



## WORKING CAPITAL FUND



The Navy Working Capital Fund (NWCF) is a revolving fund established to meet the diverse requirements of the Navy and Marine Corps operating forces. Under the revolving fund concept, an appropriation or transfer of funds finances the initial cost of goods and services. Reimbursements from a customer's appropriated account replenish the initial working capital and permit continuing operations without further appropriation by Congress. Unlike profit-oriented businesses, the goal of the revolving fund is to break even over time.

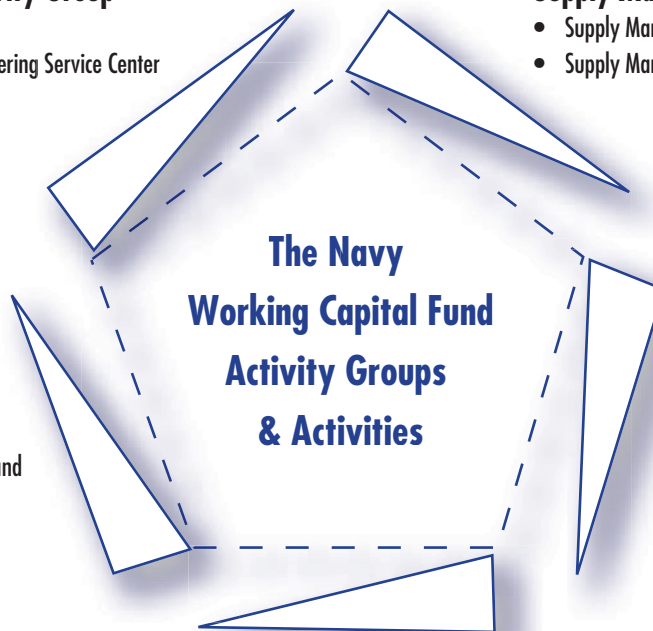
Included in the NWCF are five Activity Groups comprised of one or more activities (see illustration below). Activity Groups stabilize or fix the price of goods and services in their budget to protect customers from unforeseen fluctuations.

### Base Support Activity Group

- Public Works Centers
- Naval Facilities Engineering Service Center

### Supply Management Activity Group

- Supply Management — Navy
- Supply Management — Marine Corps



### Transportation Activity Group

- Military Sealift Command

### Depot Maintenance Activity Group

- Naval Shipyards
- Aviation Depots
- Marine Corps Depots

### Research & Development Activity Group

- Naval Research Laboratory
- Naval Surface Warfare Center
- Naval Undersea Warfare Center
- Naval Air Warfare Center
- Space & Naval Warfare Systems Centers

## Fiscal Year 2003 Overview

A brief discussion of NWCF personnel, net cost of operations, and cash management follows.

### Personnel

Historically, civilians have comprised the majority of the workforce at NWCF activities. FY 2003 continues this trend. Civilians account for 98 percent of total FY 2003 end strength (actual).

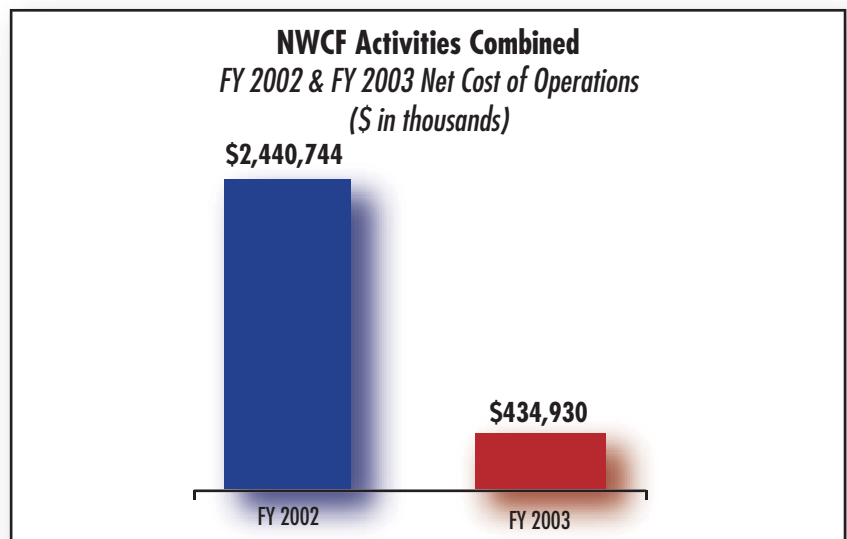
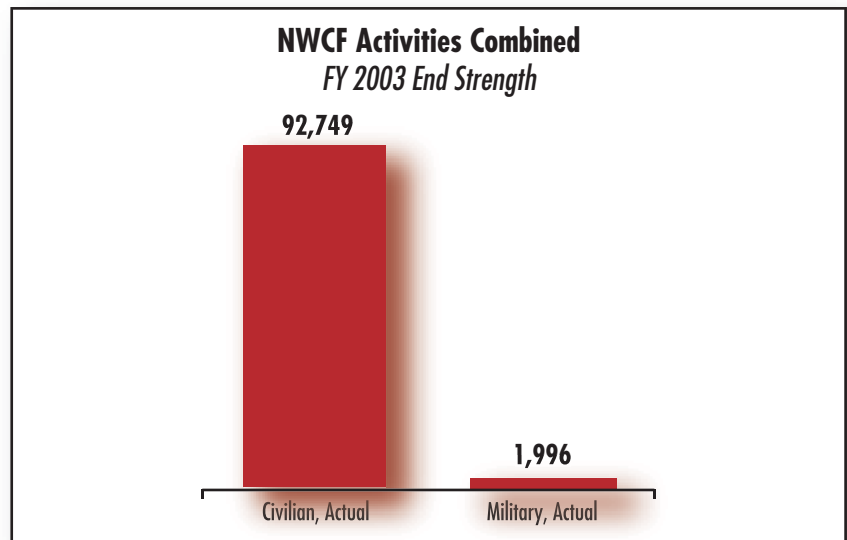
### Net Cost of Operations

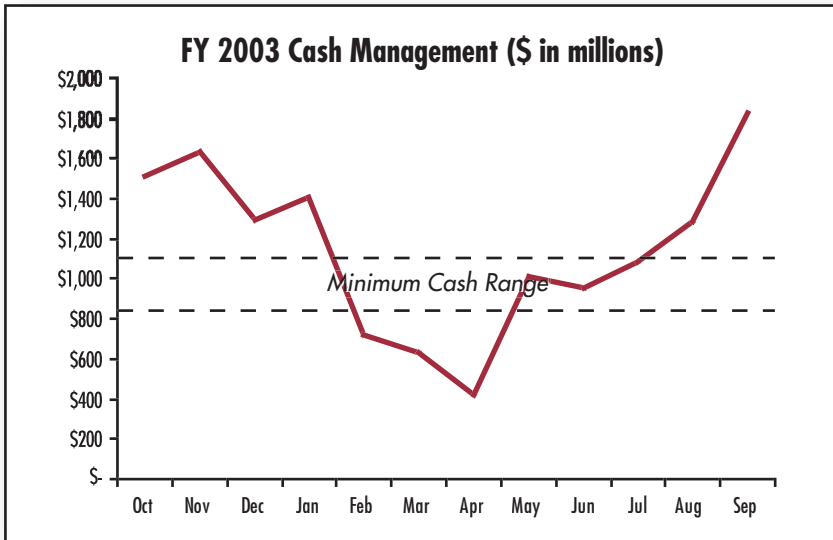
The NWCF Consolidating Statements of Net Cost classifies earned revenue and program costs by activity group. Included in this statement is the total net cost for each activity group, presented as the sum of:

- intra-governmental net costs (i.e., intra-governmental gross costs less intra-governmental earned revenue), and
- net costs with the public (i.e., gross costs with the public less revenue with the public).

NWCF net cost of operations is the combined total net cost for the activity groups, or "total net program costs," plus any costs not assigned to programs less any earned revenue not attributable to programs. In FYs 2002 and 2003, costs not assigned to programs and earned revenue not attributable to programs were zero.

In FY 2003, the combined total net cost for the five NWCF activity groups — Supply Management, Depot Maintenance, Research and Development, Transportation, and Base Support — was \$1.3 billion.





### Cash Management

DON manages NWCF cash levels at the Department level. The Department of Defense Financial Management Regulation requires working capital fund cash levels be maintained at seven to ten days of operational costs, and be sufficient to meet six months of capital outlays. DON sets seven- and ten-day cash requirements on an annual basis. For FY 2003, the seven-day requirement was \$808 million, and the ten-day requirement, \$1.1 billion. As illustrated, the cash levels fell below the minimum range in February, March, and April due to system processing issues associated with the Naval Air Systems Command’s conversion to its Enterprise Resource Planning system and Port

Hueneme’s conversion to the Defense Industrial Financial Management System.

## Fiscal Year 2003 Overview By Activity

A discussion of each NWCF Activity Group follows. Included in this discussion are:



- Mission,
- Personnel,
- Net Cost of Operations, and
- Program Performance.

### Supply Management

The Supply Management Activity Group consists of Navy and Marine Corps components. Supply Management, Navy and Marine Corps recoup costs through a cost recovery rate that includes various operating costs, such as inventory management, which are then added to the acquisition cost of an item to establish a standard selling price.

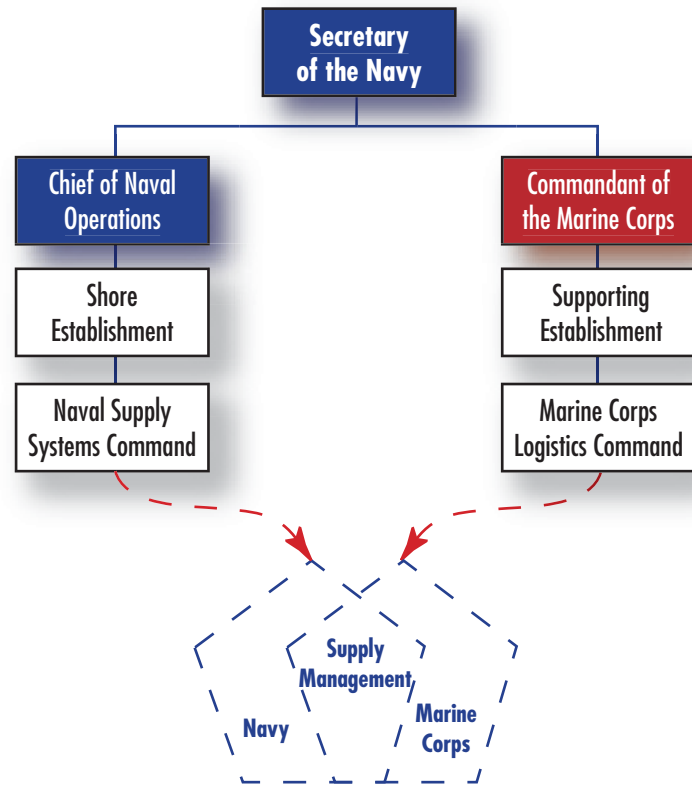
### Supply Management – Navy

In response to recapitalization and Sea Enterprise, one of the operational initiatives augmenting Seapower 21 (Navy's strategy for implementing the Naval Power 21 vision), the Naval Supply Systems Command (NAVSUP) conducted structural, customer, and functional alignment reviews to capture business efficiencies. These reviews led to specific cost-saving opportunities, including:

- Consolidation of the Naval Petroleum Office, Naval Transportation Support Center, and Naval Ammunition Logistics Center into a single command – Naval Operational Logistics Support Center, to centralize overhead functions and operational logistics support; and
- Centralization of information technology functions under Naval Supply Information Systems Activity to parallel private sector information technology structures.

In addition to alignment reviews, One Touch Supply (OTS) exemplifies NAVSUP's commitment to capturing business efficiencies. Marking its first anniversary of operations during FY 2003, OTS provides users with a web-based, single point of entry into the naval supply system. OTS capabilities include:

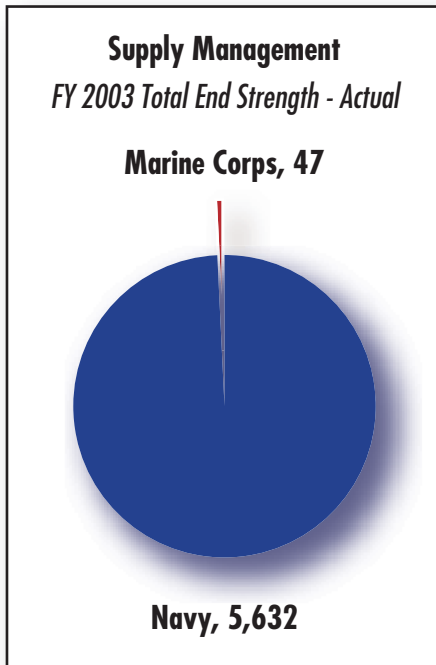
- Providing real-time availability of supplies,
- Cross-referencing parts to stock-numbered inventories, and
- Processing modifications to standard supply requisitions.



### Supply Management – Navy Mission:

*To provide a means of managing, controlling, financing and accounting for the acquisition and sale of secondary spares, consumable and repair parts necessary to support weapon systems and associated equipment to a wide variety of Navy activities and other government agencies.*





### **Supply Management – Marine Corps**

In FY 2003, Supply Management – Marine Corps continues to focus on logistical transformation of distribution and maintenance systems under the Marine Corps Integrated Logistics Capabilities initiative. Goals of this initiative include:

- Customizing management of 4th echelon maintenance and secondary reparable;
- Transferring 2nd and 3rd echelon maintenance to the intermediate level; and
- Consolidating supply functions at the retail level.

This initiative is improving customer relationships and expanding knowledge of customers' operational requirements. The latter enables managers to develop more efficient budget forecasts.

During FY 2003, Supply Management – Marine Corps decapitalized management of hazardous waste material at Camp Butler (Okinawa, Japan) and fuel at several Marine Corps activities. As a test pilot for the Joint Environment Material Management Service, Supply Management – Marine Corps decapitalized hazardous waste at Camp Butler to Defense Logistics Agency (DLA) and Supply Management – Navy. Also, Supply Management – Marine Corps decapitalized fuel at Twenty-Nine Palms, California; Okinawa, Japan; Barstow, California; Albany, Georgia; and Quantico, Virginia. Supply Management – Marine Corps had projected decapitalization at all Marine Corps activities by FY 2003, but delays associated with implementation of the super station concept and the Fuels Automated System at various commands affected DLA/Navy Petroleum Office capitalization schedules.

### **Personnel**

Total FY 2003 end strength (civilian and military personnel, actual) for Supply Management was 5,679. Civilian personnel comprise 93 percent of total end strength for Supply Management – Navy, and 100 percent, for Supply Management – Marine Corps.

### **Supply Management – Marine Corps Mission:**

*To perform inventory management functions that result in sale of consumable and reparable items to support both Department of Defense and other government agencies.*

Over the next two fiscal years, Supply Management activities anticipate workforce reductions to result from their transformation and strategic sourcing efforts. Supply Management – Navy expects to downsize the civilian, military, and contractor workforce by a total of 409 personnel by FY 2006. Supply Management – Marine Corps expects to downsize the civilian workforce by 21 personnel in FY 2004 and by two additional personnel in FY 2005, for a total of 23 personnel. A graphical summary of Supply Management workforce reductions is provided.

**Net Cost of Operations**

In FY 2003, net cost of operations for Supply Management activities increased by 122 percent. This increase was primarily attributable to the rise in program costs between FYs 2002 and 2003, which was approximately \$1.3 billion (an 18 percent increase).

**Program Performance**

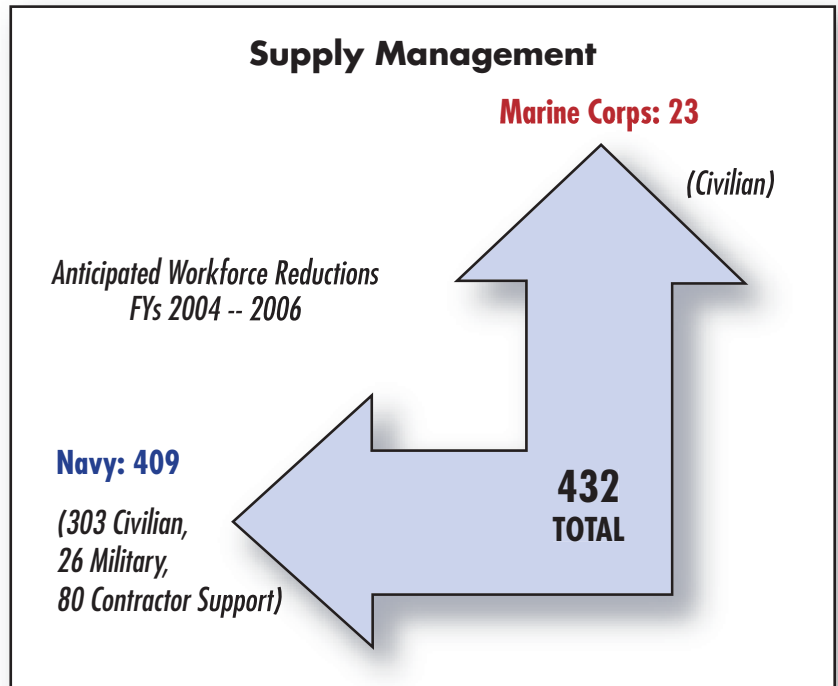
In FY 2003, Supply Management activities remain focused on customer support, as exemplified below.

**Supply Management – Navy**

Since 1998, Supply Management – Navy has used average customer wait time (i.e., turnaround) to improve customer support. FY 2003 goals for average customer wait time for aviation and maritime supplies were 10.1 days and 24 days, respectively. As of June 2003, Supply Management – Navy reduced average customer wait time to 9.21 days for aviation supplies and 20.72 days for maritime supplies.

**Supply Management – Marine Corps**

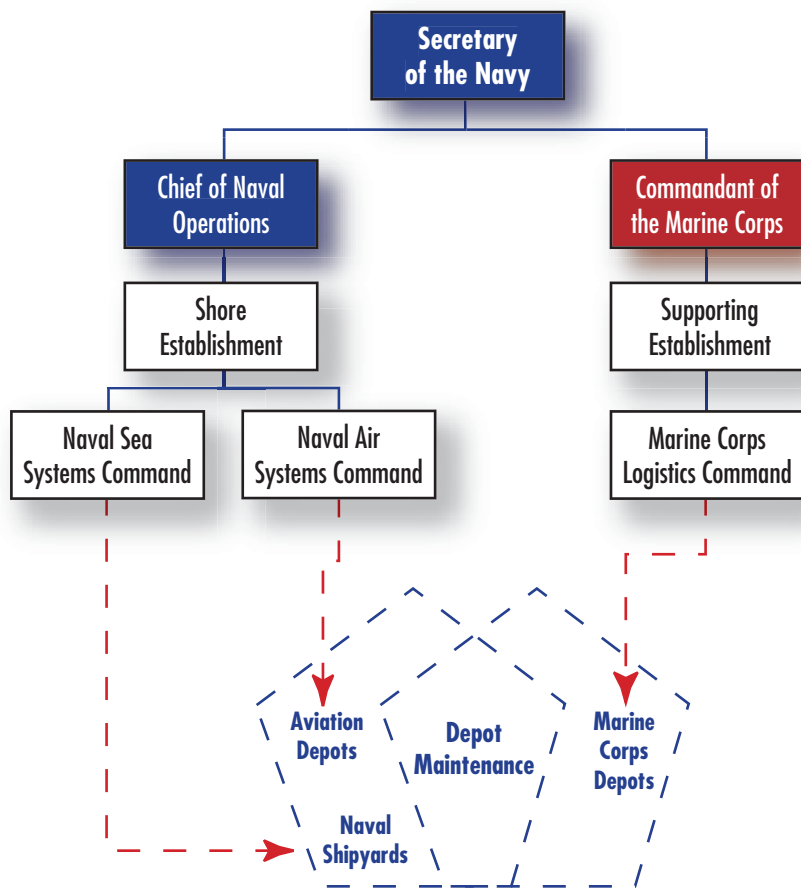
Supply Management – Marine Corps uses Supply Channel Performance metrics that support goals of Marine Corps Integrated Logistics Capabilities and are based on best practices currently utilized by the private sector. Among the metrics used is accuracy in filling customer supply orders. In FY 2003, Supply Management – Marine Corps achieved their performance goal of 100 percent accuracy in filling customer orders.



**Supply Management: Net Cost of Operations (\$ in thousands)**

	FY 2003	FY 2002
Program Costs	\$ 8,456,945	\$ 7,167,805
Less: Earned Revenue	(6,895,749)	(6,463,455)
<b>Net Cost of Operations</b>	<b>\$ 1,561,196</b>	<b>\$ 704,350</b>





## Depot Maintenance

The Depot Maintenance Activity Group consists of Naval Shipyards, Aviation Depots, and Marine Corps Depots. These activities provide vital services that ensure force levels and force readiness.

### Naval Shipyards (NSYs)

In FY 2003, Puget Sound NSY, under regional maintenance consolidation, joined the Intermediate Maintenance Facility Pacific Northwest, and will transfer to mission funding as a Pacific Fleet activity on 1 October 2003. This transfer supports the Navy's initiative to combine intermediate and depot maintenance, thereby allowing more flexibility in accomplishing the Navy's overall maintenance program.

### Aviation Depots

The Naval Air Systems Command (NAVAIR) Depots have provided direct and immediate support to our forces during Operation Iraqi Freedom. Specifically, the NAVAIR Depot Cherry Point Aircraft Assessment Planning

Branch deployed 11 emergency essential personnel to various sites worldwide, including Bahrain; Naples, Italy; and Okinawa, Japan. The NAVAIR Depot North Island F/A-18 and Helicopter Multi Lines responded to urgent fleet requests to accelerate the production and delivery of aircraft to the war zone.

### Naval Shipyards Mission:

*To provide logistics support for assigned ships and service craft; perform authorized work in connection with construction, overhaul, repair, alteration, drydocking and outfitting of ships and craft as assigned; perform design, manufacturing, refit and restoration, research and development and test work, and provide services and material to other activities and units as directed by competent authority.*

### Aviation Depots Mission:

*To provide responsive worldwide maintenance, engineering, and logistics support to the Fleet and ensure a core industrial resource base essential for mobilization; repair aircraft, engines, and components, and manufacture parts and assemblies; provide engineering services in the development of hardware design changes, and furnish technical and other professional services on maintenance and logistics problems.*

**Marine Corps Depots**

Marine Corps Depots are located in Albany, Georgia and Barstow, California. The two maintenance centers return unserviceable equipment to serviceable condition, perform maintenance up to the depot repair level, and overhaul, rebuild, and modify all types of ground equipment used by the Marine Corps and other DoD services.

**Personnel**

Total FY 2003 end strength (civilian and military personnel) for Depot Maintenance was 32,512. The chart depicts total end strength, by activity. Military personnel comprise one percent or less of total end strength (actual) by activity. Beginning in FY 2004, Depot Maintenance activities anticipates changes in workforce. Naval shipyards are executing a significant hiring plan and budgeting lower overtime. This hiring plan will facilitate revitalization of the aging workforce and ensure the right number of employees with the right skills will be available to successfully complete the highly technical upcoming workload within condensed timeframes. Also, NWCF civilian end strength will decrease with the transition of Puget Sound NSY to Pacific Fleet mission funding.

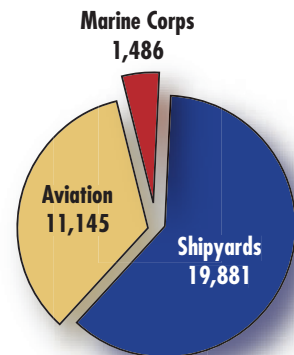
Aviation Depots anticipate an increase in military end strength and workyears due to projected workload requirements but expect a decrease in civilian end strength and workyears. Civilian workforce reductions reflect a renewed focus on utilizing contractor labor and overtime for flexibility and workload fluctuations.

Marine Corps Depots’ reconstitution and regeneration workload influx will result in an increased requirement of civilian end strength and workyears from the FY 2004 President’s Budget. The FY 2005 budget submission reflects a significant increase in FY 2004 personnel to accommodate this workload.

**Marine Corps Depots:**

*To provide quality, responsive maintenance and maintenance-related products and services to the Fleet Marine Force and other customers while maintaining the core industrial base necessary to support mobilization, surge and reconstitution requirements.*

**Depot Maintenance**  
FY 2003 Total End Strength - Actual





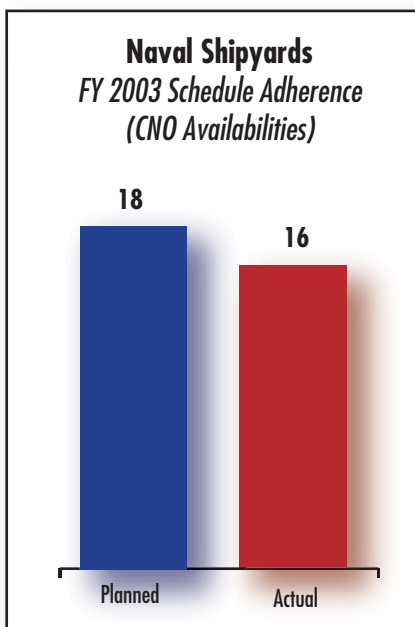


**Depot Maintenance: Net Cost of Operations (\$ in thousands)**

	FY 2003	FY 2002
Program Costs	\$ 5,192,971	\$ 5,234,807
Less: Earned Revenue	(5,346,593)	(4,787,303)
<b>Net Cost of Operations</b>	<b>\$ (153,622)</b>	<b>\$ 447,504</b>

**Net Cost of Operations**

In FY 2003, net cost of operation for Depot Maintenance activities decreased by 134 percent. This was primarily attributable to the 12 percent increase in earned revenue between FYs 2002 and 2003.



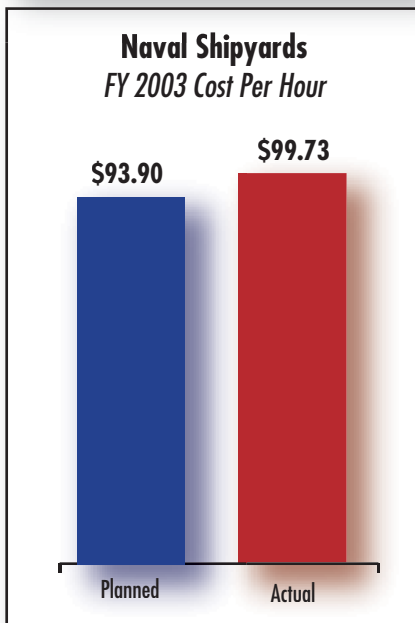
**Program Performance**

Below are highlights of Depot Maintenance program performance.

**Naval Shipyards**

**20/11 Initiative.** Naval shipyards are committed to minimizing turnaround for ship support services. To this end, Portsmouth Naval Shipyard (NSY) has implemented the 20/11 initiative. The goal of this initiative is to reduce the duration of engineered refueling overhauls from 24 months to 20 months, and depot maintenance periods from 13 months to 11 months. Currently, Portsmouth NSY has reduced engineered refueling overhauls to 22 months and depot maintenance periods to 12 months.

**Schedule Adherence.** Naval shipyards express schedule adherence in cumulative months for all Chief of Naval Operations (CNO) availabilities that are complete or expected to complete in the respective fiscal year. In FY 2003, the estimate of completions was 18 CNO availabilities on or ahead of schedule. The actual outcome was 16 CNO availabilities, 7.1 months late (see chart). Availabilities primarily responsible for late completion were the USS PHILADELPHIA, USS ENTERPRISE, and USS ASHEVILLE.



**Labor Hour Cost.** Naval shipyards (NSYs) express labor hour cost as an index, calculated as cumulative actual cost divided by the cumulative direct labor manhours. NSYs compare actual cost and direct labor manhours to budget estimates based on historical or engineered study estimates.

**Aviation Depots**

**Depot Component Program.** NAVAIR Depot Jacksonville works a varied mix of avionic, structural/mechanical, and engine components every quarter for the Naval Inventory Control Point. In the third quarter of FY 2003, NAVAIR Depot Jacksonville exceeded its quarterly goal of 10,500 units with 12,800 components. This was Jacksonville’s third consecutive record for FY 2003 quarterly component production.

**Engine Reliability Improvement Program.** NAVAIR Depot Cherry Point manages the Engine Reliability Improvement Program for restoring the T58-16 engine to its original design and power specifications. The T58-16 engine powers the CH-46E, the Marine Corps’ primary aircraft for transporting combat troops. In April 2003, Cherry Point delivered the first four Engine Reliability Improvement Program engines under budget and ahead of schedule. Cherry Point will deliver a total of 446 engines under the Engine Reliability Improvement Program, at a production rate of eight engines per month.



**Marine Corps Depots**

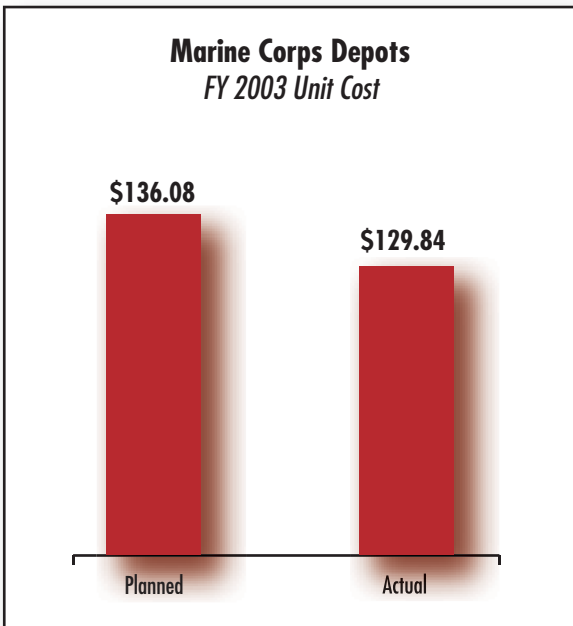
**Business Improvement Initiatives.**

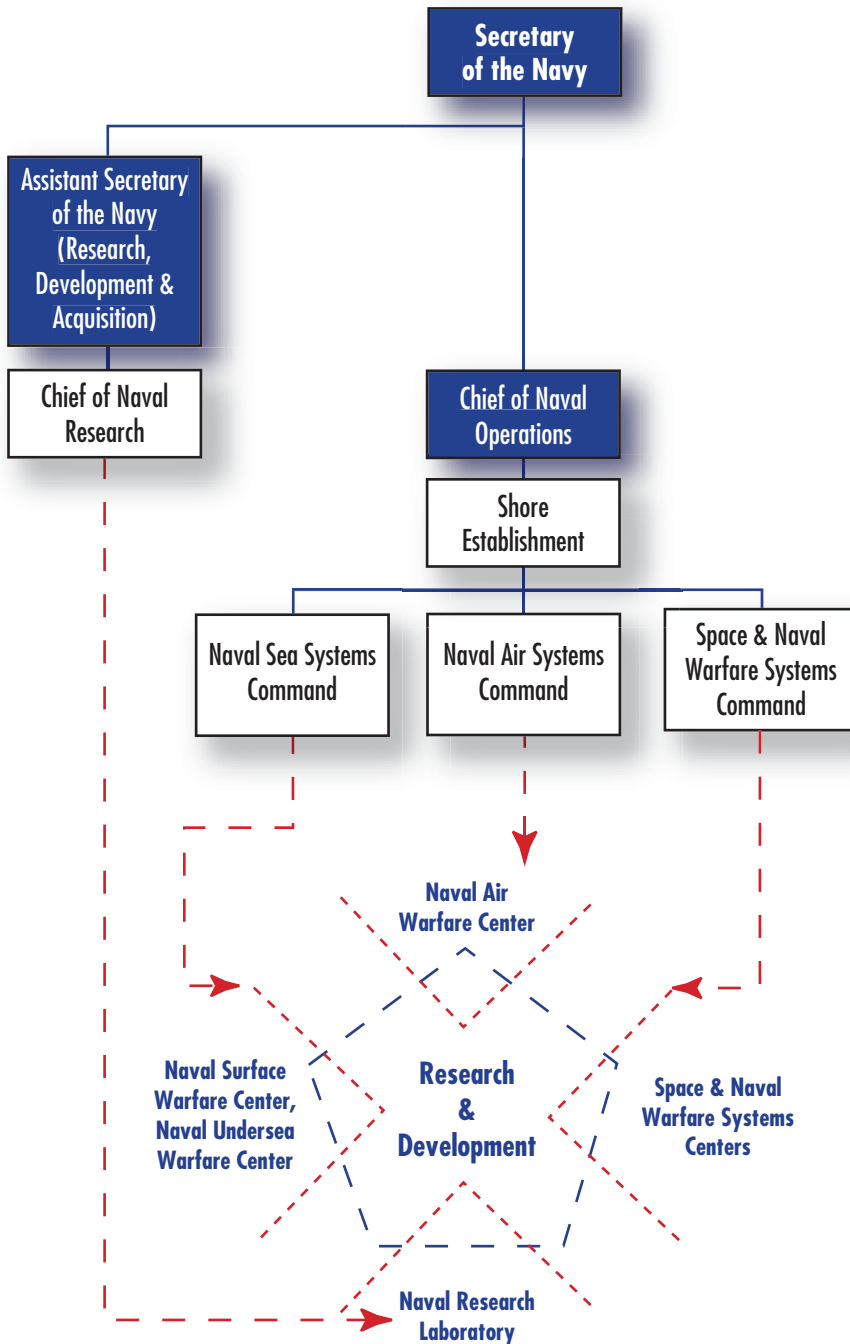
Marine Corps Depots have been successful in implementing the Theory of Constraints and Lean Thinking initiatives to eliminate inefficient shop-level procedures. Accomplishments in FY 2003 associated with Theory of Constraints and Lean Thinking include:

As a result of successful implementation of the business initiatives above, Marine Corps Depots have been registered under the Organization of International Standards (ISO 9002), guaranteeing them as viable participants to share business revenues with ISO-registered civilian contractors.

**Unit Cost.** In FY 2003, Marine Corps Depots reduced production of the material-intensive M1A1 Main Battle Tank, resulting in a significant decrease in direct material costs and a lower unit cost. Actual unit cost in FY 2003 was \$129.84 (see chart).

Theory of Constraints	Lean Thinking
<ul style="list-style-type: none"> <li>• Improved Readiness</li> <li>• Reduced Repair Cycle Time (by at least 50%)</li> <li>• Improved Schedule Conformance (on or ahead of schedule)</li> </ul>	<ul style="list-style-type: none"> <li>• Significant Increase in Shop Floor Space</li> <li>• Streamlined Process Flow</li> <li>• Increased Morale</li> </ul>





## Research and Development

The Research and Development Activity Group consists of the Naval Research Laboratory and four Naval Warfare Centers. These activities perform a wide range of research, development, test, evaluation, and engineering support functions.

### Naval Research Laboratory (NRL)

In FY 2003, NRL provided a clear technological advantage for our forces in Operations Enduring Freedom and Iraqi Freedom. From across the lab community, NRL fielded more than 42 research projects. Some of the critical new capabilities stemming from these projects included:

- MK-8 Two Man Low Visibility Sea Kayak used to detect and dispose of mines;
- Shared Reconnaissance Pod, a digital infrared reconnaissance system deployed aboard USS NIMITZ; and
- Dragon Eye, a five-pound Advanced Tactical Reconnaissance Unmanned Air Vehicle with a 45-inch wingspan designed for the Marine Corps to fit in a backpack, be assembled and operated by non-aviation personnel, and provide day and night reconnaissance and surveillance.

#### NRL Mission:

To operate the Navy's full spectrum corporate laboratory, conducting a broadly based multidisciplinary program of scientific research and advanced technological development directed toward maritime applications of new and improved materials, techniques, equipment, systems and ocean, atmospheric, and space sciences and related technologies.

#### NRL sites include:

- Washington D.C.
- Stennis Space Center, Bay St. Louis, Missouri
- Naval Support Activity, Monterey Bay, California
- Chesapeake Bay, Maryland Detachment

### **Naval Surface Warfare Center (NSWC) and Naval Undersea Warfare Center (NUWC)**

Under the purview of the Naval Sea Systems Command (NAVSEA), NSWC and NUWC perform broad and diverse support functions related to surface and undersea warfare, respectively. During FY 2003, NSWC focused on seamless collaboration with NUWC in several endeavors including Integrated Maritime Portable Acoustic Scoring and Simulation, Shallow Water Array Performance, and Submarine Electronic Warfare.

NUWC engineers and technicians provide real-time technical support and guidance to the Fleet using various technological capabilities such as a secure web-based chat room and a wearable communications system. NUWC utilized the chat room to orchestrate highly successful Tomahawk launches during Operation Iraqi Freedom. Also, NUWC created the Remote Technical Assistance Support System, an Internet-based application that provides audio, video, and text communications and is worn by Sailors.

Effective 1 October 2003, NSWC and NUWC operations will become more tightly integrated through centralized product management and implementation of 12 Product Area Directors. Each warfare center will have a Commander and Senior Executive Service Technical Director. The divisions of each warfare center will have a local Commander and Technical Operations Manager who will oversee daily operations. The Product Area Directors will be responsible for long-range planning and stewardship of technical capabilities within their product area, regardless of geographical location and division affiliation.



#### **NSWC Mission:**

*To operate the Navy's full spectrum research, development, test and evaluation, engineering and fleet support center for ship hull, mechanical, and electrical systems, surface combat systems, coastal warfare systems, and other offensive and defensive systems associated with surface warfare.*

#### **NUWC Mission:**

*To operate the Navy's full spectrum research, development, test and evaluation, engineering and fleet support center for submarines, autonomous underwater systems and offensive and defensive weapon systems associated with undersea warfare.*





**Aircraft Division, NAWC Mission:**

*To operate the Navy's principal research, development, test and evaluation (RDT&E), engineering, and fleet support activity for naval aircraft engines, avionics, and aircraft support systems and ship/shore/air operations.*

**Weapons Division, NAWC Mission:**

*To operate as the Navy's full spectrum RDT&E in-service engineering center for air warfare weapons systems (except anti-submarine warfare systems), missiles and missile subsystems, aircraft weapons integration, and assigned airborne electronic warfare systems; and as DON's air, land, and sea test ranges.*

**Naval Air Warfare Center (NAWC)**

NAWC has provided invaluable support to our forces engaged in Operations Enduring Freedom (OEF) and Iraqi Freedom (OIF). Responding to an OEF rapid deployment capability request from Marine Heavy Helicopter Squadron 461, teams from NAVAIR Patuxent River provided a flight clearance and prototype ramp-mounted weapons system (M3M) to the squadron in 40 days. The M3M consists of a .50 caliber machine gun mounted to the ramp of the CH-53E Super Stallion that can be installed and removed in under two minutes. In support of OIF, NAWC has provided technical and operational training expertise to the war fighter. Specifically, NAVAIR Fleet Weapons Support Teams provided a range of support services to fleet units worldwide, including missile and bomb inspections, weapons training, weapon and support equipment troubleshooting, testing and repair, missile exercise preparations, and air weapons bulletin support. Similarly, the NAWC Weapons Division supported operational Navy and Marine Corps training exercises on its sea, land, and electronic warfare ranges, including bomb and missile live fire exercises, electronic warfare operations, and fleet squadron combat readiness exercises.

NAWC is planning to expand the responsibilities of Chief of Naval Installations in FY 2004. Specifically, NAWC will transfer Base Operating Support functions to Chief of Naval Installations effective 1 October 2003.

**SSCs Mission:**

*To operate the Navy's full spectrum research, development, test and evaluation, engineering and fleet support centers for command, control, and communication systems and ocean surveillance and the integration of those systems which overarch multiplatforms.*

**Space and Naval Warfare Systems Centers (SSCs) – Charleston and San Diego**

Under the purview of the Space and Naval Warfare Systems Command (SPAWAR), SSC Charleston and SSC San Diego provide scientific and technical expertise to the Fleet. Specifically, SSC Charleston is engineering and fielding over 150 Internet Protocol voice and data satellite packages to be installed across Iraq in support of deployed forces under Coalition Joint Task Force – 7. These systems will provide deployed service members with high-speed commercial Internet access for personal e-mail and distance education. Also, SSC San Diego's Marine Mammal program provides force protection support in Bahrain. Deployed to Manama Harbor, Mark 6 Marine Mammal System dolphins can locate water-borne intruders and suspicious objects that pose threats to military forces.

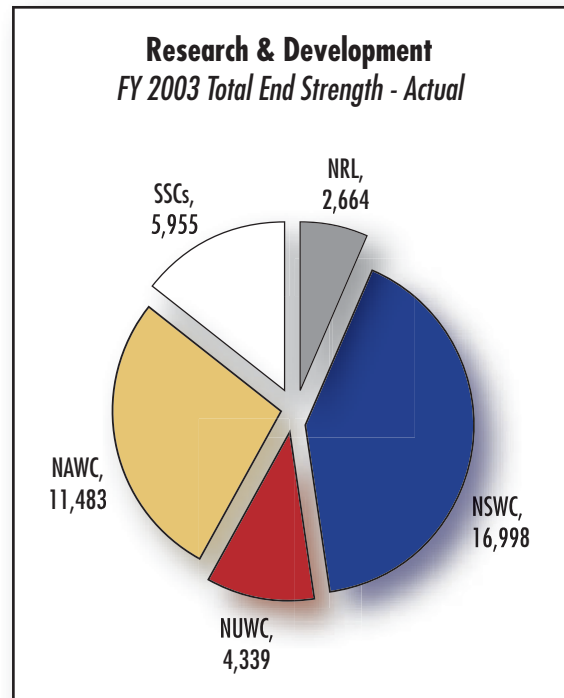
## Personnel

Total end strength (civilian and military personnel, actual) in FY 2003 for Research and Development (R&D) was 41,439.

Civilian employees comprised at least 97 percent of total end strength (actual) per activity.

Beginning in FY 2004, R&D activities anticipate changes in workforce.

- NRL budget estimates for FY 2004 and beyond include a 10 workyear savings in General and Administrative attributable to efficiencies in business support functions.
- NAWC anticipates a decrease in civilian and military end strength and workyears due to Chief of Naval Installation initiatives.
- SSCs plan to downsize their indirect workforce by 67 employees. Also, SSCs will continue their efforts to attract and retain talented C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance) professionals to revitalize the workforce and compensate for the loss of personnel eligible to retire in the near future.



## Net Cost of Operations

In FY 2003, net cost of operations for Research and Development (R&D) activities decreased by 96 percent.

### Researched Development: Net Cost of Operations (\$ in thousands)

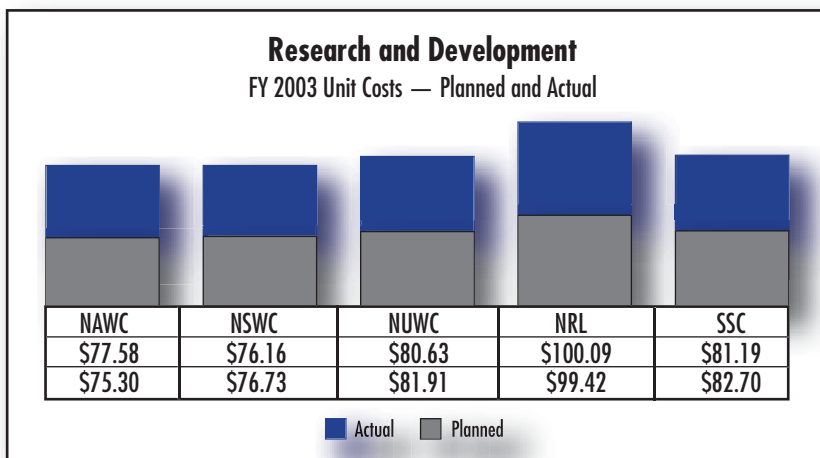
	FY 2003	FY 2002
Program Costs	\$ 9,573,205	\$ 9,158,580
Less: Earned Revenue	(9,585,868)	(9,470,297)
<b>Net Cost of Operations</b>	<b>\$ (12,663)</b>	<b>\$ (311,717)</b>





### Program Performance

The span of R&D activities' products and services is broad and diverse. The primary measure of performance applicable across all R&D activities is cost per direct labor hour, calculated as direct labor (civilian and military labor plus overhead) divided by direct labor hours. This financial indicator measures the activities' cost effectiveness in performance of their mission. The chart below presents FY 2003 planned and actual cost per direct labor hour for each R&D activity.



## Transportation

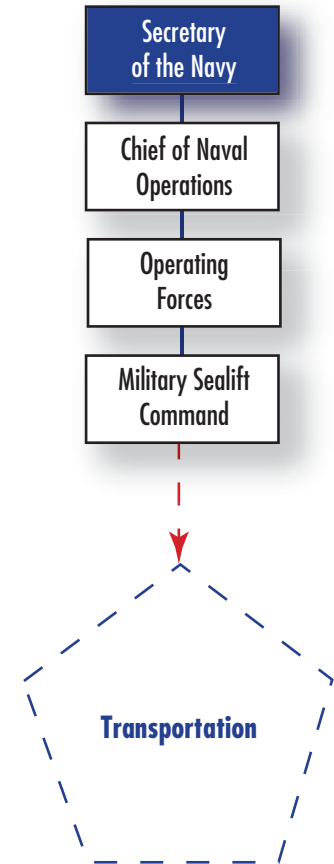
Since the commencement of the Global War on Terrorism in 2001 and the buildup for Operation Iraqi Freedom in 2003, the Military Sealift Command (MSC) has been at the forefront of the U.S. response. Having dual reporting responsibilities to DON and the U.S. Transportation Command, MSC has provided a variety of services and supplies to U.S. and allied forces worldwide. For example, USNS COMFORT, part of the Naval Fleet Auxiliary Force, provided medical care during Operation Iraqi Freedom.



**USNS COMFORT** is one of the Military Sealift Command's two hospital ships and part of the Naval Fleet Auxiliary Force.

For purposes of the Navy Working Capital Fund, MSC supports three separate and distinct ship programs:

- Naval Fleet Auxiliary Force (NFAF) provides fuel, food, ammunition, spare parts and other supplies, enabling the Navy fleet to operate at the highest possible operating tempo;
- Special Mission Ships (SMS) provide oceanographic and hydrographic surveys, underwater surveillance, missile flight data collection and tracking, acoustic research and submarine support, and other support for Department of Defense sponsors; and
- Afloat Pre-Positioning Force Ships – Navy (APF-N) provide military equipment and supplies for a contingency forward deployed in key ocean areas before it is needed.



### **MSC Mission:**

*To provide ocean transportation of equipment, fuel, supplies and ammunition to sustain U.S. forces worldwide during peacetime and in war for as long as operational requirements dictate.*







MSC ships are unique compared to other U.S. Navy ships in that they are non-combatant; include both government-owned and chartered vessels; and are crewed primarily by civilian mariners from the U.S. Civil Service and from private operating companies.

***"Forward...From the Sea"***

MSC Headquarters - Washington, DC  
MSC Europe - Naples, Italy  
MSC Far East - Yokohama, Japan  
MSC Pacific - San Diego, California  
MSC Atlantic - Camp Pendleton, Virginia  
MSC Central - Manama, Bahrain

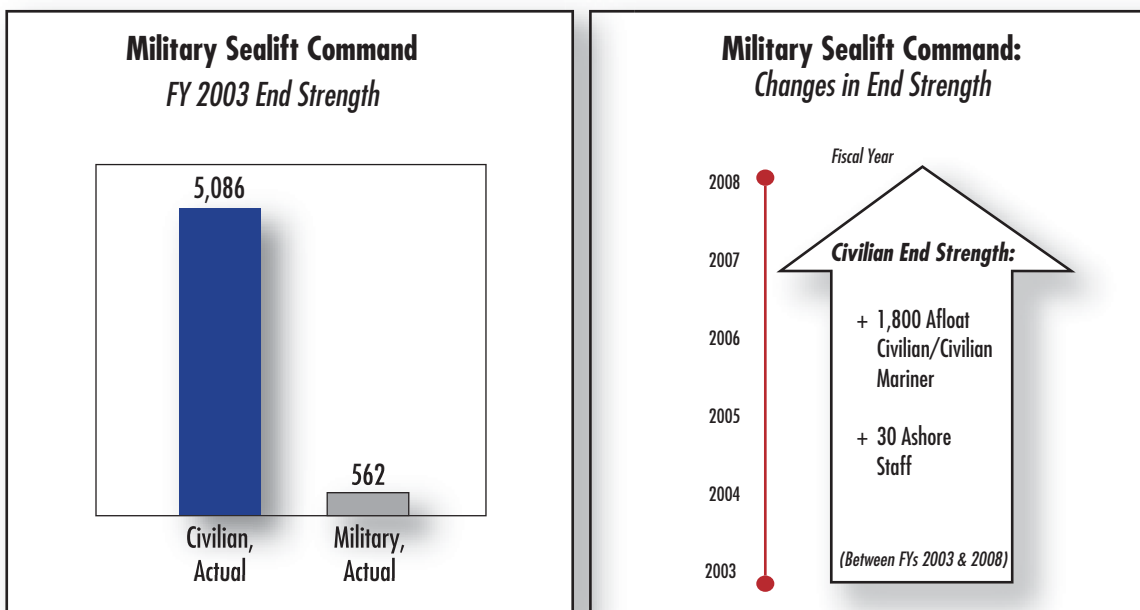
MSC is currently reexamining its organizational processes, functions and structure in order to improve efficiencies and cost-effectiveness. While no major organizational changes were made in FY 2003, the Commander Naval Surface Force, U.S. Atlantic Fleet is expected to merge with MSC Atlantic as early as FY 2004. This merger will enable the Commander Naval Surface Force, U.S. Atlantic Fleet to realize efficiencies due to the pending decommissioning of USN AOE-1 Class oiler/ammunition ships.



**USNS CONCORD** is one of Military Sealift Command's six combat stores ships and part of the Naval Fleet Auxiliary Force.

## Personnel

Total end strength in FY 2003 was 5,648 (see chart). However, over the next five years, total end strength will change. Increases in both civilian and military end strength will occur primarily to meet crewing demands of additional ships – AOE-6 Class and 12 USNS LEWIS and CLARK Class ships. Beginning FY 2005, decreases in military end strength will occur primarily due to elimination of military detachments on board two of MSC’s Special Mission Ships: USNS ZEUS, MSC’s only cable repair ship, and USNS CAPABLE, one of six ocean surveillance ships. The illustration below provides a graphic summary of MSC changes in end strength.



## Net Cost of Operations

In FY 2003, net cost of operations for the Military Sealift Command decreased by 58 percent, while program costs and earned revenue grew by 29 percent and 21 percent, respectively.

### Military Sealift Command: Net Cost of Operations (\$ in thousands)

	FY 2003	FY 2002
Program Costs	\$ 1,789,147	\$ 1,387,148
Less: Earned Revenue	(1,844,089)	(1,518,664)
<b>Net Cost of Operations</b>	<b>\$ (54,942)</b>	<b>\$ (131,516)</b>





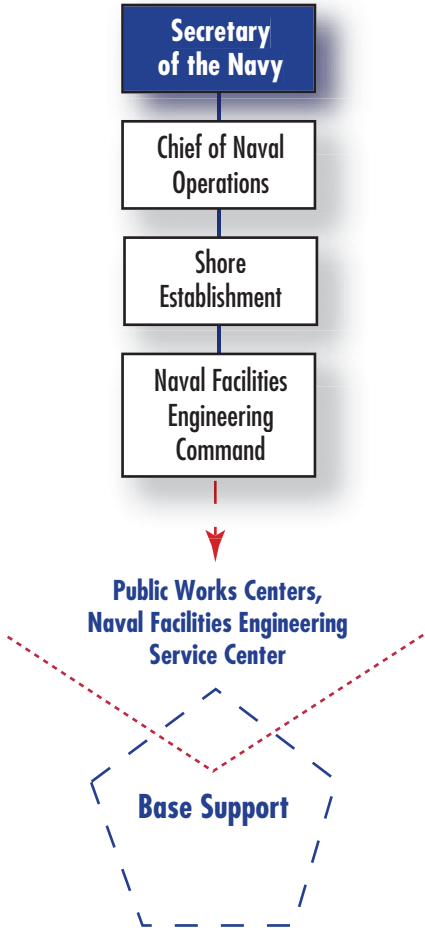
## Program Performance

To ensure mobility of combat-ready naval forces, it is critical that MSC meet its readiness goals. MSC bases readiness on “goal days,” calculated as the number of days ships are available to perform a mission multiplied by the number of ships in the program. In FY 2003, MSC exceeded 100 percent readiness in the APF-N ship program with the addition of USNS WHEAT. In the SMS ship program, readiness fell from 100.1 percent in FY 2002 to 87.6 percent in FY 2003, with the deactivation of seven ships. The chart below presents the goal days, actual days, and readiness percentage for all three ship programs in the past four fiscal years.

	GOAL DAYS	ACTUAL DAYS	READINESS %
<b>NFAF</b>			
FY 2003	24,153	24,179	100.1%
FY 2002	24,091	24,212	100.5%
FY 2001	22,020	22,017	100.0%
FY 2000	21,594	21,329	98.8%
<b>APF-N</b>			
FY 2003	6,205	7,396	1119.2%
FY 2002	6,020	6,020	100.0%
FY 2001	5,842	5,689	97.4%
FY 2000	5,673	5,605	98.8%
<b>SMS</b>			
FY 2003	10,220	8,957	87.6%
FY 2002	10,128	10,142	100.1%
FY 2001	9,942	9,630	96.9%
FY 2000	9,785	9,445	96.5%

### Base Support

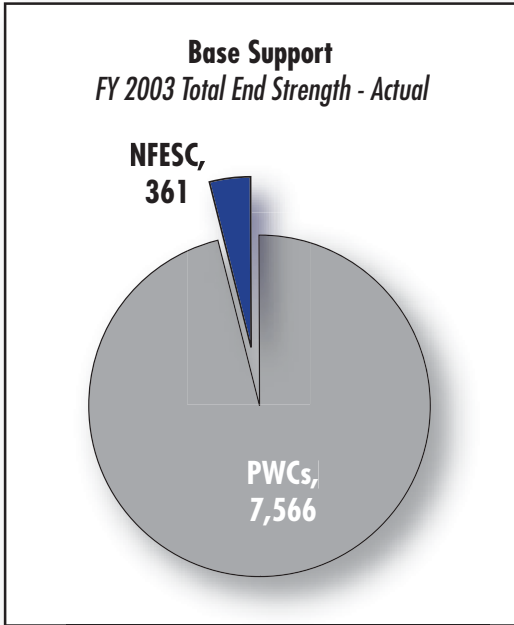
The Base Support Activity Group consists of nine Public Works Centers (PWCs) and the Naval Facilities Engineering Service Center (NFESC). The PWCs provide a range of services to meet the diverse needs of their clients. These services include facilities maintenance, transportation support, and family housing. NFESC, located in Port Hueneme, California, provides the Navy with specialized facilities engineering and technology support. NFESC responsibilities range from providing shore establishment physical security to environmental waste management to energy conservation systems.



**Public Works Center Mission:** To provide utility services, facilities maintenance, family housing services, transportation support, engineering services, and shore facilities support to afloat and ashore operating forces and other activities.

**Naval Facilities Engineering Services Center Mission:** To provide engineering, design, construction, technology implementation, and management support worldwide to shore, ocean, and waterfront activities and to amphibious and expeditionary operations.





### Personnel

Total end strength in (actual) FY 2003 for Base Support activities was 7,927, with military personnel comprising one percent of the total.

### Net Cost of Operations

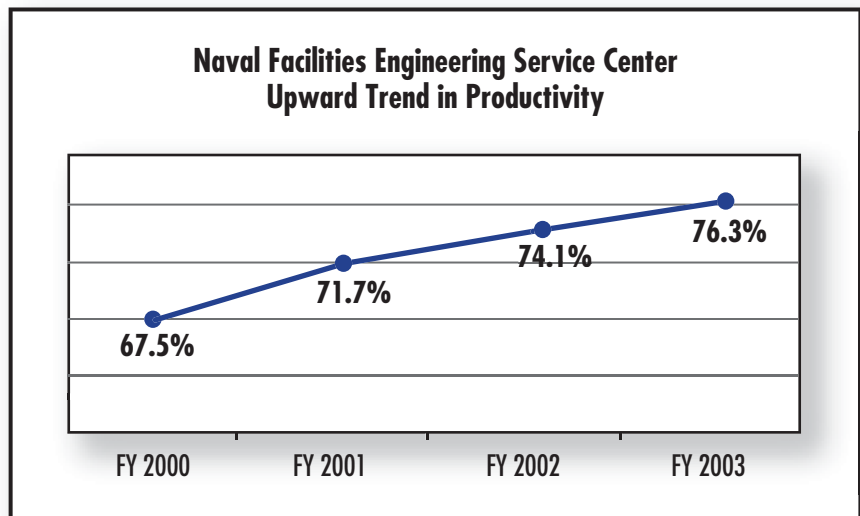
In FY 2003, program costs and earned revenue for Base Support activities decreased by 5 percent and 6 percent, respectively, with an overall decrease in net cost of operations of 60 percent.

#### Base Support: Net Cost of Operations (\$ in thousands)

	FY 2003	FY 2002
Program Costs	\$ 1,569,729	\$ 1,654,492
Less: Earned Revenue	(1,584,722)	(1,691,934)
<b>Net Cost of Operations</b>	<b>\$ (14,993)</b>	<b>\$ (37,442)</b>

### Program Performance

NFESC productivity continues an upward trend in FY 2003. Since FY 2000, NFESC workload has increased and manual processes have been automated, reflecting an overall increase in productivity (see chart).



## Conclusion

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the Title 31, United States Code, Section 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.



