# Department of the Navy

*Annual Financial Report*

## Fiscal Year 2000

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**DEPARTMENT OF THE NAVY**
OFFICE OF THE SECRETARY
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**February 2001**

## MESSAGE FROM THE SECRETARY OF THE NAVY

To meet the demands of the Nation's interests, and to maintain the distinction of being the greatest Navy in the world, it is imperative that we take care of our most important asset, our people. Our Navy and Marine Corps have always been ready when called upon to serve our great country. To maintain this level of readiness in the future, the Department of the Navy (DON) must hold "quality of service" as one of its highest priorities.

Fiscal Year 2000 proved to be challenging in many ways. In particular, the tremendous employment opportunities in the private sector resulting from the robust economy made recruiting and retention top priorities within DON. We made improvements in several quality of life areas such as military compensation, family housing, and family support. We also implemented programs which enabled service members to pursue college degrees during their military careers, as well as "Smart Work" programs that provide better, more efficient, ways of doing business. We did all of these things while continuing to maintain our high standards of combat readiness.

This DON Annual Financial Report serves as a means to communicate to the Congress and the public our commitment to be good stewards of the resources that have been entrusted to us. For the fifth year now, the DON has prepared and submitted this report as the framework of accountability for supporting the Naval mission. This report focuses on the performance and financial condition of the DON in response to the Chief Financial Officer's Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994 (Public Law 103-356).

Robert B. Pirie, Jr.
Acting

# Department of the Navy Annual Financial Report
# *Overview*

*"I'm proud of what the Navy is doing in our forward areas of deployment. Their performance is superb. Our people are performing brilliantly. They are proud. They are ready."*

**Adm. Vern Clark, Chief of Naval Operations**

# Overview

## *Serving the Nation's Needs in FY 2000*

### Summary of FY 2000 operations

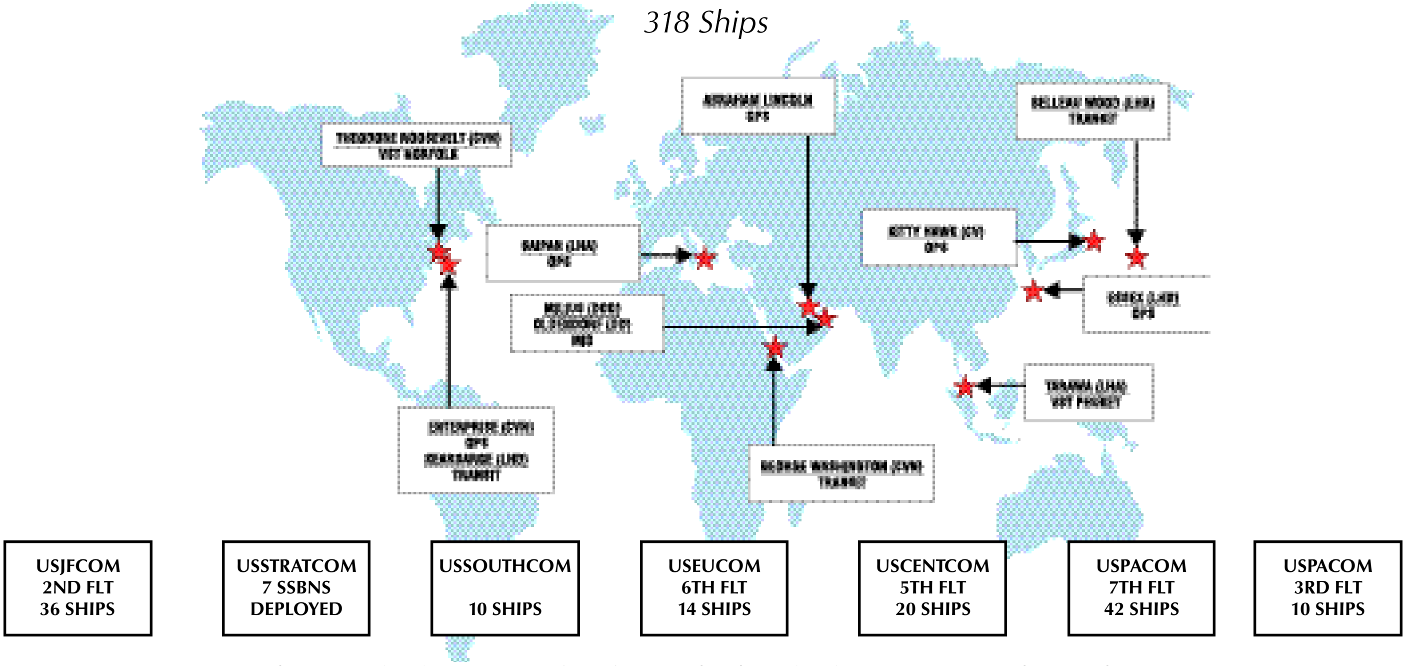
For more than 224 years, the U.S. Navy has promoted the security and stability of the United States. Together with the Marine Corps, we are "always there . . . for America," ready for whatever we are asked to do—ultimately, to fight and win.

The size of the Department of the Navy (DON) has diminished by 40 percent over the last decade, but the number and pace of naval operations has increased dramatically, placing great strain on our people, ships, aircraft, and equipment. Throughout FY 2000, the DON was forward-deployed worldwide in constant support or defense of the nation's security objectives, citizens, interests, and friends. Our global presence helped shape and influence regional political and military environments and helped preserve our access to areas of vital strategic importance to the United States. We were also called upon to respond to crises and conflicts in Kosovo, the Middle East, and East and Southwest Asia. This year holds similar promise of worldwide commitments and high-tempo operations.

The increasing complexity and pace of our operations is placing great demands on the DON. Given the current global environment, it is critical that we improve our access to and sharing of information. Our forces must be able to accomplish networked operations, we must develop greater maneuverability, and we must have better sensor and weapon capabilities. By maintaining a robust and flexible forward presence of combat-credible naval forces with a superior knowledge of the battlespace in which they operate, the DON will continue to meet its ultimate objective: "To project U.S. power from the sea to influence, directly and decisively, events ashore throughout the spectrum of operations in peacetime, crisis, and war."

**Naval Force Presence - September 2000**

*318 Ships*




Underway: 139 (44%), 5 CVs, 5 LHAs/LHDs/MCS; Deployed: 105 (33%), 2 CVBs, 2 ARGs, Total personnel: 48,042; 13 Exercises/Operations ongoing, Port visits to 10 countries

# Department of the Navy Priorities

## *Prioity One: Take Care of Our People*

The DON must make a commitment to its people, its most vital resource. The combat-readiness of our naval forces depends on the dedication and motivation of our individuals—Sailors, Marines, and civilians. Developing and retaining quality people is vital to our continued success and is among the Department's greatest challenges. We must place a premium on recruiting, training, and retaining the best people our country has to offer. We must succeed at this in an environment in which the cost of securing a highly skilled, ***all-volunteer force*** is significantly increasing. As such, we must invest wisely to enhance the quality of life of our Sailors and Marines and consequently the quality of service of the Navy and Marine Corps.

A Midshipman dons flight gear prior to a training flight from the USS Dwight D. Eisenhower (CVN 69).

### Retention Efforts

Maintaining this quality of service requires that our personnel be assured adequate compensation, a guaranteed retirement package, comprehensive health care, and other benefits traditionally associated with quality of life programs. Other aspects of quality of service are less tangible but in some ways more important. These intangibles, which include job satisfaction, the opportunity for professional growth, training and education, and personal recognition, are crucial elements contributing to quality of service and are central to the operational readiness and combat effectiveness of the Navy-Marine Corps team.

An Ensign and his wife embrace their son during the USS McFaul's homecoming.

Recent improvements in military compensation, including increased pay and benefits, will enhance our ability to attract and retain high-quality individuals. Consistent support for competitive compensation across the board will be invaluable as we seek to address recruiting and retention challenges for the total force.

Increased compensation alone is not sufficient, however. We are continuing to invest in housing, community and family support, transition assistance, and morale and recreational activities. The DON's Chief of Naval Education and Training (CNET) has begun to implement programs that will make it easier for Sailors to pursue college degrees during their Navy careers. The enhanced Navy College Program (NCP) will expand the existing system of voluntary education with several new features. The ultimate goal is to create a program that will enable all Sailors to study on their own time and at their own pace, both ashore and while they are deployed. The Marine Corps has also

*"In the past, young people joined the Navy to get money to go to college after their service. Now, young people join the Navy to go to college while serving their country.."*

**Adm. Jay L. Johnson (Retired)**
**Chief of Naval Operations**

enhanced the opportunities offered by distance learning, by developing advanced systems such as the Marine Corps Satellite Education Network (MCSEN) and the MarineNet Distance Learning Program.

To address quality of life concerns, the Navy has significantly reduced its unmanned at-sea billets from more than 18,000 in 1998 to fewer than 8,000 today. Unmanned billets create additional burdens for units, often requiring Sailors to be assigned out of their specialties or to be called upon to do double duty.

The physical well-being of our Sailors and Marines remains an integral part of our overall readiness. The DON is working with the Department of Defense (DoD), the Joint Chiefs of Staff, and the other services on ways to improve TRICARE.

An Operations Specialist trouble shoots a computer station in the Combat Direction Center aboard the USS Enterprise (CVN 65).

In FY 2000, the DON significantly improved the benefits for our active and retired Sailors and Marines by approving lifetime TRICARE eligibility and a comprehensive pharmacy benefit.

## Recruiting Strategies

The DON's recruiting efforts must extend to all segments of America's population if we are to find the qualified people we need and if we are to take full advantage of our nation's diversity. We now maintain a significantly larger recruiting force than in previous years and have increased the number of recruiting stations and expanded our advertising to improve accessibility and visibility. We have also implemented several new or enhanced programs to improve our recruiting performance.

**Enhanced Incentives.** College fund programs, together with the Montgomery GI Bill, help Sailors and Marines pay for college education. The Navy and Marine Corps also offer enlistment bonuses, paying cash awards to qualified recruits.

**Targeted general detail recruits for "A" schools.** To attract more recruits, we are guaranteeing advanced technical training after an initial 12-18 month sea tour as a general-detail sailor. This increased time our first-term Sailors spend at sea enhances Fleet readiness, gives new Sailors valuable experience, and improves the motivation of Sailors entering "A" school, thereby reducing attrition from these schools.

The recruiting environment nonetheless continues to prove daunting. Record-low unemployment and increasing college enrollment have diminished the incentives to enlist for military service. Although the Navy and Marines met recruiting and end-strength requirements for FY 2000, we have been unable to improve our recruiting posture entering FY 2001 and the numbers in the Delayed Entry Program, our recruiting reservoir, remain low. We will continue to maintain our current high numbers of recruiters and will expand the recruiter support structure as we seek to overcome these problems.

## *Priority Two: Fully Support Near-term Readiness and Related Modernization*

Our battle force ships, aviation units, and Marine forces are the essential tools with which the DON must achieve the National Military Strategy goal of shaping the international environment and responding to the full spectrum of potential crises. In FY 2000, the DON undertook the following initiatives in accordance with this goal:

- Made contributions to multilateral operations under United Nations/NATO Auspices
- Entered cooperative agreements with allied navies

The naval services must be ready at all times to fulfill missions such as these, but at the same time we must seek to acquire the capabilities we will need to successfully meet the future needs of the nation. The DON has two parallel strategies to ensure that we are able to deliver this future readiness. The first of these is to put in place the resources necessary to attract, train, and retain the people that we will need.

| September 2000 | Active Navy Personnel | Active Marine Corp Personnel |
|---|---|---|
| Active Duty Personnel | 372,978 | 172,570 |
| Officers | 53,575 | 17,888 |
| Enlisted | 315,403 | 154,682 |
| Midshipmen | 4,000 | N/A |
| Selected Reserves | 71,321 | 37,330 |
| Civilians | 177,718 | 17,055 |

***Source: FY 2002 Department of the Navy Budget Submission to the Secretary of Defense.***

Maintaining a workforce with the skills and talents that the Navy needs requires constant attention. During the 1990s, we reduced our force structure, postponed some modernization and re-capitalization, and redirected our resources to maintain operational readiness. The pace of operations and deployments continued unabated during this period, however, challenging our ability to meet the professional and personal needs of our Sailors and Marines. We clearly need to find a more equitable balance between our operational requirements and our responsibilities to our people.

Our second strategy for readiness is to ensure that our Sailors and Marines have the ships, aircraft, and equipment necessary for the complex and demanding jobs that lie ahead.

The importance we place on achieving this objective is reflected by the improvements we have made in ship maintenance programs, flying hours, and

CH-46 “Sea Knight” helicopter flies off the coast of Dili, East Timor in support of the transition from International Forces East Timor to the new United Nations Transitional Administration in East Timor.

management of spares. During FY 2000, we focused on ensuring that these key operational areas achieved readiness goals in preparation for the execution of the National Military Strategy. Operational demands in FY 2000 and the costs of maintaining readiness nonetheless caused some setbacks. Our ships and aircraft have been working harder than ever, and our Sailors and Marines are under increasing pressure to meet their commitments and to answer the demands placed upon them.

Shipyard workers work on catapult rods aboard USS Theodore Roosevelt (CVN 71).

## *Priority Three: Sustain Vital Programs*

Naval readiness can only be sustained into the future through programs that develop and deliver technologically superior platforms and systems to the Fleet. America's emergence from the Cold War as the sole global naval superpower permitted a decade of greatly diminished investment and a period of industrial, technological, and economic reorganization. In FY 2000, many vital programs were initiated or maintained to improve the way the Navy and Marines fight, work, and live, with a particular emphasis on technological advancement, modernization, and revitalization. A sampling of these initiatives follows.

**Ship Programs**

*Surface Programs* remain the backbone of the National Defense.

- Continued advanced procurements of materials for the last Nimitz-class aircraft carrier (CVN-77) and the refueling overhaul of USS Eisenhower (CVN-69).
- Began construction of the third and fourth San Antonio-class amphibious transport dock ships (LPD-17 class).

*Submarine Programs* continue to be the mainstay of the country's ability to covertly project power.

- Advanced procurement for the first Virginia-class submarine (SSN-774) incorporating advanced technology such as conformal sonar arrays, electromagnetic silencing, and other features.
- Purchased 12 Trident II (D-5) missiles.

Aboard the USS Dwight D. Eisenhower (CVN 69) in the Arabian Gulf.

**Aviation Programs** plan to maintain qualitative superiority well into the new century.

- Initiated full-rate production of the "Super Hornet" (F/A-18E/F).
- Purchased 105 aircraft to maintain qualitative superiority into the future.

The F/A-18E/F "Super Hornet" will conduct both air-to-air and air-to-ground combat missions.

**Mine Warfare** is critical to the Navy's modernization.

- Began development and fielding of several next-generation Organic Airborne Mine Countermeasure (AMCM) systems, for full integration on the H-60 helicopter.

**Command, Control, Communications, Computers, and Intelligence (C4I) Programs** refer to the application of information technology to the 21st century Navy.

- Established funding for the Navy Marine Corps Intranet (NMCI), which will replace the DON's numerous shore-based networks with one secure interoperable network that will provide voice, video, and data services to all Navy and Marine Corps personnel.
- Procured local area network (LAN) and automated digital network systems for Ship Communications Automation, providing connectivity between ship, shore, and satellite.

**Marine Corps Ground Equipment** continues to address and increase the pace of modernization.

- Undertook several major replacement, remanufacture, and modernization efforts, including the Medium Tactical Vehicle Replacement (MTVR) and Assault Amphibious Vehicle (AAV) Reliability, Availability, and Maintainability/Rebuild to Standard (RAM/RS) programs.
- Accelerated procurement of High Mobility Multipurpose Wheeled Vehicles.

Investment in our most critical future platforms remains on track. These investments are vital for the realization of our essential future capabilities, but also have profound implications for reducing operating costs and naval force levels.

U.S. Marines stand by in Assault Amphibious Vehicles (AAVP 7A1).

## Pressures on Department of the Navy Programs

### *Heavy Use of the USN/USMC Team*

When a crisis occurs, our country normally looks to the Navy and Marine Corps as the forces of first resort, due to their mobility, forward deployment, and self-sufficiency. We have been called upon to respond to more than 120 contingencies in the last decade.

The Navy and Marine Corps provide the nation with a permanent and adaptable instrument of security policy, used to both promote stability and project maritime power. Expeditionary

The USS Dwight D. Eisenhower (CVN 69) passes through the Suez Canal during the mid point of its six-month deployment.

naval forces are capable of shaping the global security environment during peacetime, in crisis, and in war. Today, the continuous presence of naval expeditionary forces:

- Assures the unhindered transport of oil in the Arabian Gulf;
- Keeps potential opponents from engaging in naval competition in Northeast Asia and the Middle East; and
- Signals U.S. interest, readiness, and ability to act should a crisis develop off the coasts of Latin America, Africa, and South Asia.

The enduring advantage of naval power is its inherent flexibility. The expeditionary character of the U.S. Navy and Marine Corps team; its mobility, adaptability, and visibility; its ability to operate cooperatively or independently; and its immense firepower mean that our nation has in its Navy an especially relevant and useful force.

## *Excess Infrastructure*

The number of DON ships and Sailors has declined by 40 percent and 30 percent respectively since 1988. In the same period, infrastructure has decreased by only 17 percent. While shore facilities are important, we can maintain only bachelor quarters, utilities, and waterfront, airfield, and training facilities in conditions of readiness that meet mission demands. It is clear that the DON continues to maintain an excessive level of infrastructure.

The Base Realignment and Closures (BRAC) program was consequently instituted to address this problem, with the objective of reducing the domestic base structure and generating cost savings across the force. Current BRAC initiatives require the closure and realignment of 44 bases and facilities by the end of FY 2001.

The results of the BRAC programs have been positive. It is estimated that the DON will reduce infrastructure costs by more than $5.6 billion through FY 2001 and by $2.6 billion per year thereafter. The Navy additionally plans to demolish 9.9 million square feet of excess or obsolete infrastructure over the next few years, and will continue to reduce infrastructure costs in alignment with DON needs.

In addition to BRAC, the DON has actively pursued several other initiatives to streamline its infrastructure, including shore facility regionalization and the use of strategic sourcing and privatization. By reducing operating and maintenance costs, these initiatives will vastly improve the efficiency and performance of support infrastructure.

## *Industrial Base Burdens*

The Navy's ships are aging, and our shipbuilding rate is inadequate to recapitalize the Fleet or even to sustain the Quadrennial Defense Review (QDR) force. We are similarly unable to procure new combat aircraft fast enough to sustain our force at the level necessary for the future. With ammunition inventories, weapons systems, and the submarine force similarly situated, renewed investment in procurement is now imperative. We have benefited greatly from additional readiness funding from Congress and the administration, but we need further resources to ensure that we can fund non-deployed readiness at sufficient levels.

The destroyer USS Arthur W. Radford (DD 968) undergoing repairs at Norfolk Naval Shipyard.

We are continually reviewing the flying hour program to ensure our funding reflects the increasing operational costs associated with our aging aircraft. We are doing the same for aircraft depot maintenance, to ensure that engine and airframes maintenance is sufficient to meet fleet requirements for available and spare engines. Shortfalls in maintenance, spare parts, and support equipment, however, are affecting training and readiness among our non-deployed forces, particularly in the naval aviation community.

## *Essential Technology Investments*

Robust investment is essential for maintaining the preeminence of our naval forces, especially during a time of extraordinarily rapid technological change. Second only to our people, it is technology that will underpin our forces of the future. Technological advances can be expected to significantly affect areas as disparate as warfighting tactics and techniques, propulsion plants, and overall platform cost and design.

- **Integrated Power Systems (IPS).** Electric propulsion, envisioned for use in future surface and submarine platforms, will enable the integrated powering of all propulsion, combat systems, and ship services, thus enhancing warship capability. IPS is expected to save resources and enhance operational effectiveness by reducing fuel consumption, reducing maintenance, and enhancing crew ability to handle combat battle damage. It will also give ship designers greater flexibility, enabling them to use the ship's volume more efficiently.

Officials say the new class electric powered ship, known as the 21st Century Land Attack Destroyer (DD-21), will be christened in 2025.

- **Unmanned Aerial Vehicles (UAVs) and Unmanned Underwater Vehicles (UUVs).** Sensors and processing technology has advanced at an amazing pace, prompting a corresponding increase in demand for the battlespace information that these new technologies can deliver. Future roles for UAVs and UUVs include reconnaissance and targeting, environmental data collection, and, ultimately, direct combat.

### *Capability for the Future*

Unique among the services, the Navy-Marine Corps team operates in six battlespace dimensions: on the sea, under the sea, on land, in the air, in space, and in cyberspace. This raises the challenges of how to divide our resources across these different dimensions, which we meet in part by shifting the emphasis of our investments as opportunities present themselves; and of how to maintain optimum synergy between the Navy and Marine Corps when working in these diverse battlespaces. A major goal of the DON is to ensure that the Sailor and Marine of the future are fully served by the remarkable technologies currently in development. Below are some of the future capabilities we are exploring are:

- Information Distribution
- Time Critical Strike
- Decision Support System
- Organic Mine Countermeasures
- Autonomous Operations
- Littoral Antisubmarine Warfare
- Platform Protection
- Missile Defense
- Expeditionary Logistics

## Department of the Navy Program Performance Highlights

The Government Performance and Results Act (GPRA) of 1993 requires federal agencies to submit a comprehensive strategic plan identifying their major goals and objectives, against which the actual achievements of the agency can be compared. Through this requirement GPRA seeks to improve government-wide program effectiveness, accountability, and ultimately public confidence. The DoD has developed a Strategic Plan, based on the Quadrennial Defense Review (QDR) from which it has issued two corporate-level goals for all departmental branches: "Shape and Respond" and "Prepare." Each of these goals incorporates performance measures that support an overall performance goal. The performance measures provide the DON with the means to assess progress in key areas, enabling the continued success of the force and ensuring that the Navy and Marine Corps are ready when called to action.

### *DoD Corporate Goal 1: Shape and Respond*

The DoD's first corporate goal, to shape the international environment and to respond to the full spectrum of crisis by providing appropriately sized, positioned, and mobile forces, incorporates three performance goals. These goals are outlined below, along with the corresponding DON supporting performance metrics:

1. Support U.S. regional security alliances through military-to-military contacts and the routine presence of ready forces overseas, maintained at force levels determined by the QDR.
   - Navy Overseas Presence

2. Maintain ready forces and ensure they have the training necessary to provide the United States with the ability to shape the international environment and to respond to any crisis.
   - Force Levels
   - Flying Hours
   - Number of Steaming Days per Quarter

3. Maintain sufficient airlift and sealift capability, with adequate prepositioning, to

move military forces from the United States to any location in the world.

- Air and Sealift Capability

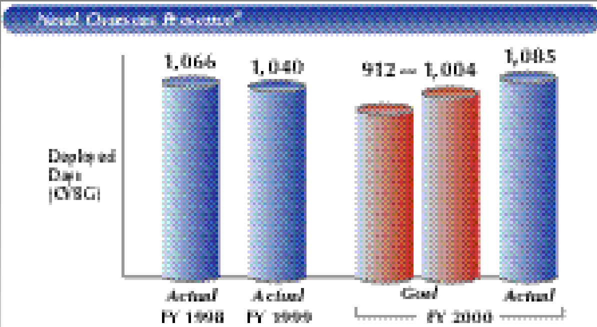
Our ability to achieve dominance on the world's oceans and to project lethal force ashore enables the DON to shape the international environment and to protect America's citizens, interests, and allies whenever and wherever needed. The following performance measures ensure that the DON meets the DoD performance goals, by maintaining a routine overseas presence, ready, properly supplied, and with sufficient air and sealift capability to respond to any crisis.

## Overseas Presence

This metric gauges the ability of naval air, land, surface, and submarine forces to rapidly respond in times of crisis, and its ability to engage in exercises, military-to-military contacts, and other activities in support of regional alliances. The DON's goal is to increase the number of days per year that carrier battle groups (CVBGs), marine expeditionary units (MEUs), and amphibious-ready groups (ARGs) are deployed overseas, and by so doing to increase the amount of time that the strategic regions identified in the table below are covered by a U.S. naval presence.

**Results:** The DON met FY 2000 performance targets for overseas presence, meeting or exceeding targets in all strategic arenas.

Naval Overseas Presence[a]




Percentage of Time Regions were Covered by One or More CVBGs

| | | | | |
|---|---|---|---|---|
| Pacific | 70% | 85% | | 100% |
| Europe | 39%[b] | 56% | | 48% |
| Southwest Asia | 100%[b] | 100% | | 100% |

[a] This performance metric has been revised. The performance targets now reflect the planning factors used to allocate naval forces to projected overseas presence tasks. The percentage of time regions were covered by one or more carrier battle groups (CVBGs) is included in the table to illustrate past performance only.

## Maintain Ready Forces

Today's security environment presents the same challenges for our military forces that existed when the QDR was conducted in 1997. Our goal then, and as it remains today, was to have forces that can fight and win two major, nearly simultaneous theater wars, while at the same time being able to respond to smaller-scale contingencies. The force structure objectives established in the QDR thus reflect the need for a balance between investment in our existing forces and adequate preparation for the future.

**Results:** Both the Navy and Marine Corps met FY 2000 performance targets for force structure. The QDR requires that the Navy maintain 12 aircraft carrier battle groups, 10 active and one

Naval Force Levels

| | FY 1998 Actual | FY 1999 Actual | FY 2000 | |
|---|---|---|---|---|
| | | | Goal | Actual |
| Aircraft Carriers (Active/Reserve) | 11/1 | 11/1 | 11/1 | 11/1 |
| Air Wings (Active/Reserve) | 10/1 | 10/1 | 10/1 | 10/1 |
| Amphibious Ready Groups | 12 | 12 | 12 | 12 |
| Attack Submarines | 65 | 57 | 58 | 58 |
| Surface Combatants (Active/Reserve) | 116/10 | 106/10 | 108/8 | 108/8 |

Marine Corps Force Levels

| | FY 1998 Actual | FY 1999 Actual | FY 2000 | |
|---|---|---|---|---|
| | | | Goal | Actual |
| Marine Expeditionary Units | 3 | 3 | 3 | 3 |
| Divisions (Active/Reserve) | 3/1 | 3/1 | 3/1 | 3/1 |
| Air Wings (Active/Reserve) | 3/1 | 3/1 | 3/1 | 3/1 |
| Force Service Support Groups (Active/Reserve) | 3/1 | 3/1 | 3/1 | 3/1 |

reserve air wing, and 12 amphibious-ready groups. These numbers have remained constant since 1998. Over the same period, the number of attack submarines fell from 65 to 56 and the number of surface combatants from 116 to 106, although the impact of the latter reduction was partially offset by the transfer of two units from the reserve to the active component in FY 2000.

Marine Corps force levels remained constant at prior-year levels in all categories.

## Flying Hours per Month

This metric measures the monthly minimum flying hours required by the DON to maintain pilot and crew proficiency, including proficiency in training and maintenance activities, for both the active and reserve components. The DON goal is to maintain proficiency by meeting targets for the number of flying hours per month for both the Navy and the Marine Corps.

| | FY 1998 Actual | FY 1999 Actual | FY 2000 | |
|---|---|---|---|---|
| | | | Goal | Actual |
| Navy and Marine Corps Active | 20.2 | 23 | 22.3 | 20.9 |
| Navy Reserve | 11.0 | 11.0 | 11.0 | 11.0 |

**Results:** The Navy and Marine Corps failed to meet performance targets for FY 2000 due to the grounding of a number of aircraft for safety reasons. This reduced the number of aircraft available for training efforts, rendering it impossible for the two services to achieve target performance. The DON is seeking to resolve the safety issues, but anticipates the continuance of availability issues in FY 2001.

## Steaming Days per Quarter

This metric tracks the total number of steaming days (i.e. days at sea) per quarter for active and reserve naval vessels, and is used to assess crew proficiency. The DON goal is to maintain proficiency by meeting established goals for the number of steaming days per quarter for active and reserve and for deployed and non-deployed naval vessels.

| | | FY 1998 Actual | FY 1999 Actual | FY 2000 | |
|---|---|---|---|---|---|
| | | | | Goal | Actual |
| Navy | Active Deployed | 50.5 | 50.5[a] | 50.5 | 50.5 |
| Navy | Reserve Deployed | 50.5 | 50.5 | 50.5 | 50.5 |
| Navy | Active Non-deployed | 26.8 | 28.1[a] | 28.0 | 26.5 |
| Navy | Reserve Non-deployed | 18.0 | 18.0 | 18.0 | 20.1 |

[a] *Due to a reporting error, the figure presented in the FY 1999 performance report overstated the FY 2000 actual.*

**Results:** Deployed active force ships and deployed and non-deployed Naval Reserve ships met their steaming-day goals for FY 2000. Non-deployed active ships missed their target by a small amount. Although the total number of steaming days for non-deployed ships was consistent with objectives, the number of days that ships were in a non-deployed status exceeded expectations, thus reducing the ratio of steaming days to non-deployed days. The Navy projects that current maintenance and operational commitments will not compromise its forces' ability to meet established goals for FY 2001.

## Airlift and Sealift Capability

The DON's air, sealift, and prepositioning capabilities enable the armed services to respond rapidly when called upon to do so.

**Surge Sealift:** The QDR recognized that America's mobile forces must be able to respond to all operations, from peacetime engagements to major theater wars, and reaffirmed the baseline requirement for surge sealift capacity at 10 million square feet of cargo space. (Surge sealift refers to seaborne transport capacity that can be brought to bear at the outset of a crisis. It does not include ships routinely used for prepositioning purposes.)

**Surge Sealift (in millions of square feet)**

| | FY 1998 Actual | FY 1999 Actual | FY 2000 | |
|---|---|---|---|---|
| | | | Goal | Actual |
| Organic Surge Sealift | 7.3 | 7.7 | 8.7 | 8.4 |

*NOTE: Reflects capacity contributed by DoD-owned or chartered vessels. Excludes additional capacity provided by commercial ships that could be made available for military use in a major deployment.*

**Results:** Because two new sealift ships will be delivered several months late, the DON did not meet its performance targets for organic surge sealift in FY 2000 and does not expect to meet its targets for FY 2001.

**Airlift Capacity:** This metric represents the combined civil and military airlift capability that U.S. forces would need to fight and win two major theater wars at an acceptable level of risk. Airlift capacity is measured in the number of ton-miles available per day.

**Airlift Capacity (in million ton-miles per day)**

| | FY 1998 Actual | FY 1999 Actual | FY 2000 | |
|---|---|---|---|---|
| | | | Goal | Actual |
| MTM/D (military)* | 25 | 25 | 26 | 26 |
| MTM/D (military aircraft plus Civil Reserve Air Fleet) | 46 | 46 | 46 | 46 |

** Actual values have been revised from previously published levels to reflect an update to the planning factor for c-% wartime utilization rates. The updated factor is slightly lower than the one used to calculate actual results in the FY 1999 performance report.*

**Results:** The DON met its goal for airlift capacity in FY 2000. Based on the current procurement schedule for the C-17 and planned retirement of C-141 aircraft, the DON expects to meet its intermediate goals for airlift in FY 2001 and FY 2002.

## *DoD Corporate Goal 2: Prepare*

Four annual performance goals support the DoD's second corporate goal: "Prepare now for an uncertain future by pursuing a force modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs and reengineer the Department to achieve a 21st century infrastructure." Each of the four performance goals is supported by performance measures. The four DON annual performance measures are:

- Enlisted Recruiting
- Quality Benchmarks for Enlisted Recruits
- Active Component Retention Rates
- Military Family Housing

The continued success of the DON depends on the recruiting of highly qualified personnel and on the assurance of a high quality of life for our people. We must seek to ensure that our men and women are prepared for any and all duties with which they may be entrusted. The performance measures listed above enable us to assess our success in supporting the second DoD corporate goal and enable us to make the decisions necessary to ensure that tomorrow's naval forces are prepared to meet the nation's needs.

A division of recruits prepares to navigate and conquer the confidence course at Recruit Training Command Great Lakes.

## Enlisted Recruiting

No amount of technological sophistication will enable our armed forces to successfully meet the challenges of the future if we fail to maintain the quality of our personnel or fail to make the investments necessary to develop them to their full potential. The DON is thus committed to recruiting high-quality personnel to the service and to improving the quality of life for naval personnel and their families. Targets for enlisted recruiting represent the projected number of new personnel needed each year to maintain statutorily defined military end-strengths, properly distributed by rank, allowing for discharges, promotions, and anticipated retirements.

**Results:** The DON met its FY 2000 recruiting targets for the Navy and Marine Corps active components and for the Marine Corps Selected Reserve. The Navy Selected Reserve fell short of its recruiting target by 3,499 Sailors. To ensure that the Navy meets all recruiting targets in FY 2001, the DON will offer enlistment bonuses of up to $20,000 per recruit and will continue to offer college fund and enlistment bonus options to its recruits.

## Quality Benchmarks for Enlisted Recruits

Benchmarks for the quality of enlisted recruits were established in 1992, based upon a study conducted jointly by the DoD and the National Academy of Science. The current benchmarks require that a minimum 90 percent of recruits be high school graduates, with 60 percent graduating in the top half for their graduating class.

**Results:** In FY 2000, the DON met all quality targets for enlisted first-time recruits.

## Retention

Service retention programs are still feeling the effects of the post-Cold War drawdown. In order to meet reduced end-strength objectives, the services allowed some members to take early retirement, granted others early release, and scaled back the target for initial accessions. Today, the DON's greatest challenge is to establish steady-state retention goals for a new, streamlined service. The DON continues to refine its retention objectives to meet projected needs. Lessons learned indicate that simply resorting to pre-drawdown steady-state goals is not a viable option. Ongoing assessments of grade mix, desired levels of experience, and manpower efficiencies are expected to identify the need for further refinement of our retention targets.

**Active Component Enlisted Retention Rates (percentage of eligible population)**

| | FY 1998 | FY 1999 | FY 2000 | |
|---|---|---|---|---|
| | | | Goal | Actual |
| **Navy** | | | | |
| First-Term Sailors | 30.5 | 28.2 | 30.5 | 29.6 |
| Second Term Sailors | 46.3 | 43.8 | 45 | 46.5 |
| **Marine Corps** | | | | |
| First-Term Marines | 21.6 | 23.8 | 26 | 26.6 |
| Second Term Marines | 57.7 | 58.5 | N/A | 57.0 |

**Selected Reserve Enlisted Attrition Rates (percentage)**

| | FY 1998 | FY 1999 | FY 2000 | |
|---|---|---|---|---|
| | | | Goal | Actual |
| **Navy** | 36.3 | 29.8 | 36.0 | 37.1 |
| **Marine Corps** | 29.6 | 30.5 | 30.0 | 38.4 |

**Results:** The DON met or exceeded all FY 2000 retention goals, with the exception of first-term Sailors for the Navy. Although slightly short of performance targets, this represents an improvement over FY 1999 in the actual number of first-term Sailors who re-enlisted. We fell slightly short of meeting the performance goals for Select Reserve Enlisted Attrition for both the Navy and Marine Corps.

## Military Family Housing

Consistent with the QDR's emphasis on improving the quality of life for service members and their families, the DoD has established goals for ensuring the provision of high-quality housing on military installations. The DON's long-term goal is to eliminate all inadequate family housing—–generally defined as any unit that needs a major repair, upgrade or replacement of components, or a total upgrade. The DON has reviewed all family housing to determine how much of the total inventory fails to meet acceptable standards, and will combine traditional construction and maintenance with new initiatives, such as privatization, to ensure that it meets its long-term goal.

**Results:** FY 2000 represents the first year that this metric has been employed. Current-year data are consequently incomplete, and the metric presented here has therefore been designated a lagged indicator. The DON expects to meet FY 2000 targets for both the Navy and the Marine Corps.

**Eliminate Inadequate Family Housing - Number of Inadequate Family Housing Units (lagged indicator)**

| | FY 1999 Actual | FY 2000 Goal |
|---|---|---|
| Navy | 27,111 | 23,344 |
| Percent of total Family Housing Units | 55% | N/A |
| Marine Corps | 13,056 | 13,883 |
| Percent of total Family Housing Units | 45% | N/A |

New Family Housing Unit at Naval Air Station, Lemoore, CA.

**DEPARTMENT OF THE NAVY**
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

**February 2001**

## Message from the Senior Civilian Official for the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)

I am pleased to submit the Department of the Navy's (DON) Fiscal Year (FY) 2000 Annual Financial Report. This year marks the DON's fifth of preparing the financial report as required by the Chief Financial Officers' Act of 1990 (P.L. 101-576) and amended by the Government Management Reform Act of 1994 (P.L. 103-356). In that time, the DON has made considerable progress with this effort, and is moving closer to providing to the decision-makers financial information that is complete, relevant, reliable, and timely.

The process of preparing the Annual Financial Report continues to benefit the DON in that it has highlighted our need to leverage existing technology by embracing commercial private sector practices and solutions. Our Non-Financial Feeder Working Groups, who are implementing two Department of Defense (DoD) initiatives – the Financial Management Improvement Plan and the DoD Implementation Strategies, continue to seek solutions across functional lines. They are aggressively correcting financial management deficiencies, reengineering business processes, and developing system interfaces between non-financial feeder systems and accounting and reporting systems. As a result of these efforts, the quality of information in the financial report has improved for FY 2000.

In addition to the DON "working group" initiatives the DON is working toward implementing commercial Enterprise Resource Planning (ERP) pilot solutions across business areas and commands. These ERP pilot solutions will serve as the model to integrate structures, processes, and systems throughout the DON that will ultimately provide quality information for decision making as well as meet financial reporting standards. Our efforts to improve business practices have allowed managers at every level of the Navy and Marine Corps to begin taking a bolder approach to business innovation and change, and I am confident that this will continue during the years ahead.

Charles P. Nemfakos

# Department of the Navy Management Initiatives

The DON is implementing a broad range of management initiatives covering the spectrum of Navy and Marine Corps operations. These initiatives include:

- DON Clean Financial Statements
- Enterprise Resource Planning (ERP)
- Cost Reduction through Acquisition Reform
- Smart Work and Cost Reduction and Effectiveness Investment (CREI)

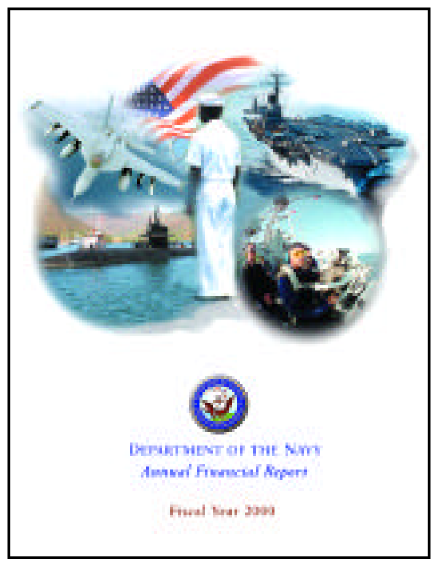
## *DON Clean Financial Statement Organization*

In 1998, the Department of Defense (DoD) initiated two efforts to speed its progress toward an unqualified opinion: the Financial Management Improvement Plan (FMIP) and the DoD Implementation Strategies. The FMIP defines the environment the DoD would like to attain in the future and provides a concept of operations to guide the transition toward this environment. The DoD Implementation Strategies establish the tasks to be undertaken when addressing financial management initiatives and deficiencies and sets specific milestones for the achievement of those tasks. These two efforts build upon one another to provide the cornerstone of the DON's strategy to develop a fully integrated financial management system. FMIP and the DoD Implementation Strategies necessitate taking aggressive action, to include:

- Reengineering business processes to an integrated data-sharing environment.
- Changing the business philosophy toward a proprietary/budgetary financial structure within a performance-oriented financial management environment.
- Tracking the life cycle costs of property assets from acquisition through usage, until final disposal.
- Establishing electronic exchanges or system interfaces between stand-alone, non-financial feeder systems and standard accounting and reporting systems.
- Establishing a risk management environment that includes appropriate internal controls, including competency training, to ensure the integrity of data and to protect against fraud.

### Working Group Structure

In order to attain the objective of a clean financial statement, the DON has created non-financial feeder teams, or working groups, to oversee financial management and process improvements and to support the DoD's Implementation Strategies. Each working group is led by a senior civilian or a flag officer and includes broad representation of program and financial personnel. The DON working groups include:




- Plant Property and Equipment (Real, Personal, National Defense, Heritage, and Property in Possession of Contractors)
- Inventory and Operating Materials and Supplies
- Deferred Maintenance
- Environmental Restoration and Hazardous Waste
- Time and Attendance and Personnel Systems

The working groups continued to change business practices, to eliminate redundant and manually intensive systems, and to bring remaining systems into compliance with federal accounting standards. All the teams made considerable progress, reaching different stages of completion in reflection of the complexity of the specific implementation strategy.

## Working Group Highlights

**Real Property.** The Navy Facility Assets Data Base (NFADB) is the DON's central repository for land, building, and structure assets. This working group's efforts in FY 2000 focused primarily on the accuracy of data (existence, completeness, and valuation) and on remedies to bring the system into compliance with federal accounting standards. The team also identified the modifications necessary to calculate depreciation, and developed the internal controls necessary to sustain accurate financial reporting over the long term. The team will continue to work with the Defense Finance and Accounting Service (DFAS) in FY 2001 to develop an electronic interface with our Standard Accounting and Reporting System (STARS).

**Personal Property.** This focus area is unique in that it requires the implementation of a totally new system, representing a significant change in DON business culture and processes. The DON chose to adopt the Defense Property Accountability System (DPAS) as its standard property accountability system, rejecting the alternative of attempting to bring its hundreds of local systems into compliance with federal accounting standards—an option that would have afforded marginal improvement of overall accountability. Implementing DPAS is an ambitious and innovative undertaking that will require extensive personnel training to ensure sustainability over the long term, but which promises to improve management decision-making and to ensure accountability of assets.

Implementing DPAS has required the development of new personal property policy, operating procedures, and internal controls, including audit-quality physical inventory procedures. Work also continues with efforts to develop a personal property catalog using standard barcodes.

We made significant progress in FY 2000, implementing DPAS at 140 sites that together account for 99 percent of capital assets, by dollar value (acquisition cost of $100,000 or higher). Implementation will continue in FY 2001, as will efforts to improve financial reporting of personal property. DPAS will ultimately be implemented at more than 900 Navy activities.

In FY 2000, the Marine Corps completed DPAS implementation and turned its attention to conducting physical inventory counts and reviewing the accuracy of its database. During FY 2001, training for personal property managers will stress accountability and the importance of maintaining the existence and completeness of property records and the valuation of property.

An Aviation Boatswain's Mate directs an F/A-18C "Hornet" towards the catapult on the flight deck of USS Enterprise.

**National Defense Plant, Property, and Equipment (NDPP&E).** During FY 2000, the National Defense team identified all feeder systems related to the accountability of NDPP&E assets, evaluating each system to determine compliance with accounting standards, laws and regulations, and systems of internal controls. The team is currently reviewing and testing a data warehouse prototype that will be used for reporting NDPP&E. Financial reporting requirements and standards for NDPP&E are currently under review by the Federal Accounting Standards Advisory Board (FASAB). A revised standard, if adopted, could greatly change the way the DON processes its NDPP&E financial transactions and significantly affect numerous acquisition, logistics, accountability, and financial management systems.

Advanced Medium-Range Air-to-Air missiles and AIM-7 "Sparrow" missiles are staged aboard the USS John F. Kennedy (CV 67) for quick loading on aircraft.

**Heritage Assets.** During FY 2000, the Heritage Asset team clarified definitions and reporting requirements and conducted an extensive market survey to identify products suitable for use in the management of its assets. The team selected a property management and archive application and plans to purchase the application in January 2001, with implementation to begin shortly thereafter. This effort is currently funded through FY 2001. The team also began to standardize asset management processes, seeking to ensure the consistency of internal controls with hierarchical policy. This policy and process approach should ensure the success and sustainability of internal controls over the long term.

**Government Property in Possession of Contractors (GPPC).** This working group continued its efforts to identify the best way to account for property and material held by contractors. During FY 2000, the DoD completed a draft study to determine the extent to which existing systems already maintain accountability of GPPC, in an effort to reduce areas of duplicate reporting and to develop a methodology for collecting GPPC information within the constraints of federal regulations. A report has not yet been issued in final.

**Operating Materials and Supplies (OM&S).** During FY 2000, the OM&S working group evaluated business processes, advanced a strategy for streamlining the number of feeder systems, and identified eight major systems for compliance evaluation. Working closely with the Office of the Secretary of Defense (OSD), DFAS, and the audit community, the team took steps to implement a model for valuing OM&S for financial statement purposes. System modifications will be

An Aviation Electronics Technician completes a tool inventory.

required once an OM&S valuation model has been selected, to bring the chosen system into compliance with federal accounting standards.

## *Enterprise Resources Planning (ERP)*

Seeking to replace its costly and redundant legacy systems, the DON has initiated a series of pilot programs to assess the potential application of commercially available software packages to enterprise resources planning. The pilots will test the following capabilities:

- provision of consistent and timely information to assist decision-making and performance measurement;
- automation and integration of business processes;
- production of and access to data in a near real-time environment;
- sharing of common data and processes across the enterprise.

Each pilot will address a different management challenge:

*SPAWAR System Center, San Diego* - ***Project CABRILLO*** is focusing on the Navy Working Capital Funds financial management process.

NAVAIR – ***Project SIGMA*** is focusing on program management processes, including the linkage between contracting and financial systems.

*NAVSUP/NAVAIR* – ***Project SMART*** will focus on aviation supply chain/maintenance management, maintenance planning, and the material ordering process.

*NAVSEA* – ***Project NEMAIS*** will focus on the regional maintenance workforce management process.

## *Cost Reduction through Acquisition Reform*

The DON continues to reform its acquisition processes to shorten cycle times, to take advantage of advanced commercial products, and to improve the quality of equipment being provided to our warfighters. We have adopted the use of teams and integrated product and process development, and are focusing on total ownership cost to enable the design of platform systems using open system architecture, allowing for follow-on technology insertion. We have already realized tangible benefits from these processes in programs such as the Navy-Marine Corps Intranet (NMCI), the *Zumwalt*-class destroyer, and the Interim Fast Attack Vehicle.

## *DON Smart Work and Cost Reduction and Effectiveness Investment (CREI)*

As the DON evolves, our people are under pressure to handle work that is becoming increasingly demanding. It is essential that we provide them with the resources that will enable them to continue to perform to their full potential. We have therefore launched two key initiatives to enhance the efficiency of our Sailors and Marines: the Smart Work and Smart Ship programs.

The Smart Work program follows through on our commitment to our people through supporting the adoption of new technologies and new ways of doing business. For example, the Smart Manning initiative seeks to reduce workload by encouraging more effective use of manpower and, with better training, by making the individual Sailor or Marine more efficient.

With the Smart Ship program, the Navy is moving rapidly to apply the lessons learned in USS Yorktown in 1997 and, more recently, in USS Ticonderoga and the first Smart amphibious ship, USS Rushmore. These lessons will see the installation across most of the Fleet of seven core technologies: the Integrated Bridge System, Integrated Condition Assessment System, Damage Control System, Machinery Control System, Fuel Control System, Fiber Optic LAN, and Wireless Internal Communication System. Other innovative ideas, such as new watchstanding regimes and expanded import duty sections, are already replacing old ways of doing business and are yielding tangible benefits.

The Marine Corps is also investigating the potential of new laborsaving processes to reduce the time Marines spend in activities not directly contributing to combat readiness. As an example, the Marine Corps recently identified nearly 1,200 positions, currently staffed by Marines, that could potentially be transferred to civilian or contractor personnel. Manpower savings realized from this and other initiatives will result in increased manning levels in our operating forces.

Aegis cruiser USS Shiloh (CG 67) fires an RGM-84A “Harpoon” missile during RIMPAC 2000 exercises as the Spruance Class destroyer USS Fletcher (DD 992) awaits her turn to shoot.

## Department of the Navy Annual Financial Report

# *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 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.

## 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 National Defense property, plant, and equipment (ND PP&E). Therefore, the Department of Defense (DoD) elected to report ND PP&E in fiscal year (FY) 2000 in a manner similar to how it was reported in FY 1998 and FY 1999. The DoD implemented early for FY 1998, as encouraged by the FASAB, the then-proposed amendments to the accounting standards that required the reporting of quantities, condition, and investment trends for major types of ND PP&E. At subsequent FASAB meetings, the board chose not to implement the proposed amendments to SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and No. 8, "Supplementary Stewardship Reporting," but chose instead to continue studying various alternatives for reporting ND PP&E.

Since the FASAB did not adopt the proposed amendments, the Department is not in full compliance with the existing reporting requirements that require the Department to report the value of ND PP&E. The Department cannot fully comply with the existing reporting requirement, because many of the Department's ND PP&E accountability and logistics systems do not contain a value for the ND PP&E assets. These systems were designed for purposes of maintaining accountability and meeting other logistics requirements, not for reporting the value of ND PP&E.

Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing those temporary reporting requirements, and the interim nature of the temporary reporting requirements, the Department is continuing to use the prior-year reporting disclosure. Further, the Department believes the most reasonable and responsible course of action is to report quantity and investment information for ND PP&E until such time that the FASAB adopts permanent reporting requirements.

# Principal Statements

The DON's FY 2000 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 October 2000. The statements and related notes summarize financial information for individual funds and accounts within the Department for the fiscal year ending September 30, 2000.

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 the 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 Defense**
**Department of the Navy**

## Consolidated Balance Sheet

**As of September 30, 2000**
*($ in Thousands)*

| | |
|---|---|
| **ASSETS (Note 2)** | **FY 2000** |
| Intragovernmental: | |
| Fund Balance with Treasury (Note 3) | $ 62,547,052 |
| Investments (Note 4) | 10,539 |
| Accounts Receivable (Note5) | 1,221,608 |
| Other Assets (Note 6) | 157,582 |
| Total Intragovernmental Assets | $ 63,936,781 |
| Cash and Other Monetary Assets (Note 7) | $ 134,783 |
| Accounts Receivable (Note 5) | 1,437,164 |
| Loans Receivable (Note 8) | 0 |
| Inventory and Related Property (Note 9) | 38,189,438 |
| General Property, Plant and Equipment (Note 10) | 25,485,691 |
| Other Assets (Note 6) | 4,201,524 |
| **TOTAL ASSETS** | $ 133,385,381 |
| **LIABILITIES (Note 11)** | |
| Intragovernmental: | |
| Accounts Payable (Note 12) | $ 804,072 |
| Debt (Note 13) | 56 |
| Environmental Liabilities (Note 14) | 0 |
| Other Liabilities (Note 15 & Note 16) | 1,570,471 |
| Total Intragovernmental Liabilities | $ 2,374,599 |
| Accounts Payable (Note 12) | $ 2,705,842 |
| Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17) | 1,441,520 |
| Environmental Liabilities (Note 14) | 16,065,888 |
| Loan Guarantee Liability (Note 8) | 0 |
| Other Liabilities (Note 15 and Note 16) | 2,078,680 |
| **TOTAL LIABILITIES** | $ 24,666,529 |
| **NET POSITION** | |
| Unexpended Appropriations (Note 18) | $ 64,902,672 |
| Cumulative Results of Operations | 43,816,180 |
| **TOTAL NET POSITION** | $ 108,718,852 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 133,385,381 |

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, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **Program Costs** | |
| Intragovernmental | $ 21,940,052 |
| With the Public | 76,097,612 |
| Total Program Cost | $ 98,037,664 |
| (Less: Earned Revenue) | (3,515,802) |
| Net Program Costs | $ 94,521,862 |
| **Costs Not Assigned to Programs** | 0 |
| **(Less: Earned Revenue not attributable to Programs)** | 0 |
| **Net Costs of Operations** | $ 94,521,862 |

The accompanying notes are an integral part of these statements. See notes 1 and 19.

**Department of Defense**
**Department of the Navy**

## Consolidated Statement of Changes in Net Position

**Year Ended September 30, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **Net Cost of Operations** | $ 94,521,866 |
| **Financing Sources (other than exchange revenues)** | |
| Appropriations Used | 93,160,110 |
| Taxes and Other Nonexchange Revenue | 0 |
| Donations - Nonexchange Revenue | 0 |
| Imputed Financing (Note 20) | 437,862 |
| Transfers - In | 468,218 |
| Transfers - Out | 0 |
| Other | 0 |
| Total Financing Sources (other than Exchange Revenues) | $ 94,066,190 |
| **Net Results of Operations** | $ (455,676) |
| **Prior Period Adjustments (Note 20)** | 38,445,615 |
| **Net Change in Cumulative Results of Operations** | $ 37,989,939 |
| **Increase (Decrease) in Unexpended Appropriations** | (683,772) |
| **Change in Net Position** | $ 37,306,167 |
| **Net Position-Beginning of the Period** | 71,412,687 |
| **Net Position-End of the Period** | $ 108,718,854 |

The accompanying notes are an integral part of these statements. See notes 1 and 20.

**Department of Defense**
**Department of the Navy**
## Combined Statement of Budgetary Resources
**For the Year Ended September 30, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **BUDGETARY RESOURCES** | |
| Budget Authority | $ 89,318,717 |
| Unobligated Balance - Beginning of Period | 12,185,512 |
| Net Transfers Prior-Year Balance, Actual | 70,392 |
| Spending Authority from Offsetting Collections | 5,449,884 |
| Adjustments | 369,012 |
| Total Budgetary Resources | $ 107,393,517 |
| **STATUS OF BUDGETARY RESOURCES** | |
| Obligations Incurred | $ 93,769,433 |
| Unobligated Balances - Available | 12,141,968 |
| Unobligated Balances - Not Available | 1,482,116 |
| Total, Status of Budgetary Resources | $ 107,393,517 |
| **OUTLAYS** | |
| Obligations Incurred | $ 93,769,433 |
| Less: Spending Authority for Offsetting Collections and Adjustments | (7,956,973) |
| Obligated Balance, Net - Beginning of Period | 50,425,879 |
| Obligated Balance Transferred, Net | 0 |
| Less: Obligated Balance, Net - End of Period | (48,385,598) |
| Total Outlays | $ 87,852,741 |

The accompanying notes are an integral part of these statements. See notes 1 and 21.

**Department of Defense**
**Department of the Navy**

## Combined Statement of Financing

**Year Ended September 30, 2000**
*($ in Thousands)*

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

The accompanying notes are an integral part of these statements. See notes 1 and 22.

## Department of the Navy Annual Financial Report

# *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. 97-01, "Form and Content of Agency Financial Statements," and to the extent possible the generally accepted accounting principles (GAAP). 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 GAAP and the OMB Bulletin No. 97-01 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 applying the current emphasis of business-like financial statements. As a result, the DON cannot currently implement every aspect of GAAP and the OMB Bulletin No. 97-01. The DON continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems.

There are other instances when the DON has reviewed the intent of the standard and applied it in a manner consistent with the intent of the standard, but the auditors interpret the standard differently. Financial statement elements impacted include financing payments under firm fixed price contracts, operating materials and supplies (OM&S) and disposal liabilities.

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 April 30, 1798 by an act of Congress (I Stat. 533; 5 U.S.C. 411-12). The Marine Corps and the Navy joined as the DON by an act of Congress on July 11, 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) 2000 represents the fifth year that the DON has prepared audited financial statements as required by the Chief Financial Officers Act and the GMRA.

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 |

**Trust funds**

| | |
|---|---|
| 17X8008 | Office of Naval Records and History Fund |
| 17X8423 | Midshipmens Store, United States Naval Academy |
| 17X8716 | Department of the Navy General Gift Fund |
| 17X8723 | Ship Stores Profits, Navy |
| 17X8730 | United States Naval Academy Museum Fund |
| 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.

The FY 2000 President's Budget included the transfer of Naval Ordnance activities from the Navy Working Capital Fund (NWCF), a Department of Defense (DoD) revolving fund, to commands which are funded through a direct appropriation (Operations and Maintenance, Navy (O&M,N)). The FY 2000 budget provides financing in the O&M,N appropriation to fund transition costs. Program Budget Decision (PBD) 407, Naval Ordnance, of December 1998 approved this transfer (excluding Naval Weapons Station Concord) effective in FY 2000. Other disclosures related to this transfer are contained in Note 24.

When possible, the financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. For FY 2000, the DON's financial management systems are unable to meet all the requirements for full accrual accounting. Efforts are underway to bring the DoD's systems into compliance with all elements of GAAP and OMB Bulletin No. 97-01.

**C. Budgets and Budgetary Accounting.**
The DON's appropriations and funds are divided into the general, revolving, trust, special and deposit funds. These accounts are used to fund and report how the resources have been used in the course of executing the DON's missions.

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

Revolving fund 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 GAAP. Many of the DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of 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 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 GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (SGL). Until such time as all of the DON's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, 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 and accounts payable. 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. Revenue for business fund activities is recognized according to the percentage of completion method.

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. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the DON's operations. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

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

**F. 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 standalone 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 Systems (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 column of the DoD Agencywide statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. However, the DON cannot accurately identify all intragovernmental transactions by customer. For FY 2000, 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. Internal DoD intragovernmental balances were then eliminated. In addition, the DON implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Fiduciary Transactions Accounting Guide" for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

Each year, the DoD Components sell assets to foreign governments 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, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance.

**G. Funds with the U.S. Treasury and Cash.**
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 Defense Finance and Accounting Service (DFAS) and 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, interagency transfers and deposits.

In addition, the DFAS Centers and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on 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 account and Treasury's FBWT often result and are reconciled. Material disclosures are provided at note 3.

**H. 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.

**I. 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.

**J. Loans Receivable.**
Not applicable.

**K. Inventories and Related Property.**
The Inventories and Related Property, Net amount includes operating materials and supplies (OM&S), stockpile materials, seized property, and forfeited property. The DON does not have any stockpile materials, seized property, or forfeited property to report for FY 2000.

OM&S consists of Appropriation Purchases Account (APA) secondary inventory, ammunition and munitions that are not held for sale, sponsor owned material (SOM), and APA principal end items. OM&S are reported in numerous systems using different valuation methodologies. For example, SOM is reported in numerous systems. Some of these systems utilize the standard price methodology while others use actual cost. Portions of APA principal end items also utilize the standard price methodology. APA secondary inventory, portions of APA principal end 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. The consumption method of accounting for the recognition of expenses has been applied to OM&S.

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

**L. Investments in U.S. Treasury Securities.**
Investments in U.S. Treasury securities are reported at cost, net of unamortized 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.

**M. General Property, Plant and Equipment (PP&E).**
The only type of PP&E that the DON has reported on the FY 2000 Balance Sheet is General PP&E. As required by SFFAS No. 11, "Amendments to Accounting for PP&E — Definitions," information pertaining to National Defense PP&E has not been reported on the Balance Sheet. Rather, it has been

reported in the Required Supplementary Stewardship Information. In addition, as required by SFFAS No. 8, "Supplementary Stewardship Reporting," Heritage Assets and Stewardship Land have not been reported on the Balance Sheet but rather in the Required Supplementary Stewardship Information.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 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 should 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 should be included in the value of General PP&E reported on the DON's Balance Sheet. The Department recently completed a study that indicates that the value of not fully depreciated General PP&E above the DoD capitalization threshold 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.

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.

Multi-use Heritage Assets are Heritage Assets that are used predominately for government operations (e.g., historic buildings at the Washington Navy Yard that are currently being restored and used as office space). Multi-use Heritage Assets are treated as General PP&E for reporting and accounting purposes. Acquisition costs of Multi-use Heritage Assets and any capitalized improvements are reported on the Balance Sheet and depreciated.

Material disclosures are provided at note 10.

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

**O. 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 are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. 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. Material disclosures are provided at note 10A.

**P. 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 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 DON does not believe that the SFFAS No. 1 addresses this type of financing payment. The auditors disagree with the DON's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

**Q. 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 it is probable that the future event or events will confirm the loss or the incurrence of a liability for the reporting entity 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 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 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.

The DON's liabilities also arise as a result of range preservation and management activities. Range preservation and management activities are those precautions considered necessary to protect personnel and to maintain long-term range viability. These activities may include the removal and disposal of solid wastes, clearance of unexploded munition, and efforts considered necessary to address pollutants and contaminants. The reported amounts for range preservation and management represent the current cost basis estimates of required range preservation and management activities, beyond recurring operating and maintenance, for active and inactive ranges at active installations. The estimated costs are recognized systematically based on the estimated use of physical capacity.

**R. 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).

**S. 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 been incurred.

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

**T. 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. 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 the U.S. for such capital investments.

**U. Comparative Data.**
The OMB has waived the requirement to present comparative financial statements for FY 2000.

**V. Undelivered Orders.**
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.

**W. 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 nonfinancial feeder systems through a data call process and submits it to DFAS-CL for incorporation into the financial statements. For FY 2000, the DON utilized an automated data collection instrument (DCI) that captures all required financial information from non-financial feeder systems for both the general fund statements and Required Supplementary Stewardship Information. This is the second year the DON has used the DCI to collect nonfinancial 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.

## Note 2. Nonentity Assets

**As of September 30, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **1. Intragovernmental Nonentity Assets:** | |
| A. Fund Balance with Treasury | $ 548,056 |
| B. Investments | 0 |
| C. Accounts Receivable | 22,535 |
| D. Other Assets | 0 |
| E. Total Intragovernmental Nonentity Assets | $ 570,591 |
| **2. Nonfederal Nonentity Assets:** | |
| A. Cash and Other Monetary Assets | $ 134,783 |
| B. Accounts Receivable | 1,182,997 |
| C. Loans Receivable | 0 |
| D. Inventory & Related Property | 0 |
| E. Other Assets | 2 |
| F. Total Nonfederal Nonentity Assets | $ 1,317,782 |
| 3. Total Nonentity Assets | $ 1,888,373 |
| **4. Total Entity Assets** | $ 131,497,008 |
| **5. Total Assets** | $ 133,385,381 |

**6. Other Information:**

**Fund Balance with Treasury, Balance per Treasury versus Agency:**
*($ in Thousands)*

| | |
|---|---|
| A. Nonentity Fund Balance per Treasury | $ 548,056 |
| B. Nonentity Fund Balance per DON | 548,056 |
| C. Reconciling Amount | $ 0 |

**Nonentity FBWT.** During FY 2000, the DON discontinued use of account 17X6875 (Suspense, Navy) in accordance with Treasury Financial Manual Bulletin 2000-02, "Revised Reporting Procedures for Deposit Funds." As a result of closing this account, Nonentity FBWT in the amount of ($237,086) thousand, which was reported in FY 1999, was not reported in FY 2000. In addition, receipt account balances being reported in FY 2000 are zero; in FY 1999 receipt accounts deposits in transit reported ($10,551) thousand.

**Nonentity A/R (public).** Nonentity A/R with the public contains $1,352,460 thousand in advance payments made to contractors for the A-12 aircraft program, which was subsequently canceled and remains in litigation. This balance is being reported in Nonentity A/R for FY 2000 because the original appropriation year has been canceled, and any funds collected as a result of this litigation would not be available for DON use in normal operations. See Note 5 for additional information.

## Note 3. Fund Balance with Treasury

**As of September 30, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **1. Fund Balances:** | |
| A. Appropriated Funds | $ 61,694,911 |
| B. Revolving Funds | 753,469 |
| C. Trust Funds | 17,016 |
| D. Other Fund Types | 81,656 |
| E. Total Fund Balances | $ 62,547,052 |
| | |
| **2. Fund Balances per Treasury Versus Agency:** | |
| A. Fund Balance per Treasury | $ 62,547,052 |
| B. Fund Balance per DON | 62,547,052 |
| C. Reconciling Amount | $ 0 |

**3. Explanation of Reconciliation Amount:**

**4. Other Information Related to Fund Balance with Treasury:**

**Additional Disclosures Concerning Fund Balance With Treasury.** 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

*($ in Thousands)*

| | Net Amount | Absolute Amount |
|---|---|---|
| 0-30 Days | $ (121,703) | $ 164,903 |
| 31-60 Days | (24,591) | 32,219 |
| 61-90 Days | 99 | 342 |
| 91-120 Days | (1,158) | 1,233 |
| 121-180 Days | 23 | 285 |
| 181-365 Days | (158) | 17,776 |
| Over 1 Year | 198 | 333 |
| Total | $ (147,290) | $ 217,091 |

**Check Issue Discrepancy.** The DON is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices; (2) the Treasury will not assist in research efforts for transactions over 1-year old; or (3) corrections were processed for transactions that 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 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 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

*($ in Thousands)*

| | Net Amount | Absolute Amount |
|---|---|---|
| 0-30 Days | $ 563,537 | $ 563,538 |
| 31-90 Days | 11,976 | 27,005 |
| 91-180 Days | (2,995) | 10,246 |
| 181-365 Days | 841 | 6,921 |
| Over 1 year | (29,885) | 32,927 |
| Total | $ 543,514 | $ 640,637 |

**On Line Payment and Collection (OPAC) Differences.** The OPAC differences represent amounts reported by an organization but not reported by its trading partner. As of September 30, 2000, there was $8,052 thousand (net) and $29,295 thousand (absolute) of OPAC differences greater than 180 days old. 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 Centers, Treasury, and Treasury's contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers have established metrics and are planning to implement monthly reporting requirements for FY 2001. 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** *($ in Thousands)* | **Net Amount** | **Absolute Amount** |
|---|---|---|
| 90 Days or Less | $ (20,969) | $ 65,258 |
| 91-180 Days | 43,977 | 74,425 |
| 181 Days and Over | 8,052 | 29,295 |
| Total | $ 31,060 | $ 168,978 |

## Note 4. Investments

**As of September 30, 2000**

| *($ in Thousands)* | **Cost** | **Amortization Method** | **Amortized (Premium)/ Discount** | **Investments, Net** | **Market Value Disclosure** |
|---|---|---|---|---|---|
| **1. Intragovernmental Securities:** | | | | | |
| A. Marketable | $ 0 | | $ 0 | $ 0 | $ 0 |
| B. Non-Marketable, Par Value | 0 | | 0 | 0 | 0 |
| C. Non-Marketable, Market-Based | 10,427 | N/A | (114) | 10,313 | 10,313 |
| D.Subtotal | $ 10,427 | | $ (114) | $ 10,313 | $ 10,313 |
| E. Accrued Interest | 226 | | 0 | 226 | 226 |
| F. Total Intragovernmental Securities | $ 10,653 | | $ (114) | $ 10,539 | $ 10,539 |

**2. Other Information:**

The Trust Funds have a total net investment of $10,539 thousand. The Trust Funds that have investments are the following: Navy General Gift Fund, Naval Academy Museum Fund, Naval Academy General Gift Fund and Naval Historical Center Fund. These investments are Non-Marketable Market-Based securities reported at cost, net of unamortized premiums and discounts. The details for each Trust Fund are as follows:

| *($ in Thousands)* | **Cost** | **Amortized [Premium]/ Discount** | **Net** |
|---|---|---|---|
| Navy General Gift Fund | $ 1,589 | $ 0 | $ 1,589 |
| Naval Academy Museum Fund | 1,652 | (20) | 1,632 |
| Naval Academy General Gift Fund | 6,759 | (76) | 6,683 |
| Naval Records and History Fund | 653 | (18) | 635 |
| Total | $ 10,653 | $ (114) | $ 10,539 |

## Note 5. Accounts Receivable

**As of September 30, 2000**

| *($ in Thousands)* | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
|---|---|---|---|
| **1. Intragovernmental Receivables:** | $ 1,221,608 | N/A | $ 1,221,608 |
| **2. Nonfederal Receivables (From the Public):** | $ 1,668,927 | $ (231,763) | $ 1,437,164 |
| **3. Total Accounts Receivables:** | $ 2,890,535 | $ (231,763) | $ 2,658,772 |

**4. 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 14.5%. Each estimate is based on write-offs of accounts receivable over the last three year period.

**5. Other information:**

**Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) Accounts Receivable Balance.** During FY 2000 DFAS-CL and DFAS-KC included in Accounts Receivable-Public, refunds receivable from MOCAS and DDMS. The following table lists the MOCAS and DDMS receivable balances:
*($ in Thousands)*

| | FY 2000 |
|---|---|
| A-12 Program Advance (DDMS) | $ 1,352,460 |
| MOCAS system debts | 5,953 |
| DDMS Navy and DLA | 793 |

Included in DDMS (separately identified above) is an advance payment of $1,352,460 thousand made to two contractors. The contract was subsequently canceled. The contract was for the A-12 aircraft program, which is still in litigation. During October 1998, DFAS-CL asked the DON General Counsel for a decision on the feasibility of collecting the entire, partial, or no amount of this advance payment. DFAS-CL reported the entire amount in accordance with the recommendation from a 1994 General Accounting Office financial operations audit.

**Judge Advocate General.** Included in Accounts Receivable – Public is $4,479 thousand for refunds due from contract carriers as reported by the Judge Advocate General.

**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. Intragovernmental receivables balances increased from FY 1999 amounts due to progress made in improving the data capture processes. A primary catalyst to these improvements was the conversion of the FIS 2.0 to the Standard Accounting and Reporting System – Field Level (STARS-FL) during FY 2000, which enabled DFAS-CL to capture more detailed, comprehensive trading partner data.

Intrafund transactions are eliminated based upon trading partner information obtained from the BUPERS System, STARS-FL, and the Standard Accounting and Reporting System – Headquarters Claimant Module (STARS-HCM). 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.

**Undistributed.** DFAS-CL was directed by DFAS Arlington memorandum dated October 4, 2000 to notify the audit community of the methodology used to allocate undistributed disbursements and collections between federal and public accounts payable and receivable as of September 30, 2000. For the DON GF, undistributed disbursements and collections were allocated based on the percentage of federal and public accounts payable and receivable, respectively, as submitted in field level general ledgers.

## Note 6. Other Assets

**As of September 30, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **1. Intragovernmental Other Assets:** | |
| A. Advances and Prepayment | $ 157,582 |
| B. Other Assets | 0 |
| C. Total Intragovernmental Other Assets | $ 157,582 |
| **2. Nonfederal Other Assets:** | |
| A. Outstanding Contract Financing Payments | $ 4,086,142 |
| B. Other Assets (With the Public) | 115,382 |
| C. Total Nonfederal Other Assets | $ 4,201,524 |
| **3. Total Other Assets:** | $ 4,359,106 |

**4. Other Information Related to Other Assets:**

**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, 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 DON does not believe that the SFFAS No. 1, "Accounting for Selected Assets and Liabilities" addresses this type of financing payment. The auditors disagree with the DON's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

Line 2.B - Other Assets (With the Public) in the amount of $115,382 thousand is primarily made up of outstanding travel advances made to Navy personnel. During FY 2000, data captured from STARS-FL was more complete than in FY 1999, as Military Personnel Permanent Change of Station (PCS) values were included in ending balances.

**Advances and Prepayments.** The buyer-side advances to others balances were adjusted to agree with seller-side's advances from others on the books of other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits on the books of other DoD reporting entities.

## Note 7. Cash and Other Monetary Assets

**As of September 30, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **1. Cash** | $ 134,585 |
| **2. Foreign Currency** | 198 |
| **3. Other Monetary Assets** | 0 |
| **4. Total Cash, Foreign Currency, & Other Monetary Assets** | $ 134,783 |

**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 foreign currency is reported as of September 10, 2000, and is obtained from 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 Sources

Not applicable.

## Note 9. Inventory and Related Property

**As of September 30, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **1. Inventory, Net (Note 9.A.)** | $ 0 |
| **2. Operating Materials & Supplies, Net (Note 9.B.)** | 38,189,438 |
| **3. Stockpile Materials, Net (Note 9.C.)** | 0 |
| **4. Forfeited Property** | 0 |
| **5. Goods Held Under Price Support and Stabilization Programs** | 0 |
| **6. Total** | $ 38,189,438 |

## Note 9.A. Inventory, Net

Not applicable.

## Note 9.B. Operating Materials and Supplies (O,M&S), Net

**As of September 30, 2000**

| *($ in Thousands)* | OM&S Amount | Revaluation Allowance | OM&S, Net | Valuation Method |
|---|---|---|---|---|
| **1. OM&S Categories:** | | | | |
| A. Held for Use | $ 34,173,129 | $ 0 | $ 34,173,129 | LAC,SP,AC |
| B. Held in Reserve for Future Use | 3,413,583 | 0 | 3,413,583 | LAC,SP,AC |
| C. Held for Repair | 0 | 0 | 0 | |
| D. Excess, Obsolete, and Unserviceable | 602,726 | 0 | 602,726 | LAC,SP,AC |
| E. Total | $ 38,189,438 | $ 0 | $ 38,189,438 | |

**Legend for Valuation Methods:**

| | | | | | |
|---|---|---|---|---|---|
| Adjusted LAC | = | Latest Acquisition Cost Adjusted for holding gains and losses | O | = | Other |
| NRV | = | Net Realizable Value | AC | = | Actual Cost |
| SP | = | Standard Price | | | |

**2. Restrictions on Operating Materials and Supplies:**

**3. Definitions of Titles:**

OM&S Amount represents the standard value used for OM&S transactions in the financial system. Revaluation Allowance is the total difference between standard OM&S values and either historical cost or net realizable value. OM&S, Net is approximate historical cost or net realizable value.

**4. Other Information:**

Operating Materials and Supplies consists of the following:
*($ in Thousands)*

| | FY 2000 |
|---|---|
| APA Principal End Items | $ 20,115,701 |
| Ammunition and Munitions | 10,879,486 |
| Sponsor Owned Material | 5,387,544 |
| APA Secondary Inventory | 1,034,389 |
| Other | 772,318 |
| Total | $ 38,189,438 |

**Valuation.** OM&S are valued at actual cost, with the exception of portions of sponsor owned material, APA secondary inventory, APA principal end items, residual asset management items, ammunition, and munitions. Sponsor owned material is reported in numerous systems. Some of these systems utilize the standard price methodology while others use actual cost. Portions of APA principal end items also utilize the standard price methodology. APA secondary inventory, portions of APA principal end items, ammunition, and munitions are valued at latest acquisition cost (LAC). Residual asset management items are valued at standard price. 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.

**Method of Accounting.** The consumption method of accounting for the recognition of expenses has been applied to OM&S. However, current financial and logistics systems can not 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). The Department has reached an agreement with the OMB, the General Accounting Office (GAO) and the Inspector General, Department of Defense (IG, DoD) to move to the consumption method of accounting for OM&S in future years. Based on this agreement, the DoD, in consultation with its auditors, will (1) develop a framework for conducting cost-benefit analyses for use in determining whether the consumption method is cost beneficial for selected instances of OM&S; (2) develop specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method; (3) develop functional requirements for feeder systems to support the consumption method; and (4) identify feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method.

**Principal End Items.** Principal End Items includes OM&S items such as shipboard hull, mechanical and electronic equipment, uninstalled aircraft engines, air-launched missile material, and surface-launched guided missile components and associated equipment. 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 nor in the Required Supplementary Stewardship reports. For FY 2000, the DON B2 OM&S strategy group determined that it was appropriate to report these items on the Balance Sheet, as they meet the definition of OM&S. Therefore, DON has reported Principal End Items of $20,115,701 thousand on the Balance Sheet.

**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. Conflicts in policy and guidance in the DoD FMR and the DoD Material Management Regulation for the valuation of ammunition precludes DON from incorporating system changes that would result in CAIMS being in compliance with SFFAS No. 3. In July 2000, DON requested that the Under Secretary of Defense (Comptroller) (USD(C)) provide resolution to the issue. A USD(C) memorandum dated August 9, 2000 states that resolution to the conflicting regulations is underway. In the meantime, DON has begun the analysis and cost benefit identification of making CAIMS compliant with federal accounting standards.

An estimated 17% of the amount reported for Ammunition/Munitions as Held for Use and Held for Future 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). No cost figures for bringing the unserviceable items into serviceable condition are available.

**Sponsor Owned Material.** The use of an estimate of $2,000,000 thousand for FY 1999 reporting was addressed in GAO subject letter GAO-01-37R "Financial Management: Improvements Needed in the Navy's Reporting of General Fund Inventory" dated October 27, 2000. In FY 2000, the subject Command is reporting $1,010,367 thousand of SOM. The FY 2000 figure represents the amount the Command has been able to validate by physical inventory. The Command maintains that when they have completed their inventories, the total will be close to the $2,000,000 thousand estimate reported in FY 1999. Throughout FY 2000, the B2 Operating Materials and Supplies strategy group, along with subject Command, have been working to identify all OM&S assets.

**Shipboard Assets.** Shipboard assets are not supply system material but rather are an engineered estimate of various asset allowance lists that a ship must contain before leaving port to perform its mission. Because shipboard assets are vital to ship operations, the DON considers the ship to be an "end user." As such, shipboard assets are expensed when issued to the ship. The B2 Operating Materials and Supplies strategy group, which includes representatives from GAO, DoD Inspector General, and the Naval Audit Service has recognized shipboard inventories aboard smaller combatant ships as a reporting issue and is working with USD(C) to come to resolution on this issue.

**Operating Materials and Supplies Held for Repair.** There is no unique USSGL account that maps to OM&S Held for Repair. The ODCFO(AP) has proposed the addition of this account to the USSGL Board. For FY 2000 reporting, the value of items Held for Repair is included in the categories Held for Use and Held for Future Use. Operating Materials and Supplies Held for Repair are as follows:

*($ in Thousands)*

| | FY 2000 |
|---|---|
| Held for Repair Items reported as Held for Use | $ 211,298 |
| Held for Repair Items reported as Held for Future Use | 51,973 |
| Total | $ 263,271 |

**Other Operating Material & Supplies.** Other Operating Material & Supplies totaled $772,318 thousand, and included the following items:

*($ in Thousands)*

| | FY 2000 |
|---|---|
| Residual Asset Management (RAM) | $ 676,054 |
| Shipbuilding and Conversion Residual Asset Management Interim Supply Support (CRAMSI) | 37,661 |
| Material in the Possession of the US Coast Guard | 52,616 |
| Fleet Hospitals and War Reserves | 5,987 |
| Total | $ 772,318 |

**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. In FY 1999, $11,303,450 thousand of GFM / CAM was reported; per the DoD FMR, Volume 6B, DON is not reporting this type of OM&S in FY 2000.

**RAM.** Residual assets are comprised of Condition Code "A" material, odd-numbered Navy cogs (1,3,5,7,9 cog), and part-numbered items. The material is owned by various DON Commands. The 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.

**CRAMSI**. $88,150 thousand of OM&S was reported from the CRAMSI system in FY 1999. In FY 2000, only $37,661 thousand is being reported. The decrease is due to the migration of the material in the CRAMSI system into other systems. This is part of the B2 Operating Materials and Supplies strategy to reduce the number of systems used for reporting OM&S.

## Note 9.C. Stockpile Materials, Net

Not applicable.

## Note 10. General Property Plant & Equipment (PP&E), Net

**As of September 30, 2000**
*($ in Thousands)*

| | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value |
|---|---|---|---|---|---|
| **1. Major Asset Classes:** | | | | | |
| A. Land | N/A | N/A | $ 659,725 | N/A | $ 659,725 |
| B. Buildings, Structures, and Facilities | SL | 20 or 40 | 30,214,870 | $ (11,421,947) | 18,792,923 |
| C. Leasehold Improvements | SL | Lease Term | 0 | 0 | 0 |
| D. Software | SL | 5 | 109 | 0 | 109 |
| E. Equipment | SL | 5 or 10 | 2,993,421 | (1,520,997) | 1,472,424 |
| F. Assets Under Capital Lease[1] | SL | Lease Term | 24,595 | (17,182) | 7,413 |
| G. Construction-in-Progress | N/A | N/A | 4,549,916 | N/A | 4,549,916 |
| H. Other | | | 3,181 | 0 | 3,181 |
| I. Total General PP&E | | | $ 38,445,817 | $ (12,960,126) | $ 25,485,691 |

[1] See note 15.B for additional information on Capital Leases

**Legend for Depreciation/Amortization Methods:**

SL = Straight Line  N/A = Not applicable

## 2. Other Information:

**Land, Buildings, Structures and Facilities.** The gross ending balance for Land, Buildings, Structures and Facilities for FY 2000 is $30,874,595 thousand ($659,725 thousand for Land, and $30,214,870 thousand for Buildings, Structures and Facilities).

**Real Property.** The Navy Facility Assets Data Base (NFADB) is used to derive real property values for financial reporting purposes. In FY 1999, the real property figures reported in the general fund financial statements excluded all condition code "K" properties. These are properties that are maintained by NWCF activities. In FY 2000, a different methodology was used for excluding NWCF property. NWCF Unit Identification Codes (UICs) were identified and the associated property excluded when determining the real property values for DON general fund.

**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 2000, the DON has worked 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):
*($ in Thousands)*

| | FY 2000 |
|---|---|
| DeCA | $ 43,653 |
| DLA | 42,400 |
| DoDD Schools | 25,112 |

While the DON has begun identifying the major parties involved, we continue to report the asset values of preponderant use assets in FY 2000. 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 2001.

For FY 2000, the DON is reporting Bureau of Medicine and Surgery (BUMED) personal property. Although this property is purchased using TI 97 (DoD) funds, the DoD FMR Volume 4, Chapter 6 requires that this PP&E be recorded on the financial statements of the DON.

**Equipment.** Total equipment of $2,993,421 thousand (acquisition value) was reported in FY 2000. During FY 2000, the DON has been working to convert equipment property records to the Defense Property Accountability System (DPAS). As of the close of FY 2000, approximately 99% of DON's equipment property records have been converted. 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. Whereas the mid-year convention has been applied in the past, DPAS applies the mid-month convention.

For FY 2000, depreciation expense and accumulated depreciation were not reported on $292,435 thousand of the total, due to inadequate information, which prevented the calculation of depreciation. These property records have not been loaded into DPAS.

**Leasehold Improvements.** No leasehold improvements are reported for FY 2000. This is because the DON's real property system does not track leasehold improvements as a separate component of a building's total value. DON will assess the feasibility of revising their system to meet current accounting and reporting requirements during FY 2001.

**Defense Property Accountability System (DPAS).** The DON is currently converting all equipment property records to DPAS. As a part of the conversion process, efforts are being undertaken to inventory and reconcile each converting activity's property records, and to obtain accurate historical cost data. This process is expected to be complete in FY 2001.

**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, 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-wide accounting standards.

**Other:** The amount reported in the "Other" category should be reported as follows: $4,101 thousand acquisition value, $920 thousand accumulated depreciation, $3,181 thousand net book value. Because there is no United States Standard General Ledger account corresponding to accumulated depreciation for the "Other" category, the system used to compile financial information is unable to report data in that field.

## Note 10.A. Assets Under Capital Lease

**As of September 30, 2000**
*($ in Thousands)*

| **1. Entity as Lessee, Assets Under Capital Lease:** | **FY 2000** |
|---|---|
| A. Land and Buildings | $ 0 |
| B. Equipment | 0 |
| C. Other | 24,595 |
| D. Accumulated Amortization | (17,182) |
| E. Total Capital Leases | $ 7,413 |

**2. Description of Lease Arrangements:**

**3. Other Information:**

$24,595 thousand of leased assets previously reported as equipment were identified when data was loaded into the DPAS system. While DON is making progress in this area, there is no process in place for capturing the liability associated with these assets. For FY 2000 reporting, a liability was recorded equal to the net value of the assets (i.e. gross value of $24,595 thousand less accumulated amortization of $17,182 thousand equals net value of $7,413 thousand).

## Note 11. Liabilities Not Covered by Budgetary Resources

**As of September 30, 2000**
*($ in Thousands)*

| **1. Intragovernmental Liabilities:** | **FY 2000** |
|---|---|
| A. Accounts Payable | $ 0 |
| B. Debt | 57 |
| C. Environmental Liabilities | 0 |
| D.Other | 817,765 |
| E. Total Intragovernmental Liabilities | $ 817,822 |

| | FY 2000 |
|---|---|
| **2. Nonfederal Liabilities:** | |
| A. Accounts Payable | $ 283,052 |
| B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities | 1,441,520 |
| C. Environmental Liabilities | 15,406,628 |
| D. Loan Guarantee Liability | 0 |
| E. Other Liabilities | 1,634,345 |
| F. Total Nonfederal Liabilities | $ 18,765,545 |
| **3. Total Liabilities Not Covered by Budgetary Resources:** | $ 19,583,367 |
| **4. Total Liabilities Covered by Budgetary Resources:** | 5,083,162 |
| **5. Total Liabilities:** | $ 24,666,529 |

**6. Other Information:**

Other Intragovernmental Liabilities Not Covered by Budgetary Resources include the following:
*($ in Thousands)*

| | Current | Non-Current | Total |
|---|---|---|---|
| Unfunded FECA Liability | $ 245,740 | $ 305,385 | $ 551,125 |
| Canceled Years Accounts Payable | 79,641 | 5 | 79,646 |
| Judgment Fund | 186,994 | | 186,994 |
| Total | $ 512,375 | $ 305,390 | $ 817,765 |

**Workers' Compensation (FECA).** In FY 2000, the DON total liability amounts for both General Funds and Navy Working Capital Funds for the Workers' Compensation liability has been reported in the DON General Funds (Treasury Index 17) financial statements. This reporting methodology was necessary because the current accounting systems do not specify this liability as General Funds or Working Capital Funds. The liabilities reported by the DON for FY 2000 represent the balances due as reported by the Department of Labor, and provided by DFAS-KC/FR – Agency Reconciliation Division.

**Judgment Fund.** In FY 2000, the DON total liability amount for both General Funds and Navy Working Capital Funds for the Judgment Fund has been reported in the DON General Funds financial statements. This reporting methodology was necessary because the current accounting systems do not specify this liability as General Funds or Working Capital Funds. The FY 2000 Judgment Fund liability matches the liability as reported by Treasury. The DON has recently received a memorandum from the Under Secretary of Defense (Comptroller) (USD(C)) which identifies Navy delinquencies in the repayment of the Judgment Fund to the Treasury. These delinquencies cover a period from FY 1992 to FY 2000. The DON is in the process of working with the appropriate Management Commands to have them either provide documentation that these amounts have been remitted to the Treasury, or to provide the funding necessary to liquidate these liabilities. We are working with Treasury to secure further detailed information concerning the amounts owed from FY 1992 to FY 2000.

**Environmental Liabilities.** See Note 14 for disclosures related to environmental liabilities.

**Other.** Other Nonfederal Liabilities Not Covered by Budgetary Resources are made up of Unfunded Annual Leave ($1,632,522) thousand and Canceled Accounts Payable ($1,823) thousand.

## Note 12. Accounts Payable

**As of September 30, 2000**
*($ in Thousands)*

| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total |
|---|---|---|---|
| **1. Intragovernmental:** | $ 804,072 | $ 0 | $ 804,072 |
| **2. With the Public:** | $ 2,705,698 | $ 144 | $ 2,705,842 |
| **3. Total** | $ 3,509,770 | $ 144 | $ 3,509,914 |

**4. Other Information:**

**Intragovernmental Accounts Payable.** For the majority of buyer-side transactions, 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 accounts payable balances with its trading partners. However, with respect to major fiduciary balances with the Department of Labor (DoL), the DON was able to reconcile. During this reconciliation, the DON identified a difference of $24,801 thousand with DoL. 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.

**Other Information.** The DON has prioritized certain Accounts Payable related items to move forward in achieving an unqualified financial statement audit opinion. STARS functionality to record the universe of accounts payable transactions is being addressed. The enhancement of STARS functionality will enable the Major Commands to record accounts payable and expenses assuming appropriate personnel resources are available and properly trained. Additionally, DON FMO has formed a team to evaluate accounts payable recording and reporting for both the DON and the Marine Corps. The results of the Accounts Payable Team efforts should assist the DON in prioritizing the collection and reporting of accounts payable data.

**Undistributed.** DFAS-CL was directed by DFAS Arlington memorandum dated October 4, 2000 to notify the audit community of the methodology used to allocate undistributed disbursements and collections between federal and public accounts payable and receivable as of September 30, 2000. For the DON GF, undistributed disbursements and collections were allocated based on the percentage of federal and public accounts payable and receivable, respectively, as submitted in field level general ledgers.

**Intragovernmental Interest, Penalties, and Administrative Fees.** Interest, penalties, and administrative fees related to intragovernmental accounts payable results from payments made out of the DoD Education Benefits Fund. Payments to post-Vietnam Era Voluntary and Involuntary Separatees are made in advance of contributions from the services. The DoD Board of Actuaries has determined that the services must pay the accumulated interest on this unfunded liability.

## Note 13. Debt

**As of September 30, 2000**
*($ in Thousands)*

| | Beginning Balance | Net Borrowings | Ending Balance |
|---|---|---|---|
| **1. Public Debt** | | | |
| A. Held by Government Accounts | $ 0 | $ 0 | $ 0 |
| B. Held by the Public | 0 | 0 | 0 |
| C. Total Public Debt | $ 0 | $ 0 | $ 0 |
| **2. Agency Debt:** | | | |
| A. Debt to the Treasury | $ 0 | $ 0 | $ 0 |
| B. Debt to the Federal Financing Bank | 0 | 0 | 0 |
| C. Debt to Other Federal Agencies | 0 | 56 | 56 |
| D. Total Agency Debt | $ 0 | $ 56 | $ 56 |
| **3. Total Debt** | $ 0 | $ 56 | $ 56 |

| | Beginning Balance | Net Borrowings | Ending Balance |
|---|---|---|---|
| **4. Classification of Debt:** | | | |
| A. Intragovernmental Debt | | | $ 56 |
| B. Nonfederal Debt | | | 0 |
| C. Total Debt | | | $ 56 |

**5. Other Information:**

Debt to Other Federal Agencies is related to interest owed to the Education Benefit Trust Fund. Additional information is provided in Note 12.

## Note 14. Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities

**As of September 30, 2000**
*($ in Thousands)*

| | Current Liability | Noncurrent Liability | Total |
|---|---|---|---|
| **1. Environmental Liabilities:** | | | |
| *A. Intragovernmental:* | | | |
| 1. Accrued Environmental Restoration (Cleanup) Costs: | | | |
| a. Active Installations — Defense Environmental Restoration Program Funds | $ 0 | $ 0 | $ 0 |
| b. Active Installation — Other Funds | 0 | 0 | 0 |
| c. Base Realignment and Closure Installations | 0 | 0 | 0 |
| d. Formerly Used Base Sites | 0 | 0 | 0 |
| e. Closed, Transferred and Transferring Ranges | 0 | 0 | 0 |
| f. Other Nonrange Sites — Unexploded Ordnance | 0 | 0 | 0 |
| 2. Other Environmental Disposal Liabilities: | | | |
| a. Nuclear Powered Aircraft Carriers | 0 | 0 | 0 |
| b. Nuclear Powered Submarines | 0 | 0 | 0 |
| c. Other Nuclear Powered Ships | 0 | 0 | 0 |
| d. Other National Defense Weapons Systems | 0 | 0 | 0 |
| e. Chemical Weapons Disposal | 0 | 0 | 0 |
| f. Conventional Munitions Disposal | 0 | 0 | 0 |
| g. Other | 0 | 0 | 0 |
| 3. Total Intragovernmental Environmental Liabilities | $ 0 | $ 0 | $ 0 |

| | Current Liability | Noncurrent Liability | Total |
|---|---|---|---|
| *B. Nonfederal:* | | | |
| 1. Accrued Environmental Restoration (Cleanup) Costs: | | | |
| a. Active Installations Defense Environmental Restoration Program Funds | $ 137,106 | $ 3,852,917 | $ 3,990,023 |
| b. Active Installations—Other Funds | 0 | 0 | 0 |
| c. Base Realignment and Closure Installations | 67,205 | 1,142,310 | 1,209,515 |
| d. Formerly Used Defense Sites | 0 | 0 | 0 |
| e. Closed, Transferred and Transferring Ranges | 0 | 53,580 | 53,580 |
| f. Other Nonrange Sites—Unexploded Ordnance | 0 | 0 | 0 |
| 2. Other Environmental Disposal Liabilities: | | | |
| a. Nuclear Powered Aircraft Carriers | 0 | 4,890,000 | 4,890,000 |
| b. Nuclear Powered Submarines | 139,300 | 5,131,400 | 5,270,700 |
| c. Other Nuclear Powered Ships | 0 | 269,100 | 269,100 |
| d. Other National Defense Weapon Systems | 0 | 82,138 | 82,138 |
| e. Chemical Weapons Disposal | 0 | 0 | 0 |
| f. Conventional Munitions Disposal | 0 | 0 | 0 |
| g. Other | 0 | 300,832 | 300,832 |
| 3. Total Nonfederal Environmental Liabilities | $ 343,611 | $15,722,277 | $16,065,888 |
| **2. Total Environmental Liabilities:** | $ 343,611 | $ 15,722,277 | $16,065,888 |

**3. Other Information Related to Environmental Liabilities:**

Of the Environmental Liabilities being reported by the DON for FY 2000, $15,329,128 thousand are not covered by budgetary resources.

The following amounts are reported as “Other”:
*($ in Thousands)*

| | FY 2000 |
|---|---|
| Conventionally-powered Warship Scrapping | $ 295,632 |
| Storm Sewer Rehabilitation | 5,200 |
| Total | $ 300,832 |

**Nuclear Powered Aircraft Carriers.** The estimated cost for inactivation, reactor compartment (RC) disposal and hull recycling is $4,890,000 thousand.

**Nuclear Powered Submarines.** The estimated cost of inactivation, RC disposal, and hull recycling is $5,270,700 thousand.

**Other Nuclear Powered Ships.** There are no active nuclear powered cruisers. The estimated cost for RC disposal and hull recycling of the remaining five inactive guided missile cruisers, nuclear (CGNs) is about $269,100 thousand.

**Aircraft.** For FY 1999 reporting, the environmental liability estimate for aircraft was based on all aircraft, both active and inactive. After further research and investigation of DoD FMR Volume 4, Chapter 13 during FY 2000, DON determined that the environmental liability for an aircraft should only be recognized after management decides to remove that aircraft from the active inventory. Therefore the decrease in the amount reported in the "Other National Defense Weapon Systems" category represents the deletion of the liabilities associated with active aircraft.

**Training Ranges.** For FY 1999 reporting, the training range liability was based upon the following documents and assumptions: 1) Acreage figures for the Navy were derived from the DoD Report, "Information Related to the Munitions Rule Economic Assessment Collected in Response to a Request from the United States Environmental Protection Agency"dated April 1995; 2) Acreage figures for the Marine Corps were derived from the report "Impact Analysis for the Environmental Protection Agency Military Munitions Rule and the Department of Defense Range Rule Implementation," dated April 1997; 3) Cost factors were derived from the "DoD Final Range Rule Regulatory Impact Analysis" dated July 3, 1996 and do not include evaluation and documentation costs of approximately $4M per site; 4) Cost factors applied assumed clean-up/remediation to return properties to "Limited Public Access" criteria and that the site contamination levels are considered to be "low" or "light," which is the least financially burdensome option and results in an estimated minimum liability of $10/acre. The estimates were applied to both active, inactive, and transferring ranges. After further research and investigation of DoD FMR Volume 4, Chapter 13 during FY 2000, DON determined that only liabilities associated with inactive and transferring ranges should be recorded. This led to a decrease from the FY 1999 amount of $30,703,937 thousand to the amount reported in FY 2000 of $53,580 thousand (a decrease of $30,650,357 thousand).

**Conventionally Powered Warship Scrapping.** The only addition to inventory for scrapping in FY 2001 is the USS Hewitt.

## Note 15.A. Other Liabilities

**As of September 30, 2000**
*($ in Thousands)*

| | Current Liability | Noncurrent Liability | Total |
|---|---|---|---|
| **1. Intragovernmental:** | | | |
| A. Advances from Others | $ 0 | $ 0 | $ 0 |
| B. Deferred Credits | 0 | 0 | 0 |
| C. Deposit Funds and Suspense Account Liabilities | 548,056 | 0 | 548,056 |
| D. Resources Payable to Treasury | 7,277 | 0 | 7,277 |
| E. Disbursing Officer Cash | 134,786 | 0 | 134,786 |
| F. Nonenvironmental Disposal Liabilities: | | | |
| (1) ND PP&E (Non-nuclear) | 0 | 0 | 0 |
| (2) Excess/Obsolete Structure | 0 | 0 | 0 |
| (3) Other | 0 | 0 | 0 |
| G. Accounts Payable—Cancelled Appropriations | 79,640 | 5 | 79,645 |
| H. Judgment Fund Liabilities | 186,994 | 0 | 186,994 |
| I. Workman's Compensation Reimbursement to the Department of Labor | 245,740 | 305,385 | 551,125 |
| J. Capital Lease Liability | 0 | 0 | 0 |
| K. Other Liabilities | 62,588 | 0 | 62,588 |
| L. Total Intragovernmental Other Liabilities | $ 1,265,081 | $ 305,390 | $ 1,570,471 |
| **2. Nonfederal:** | | | |
| A. Accrued Funded Payroll and Benefits | $ 197,838 | $ 0 | $ 197,838 |
| B. Advances from Others | 0 | 0 | 0 |
| C. Deferred Credits | 0 | 0 | 0 |
| D. Loan Guarantee Liability | 0 | 0 | 0 |
| E. Liability for Subsidy Related to Undisturbed Loans | 0 | 0 | 0 |
| F. Deposit Funds and Suspense Accounts | 0 | 0 | 0 |
| G. Temporary Early Retirement Authority | 389 | 37,927 | 38,316 |
| H. Nonenvironmental Disposal Liabilities: | | | |
| (1) NP PP&G (Nonnuclear) | 0 | 0 | 0 |
| (2) Excess/Obsolete Structures | 36,900 | 40,600 | 77,500 |
| (3) Other | 0 | 0 | 0 |
| I. Accounts Payable— Canceled Appropriations | 1,397 | 426 | 1,823 |
| J. Accrued Unfunded Annual Leave | 1,632,522 | 0 | 1,632,522 |
| K. Accrued Entitlement Benefits for Military Retirees and Survivors | 0 | 0 | 0 |
| L. Capital Lease Liability | 7,413 | 0 | 7,413 |

| | Current Liability | Noncurrent Liability | Total |
|---|---|---|---|
| M. Other Liabilities | 70,860 | 52,408 | 123,268 |
| N. Total Nonfederal Other Liabilities | $ 1,947,319 | $ 131,361 | $ 2,078,680 |
| **3. Total Other Liabilities** | $ 3,212,400 | $ 436,751 | $ 3,649,151 |

**4. Other Information Pertaining to Other Liabilities:**

**Timing of the Non-Environmental Disposal Liability.** Based upon the DON's interpretation of the SFFAS No. 5, a Non-Environmental Disposal Liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Department has agreed to recognize the Non-Environmental Disposal Liability for ND PP&E nuclear powered assets when the asset is initially placed in service. The nonenvironmental costs are included with the environmental disposal costs and reported in note 14.

**Non-Environmental Disposal Liability for Nuclear Assets.** The Department has agreed to recognize the Non-Environmental Disposal Liability for ND PP&E nuclear powered assets when the asset is initially placed in service. The nonenvironmental cost are included with the environmental disposal costs and reported in note 14.

**Disposal Cost of Real Property.** For FY 2000, the DON is reporting a nonenvironmental 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. To meet the target of DRID #36, the DON plans to dispose of an additional 5.92 million square feet of real property assets by 2002. This target includes both the Navy and the Marine Corps real property assets. As of September 30, 2000, the current portion of Navy's liability is $36,900 thousand. The non-current portion of Navy's liability is $40,600 thousand. The Marine Corps met the targets in FY 2000 so therefore have no reportable liability. However, the Marine Corps will continue to demolish obsolete facilities in the future.

**Employer Contributions of Employee Benefits and VSIP.** DoD agencies are required to report the actual government contributions for employee benefits for (1) the Civil Service Retirement System (CSRS), (2) the Federal Employees Retirement System (FERS), (3) the Federal Employees Health Benefits (FEHB) Program, (4) the Federal Employees Life Insurance (FEGLI) Program, and the Voluntary Separation Incentive Program (VSIP). The objective of this is to ensure that revenue per OPM agree with expenses per DoD agencies. In 2000, DON reported $23,096 thousand for government contributions for employee benefits, and $6,348 thousand for VSIP.

**Other Information.** The balance in Other Intragovernmental is comprised of employer contributions of employee benefits and VSIP, as well as DON FECA liabilities for FY 2000. The Other Nonfederal balance includes liabilities of $72,661 thousand associated with contract incentives.

## Note 15.B. Capital Lease Liability

**As of September 30, 2000**
*($ in Thousands)*

| | Asset Category | | | |
|---|---|---|---|---|
| | **Land and Buildings** | **Equipment** | **Other** | **Total** |
| **1. Future Payments Due:** | | | | |
| A. 2001 | $ 0 | $ 7,413 | $ 0 | $ 7,413 |
| B. 2002 | 0 | 0 | 0 | 0 |
| C. 2003 | 0 | 0 | 0 | 0 |
| D. 2004 | 0 | 0 | 0 | 0 |
| E. 2005 | 0 | 0 | 0 | 0 |
| F. After 5 Years | 0 | 0 | 0 | 0 |
| G. Total Future Lease Payments Due | $ 0 | $ 7,413 | $ 0 | $ 7,413 |
| H. Less: Imputed Interest Executory Costs | 0 | 0 | 0 | 0 |
| I. Net Capital Lease Liability | $ 0 | $ 7,413 | $ 0 | $ 7,413 |

| | |
|---|---|
| **2. Capital Lease Liabilities Covered by Budgetary Resources:** | $ 7,413 |
| **3. Capital Lease Liabilities Not Covered by Budgetary Resources:** | $ 0 |

**4. Other Information:**

The methodology for calculating the lease liability is discussed in Note 10.A. The entire lease liability amount is being reported as a future payment due in FY 2001. 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

**Disclosures Related to Commitments and Contingencies:**

For FY 2000, 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 2000, prior experience affords DON the ability to forecast the possible loss associated with 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 September 30, 2000, the DON reported a range between $248,455 thousand and $253,064 thousand in claims without regard to claim status. These contingent liabilities consisted of a range between $150 million and $500 million resulting from damage to personal effects due to natural disasters; a range between $12,228 thousand and $13,338 thousand for the resolution of employee related actions; $118,349 thousand for the resolution of contractual actions; $24,400 thousand in anticipated losses due to base re-alignment and closure activities; and $91,978 thousand for contingent liabilities related to outstanding contractual obligations for funds canceling in FY 2000.

The Navy Litigation Office is currently handling 229 cases worth approximately $3.042 billion, excluding the A-12 case. The Litigation Office handles most contract cases at the Armed Services Board of Contract Appeals (ASBCA) over $400,000; all personnel class action cases; most environmental cases in federal court; and assorted other cases which have an importance to senior leadership of the Office of the General Counsel.

## Note 17. Military Retirement Benefits and Other Employment Related Actuarial Liabilities

**As of September 30, 2000**
*($ in Thousands)*

| | Actuarial Present Value of Projected Plan Benefits | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Actuarial Liability |
|---|---|---|---|---|
| **1. Pension and Health Benefits:** | | | | |
| A. Military Retirement Pensions | $ 0 | 0.00% | $ 0 | $ 0 |
| B. Military Retirement Health Benefits | 0 | 0.00% | 0 | 0 |
| C. Total Pension and Health Benefits | $ 0 | | $ 0 | $ 0 |
| **2. Other:** | | | | |
| A. Workmen s Compensation (FECA) | $1,441,520 | 0.00% | $ 0 | $ 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 | $1,441,520 | | $ 0 | $ 1,441,520 |
| **3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities** | $1,441,520 | | $ 0 | $ 1,441,520 |

**4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:**

Actuarial Cost Method Used: See information provided below.
Assumptions: See information provided below.
Market Value of Investments in Market-based and Marketable Securities:

**Reporting of Military Retirement Benefits by MRF.** The portion of the military retirement benefits actuarial 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.

**Reporting 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. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. The DON has not yet received the detailed information from the DoL in support of their actuarial liability calculations; this information is to be provided. The breakouts provided by DFAS Arlington are based on the last actual bill percentage applied to the total actuarial value.

The estimate was split 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 reporting methodology was necessary because the current accounting systems do not specify the liability as General Fund or Working Capital Fund. The following table details the numbers used in support of the DON allocation:

| | Personnel | Allocation % |
|---|---|---|
| DON General Fund | 106,366 | 54% |
| DON Working Capital Fund | 89,332 | 46% |
| Total | 195,698 | 100% |

## Note 18. Unexpended Appropriations

**As of September 30, 2000**
*($ in Thousands)*

| **1. Unexpended Appropriations:** | **FY 2000** |
|---|---|
| A. Unobligated, Available | $ 12,144,961 |
| B. Unobligated, Unavailable | 7,669,855 |
| C. Unexpended Obligations | 45,087,856 |
| D. Total Unexpended Appropriations | $ 64,902,672 |

**2. Other Information Pertaining to Unexpended Appropriation:**

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 (line 2.A.) of the Statement of Financing, which includes the change during the fiscal year in unexpended obligations against budget authority from all sources.

## Note 19. Disclosures Related to the Statement of Net Cost

## Note 19.A. General Disclosures Related to the Statement of Net Cost

**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 the SFFASs. 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, environmental liabilities, etc.

Due to rounding variances, Net Cost of Operations is reported as $94,521,866 thousand on the Statement of Changes in Net Position and Statement of Financing while it is reported as $94,521,862 thousand on the Statement of Net Cost.

## Note 19.B. Gross Cost and Earned Revenue by Budget Functional Classification

Not applicable.

## Note 19.C. Intragovernmental (Transactions with Other Federal-Non-DoD-Entities) Gross Cost and Earned Revenue by Budget Functional Classification

Not applicable.

## Note 19.D. Imputed Expenses

**As of September 30, 2000**
*($ in Thousands)*

| | | FY 2000 |
|---|---|---|
| 1. Civilian (CSRS/FERS) Retirement | $ | 168,327 |
| 2. Civilian Health | | 227,142 |
| 3. Civilian Life Insurance | | 1,036 |
| 4. Military Retirement Pension | | 0 |
| 5. Military Retirement Health | | 0 |
| 6. Judgement Fund/Litigation | | 41,357 |
| 7. Total Imputed Expenses | $ | 437,862 |

The DON financial statements have recognized an imputed expense for civilian employee pensions, life insurance, health benefits, and Judgment Fund claims 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 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 cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost. Material amounts related to stewardship assets are provided in the Required Supplemental Stewardship Information section of this financial statement.

## Note 19.I. Reconciliation of Intragovernment Revenue

**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 reconciliation 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, 2000**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| **1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:** | |
| A. Changes in Accounting Standards | $ 0 |
| B. Errors and Omission in Prior Year Accounting Reports | 33,755,587 |
| C. Other Prior Period Adjustments | 4,690,028 |
| D. Total Prior Period Adjustments | $ 38,445,615 |
| **2. Imputed Financing:** | |
| A. Civilian CSRS/FERS Retirement | $ 168,327 |
| B. Civilian Health | 227,142 |
| C. Civilian Life Insurance | 1,036 |
| D. Military Retirement Pension | 0 |
| E. Military Retirement Health | 0 |
| F. Judgment Fund/Litigation | 41,357 |
| G. Total Imputed Financing | $ 437,862 |

### 3. Other Information:

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

| | FY 2000 |
|---|---|
| **ERRORS AND OMISSIONS:** | |
| Environmental Cleanup | $ 31,604,589 |
| PP&E | (6,663,359) |
| OM&S | 8,945,713 |
| PBD # 416 | (6,883) |
| Bad Debt Expense Adjustment | (52,141) |
| Judgment Fund | 22,689 |
| FECA Unpaid | 18,832 |
| Contract Incentive | (5,084) |
| Canceled A/P | (108,769) |
| Total Errors and Omissions | $ 33,755,587 |
| **OTHER:** | |
| NFADB Adjustment of Buildings & Structures | 4,690,028 |
| Total | $ 38,445,615 |

**Prior Period Adjustments.** The DON recorded a Prior Period Adjustment due to PBD # 416 requirements. See Note 21 for disclosures related to this PBD. Information regarding Other Prior Period Adjustments due to the NFADB Buildings adjustment for WCF property is contained in Note 10. Other disclosures related to the Environmental Cleanup is contained in Note 14. Disclosures related to the prior period adjustment for PP&E is included in Note 10. Information pertaining to the prior period adjustment for OM&S is disclosed in Note 9.

**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.** The imputed financing amount attributable to Judgment Fund claims is provided by Treasury. 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 those payments made out of 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, 2000**
*($ in Thousands)*

| | **FY 2000** |
|---|---|
| **1. Net Amount of Budgetary Resources Obligated for Undelivered at the End of the Period** | $ 47,610,754 |
| **2. Available Borrowing and Contract Authority at the End of the Period** | $ 0 |

**3. Other Information:**

**Undelivered Orders Presented in the Statement of Budgetary Resources.** Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both Direct and Reimbursable funds. It does not include Undelivered Orders-paid.

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

**Adjustments Related to Draft Program Budget Decision (PBD) 416.** Draft PBD 416 addresses the flawed assumption that DoD Components are not liable for costs in excess of those budgeted for goods and services received from the DoD WCFs. The Draft PBD 416 found that goods and services provided by the DFAS WCF to DoD Components, which in some cases were in excess of the Components' budgeted costs, are within scope and must be paid from FY 2000 or FY 1999 funds as appropriate. The resulting additional costs for the DON represent material subsequent events occurring after the close of FY 2000, which must be recognized by the DON in the FY 2000 financial statements. Since these additional costs occurred after final certification of the DON SF 133, disconnects currently exist between the Statement of Budgetary Resources and the SF 133 in the amount of $23,000 thousand.

## Note 21.B. Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

*($ in Thousands)*

| | As of September 30, | | | Cumulative (Decrease)/ Increase |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | |
| **1. Problem Disbursements** | $ 3,609,061 | $ 1,850,000 | $ 1,281,000 | $ (2,328,061) |
| **2. In-transit Disbursements, Net** | $ 3,777,835 | $ 1,422,000 | $ 530,000 | $ (3,247,835) |

**3. 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 September 30, 2000 for the DoD, including Foreign Military Sales:

| Aging | In-Transit Disbursements | Unmatched Disbursements (UMD's) | Negative Unliquidated Obligations (NULO's) |
|---|---|---|---|
| 0-30 Days | $ 1,235,000 | $ 232,000 | $ 34,000 |
| 31-60 Days | 157,000 | 85,000 | 9,000 |
| 61-120 Days | 170,000 | 111,000 | 8,000 |
| 121-180 Days | 44,000 | 59,000 | 18,000 |
| 181-360 Days | 114,000 | 88,000 | 6,000 |
| Over 360 Days | 135,000 | 299,000 | 643,000 |
| Total — Absolute | $ 1,855,000 | $ 874,000 | $ 718,000 |
| Total — Net | $ 530,000 | $ 566,000 | $ 715,000 |

The DON has $874,000 thousand (absolute) and $566,000 thousand (net) problem disbursements that represent disbursements of DON funds that have been reported by a disbursing station to the Department of the Treasury, but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursement arises when the DON and DFAS-CL contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the transactions in all applicable systems. The DON has efforts underway to improve the systems and to resolve all previous problem disbursements. As of September 30, 2000, these efforts resulted in a decrease (absolute) of $382,000 thousand in In-Transit Disbursements, a decrease (absolute) of $436,000 thousand in UMD's and a decrease (absolute) of $420,000 thousand in NULO's over the balances reported as of September 30, 1999.

**4. Suspense/Budget Clearing Accounts**

| Account | September 1998 | September 1999 | September 2000 | (Decrease)/ Increase |
|---|---|---|---|---|
| F3875 | $ (213,000) | $ 0 | $ 0 | $ 213,000 |
| F3880 | 37,000 | 0 | 0 | (37,000) |
| F3885 | 0 | 0 | 0 | 0 |
| F3886 | 0 | 0 | 0 | 0 |
| Total | $ (176,000) | $ 0 | $ 0 | $ 176,000 |

**5. Other Information Related to Suspense/Budget Clearing Accounts:**

Not included in the table above are amounts for Suspense / Budget Clearing Account F3875. While this account is no longer valid, it contained balances in FY 1998 and FY 1999. At September 30, 1998, account F3875 had a balance of $6,000 thousand, and ($11,000) thousand at September 30, 1999. The net decrease from FY 1998 to FY 2000 is ($6,000) thousand, which brings the total net increase as shown above to $170,000 thousand.

The DON has made a concerted effort to reduce balances in the suspense and budget clearing accounts, and to establish an 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.

On September 30 of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero by transferring the balances to proper appropriation accounts using a logical methodology, such as prorating the amounts on a percentage basis derived by comparing the disbursements in the suspense/clearing account to total disbursements.

## Note 22. Disclosures Related to the Statement of Financing

Not applicable.

## Note 23. Disclosures Related to the Statement of Custodial Activity

Not applicable.

## Note 24. Other Disclosures

Not applicable.

## Note 24.A. Other Disclosures

**Surcharge Commissary Stores, Marine Corps (17X8421):**
Through FY end 1999, the DON reported on activity in account 17X8421. This activity accounted for the residual balances remaining after the transfer of all commissary operations to the Defense Commissary Agency (DeCA) effective October 1, 1991. During FY 2000, DON closed these residual balances, and therefore is not reporting this activity.

**Transfer of NWCF Ordnance activities to Navy GF:**
As described in Note 1.B, Naval Ordnance activities were transferred from the NWCF to Navy GF effective FY 2000. The following table summarizes the equity transfers received by the Navy GF from NWCF in FY 2000:

**Equity Transferred From:**
*($ in Thousands)*

| | FY 2000 |
|---|---|
| CINLANFLT – Yorktown | $ 287,110 |
| CINPACFLT – Seal Beach | 126,151 |
| NAVSUP | 4,165 |
| NAVSEA | 792 |
| | $ 418,218 |

## Department of the Navy Annual Financial Report

# *Supporting Consolidating/ Combining Statements*

**Department of Defense**
**Department of the Navy**

## Consolidating Balance Sheet

**As of September 30, 2000**
*($ in Thousands)*

| | Navy | Marine Corps | 2000 Combined | Eliminations | 2000 Consolidated |
|---|---|---|---|---|---|
| **ASSETS (Note 2)** | | | | | |
| Intragovernmental: | | | | | |
| Fund Balance with Treasury (Note 3) | $ 59,319,260 | $ 3,227,792 | $ 62,547,052 | $ 0 | $ 62,547,052 |
| Investments (Note 4) | 10,539 | 0 | 10,539 | 0 | 10,539 |
| Accounts Receivable (Note5) | 1,178,910 | 66,079 | 1,244,989 | 23,382 | 1,221,607 |
| Other Assets (Note 6) | 149,473 | 8,109 | 157,582 | 0 | 157,582 |
| Total Intragovernmental Assets | $ 60,658,182 | $ 3,301,980 | $ 63,960,162 | $ 23,382 | $ 63,936,780 |
| Cash and Other Monetary Assets (Note 7) | $ 128,418 | $ 6,365 | $ 134,783 | $ 0 | $ 134,783 |
| Accounts Receivable (Note 5) | 1,396,653 | 40,511 | 1,437,164 | 0 | 1,437,164 |
| Loans Receivable (Note 8) | 0 | 0 | 0 | 0 | 0 |
| Inventory and Related Property (Note 9) | 37,552,227 | 637,211 | 38,189,438 | 0 | 38,189,438 |
| General Property, Plant and Equipment (Note 10) | 21,242,078 | 4,243,613 | 25,485,691 | 0 | 25,485,691 |
| Other Assets (Note 6) | 4,187,856 | 13,668 | 4,201,524 | 0 | 4,201,524 |
| **TOTAL ASSETS** | $ 125,165,415 | $ 8,243,348 | $133,408,763 | $ 23,382 | $133,385,381 |
| **LIABILITIES (Note 11)** | | | | | |
| Intragovernmental: | | | | | |
| Accounts Payable (Note 12) | $ 705,708 | $ 119,872 | $ 825,580 | $ 21,508 | $ 804,072 |
| Debt (Note 13) | 38 | 18 | 56 | 0 | 56 |
| Environmental Liabilities (Note 14) | 0 | 0 | 0 | 0 | 0 |
| Other Liabilities (Note 15 & Note 16) | 1,483,898 | 88,447 | 1,572,345 | 1,874 | 1,570,471 |
| Total Intragovernmental Liabilities | $ 2,189,644 | $ 208,337 | $ 2,397,981 | $ 23,382 | $ 2,374,599 |
| Accounts Payable (Note 12) | $ 1,853,096 | $ 852,746 | $ 2,705,842 | $ 0 | $ 2,705,842 |
| Military Retirement Benefits and Other Employment Actuarial Liabilities (Note 17) | 1,246,903 | 194,617 | 1,441,520 | 0 | 1,441,520 |
| Environmental Liabilities (Note 14) | 16,065,888 | 0 | 16,065,888 | 0 | 16,065,888 |
| Loan Guarantee Liability (Note 8) | 0 | 0 | 0 | 0 | 0 |
| Other Liabilities (Note 15 and Note 16) | 1,526,844 | 551,836 | 2,078,680 | 0 | 2,078,680 |
| **TOTAL LIABILITIES** | $ 22,882,375 | $ 1,807,536 | $ 24,689,911 | $ 23,382 | $ 24,666,529 |
| **NET POSITION** | | | | | |
| Unexpended Appropriations (Note 18) | $ 62,437,127 | $ 2,465,545 | $ 64,902,672 | 0 | $ 64,902,672 |
| Cumulative Results of Operations | 39,845,913 | 3,970,267 | 43,816,180 | 0 | 43,816,180 |
| **TOTAL NET POSITION** | $ 102,283,040 | $ 6,435,812 | $108,718,852 | 0 | 108,718,852 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 125,165,415 | $ 8,243,348 | $133,408,763 | $ 23,382 | $ 133,385,381 |

The accompanying notes are an integral part of these statements. See Notes 1 and 21.

**Department of Defense**
**Department of the Navy**

## Consolidating Statement of Net Cost

**Year Ended September 30, 2000**
*($ in Thousands)*

| | Navy | Marine Corps | 2000 Combined | Eliminations | 2000 Consolidated |
|---|---|---|---|---|---|
| **Program Costs** | | | | | |
| **A. Military Personnel** | | | | | |
| Intragovernmental | $ 3,384,105 | $ 1,330,201 | $ 4,714,306 | $ (1,170) | $ 4,715,476 |
| With the Public | 15,493,657 | 5,926,413 | 21,420,070 | 0 | 21,420,070 |
| Total Program Cost | $ 18,877,762 | $ 7,256,614 | $ 26,134,376 | (1,170) | $ 26,135,546 |
| (Less: Earned Revenue) | (260,927) | (12,508) | (273,435) | (56) | (273,379) |
| Net Program Costs | $ 18,616,835 | $ 7,244,106 | $ 25,860,941 | $ (1,226) | $ 25,862,167 |
| **B. Operation and Maintenance** | | | | | |
| Intragovernmental | $ 13,047,300 | $ 1,329,869 | $ 14,377,169 | $ 104,025 | $ 14,273,144 |
| With the Public | 21,122,877 | 2,457,458 | 23,580,335 | 0 | 23,580,335 |
| Total Program Cost | $ 34,170,177 | $ 3,787,327 | $ 37,957,504 | $ 104,025 | $ 37,853,479 |
| (Less: Earned Revenue) | (1,901,296) | (349,217) | (2,250,513) | (239,095) | (2,011,418) |
| Net Program Costs | $ 32,268,881 | $ 3,438,110 | $ 35,706,991 | $ (135,070) | $ 35,842,061 |
| **C. Procurement** | | | | | |
| Intragrovernmental | $ 1,764,570 | $ 52,659 | $ 1,817,229 | $ 466 | $ 1,816,763 |
| With the Public | 21,675,985 | 722,814 | 22,398,799 | 0 | 22,398,799 |
| Total Program Cost | $ 23,440,555 | $ 775,473 | $ 24,216,028 | $ 466 | $ 24,215,562 |
| (Less: Earned Revenue) | (782,914) | (6,648) | (789,562) | 0 | (789,562) |
| Net Program Costs | $ 22,657,641 | $ 768,825 | $ 23,426,466 | $ 466 | $ 23,426,000 |
| **D. Research, Development, Test & Evaluation** | | | | | |
| Intragovernmental | $ 1,057,253 | $ 0 | $ 1,057,253 | $ 8,900 | $ 1,048,353 |
| With the Public | 7,817,762 | 0 | 7,817,762 | 0 | 7,817,762 |
| Total Program Cost | $ 8,875,015 | $ 0 | $ 8,875,015 | $ 8,900 | $ 8,866,115 |
| (Less: Earned Revenue) | (87,659) | 0 | (87,659) | $ (943) | (86,716) |
| Net Program Costs | $ 8,787,356 | $ 0 | $ 8,787,356 | $ 7,957 | $ 8,779,399 |
| **E. Military Construction/Family Housing** | | | | | |
| Intragovernmental | $ 199,213 | $ 0 | $ 199,213 | $ 127,875 | $ 71,338 |
| With the Public | 808,517 | 0 | 808,517 | 0 | 808,517 |
| Total Program Cost | $ 1,007,730 | $ 0 | $ 1,007,730 | $ 127,875 | $ 879,855 |
| (Less: Earned Revenue) | (323,333) | 0 | (323,333) | 0 | (323,333) |
| Net Program Costs | $ 684,397 | $ 0 | $ 684,397 | $ 127,875 | $ 556,522 |

The accompanying notes are an integral part of these statements. See Notes 1 and 19.

**Department of Defense**
**Department of the Navy**

## Consolidating Statement of Net Cost

**Year Ended September 30, 2000**
*($ in Thousands)*

| | Navy | Marine Corps | 2000 Combined | Eliminations | 2000 Consolidated |
|---|---|---|---|---|---|
| **F. Other** | | | | | |
| Intragovernmental | $ 14,978 | $ 0 | $ 14,978 | $ 0 | $ 14,978 |
| With the Public | 72,129 | 0 | 72,129 | 0 | 72,129 |
| Total Program Cost | $ 87,107 | $ 0 | $ 87,107 | $ 0 | $ 87,107 |
| (Less: Earned Revenue) | (31,394) | 0 | (31,394) | 0 | (31,394) |
| Net Program Costs | $ 55,713 | $ 0 | $ 55,713 | $ 0 | $ 55,713 |
| **G. Total Program Costs** | | | | | |
| Intragovernmental | $ 19,467,419 | $ 2,712,729 | $ 22,180,148 | $ 240,096 | $ 21,940,052 |
| With the Public | 66,990,927 | 9,106,685 | 76,097,612 | 0 | 76,097,612 |
| Total Program Cost | $ 86,458,346 | $ 11,819,414 | $ 98,277,760 | $ 240,096 | $ 98,037,664 |
| (Less: Earned Revenue) | (3,387,523) | (368,373) | (3,755,896) | (240,094) | (3,515,802) |
| Net Program Costs | $ 83,070,823 | $ 11,451,041 | $ 94,521,864 | $ 2 | $ 94,521,862 |
| **Costs Not Assigned to Programs** | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| **(Less: Earned Revenue not attributable to Programs)** | 0 | 0 | 0 | 0 | 0 |
| **Net Costs of Operations** | $ 83,070,823 | $ 11,451,041 | $ 94,521,864 | $ 2 | $ 94,521,862 |

The accompanying notes are an integral part of these statements. See Notes 1 and 19.

**Department of Defense**
**Department of the Navy**

## Consolidating Statement of Changes in Net Position

**Year Ended September 30, 2000**
*($ in Thousands)*

| | Navy | Marine Corps | 2000 Combined | Eliminations | 2000 Consolidated |
|---|---|---|---|---|---|
| **Net Costs of Operations** | $ 83,070,823 | $ 11,451,043 | $ 94,521,866 | $ 0 | $ 94,521,866 |
| **Financing Sources (other than exchange revenues)** | | | | | |
| Appropriations Used | 81,917,871 | 11,242,239 | 93,160,110 | 0 | 93,160,110 |
| Taxes and Other Nonexchange Revenue | 0 | 0 | 0 | 0 | 0 |
| Donations - Nonexchange Revenue | 0 | 0 | 0 | 0 | 0 |
| Imputed Financing (Note 20) | 382,681 | 55,181 | 437,862 | 0 | 437,862 |
| Transfers - In | 468,218 | 0 | 468,218 | 0 | 468,218 |
| Transfers - Out | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Total Financing Sources (other than exchange revenues) | $ 82,768,770 | $ 11,297,420 | $ 94,066,190 | $ 0 | $ 94,066,190 |
| Net Results of Operations | $ (302,053) | $ (153,623) | $ (455,676) | $ 0 | $ (455,676) |
| Prior Period Adjustments (Note 20) | 40,469,636 | (2,024,021) | 38,445,615 | 0 | 38,445,615 |
| Net Change in Cumulative Results of Operations | $ 40,167,583 | $ (2,177,644) | $ 37,989,939 | $ 0 | $ 37,989,939 |
| Increase (Decrease) in Unexpended Appropriations | (524,105) | (159,667) | (683,772) | 0 | (683,772) |
| Change in Net Position | $ 39,643,478 | $ (2,337,311) | $ 37,306,167 | $ 0 | $ 37,306,167 |
| Net Position-Beginning of the Period | 62,639,563 | 8,773,124 | 71,412,687 | 0 | 71,412,687 |
| Net Position-End of the Period | $ 102,283,041 | $ 6,435,813 | $108,718,854 | $ 0 | $108,718,854 |

The accompanying notes are an integral part of these statements. See Notes 1 and 20.

**Department of Defense**
**Department of the Navy**

## Combining Statement of Budgetary Resources

**Year Ended September 30, 2000**
*($ in Thousands)*

| | Navy | Marine Corps | 2000 Combined |
|---|---|---|---|
| **Budgetary Resources** | | | |
| Budget Authority | $ 78,058,345 | $ 11,260,372 | $ 89,318,717 |
| Unobligated Balance - Beginning of Period | 11,751,263 | 434,249 | 12,185,512 |
| Net Transfers Prior - Year Balance, Actual | 70,516 | (124) | 70,392 |
| Spending Authority from Offsetting Collections | 4,942,664 | 507,220 | 5,449,884 |
| Adjustments | 243,477 | 125,535 | 369,012 |
| Total Budgetary Resources | $ 95,066,265 | $ 12,327,252 | $ 107,393,517 |
| **Status of Budgetary Resources** | | | |
| Obligations Incurred | $ 82,014,644 | $ 11,754,789 | $ 93,769,433 |
| Unobligated Balances - Available | 11,790,575 | 351,393 | 12,141,968 |
| Unobligated Balances - Not Available | 1,261,046 | 221,070 | 1,482,116 |
| Total, Status of Budgetary Resources | $ 95,066,265 | $ 12,327,252 | $ 107,393,517 |
| **Outlays** | | | |
| Obligations Incurred | $ 82,014,644 | $ 11,754,789 | $ 93,769,433 |
| Less: Spending Authority from Offsetting Collections and Adjustments | (7,202,189) | (754,784) | (7,956,973) |
| Obligated Balance, Net - Beginning of Period | 47,964,164 | 2,461,715 | 50,425,879 |
| Obligated Balance Transferred, Net | 0 | 0 | 0 |
| Less: Obligated Balance, Net - End of Period | (45,749,980) | (2,635,618) | (48,385,598) |
| Total Outlays | $ 77,026,639 | $ 10,826,102 | $ 87,852,741 |

The accompanying notes are an integral part of these statements. See Notes 1 and 21.

**Department of Defense**
**Department of the Navy**

## Combining Statement of Financing

**Year Ended September 30, 2000**
*($ in Thousands)*

| | Navy | Marine Corps | 2000 Combined |
|---|---|---|---|
| **Obligations and Nonbudgetary Resources:** | | | |
| Obligations Incurred | $ 82,014,644 | $ 11,754,789 | $ 93,769,433 |
| Less: Spending Authority from Offsetting Collections and Adjustments | (7,202,189) | (754,784) | (7,956,973) |
| Donations Not in the Entity's Subsidies | 0 | 0 | 0 |
| Financing Imputed for Cost Subsidies | 382,681 | 55,181 | 437,862 |
| Transfers-In (Out) | 0 | 0 | 0 |
| Less: Exchange Revenue Not in the Entity's Budget | (31,394) | 0 | (31,394) |
| Nonexchange Revenue Not in the Entity's Budget | 0 | 0 | 0 |
| Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget | 0 | 0 | 0 |
| Other | 0 | 0 | 0 |
| Total Obligations as Adjusted and Nonbudgetary Resources | $ 75,163,742 | $ 11,055,186 | $ 86,218,928 |
| **Resources that Do Not Fund Net Cost of Operations:** | | | |
| Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases | $ 6,770,569 | $ 240,721 | $ 7,011,290 |
| Change in Unfilled Customer Orders | 172,384 | 49,011 | 221,395 |
| Costs Capitalized on the Balance Sheet - (Increases)/Decreases | 0 | (270,174) | (270,174) |
| Financing Sources that Fund Costs of Prior Periods | (28,186) | (24,245) | (52,431) |
| Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities | 0 | 0 | 0 |
| Adjustments for Trust Fund Outlays that Do Not Affect Net Cost | 0 | 0 | 0 |
| Other - (Increases)/Decreases | 0 | 22,689 | 22,689 |
| Total Resources That Do Not Fund Net Costs of Operations | $ 6,914,767 | $ 18,002 | $ 6,932,769 |

The accompanying notes are an integral part of these statements. See Notes 1 and 22.

**Department of Defense**
**Department of the Navy**

## Combining Statement of Financing

**Year Ended September 30, 2000**
*($ in Thousands)*

| | Navy | Marine Corps | 2000 Combined |
|---|---|---|---|
| **Components of Costs of Operations that Do Not Require or Generate Resources** | | | |
| Depreciation and Amortization | $ 471,950 | $ 106,248 | $ 578,198 |
| Bad Debts Related to Uncollectable Non-Credit Reform Receivables | 175,142 | 0 | 175,142 |
| Revaluation of Assets and Liabilities - Increases/(Decreases) | 0 | 34,018 | 34,018 |
| Loss of Disposition of Assets | 0 | 0 | 0 |
| Other - (Increases)/Decreases | 10,663 | 0 | 10,663 |
| Total Costs That Do Not Require Resources | $ 657,755 | $ 140,266 | $ 798,021 |
| **Financing Sources Yet to be Provided** | $ 334,560 | $ 237,588 | $ 572,148 |
| **Net Cost of Operations** | $ 83,070,824 | $ 11,451,042 | $ 94,521,866 |

The accompanying notes are an integral part of these statements. See Notes 1 and 22.

# Department of the Navy Annual Financial Report

# *Required Supplementary Stewardship Information*

## National Defense Property, Plant, and Equipment (ND PP&E)

**For Fiscal Year Ended September 30, 2000**

*(Stated in Number of Systems or Items)*

| (a)<br>National Defense PP&E | (b)<br>As of<br>10/1/99 | (c)<br>Additions | (d)<br>Deletions | (e)<br>As of<br>9/30/00 | (f)<br>Condition<br>Operational<br>(%) |
|---|---|---|---|---|---|
| **1. Aircraft** | | | | | |
| A. Combat | 2,083 | 54 | 53 | 2,084 | 82 |
| B. Airlift | 1,009 | 16 | 12 | 1,013 | 81 |
| C. Other | 955 | 33 | 36 | 952 | 88 |
| **2. Ships** | | | | | |
| A. Submarines | 80 | 0 | 6 | 74 | 100 |
| B. Aircraft Carriers | 12 | 0 | 0 | 12 | 100 |
| C. Surface Combatants | 163 | 3 | 37 | 129 | 100 |
| D. Amphibious Warfare Ships | 52 | 0 | 5 | 47 | 98 |
| E. Mine Warfare Ships | 27 | 0 | 0 | 27 | 100 |
| F. Support Ships | 145 | 6 | 12 | 139 | 100 |
| G. Other Ships | 776 | 5 | 54 | 727 | 100 |
| H. Small Boats | 2,327 | 44 | 107 | 2,264 | 87 |
| **3. Combat Vehicles** | | | | | |
| A. Tracked | 2,499 | 0 | 10 | 2,489 | 90 |
| B. Wheeled | 31,829 | 1,834 | 2,102 | 31,561 | 90 |
| C. Towed | 5,870 | 0 | 87 | 5,783 | 90 |
| D. Other | 67,413 | 719 | 801 | 67,331 | 92 |
| **4. Guided, Self-Propelled Ordnance** | | | | | |
| A. Missiles | 57,928 | 79 | 5,234 | 52,773 | 100 |
| B. Torpedoes | 18,352 | 0 | 95 | 18,257 | 100 |
| **5. Space Systems** | | | | | |
| A. Satellites | 18 | 1 | 1 | 18 | 100 |
| **6. Other** | | | | | |
| A. Other Weapons Systems | 0 | 0 | 0 | 0 | |
| **7. Weapon Systems Support Real Property** | | | | | |
| A. Active Ammunition Bunkers | 7,509 | 17 | 47 | 7,479 | 100 |
| B. Active Missile Silos | 0 | 0 | 0 | 0 | |
| C. Active Satellite Ground Stations | 0 | 0 | 0 | 0 | |
| D. Other | 0 | 0 | 0 | 0 | |

## Narrative Statement

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for National Defense Property Plant &Equipment (ND PP&E). Therefore, the Department of Defense (DoD) elected to report ND PP&E in FY 2000 in a manner similar to how it was reported in FY 1999 and FY 1998. In FY 1998 the DoD implemented RSSI reporting early, as encouraged by the FASAB, then proposed amendments to the accounting standards that required the reporting of quantities, condition and investment trends for major types of ND PP&E.  At subsequent FASAB meetings, the Board chose not to implement the proposed amendments but, rather, to continue studying various alternatives for reporting ND PP&E. These studies were ongoing in FY 2000.

Since the FASAB did not adopt the proposed amendments, the DoD is not in full compliance with the existing reporting requirements that require the Department to report the value of ND PP&E (utilizing the latest acquisition cost method).  The DoD cannot fully comply with the existing reporting requirement, because many of the Department's ND PP&E accountability and logistics systems do not have the capability to maintain a value for the ND PP&E assets. These systems were designed for purposes of maintaining accountability and other logistics requirements, and not for reporting the value of ND PP&E.

Given the complexity, cost, and interim nature of the temporary reporting requirements, the DoD is continuing to use the prior year reporting disclosure.  Further, the DoD believes the most reasonable and responsible course of action is to report information consistently until such time that the FASAB adopts permanent reporting requirements.

## Aircraft

The FY 2000 activity related to Aircraft is as follows:

| Combat Aircraft | Adjustments to FY 2000 beginning balance (net decrease of 2): | |
|---|---|---|
| | E-2C: | 1 aircraft was reported twice for FY 1999. |
| | P-3B: | Reported 3 aircraft for FY 1999 when only 2 were in the active inventory. |
| | F-14A: | Reported 77 aircraft for FY 1999 when only 75 were in the active inventory. |
| | F/A-18E's: | 2 aircraft were reported after FY 1999 numbers were reported as Inventory Acceptance in FY 1999. |
| | **FY 2000 activity:** | |
| | AH-1W: | 2 aircraft were moved to storage and 2 were lost in military operations. |
| | E-6A: | 1 aircraft was reported as an E-6B for FY 1999 and 1 E-6A had a model designation change to an E-6B. |
| | E-2C: | 6 were moved to storage status and there were 2 additions. |
| | EA-6B: | 3 aircraft returned to service from storage status, 4 aircraft moved to storage status. |
| | NF-14A: | 1 aircraft moved to storage status. |
| | QF-4S: | 9 aircraft had model designation changes from F-4S model designation; 3 lost in military operations. |

| | |
|---|---|
| S-3B: | 1 aircraft was moved to storage status; 1 lost in military operations. |
| AV-8B: | 12 additions; 9 deletions and 2 lost in military operations. |
| F-14A: | 6 deletions and 2 lost in military operations. |
| F-14B: | 3 lost in military operations. |
| FA-18A: | 4 deletions and 1 lost in military operations. |
| FA-18B: | 1 lost in military operations. |
| FA-18C: | 1 lost in military operations. |
| FA-18D: | 7 additions; 4 lost in military operations. |
| FA-18E: | 8 additions. |
| FA-18F: | 12 additions. |
| P-3C: | 1 aircraft returned from storage. |

**Airlift Aircraft**

**Adjustments to FY 2000 beginning balance (net decrease of 1):**

| | |
|---|---|
| C-26D: | Reported 8 aircraft in FY 1999 when only 7 were in the active inventory. |

**FY 2000 activity:**

| | |
|---|---|
| C-2A: | 2 aircraft moved to storage. |
| MH-53E: | 2 aircraft moved to storage; l lost in military operations. |
| SH-60B: | 3 aircraft model designation changed to SH-60R model designation. |
| CH-46E: | 2 lost in military operations. |
| CH-53E: | 1 addition. |
| CH-60S: | 5 additions. |
| KC-130F: | 1 deletion. |
| MV-22B: | 7 additions. |
| SH-60R: | 3 additions. |
| UH-60A: | 1 lost in military operations. |

**Other Aircraft**

**Adjustments to FY 2000 beginning balance (net decrease of 3):**

| | |
|---|---|
| SH-3H: | 2 aircraft were stricken in FY 1999. |
| TA-4J: | 1 aircraft reported in FY 1999 was stricken in 1994. |

**FY 2000 activity:**

| | |
|---|---|
| X-31A: | 1 aircraft received from contractor held status. |
| UH-3H: | 1 aircraft returned from storage status, 2 stricken due to operational loss. |
| UC-12B: | 3 aircraft had model designation changes to TC-12B. |
| TAV-8B: | 1 aircraft moved to storage status. |
| SH-3H: | 1 aircraft was stricken. |
| CT-39G: | Model designation changed for eight aircraft to T-39G model designation. |
| T-2C: | 5 deletions. |
| T-34C: | 2 deletions, 2 lost in military operations. |
| T-38A: | 1 deletion, 1 lost in military operations. |
| T-39G: | 8 aircraft redesignated as T-39G. |
| T-45C: | 15 additions. |
| TA-4J: | 8 deletions. |
| TC-12B: | 3 additions. |
| TH-57C: | 3 additions; 1 deletion. |
| UC-35C: | 2 additions. |
| UP-3B: | 1 deletion. |

As defined by the amendment to Statements of Federal Financial Accounting Standard (SFFAS) No. 6 "Accounting for Property, Plant and Equipment," and No. 8, "Supplementary Stewardship Reporting," there are 4,049 active aircraft used in the performance of military missions. In addition to the ending balance of 4,049 active aircraft, there are an additional 376 inactive aircraft. Of the 376 inactive aircraft, 23 are in the disposal cycle and 353 aircraft are in long-term storage. It is possible that some of the inactive aircraft could be reactivated in the case of a national emergency.

The Other Aircraft category consists of training and experimental aircraft.

## Ships

The FY 2000 activity related to Ships is as follows:

| | |
|---|---|
| **Submarines:** | **Adjustments to FY 2000 beginning balance (net decrease of 37):** |
| | Stricken - SS 413,566,572,574; SSBN 626,632,635,636; SSN 571,586,590,592, 621,639,642,648,653,660,661,666,675,677,679,680,681,684,687,692,693,694,695,696, 697,702,703,704,712. |
| | **FY 2000 activity:** |
| | DELETIONS (Assets Disposed of): SS 576; SSN 585,645,647,674,676. |
| **Aircraft Carriers:** | **Adjustments to FY 2000 beginning balance (net decrease of 6):** |
| | Stricken - CV 34,41,60,66.<br>Inactive - CV 61,62. |
| **Surface Combatants:** | **Adjustments to FY 2000 beginning balance (net decrease of 63):** |
| | Inactive - BB 61,64<br>Stricken - CA 134; CG 16,17,21-24,29-34; CGN 9,25,36-41; DD 456,650,689, 804,931,933,974,976,979,983,984,986,990; DDG 2,5,7,8,9,21,22,32,993-996; FF 1052-1055,1057,1058,1060,1062,1067,1070,1072,1074; FFG 7,31,34. |
| | **FY 2000 activity:** |
| | ADDITIONS: DDG 77,79,80 delivered.<br>DELETIONS (Assets Disposed of): BB 62; CG 18,19; DD 763; DDG 14,16,18,24,31; FF 1059,1061,1063-1066,1069,1073,1076,1080,1083,1086-1088, 1091-1094; FFG 2,3,10,11,19,22,27,30; FFT 1078,1090. |
| **Amphibious Warfare Ships:** | **Adjustments to FY 2000 beginning balance (net decrease of 24):** |
| | Inactive - LKA 113-117; LST 1179,1182,1183,1185,1187,1190,1191,1195.<br>Stricken - LPD 2; LPH 3,7,9,11; LSD 15,16,40; LST 1171,1175; LSM 444. |
| | **FY 2000 activity:** |
| | DELETIONS (Assets Disposed of): LSD 38; LST 1180,1181,1188,1189. |
| **Mine Warfare Ships:** | **Adjustments to FY 2000 beginning balance (net decrease of 12):** |
| | DELETIONS (Assets Disposed of): Stricken - MHC 43; MSF 386; MSO 427,433,437-441,446,449,511. |

| | |
|---|---|
| **Support Ships:** | **Adjustments to FY 2000 beginning balance (net decrease of 56):** |
| | Inactive - AD 38,42; AFS 1,6; AO 188,190; AS 33,41; ATF 167.<br>Stricken - AD 19,37,41,43,44; AE 24,29; AFS 2,4; AG 194; AGM 22,24; AGOS 4; ACS 34,35; AO 177-180,186; AOG 8,77,79; AOR 2-4,6; AOT 78; APA 168; ARS 6,39,40,42; AS 32,36,37; ASR 8,9,16; ATA 192,213; ATF 85,91; AVT 59; PG 85,90,96. |
| | **FY 2000 activity:** |
| | ADDITIONS: AGS 64; AKR 302,313,314; PC 14 delivered; AGM 24 reclassified from AGOS 10.<br>DELETIONS (Assets Disposed of): AE 21,23; AGOR 5,22; AGOS 5; AGS 26; AR 8; ASR 13; ATF 149,158; PC 1.<br>Reclassified - AGOS 10 reclassified to AGM 24. |
| **Other Ships:** | **Adjustments to FY 2000 beginning balance (net decrease of 319):** |
| | 76 ships under the cognizance of the Commander, Naval Special Warfare Command (COMNAVSPECWARCOM) were added that were not reported in FY 1999, hull detail is not available. The Landing Craft Air Cushion (LCACs) were adjusted upwards to include six inactive craft not reported in last year's submission. Also, LCACs were adjusted downward to include 16 inactive craft.<br>Inactive -YD 120,234,253; YRDH 2,7; YRDM 7; DSV 3,4; YP 699; AFDB 1,2; AFDM 2; YC 1273,1375; YFN 1250,1272; YFNB 39; YFNX 46; YFRT 520; YSR 39; YWN 79; YF 885; YFU 81; YTB 769,770,776,791,793,795; YC 1542,1569,1631,1634,1635,1637,1638,1641,1642; YFN 941,973; IX 518,524.<br>Stricken - APL 31,34,43,45,54,57; YD 26,82,88,90,113,115,121,127,159,171,172,199,209,210,213, 216,222,227,228,235,236,238,239,241,242,258; YFND 10; YFP 3,12; YPD 41; YR 25,27,65,88; YRB 13,25; YRBM 2,3,5,6,10; YRDM 1,2; YRR 1,2,5,6,13; YRST 2; YFB 83,87,89,90,91,94; YM 17,32,35, 38; YP 589; YSD 15,63,67; YTT 9; AFDB 2; AFDL 10,15; AFDM 1,6; ARD 17,23,30,32; ARDM 2,3; YC 302,695,699,705,713,724,725,752,754,756,762,763,769,773,781,787,789,799, 802,823,824,825,826,830,972,974,975,977,978,983,1058,1060,1063,1071,1085,1086,1088, 1112, 1116,1119,1120,1324,1333,1334,1366,1367,1373,1377,1383,1394,1395,1398,1399,1429,1434,1435,1439,1442,1444,1447,1451,1456,1460,1461,1462,1468,1471,1481,1483,1487,1497,1499,1504,1512,1514,1517,1518,1544,1551,1552,1581,1582,1597,1616,1617, 1618, 1621,1629; YCV 8; YFN 263,266,272,283,362,367,368,375,641,647,650, 697, 795, 820,907,910,948,959,970,1130,1154,1158,1177, 1181,1205,1220,1239,1240,1241,1242,1260,1264; YFNB 5,25,36; YFNX4,7,23,25,38; YFRN 385, 412,997,1256,1257; YFRT 287,418,523; YON 2,80,87,90,101,239,240,255,256,261,269,275,279, 286,291,310,320; YOS 5,8,10,11,12,20,35,37; YSR 4,6,7,11,18,19,20,22, 25,26, 28,29,30,31,33, 37,38,40; YWN 147; YF 862; YFR 890; YFU 20,67,76,77,98,100,101,102; YG 30, 35,48; YO 47,153, 174,202,220, 223,228,230,264; YOG 76,88; YW 98,131; YTB 758,768,774, 778,785,788,790, 799,801,802,803,809,811,816,817,826,827,830; YTL 432,438,439,550,560, 591; YTM 146,151, 252,366,380,382,383,386,391,394,399,405,413,415,496, 522, 523,526,527,534,542,548,549, 703,750,768,779; IX 501,504,511; X 1. |
| | **FY 2000 activity:** |
| | ADDITIONS: YR 93,94; YRB 30; IX 530,529.<br>DELETIONS: (Assets Disposed of): YD 149,193,198,231,244; YDT 5; YRB 1,2,29; YRST 6; YTT 12; AFDL 21; YC 794,829,833,1075,1376,1411,1438, 1465,1479,1496,1545,1547; YFN 262,279,717,815,965,1187,1189,1197,1218,1251; YFNX 26,31,44; YON 268; YFU 71,72; YOG 58,196; YTB 780,792,805,825; YTL 588; YTM 178,395; YTM 704.<br>Reclassified - YFND 5; YFNB 30,37; IX 526. |

| Small Boats: | **Adjustments to FY 2000 beginning balance (net decrease of 104):** |
|---|---|
| | This explanation pertains to small boats reported in the Craft and Boat Support System (CBSS). The adjusted beginning balance of 2,327 boats reflects a net downward adjustment from the 2,431 reported in FY 1999. This decrease of 104 boats consists of an increase of 100 boats as a result of validations and adjustments to inventories and a downward adjustment resulting from 322 boats that are in-stock but not serviceable and seven due to errors in data entry. (NAVAUDSVC audit No. N2000-0043 of 25 September 2000). Additionally, for small boats under the cognizance of the COMNAVSPECWARCOM, there was an upward adjustment of 125 small boats to the beginning balance. COMNAVSPECWARCOM small boats were not reported in FY 1999. |
| | **FY 2000 activity:** |
| | During FY 2000, there were 31 new boats procured and received, while 96 boats were sent to the Defense Reutilization and Marketing Office (DRMO). COMNAVSPECWARCOM added 13 new boats to their inventory and deleted 11. The ending balance of 2,264 includes 102 small boats in stock, ready for issue and 127 small boats under the cognizance of COMNAVSPECWARCOM. |

The numbers as of September 30, 2000 represent active DON assets per Naval Audit Report N2000-0043 "Department of Navy Required Supplementary Stewardship Information Report for Fiscal Year 1999: National Defense Property, Plant and Equipment".

**Other Ships**

Other Ships under the cognizance of the Commander, Naval Special Warfare Command (COMNAVSPECWARCOM) were not reported in FY 1999 RSSI, resulting in an upward adjustment of 76 ships of the total 319 net downward adjustment to the beginning balance. Also in this category, a net downward adjustment of ten LCACs was made to the beginning balance due to inactive craft that were not reported in FY 1999.

**Small Boats**

Boats in Craft and Boat Support System (CBSS) stationed at DON Working Capital Fund activities are included in the totals reported above. This issue was addressed in the audit referenced above. Although the boats reside at Working Capital Fund sites, some may be used only on work being performed for General Fund activities. While the issue is being researched further, the boats in question will continue to be reported in the General Fund financial statements.

Condition Operational (%) includes ships with status codes **A** (Active), **I** (Military Sealift Command), **K** (Delivered), **L** (Loaned or Leased), **N** (Naval Reserve Force), **O** (In Commission, in Reserve), **Q** (Navy owned), **S** (Special), and **X** (Security Assistance Program (SAP) Loaned or Leased).

**Combat Vehicles**
The beginning balances for each category reflect upward and downward adjustments to the FY 1999 ending balances due to definitional changes, reclassifications, validations, reconciliations, and adjustments. This year's ending balances will serve as a baseline for future reporting. The following adjustments were made to the beginning balance:

Tracked. Upward adjustment of 25 for additional items and downward adjustment of 161 items.
Wheeled. Downward adjustment of 1,391 items due to errors/reclassifications. (3) Towed.
Adjustments of 59 items downward and 1,186 items upward due to errors/ reclassifications.
Other. Adjustments of 58,400 items upward and 4,541 items downward for items excluded in FY 1999 inventory but reported in FY 2000.

**Guided, Self-Propelled Ordnance**
Missiles. 3,787 of the 5,234 items deleted represent Marine Corps missiles that were transferred to Army Hawk Missile Management in Huntsville, Alabama.

Torpedoes. The beginning balance was adjusted upwards by 9,679 due to an addition error that resulted in the FY 1999 number being understated.

**Space Systems**
Satellites. Addition: UFO-10 launched June 2000. Deletion: FLTSAT 1 placed in disposable orbit December 1999.

**Weapon Systems Support Real Property**
Active Ammunition Bunkers are being reported for FY 2000. At the time the DON submitted their data call to the Management Commands, the draft guidance required reporting of this category.

## National Defense Property, Plant, and Equipment Yearly Investments

**For FY 1998, FY 1999 and FY 2000**

*($ in Millions)*

| (a) National Defense PP&E | (b) FY 1998 | (c) FY 1999 | (d) FY 2000 |
|---|---|---|---|
| **1. Aircraft** | | | |
| A. Combat | $2,698 | $2,897 | $4,251 |
| B. Airlift | 0 | 34 | 190 |
| C. Other | 356 | 2,004 | 2,073 |
| D. Aircraft Support Principal End Items | 2,981 | 722 | 859 |
| E. Other Aircraft Support PP&E | 0 | 974 | 1,008 |
| **2. Ships** | | | |
| A. Submarines | 1,089 | 1,409 | 1,598 |
| B. Aircraft Carriers | 1,301 | 823 | 1,465 |
| C. Surface Combatants | 2,879 | 3,552 | 2,896 |
| D. Amphibious Warfare Ships | 753 | 581 | 571 |
| E. Mine Warfare Ships | 89 | 73 | 16 |
| F. Support Ships | 0 | 359 | 249 |
| G. Other Ships | 575 | 30 | 35 |
| H. Ship Support Principal End Items | 851 | 852 | 2,100 |
| I. Other Ship Support PP&E | 0 | 1 | 199 |
| **3. Combat Vehicles** | | | |
| A. Tracked | 74 | 64 | 135 |
| B. Wheeled | 0 | 106 | 44 |
| C. Towed | 0 | 0 | 0 |
| D. Other | 0 | 0 | 0 |
| E. Combat Vehicles Support Principal End Items | 0 | 12 | 59 |
| F. Other Combat Vehicles Support PP&E | 0 | 1 | 31 |
| **4. Guided, Self-Propelled Ordnance** | | | |
| A. Missiles | 1,351 | 349 | 1,207 |
| B. Torpedoes | 125 | 70 | 47 |
| C. Guided, Self-Propelled Ordnance Support Principal End Items | 414 | 16 | 45 |
| D. Guided, Self-Propelled Ordnance Support PP&E | 0 | 198 | 89 |

| (a)<br>**National Defense PP&E** | (b)<br>**FY 1998** | (c)<br>**FY 1999** | (d)<br>**FY 2000** |
|---|---|---|---|
| **5. Space Systems** | | | |
| A. Satellites | 130 | 115 | 67 |
| B. Space Systems Support Principal End Items | 0 | 0 | 0 |
| **6. Other** | | | |
| A. Other Weapons Systems | 48 | 43 | 58 |
| B. Other Weapons Systems Support Principal End Items | 106 | 0 | 12 |
| C. Other Weapon Systems Support PP&E | 0 | 42 | 0 |
| **7. Weapon Systems Support Real Property** | | | |
| A. Active Ammunition Bunkers | 28 | 19 | 31 |
| B. Active Missile Silos | 0 | 0 | 0 |
| C. Active Satellite Ground Stations | 0 | 0 | 0 |
| **8. General Mission Support PP&E** | 1,792 | 1,897 | 1,400 |

## Narrative Statement

Investment values included in this report are based on outlays (expenditures). Outlays are used instead of acquisition costs because current DoD systems are unable to capture and summarize procurement appropriation acquisition costs in accordance with current Federal Accounting Standards Advisory Board requirements.

The Defense Finance Accounting Service – Cleveland Center (DFAS-CL) performed a query in Standard Accounting and Reporting System (STARS) – Funds Distribution and Departmental Reporting (FDR) System which yielded the dollar amounts for the National Defense PP&E Yearly Investment Report. Before running the query, the DON provided DFAS-CL a "map" or "schema" of which disbursements should be included on each particular line of the report. The schema identified appropriations, budget activities, sub-budget activities, and program elements.

For FY 2000 reporting, the FY 1999 schema was used as a baseline. The schema was updated to reflect changes proposed in Naval Audit Report N2000-0043 "Department of Navy Required Supplementary Stewardship Information Report for Fiscal Year 1999: National Defense Property, Plant and Equipment". The draft FY 2000 schema was then forwarded to all applicable Management Commands for their review/changes/approval. Once all comments were incorporated, the schema was forwarded to DFAS-CL. DFAS-CL generated the query in STARS-FDR, and the results were sent to the Management Commands for their review and approval.

**Aircraft**

The increase in Combat Aircraft from $2,897M in FY 1999 to $4,251M in FY 2000 is primarily attributable to F18 Super Hornet procurement initiatives.

**Ships**

The increase in Ship Support Principal End Items and Other Ship Support PP&E from FY 1999 to FY 2000 is primarily due to reclassification's from Other Weapons Systems Support PP&E and General Mission Support PP&E. The Other Ship Support PP&E category contains a $3M investment in Small Boats.

**Space Systems**

Due to the nature of the Satellite deployment process, there are no Space Systems Support Principal End Items reported. Once launched, satellites are not retrieved.

**Weapon Systems Support Real Property**

Active Ammunition Bunkers includes those bunkers in use as reflected in the NFADB.

**General Mission Support PP&E**

Includes ordnance support equipment, vehicular equipment, electronics equipment, and communications equipment.

**Other Information:**

Naval Audit Report N2000-0043 "Department of Navy Required Supplementary Stewardship Information Report for Fiscal Year 1999: National Defense Property, Plant and Equipment", recommended the following adjustments:

**Ships**

Aircraft Carriers. The FY 1999 investment should have been $1,340M rather than $823M. This is due to a reclassification between Aircraft Carriers and Surface Combatants. This was corrected in the FY 2000 schema used to prepare the ND PP&E Yearly Investment Report.

Surface Combatants. The FY 1999 investment should have been $3,035M rather than $3,552M. This is due to a reclassification between Aircraft Carriers and Surface Combatants. This was corrected in the FY 2000 schema used to prepare the ND PP&E Yearly Investment Report.

Additionally, the following figures are the correct investments for FY 1998 per the audit. No specific rationale was given for these changes; the DON is currently working with Naval Audit Service (NAVAUDSVC) to determine the rationale for the adjustments.

| | | |
|---|---|---|
| Submarines | $ | 1,226M |
| Surface Combatants | $ | 2,868M |
| Amphibious Warfare | $ | 748M |
| Mine Warfare | $ | 91M |

**Guided, Self-Propelled Ordnance**
Missiles. The FY 1999 investment of $349M was understated by $586M. This was due to the exclusion of conventional missiles. This was corrected for FY 2000 reporting.

**Space Systems**
Satellites. Per the audit referenced above, the FY 1998 and FY 1999 investments should be $90M and $63M, respectively. The error was due to confusion over the data elements used to prepare the Yearly Investment Report, and has been corrected for FY 2000 reporting.

**General Mission Support PP&E**
Per the audit referenced above, this category should be increased by $229M for FY 1999 to represent the net effect of an omission of data for $255M and an overstatement due to duplication of $26M.

## Heritage Assets

**For Fiscal Year Ended September 2000**

| (a) | (b) Measurement Quantity | (c) As of 10/1/99 | (d) Additions | (e) Deletions | (f) As of 9/30/00 |
|---|---|---|---|---|---|
| 1. Museums | Each | 19 | 1 | 0 | 20 |
| 2. Monuments & Memorials | Each | 1,220 | 0 | 41 | 1,179 |
| 3. Cemeteries & Archeological Sites | Sites | 23,589 | 845 | 1,176 | 23,258 |
| 4. Buildings and Structures | Each | 8,564 | 587 | 28 | 9,123 |
| 5. Major Collections (See Supplemental Reporting) | | | | | |

## Narrative Statement:

The 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; and
- 36 CFR 79 — Curation of Federally Owned and Administered Archeological Collections.

During FY 2000, the DON Heritage Asset Non-Financial Feeder Team surveyed and developed baseline information on Heritage Assets inventory accuracy. The Team has also been working to clear data entry backlogs of Heritage Assets. The Heritage Asset community plans to select a standardized tracking system for maintaining accountability and reporting Heritage Assets.

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. This category was not reported in FY 1999.

**Monuments and Memorials**

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

**Cemeteries and Archeological Sites**

Cemeteries are government owned burial grounds located on DoD 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.

**Major Collections**

This category is not being reported for FY 2000. The data call had been submitted to the DON Management Commands prior to the requirement to report this category of information.

*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.

**Supplemental Reporting** In addition to the data presented in the table above, the following supplemental information was reported as of 9/30/00:

| Category | Measurement Quantity | As of 10/1/99 | Additions | Deletions | As of 9/30/00 |
|---|---|---|---|---|---|
| Archeological Artifacts | Cubic Feet | 4,599 | 8,102 | 0 | 12,701 |
| Archival | Linear Feet | 100,457 | 1,421 | 206 | 101,672 |
| Artwork | Item | 37,149 | 1,276 | 0 | 38,425 |
| Historical Artifacts | Item | 791,295 | 40,006 | 69 | 831,232 |

In the Archival, Artwork, and Historical Artifacts categories, the beginning balances were changed due to omissions in the FY 1999 information collection process. FY 1999 was the initial collection period, and since then the reporting structure has been improved.

## Stewardship Land

**For Fiscal Year Ended September 30, 2000**

*(Acres in Thousands)*

| (a) **Land Use** | (b) **As of 10/1/99** | (c) **Additions** | (d) **Deletions** | (e) **As of 9/30/00** |
|---|---|---|---|---|
| 1. Mission | 2,002 | 26 | 7 | 2,021 |
| 2. Parks & Historic Sites | 0 | 0 | 0 | 0 |
| 3. Wildlife Preserves | 0 | 0 | 0 | 0 |
| **Totals** | 2,002 | 26 | 7 | 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 NFADB 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 DON does not fund this type of Activity.

## Investments in Research and Development

**Yearly Investment in Research and Development**
**For Fiscal Years 1996 through 2000**
*($ in Millions )*

| (a) Categories | (b) FY 1996 | (c) FY 1997 | (d) FY 1998 | (e) FY 1999 | (f) FY 2000 |
|---|---|---|---|---|---|
| **1. Basic Research** | $491 | $387 | $341 | $344 | $345 |
| **2. Applied Research** | 535 | 490 | 496 | 510 | 538 |
| **3. Development** | | | | | |
| Advanced Technology Development | 380 | 468 | 518 | 532 | 607 |
| Demonstration and Validation | 2,746 | 2,035 | 2,407 | 2,234 | 2,216 |
| Engineering and Manufacturing Development | 2,262 | 2,114 | 2,125 | 2,019 | 2,225 |
| Research, Development, Test, and Evaluation Management Support | 751 | 736 | 695 | 709 | 750 |
| Operational Systems Development | 2,264 | 2,060 | 1,556 | 1,696 | 2,047 |
| **Total** | $9,429 | $8,290 | $8,138 | $8,044 | $8,728 |

## 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 2000 follows.**

**High Frequency Acoustics**

The DON accomplished the following work in the area of High Frequency acoustics, addressing underwater acoustics in the 10 KHz — 500 KHz frequency range for FY 2000:

- Continued study of acoustic interaction with sediments in shallow water.
- Used high frequency sonar to locate submerged and buried mines in tidal areas.
- Used experimental measurements for unexpected detection of a buried mine at greater distances than predicted, defying current theory.
- Published results of detection study in July 2000, identifying seafloor roughness, in particular, the ripple on the seafloor due to wave action in shallow water as the principle factor contributing to shallow water mine detection.
- Incorporated mechanism in new mine detection models that will result in improved detection capabilities.

**Ocean Biological Dynamics**

For FY 2000, the DON maintained its strong investment in understanding marine biological dynamics, particularly as they affect the operation of Navy optical and acoustical systems. To this end the DON:

- Conducted a study and determined that ocean phytoplankton and zooplankton are concentrated in extremely thin (meter-scale) layers in the ocean, and that these layers may cover at least kilometers horizontally and persist for days or more.
- Discovered important optical and acoustical features of this phenomenon.

**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 2000 follows.**

**Precision Target Handoff**

Funded under the DON's Air & Surface Weapons Technology program, the Precision Target Handoff task developed an automated process to derive accurate target coordinates for use by Precision Guided Munitions (PGM). The process uses tactical-sensor-target-area imagery obtained from Synthetic Aperture Radar, Imaging Infrared, or visible sources to match data with an image database to derive precise and accurate target coordinates. This enables warfighters to quickly extract precision target coordinates using tactical imaging sensor information, such as the F-14 Tomcat Tactical Air Reconnaissance Pod System (TARPS), or the F/A-18 Hornet Shared Advanced Reconnaissance Pod (SHARP). In addition to the development of the technology the Navy has allocated funding for the Digital Precision Strike Suite demonstration effort to participate in Marine Corps Advanced Warfighter and US Navy Fleet Battle Experiments. This technology will be incorporated into the Precision Targeting Workstation (PTW).

**Bioluminescence**

- Initiated research effort to examine short-term (< 96 hour) predictability of bioluminescence in coastal areas. Bioluminescence, the phenomenon of light production by some plankton in response to mechanical disturbance, affects visibility of moving objects during nighttime.
- Conducted field effort devoted to this goal, involving biologists, physical oceanographer and modelers.

**Atmospheric Science**

The DON continues its investment in atmospheric science research. For FY 2000 the DON:

- Entered a joint effort with private industry involving the use of the Navy's tactical SPY-1 radar to determine detailed atmospheric characteristics.
- Harnessed current Naval technology to eliminate clutter arising from atmospheric structure, enhancing the tactical performance of the radar.
- Forged the basis for greatly improved tactical radar, capable of determining real-time weather characteristics simultaneously.

**Dragonfly Unmanned Aerial Vehicle**

The Naval Research Laboratory and the Marine Corps Warfighting Laboratory developed an economical, (i.e. $3K-$5K) portable, user friendly unmanned aerial vehicle (UAV) known as Dragonfly. Weighing under five pounds, it can be carried in a backpack, assembled in under a minute and flown for up to an hour, reaching speeds up to 35 knots, with a range of 15 kilometers. The UAV carries an electro-optical infrared seeker that provides color video images or full motion infrared video back to a ground control station strapped to the operator's wrist.

### 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 developments achieved by the program during FY 2000 follows.**

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

**Direct Attack Munition Affordable Seeker (DAMASK)**

DAMASK Advanced Technology Demonstration (ATD) program integrated low cost commercial strapdown infrared imaging seekers with the Joint Direct Attack Munition (JDAM) weapon. This combination allows image-guided bombs (IGBs) to function as accurately as far more expensive laser guided bombs (LGBs) without the need for an expensive and complex laser designation system. DAMASK maintains the basic JDAM guidance capability and improves accuracy to 3 meters with image based guidance. Began transition to prepare for a Milestone (MS) I decision in FY 2001.

**Hemostatic Dressing**

The DON completed the following research on hemostatic dressing in FY 2000:

- Partnered with a commercial partner to develop a family of products that allow rapid treatment of battlefield hemorrhaging. These products will be lightweight and compact, allowing them to be incorporated in normal field gear.
- Tested select prototypes in appropriate models. Initial data indicate these prototypes are effective in models of severe hemorrhage. The results of comparative testing demonstrated that the selected prototypes are superior to commercially available hemostatic and fibrin sealant products.
- Initiated efforts to develop appropriate packaging and integrity testing to meet battlefield environmental and physical conditions.

**Undersea Advanced Warfare**

The DON completed the following activities in fiber optic towed array technology:

- Reduced array acquisition costs by 80 percent due to simplified construction through the Affordable Array Technology (AAT) program.
- Reduced life cycle cost by 30 percent due to elimination of complex, outboard telemetry components. The result will be a much more affordable, high gain, towed array sonar system with greater availability for tactical use in the fleet.

**UnderSea Warfare Advanced Technology**

The DON continued its investment in undersea warfare advanced technology in FY 2000 having completed the following:

- Developed a Prototype Lead Zirconate Titanate (PZT) slotted cylinder element.
- Developed a lightweight power amplifier as an enabling technology for acoustic sources.
- Developed Lightweight Sound System (LWSS) prototype impulsive sources and conducted two sea tests. Developed Littoral Warfare Advanced Development (LWAD) management program to support the Future Naval Capability (FNC) concept. Developed LWAD/FNC long range testing program using Fleet assets.
- Developed extensive Marine Mammal Mitigation Program (MMMP).
- Conducted sea testing of non-acoustic systems against shallow targets in littoral waters.
- Determined and provided venue for testing developmental active systems in littoral environments.
- Continued evaluation, development and improvement of Wide Area ASW Surveillance programs initiated in FY 1998/1999, and performance enhancements through data fusion of available Undersea Warfare (USW) sensing technologies.

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

**Joint Strike Fighter**

The DON accomplished the following with regard to the Joint Strike Fighter program in FY 2000:

- Continued Concept Demonstration efforts including ground and flight demonstrations, areas of technology maturation, and concept refinement for a tri-service family of aircraft.

- Continued the Alternate Engine Program.
- Completed technology maturation demonstrations and continued assessments in the areas in airframe, flight systems, manufacturing and producibility, propulsion, and mission systems.

**Air/Ocean Tactical Applications**

The DON accomplished the following with regard to air/ocean tactical applications in FY 2000:

- Continued modeling and simulation of atmosphere and ocean environmental effects on Navy systems.
- Continued developments of techniques for coupled air/ocean data assimilation.
- Participated in selected fleet exercises and demonstrations.
- Began development of next generation high-resolution coupled air/ocean forecast models.
- Completed development of next-generation tropical cyclone forecast model and the Arabian Gulf/Arabian ocean model.
- Continued development of coastal and enclosed basin tactical scale oceanographic models for selected geographical locations in response to emergent requirements.
- Continued development of techniques for bathymetry and surf zone and high-resolution micro-topography algorithms and automated objective processing in the littoral environment.
- Continued development of shipboard shallow water ocean circulation model, next generation tide and surf models, and automated graphical applications for tactical data visualization.
- Continued the development of mid-frequency bottom loss/bottom scatter models and databases for shallow water environments.
- Continued the verification and validation of products and data assimilation techniques developed for fleet applications.

**Carrier Systems Development — Future CV R&D**

The DON accomplished the following carrier systems development activities in FY 2000:

- Awarded two competitive contracts for full size, full power, fully integrated, reduced length prototype launcher systems for the Aircraft Launch, Recovery & Support - Electromagnetic Aircraft Launch System (EMALS) (formerly Advanced Technology Launcher).
- Initiated system engineering, technology assessment and risk mitigation efforts.
- Completed Systems Requirements Review, trade studies, and initial Preliminary Design Review for both contracts.
- Completed baseline ship system designs and initiated sub-scale test bed development and critical component testing.
- Developed initial ship integration plans for CVNX-1/CVNX-2 and identified preliminary hull, mechanical and electrical support requirements.
- Provided management, system engineering, and ship integration support.

**Combat and Intelligence Systems**

The DON accomplished the following combat and intelligence systems activities for FY 2000:

- Completed Phase II competitive solicitation for Combat Systems Integration concepts and design process.
- Continued monitoring improvements targeted at reducing the operational and support costs of the ship's war fighting systems. Initiatives remain focused on reducing the number of systems through the use of "multi-function" radar and flat planar antenna arrays, data exchange across operational areas, data fusion, and integrated displays for operators.
- Completed trade studies, including those that result in cost reductions without degrading operational performance into the design development.
- Evaluated and completed competitive Combat Systems Integration design, development, and integrated into the ship contract data package.
- Refined Combat Systems Integration design and integrated into the ship design.

**DD-21 Advanced Gun System (AGS)**

In FY 2000, the DON:

- Initiated AGS sub-system design phase for DD-21.
- Completed AGS munitions concepts.
- Developed performance and interface specifications.
- Developed proof of concept test fixture.
- Developed validation and verification tools for AGS.

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

**H-1 Upgrade**

- Completed assembly of first AH-1Z I UH-1Y aircraft.
- Completed Structural Test Article testing.
- Continued transmission bench test, tooling validation, and flight test planning.
- Commenced aircraft instrumentation system level functional testing and aircraft ground testing.

**V-22**

- Completed CV-22 remanufacture and modification efforts.
- Began Terrain Following/Terrain Avoidance radar development testing for the CV-22.
- Continued CV-22 contract activities, including software development, Naval Aviation Maintenance Trainer Suite development, Operational Flight Trainer/Full Fidelity Simulator development, Weapons Replacement Assembly/Test Program Sets development, Fatigue Test Article efforts, logistics efforts, and Power-by-the-Hour support of the engine.
- Conducted MV-22 operation evaluation and support.

**Tactical Command Systems**

- Developed interface for emerging aircraft data transport devices.
- Developed capability to receive and process information from new sensors such as Synthetic Aperture Radar (SAR) high resolution Inverse Synthetic Aperture Radar (ISAR) and advanced Electro-Optical (EO) devices.
- Investigated processing inverse and quadrature data from APS 137 B(V)5 radar.
- Developed expanded interfaces for new weapons and sensors.
- Developed integration plan for modernized Radio Frequency (RF) communications systems, including UHF, SHF, and EHF Satellite Communications (SATCOM) units into Tactical Mobile Units.
- Developed multi-Tactical Data Link (TADIL) interfaces to provide two-way TADIL support for the Mobile units.

**Ship Contract Design/Live Fire T&E**

*Warfare Systems Integration (WSI)*

- Completed competitive solicitation for an Electronic Systems Integrator (ESI) team to partner with Newport News Shipbuilding in an effort to develop an Integrated Warfare System for the CVN 77.
- Commenced assessment of the winning ESI concept and its integration into the ship contract data package.
- Continued monitoring improvements targeted at reducing the life cycle costs of the ship's war fighting systems. Initiatives focused on reducing the number of systems through the use of "multi-function" radar and flat planar antenna arrays, data exchange across operational areas, data fusion, and integrated displays for operators.
- Commenced concept design refinement.

**DD-21 Multi-Function Radar (MFR)**

- Continued Engineering and Manufacturing Development (E&MD) phase of the MFR.
- Developed and provided technical design data to support Critical Design Review (CDR).
- Procured Engineering Development Model (EDM) hardware.
- Provided Government Engineering Services support for E&MD.
- Performed oversight and assessment of MFR E&MD efforts.
- Provided program management in support of the above program milestones.

**Research, Development, Test, and Evaluation Management Support** (Budget Activity 6)

**Test and Evaluation Support (Weapons Division)**

- Operated core Major Range Test Facility Base (MRTFB) capabilities required to meet acquisition program and fleet test workload.
- Supported essential components of indirect civilian salary and contractor costs required to manage, operate, and maintain Pacific Ranges' Sea, Air, Ground, Electronic Combat, Ordnance test facilities, operational target vehicle launch functions and test wing aircraft maintenance.

- Supported San Nicolas Island (SNI) Test and Evaluation related operational costs.
- Completed transfer of SNI operations to the MRTFB.
- Reimbursed the Pacific Fleet for support services including Public Works vehicle transportation costs at Point Mugu.

**Management, Technical and International Support**

- Developed updated and maintained detailed level Navy Standard scenarios based on Defense Planning Guidance.
- Developed Integrated Warfare Architectures (IWARs) and performed assessments and developed the Chief of Naval Operations Program Assessment Memorandum (CPAM).
- Continued to develop and accredit IWAR and CPAM tools and improve analytic methodology.
- Used the standard simulation and database architecture developed by Navy Modeling and Simulation to re-host legacy models into the new framework, vastly improving the utility of these tools to the assessment process.
- Developed new tools that utilize models in the standard simulation and database architecture.
- Coordinated/supported Joint Analytical Model Improvement Program (JAMIP).

**Operational Systems Development** (Budget Activity 7)

**F/A-18**

- Developed and integrated enhancements to the effectiveness, operability, and safety of the F/A-18 Weapon System (airframe, avionics, and weapons) and subsystems to include Tactical Aircraft Moving Map Capability.
- Continued development and conversion of the System Configuration Set to a High Order Language.

**Tomahawk**

- Completed system Critical Design Review leading to Development Testing of the entire system in FY 2001.
- Continued to develop common launch and track control systems for surface ship and submarine platforms for the new Tactical Tomahawk baseline.

**Navy Meteorological and Ocean Sensors - Space (METOC)**

- Developed improved ground station satellite data processing techniques, assessed on-orbit system performance, and conducted payload calibration/validation and resolved performance anomalies.

## Department of the Navy Annual Financial Report

# *Required Supplementary Information*

**Department of Defense**
**Department of the Navy**

# Disaggregated Statement of Budgetary Resources

**For the Year Ended September 30, 2000**

*($ in Thousands)*

| | Military Personnel | Operation and Maintenance | Procurement | Research Development, Test & Evaluation |
|---|---|---|---|---|
| **Budgetary Resources** | | | | |
| Budget Authority | $ 25,798,524 | $ 28,710,498 | $ 24,217,790 | $ 9,158,992 |
| Unobligated Balance - Beginning of Period | 149,800 | 808,296 | 9,612,150 | 839,637 |
| Net Transfers Prior - Year Balance, Actual | (10,050) | (11,258) | 92,900 | 0 |
| Spending Authority from Offsetting Collections | 291,246 | 3,714,013 | 774,208 | 184,355 |
| Adjustments | 369,030 | 358,333 | (226,375) | (112,000) |
| Total Budgetary Resources | $ 26,598,550 | $ 33,579,882 | $ 34,470,673 | $ 10,070,984 |
| **Status of Budgetary Resources** | | | | |
| Obligations Incurred | $ 26,288,108 | $ 32,412,224 | $ 23,991,558 | $ 9,364,184 |
| Unobligated Balances - Available | 77,136 | 430,656 | 10,076,023 | 668,159 |
| Unobligated Balances - Not Available | 233,305 | 737,001 | 403,091 | 38,641 |
| Total, Status of Budgetary Resources | $ 26,598,549 | $ 33,579,881 | $ 34,470,672 | $ 10,070,984 |
| **Outlays** | | | | |
| Obligations Incurred | $ 26,288,108 | $ 32,412,224 | $ 23,991,558 | $ 9,364,184 |
| Less: Spending Authority from Offsetting Collections and Adjustments | (815,208) | (4,645,804) | (1,669,138) | (280,990) |
| Obligated Balance, Net - Beginning of Period | 2,220,126 | 9,739,406 | 32,902,467 | 4,244,667 |
| Obligated Balance Transferred, Net | 0 | 0 | 0 | 0 |
| Less: Obligated Balance, Net - End of Period | (1,238,306) | (8,568,671) | (32,857,798) | (4,470,586) |
| Total Outlays | $ 26,454,720 | $ 28,937,155 | $ 22,367,089 | $ 8,857,275 |

**Department of Defense**

**Department of the Navy**

## Disaggregated Statement of Budgetary Resources

**For the Year Ended September 30, 2000**

*($ in Thousands)*

| | Military Construction/Family Housing | Other | 2000 Combined |
|---|---|---|---|
| **Budgetary Resources** | | | |
| Budget Authority | $ 1,366,389 | $ 66,524 | $ 89,318,717 |
| Unobligated Balance - Beginning of Period | 712,678 | 62,952 | 12,185,513 |
| Net Transfers Prior - Year Balance, Actual | (1,200) | 0 | 70,392 |
| Spending Authority from Offsetting Collections | 486,063 | 0 | 5,449,885 |
| Adjustments | (19,614) | (362) | 369,012 |
| Total Budgetary Resources | $ 2,544,316 | $ 129,114 | $ 107,393,519 |
| **Status of Budgetary Resources** | | | |
| Obligations Incurred | $ 1,629,938 | $ 83,420 | $ 93,769,432 |
| Unobligated Balances - Available | 844,301 | 45,694 | 12,141,969 |
| Unobligated Balances - Not Available | 70,077 | 0 | 1,482,115 |
| Total, Status of Budgetary Resources | $ 2,544,316 | $ 129,114 | $ 107,393,516 |
| **Outlays** | | | |
| Obligations Incurred | $ 1,629,938 | $ 83,420 | $ 93,769,432 |
| Less: Spending Authority from Offsetting Collections and Adjustments | (545,834) | 0 | (7,956,974) |
| Obligated Balance, Net - Beginning of Period | 1,194,477 | 124,737 | 50,425,880 |
| Obligated Balance Transferred, Net | 0 | 0 | 0 |
| Less: Obligated Balance, Net - End of Period | (1,129,390) | (120,847) | (48,385,598) |
| Total Outlays | $ 1,149,191 | $ 87,310 | $ 87,852,740 |

## General Property, Plant & Equipment
## Real Property Deferred Maintenance

**As of September 30, 2000**

*($ in Thousands)*

| General Fund Property Type/Major Class | FY 2000 |
|---|---|
| **1. Real Property** | |
| A. Buildings | $ 7,539,779 |
| B. Structures | 2,434,856 |
| **2. Total** | $ 9,974,635 |

### Narrative Statement:

For Navy installations, the reported backlog of maintenance and repair (BMAR) is premised on a continuous fence-to-fence inspection of facilities at each installation, the results of which are reported each year in the Annual Inspection Summary (AIS) collected by the Commander, Naval Facilities Engineering Command (COMNAVFACENGCOM). The AIS is an inventory of each facility's BMAR deficiencies conducted per the guidelines of the NAVFAC MO-322 and include the cost to repair the stated deficiency that remain as a firm requirement at the end of the fiscal year. Deficiencies do not include alterations, additions, equipment installation, or recurring and preventative maintenance.

The BMAR reported in the above Real Property Deferred Maintenance table includes both "critical" and "deferrable" maintenance actions as defined in the Office of the Chief of Naval Operations, OPNAVINST 11010.34B, Instructions for Preparation and Submission of the Type "A"Annual Inspection Summary and Narrative Assessment. Critical deficiencies constitute maintenance actions that should be done immediately or programmed for accomplishment within the current fiscal year and meets at least one of the following criteria below:

- Environmental – A deficiency posing an unacceptable risk of environmental damage or violation of statutory or regulatory requirements.

- Loss of Mission – A deficiency that has degraded mission capability contributing to a C3 or C4 facility condition rating in a standard base report (BASEREP) mission area.

- Safety – A deficiency with a risk assessment code of 1, 2, or 3.

- Quality of Life – A deficiency that has degraded the habitability or use of the barracks, galley, MWR facilities or other personnel support and service facilities.

Navy categorizes maintenance actions that do not meet the above criteria, as “deferrable” actions and records are maintained separately by category. Navy only reports "critical" deficiencies in the budget exhibits prepared for Congressional review.

BASEREP Rating Procedures:

C1 - Has fully met all demands placed upon it in a mission category throughout the reporting period.

C2 - Has substantially met all demands of the mission category throughout the reporting period with only minor difficulty.

C3 - Has only marginally met the demands of the mission category throughout the reporting period, but with major difficulty.

C4 - Has not met vital demand of the mission category.

Risk Assessment Code is an expression of risk that combines the elements of hazard severity and mishap probability. The codes are:

1 - Critical
2 - Serious
3 - Moderate
4 - Minor
5 - Negligible

For the Marine Corps, facility deficiencies are identified through three primary sources: facilities inspections performed by our maintenance departments using technical guidance provided by COMNAVFACENGCOM published MO322 “Inspection of Shore Facilities”; operator inspections (e.g., plant operators in our water, heat, and waste water treatment); and customer input.

Locally (activity) funded maintenance actions are summarized by Cost Account Code (CAC) and reported in summary to Headquarters, Marine Corps (HQMC). Larger actions, above the local commanders' authority, funded by HQMC (defined as “M2” special projects) which comprise approximately two-thirds of the total Marine Corps real property backlog, are reported on a project basis to HQMC and an on-site validation made by HQMC personnel. Marine Corps annotates which deficiencies are critical and deferrable but all maintenance and repair work remaining as a firm requirement of the annual plan but lack resources are included as deferred maintenance at year-end. The Marine Corps only reports BMAR less than four years old in budget exhibits prepared for Congressional review.

No changes have been made to condition requirements or standards from the previous reporting year. The Marine Corps data continues to include all qualifying deferred maintenance.

In general, Marine Corps deficiencies that have been identified through one of the methods described above are evaluated, prioritized and scoped for cost. The work is either accomplished during the current fiscal year or “deferred” due to lack of resources. The work that is deferred is what is called our Backlog Maintenance and Repair (BMAR). Costs for demolition of facilities have been excluded from the BMAR.

Summary information for Navy activities' deficiencies can be obtained from a review of the summary AIS collected and maintained by COMNAVFACENGCOM. Specific details for each of the deficiencies, by site and location, can be obtained from the major commands. The Marine Corps maintenance actions can be reviewed through HQMC. Facility summaries can also be obtained through a review of the Naval Facilities Assets Data Base (NAVFAC P-164) for both Navy and Marine Corps activities. A listing of each deficiency is too voluminous for this narrative summary.

The cost assessment survey method is used in developing BMAR data for real property.

The DON General Fund does not have any material amounts of deferred maintenance for General PP&E Personal Property, Heritage Assets, or Stewardship Land. In addition, when collecting the deferred maintenance data, the DON does not identify if the buildings and structures are multi-use Heritage Assets. Therefore, the DON cannot report a separate amount of deferred maintenance for multi-use Heritage Assets.

## National Defense Property, Plant, and Equipment Deferred Maintenance Amounts

**As of September 30, 2000**

*($ in Thousands)*

| Major Type/ Major Class | FY 2000 |
|---|---|
| 1. Aircraft | $ 164,129 |
| 2. Ships | 891,744 |
| 3. Missiles | 24,083 |
| 4. Combat Vehicles | 13,853 |
| 5. Other Weapons Systems | 179,648 |
| 6. Total | $ 1,273,457 |

## 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 categories. 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 lab's 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.

| Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies (In Thousands) | Treasury Index: | Funds Balance with Treasury: | Accts Receiv-able | Invest-ments | Other: |
|---|---|---|---|---|---|
| Library of Congress | 03 | | - | | |
| Government Printing Office | 04 | | - | | |
| General Printing Office | 05 | | - | | |
| Congressional Budget Office | 08 | | - | | |
| Other Legislative Branch Agencies | 09 | | - | | |
| The Judiciary | 10 | | - | | |
| Executive Office of the President, Defense Security Assistance Agency | 11 | | 19,755<br>- | | |
| Department of Agriculture | 12 | | | | |
| Department of Commerce | 13 | | 358 | | |
| Department of the Interior | 14 | | 185 | | |
| Department of Justice | 15 | | 770 | | |
| Department of Labor | 16 | | | | |
| Department of the Navy, General Funds (GF) | 17 | | - | | |
| United States Postal Service | 18 | | - | | |
| Department of State | 19 | | 3,574 | | |
| Department of the Treasury | 20 | 62,547,052 | 1,448 | 10,539 | |
| Department of the Army, GF | 21 | | 50,082 | | 28,704 |
| Resolution Trust Corporation | 22 | | - | | |
| United States Tax Court | 23 | | - | | |
| Office of Personnel Management | 24 | | - | | |
| National Credit Union Administration | 25 | | - | | |
| Federal Retirement Thrift Investment Board | 26 | | - | | |
| Federal Communications Commission | 27 | | - | | |
| Social Security Administration | 28 | | - | | |
| Federal Trade Commission | 29 | | - | | |
| Nuclear Regulatory Commission | 31 | | - | | |
| Smithsonian Institution | 33 | | - | | |
| International Trade Commission | 34 | | - | | |
| Department of Veterans Affairs | 36 | | 1 | | |
| Merit Systems Protection Board | 41 | | - | | |
| Pennsylvania Avenue Development Corporation | 42 | | - | | |
| U.S. Equal Employment Opportunity Commission | 45 | | - | | |
| Appalachian Regional Commission | 46 | | - | | |
| General Service Administration | 47 | | 621 | | |
| Independent Agencies** | 48 | | - | | |
| National Science Foundation | 49 | | - | | |
| Securities and Exchange Commission | 50 | | - | | |
| Federal Deposit Insurance Group | 51 | | - | | |
| Federal Labor Relations Authority | 54 | | | | |

| Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies (In Thousands) | Treasury Index: | Funds Balance with Treasury | Accts Receivable: | Investments: | Other: |
|---|---|---|---|---|---|
| Advisory Commission on Intergovernmental Relations | 55 | | - | | |
| Central Intelligence Agency | 56 | | - | | |
| Department of the Air Force, GF | 57 | | 26,895 | | 72,315 |
| Federal Emergency Management Agency | 58 | | 351 | | |
| National Foundation on the Arts and Humanities | 59 | | 1 | | |
| Railroad Retirement Board | 60 | | - | | |
| Consumer Product Safety Commission | 61 | | - | | |
| Office of Special Counsel | 62 | | - | | |
| National Labor Relations Board | 63 | | 52 | | |
| Tennessee Valley Authority | 64 | | - | | |
| Federal Maritime Commission | 65 | | 76 | | |
| United States Information Agency | 67 | | - | | |
| Environmental Protection Agency | 68 | | - | | |
| Department of Transportation | 69 | | 10,872 | | |
| Oversees Private Investment Corporation | 71 | | - | | |
| Agency for International Development | 72 | | - | | |
| Small Business Administration | 73 | | - | | |
| American Battle Monuments Commission | 74 | | - | | |
| Department of Health and Human Services | 75 | | - | | |
| Independent Agencies** | 76 | | - | | |
| Farm Credit | 78 | | - | | |
| National Aeronautics and Space Administration | 80 | | 2,001 | | |
| Export-Import Bank of the United States | 83 | | - | | |
| Armed Forces Retirement Home | 84 | | 63 | | |
| Department of Housing and Urban Development | 86 | | - | | |
| National Archives and Records Administration | 88 | | - | | |
| Department of Energy | 89 | | 1,003 | | |
| Selective Service System | 90 | | - | | |
| Department of Education | 91 | | - | | |
| Federal Mediation and Conciliation Services | 93 | | - | | |
| Arms Control and Disarmament Agency | 94 | | 610 | | |
| Independent Agencies** | 95 | | 2,755 | | |
| U.S. Army Corps of Engineers (Civil Works) | 96 | | 549 | | |
| Military Retirement Trust Fund | 97-8097 | | - | | |
| Department of the Army, WCF | 97-4930-001 | | 347 | | 2,659 |
| Department of the Navy, WCF | 97-4930-002 | | 812,775 | | 24,381 |
| Department of the Air Force, WCF | 97-4930-003 | | 908 | | 537 |
| Other Defense Organizations, GF | 97 | | 117,221 | | 119 |
| Other Defense Organizations, WCF | 97-4930 | | 168,333 | | 28,867 |
| Unidentifiable Federal Agency Entity | 00 | | - | | |
| Total | | 62,547,052 | 1,221,606 | 10,539 | 157,582 |

| Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amount with Other Federal Agencies (In Thousands) | Treasury Index: | Accounts Payable: | Debts/Borrowings From Other Agencies | Other: |
|---|---|---|---|---|
| Library of Congress | 03 | | | |
| Government Printing Office | 04 | | | |
| General Printing Office | 05 | | | |
| Congressional Budget Office | 08 | | | |
| Other Legislative Branch Agencies | 09 | | | |
| The Judiciary | 10 | | | |
| Executive Office of the President, Defense Security Assistance Agency | 11 | | | |
| Department of Agriculture | 12 | | | |
| Department of Commerce | 13 | | | |
| Department of the Interior | 14 | | | |
| Department of Justice | 15 | 2, 590 | | |
| Department of Labor | 16 | | | 584,268 |
| Department of the Navy, General Funds (GF) | 17 | | | |
| United States Postal Service | 18 | | | |
| Department of State | 19 | | | |
| Department of the Treasury | 20 | 8,727 | | 877,113 |
| Department of the Army, GF | 21 | 102,206 | | 22,304 |
| Resolution Trust Corporation | 22 | | | |
| United States Tax Court | 23 | | | |
| Office of Personnel Management | 24 | | | 29,445 |
| National Credit Union Administration | 25 | | | |
| Federal Retirement Thrift Investment Board | 26 | | | |
| Federal Communications Commission | 27 | | | |
| Social Security Administration | 28 | | | |
| Federal Trade Commission | 29 | | | |
| Nuclear Regulatory Commission | 31 | | | |
| Smithsonian Institution | 33 | | | |
| International Trade Commission | 34 | | | |
| Department of Veterans Affairs | 36 | | | |
| Merit Systems Protection Board | 41 | | | |
| Pennsylvania Avenue Development Corporation | 42 | | | |
| U.S. Equal Employment Opportunity Commission | 45 | | | |
| Appalachian Regional Commission | 46 | | | |
| General Service Administration | 47 | | | |
| Independent Agencies** | 48 | | | |
| National Science Foundation | 49 | | | |
| Securities and Exchange Commission | 50 | | | |
| Federal Deposit Insurance Group | 51 | | | |
| Federal Labor Relations Authority | 54 | | | |

| Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amount with Other Federal Agencies (In Thousands) | Treasury Index: | Accounts Payable: | Debts/Borrowings From Other Agencies | Other: |
|---|---|---|---|---|
| Advisory Commission on Intergovernmental Relations | 55 | | | |
| Central Intelligence Agency | 56 | | | |
| Department of the Air Force, GF | 57 | 4,301 | | 24,926 |
| Federal Emergency Management Agency | 58 | | | |
| National Foundation on the Arts and Humanities | 59 | | | |
| Railroad Retirement Board | 60 | | | |
| Consumer Product Safety Commission | 61 | | | |
| Office of Special Counsel | 62 | | | |
| National Labor Relations Board | 63 | | | |
| Tennessee Valley Authority | 64 | | | |
| Federal Maritime Commission | 65 | | | |
| United States Information Agency | 67 | | | |
| Environmental Protection Agency | 68 | | | |
| Department of Transportation | 69 | | | |
| Oversees Private Investment Corporation | 71 | | | |
| Agency for International Development | 72 | | | |
| Small Business Administration | 73 | | | |
| American Battle Monuments Commission | 74 | | | |
| Department of Health and Human Services | 75 | | | |
| Independent Agencies** | 76 | | | |
| Farm Credit | 78 | | | |
| National Aeronautics and Space Administration | 80 | | | |
| Export-Import Bank of the United States | 83 | | | |
| Armed Forces Retirement Home | 84 | | | |
| Department of Housing and Urban Development | 86 | | | |
| National Archives and Records Administration | 88 | | | |
| Department of Energy | 89 | | | |
| Selective Service System | 90 | | | |
| Department of Education | 91 | | | |
| Federal Mediation and Conciliation Services | 93 | | | |
| Arms Control and Disarmament Agency | 94 | | | |
| Independent Agencies** | 95 | 1,016 | 57 | 753 |
| U.S. Army Corps of Engineers (Civil Works) | 96 | 2,842 | | |
| Military Retirement Trust Fund | 97-8097 | | | |
| Department of the Army, WCF | 97-4930-001 | 16,488 | | 100 |
| Department of the Navy, WCF | 97-4930-002 | 391,663 | | 17,014 |
| Department of the Air Force, WCF | 97-4930-003 | 6,159 | | 9,965 |
| Other Defense Organizations, GF | 97 | 18,661 | | 367 |
| Other Defense Organizations, WCF | 97-4930 | 249,418 | | 4,216 |
| Unidentifiable Federal Agency Entity | 00 | | | |
| Total | | 804,071 | 57 | 1,570,471 |

| Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies *(In Thousands)* | Treasury Index: | Earned Revenue: |
|---|---|---|
| Library of Congress | 03 | 1 |
| Government Printing Office | 04 | |
| General Printing Office | 05 | |
| Congressional Budget Office | 08 | |
| Other Legislative Branch Agencies | 09 | |
| The Judiciary | 10 | |
| Executive Office of the President, Defense Security Assistance Agency | 11 | 47,617 |
| Department of Agriculture | 12 | |
| Department of Commerce | 13 | 4,637 |
| Department of the Interior | 14 | 194 |
| Department of Justice | 15 | 4,099 |
| Department of Labor | 16 | |
| Department of the Navy, General Funds (GF) | 17 | - |
| United States Postal Service | 18 | |
| Department of State | 19 | 4,890 |
| Department of the Treasury | 20 | 7,105 |
| Department of the Army, GF | 21 | 121,126 |
| Resolution Trust Corporation | 22 | 50 |
| United States Tax Court | 23 | |
| Office of Personnel Management | 24 | |
| National Credit Union Administration | 25 | |
| Federal Retirement Thrift Investment Board | 26 | |
| Federal Communications Commission | 27 | |
| Social Security Administration | 28 | 2 |
| Federal Trade Commission | 29 | |
| Nuclear Regulatory Commission | 31 | |
| Smithsonian Institution | 33 | |
| International Trade Commission | 34 | |
| Department of Veterans Affairs | 36 | 4,207 |
| Merit Systems Protection Board | 41 | |
| Pennsylvania Avenue Development Corporation | 42 | |
| U.S. Equal Employment Opportunity Commission | 45 | |
| Appalachian Regional Commission | 46 | |
| General Service Administration | 47 | 1,438 |
| Independent Agencies** | 48 | |
| National Science Foundation | 49 | 1,402 |
| Securities and Exchange Commission | 50 | |
| Federal Deposit Insurance Group | 51 | |
| Federal Labor Relations Authority | 54 | |
| Advisory Commission on Intergovernmental Relations | 55 | |
| Central Intelligence Agency | 56 | |

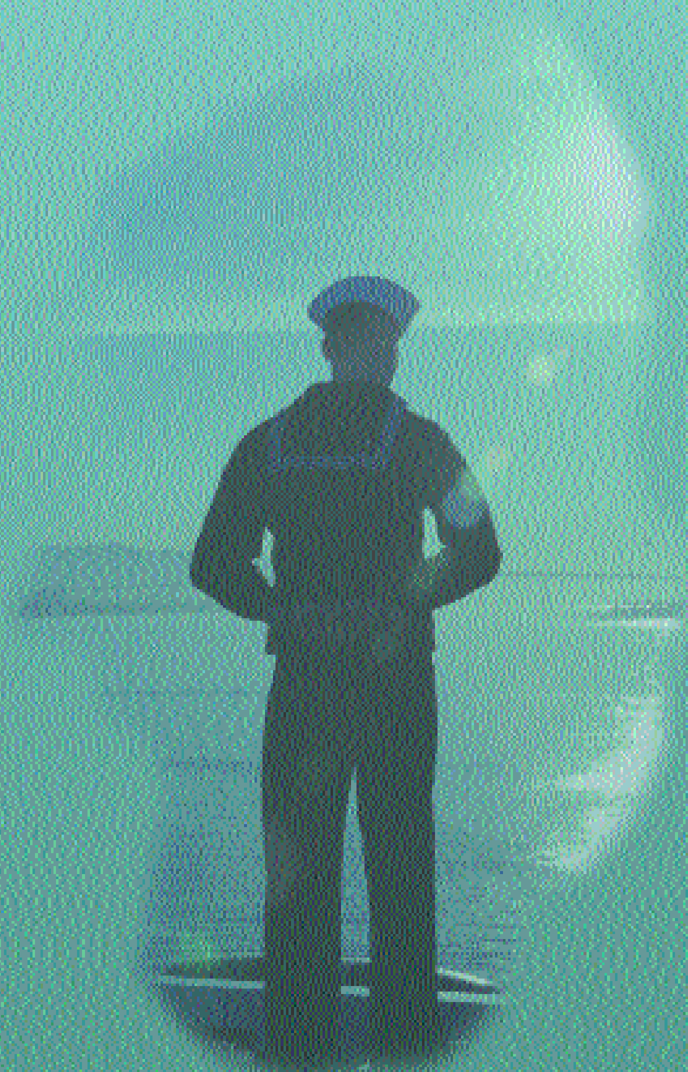
| Schedule, Part C DoD Intragovernmenal Revenues and Related Costs with Other Federal Agencies *(In Thousands)* | Treasury Index: | Earned Revenue: |
|---|---|---|
| Department of the Air Force, GF | 57 | 104,447 |
| Federal Emergency Management Agency | 58 | |
| National Foundation on the Arts and Humanities | 59 | |
| Railroad Retirement Board | 60 | |
| Consumer Product Safety Commission | 61 | |
| Office of Special Counsel | 62 | 1 |
| National Labor Relations Board | 63 | 7 |
| Tennessee Valley Authority | 64 | |
| Federal Maritime Commission | 65 | 185 |
| United States Information Agency | 67 | |
| Environmental Protection Agency | 68 | |
| Department of Transportation | 69 | 22,201 |
| Oversees Private Investment Corporation | 71 | |
| Agency for International Development | 72 | |
| Small Business Administration | 73 | |
| American Battle Monuments Commission | 74 | |
| Department of Health and Human Services | 75 | |
| Independent Agencies** | 76 | |
| Farm Credit | 78 | |
| National Aeronautics and Space Administration | 80 | 4,850 |
| Export-Import Bank of the United States | 83 | |
| Armed Forces Retirement Home | 84 | 196 |
| Department of Housing and Urban Development | 86 | |
| National Archives and Records Administration | 88 | |
| Department of Energy | 89 | 1,535 |
| Selective Service System | 90 | |
| Department of Education | 91 | |
| Federal Mediation and Conciliation Services | 93 | |
| Arms Control and Disarmament Agency | 94 | 610 |
| Independent Agencies** | 95 | 2,760 |
| U.S. Army Corps of Engineers (Civil Works) | 96 | 661 |
| Military Retirement Trust Fund | 97-8097 | |
| Department of the Army, WCF | 97-4930-001 | 11,572 |
| Department of the Navy, WCF | 97-4930-002 | 1,176,914 |
| Department of the Air Force, WCF | 97-4930-003 | 2,268 |
| Other Defense Organizations, GF | 97 | 691,502 |
| Other Defense Organizations, WCF | 97-4930 | 315,632 |
| Unidentifiable Federal Agency Entity | 00 | |
| Total | | 2,532,109 |

| Schedule, Part E DoD Intragovernmental Non-Exchange Revenues | Treasury Index: | Non-Exchange Revenue | |
|---|---|---|---|
| | | Transfer-In | Transfer-Out |
| Library of Congress | 03 | - | - |
| Government Printing Office | 04 | | - |
| General Printing Office | 05 | | - |
| Congressional Budget Office | 08 | | - |
| Other Legislative Branch Agencies | 09 | | - |
| The Judiciary | 10 | | - |
| Executive Office of the President, Defense Security Assistance Agency | 11 | - | - |
| Department of Agriculture | 12 | | - |
| Department of Commerce | 13 | - | - |
| Department of the Interior | 14 | - | - |
| Department of Justice | 15 | - | - |
| Department of Labor | 16 | | - |
| Department of the Navy, General Funds (GF) | 17 | - | - |
| United States Postal Service | 18 | | - |
| Department of State | 19 | - | - |
| Department of the Treasury | 20 | - | - |
| Department of the Army, GF | 21 | - | - |
| Resolution Trust Corporation | 22 | - | - |
| United States Tax Court | 23 | - | - |
| Office of Personnel Management | 24 | - | - |
| National Credit Union Administration | 25 | - | - |
| Federal Retirement Thrift Investment Board | 26 | - | - |
| Federal Communications Commission | 27 | - | - |
| Social Security Administration | 28 | - | - |
| Federal Trade Commission | 29 | - | - |
| Nuclear Regulatory Commission | 31 | - | - |
| Smithsonian Institution | 33 | - | - |
| International Trade Commission | 34 | - | - |
| Department of Veterans Affairs | 36 | - | - |
| Merit Systems Protection Board | 41 | - | - |
| Pennsylvania Avenue Development Corporation | 42 | - | - |
| U.S. Equal Employment Opportunity Commission | 45 | - | - |
| Appalachian Regional Commission | 46 | - | - |
| General Service Administration | 47 | - | - |
| Independent Agencies** | 48 | - | - |
| National Science Foundation | 49 | - | - |
| Securities and Exchange Commission | 50 | - | - |
| Federal Deposit Insurance Group | 51 | - | - |
| Federal Labor Relations Authority | 54 | - | - |
| Advisory Commission on Intergovernmental Relations | 55 | - | - |

| Schedule, Part E DoD Intragovernmental Non-Exchange Revenues | Treasury Index: | Non-Exchange Revenue | |
|---|---|---|---|
| | | Transfer-In | Transfer-Out |
| Central Intelligence Agency | 56 | - | - |
| Department of the Air Force, GF | 57 | - | - |
| Federal Emergency Management Agency | 58 | - | - |
| National Foundation on the Arts and Humanities | 59 | - | - |
| Railroad Retirement Board | 60 | - | - |
| Consumer Product Safety Commission | 61 | - | - |
| Office of Special Counsel | 62 | - | - |
| National Labor Relations Board | 63 | - | - |
| Tennessee Valley Authority | 64 | - | - |
| Federal Maritime Commission | 65 | - | - |
| United States Information Agency | 67 | - | - |
| Environmental Protection Agency | 68 | - | - |
| Department of Transportation | 69 | - | - |
| Oversees Private Investment Corporation | 71 | - | - |
| Agency for International Development | 72 | - | - |
| Small Business Administration | 73 | - | - |
| American Battle Monuments Commission | 74 | - | - |
| Department of Health and Human Services | 75 | - | - |
| Independent Agencies** | 76 | - | - |
| Farm Credit | 78 | - | - |
| National Aeronautics and Space Administration | 80 | - | - |
| Export-Import Bank of the United States | 83 | - | - |
| Armed Forces Retirement Home | 84 | - | - |
| Department of Housing and Urban Development | 86 | - | - |
| National Archives and Records Administration | 88 | - | - |
| Department of Energy | 89 | - | - |
| Selective Service System | 90 | - | - |
| Department of Education | 91 | - | - |
| Federal Mediation and Conciliation Services | 93 | - | - |
| Arms Control and Disarmament Agency | 94 | - | - |
| Independent Agencies** | 95 | - | - |
| U.S. Army Corps of Engineers (Civil Works) | 96 | - | - |
| Military Retirement Trust Fund | 97-8097 | - | - |
| Department of the Army, WCF | 97-4930-001 | - | - |
| Department of the Navy, WCF | 97-4930-002 | 418,218 | - |
| Department of the Air Force, WCF | 97-4930-003 | - | - |
| Other Defense Organizations, GF 97 | 97 | 50,000 | - |
| Other Defense Organizations, WCF | 97-4930 | - | - |
| Unidentifiable Federal Agency Entity | 00 | | |
| Total | | 468,218 | - |

# Department of the Navy Annual Financial Report

# *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

**Trust funds**

17X8008 Office of Naval Records and History Fund
17X8423 Midshipmens Store, United States Naval Academy
17X8716 Department of the Navy General Gift Fund
17X8723 Ship Stores Profits, Navy
17X8730 United States Naval Academy Museum Fund
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 |

# Department of the Navy Annual Financial Report
# *Audit Opinion*

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

February 7, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 2000 Department of the Navy General Fund Financial Statements (Project No. D2000FC-0283.001)

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 (NAS) the audit of the FY 2000 Department of the Navy General Fund financial statements. Summarized as follows are the NAS disclaimer of opinion on the FY 2000 Department of the Navy General Fund financial statements and the results of our review of the NAS audit. The information provided in this memorandum contains reasons for the NAS disclaimer. We endorse the disclaimer of opinion expressed by NAS.

**Disclaimer of Opinion.** The NAS disclaimer of opinion on the FY 2000 Department of the Navy General Fund financial statements, dated February 7, 2001, states that NAS was unable to express an opinion on the financial statements. We concur with the NAS disclaimer of opinion. The following deficiencies identified by the Department of the Navy in the Management Representation Letter, Annual Statement(s) of Assurance, and notes to the financial statements preclude an audit opinion.

- The Department of the Navy did not have transaction-driven standard general ledger accounting systems that could accurately report the value of assets and liabilities.
- Financial accounting systems did not contain sufficient audit trails to enable transaction-level verification.
- Department of the Navy financial and non-financial feeder systems and processes did not collect and record financial data on the full accrual accounting basis. Financial data were based on budgetary information and were adjusted for known accruals.

**Internal Controls.** The NAS determined that internal controls did not provide reasonable assurance that resources were properly managed and accounted for, that the Department of the Navy complied with applicable laws and regulations, and that the FY 2000 Department of the Navy General Fund financial statements contained no material misstatements. The Department of the Navy and the Defense Finance and Accounting Service recognized many of the financial reporting weaknesses and reported them in their FY 2000 Annual Statement(s) of Assurance.

**Compliance With Laws and Regulations.** The NAS identified areas of noncompliance with laws and regulations. Under the Federal Financial Management Improvement Act of 1996, the NAS audit work showed that financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For example, the Department of the Navy did not have integrated financial management systems from which to extract financial data for use in preparing financial statements and, therefore, did not substantially comply with Federal Accounting Standards. Details on the adequacy of internal controls and compliance with laws and regulations are discussed in the NAS report.

**Review of Naval Audit Service Work.** To fulfill our responsibilities for determining the accuracy and completeness of the independent audit work that NAS conducted, we reviewed the audit approach and planning and monitored progress at key points. We also performed other procedures to determine the fairness and accuracy of the approach and conclusions.

We reviewed the NAS work on the FY 2000 Department of the Navy General Fund financial statements from March 1, 2000, through February 7, 2001, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the NAS disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

DEPARTMENT OF THE NAVY
NAVAL AUDIT SERVICE
1006 BEATTY PLACE SE, ROOM 318
WASHINGTON NAVY YARD DC 20374-5005

# Report on Auditor's Opinion

We performed audit work relative to the Fiscal Year 2000 Department of the Navy General Fund Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing (the Principal Statements) in accordance with generally accepted government auditing standards and OMB Bulletin No. 01-02. Our auditing procedures included an evaluation of related internal controls and compliance with laws and regulations in some areas. The Assistant Secretary of the Navy (Financial Management and Comptroller) 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. Our responsibility is to express an opinion on the financial statements based on our audit.

We are unable to express an opinion on the Department of the Navy Principal Statements for the fiscal year ended 30 September 2000. The following deficiencies, which have been identified in the Department of the Navy Management Representation Letter, annual Statements of Assurance, and financial statement footnotes, preclude an audit opinion:

- The Department of the Navy did not have transaction-driven standard general ledger accounting systems that could accurately report the value of assets and liabilities.

- Accounting systems did not contain sufficient audit trails to enable transaction level verification.

- Department of the Navy financial and non-financial feeder systems and processes did not collect and record financial data on the full accrual accounting basis. Financial data was based on budgetary information and adjusted for known accruals.

As a result of the deficiencies cited above, we were unable to ascertain the reliability of amounts reported on the financial statements. Financial data in the Overview and the Supplemental Financial and Management Information sections of the Department of the Navy Annual Financial Report was derived from the same sources as the Principal Statements and, therefore, may not be reliable.

Limited tests found internal controls were not adequate to ensure that resources were properly managed and accounted for, that the Department of the Navy complied with applicable laws and regulations, and that the Principal Statements were free of material misstatements. Internal controls did not ensure that assets and liabilities were properly accounted for, and that accounting transactions were accurate and properly supported. The Department of the Navy and Defense Finance and Accounting Service have recognized these weaknesses and reported them in their Fiscal Year 2000 Assurance Statements on Management Controls.

Bill A. Roderick
Naval Audit Service

7 February 2001