Commerce	13	4,637
Department of the Interior	14	224
Department of Justice	15	3,206
Department of State	19	6,109
Department of the Treasury	20	7,100
Army General Fund	21	112,867
Resolution Trust Corporation	22	50
Department of Veterans Affairs	36	2
General Service Administration	47	262
National Science Foundation	49	1,402
Air Force General Fund	57	103,417
National Labor Relations Board	63	7
Federal Maritime Commission	65	211
Department of Transportation	69	24,690
National Aeronautics and Space Administration	80	5,105
Armed Forces Retirement Home	84	196
Department of Energy	89	1,467
Independent Agencies	95	2,671
US Army Corps of Engineers	96	24,126
Other Defense Organizations General Funds	97	619,536
Other Defense Organizations Working Capital Funds	97-4930	473,467
Army Working Capital Fund	97-4930.001	10,828
Navy Working Capital Fund	97-4930.002	1,056,196
Air Force Working Capital Fund	97-4930.003	1,891
<b>Totals:</b>		<b>\$ 2,460,199</b>

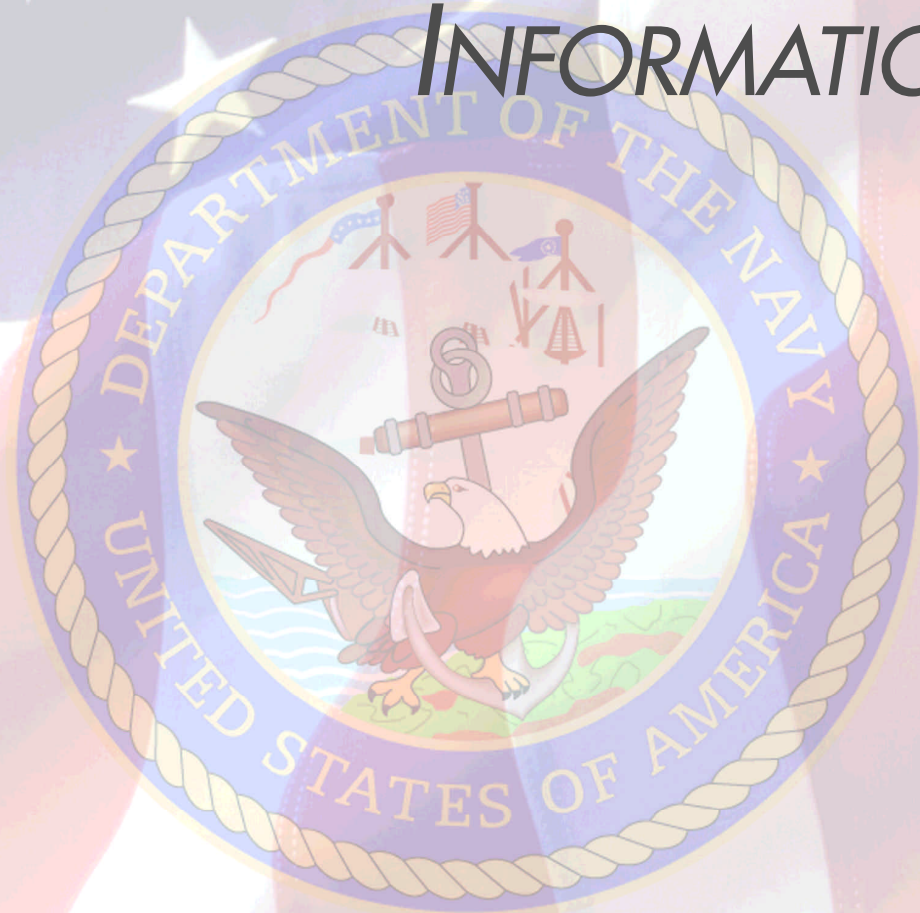
## DEPARTMENT OF THE NAVY

Schedule, Part E DoD Intragovernmental Non-Exchange Revenues (\$ Amounts in Thousands)	Treasury Index:	Transfer-In	Transfer-Out
Air Force General Fund	57		325
US Army Corps of Engineers	96	0	
Other Defense Organizations General Funds	97	50,000	
Other Defense Organizations Working Capital Funds	97-4930	309,094	
<b>Totals:</b>		<b>\$ 359,094</b>	<b>\$ 325</b>



DEPARTMENT OF THE NAVY

# GENERAL FUND OTHER ACCOMPANYING INFORMATION



**APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE PRINCIPAL STATEMENTS**

**Entity Accounts:**

**General Funds**

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps
17X0810	Environmental Restoration, Navy
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1205	Military Construction, Navy
17 1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test, and Evaluation, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion, Navy
17 1804	Operation and Maintenance, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1810	Other Procurement, Navy

**Revolving Funds**

17 4557	National Defense Sealift Fund, Navy
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**Trust Funds**

17X8423	Midshipmens Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
17X8733	United States Naval Academy General Gift Fund

## OTHER ACCOMPANYING INFORMATION

### Special Funds

- 17X5095 Wildlife Conservation, etc., Military Reservations, Navy
- 17X5185 Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
- 17X5429 Rossmoor Liquidating Trust Settlement Account

### Non Entity Accounts:

#### Special Funds (Receipt Accounts)

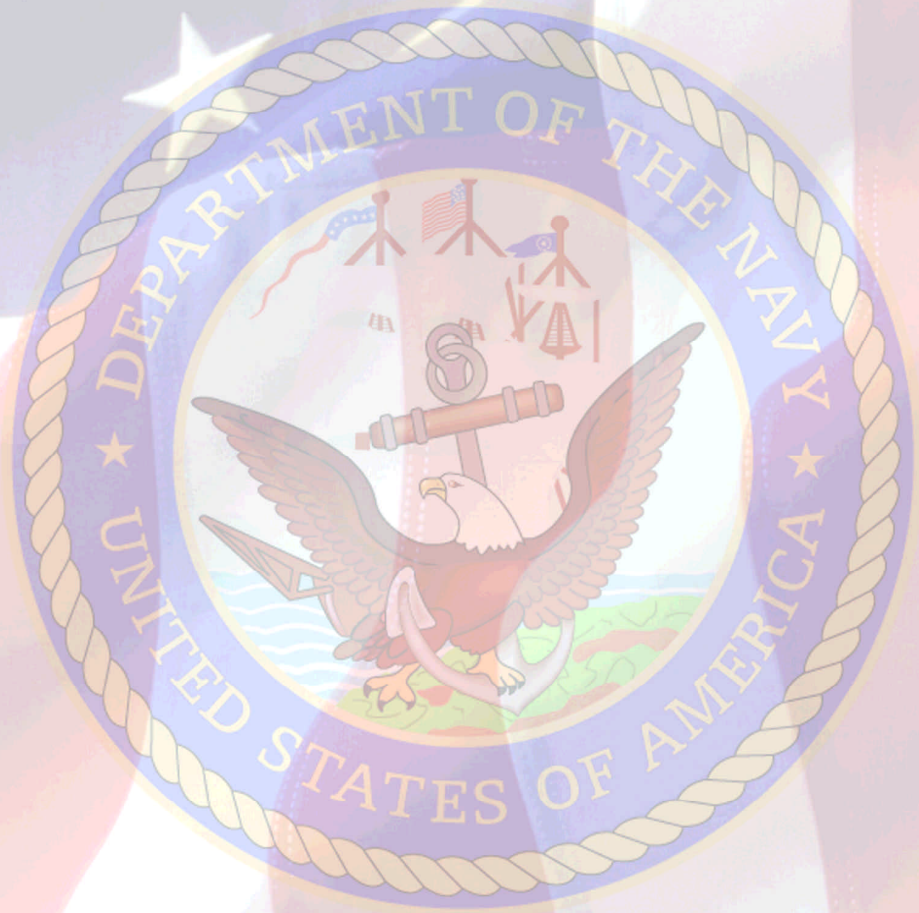
- 17 3041 Recoveries Under the Foreign Military Sales Program
- 17 3210 General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified

#### Deposit Funds

- 17X6001 Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
- 17X6002 Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
- 17X6025 Pay of the Navy, Deposit Fund
- 17X6026 Pay of the Marine Corps
- 17X6050 Employee Payroll Allotment Account (U.S. Bonds)
- 17X6075 Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
- 17X6083 Withheld Allotment of Compensation for Charitable Contributions, Navy
- 17X6134 Amounts Withheld for Civilian Pay Allotments, Navy
- 17X6275 Withheld State and Local Income Taxes
- 17X6434 Servicemen's Group Life Insurance Fund, Suspense, Navy
- 17X6705 Civilian Employees Allotment Account, Navy
- 17X6706 Commercial Communication Service, Navy
- 17 6763 Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
- 17X6850 Housing Rentals, Navy
- 17X6875 Suspense, Navy
- 17X6999 Accounts Payable, Check Issue Underdrafts, Navy



DEPARTMENT OF THE NAVY  
*GENERAL FUND*  
*AUDIT OPINION*







INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

February 22, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Endorsement of the Disclaimer of Opinion on the FYs 2001 and 2000  
Department of the Navy General Fund Financial Statements  
(Project No. D2001FC-0138.000)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Naval Audit Service the audit of the FYs 2001 and 2000 Department of the Navy General Fund Financial Statements.<sup>1</sup> Summarized as follows is the Naval Audit Service disclaimer of opinion on the FYs 2001 and 2000 Department of the Navy General Fund Financial Statements, and the results of our review of the Naval Audit Service work. The information provided in this memorandum contains reasons for the Naval Audit Service disclaimer. We endorse the disclaimer of opinion expressed by the Naval Audit Service, dated February 13, 2002.

For FY 2001, Office of Management and Budget policy required that the financial statements, except for the Statement of Budgetary Resources, be prepared on a consolidated basis. Consolidation means that intra-agency transactions are to be eliminated. The Statement of Budgetary Resources was required to be prepared on a combined basis. Combination means that component figures are added without eliminating intra-agency transactions. In addition, Office of Management and Budget policy required that the current fiscal year financial statements be presented on a comparative basis with financial statements of the previous fiscal year. Accordingly, the Naval Audit Service report covers FYs 2001 and 2000.

**Disclaimer of Opinion.** The Naval Audit Service disclaimer of opinion on the FYs 2001 and 2000 Department of the Navy General Fund Financial Statements, dated February 13, 2002, states that the scope of work performed by the Naval Audit Service was not sufficient for them to express an opinion. We concur with the Naval Audit Service disclaimer of opinion. The major issue areas identified by the Department of the Navy in the Annual Statement of Assurance as precluding an audit opinion were:

- Property, Plant, and Equipment;
- Inventory, including Operating Materials and Supplies;
- Liabilities;
- Fund Balance With Treasury; and
- Intragovernmental Eliminations.

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On January 25, 2002, the General Accounting Office issued a new Government Auditing Standard on organizational independence. The new standard is to be applied on a prospective basis and does not affect the audit work that was ongoing for the FY 2001 financial statements. We will apply the new standard for future audit work and will not delegate the financial statement audit work.

**Internal Controls.** The Naval Audit Service did not express an opinion on internal controls. Based on the FY 2001 Department of the Navy Annual Statement of Assurance, the Naval Audit Service concluded that material weaknesses exist in the Department of the Navy financial management systems, procedures, and controls.

**Compliance With Laws and Regulations.** The Naval Audit Service did not express an opinion on compliance with laws and regulations that could have a direct and material effect on the financial statements. The Department of the Navy Annual Statement of Assurance reported Financial Statements as a material weakness. Details on the adequacy of internal controls and compliance with laws and regulations are discussed in the Naval Audit Service report.

**Review of Naval Audit Service Audit Work.** To fulfill our responsibilities for determining the accuracy and completeness of the independent audit work that the Naval Audit Service conducted, we reviewed the audit approach, planning, and summary working papers supporting the Naval Audit Service report. The Naval Audit Service did not receive a management representation letter from the Department of the Navy for the FY 2001 Department of the Navy General Fund Financial Statements. Ordinarily, such an omission would be sufficient to cause the Naval Audit Service to disclaim an auditor's opinion. The Naval Audit Service made no mention of this in the auditor's opinion because other factors precluded the Naval Audit Service from rendering an opinion. For the FYs 2001 and 2000 Department of the Navy General Fund Financial Statements, we found no indication that we could not rely on the Naval Audit Service disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.



Thomas F. Gimble

Acting

Deputy Assistant Inspector General  
for Auditing



DEPARTMENT OF THE NAVY  
NAVAL AUDIT SERVICE  
1006 BEATTY PLACE SE  
WASHINGTON NAVY YARD, DC 20374-5005

## Auditor's Report on the Financial Statements

We were engaged to audit the Department of the Navy General Fund Financial Statements as of and for the Fiscal Years ended 30 September 2001 and 2000. The Department of the Navy is responsible for these financial statements, for establishing and maintaining internal controls, and for complying with laws and regulations applicable to Department of the Navy financial accounting and reporting.

The condition of the Department of the Navy General Fund systems, records, and other data does not permit the application of auditing procedures sufficient to complete an audit. As the Department of the Navy reported in its Fiscal Year 2001 Statement of Assurance, the major issues preventing the Department of the Navy from obtaining a favorable audit opinion on its audited financial statements were: (1) Property, Plant and Equipment; (2) Inventory, including Operating Materials and Supplies; (3) Liabilities; (4) Fund Balance with Treasury; and (5) Intragovernmental Eliminations. Although the Department of the Navy originally estimated corrective actions would be completed by Fiscal Year 1998, progress in correcting these material deficiencies has been slow, and currently the Department of the Navy does not have an expected date for completing the necessary corrective actions.

**Disclaimer of Opinion.** Based on the foregoing paragraph, the scope of our work was not sufficient for us to express, and we do not express, an opinion on the Department of the Navy General Fund Financial Statements as of and for the Fiscal Years ended 30 September 2001 and 2000.

A handwritten signature in cursive script that reads "Luther N. Bragg".

LUTHER N. BRAGG  
Acting Assistant Auditor General  
Financial Management and Comptroller Audits

13 February 2002