Audit Report

INSPECTOR GENERAL, DOD, OVERSIGHT OF THE NAVAL AUDIT SERVICE AUDIT OF THE FY 1999 DEPARTMENT OF THE NAVY GENERAL FUND FINANCIAL STATEMENTS

Report No. D-2000-081 February 14, 2000

Office of the Inspector General
Department of Defense

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Acronym

NAS	Naval Audit Service

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

February 14, 2000

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

SUBJECT: Audit Report on Inspector General, DoD, Oversight of the Naval Audit Service Audit of the FY 1999 Department of the Navy General Fund Financial Statements (Report No. D-2000-081)

We are providing this report for your information and use and for transmittal to the Director, Office of Management and Budget. It includes our endorsement of the Naval Audit Service disclaimer of opinion on the FY 1999 Department of the Navy General Fund financial statements, along with the Naval Audit Service report, "Department of the Navy Principal Statements for Fiscal Year 1999," February 10, 2000. An audit of the Department of the Navy General Fund financial statements is required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. Because this report contains no findings or recommendations, written comments are not required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Brian M. Flynn at (703) 604-9489 (DSN 664-9489) (bflynn@dodig.osd.mil) or Ms. Linda A. Pierce at (216) 522-6091, extension 234 (DSN 580-6091) (lpierce@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-081 **February 14, 2000**
(Project No. 0FC-2114)

Inspector General, DoD, Oversight of the Naval Audit Service Audit of the FY 1999 Department of the Navy General Fund Financial Statements

Executive Summary

Introduction. An audit of the Department of the Navy General Fund financial statements is required by Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. We delegated the audit of the FY 1999 Department of the Navy General Fund financial statements to the Naval Audit Service. This report provides our endorsement of the Naval Audit Service disclaimer of opinion on the FY 1999 Department of the Navy General Fund financial statements, along with the Naval Audit Service report, "Department of the Navy Principal Statements for Fiscal Year 1999," February 10, 2000.

Objective. Our objectives were to oversee the Naval Audit Service audit of the FY 1999 Department of the Navy General Fund financial statements and to determine the reliability and effectiveness of processes and procedures used to prepare those statements. This report focuses on the oversight objective. The preparation of the financial statements will be discussed in a separate report. See Appendix A for a discussion of the audit process.

Results. The Naval Audit Service report, "Department of the Navy Principal Statements for Fiscal Year 1999," February 10, 2000, states that the auditors were unable to express an opinion on the FY 1999 Department of the Navy General Fund financial statements. We concur with the Naval Audit Service disclaimer of opinion; our endorsement of that disclaimer is Exhibit 1. The Naval Audit Service report is Exhibit 2.

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Appendix A. Audit Process

Scope and Methodology

Audit Work Performed. To fulfill our responsibilities under Public Law 101-576, the "Chief Financial Officers Act of 1990," as amended by Public Law 101-356, the "Federal Financial Management Act of 1994," we performed oversight of the independent audit conducted by the Naval Audit Service (NAS) of the FY 1999 Department of the Navy General Fund financial statements. We reviewed the NAS audit approach and monitored audit progress at key points.

Reviewing the NAS Audit Approach. We used the "Federal Financial Statement Audit Manual," January 1993, issued by the President's Council on Integrity and Efficiency, and the "Financial Audit Manual," December 12, 1997, issued by the General Accounting Office, as the criteria for reviewing the NAS audit approach. We reviewed the notification letter, formulation of strategy, entity profile, general risk analysis, cycle memorandums, and audit programs. In addition, we participated in NAS conferences on the Department of the Navy General Fund financial statements. The conferences covered the NAS planning and formulation of audit strategy and included presentations on issues that developed during the NAS work.

Monitoring Audit Progress. Through the DoD Financial Statement Audit Executive Steering Committee, and an integrated line-item oversight effort, we provided a forum for a centrally managed exchange of guidance and information leading to a focused DoD-wide audit of the DoD Consolidated financial statements, including the supporting financial statements of major DoD Components. We also reviewed and commented on the NAS audit opinion report, which included discussions of issues on internal controls and compliance with laws and regulations. We reviewed key workpapers and summaries of NAS audit results and conclusions.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense established 2 DoD-wide corporate-level goals, 8 subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

> **FY 2001 Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused 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. **(01-DoD-2)**
>
> **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
>
> **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and financial systems. **(01-DoD-2.5.1)**

FY 2001 Performance Measure 2.5.2: Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objective and goal. This report pertains to achievement of the following functional area objective and goal.

Financial Management Area. Objective: Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Audit Type, Period, and Standards. We performed this financial statement audit from March 1, 1999, through February 10, 2000, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not use computer-processed data to conduct our oversight of the Naval Audit Service audit of the FY 1999 Department of the Navy General Fund financial statements.

Contacts During the Audit. We visited or contacted individuals and organizations in the DoD audit community. Further details are available on request.

Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at http://www.gao.gov. Inspector General, DoD, reports can be accessed on the Internet at http://www.dodig.osd.mil.

Appendix B. Report Distribution

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House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

Exhibit 1. Inspector General, DoD, Endorsement Memorandum

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

FEB 14 2000

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

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 1999 Department of the Navy General Fund Financial Statements (Project No. 0FC-2114)

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 1999 Department of the Navy General Fund financial statements. Summarized as follows are the NAS disclaimer of opinion on the FY 1999 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 1999 Department of the Navy General Fund financial statements, dated February 10, 2000, states that NAS was unable to express an opinion on the financial statements. We concur with the NAS disclaimer of opinion. The Department of the Navy did not provide the FY 1999 principal statements in time for us to perform the necessary audit work. In addition, the Department of the Navy did not provide the management representation letter. However, NAS identified the following deficiencies that precluded 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. We were unable to verify off-line calculations and adjustments to compute estimates of key line-item values.

- Accounting systems did not contain sufficient audit trails to enable transaction-level verification and, therefore, we could not ascertain the reliability of amounts reported on the principal statements.

- 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; therefore, we were unable to verify reported amounts.

- Data and analyses to support significant estimates of environmental liabilities were not available for audit in time to perform sufficient audit reviews.

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 1999 Department of the Navy General Fund financial statements contained no material misstatements. For example, the Department of the Navy did not have adequate controls to include all operating materials and supplies in the reported values. 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 1999 Annual Statements 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 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 had to rely on a manual data call process that was error prone. As a result, the Department of the Navy was unable to provide detailed accounting records of the acquisition and disposition of personal property. 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 1999 Department of the Navy General Fund financial statements from March 1, 1999, through February 10, 2000, 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.

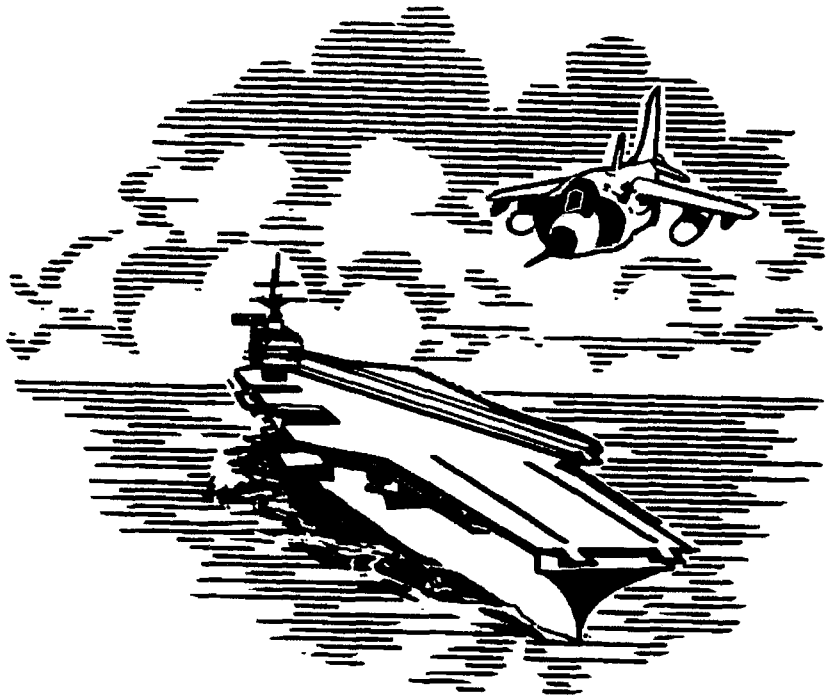
David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Exhibit 2. Naval Audit Service Report

Naval Audit Service
NAVAUDSVC P-7520.1

Audit Report



Department of the Navy Principal Statements for Fiscal Year 1999

N2000-0018

10 February 2000

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To obtain additional copies of this report, please contact Wayne Rosewell, as follows:

Phone: (202) 433-5737 (DSN 288)

Fax: (202) 433-5879

E:mail: Rosewell.Wayne@hq.navy.mil

Mail: Naval Audit Service
Plans, Policy, and Resources
Attn: Mr. Wayne Rosewell
Washington Navy Yard
1006 Beatty Place SE
Washington, DC 20374-5005

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To suggest ideas for or to request future audits, please contact Samuel Chason, as follows:

Phone: (202) 433-5706 (DSN 288)

Fax: (202) 433-5879

E:mail: Chason.Samuel@hq.navy.mil

Mail: Naval Audit Service
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Washington Navy Yard
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Government Performance and Results Act

The Government Performance and Results Act (GPRA) of 1993 required all Government departments to begin strategic planning, performance planning, and evaluation of achievements against performance plans. Performance measures presented should relate to Department of the Navy purposes and goals, be in line with Department of Defense goals, and be linked to specific programs presented in the Statement of Net Cost. The success of the GPRA rests on relating program costs to accomplishments. Performance measures show the results of program accomplishments with the resources used. The Net Cost of Operations is a fundamental measure of these resources. In FY 1999, the Department of the Navy Statement of Net Cost did not meet the intent of the Government Performance and Results Act of linking goals to specific Department of the Navy programs and, ultimately, program costs.

Prompt Payment Act

Disbursing Officers did not always pay vendors within time frames specified by the Prompt Payment Act and Department of Defense guidance. Audit test disclosed that 14 of 55 transactions reviewed were paid from 1 to 85 days late. Failure to pay vendors promptly causes the Government to incur interest costs unnecessarily. Total interest paid during FY 1999 due to this deficiency was about $16.6 million.

Federal Managers' Financial Integrity Act

As required by the Federal Managers' Financial Integrity Act of 1982, the Department of the Navy and the Defense Finance and Accounting Service report annually to the Secretary of Defense on whether their management controls comply with the Act's requirements. The following subparagraphs describe the Department of the Navy's and the Defense Finance and Accounting Service's identification of material management control weaknesses in the FY 1999 Assurance Statements.

Department of the Navy Assurance Statement

The Department of the Navy FY 1999 Assurance Statement identifies 16 uncorrected material weaknesses. Of these, three systemic management control weaknesses directly affect the accuracy and reliability of the Department of the Navy General Fund financial information. The following subparagraphs extracted from the Department of the Navy FY 1999 Statement of Assurance describe the three issues.

- **Lack of Integrated General Ledger Accounting System.** The lack of an integrated transaction-driven general ledger accounting system has contributed to overstatements and understatements of account balances. In addition, the presentation of accurate financial data was inhibited by data call, accounting

system, procedural, and guidance issues. When an accounting system was used, balances could not always be reconciled to detailed accounting records due to insufficient general ledger controls and the lack of sufficient audit trails. Lack of established written policy and procedural guidance affected closed account balances, pricing and physical inventory accuracy of ammunition, recording acquisition and disposition of Property, Plant, and Equipment; Personal Property; and Accrued Payroll and Benefit costs. FY 1998 was the first year for reporting deferred maintenance for General Property, Plant, and Equipment; Real Property; and National Defense Property, Plant, and Equipment. Deficiencies occurred in reporting because guidance for classifying and reporting deferred maintenance was inadequate and inconsistently applied. Instances were found where Department of Defense guidance was either conflicting or inconsistent with Federal Financial Accounting Standards and OMB requirements.

- **Unmatched Disbursements.** Unmatched disbursements existed in the Department of the Navy's accounting system because: (1) funding organizations did not always obligate funds promptly; (2) controls were not adequate to ensure prompt detection and correction of disbursing office errors; (3) accounting data accuracy was not maintained; and (4) unmatched disbursements were not promptly resolved. Now called "Problem Disbursements," this issue has been expanded to include negative unliquidated obligations and in-transit disbursements. The Department of the Navy's efforts to reduce, if not eliminate, the causes of problem disbursements include working with the Defense Finance and Accounting Service to develop changes in automated accounting systems to prevalidate disbursements by matching payments (proposed) to obligations before payment, reduce the amount of manual data entry, and improve the level of automation in the payment process.

- **Unliquidated and Invalid Obligations.** Within the Operation and Maintenance, Navy appropriation, some activities were not verifying that only valid obligations were entered into the accounting system. "Holding" documents (existing valid obligations to which funds were being added, or creation of an invalid obligation for the same purpose) were being used to maintain control of funds while waiting for valid obligation documents to be processed. Major claimants were deobligating funds from field commands without the command's knowledge and approval. Additional guidance was needed to instruct field activities to commit rather than obligate funding for "holding" documents in order to maintain control of funds and that funds not be deobligated from field activities without the field activities' knowledge and approval.

  Invalid obligations were also associated with indefinite delivery contracts and basic ordering agreements. Systems Commands did not have adequate internal controls to ensure that they and their subordinate commands would perform complete and timely reviews of unliquidated contractual obligations and

deobligate invalid contractual obligations.

The existence of unmatched transactions and invalid transaction amounts indicates noncompliance with paragraph one of the Federal Managers' Financial Integrity Act of 1982. Paragraph one requires in part that administrative controls provide assurance that applicable transactions are properly recorded and accounted for to permit preparation of accurate and reliable financial and statistical reports. In addition, we determined that Department of the Navy managers placed undue reliance on audits and inspections in preparing the Annual Statement of Assurance. All of the material weaknesses reported in the FY 1999 Statement of Assurance were identified by audit and inspection reports. Implementing instructions state that Federal managers have the primary responsibility for monitoring and assessing controls and should use other sources (such as audit and inspection reports) as a supplement to, not a replacement for, their own judgement.

During FY 2000, the Department of the Navy plans to review its Management Control Program with emphasis on a self-reporting concept. This review will employ the technical skills and experience of PricewaterhouseCoopers in conjunction with strategic partnering with the Office of Financial Operations and the Naval Audit Service. Further, this review is expected to identify processes to ensure that management employs a high degree of accountability to identify and manage risks, and to reduce the Department of the Navy's sole dependency upon auditors for the identification of management control weaknesses.

Defense Finance and Accounting Service Assurance Statement

The Defense Finance and Accounting Service FY 1999 Assurance Statement identified 38 uncorrected material weaknesses (13 identified during the current period and 25 identified during prior periods). Of these 38 weaknesses, 17 directly affect the accuracy and reliability of the Department of the Navy financial information. The following subparagraphs, which describe each of the material weaknesses, were extracted from the Defense Finance and Accounting Service FY 1999 Assurance Statement.

- **Defense Joint Military Pay Systems (DJMS) Requirements and Systems Specifications Documentation is Fragmented and Incomplete.** Comprehensive sets of requirements, business rules, policy guidance, test criteria, and systems documentation does not exist for DJMS-AC and DJMS-RC. Some requirements documentation, by file, program, or subsystems, is maintained in functional work areas. Selected systems diagrams, including flow charts and various program narratives, are maintained by programmer and analyst staffs, again in their respective and informal work areas. Not all existing information is current. Although the requirement to maintain comprehensive documentation is acknowledged by all communities with systems supporting DJMS, resources have not been available, to date, to initiate and complete corrective action. Heretofore, this material weakness was reported as a Federal Managers' Financial Integrity

Act Section IV departure. We now strongly believe that the failure to have documented systems severely impairs and adversely impacts our primary mission of hosting and modifying Defense Finance and Accounting Service agency wide sponsored military pay software with acceptable degrees of confidence and expected reliability. The lack of systems documentation also severely impairs the capability of providing timely software change.

- **Lack of DJMS Structured/Disciplined Release Process.** Currently, the Denver Center is not employing a structured software life cycle development/modification process for DJMS. A structured life cycle process is comprised of 10 critical and independent steps. Each step is managed in a strict disciplined release project plan milestone environment. Each disciplined step is completed upon management review, coordination, and approval of standard expected life cycle project documentation. This has not been the process employed in the past 9 years when, due primarily to pressing migratory needs, the current configuration process has become materially inefficient, ineffective, and error prone.

- **Various Areas Within the Vendor Pay Division.** Discrepancies were identified in the area of property accountability and surplus equipment, office safety, management reports, controls over processing transactions, standard operating procedures, and outdated assessable units.

- **Controlling Problem Disbursements.** While problem disbursements do not necessarily represent inappropriate payments, they do have a negative impact on the Navy's budget execution and cause delays of vendor payments. Problem disbursements have two classifications: unmatched disbursements (UMDs), and negative unliquidated obligations (NULOs). UMDs are disbursements (or collections) that the accounting stations cannot match to obligations in the accounting records. A NULO is a disbursement that exceeds the value of the matching detail obligation. NULOs are actuated by disbursing errors, or by improper postings and adjustments to obligations in the accounting records. A third category of disbursements, in-transit problem disbursements, are disbursements or collections that have been registered to the Department of the Treasury and charged or credited to an appropriation, but not yet distributed to an accounting station. In-transit problem disbursements and UMDs are generally caused by errors or omissions in the attached lines of accounting. In-transit problem disbursements are recorded in systems' suspense accounts. These transactions can be categorized into those which can be corrected and cleared from suspense, and others that are old and should be resolved by discontinued research accompanied by a Navy buyout. As of 31 July 1998, in-transit problem disbursements had an absolute value of $5.7 billion ($2.2 billion net), UMDs were $3.7 billion ($1.6 billion net) and NULOs were $1.7 billion ($1.7 billion net). Total problem disbursements that precede April 1994, the date of the current Department of Defense initiative to resolve this weakness, were $4.7 billion absolute. The objective is to reduce problem disbursements to the range of

$1 billion to $1.5 billion. As of August 1999, in-transit problem disbursements had an absolute value of $2.708 million ($1.513 million net), UMDs were $1.399 million ($775 million net) and NULOs were $1.178 million ($1.178 million net). (Naval Audit Service note: These August 1999 figures were incorrect because a million sign was put after the figures instead of a billion sign. The FY 1999 financial statement show the following figures: in-transits valued at $2.237 billion absolute and $1.422 billion net, UMDs $1.310 billion absolute and $713 million net, and NULOs $1.138 billion absolute and $1.137 billion net).

- **Unidentified Items in the Suspense Priority Clearing Report.** The Suspense Priority Clearing Report is a cumulative record of collections received by the disbursing officer for which the collections cannot be credited to the final account until the proper disposition of funds can be accomplished. Collections are placed in the Budget Clearing Account (Suspense), Navy account if it is presumed that the amount will be credited to a Government appropriation, fund, or receipt account, or to the Suspense, Navy account if it will be paid to an individual or non-U.S. Government organization. The total dollar figures included on this report fluctuate monthly based on the individual amounts credited and/or debited during the month by all financial activities. In accordance with sound management practices and regulatory guidance, records should be maintained for each item, including the voucher number, date of collection, remitter, descriptions or purpose, amount, action, all disbursement voucher numbers and dates of previous disbursements, and date of final disposition. These records are not maintained by individual officers and forwarded to the disbursing officer's designated coordinator. Centralized control and monitoring in this environment is difficult and generates unreliable financial and accounting information, causing unsound management decisions and the Disbursing Officer's inability to account for funds. Desktop procedures have not been established to document all actions and regulatory requirements governing the suspense account.

- **General Ledger Control and Reconciliation.** The general ledger is a principal instrument for maintaining accounting control over financial transactions. A variety of nonstandard allotment accounting systems and supporting general ledger structures are currently employed by Defense Finance and Accounting Service Operating Locations to support allotment accounting functions for applicable Marine Corps appropriations and funds. This lack of standardization in general ledger structure and corollary reporting and reconciliation functions, coupled with deficiencies in system applications and resources allocated to support these functions, can result in frequent errors and out-of-balance conditions. To some extent, errors and out-of-balance conditions have also been noted on trial balances, financial management reports for other appropriations, and funds for which accounting support is provided. Significant accounting personnel turnover at all levels, coupled with use of personal computer applications and manual procedures to compensate for deficiencies, have resulted in an overall increase in the occurrence of these problems.

- **Negative Unliquidated Obligations and Unmatched Disbursements.** Both negative unliquidated obligations and unmatched disbursements are evidence of the same type of weakness – the presence of errors in the interface between payments systems and accounting systems. In the Department of Defense, payment operations are distinct from accounting, even when the payment operation is a component of the same accounting and finance office. Payments are made based on the invoice submitted by contractors, Government receiving reports, and operations. Reviews of Unliquidated Obligations are not always designed to verify that sufficient evidence exists to support the obligations and the amount outstanding is correct. Apparent errors are corrected without considering documents which are in the process of filing, such as contractual actions and vouchers, corrections, and expenditures rejection. Except where there is a payment system integrated with an accounting system, there is no guarantee payment data corresponds with accounting data and the payment is properly recorded in the accounting system.

- **Undistributed and Unmatched Cross-Disbursing and Interfund Transactions.** The Defense Finance and Accounting Service - Kansas City Center reported that the balances of uncleared cross-disbursements and interfund transactions for most Marine Corps appropriations and funds have grown significantly. The growth in these unmatched balances resulted from a combination of factors: (1) substantial personnel turnover in areas responsible for clearing these transactions; and (2) incorrect procedures for clearing problem; and (3) systems deficiencies. The effect of deficiencies in personnel resources and system support also appears to be further compounded by deficiencies in the quality of unliquidated obligation reviews performed. Interfund bills are backlogged and those over 120 days lack supporting document numbers, thus resulting in understating undistributed disbursements and unmatched buyer and seller interfund transactions. The Defense Finance and Accounting Service - Cleveland Center reported that the majority of their undistributed disbursements involve Navy Interfund billings and cross disbursements. Undistributed disbursements indicate that Navy accounting records are not being properly updated in a timely manner. The high volume of undistributed cross-disbursement transactions is a result of a lack of supporting documentation needed to identify the corresponding obligation and the interfaces of feeder systems and the accounting system.

- **Lack of Internal Controls to Ensure Timely Reconciliation of Navy Funds with Department of the Treasury.** As part of the 1997 Defense Finance and Accounting Service-wide Deposit In Transit audit of the disbursing office reconciliation process, it was disclosed that there were over 11,000 unreconciled deposit tickets and debit vouchers in suspense account **F3878 for Navy and Marine Corps disbursing symbols. A factor contributing to this finding has been the established practice to permit Disbursing Station Symbol Numbers to close

without resolving the discrepancies. Further, the audit determined that the overall importance of reconciliation had not been strongly emphasized. An absolute value of $150 million was reported as of December 1997. This was reduced to approximately $46 million as of July 1998. Progress continues to be monitored via review of monthly status reports.

- **Inadequate Check Issue Reconciliation.** The Department of the Treasury has reported differences between check issue reporting (Level 8) and the monthly summary of checks issued on the SF 1219 (Statement of Accountability). When these reports do not agree, the liability for outstanding checks or the agency accounts are misstated. Failure to reconcile the differences in a timely manner prevents the detection of possible loss or theft of Government funds. The material weakness was opened at Defense Finance and Accounting Service - Cleveland Center in order to document actions needed to improve this area. The scope of the corrective actions is limited to those discrepancies that can be eliminated or controlled by the Cleveland Center.

- **Accounting Operation at Defense Finance and Accounting Service - Cleveland Center.** Systems and processes are not fully compliant with regulatory and statutory requirements, and cannot produce fully auditable financial statements. In turn, the financial information and statements do not adequately assist the management functions of budget formulation, budget execution, proprietary accounting, and financial reporting with a high degree of reliability and confidence.

- **Untimely Contract Fund Reconciliation Process.** The results of contract reconciliation performed between the entitlement system and contract records are not communicated to the accounting stations. Payments are made in excess of available funds. There are no controls in place to prevent duplicate reconciliation efforts. This causes unnecessary use of limited resources and leads to duplicate processing of adjustments which distorts entitlement records and risks disbursing in excess of available funds on an Accounting Classification Reference Number.

- **Inadequate General Ledger Control and Unreliable Financial Reporting.** Defense Finance and Accounting Service has material internal control weakness in general ledger and financial reporting that is attributable to many factors in the control environment, accounting and related systems, and control procedures. Accounting and related systems are the methods and records established to identify, assemble, analyze, classify, record, and report the entity's transactions and to maintain accountability for the related assets and liabilities. Overall, the accounting systems do not have general ledgers, which permits adequate recording and reporting of financial transactions.

- **Inadequate Internal Controls Over Travel Payments.** The Integrated Automated Travel System is used to reimburse Department of Defense travelers for official travel. A material weakness has been identified in the system that permits manipulation of Electronic Funds Transfer payment data, which has resulted in reported cases of fraudulent travel payments. In all of the reported cases, functional experts who have authorized access to the Integrated Automated Travel System have been responsible. It appears that internal controls for access were ignored, allowing subordinates unlimited access to the system. In other cases, supervisors who had proper access perpetrated the fraud by manipulating the Electronic Funds Transfer data. They have been able to alter Electronic Funds Transfer data (routing, bank account numbers, names, etc.) on legitimate claims and make fraudulent payments to themselves or other participants. Then, the fraudulent payments are reversed from the system and the correct payment is disbursed, often without detection. In essence, the fraudulent payments are invisible to the system and are not captured in the reporting process. Often the fraud was brought to light by the banks servicing the Electronic Funds Transfer accounts. The banks questioned either large sum payments or multiple payments. Another identified material weakness is the control of the payment file, which is used by the disbursing function. The file is a simple ASCII file. It is unprotected (does not have any algorithm or hash total computation routine) and can be accessed by anyone who can read and/or change an ASCII file. The file is downloaded to a diskette and then electronically transmitted, mailed, or hand carried to disbursement for payment. Custody of the diskette is uncontrolled and untracked. Any individual with access to the disk can alter the information on the disk. In other cases, this file is left resident on the local area network server until the scheduled time for transmission of the file to disbursing for payment. Again, anyone with access to the local area network can manipulate the payment data.

- **Problem Disbursements.** The Defense Finance and Accounting Service - Indianapolis Center is working with the Department of Defense agencies to fully identify and resolve problem disbursements. Problem disbursements are comprised of two categories: UMDs and NULOs. Primary causes of problem disbursements relate to the lack of integration between the entitlement systems and the accounting systems. The occurrence of problem disbursements distorts fund availability. In-transit disbursements (paid by a disbursing office but not yet received by the funded station) are a separate category, which cause delays in posting disbursements to accounting records. The Indianapolis Center is monitoring and performing the necessary followup actions to ensure this weakness is eliminated.

- **Reconciliation of Suspense Account Balances.** Suspense account balances require extensive reconciliations to ensure that the accounts are properly used, supported by adequate documentation, cleared timely, and in agreement with

Department of the Treasury balances. Transactions residing in suspense accounts can conceal problem disbursements and fraud.

- **Interface Between the Marine Corps Total Force System and the Accounting System.** The Marine Corps Total Force System contains deficiencies in Key Accounting Requirements 5, "Accrual Accounting," and 11, "System Operations." The deficiencies for both Key Accounting Requirements relate to the fact that there is not an interface with the accounting system and information relative to expenditures of pay entitlements at the required entitlement level does not pass to the accounting system. Also, information relative to deductions from pay is not transferred to the appropriate general ledger accounts in the accounting system and disbursed to recipients from the appropriate general ledger accounts. This includes deductions for taxes, allotment/bond deductions, collections of debts owed by Marines to other Government agencies or non-appropriated fund activities, etc. In addition, accounts must be established to properly account for and adjust receivables, such as repayments of advance and in-service debt, and payables such as bonus installments due.

Section C

List of Principal Laws and Regulations

(Laws and Regulations Applicable to all Funds)

- Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 8, 1982
- Public Law 101-576, "Chief Financial Officers Act of 1990," November 15, 1990
- Public Law 103-62, "Government Performance and Results Act of 1993," August 3, 1993
- Public Law 103-356 (Title IV), "Government Management Reform Act of 1994," October 13, 1994
- Public Law 104-208, "Federal Financial Management Improvement Act of 1996," September 30, 1996
- Subtitle II, the Budget Process, of Title 31 U.S. Code, including the Antideficiency Act provisions found in 31 U.S. Code 1517, "Prohibited Obligations and Expenditures"
- Subtitle III, Financial Management, of Title 31 U.S. Code, including the requirements for accounting and accounting systems and information in 31 U.S. Code 3511, 3512, 3513, and 3514
- Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," September 30, 1998
- Office of Management and Budget Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements"
- Office of Management and Budget Circular No. A-11, "Preparation and Submission of Budget Estimates," June 13, 1996
- Office of Management and Budget Circular No. A-34, "Instructions on Budget Execution," December 26, 1995
- Office of Management and Budget Circular No. A-134, "Instructions on Financial Accounting Principles and Standards," May 20, 1993
- Office of Management and Budget Circular No. A-123, "Management Accountability

and Control," June 21, 1995

- Office of Management and Budget Circular No. A-127, "Financial Management Systems," July 23, 1993
- Budget and Accounting Procedures Act of 1950, Chapter 946, 64 Statute 832 (codified in various sections of 31 U.S. Code)
- Department of Defense Directive 5010.38, "Management Control Program," April 14, 1987
- Department of Defense Directive 7200.1, "Administrative Control Appropriations," May 7, 1994
- Department of Defense Guidance on Form and Content of Financial Statements for FY 1997 Financial Activity, January 1998
- Department of Defense Financial Management Regulation, DOD 7000.14-R, Volumes 1, 2A, 3, 4, 5, and 10, Various Dates

(Laws and Regulations for Funds that Make Payments to Vendors)

- Public Law 100-496, "Prompt Payment Act Amendments of 1988," October 17, 1988

(Laws for Funds that Make Payments to the Public)

- Public Law 97-365, "Debt Collection Act," October 25, 1982
- Public Law 104-134, "Debt Collection Improvement Act of 1996," April 26, 1996

Section D

List of Activities Visited or Contacted

General Accounting Office, Washington, DC
Office of the Under Secretary of Defense (Comptroller), Washington DC
Defense Contract Management Command, Fort Belvoir, VA
Defense Finance and Accounting Service - Headquarters, Washington, DC
Defense Finance and Accounting Service - Cleveland Center, Cleveland, OH
Defense Finance and Accounting Service - Cleveland Center, Keyport Detachment, Keyport, WA
Defense Finance and Accounting Service - Columbus Center, Columbus, OH
Defense Finance and Accounting Service - Denver Center, Denver, CO
Defense Finance and Accounting Service - Indianapolis Center, Indianapolis, IN
Defense Finance and Accounting Service Japan, Yokota, Japan
Defense Finance and Accounting Service - Kansas City Center, Kansas City, MO
Defense Finance and Accounting Service - Limestone Center, Limestone, ME
Defense Finance and Accounting Service - Omaha Center, Bellevue, NE
Defense Finance and Accounting Service Operating Location, Charleston, SC
Defense Finance and Accounting Service Operating Location, Norfolk, VA
Defense Finance and Accounting Service Operating Location, Oakland, CA
Defense Finance and Accounting Service Operating Location, Pensacola, FL
Defense Finance and Accounting Service Operating Location, San Diego, CA
Defense Finance and Accounting Service Operating Location Pacific, Honolulu, HI
Defense Finance and Accounting Service Systems Engineering Organization, Pensacola, FL
Department of Defense Inspector General Headquarters, Arlington, VA
Department of Defense Inspector General - Cleveland Office, Cleveland, OH
Defense Printing Service Detachment Office, Ft. Knox, KY
Assistant Secretary of the Navy (Financial Management and Comptroller), Washington DC
Chief of Naval Operations, Washington, DC
Chief of Naval Education and Training, Pensacola, FL
Chief of Naval Information, Washington, DC
Chief of Naval Personnel, Bureau of Naval Personnel, Millington, TN
Chief of Naval Personnel, Bureau of Naval Personnel, Washington, DC
Chief of Naval Personnel Permanent Change of Station Component, Cleveland, OH
Director, Strategic Systems Programs, Washington, DC
Commandant of the Marine Corps, Washington, DC
Bureau of Medicine and Surgery, Washington, DC
Office of Naval Research, Washington, DC
Commander in Chief, U.S. Atlantic Fleet, Norfolk, VA
Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, HI

Atlantic Fleet Headquarters Support Activity, Norfolk, VA
Atlantic Ordnance Command Yorktown Detachment, Charleston, SC
Fleet Industrial Supply Center, Norfolk, VA
Financial Systems Activity, Pensacola, FL
Kaiserslautern Army Regional Finance and Accounting Office, Kaiserslautern, Germany
Marine Corps Air Ground Combat Center, Twentynine Palms, CA
Marine Corps Air Station, Miramar, San Diego, CA
Marine Corps Base, Camp Lejeune, NC
Marine Corps Base, Camp Pendleton, CA
Marine Corps Base Camp Smedley Butler, Okinawa, Japan
Marine Corps Camp, Camp Elmore, Norfolk, VA
Commander Mid-Atlantic Region, Norfolk, VA
Military Sealift Command, Washington, DC
Mobile Diving Unit, Naval Amphibious Base Little Creek, Virginia Beach, VA
Naval Air Systems Command, Patuxent River, MD
Naval Air Facility, Atsugi, Japan
Naval Air Facility, Misawa, Japan
Naval Air Pacific Repair Facility, Plant Representative Office, Atsugi, Japan
Naval Air Station, Fallon, NV
Naval Air Station, Lemoore, CA
Naval Air Station, North Island, San Diego, CA
Naval Air Station Cecil Field, FL
Naval Air Station, Norfolk, VA
Naval Air Station, Oceana, Virginia Beach, VA
Naval Air Station, Sigonella, Italy
Naval Air Station, Whidbey Island, Oak Harbor, WA
Naval Air Terminal Depot, Naval Material Transportation Office, Naval Station, Norfolk, VA
Naval Air Weapons Station, China Lake, CA
Naval Amphibious Base, Little Creek, Virginia Beach, VA
Naval Ammunition Logistics Center, Mechanicsburg, PA
Naval Base, San Diego, CA
Naval Computer and Telecommunications Command, Washington, DC
Naval Construction Battalion Center, Port Hueneme, CA
Commander, Naval District Washington, DC
Naval Facilities Engineering Command, Washington, DC
Naval Facilities Engineering Command, Atlantic Division, Norfolk, VA
Naval Facilities Engineering Command, Engineering Field Activity, Chesapeake, VA
Naval Facilities Engineering Command, Engineering Field Activity, San Bruno, CA
Naval Facilities Engineering Command, Engineering Field Division Southern, Charleston, SC
Naval Inventory Control Point, Philadelphia, PA
(Philadelphia, and Mechanicsburg, PA locations)
Commander, Naval Forces, Yokosuka, Japan
Naval Forces Pacific Fleet, Naval Air Station North Island, San Diego, CA

Naval Ship Repair Facility, Yokosuka, Japan
Commander, Naval Surface Forces, U.S. Atlantic Fleet, Norfolk, VA
Commander, Naval Surface Forces, U.S. Pacific Fleet, Naval Air Base, San Diego, CA
Naval Management Activity, Arlington, VA
Naval Medical Logistics Command, Fort Detrick, MD
Naval Medical Research Unit Two, Jakarta, Indonesia
Naval Medical Research Unit Three, Cairo, Egypt
Naval Meteorology and Oceanography Command, Stennis Space Center, MS
Naval Ordnance Center, Indian Head, MD
Naval Sea Systems Command, Washington, DC
Naval Station, Newport, RI
Naval Station, Naval Base, Norfolk, VA
Naval Station, San Diego, CA
Naval Station, Everett, WA
Naval Submarine Base, San Diego, CA
Naval Surface Warfare Center, Crane Division, IN
Naval Supply Systems Command, Mechanicsburg, PA
Naval Support Facility, Diego Garcia, British Indian Ocean Territory
Naval Undersea Warfare Center Keyport Detachment, Keyport, WA
Naval Undersea Warfare Center Hawthorne Detachment, Hawthorne, NV
Naval Transportation Command, Norfolk, VA
Naval Weapons Station, Goose Creek, Charleston, SC
Naval Weapons Station, Yorktown, VA
Navy Passenger Transportation Office, Bangor WA
Navy Passenger Transportation Office, Great Lakes, IL
Navy Passenger Transportation Office, New London, CT
Navy Passenger Transportation Office, Norfolk, VA
Navy Passenger Transportation Office, Pearl Harbor, HI
Navy Passenger Transportation Office, San Diego, CA
Navy Passenger Transportation Office, Washington, DC
Navy Systems Management Activity, Arlington, VA
Office of Naval Research, Arlington, VA
Personnel Support Activity, Jacksonville, FL
Personnel Support Activity, Norfolk, VA
Personnel Support Activity, Pensacola, FL
Personnel Support Activity Detachment, Sasebo, Japan
Personnel Support Center, Marine Corps Air Station, Iwakuni, Japan
Space and Naval Warfare Systems Command, San Diego, CA
Space and Naval Warfare Systems Center, Charleston, SC
Space and Naval Warfare Systems Center, Charleston Detachment, Norfolk, VA
Space and Naval Warfare Systems Center, Chesapeake, VA
Space and Naval Warfare Systems Center, San Diego, CA
Special Boat Squadron Two Naval Amphibious Base Little Creek, Virginia Beach, VA
Commander Submarine Force, U.S. Pacific Fleet, Pearl Harbor, HI

1st Force Service Support Group, Camp Pendleton, CA
2nd Force Service Support Group, Camp Lejeune, NC
U.S. Naval Activities, United Kingdom, London, United Kingdom
U.S. Naval Station, Rodman, Panama
U.S. Naval Station, Rota, Spain
U.S. Naval Support Activity, Naples, Italy
USS Chandler, DDG 996
USS Charlotte, SSN 766
USS Deyo, DD 989
USS Juneau, LPD 10
USS McClusky, FFG 41
USS Nimitz, CVN 68
USS Oklahoma City, SSN 723
USS Port Royal, CG 73
USS Tarawa, LHA 1
USS Ross, DDG 71

Section E

List of Areas Covered by Supporting Reports

Accounts Payable

Accounts Receivable

Accrued Payroll and Benefits

Inventory and Related Property, Net

National Defense Property, Plant, and Equipment

Real Property

Statement of Budgetary Resources

Section F

Department of the Navy
Fiscal Year 1999 Principal Statements and Related Information

This section consists of portions of the Department of the Navy Annual Financial Report. It includes the Principal Statements, Related Footnotes, Required Supplementary Stewardship Information, and Supplemental Financial and Management Information.

DEPARTMENT OF THE NAVY

PRINCIPAL STATEMENTS

Limitations of the Financial Statements.

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).
While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
To the extent possible, the financial statements have been prepared in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and revised by OMB. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.
The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

PRINCIPAL STATEMENTS

The Department of the Navy's FY 1999 Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management regulation 7000.14 Volume 6B of October 1999. The statements and related notes summarize financial information for individual funds and accounts within the Department for the fiscal year ending September 30, 1999.

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, 1999
($ in Thousands)

		FY 1999
ASSETS		
1. Entity Assets		
A Intragovernmental		
1 Fund Balance with Treasury (Note 2)	$	62,601,330
2 Investments, Net (Note 3)		10,166
3. Accounts Receivable (Note 4)		621,395
4 Other Assets (Note 5)		380,173
5. Total Intragovernmental	$	63,613,064
B Accounts Receivable, Net (Note 4)		1,873,819
C. Loans Receivable and Related Forclosed Property, Net (Note 6)		0
D Cash and Other Monetary Assets (Note 7)		0
E. Inventory and Related Property, Net (Note 8)		29,277,780
F General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)		27,340,476
G. Other Assets (Note 5)		3,278,731
H Total Entity Assets	$	125,383,870
2. Nonentity Assets		
A. Intragovernmental		
1. Fund Balance with Treasury (Note 2)	$	299,782
2 Accounts Receivable (Note 4)		0
3. Other Assets (Note 5)		0
4 Total Intragovernmental	$	299,782
B Accounts Receivable, Net (Note 4)		15,352
C Cash and Other Monetary Assets (Note 7)		156,187
D Other Assets (Note 5)		51
E Total Nonentity Assets	$	471,372
3. Total Assets	$	125,855,242

Department of Defense
Department of the Navy
CONSOLIDATED BALANCE SHEET
As of September 30, 1999
($ in Thousands)

		FY 1999
LIABILITIES		
4. Liabilities covered by Budgetary Resources		
A. Intragovernmental		
1 Accounts Payable	$	516,505
2 Debt (Note 11)		0
3 Environmental Liabilities (Note 12)		0
4 Other Liabilities (Note 13)		549,352
5. Total Intragovernmental	$	1,065,857
B Accounts Payable		504,411
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		0
D. Environmental Liabilities (Note 12)		496,239
E. Other Liabilities (Note 13)		1,614,681
F Total Liabilities covered by Budgetary Resources	$	3,681,188
5. Liabilities not covered by Budgetary Resources		
A Intragovernmental		
1. Accounts Payable	$	18,387
2. Debt (Note 11)		0
3. Environmental Liabilities (Note 12)		0
4 Other Liabilities (Note 13)		597,103
5 Total Intragovernmental	$	615,490
B. Accounts Payable		201,245
C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		1,304,960
D. Environmental Liabilities (Note 12)		47,140,944
E Other Liabilities (Note 13)		1,498,728
F Total Liabilities not covered by Budgetary Resources	$	50,761,367
6. Total Liabilities	$	54,442,555
NET POSITION (Note 15)		
7. Unexpended Appropriations	$	65,586,444
8. Cumulative Results of Operations		5,826,243
9. Total Net Position	$	71,412,687
10.Total Liabilities and Net Position	$	125,855,242

Department of Defense
Department of the Navy
CONSOLIDATED STATEMENT OF NET COST
For the year ended September 30, 1999
($ in Thousands)

		FY 1999
1. Program Costs		
A Intragovernmental	$	23,831,993
B With the Public		94,459,772
C Total Program Cost	$	118,291,765
D. (Less: Earned Revenues)		(4,220,334)
E Net Program Costs	$	114,071,431
2. Costs not assigned to Programs	$	0
3. (Less: Earned Revenues not attributable to Programs)		0
4. Net Cost of Operations	$	114,071,431
5. Deferred Maintenance (See Required Supplementary Information)		

Additional information included in Note 16

Department of Defense
Department of Navy
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
($ in

		FY 1999
1. Net Cost of Operations	$	114,071,431
2. Financing Sources (other than exchange revenues)		
A. Appropriations used		81,128,869
B. Taxes and other nonexchange revenue		599
C. Donations - nonexchange revenue		7,209
D. Imputed financing (Note 17.B)		418,206
E. Transfers-in		0
F. (Transfers-out)		0
G. Other		0
H. Total Financing Sources (other than exchange revenues)	$	81,554,883
3. Net Results of Operations (Line 2H less Line 1)	$	(32,516,548)
4. Prior Period Adjustments (Note 17.A)		(4,230,398)
5. Net Change in Cumulative Results of Operations	$	(36,746,946)
6. Increase (Decrease) in Unexpended Appropriations		5,208,177
7. Change in Net Position	$	(31,538,769)
8. Net Position-Beginning of the Period		102,951,456
9. Net Position-End of the Period	$	71,412,687

Additional information included in Note

The accompanying notes are an integral part of these statements.

Department of Defense
Department of Navy
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
($ in Thousands)

		FY 1999
BUDGETARY RESOURCES:		
1 Budget Authority	$	83,937,086
2. Unobligated Balance - Beginning of Period		11,433,775
3 Net Transfers Prior-Year Balance, Actual (+/-)		224,873
4 Spending Authority from Offsetting Collections		5,554,895
5 Adjustments (+/-)		1,932,453
6. Total Budgetary Resources	$	103,083,082
STATUS OF BUDGETARY RESOURCES:		
7 Obligations Incurred	$	90,897,571
8 Unobligated Balances - Available		10,773,429
9. Unobligated Balances - Not Available		1,412,082
10 Total, Status of Budgetary Resources	$	103,083,082
OUTLAYS:		
11. Obligations Incurred	$	90,897,571
12 Less: Spending Authority From Offsetting Collections and Adjustments		(8,799,788)
13 Obligated Balance, Net - Beginning of Period		46,971,065
14. Obligated Balance Transferred, Net		0
15 Less Obligated Balance, Net - End of Period		(50,425,880)
16. Total Outlays	$	78,642,968

Additional information included in Note 18

Department of Defense
Department of Navy
COMBINED STATEMENT OF FINANCING
For the year ended September 30, 1999
($ in Thousands)

		FY 1999
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:		
A Obligations Incurred	$	90,897,571
B Less: Spending Authority for Offsetting Collections and Adjustments		(8,799,787)
C Donations Not in the Entity's Budget		7,209
D Financing Imputed for Cost Subsidies		418,206
E Transfers-in (Out)		0
F. Less: Exchange Revenue Not in the Entity's Budget		0
G Other		599
H Total Obligations as Adjusted and Nonbudgetary Resources	$	82,523,798
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:		
A Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided - (Increases)/Decreases		(536,002)
B. Costs Capitalized on the Balance Sheet - (Increases)/Decreases		0
C Financing Sources That Fund Costs of Prior Periods		(1,746,477)
D. Other - (Increases)/Decreases		0
E. Total Resources That Do Not Fund Net Costs of Operations	$	(2,282,479)
3. COSTS THAT DO NOT REQUIRE RESOURCES:		
A Depreciation and Amortization	$	345,409
B. Revaluation of Assets and Liabilities - Increases/(Decreases)		(10,558,885)
C. Other - Increases/(Decreases)		0
D Total Costs That Do Not Require Resources	$	(10,213,476)
4. Financing Sources Yet to be Provided		44,043,588
5. Net Cost of Operations	$	114,071,431

Additional information included in Note 19.

The accompanying notes are an integral part of these statements

DEPARTMENT OF THE NAVY

NOTES TO 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 the Navy (DON), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994 (Public Law 103-356), and other appropriate legislation. This report encompasses the financial activities of both the U.S. Navy and the U.S. Marine Corps herein referred to as the DON. The financial statements have been prepared from the books and records of the DON in accordance with "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 Statements of Federal Financial Accounting Standards (SFFAS). 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.

1. The DON is unable to implement all elements of the SFFAS 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 from nonfinancial feeder systems, such as inventory systems and logistics systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations, and not the current emphasis of business-like financial reporting. As a result, the DON can not currently implement all elements of SFFAS. However, the DON continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems.

There are other instances when the DON's application of the accounting standards is different from the auditor's interpretation of the standards. In those situations, the DON has reviewed the intent of the standard, as instructed by DoD implementation policy, and applied it in a manner that management believes fulfills that intent. Financial statement elements impacted by these differences of interpretations include financing payments under firm fixed price contracts, operating materials and supplies (OM&S), and disposal liabilities.

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

B. **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) 1999 represents the fourth year that the DON has prepared audited financial statements as required by the Chief Financial Officers Act and the Government Management Reform Act.

1. The accounts used to prepare the statements are classified as entity/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
17X3980	Navy Management Fund

Revolving funds

17 4557	National Defense Sealift Fund, Navy

Trust funds

17X8008	Office of Naval Records and History Fund
17X8421	Surcharge, Commissary Store
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
17F3875	Budget Clearing Account (Suspense)
17F3878	Budget Clearing Account (Deposits)
17F3879	Undistributed Letter of Credit Differences
17F3880	Unavailable Check Cancellations and Overpayments
17F3885	Undistributed Intra-Governmental Payments, Navy
17F3886	Civilian Thrift Savings Plan

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

2. The accompanying financial statements account for all resources for which the DON is responsible except that information relative to classified assets, programs, and operations have been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. However for FY 1999, the DON's financial management and nonfinancial feeder systems are unable to meet all of the requirements for full accrual accounting. Efforts are underway to bring the DoD's systems into compliance with all elements of the SFFAS.

C. **Budgets and Budgetary Accounting.** The Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for directing the DON's budget and monitoring its execution against funds appropriated by Congress. The DON's major activities are funded through general, revolving funds, trust, special, and deposit funds.

1. General funds are used to record financial transactions arising under Congressional appropriations.

2. 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.

3. 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 donor, trust agreement, or statute.

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

5. 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.** Transactions generally are recorded on a cash basis and not on an accrual accounting basis as required by the SFFAS. Normally, the DON's financial and nonfinancial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis as is required by the SFFASs. However, there are some systems that do use accrual accounting as required by the SFFAS. 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 the SFFAS. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USGSGL).

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 the SFFAS, the DON's financial data will be based on budgetary obligations, disbursements, and collection transactions, and nonfinancial feeder systems and adjusted for known accruals of major items such as payroll expenses, accounts payable, environmental liabilities, etc. One example is the cost presented in the Statement of Net Cost. These costs are based on obligations and disbursements and not actual accrued costs.

1. Intrafund transactions are eliminated based upon trading partner information obtained from the Standard Accounting and Reporting System – Field Level (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.

2. 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 SFFAS No. 4 "Managerial Cost Accounting Concepts and Standards," with the need to keep the financial statements from becoming 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 multi-year basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. Revenue is recognized to the extent the revenue is payable to the DON from other federal agencies and the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable order process. Revenue for business fund activities is recognized according to the percentage of completion method.

1. For financial statement reporting purposes, DoD policy requires the recognition of operating expenses for general fund activities 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 in an attempt to report expenses when incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the DON's operations. Unexpended appropriations are recorded as equity of the U.S. Government.

2. 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 stand-alone entity.

1. 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 interest 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.

2. Financing for the construction of 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.

3. The DON's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The DON funds a portion of the civilian and military pensions. Reporting civilian pension benefits 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 OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue for the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position. The DON reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Trust Fund (MRTF) financial statements. The DoD recognizes the actuarial liability for the military retirement health benefits in the DoD agency-wide statements.

4. Each year, the DoD's Components sell assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, the DON 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 to a trust fund maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales. In FY 1999, the DON received reimbursements of $296,222,498.29 for assets and services sold under the Foreign Military Sales Program.

5. To prepare reliable financial statements, transactions occurring between two or more entities within the DoD or two or more federal agencies must be eliminated. However, the DON, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, the DON provided summary seller-side balances for revenue, accounts receivable, 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 balances were eliminated. In addition, the DON implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide thereby eliminating and 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.

G. **Funds with the U.S. Treasury and Cash.** The DON's financial resources are maintained in U.S. Treasury accounts. The DON's cash receipts and disbursements are processed by the Treasury Department, and the balance with the U.S. Treasury represents the aggregate of all unexpended balances. Cash collections, disbursements, and adjustments are processed worldwide at Defense Finance and Accounting Service (DFAS) and Military Service disbursing stations as well as 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 U.S. Army Corps of Engineers Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. 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 2.

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 or 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 requires adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified. Material disclosures are provided at Note 7.

I. **Accounts Receivable.** Accounts receivable includes accounts, claims, and refunds receivable from other entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Code of Federal Regulations (4 CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables. Material disclosures are provided at Note 4.

J. **Loans Receivable.** The DON General Fund has no loan activity to report.

K. **Inventories and Related Property.** Inventories for resale are reported at actual cost. This is consistent with the treatment recommended in Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property." The related property portion of the Inventories and Related Property, Net amount includes operating materials and supplies, stockpile materials, seized property, and forfeited property. The DON does not have any stockpile materials, seized property, or forfeited property to report for FY 1999.

Notes

1. Operating Materials and Supplies (OM&S) consists of Appropriation Purchases Account (APA) secondary inventory, ammunition and munitions that are not held for sale, sponsor owned material (SOM), and government furnished/contractor acquired material. OM&S are valued at actual cost, with the exception of portions of sponsor owned material, APA secondary inventory, 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. APA secondary inventory, 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. Other material disclosures related to inventory and related property are provided at Note 8.

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. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. Material disclosures are provided at Note 3.

M. General Property, Plant, and Equipment (PP&E).

1. The only type of PP&E that the DON has reported on the FY 1999 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.

2. When it is in the best interest of the government, the DON provides to contractors government property necessary to complete contract work. This property is either owned or leased by the DON, or purchased directly by the contractor based on contract terms and in most instances should be included in the value of General PP&E reported on the DON Balance Sheet. However, the DoD's system for capturing and maintaining data on property in the possession of contractors was designed to aid in maintaining property accountability and not for reporting Government property on financial statements. As such, the DON currently reports only government property in the possession of contractors that is maintained in their own property systems. Therefore, this may immaterially understate the value of property in the possession of contractors.

3. To bring the DON into compliance with federal accounting standards, the DoD will issue new property accountability 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 will be structured to provide the information necessary for compliance with federal-wide accounting standards.

4. General PP&E is valued at historical acquisition cost plus capitalized improvements. General PP&E assets are capitalized when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis using the mid-year convention for computations. General PP&E land is not depreciated. DoD contracted with two certified public accounting firms to obtain an independent assessment of the validity of the general PP&E capitalization thresholds. Both studies recommended that the DoD and its reporting entities retain the current capitalization threshold of $100,000.

5. 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.

6. Material disclosures are provided at Note 9.

N. **Prepaid and Deferred Charges.** Payments in advance of the receipt of goods and services are recorded as prepaid and deferred charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges 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 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. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses during the period.

P. Other Assets. The DON conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. In order to alleviate the potential financial burden on the contractor that these long-term contracts can cause, the DON often provides financing payments. One type of financing payment that the DON makes is based upon a percentage of completion. In accordance with SFFAS No. 1 "Accounting for Selected Assets and Liabilities," these payments are reported as work in process and are not reported as advances and prepayments in the "Other Assets" line item. 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 auditor's 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. Liabilities and Contingencies.

1. The DON engaged in contractual commitments requiring future financial obligations. Disclosure of some of these commitments is required. Adoptions of these disclosures for the DON's commitments are still evolving.

2. 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. The DON only records loss contingencies. These contingencies are 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. Other contingencies are disclosed 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.

3. The DON's liabilities can arise as a result of anticipated disposal costs for the DON's assets. This type of liability has two components—nonenvironmental and environmental. Based upon the DoD's interpretation of the SFFAS No. 5 "Accounting for Liabilities of the Federal Government," a disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The DoD's auditors disagree with this application of the standard for nonenviromental disposal liabilities based on their interpretation that the disposal liability recognition should commence at the time the asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all Federal Agencies. Until the issue is resolved on a government-wide basis, the DoD has agreed to adhere to the explicit literal provisions of the SFFAS No. 5, except for the

recognition of nonenvironmental disposal costs of nuclear powered assets. Material disclosures are provided at Notes 12 and 13.

4. The DON's liabilities also arise as a result of training range preservation and management activities. Training 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 munitions, and efforts considered necessary to address pollutants and contaminants. The reported amounts for training range preservation and management represent the current cost basis estimates of required training range preservation and management activities, beyond recurring operating and maintenance, for active and inactive training 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 nonvested 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 through automated postings from the Defense Civilian Payroll System.

S. Equity.

1. Equity 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 neither legal liabilities for payments have been incurred nor actual payments made.

2. 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. In addition, there is no longer a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or precredit reform loans, or a separate negative amount shown for future funding requirements.

T. Treaties for Use of Foreign Bases. The DON has 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 DON continued use of these properties until the treaties expire. Capital investments in buildings and other facilities (for example, runways) located on the overseas bases are capitalized as stipulated in Note 1.M. 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 DON. Therefore, in the event treaties or other agreements are terminated whereby use of foreign bases is no longer allowed, losses will be recorded for the value of any

nonretrievable capital assets after negotiations between the United States and the host country have been concluded to determine the amount to be paid the United States for such capital investments.

U. **Comparative Data.** Comparative data is not required by Office of Management and Budget Bulletin No. 97-01, Form and Content of Agency Financial Statements, until FY 2000. Comparative data will be presented starting in FY 2000 in order to provide an understanding of the changes in financial position and operations of the DON's reporting activities.

V. **Undelivered Orders.** The DON was obligated to pay for undelivered orders (goods and services that have been ordered but not yet received) amounting to $56.7 billion at fiscal-year end. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

W. **Eliminations.** To prepare reliable financial statements, transactions occurring between entities within the DoD or between two or more federal agencies must be eliminated. However, the DON as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, the DON provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to agree with the seller-side. As a result, internal DoD balances were eliminated. In addition, the DON implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide thereby eliminating and 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 Office of Personnel Management.

X. **Data Collection Approach.** The DON collects financial statement information from both financial systems and non-financial feeder systems. The Defense Finance Accounting Service Cleveland Center (DFAS CL) collects the financial system information and incorporates it into the financial statements. The DON collects financial information from non-financial feeder systems through a data call process and submits it to the DFAS CL Center for incorporation into the financial statements. For FY 1999, the DON developed 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. The DCI identifies the information requirements to the source provider, provides an audit trail, and integrates into the DFAS CL Center financial statement preparation process.

Note 2. Fund Balances with Treasury:
($ in Thousands):

1. Fund Balances:

Fund Type	Entity Assets	Non-Entity Assets	Total
a. Appropriated Funds	$60,831,864		$60,831,864
b. Revolving Funds	1,649,021		1,649,021
c. Trust Funds	11,181		11,181
d. Other Fund Types	109,264	$299,782	409,046
e. Total	$62,601,330	$299,782	$62,901,112

2. Fund Balance With Treasury Versus Agency	Entity Assets	Non-Entity Assets
a. Fund Balance Per Treasury	$62,601,330	$299,782
b. Fund Balance Per the DON	62,601,330	299,782
c. Reconciling Amount	$0.00	$0.00

3. Explanation of Reconciling Amount:

4. Other Information Related to Fund Balance With Treasury:

Categorization of Entity Fund Balance With Treasury:

	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
Entity Fund and Account Balances:					
Unobligated Balances					
Available	$19,89	$499,54	$10,212,34	$41,75	$10,773,53
Restricted			1,412,08		1,412,08
Reserve For Anticipated Resources					
Obligated Balance, Net	1,45	1,149,47	49,207,44	67,51	50,425,88
Unfunded Contract Authority					
Unused Borrowing Authority					
Other	(10,166				(10,166
Total Entity Treasury Balance	$11,18	$1,649,02	$60,831,86	$109,26	$62,601,33

Other. The amount reported as Other represents investments net of premiums and discounts reported by the Trust Funds.

Notes

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 the 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 stale dated items.

($ in Thousands)

	Net Amount	Absolute Amount
Deposits in Transit (17F3878)	$10,551	$12,539
Statement of Differences (Deposits in Transit)	(130,114)	500,727
Check Issue Differences	1,168,573	1,702,424
Online Payment and Collection (OPAC) Differences	101,236	388,213

Deposits in Transit:
Deposits in Transit of $10,551 thousand are included in the Non-Entity Fund Balance With Treasury (line 2.A.1.). This amount represents deposits, which can not be identified to a specific Navy appropriation, and are recorded by Treasury in the Deposit in Transit clearing account 17F3878.

Deposits in Transit (F3878) – Aging ($ in Thousands)	Aged Net Amount
0-90 Days	($1)
91-180 Days	2
181 Days-1 Year	6
Over 1 Year-2 ½ Years	247
Over 2 ½ Years	10,297
Total – Net Amount	$10,551
Total – Absolute Amount	$12,539

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	($232,272)	$302,133
31-60 Days	123,315	131,489
61-90 Days	(256)	1,380
91-120 Days	(4,250)	7,703
121-180 Days	(36,926)	37,145
181 Days & Over	20,275	20,877
Total	($130,114)	$500,727

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 one 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, will 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 FBWT. The DoD plans to request that the Treasury remove $177,455 thousand (net) and $442,688 thousand (absolute) from the check issue comparison report. The following table exhibits the aged check issue differences:

Check Issue Differences – Aging ($ in Thousands)	Net Amount	Absolute Amount
0-30 Days	$834,927	$946,585
31-90 Days	109,443	137,179
91-180 Days	39,404	44,457
181-365 Days	39,676	44,562
Over 1 year	145,123	529,641
Total	$1,168,573	$1,702,424

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, 1999, there was $16 million (net) and $30 million (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 Defense Finance and Accounting Service (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 will be implementing monthly reporting requirements for Fiscal Year 2000. 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:

Online Payment and Collection Differences – Aging ($ in Thousands)	Net Amount	Absolute Amount
Less Than 90 Days	$92,342	$272,583
91-180 Days	(7,313)	85,141
181 Days and Over	16,207	30,489
Total	$101,236	$388,213

Material Balances Reported as Other. Items with dollar values over 10% of this line are individually identified within this information. The balance amount of $1,296 thousand (Entity), and ($2,826) thousand (Non-Entity), includes items which individually are less than 10% and are not separately identified within this note.

	Entity	Non-Entity
Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy	$61,064	
Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy	46,904	
Civilian Employees Allotment Account, Navy		$209,708
Suspense, Navy		(238,148)
Recoveries Under the Foreign Military Sales Program		296,222
General Fund Proprietary Receipts, Not Otherwise Classified		34,825

Funds Returned to the Treasury. During FY 1999 the DON returned $1,023,780 thousand to the Treasury. This consisted of the FY 1994 program year that went into a canceled/withdrawn status. The Navy returned $932,213 thousand and the Marine Corps returned $91,567 thousand.

Note 3. Investments, Net:
($ in Thousands)

	(1) Cost	(2) Amortization Method	(3) Amortized [Premium]/ Discount	(4) Investments, Net	(5) Other Adjustments	(6) Market Value Disclosure
1. Intragovernmental Securities:						
a. Marketable						
b. Non-Marketable, Par Value						
c. Non-Marketable, Market-Based	$10,007	N/A	$159	$10,166		10,166
d. Subtotal	10,007		159	$10,166		10,166
e. Accrued Interest						
f. Total	$10,007		159	$10,166		10,166
2. Other Securities:						
a. Commercial Paper						
b. Other						
c. Subtotal						
d. Accrued Interest						
e. Total						
3. Total Intragovernmental And Other Securities	$10,007		159	$10,166		10,166

4. Other Information: The Trust Funds have a total net investment of $10,166 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	$1,293	$1	$1,294
Naval Academy Museum Fund	1,564	17	1,581
Naval Academy General Gift Fund	6,553	128	6,681
Naval Historical Center Fund	597	13	610
Total	$10,007	$159	$10,166

Notes

Note 4. Accounts Receivable:
($ in Thousands)

	(1) Gross Amount Due	(2) [Allowance for Estimated Uncollectibles]	(3) Net Amount Due
1. Entity Receivables:			
a. Intragovernmental	$621,395	N/A	$621,395
b. With the Public	1,928,169	($54,350)	1,873,819
2. Non-Entity Receivables:			
a. Intragovernmental			
(1) Cancelled appropriations		N/A	
(2) Other		N/A	
b. With the Public			
(1) Cancelled appropriations	15,484	(132)	15,352
(2) Other			

Allowance Method Used: The DON does not have a standard Department wide rate for the allowance for estimated uncollectible receivables. DFAS is reviewing the methods for calculating the allowance in order to establish a standard allowance policy for the DON. For FY 1999, the FY 1998 allowance rate of 2.93% was applied to the public accounts receivable balances.

4. Other Information:

Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) Accounts Receivable Balance. During FY 1999 DFAS CL and DFAS KC included in Accounts Receivable-Public, refunds receivable from MOCAS and DDMS. The amounts were $23,133 thousand for the MOCAS system debts and $1,552,926 thousand for the DDMS-Navy and the Defense Logistics Agency (DLA) combined. Included in the DDMS amount 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.

Vendor Pay Accounts Receivable. During FY 1999, DFAS CL included in its Accounts Receivable - Governmental balance amounts from the off-line local Vendor Pay systems at the Operating Locations. These amounts, which totaled $4,036 thousand, were not recorded in the STARS system.

Judge Advocate General. Included in Accounts Receivable - Public is $5,012 thousand for refunds due from contract carriers as reported by the Judge Advocate General.

Note 5. Other Assets:
($ in Thousands)

1. Other Entity Assets	
a. Intragovernmental	
(1) Assets Returned for Credit	
(2) Advances and Prepayment	$380,173
(3) Other	
(4) Total Intragovernmental	$380,173
b. Other	
(1) Outstanding Contract Financing Payments	$3,253,420
(2) Travel Advances & Other Advances and Prepayments	25,311
(3) Total Other	$3,278,731

2. Other Information related to entity assets. The DON has reported 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 their costs and the contractor is liable to repay the DON for the full amount of the advance. The auditors disagree with the DON's application of the accounting standard pertaining to advances and prepayments because SFFAS No. 1 "Accounting for Selected Assets and Liabilities," does not address this type of financing payment.

3. Other Non-Entity Assets	
a. Intragovernmental	
(1)	
(2)	
(3) Total Intragovernmental	
b. Other	
(1) Advances and Prepayments	$51
(2)	
(3) Total Other	$51

Other Information related to nonentity assets. The Marine Corps reported non-Entity Advances and Prepayments of $51 thousand.

Note 6. Loans Receivable and Related Foreclosed Property, Net: (Not Applicable)
($ in Thousands):

Note 7. Cash and Other Monetary Assets:
($ in Thousands)

	Entity Assets	Non-Entity Assets
1. Cash		$155,844
2. Foreign Currency		343
3. Other Monetary Assets		
4. Total Cash, Foreign Currency, and Other Monetary Assets		$156,187

5. Other Information: Cash and foreign currency is reported from the DON Consolidated Statement of Accountability (SF 1219) as of September 30, 1999.

Foreign currency has been translated into U.S. 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 U.S. Government for the acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

Note 8. Summary of Inventory and Other Related Property, Net:
($ in Thousands)

Inventory, Net (Note 8.A.)	$36
Operating Materials and Supplies, Net (Note 8.B.)	29,277,744
Stockpile Materials, Net (Note 8.C.)	
Seized Property	
Forfeited Property	
Goods Held Under Price Support and Stabilization Programs	
Total	$29,277,780

Note 8A. Inventory, Net:
($ in Thousands)

	(1) Inventory Amount	(2) Allowance for Gains (Losses)	(3) Inventory, Net	(4) Valuation Method
1. Inventory Categories:				
a. Available and Purchased For Resale	$36	$0	$36	AC
b. Held in Reserve for Future Sale				
c. Held for Repair				
d. Excess, Obsolete, and Unserviceable				
e. Raw Materials				
f. Work in Process				
g. Total	$36	$0	$36	

2. Restrictions on Inventory Use, Sale, or Disposition:

3. Other Information: The $36 thousand balance in inventory represents catalogs of Battle Prints maintained by the U.S. Naval Academy Museum Fund.

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

Notes

Note 8B. Operating Material and Supplies (OM&S), Net:
($ in Thousands)

	(1) OM&S Amount	(2) Allowance for Gains (Losses)	(3) OM&S, Net	(4) Valuation Method
1. OM&S Categories:				
a. Held for Use	$27,881,826	$0	$27,881,826	AC, LAC
b. Held in Reserve For Future Use	788,762	0	788,762	AC, LAC
c. Excess, Obsolete, and Unserviceable	607,156		607,156	AC, LAC
d. Total	$29,277,744	$0	$29,277,744	

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

2. Restrictions on operating materials and supplies:

3. Other Information: Operating Materials and Supplies consists of the following:

Ammunition	$10,502,196
Sponsor Owned Material	5,449,751
Government Furnished Material	9,285,724
Contractor Acquired Material	2,017,726
APA Secondary End Items	1,337,344
Other	685,003
Total	$29,277,744

Valuation. OM&S are valued at actual cost, with the exception of portions of sponsor owned material, APA secondary inventory, 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. APA secondary inventory, 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.

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 Office of Management and Budget (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.

Shipboard Assets. Shipboard assets 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.

Sponsor Owned Material. Sponsor owned material of $5,449,751 thousand is being reported in FY 1999 for the first time. These figures were not available for FY 1998 reporting.

Government Furnished/Contractor Acquired Material. Government furnished/contractor acquired material was erroneously classified as General Property, Plant and Equipment in the FY 1998 financial statements. During FY 2000, the DON along with the DoD will examine the process and requirements for reporting this material.

Other Operating Material & Supplies. Other Operating Material & Supplies totaled $685,003 thousand and included the following items:

Residual Asset Management (RAM)	$495,845
Shipbuilding and Conversion Residual Asset Management Interim Supply Support (CRAMSI)	88,150
Material in the Possession of the US Coast Guard	101,008
Total	$685,003

Residual Asset Management (RAM) material of $495,845 thousand was reported in FY 1999. This material was not reported in FY 1998.

Shipbuilding and Conversion Residual Asset Management Interim Supply Support (CRAMSI) material of $88,150 thousand was reported in FY 1999. This material was not reported in FY 1998.

Notes

DON owned material in the hands of the U.S. Coast Guard of $101,008 thousand was reported in FY 1999. This material was not reported in FY 1998.

Note 8C. Stockpile Materials, Net: (Not Applicable)
($ in Thousands)

Note 8D. Seized Property: (Not Applicable)
($ in Thousands)

Note 8E. Forfeited Property, Net: (Not Applicable)
($ in Thousands)

Note 8F. Goods Held Under Price Support and Stabilization Programs: (Not Applicable)
($ in Thousands)

Note 9. General (PP&E), Net:
($ in Thousands)

	(1) Depreciation/ Amortization Method	(2) Service Life	(3) Acquisition Value	(4) (Accumulated Depreciation/ Amortization)	(5) Net Book Value
1. Major Classes of Assets					
a. Land	N/A	N/A	$705,759	N/A	$705,759
b. Buildings, Structures, and Facilities	SL	20 or 40	25,459,744	(11,173,605)	14,286,139
c. Leasehold Improvements	SL	Lease Term			
d. ADP Software	SL	10	1,600	(800)	800
e. Equipment	SL	5 or 10	9,126,054	(1,339,511)	7,786,543
f. Assets Under Capital Lease (1)	SL	Lease Term			
g. Construction-in-Progress	N/A	N/A	4,561,235	N/A	4,561,235
h. Other					
i. Total			$39,854,392	($12,513,916)	$27,340,476

(1) See Note 13 part 5 for additional information on Capital Leases.

2. Other Information:

Land, Buildings, Structures and Facilities. The gross ending balance for Land, Buildings, Structures and Facilities for FY 1999 is $26,165,503 thousand ($705,759 thousand for Land, and $25,459,744 thousand for Buildings, Structures and Facilities).

Real Property. Per the Under Secretary of Defense (Comptroller) memo dated 5 August 1999, subject "Revised Policy to General PP&E," DoD components shall only report predominantly used General PP&E assets owned by other DoD components when the cost of those assets, taken as a whole, are material to the predominant user component's financial statements. The DON has not implemented the Preponderant Use policy for FY 1999 financial statement reporting. The DON, working with DoD, will need to determine if each preponderant user meets all four criteria cited in the memo. The property accountability system is being evaluated to determine requirements for preponderant use assignment and reporting functionality on a recurring basis.

Equipment. Total equipment of $9,126,054 thousand (acquisition value) was reported in FY 1999. Depreciation expense and accumulated depreciation were not reported on $6,689,525 thousand of this total, due to inadequate information, which prevented the calculation of depreciation. Depreciation expense and accumulated depreciation were reported on equipment, which had sufficient information to facilitate a depreciation computation. The straight-line method of depreciation was used, with no residual (salvage) value. The mid-year convention was applied.

Leasehold Improvements. No leasehold improvements are reported for FY 1999. Rather, any improvements are included in the buildings, structures, and facilities category. For FY 1999 reporting, Real Property data was obtained via data call. The data call had been submitted to the DON Management Commands prior to the requirement to identify leasehold improvements as a separate asset category. The DON will ensure they are able to separately identify this category for FY 2000 reporting.

Defense Property Accountability System (DPAS). The DON is currently converting all equipment property records to the Defense Property Accountability System (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 DON General PP&E real property in the possession of contractors is included in the values reported above for the Major Classes of Land; Buildings, Structures, and Facilities; and Leasehold Improvements. The value of General PP&E personal property (Major Classes of ADP Software and Equipment) in the possession of contractors is not included in the values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the best method to annually collect this information. Preliminary results of the review indicate that the value of non-fully depreciated General PP&E in possession of contractors that would be reported is immaterial in relation to the DoD's total assets. The DoD has reached an agreement with the Office of Management and Budget (OMB), the General Accounting Office (GAO) and the Inspector General, DoD regarding actions to take for FY 2000 in order to report all property in the possession of contractors. The DoD will issue new property accountability regulations requiring the DoD Components to maintain, in DoD Component property systems, information on property furnished to contractors. In addition, the DON will ensure that any contractor that has or had government furnished property during

the reporting period submits a property report for each contract. Both of these actions will be structured to provide the information necessary for compliance with federal-wide accounting standards.

Equipment in the Possession of Contractors. Equipment in the possession of contractors of $5,874,668 thousand was included in GPP&E in FY 1998. Per the DoD FMR Volume 6B, this equipment will not be reported in FY 1999. Government furnished/contractor acquired material of $10,563,887 thousand was erroneously reported as General PP&E in FY 1998. For FY 1999 reporting, this material will be accounted for as Operating Materials & Supplies (Inventory and Related Property, Net line).

Other. GPP&E data is derived from logistics systems that were not designed to maintain historical cost data necessary to comply with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." In addition, past audit results have led to uncertainties as to whether all GPP&E assets in the possession or control (existence) of the DON are properly and accurately recorded in the system (completeness). The DoD contracted with two certified public accounting firms to obtain an independent assessment of the cost information maintained as well as the reliability of the systems for the existence and completeness of the assets. As of the publication date of these statements, the contractor's assessment of the DON General PP&E has not been finalized.

Note 9A. Assets Under Capital Lease: (Not Applicable)
($ in Thousands)

Note 10. RESERVED FOR FUTURE USE:
($ in Thousands)

Note 11. Debt: (Not Applicable)
($ in Thousands)

Note 12.A. Environmental Liabilities Covered by Budgetary Resources:
($ in Thousands)

	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
a. Accrued Restoration Costs			
(1) Active Installations			
(2) BRAC Installations			
(3) Formerly Used Defense Sites (FUDS)			
b. Other Environmental Liabilities			
(1) Nuclear Powered Aircraft Carriers			
(2) Nuclear Powered Submarines			
(3) Other Nuclear Powered Ships			
(4) Other National Defense Weapons Systems			
(5) Chemical Weapons Disposal			
(6) Conventional Munitions Disposal			
(7) Training Ranges			
(8) Other			
c. Total			
2. With the Public			
a. Accrued Restoration Costs			
(1) Active Installations	$258,060		$258,060
(2) BRAC Installations	192,904		192,904
(3) Formerly Used Defense Sites (FUDS)			
b. Other Environmental Liabilities			
(1) Nuclear Powered Aircraft Carriers			
(2) Nuclear Powered Submarines			
(3) Other Nuclear Powered Ships			
(4) Other National Defense Weapons Systems	6	$41,332	41,338
(5) Chemical Weapons Disposal			
(6) Conventional Munitions Disposal			
(7) Training Ranges		3,937	3,937
(8) Other			
c. Total	$450,970	$45,269	$496,239

3. Other Information: $41,338 thousand was reported as Other National Defense Weapons Systems which represents the amount anticipated to be paid for disposal of rocket motors at Hill Air Force Base and Sierra Army Depot.

Note 12.B. Environmental Liabilities Not Covered by Budgetary Resources:
($ in Thousands)

1. Intragovernmental	Current Liability	Noncurrent Liability	Total
a. Accrued Restoration Costs			
(1) Active Installations			
(2) BRAC Installations			
(3) Formerly Used Defense Sites (FUDS)			
b. Other Environmental Liabilities			
(1) Nuclear Powered Aircraft Carriers			
(2) Nuclear Powered Submarines			
(3) Other Nuclear Powered Ships			
(4) Other National Defense Weapons Systems			
(5) Chemical Weapons Disposal			
(6) Conventional Munitions Disposal			
(7) Training Ranges			
(8) Other			
c. Total			
2. With the Public			
a. Accrued Restoration Costs			
(1) Active Installations	$284,000	$3,348,610	$3,632,610
(2) BRAC Installations	89,264	938,070	1,027,334
(3) Formerly Used Defense Sites (FUDS)			
b. Other Environmental Liabilities			
(1) Nuclear Powered Aircraft Carriers		5,250,000	5,250,000
(2) Nuclear Powered Submarines		5,556,000	5,556,000
(3) Other Nuclear Powered Ships		644,000	644,000
(4) Other National Defense Weapons Systems		331,000	331,000
(5) Chemical Weapons Disposal			
(6) Conventional Munitions Disposal			
(7) Training Ranges		30,700,000	30,700,000
(8) Other			
c. Total	$373,264	$46,767,680	$47,140,944

1. Other Information:

Nuclear Powered Aircraft Carriers. For the nine active multi-purpose aircraft carriers, nuclear (CVNs) and one CVN under construction, the estimated cost for inactivation, reactor compartment (RC) disposal and hull recycling is $5,250,000 thousand.

Nuclear Powered Submarines. The estimated cost of inactivation, RC disposal and hull recycling is $5,556,000 thousand. This includes estimated inactivation, RC disposal and hull recycling costs for fifty seven submarines, nuclear (SSNs), eighteen fleet ballistic missile submarines, nuclear (SSBNs), two Moored Training ships, NR-1 (a research vessel), and three SSNs under construction, as well as the cost to dispose of submarines previously inactivated but with RC disposal/hull recycling availabilities after FY 1999.

Other Nuclear Powered Ships. There are no active nuclear powered cruisers. The estimated cost for RC disposal and hull recycling of the remaining five inactivated guided missile cruisers, nuclear (CGNs) is about $457,000 thousand. Our current disposal inventory consists of sixty-one ships that will require scrapping or will be sunk as targets at a disposal and preparation cost of $187,000 thousand.

Other National Defense Weapon Systems. The $331,000 thousand is attributable to fixed wing and rotary wing aircraft.

Methodology - Ships. There are presently one hundred thirty four conventionally-powered ships in the DON Inactive Fleet designated for disposal, totaling approximately 1,020,000 tons displacement. The majority of these, ninety-three, are currently designated for scrapping while others are designated for foreign military transfer, donation to non-profit organizations, or sinking exercises. It is estimated that an average cost of $500 per ton will be required to scrap ships. This estimate is based in part on the cost of recently awarded ship scrapping contracts less expected scrap sale proceeds. Although ships held for foreign military sales and donations can be disposed of at a lower cost to the DON, experience has shown that some ships in these categories will not transfer and will again become a DON disposal liability. Sinking exercises, which may result in a lower overall disposal cost to the DON, are driven by fleet requirements for training.

Methodology – Aircraft. Based on a FY 1997 GAO report, the cost to demilitarize and remove hazardous material was used to determine the cost to dispose of aircraft. On average, at time of disposal, 82% of aircraft are designated for storage at the Aerospace Maintenance and Regeneration Center (AMARC), Davis-Monthan Air Force Base. Some of the disposal costs associated with these assets include weapon removal, hazardous material disposal, disposal of short shelf life items, and destroying the aircraft carcass. For aircraft that are not designated AMARC, disposal cost estimates include weapon removal, delivery to final resting place, removal of hazardous materials and short shelf life items, and destruction of the remaining fuselage.

Training Ranges. The estimates presented do not include 1) Ranges used by the DON, but owned/managed by another service; 2) Ranges which may be located outside the 50 United States and its territories; 3) Water ranges; or 4) Ranges on BRAC/FUDS sites. The liability figure presented is intended to represent the lowest estimable liability cost. This liability estimate is based upon the following documents and assumptions: 1) Acreage figures for the Navy are derived from the DoD Draft Final 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 are 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 are derived from the "Department of Defense (DoD) Final Report Range Rule

Notes

Regulatory Impact Analysis" dated 03 July 1996 and do not include evaluation and documentation costs of approximately $4M per site; 4) Cost factors applied assume 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 $10K/acre.

Other. For FY 1999, the DON has estimated and reported all known environmental liabilities. Liabilities for the DON's environmental program are comprised of clean-up costs at Navy installations. The environmental estimate includes environmental restoration efforts and environmental costs at the Base Realignment and Closure Commission (BRAC) sites and other environmental restoration costs. The estimated FY 1999 cost to completion for these efforts totals $5,110,908 thousand ($450,964 thousand of which was covered by budgetary resources and $4,659,944 thousand of which was not covered by budgetary resources). The DON resources for these requirements are in the BRAC and the Environmental Restoration, Navy (ERN) account. The decrease of $63,592 thousand from the FY 1998 environmental liabilities is attributable to FY 1999 execution and the removal of compliance estimates, which were included in the FY 1998 estimate. During FY 2000, the DON will continue to evaluate and refine current methodologies for estimating environmental liabilities.

Note 13. Other Liabilities:
($ in Thousands)

1. Other Liabilities Covered by Budgetary Resources:

	Current Liability	Noncurrent Liability	Total
a. Intragovernmental			
(1) Advances from Others			
(2) Deferred Credits			
(3) Deposit Funds and Suspense Account Liabilities	$299,782		$299,782
(4) Liability for Borrowings to be Received			
(5) Liability for Subsidy Related to Undisbursed Loans			
(6) Resources Payable to Treasury		$42,315	42,315
(7) Disbursing Officer Cash	156,296		156,296
(8) Nonenvironmental Disposal Liabilities			
(a) Nuclear Powered Aircraft Carriers			
(b) Nuclear Powered Submarines			
(c) Other Nuclear Powered Weapons Systems			
(d) Other National Defense Weapons Systems			
(e) Conventional Munitions			
(9) Other Liabilities	50,959		50,959
Total	$507,037	$42,315	$549,352
b. With the Public			
(1) Accrued Funded Payroll and Benefits	$1,390,102		$1,390,102
(2) Advances from Others			
(3) Deferred Credits			
(4) Deposit Funds and Suspense Accounts			
(5) Temporary Early Retirement Authority	93,150		93,150
(6) Nonenvironmental Disposal Liabilities			
(a) Nuclear Powered Aircraft Carriers			
(b) Nuclear Powered Submarines			
(c) Other Nuclear Powered Weapons Systems			
(d) Other National Defense Weapons Systems			
(e) Conventional Munitions			
(7) Other Liabilities	131,429		131,429
Total	$1,614,681		$1,614,681

2. Other Information:

Notes

3. Other Liabilities Not Covered by Budgetary Resources

	Current Liability	Noncurrent Liability	Total
a. Intragovernmental			
(1) Accounts Payable – Canceled Appropriations			
(2) Custodial Liability			
(3) Deferred Credits			
(4) Liability for Borrowings to be Received			
(5) Other Actuarial Liabilities			
(6) Judgement Fund Liabilities	$55,011		$55,011
(7) Workman's Compensation Reimbursement	243,938	$298,154	542,092
(8) Nonenvironmental Disposal Liabilities			
(a) Nuclear Powered Aircraft Carriers			
(b) Nuclear Powered Submarines			
(c) Other Nuclear Powered Weapons Systems			
(d) Other National Defense Weapons Systems			
(e) Conventional Munitions			
(9) Other Liabilities			
Total	$298,949	$298,154	$597,103
b. With the Public			
(1) Accounts Payable-Canceled			
(2) Accrued Unfunded Liabilities			
(3) Accrued Unfunded Annual Leave	$1,498,728		$1,498,728
(4) Accrued Entitlement Benefits for Military Retirees and Survivors			
(5) Deferred Credits			
(6) Nonenvironmental Disposal Liabilities			
(a) Nuclear Powered Aircraft Carriers			
(b) Nuclear Powered Submarines			
(c) Other Nuclear Powered Weapons Systems			
(d) Other National Defense Weapons Systems			
(e) Conventional Munitions			
(7) Other Liabilities			
Total	$1,498,728		$1,498,728

4. Other Information: Based upon the DoD's interpretation of the Statement of Federal Financial Accounting Standard (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," and DON'S implementation of DoD guidance, a nonenvironmental disposal liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Department's auditors disagree with this interpretation of the standard. Their interpretation is that the nonenvironmental liability recognition should begin at the time the asset is placed in service. The issue raised by the auditors is one

that has government-wide implications for all agencies. Until the issue is resolved on a government-wide basis, the DoD continues to adhere to the explicit literal provisions of the SFFAS No. 5.

Disposal cost of Real Property. For FY 1999, the DON did not report 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. The DON has already (during FY 1998-1999) demolished 6.08 million square feet of the 12.0 million square feet of the Defense Reform Initiative Decision (DRID) number 36 target. 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 at a total estimated cost of $122,035 thousand. This target includes both the Navy and the Marine Corps real property assets. By 2005, the DON has targeted additional real property and structures for disposal at active installations at an estimated cost of $144,782 thousand.

Contingencies. The DON has various legal and administrative claims. These claims are tort claims initiated by individuals addressing personal injury, medical malpractice, property damage, environmental damages, and contract disputes. However, per the DoD FMR, Volume 6B, paragraph 101402 these legal contingencies do not meet the criteria for disclosure.

Judgment Fund. In FY 1999, 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 (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 Judgment Fund liability was determined by using the Department of Treasury's Judgment Fund website. The Judgment Fund claims were pulled from the website by month for FY 1999. The total number of FY 1999 claims paid by the Judgment Fund on behalf of the DON (Navy and Marine Corps) was $128,155 thousand amounts paid by appropriation 1743 (Contract Disputes Act of 1978) are reimbursable by the DON. By a review of the detailed data in the website it was determined that $57,963 thousand of Judgment Fund claims relate to the Contract Disputes Act. However, additional documentation from the Treasury shows that of this amount $2,952 thousand is reimbursable by the Department of the Air Force. Therefore, the difference of $55,011 thousand should be recorded as a liability by the DON. This liability amount does not consider reimbursements made by the DON on these claims during FY 1999. The amount of reimbursements made by DON to the Treasury could not be determined through the use of the website and could not be obtained by the Treasury. The remaining amount, $70,192 thousand was recorded as Imputed Financing/Imputed Costs. The table below summarizes these calculations.

Judgment Fund Information	Consolidated DON
Total Per Treasury Web Site	$128,155
Recorded in Liabilities	55,011
Imputed Financing/Costs	70,192
Portion belonging to Air Force	2,952
Total	$128,155

Notes

The Judgment Fund liability recognized in the financial statements and discussed in the note above is the FY 1999 liability. The DON reported a judgment fund liability of $66,468 thousand in FY 1998. DON/DFAS CL are unable to determine the specific amounts of Judgment Fund reimbursements made to Treasury during FY 1999. In addition, the Treasury is unable to provide the status of pending claims. DON plans to work with the Treasury in FY 2000 to improve the reporting of Judgment Fund liabilities.

Workers' Compensation. In FY 1999, 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 1999 represent the balances due as reported by the Department of Labor.

Temporary Early Retirement Authority. The amount of $93,150 thousand represents the calculated liability for military temporary early retirement benefits payable. Military personnel electing early retirement between fifteen and twenty years of service receive TERA benefits from the Military Personnel appropriations. Retirement benefits are calculated based on the retirees' active duty pay and funded through the Military Personnel appropriations.

Material Balances Reported as Other. The amounts presented represent the individual items included as Other.

	Current Liability	Noncurrent Liability	Total
Liabilities Covered by Budgetary Resources:			
A. Intragovernmental			
(1) Current Portion of Workers Compensation Chargeback	$30,092		$30,092
(2) Accrued Employer Portion of Employee Benefits Payable to OPM	20,867		20,867
B. Public			
(1) Contract Incentive	67,577		67,577
(2) MOCAS Contract Holdbacks	63,852		63,852

5. Leases: (Not Applicable)

Note 14. Military Retirement Benefits And Other Employment-Related Actuarial Liabilities:
($ in Thousands)

Major Program Activities	(1) Actuarial Present Value of Projected Plan Benefits	(2) Assumed Interest Rate (%)	(3) (Less: Assets Available to Pay Benefits)	(4) Unfunded Actuarial Liability
1. Pensions and Health Benefits:				
a. Military Retirement Pensions				
b. Military Retirement Health Benefits				
Total				
2. Insurance/Annuity Programs				
a.				
b.				
Total				
3. Other:				
a. Workers Compensation (FECA)	$1,304,960	See below		$1,304,960
b. Voluntary Separation Incentive Program				
c. DoD Education Benefits Fund				
Total	$1,304,960			$1,304,960
4. Total Lines 1+2+3:	$1,304,960			$1,304,960

Other Information: The portion of the military retirement benefits applicable to the DON is reported on the financial statements of the Military Retirement Trust Fund.

Health benefits are funded centrally at the DoD level. As such the portion of the health benefits liability that is applicable to the DON is reported only on the DoD agency-wide

The Department of Labor (DOL) provided the amount of $2,411,211 thousand to DoD as the actuarial liability estimate for DON's future workers' compensation benefits (FWC). Of that amount, $1,304,960 thousand is the DON General Funds portion of the future workers' compensation benefit. The split between General Funds and Navy Working Capital Funds was calculated by determining 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 this liability as General Funds or Working Capital Funds.

Notes

The liability for FWC benefits 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 related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1999
5.50 % in year 1,
5.50 % in year 2,
5.55 % in year 3,
5.60 % in year 4,
and thereafter

To provide more specifically for the effects of inflation on the liability for future worker's compensation benefits wage inflation factors (cost of living adjustments or COLA's) and medical inflation factors (consumer price index medical or CPIM's) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. the methodology also includes a discounting formula to recognize the timing of compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years benefit payments is thirty-seven years.

The compensation COLA's and CPIM's used in the projections were as follows:

Fiscal Year	COLA %	CPIM %
1989	4.47	6.98
1990	4.43	8.40
1991	5.03	9.36
1992	5.00	7.96
1993	2.83	6.61
1994	2.77	5.27
1995	2.57	4.72
1996	2.63	4.00
1997	2.77	3.11
1998	2.70	2.76
1999	1.53	3.51
2000	1.83	3.66
2001	2.33	3.99
2002	2.40	4.02
2003	2.43	4.08
2004+	2.50	4.08

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis is based on three tests; (1) a comparison of the current year projections, (2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year, and (3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made to correct any anomalies in the projections.

The amount of change in worker's compensation actuarial liability from FY 1998 to FY 1999 is an increase of $91,286 thousand (FY1999 $1,304,960 thousand minus FY1998 $1,213,674 thousand).

Note 15. Net Position:
($ in Thousands)

1. Unexpended Appropriations	
a. Unobligated	
(1) Available	$12,689,758
(2) Unavailable	1,412,082
b. Undelivered Orders	51,484,604
c. Total Unexpended Appropriations	$65,586,444

2. Other Information: Undelivered Orders in Line 1b includes both Undelivered Orders – Unpaid (Account 4801) and Undelivered Orders – Paid (Account 4802) for Direct Appropriated funds.

Note 16. Disclosures Related to the Statement of Net Cost:
($ in Thousands)

Note 16.A. Suborganization Program Costs: (Not Applicable)
($ in Thousands)

Note 16.B. Cost of National Defense PP&E:
($ in Thousands)

Costs associated with the following appropriations have been determined to be associated with National Defense Property, Plant and Equipment: Procurement, Marine Corps, 17 1109 - $865,654 thousand; Aircraft Procurement, Navy 17 1506 - $6,408,344 thousand; Weapons Procurement, Navy 17 1507 - $1,284,982 thousand; Shipbuilding and Conversion, Navy 17 1611 - $6,902,464 thousand; and Other Procurement, Navy 17 1810 - $3,353,424 thousand; totaling $18,814,868 thousand. These costs are reported as Procurement program costs in the Statement of Net Cost.

Notes

Note 16.C. Cost of Stewardships Assets: (Not Applicable)
($ in Thousands)

Note 16.D. Stewardship Assets Transferred: (Not Applicable)
($ in Thousands)

Note 16.E. Exchange Revenue: (Not Applicable)
($ in Thousands)

Note 16.F. Amounts for FMS Program Procurements From Contractors: (Not Applicable)
($ in Thousands)

Note 16.G. Benefit Program Expenses: (Not Applicable)
($ in Thousands)

Note 16.H. Gross Cost and Earned Revenue by Budget Functional Classification:
($ in Thousands)

	Budget Function Code	Gross Cost	(Less Earned Revenue)	Net Cost
1. Department of Defense Military	051	$118,291,765	($4,220,335)	$114,071,430
2. Water Resources by US Army Corps of Engineers	301			
3. Pollution Control and Abatement by US Army Corps of Engineers	304			
4. Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Fund	602			
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund	702			
6. Total		$118,291,765	($4,220,334)	$114,071,431

Note 16.I. Imputed Expenses:
($ in Thousands)

1. Retirement Benefits	$166,890
2. Health Benefits	180,473
3. FEGLI	651
4. Judgement Fund	70,192
5. Total	$418,206

Note 16.J. Other Disclosures:

Basis of Accounting. The amounts presented in this statement are based on obligations and disbursements and not actual accrued costs. The DON generally records transactions on a cash basis and not an accrual accounting basis as is required by the Statements of Federal Financial Accounting Standards (SFFAS.) Therefore, 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.

Imputed Financing. The DON CFO statements have recognized an imputed expense for civilian employee pensions, ORBs and Judgment Fund claims in the Statement of Net Cost and have recognized imputed revenue for the civilian employee pensions, ORBs and Judgment Fund claims in the Statement of Changes in Net Position. Imputed pensions, ORBs and Judgment Fund expenses are displayed on Line 1.A, Program Costs (Intragovernmental) on the Consolidated Statement of Net Cost. Also see Notes 1.F and 17.B. Imputed expenses are disclosed in Note 16.I.

Note 17. Disclosures Related to the Statement of Changes in Net Position:
($ in Thousands)

A. Prior Period Adjustments-Increase (Decrease) to Net Position Beginning Balance:

1. Changes in Accounting Standards	
2. Errors and Omission in Prior Year Accounting Reports	($4,230,398)
3. Other	
4. Total	($4,230,398)

B. Imputed Financing:

1. CSRS/FERS Retirement	$166,890
2. Health	180,473
3. Life Insurance	651
4. Judgement Fund	70,192
5. Total	$418,206

C. Other Disclosures to the Statement of Changes in Net Position:

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

Removal of Property in The Hands of Contractors	($5,874,668)
Revaluation of General Property Plant & Equipment	1,903,794
Changes in Accounts Receivable & Payables (Marine Corps)	71,834
Workers Compensation Prior Years Chargeback	(321,772)
Correction of Natural Resources reported in FY 1998	(42,339)
Judgement Fund Claims	32,755
Total	($4,230,398)

The amount of ($5,874,668) thousand represents personal property in the hands of contractors, which was reported as Property, Plant and Equipment in FY 1998, and was removed in FY 1999. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the best method to annually collect this information (see Note 9). $1,903,794 thousand represents the revaluation of General Property Plant & Equipment. Revaluation resulted from improved methods of obtaining property data from nonfinancial systems.

Imputed Financing. The DON CFO statements have recognized an imputed revenue for civilian employee pensions, ORBs and Judgment Fund claims in the Statement of Changes in Net Position and have recognized imputed expense for the civilian employee pensions, ORBs and Judgment Fund claims in the Statement of Net Cost. Imputed pensions, ORBs and Judgment Fund revenue are displayed on Line 1.D, Imputed financing on the Consolidated Statement of Changes in Net Position. Also see Notes 1.F. and 16.I.

Other Information:

Note 18. Disclosures Related to the Statement of Budgetary Resources:
($ in Thousands)

1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	$57,866,937
2. Available Borrowing and Contract Authority at the End of Period	0

3. Other Information:

Undelivered Orders. Undelivered Orders in Line 1 includes Undelivered Orders – Unpaid (Account 4801) for both Direct and Reimbursable funds. Line 1 does not include Undelivered Orders – Paid (Account 4802).

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 Line 5 "Adjustments" on the Statement of Budgetary Resources), are not included in Spending Authority From Offsetting Collections and Adjustments on Line 12 of the Statement of Budgetary Resources or Line 1b on the Statement of Financing.

Suspense /Budget Clearing Accounts. 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. Beginning in February 1997, the DFAS has issued 27 memorandums providing guidance and establishing policy in this area. Below is a table that indicates the significant reductions the DON has achieved in the various suspense/budget clearing accounts.

	Net Value in Millions		
Account	Balance as of 9/30/98	Balance as of 09/30/99	Change from FY 1998
F3875	($213)	$0	$213
F3878	6	(11)	(17)
F3880	37	0	(37)
F3885	0	0	0
F3886	0	0	0
Total	($170)	($11)	$159

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.

Notes

OPAC Differences. Refer to Note 2 for an explanation regarding the effect of Online Payment and Collection differences.

Note 19. Disclosures Related to the Statement of Financing:

Adjustments. Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in Line 5 "Adjustments" on the Statement of Budgetary Resources), are not included in Spending Authority From Offsetting Collections and Adjustments on Line 12 of the Statement of Budgetary Resources or Line 1b on the Statement of Financing.

Transfers In and Transfers Out. Transfers In and Out of property for General and Working Capital Funds; and transfers of collections and disbursements to the Component level for applicable Defense Working Capital Funds which are reflected on the Statement of Changes in Net Position Lines 2e and 2f, are not included in Line 1e on the Statement of Financing.

Note 20. Disclosures Related to the Statement of Custodial Activity: (Not Applicable)
($ in Thousands)

Note 21A. Other Disclosures; Leases: (Not Applicable)
($ in Thousands)

Note 21B. Other Disclosures; Midshipmen's Store (17X8423):
($ in Thousands)

The Midshipmen's Store, of the United States Naval Academy became a nonappropriated fund instrumentality under the jurisdiction of the Navy (Public Law 104-21-Sept. 23,1996). As of September 30, 1999 an unexpended balance of $5 thousand included in the Navy Consolidated General Fund CFO. Expenditures will clear the remaining balance.

Note 21C. Other Disclosures; Navy Management Fund (17X3980):
($ in Thousands)

The Navy Management Fund was established in 1955 to finance operations supported by two or more appropriations under 10 U.S.C. 2209. Its purpose was to finance and account for payment of transportation charges of moving material within the DON. In 1981, the General Accounting Office (GAO) issued a report objecting to the use of management funds to finance transportation costs and advised that payments could be distributed and charged directly to an appropriation. In conjunction with the GAO report, the Assistant Secretary of Defense (Comptroller) stated that the Navy Management Fund should be discontinued. A memorandum dated June 17, 1994 from the DoD Office of the Comptroller

requested that the management fund be closed no later than October 1, 1996. Effective September 30, 1999 the corpus of $1 million reverted to Treasury.

Note 21D. Other Disclosures; Problem Disbursements:

The following table presents aged unmatched disbursements, negative unliquidated obligations and in-transit disbursements as of September 30, 1999 for the DoD, including Foreign Military Sales:

	Absolute $ in Millions		
Aging	In-Transit Disbursements	Unmatched Disbursements (UMD's)	Negative Unliquidated Obligations (NULO's)
0-30 Days	$724	$267	$22
31-60 Days	233	85	16
61-120 Days	113	131	27
121-180 Days	83	100	25
181-360 Days	365	544	577
Over 360 Days	719	183	471
Total – Absolute	$2,237	$1,310	$1,138
Total – Net	$1,422	$713	$1,137

The DON has $1,310 million (absolute) and $713 million (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, 1999, these efforts resulted in a decrease of $1,541 million in In-Transit Disbursements, a decrease of $704 million in UMD's and a decrease of $457 million in NULO's over the balances reported as of September 30, 1998.

DEPARTMENT OF THE NAVY

SUPPORTING CONSOLIDATING / COMBINING STATEMENTS

Department of Defense
Department of the Navy
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

ASSETS

	Navy	Marine Corps	Combined Totals	Intra-entity eliminations	Consolidated Totals
1. Entity Assets					
A. *Intragovernmental*					
1. Fund Balance with Treasury (Note 2)	$ 59,705,367	$ 2,895,963	$ 62,601,330	$ 0	$ 62,601,330
2. Investments, Net (Note 3)	10,166	0	10,166	0	10,166
3. Accounts Receivable (Note 4)	1,941,641	130,095	2,071,736	(1,450,341)	621,395
4. Other Assets (Note 5)	380,169	4	380,173	0	380,173
5. Total Intragovernmental	$ 62,037,343	$ 3,026,062	$ 65,063,405	$ (1,450,341)	$ 63,613,064
B. Accounts Receivable, Net (Note 4)	1,753,697	120,122	1,873,819	0	1,873,819
C. Loans Receivable and Related Forclosed Property, Net (Note 6)	0	0	0	0	0
D. Cash and Other Monetary Assets (Note 7)	0	0	0	0	0
E. Inventory and Related Property, Net (Note 8)	28,606,550	671,230	29,277,780	0	29,277,780
F General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)	21,226,792	6,113,684	27,340,476	0	27,340,476
G. Other Assets (Note 5)	3,253,420	25,311	3,278,731	0	3,278,731
H. Total Entity Assets	$ 116,877,802	$ 9,956,409	$ 126,834,211	$ (1,450,341)	$ 125,383,870
2. Nonentity Assets					
A. Intragovernmental					
1. Fund Balance with Treasury (Note 2)	$ 244,449	$ 55,333	$ 299,782	$ 0	$ 299,782
2. Accounts Receivable (Note 4)	311,802	27,021	338,823	(338,823)	0
3. Other Assets (Note 5)	0	0	0	0	0
4. Total Intragovernmental	$ 556,251	$ 82,354	$ 638,605	$ (338,823)	$ 299,782
B. Accounts Receivable, Net (Note 4)	0	15,352	15,352	0	15,352
C. Cash and Other Monetary Assets (Note 7)	150,051	6,136	156,187	0	156,187
D. Other Assets (Note 5)	0	51	51	0	51
E. Total Nonentity Assets	$ 706,302	$ 103,893	$ 810,195	$ (338,823)	$ 471,372
3. Total Assets	$ 117,584,104	$ 10,060,302	$ 127,644,406	$ (1,789,164)	$ 125,855,242

The accompanying notes are an integral part of these statements

Department of Defense
Department of the Navy
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

LIABILITIES

	Navy	Marine Corps	Combined Total	Intra-entity eliminations	Consolidated Totals
4. Liabilities covered by Budgetary Resources					
A. Intragovernmental					
1. Accounts Payable	$ 1,066,169	$ 59,864	$ 1,126,033	$ (609,528)	$ 516,505
2. Debt (Note 11)	0	0	0	0	0
3. Environmental Liabilities (Note 12)	0	0	0	0	0
4. Other Liabilities (Note 13)	443,489	105,863	549,352	0	549,352
5. Total Intragovernmental	$ 1,509,658	$ 165,727	$ 1,675,385	$ (609,528)	$ 1,065,857
B. Accounts Payable	252,486	251,925	504,411	0	504,411
C. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 14)	0	0	0	0	0
D. Environmental Liabilities (Note 12)	496,239	0	496,239	0	496,239
E. Other Liabilities (Note 13)	1,447,120	167,561	1,614,681	0	1,614,681
F Total Liabilities covered by Budgetary Resources	$ 3,705,503	$ 585,213	$ 4,290,716	$ (609,528)	$ 3,681,188
5. Liabilities not covered by Budgetary Resources					
A. Intragovernmental					
1. Accounts Payable	$ 1,125,004	$ 73,019	$ 1,198,023	$ (1,179,636)	$ 18,387
2. Debt (Note 11)	0	0	0	0	0
3. Environmental Liabilities (Note 12)	0	0	0	0	0
4. Other Liabilities (Note 13)	532,051	65,052	597,103	0	597,103
5. Total Intragovernmental	$ 1,657,055	$ 138,071	$ 1,795,126	$ (1,179,636)	$ 615,490
B. Accounts Payable	0	201,245	201,245	0	201,245
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)	1,304,960	0	1,304,960	0	1,304,960
D. Environmental Liabilities (Note 12)	47,140,944	0	47,140,944	0	47,140,944
E. Other Liabilities (Note 13)	1,136,079	362,649	1,498,728	0	1,498,728
F Total Liabilities not covered by Budgetary Resources	$ 51,239,038	$ 701,965	$ 51,941,003	$ (1,179,636)	$ 50,761,367
6. Total Liabilities	$ 54,944,541	$ 1,287,178	$ 56,231,719	$ (1,789,164)	$ 54,442,555

Department of Defense
Department of the Navy
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

NET POSITION (Note 15)	Navy	Marine Corps	Combined Total	Intra-entity eliminations	Consolidated Totals
7. Unexpended Appropriations	$ 62,961,232	$ 2,625,212	$ 65,586,444	$ 0	$ 65,586,444
8. Cumulative Results of Operations	(321,669)	6,147,912	5,826,243	0	5,826,243
9. Total Net Position	$ 62,639,563	$ 8,773,124	$ 71,412,687	$ 0	$ 71,412,687
10.Total Liabilities and Net Position	$ 117,584,104	$ 10,060,302	$ 127,644,406	$ (1,789,164)	$ 125,855,242

Department of Defense
Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
For the year ended September 30, 1999
($ in Thousands)

	Navy	Marine Corps	Combined Total	Intra-entity eliminations	Consolidated Totals
1. Program Costs					
A. Military Personnel					
1. Intragovernmental	$ 2,729,883	$ 3,662	$ 2,733,545		
2. With the Public	15,822,378	6,572,125	22,394,503		
3. Total Program Cost	$ 18,552,261	$ 6,575,787	$ 25,128,048		
4. (Less: Earned Revenues)	(266,630)	(32,343)	(298,973)		
5. Net Program Costs	$ 18,285,631	$ 6,543,444	$ 24,829,075		
B. Operation and Maintenance					
1. Intragovernmental	$ 16,410,981	$ 2,278,792	$ 18,689,773		
2. With the Public	42,005,128	740,628	42,745,756		
3. Total Program Cost	$ 58,416,109	$ 3,019,420	$ 61,435,529		
4. (Less: Earned Revenues)	(3,583,081)	(397,260)	(3,980,341)		
5. Net Program Costs	$ 54,833,028	$ 2,622,160	$ 57,455,188		
C. Procurement					
1. Intragovernmental	$ 2,989,533	$ 278,251	$ 3,267,784		
2. With the Public	15,539,801	1,425,840	16,965,641		
3. Total Program Cost	$ 18,529,334	$ 1,704,091	$ 20,233,425		
4. (Less: Earned Revenues)	(123,823)	10,537	(113,286)		
5. Net Program Costs	$ 18,405,511	$ 1,714,628	$ 20,120,139		
D. Research, Development Test & Evaluation					
1. Intragovernmental	$ 276,367	$ 0	$ 276,367		
2. With the Public	8,012,985	0	8,012,985		
3. Total Program Cost	$ 8,289,352	$ 0	$ 8,289,352		
4. (Less: Earned Revenues)	(137,042)	0	(137,042)		
5. Net Program Costs	$ 8,152,310	$ 0	$ 8,152,310		
E. Military Construction/Family Housing					
1. Intragovernmental	$ 24,520	$ 0	$ 24,520		
2. With the Public	1,619,808	0	1,619,808		
3. Total Program Cost	$ 1,644,328	$ 0	$ 1,644,328		
4. (Less: Earned Revenues)	(366,117)	0	(366,117)		
5. Net Program Costs	$ 1,278,211	$ 0	$ 1,278,211		

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
For the year ended September 30, 1999
($ in Thousands)

	Navy	Marine Corps	Combined Total	Intra-entity eliminations	Consolidated Totals
F. Other Programs					
1. Intragovernmental	$ 177,008	$ 0	$ 177,008		
2. With the Public	2,721,078	0	2,721,078		
3. Total Program Cost	$ 2,898,086	$ 0	$ 2,898,086		
4. (Less: Earned Revenues)	(661,578)	0	(661,578)		
5. Net Program Costs	$ 2,236,508	$ 0	$ 2,236,508		
G. Total Program Cost					
1. Intragovernmental	$ 22,608,291	$ 2,560,705	$ 25,168,996	$ (1,337,003)	$ 23,831,993
2. With the Public	85,721,179	8,738,593	94,459,772	0	94,459,772
3. Total Program Cost	$ 108,329,470	$ 11,299,298	$ 119,628,768	$ (1,337,003)	$ 118,291,765
4. (Less: Earned Revenues)	(5,138,271)	(419,067)	(5,557,337)	1,337,003	(4,220,334)
5. Net Program Costs	$ 103,191,199	$ 10,880,231	$ 114,071,431	$ 0	$ 114,071,431
2. Costs not assigned to Programs	0	0	0	0	0
3. (Less: Earned Revenues not attributable to Programs)	0	0	0	0	0
4. Net Cost of Operations	$ 103,191,199	$ 10,880,231	$ 114,071,431	$ 0	$ 114,071,431

5. Deferred Maintenance (See Required Supplementary Infomation)

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Department of Defense
Department of Navy
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
($ in Thousands)

	Navy	Marine Corps	Combined Total	Intra-entity eliminations	Consolidated Totals
1. Net Cost of Operations	$ 103,191,199	$ 10,880,231	$ 114,071,431	$ 0	$ 114,071,431
2. Financing Sources (other than exchange revenues)					
A. Appropriations used	70,965,464	10,163,404	81,128,869	0	81,128,869
B. Taxes and other nonexchange revenue	599	0	599	0	599
C. Donations - nonexchange revenue	7,209	0	7,209	0	7,209
D. Imputed financing (Note 17.B)	371,281	46,925	418,206	0	418,206
E. *Transfers-in*	0	0	0	0	0
F. (Transfers-out)	0	0	0	0	0
G. Other	0	0	0	0	0
H. Total Financing Sources (other than exchange revenues)	$ 71,344,553	$ 10,210,329	$ 81,554,883	$ 0	$ 81,554,883
3. Net Results of Operations (Line 2H less Line 1)	$ (31,846,646)	$ (669,902)	$ (32,516,548)	$ 0	$ (32,516,548)
4. Prior Period Adjustments (Note 17.A)	(4,292,493)	62,095	(4,230,398)	0	(4,230,398)
5. Net Change in Cumulative Results of Operations	$ (36,139,139)	$ (607,807)	$ (36,746,946)	$ 0	$ (36,746,946)
6. Increase (Decrease) in Unexpended Appropriations	4,658,477	549,700	5,208,177	0	5,208,177
7. Change in Net Position	$ (31,480,662)	$ (58,107)	$ (31,538,769)	$ 0	$ (31,538,769)
8. Net Position-Beginning of the Period	94,120,225	8,831,231	102,951,456	0	102,951,456
9. Net Position-End of the Period	$ 62,639,563	$ 8,773,124	$ 71,412,687	$ 0	$ 71,412,687

Additional information included in Note 17.

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Navy
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
($ in Thousands)

	Navy	Marine Corps	Combined Total
BUDGETARY RESOURCES:			
1. Budget Authority	$ 73,639,211	$ 10,297,875	$ 83,937,086
2. Unobligated Balance - Beginning of Period	10,996,384	437,391	11,433,775
3. Net Transfers Prior-Year Balance, Actual (+/-)	197,670	27,203	224,873
4. Spending Authority from Offsetting Collections	5,030,419	524,476	5,554,895
5. Adjustments (+/-)	1,623,888	308,565	1,932,453
6. Total Budgetary Resources	$ 91,487,572	$ 11,595,510	$ 103,083,082
STATUS OF BUDGETARY RESOURCES:			
7 Obligations Incurred	$ 79,736,308	$ 11,161,263	$ 90,897,571
8. Unobligated Balances - Available	10,576,254	197,175	10,773,429
9. Unobligated Balances - Not Available	1,175,010	237,072	1,412,082
10. Total, Status of Budgetary Resources	$ 91,487,572	$ 11,595,510	$ 103,083,082
OUTLAYS:			
11. Obligations Incurred	$ 79,736,308	$ 11,161,263	$ 90,897,571
12. Less: Spending Authority From Offsetting Collections and Adjustments	(7,857,179)	(942,609)	(8,799,788)
13. Obligated Balance, Net - Beginning of Period	44,929,346	2,041,719	46,971,065
14. Obligated Balance Transferred, Net	0	0	0
15. Less: Obligated Balance, Net - End of Period	(47,964,164)	(2,461,716)	(50,425,880)
16. Total Outlays	$ 68,844,311	$ 9,798,657	$ 78,642,968

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Department of Defense
Department of Navy
COMBINING STATEMENT OF FINANCING
For the year ended September 30, 1999
($ in Thousands)

	Navy	Marine Corps	Combined Total
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:			
A. Obligations Incurred	$ 79,736,308	$ 11,161,263	$ 90,897,571
B. Less: Spending Authority for Offsetting Collections and Adjustments	(7,857,179)	(942,609)	(8,799,787)
C. Donations Not in the Entity's Budget	7,209	0	7,209
D. Financing Imputed for Cost Subsidies	371,281	46,925	418,206
E. Transfers-in (Out)	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0
G. Other	599	0	599
H. Total Obligations as Adjusted and Nonbudgetary Resources	$ 72,258,218	$ 10,265,579	$ 82,523,798
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:			
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided - (Increases)/Decreases	(505,992)	(30,010)	(536,002)
B. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	0	0	0
C. Financing Sources That Fund Costs of Prior Periods	(1,739,079)	(7,398)	(1,746,477)
D. Other - (Increases)/Decreases	0	0	0
E. Total Resources That Do Not Fund Net Costs of Operations	$ (2,245,071)	$ (37,408)	$ (2,282,479)
3. COSTS THAT DO NOT REQUIRE RESOURCES:			
A. Depreciation and Amortization	$ 345,409	$ 0	$ 345,409
B. Revaluation of Assets and Liabilities - Increases/(Decreases)	(11,155,996)	597,111	(10,558,885)
C. Other - Increases/(Decreases)	0	0	0
D. Total Costs That Do Not Require Resources	$ (10,810,587)	$ 597,111	$ (10,213,476)
4. Financing Sources Yet to be Provided	43,988,639	54,949	44,043,588
5. Net Cost of Operations	$ 103,191,199	$ 10,880,231	$ 114,071,431

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE NAVY

GENERAL FUNDS

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT
For Fiscal Year Ended September 30, 1999
(Stated in Number of Systems or Items)

(a) National Defense PP&E	(b) As of 10/1/98	(c) Additions	(d) Deletions	(e) As of 9/30/99	(f) Condition Operational (%)
1. Aircraft					
A. Combat	2,117	36	68	2,085	80
B. Airlift	1,018	3	11	1,010	76
C. Other	965	19	26	958	91
2. Ships					
A. Submarines	123	1	7	117	68
B. Aircraft Carriers	18	-	-	18	67
C. Surface Combatants	231	8	13	226	63
D. Amphibious Warfare Ships	83	-	7	76	67
E. Mine Warfare Ships	38	1	-	39	69
F. Support Ships	228	6	33	201	70
G. Other Ships	1,147	2	54	1,095	60
H. Small Boats	2,553	53	175	2,431	79
3. Combat Vehicles					
A. Tracked	3,145	-	510	2,635	85
B. Wheeled	31,624	1,596	-	33,220	83
C. Towed	4,821	-	78	4,743	84
D. Other	12,744	829	19	13,554	79
4. Guided, Self-propelled Ordnance					
A. Missiles	56,834	2,463	1,369	57,928	96
B. Torpedoes	8,486	216	29	8,673	83
C. Other	-	-	-	-	0
5. Space Systems					
A. Satellites	17	1	-	18	100
6. Other					
A. Other Weapons Systems	-	-	-	-	0
7. Weapon Systems Support Real Property					
A. Active Ammunition Bunkers	7,958	13	462	7,509	100
B. Active Missile Silos	-	-	-	-	0
C. Active Satellite Ground Stations	-	-	-	-	0
D. Other	-	-	-	-	0

Required Supplementary Stewardship Information

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, and Equipment (ND PP&E). Therefore, the Department of Defense (DoD) elected to report ND PP&E in fiscal year (FY) 1999 in the same manner as ND PP&E was reported in FY 1998. For FY 1998, the DoD implemented early, as encouraged by the FASAB, then proposed amendments to the Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," and No. 8, "Supplementary Stewardship Reporting." Those amendments required ND PP&E quantities, condition and investment trends to be reported for major types of ND PP&E. Since the FASAB did not adopt the proposed amendments to SFFAS No. 6 and No. 8, in electing to report in accordance with the proposed amendments to the standards, the DoD is not in full compliance with the existing reporting requirements contained in SFFAS No. 8 (SFFAS No.8 requires the Department to report acquisition costs).

The DoD cannot fully comply with the SFFAS No. 8 reporting requirement because many of the DoD's ND PP&E accountability and logistics systems do not contain a value for all or a portion of the ND PP&E assets. These systems were designed for purposes of maintaining accountability and other logistics requirements of ND PP&E, and not for reporting on the value of ND PP&E. Consequently, many of these systems do not accumulate costs or otherwise report values for individual items of ND PP&E.

The ND PP&E cost information is captured in the DoD accounting systems and reported in the Department's "Statement of Net Costs." However, the Department's accounting systems were designed to provide appropriated fund accounting reports required by the Congress, the DoD and other applicable federal agencies. In addition, the Department's accounting systems were not designed to accumulate and retain costs for individual items of ND PP&E. Further, in many instances, even where values were recorded for some ND PP&E in some of the Department's systems, documentation (such as copies of purchase receipts) no longer is available to support such amounts. In part, such documentation is not available, because until recently, the Department was not required to maintain such documents for audit purposes. According to Title 36, Code of Federal Regulations, Chapter XII, "National Archives and Records Administration," receipts for the purchase of items such as ND PP&E are required to be retained for only 6 years and 3 months. Therefore, much of the supporting documentation that would be required to validate the reported values of ND PP&E for audit purposes no longer is available.

Due to the difficulties noted above, implementing the reporting requirements of the SFFAS No. 8 would be an enormous undertaking involving significant cost (requiring the expenditure of perhaps hundreds of millions of dollars). Given the complexity of the reporting requirements contained in the SFFAS No. 6 and SFFAS No. 8, the enormous cost of implementing those reporting requirements and the interim nature of the current reporting requirements, the Department is continuing its FY 1998 reporting display until such time as the Department has a better indication of the more permanent reporting

requirements expected to be recommended by the FASAB. The Department believes that the most reasonable and responsible course of action is to report quantity information for DoD's weapons systems until such time as the FASAB adopts permanent reporting requirements for ND PP&E.

Aircraft

The beginning balance of 4,100 active aircraft does not equal the FY 1998 ending balance of 4,102. This occurred because two aircraft that should have been recorded as deletions in the FY 1998 RSSI report were not identified prior to submission of the final report. The two aircraft were subsequently removed from the FY98 ending balance.

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 4,053 active aircraft used in the performance of military missions. In addition to the September 30, 1999 ending balance of 4,053 active aircraft, there are an additional 1,775 inactive aircraft stored at the Aerospace Maintenance and Regeneration Center (AMARC), Davis-Monthan Air Force Base. Of the 1,775 inactive aircraft, 42 are in the disposal cycle and 1,733 aircraft are in long-term storage. It is possible some of the inactive aircraft could be reactivated in the case of a national emergency.

The additions consisted of 6 reinstatements and the rest were procurements. The deletions consisted of 40 from AMARC and the rest due to crashes or transfers from the depots to the Defense Reutilization Management Office.

The Other category consists of training aircraft and a few experimental aircraft.

Ships

Submarines:	ADDITIONS: SSN 22. DELETIONS (Assets Disposed of): SSBN 619,624; SSN 608,664,672,678,682.
Aircraft Carriers:	ADDITIONS: None. DELETIONS (Assets Disposed of): None.
Surface Combatants:	ADDITIONS: DDG 75,76,78; DELETIONS (Assets Disposed of): CG 5,26; CGN 35; DD 942; DDG 4,6,19,40,42,43,46; FF1081,1096.
Amphibious Warfare Ships:	ADDITIONS: None. DELETIONS (Assets Disposed of): LSD 28,31,35; LST 1160,1163,1164,1165.
Mine Warfare Ships:	ADDITIONS: MHC 62 DELETIONS (Assets Disposed of): None.
Support Ships:	ADDITIONS: AKR 300, 301,311,312; AGOR 25; AR 8*. DELETIONS (Assets Dispose of): AE 22; AGDS 2; AGOR 3; AO 62,98,99,105,108,109,143-148,191; AOR 1,5,7; AOT 75; AR 5; ARS 8,38,41,43; AS 12,16,18,34; ASR 14,15,21,22.
Other Ships:	ADDITIONS: YDT 17, 18. DELETIONS (Assets Dispose of): AFDB 8; AFDM 5,8,14; IX 506, 510; YC 1275, 1521; YD 73,114,197,223; YDT 14,15; YF 866; YFN 372,642,644,651,705,796,1180,1202,1223; YFR 888; YM 33; YOGN 9; YON 81,84,96,235,259; YOS 15,16,21,28; YP 678; YR 26; YRBN 1; YSR 17,23,45; YTB 757; YWN 71; YC 1118,1450; ARD 5; six LCACs.

Other Ships includes all service craft and Landing Craft Air Cushion (LCAC).

Condition Operation (%) includes all ships with status codes **A** (Active), **I** (Military Sealift Command (MSC) Naval Fleet), **L** (Leased), **M** (MSC, in commission, Navy Crews), **O** (Stand down, start of inactivation cycle), **Q** (Navy owned), and **X** (Security Assistance Program (SAP), Loaned). In addition, status codes of **N** (Naval Reserve Force, Active) and **S** (Special, in commission) are included based on NVR status comments. Condition Operation (%) does not include ships with status of **R** (Inactive), **T** (Stricken) or **Y** (SAP Stricken).

NOTES ON ADDITIONS: Asterisk (*) in table above indicates ship was not included in the FY 1998 submission because status was disposed/sold; contractor defaulted and ships were repossessed by the Navy.

SMALL BOATS: Additions: 3 EOD RIBS, 19 NORTHPORT RIBS, 31 OTHER BOATS ADDED DURING VALIDATION/Y2K CERTIFICATION. Deletions: 156 disposals, 19 open allowance.

Combat Vehicles
Marine Corps ND PP&E assets reported for FY 1999 were extracted from the Materiel Capabilities Decision Information System (MCDIS). MSDIS interfaces with and receives file updates from other logistic systems. For the FY 1999 stewardship report, combat vehicle program managers were requested (during July) to identify vehicles for inclusion in the following categories: towed, tracked, wheeled, and "other". Once vehicle categorization was completed, MCDIS programmers attempted to provide additional information such as fiscal year starting and ending balance, additions, deletions, assets in storage, and assets in the disposal cycle. The midyear categorization change and a definitional expansion of reportable assets to be included resulted in the inclusion of assets not reported in FY 1998. This created difficulty in obtaining accurate starting balances, additions, and deletions or producing a crosswalk between the information provided in the two fiscal years.

There are 91 combat vehicles in the disposal cycle and 11,823 in storage. Assets with low condition operational percentages are in the process of being phased-out.

Nineteen Personnel Carriers were erroneously categorized as Land Attack Vehicles in the FY 1998 Required Supplementary Stewardship Information report and reported as ND PP&E Major End Items. These vehicles are more properly categorized as personnel carriers and their value reported as personal property PP&E on the Balance Sheet. They are deleted from RSSI for FY 1999.

Guided, Self-propelled Ordnance
Conventional Missiles: Marine Corps missiles are currently stored at the Red River Army Ammunition Plant with several Maritime Propositioning Ships holding assets awaiting offload during their maintenance cycle. The decrease of 44 missiles was due to an on

going reconciliation with the accountable records at Red River and Inventory Control Point (ICP) at Marine Corps Systems Command. This reconciliation was a result of a Program Manager Ammunition Management initiative. Duplicate serial numbers existed under different Department of Defense Identification Codes as a result of rework. The stockpile is awaiting custodial transfer to the Army Hawk Missile Management, Huntsville Ala. Information is gathered from the Marine Ammunition Accounting Reporting System (MAARS II).

Non-Nuclear Ordnance is a unique inventory commodity, acquired via Appropriation Purchase Account (APA) funding and issued "Free Issue" to Fleet warfighters under Defense Planning Guidance (DPG) Integrated Program Summary (IPS). There is no DON ordnance financial system that captures total ordnance life cycle costs and applies devaluation factors based on changes in the condition code. In accordance with FMR, Vol. II and NAVORDCEN INST 8010.2A, ordnance is valued at the latest acquisition cost. The number given for additions does not reflect only new production but includes numbers for rebuild and those returning to the inventory after a maintenance cycle.

Ballistic Missiles: During FY 1999, 12 Trident II D-5 missiles were added to the inventory: four D-5 missiles were expended during flight tests; thirty Trident I C-4 missiles were deleted from the inventory by disposal, and four C-4 missiles were expended during flight tests. The source of this data is the Strategic Weapons Facility, Atlantic Missile History Status Report for D-5 missiles and the Strategic Weapons Facility, Pacific Missile History Status Report for C-4 missiles.

Torpedoes: Non-Nuclear Ordnance is a unique inventory commodity, acquired via APA funding and issued "Free Issue" to Fleet war-fighters under DPG IPS. There is no DON ordnance financial system that captures total ordnance life cycle costs and applies devaluation factors based on changes in the condition code. In accordance with FMR, Vol. II and NAVORDCEN INST 8010.2A, ordnance is valued at the latest acquisition cost. The number given for additions reflects new production and includes numbers for rebuild and those returning to the inventory after a maintenance cycle.

Space Systems

Additions: UFO-9. Research and Development satellites are not included - only includes operational satellites - FLTSATS 1, 4, 7, 8, UFO 2, 3, 4, 5, 6, 7, 8, 9 OSCAR 23, 25, 27,29, 31, and 32.

NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT
YEARLY INVESTMENTS
For FY 1998 and FY 1999
(In Millions of Dollars)

(a) National Defense PP&E	(b) FY98	(c) FY99
1. Aircraft		
A. Combat	$2,698	$2,897
B. Airlift	0	34
C. Other	356	2,004
D. Aircraft Support Principal End Items	2,981	722
E. Other Aircraft Support PP&E	0	974
2. Ships		
A. Submarines	1,089	1,409
B. Aircraft Carriers	1,301	823
C. Surface Combatants	2,879	3,552
D. Amphibious Warfare Ships	753	581
E. Mine Warfare Ships	89	73
F. Support Ships	0	359
G. Other Ships	575	30
H. Ship Support Principal End Items	851	852
I. Other Ship Support PP&E	0	1
3. Combat Vehicles		
A. Tracked	74	64
B. Wheeled	0	106
C. Towed	0	0
D. Other	0	0
E. Combat Vehicles Support Principal End Items	0	12
F. Other Combat Vehicles Support PP&E	0	1
4. Guided, Self-propelled Ordnance		
A. Missiles	1,351	349
B. Torpedoes	125	70
C. Guided, Self-Propelled Ordnance Support Principal End Items	414	16
D. Guided, Self-Propelled Ordnance Support PP&E	0	198
5. Space Systems		
A. Satellites	0	0
B. Space Systems Support Principal End Items	130	115
C. Other Space Systems Support PP&E	0	0

Required Supplementary Stewardship Information

6. Other		
A. Other Weapons Systems	48	43
B. Other Weapons Systems Support Principal End Items	106	0
C. Other Weapon Systems Support PP&E	0	42
7. Weapon Systems Support Real Property		
A. Active Ammunition Bunkers	28	19
B. Active Missile Silos	0	0
C. Active Satellite Ground Stations	0	0
8. General Mission Support PP&E	1,792	1,897

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 accounting standards.

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) which yielded the dollar amounts for the National Defense PP&E Yearly Investment Report. Before running their query, the Department of the Navy 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 1999 reporting, the FY 1998 schema was used as a baseline. The FY 1998 schema was updated to reflect new items as identified in the Appropriation Status, DD COMP (M) 1002 report. The proposed FY 1999 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.

Space Systems
Due to the nature of the Satellites deployment process there are no Space systems Support Principal End Items or Other Space Systems Support PP&E. Once launched, satellites are not retrieved.

General Mission Support PP&E
Includes ordnance support equipment, vehicular equipment, electronics equipment, and communications equipment.

Weapon Systems Support Real Property
Includes ammunition bunkers in use as reflected in the Navy Facility Assets Data Base.

Required Supplementary Stewardship Information

HERITAGE ASSETS
For Fiscal Year Ended September 30, 1999

(a)	(b) Measure Quantity	(c) As of 10/1/98	(d) Additions	(e) Deletions	(f) As of 9/30/99
Collection Type					
1. Archaeological Artifacts	Cubic Feet	4,230	369	-	4,599
2. Archival	Linear Feet	98,880	2,893	1,089	100,684
3. Artwork	Items	40,048	1,111	-	41,159
4. Historical Artifacts	Items	790,213	7,832	208	797,837
Non-Collection Type					
5. Archeological Sites	Sites	22,823	597	8	23,412
6. Buildings and Structures	Items	8,920	360	716	8,564
7. Cemeteries	Sites	174	3	-	177
8. Memorials and Monuments	Items	1,246	5	31	1,220

Narrative Statement:

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

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

Currently, the DON does not maintain a central database that contains accountability data for all DON Heritage Assets. For example, there is a large amount of uncurated and undocumented material generated from the BRAC process that the DON is now beginning to evaluate and catalogue. During FY 1999, the DON Heritage Asset Non-Financial Feeder Team contracted with a firm to survey the universe of assets designated as Heritage Assets and improve the curation and accountability of these assets. During FY 2000, the DON Heritage Asset Non-Financial Feeder Team will continue to survey

and develop baseline information on Heritage Assets inventory accuracy. The Team will also work to clear data entry backlogs in the historic artifacts community. The Heritage Asset community plans to select one system for maintaining accountability and reporting of 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. There are two major categories of Heritage Assets, known as Collections and Non-collections.

Collections

The Collections category includes items that are gathered and maintained for exhibition such as museum collections, art collections, and archival collections. The following sub-categories under Collections were reported:

- Archeological Artifacts. Unit of Measure = Cubic Feet. Archeological artifacts include items recovered as a result of archeological techniques, including surface collection and excavation on land or underwater.

- Archival. Unit of Measure = Linear Feet. Archival includes audio-visual, electronic, text, and other similar documentation containing information of historical significance or association.

- Artwork. Unit of Measure = Item. Artwork includes objects of fine art such as paintings, engravings, sculptures, etc., noted for aesthetic or representational value.

- Historical Artifacts. Unit of Measure = Item. Objects with material cultural value acquired by service, use, gift, loan, or purchase that have historical significance or association with a person, place, organization, event, and/or technology.

Process used to establish assets as Heritage Assets. Subject matter experts (archeologists, archivists, curators, military/art historians, etc.) principally determine heritage significance of "collections" type assets for purposes of stewardship reporting. The majority of this material is contained in the collections of museums, archives, or archeological repositories. Specific direction as to classification of Heritage Assets can be found in statute, regulation, and service guidance.

Data Collection Process. The DON has collections type holdings of Heritage Assets located at museums and installations. The FY 1999 data call and resulting data compilation was the most comprehensive ever performed by the DON.

In FY 2000, DON intends to begin streamlining the heritage asset data collection process by using business process reengineering methodologies throughout the components of the heritage asset community. DON intends to install standardized collections management software at the significant collections type heritage asset components throughout the United States. Software standardization will facilitate efficient and effective reporting

and optimize the data collection process. DON components that have collections type Heritage Assets but are not receiving the standardized collections management software will be instructed to register their assets with the Naval Historical Center at Washington, D.C., or the Marine Corps History Museums Division at Quantico, Virginia, or other designated site(s). These locations will serve as the hubs for collections type Heritage Assets at locations without collections management software by tracking and reporting these assets as "loaned" items.

The collections type heritage asset data compiled and reported for FY 1999 includes DON components that consistently maintain tight collections type heritage asset inventory counts by automated and/or manual means. Additionally, the FY 1999 compilation includes DON components that have never conducted a collections type heritage asset inventory and therefore provided data based on estimates. During FY 2000, each DON collections type heritage asset component intends to conduct an inventory and updating their accountability systems. Thereafter, collections type heritage asset inventories will be conducted in accordance with the inventory requirements set forth in relevant Federal Government financial regulations.

The largest holder of Heritage Assets within the DON, the National Museum of Naval Aviation in Pensacola, Florida, has provided an estimated number of 500K objects including artwork and historic artifacts. This estimate is noted due to the material amount of Heritage Assets, 60% of the total, that this museum maintains in relation to the aggregate number of artwork and historic artifacts. Subsequent heritage asset reporting years may have material shifts in amounts from prior years due to the enormity of the Naval Aviation Museum's estimation and probable changes due to ongoing inventories.

The second largest holder of collections type Heritage Assets within the DON, The Naval Historical Center, has provided several estimates. There are approximately 20,000 Heritage Assets from the base realignment and closures (BRAC) that have not been catalogued by the Historical Center, and an additional 39,000 collections type Heritage Assets that are not properly accounted for.

Criteria used to determine condition. The condition assessment of collections type Heritage Assets is based on whether the collections are being cared for and safeguarded in accordance with relevant Federal Government regulations. The majority of the DON collections type Heritage Assets are being cared for and managed in accordance with relevant Federal Government regulations. The DON believes that there are some material weaknesses in the care and/or safeguarding in accordance with relevant Federal Government regulations of some collections type Heritage Assets and intends to investigate in these areas. For example, several storage facilities, including the Naval Historical Center's storage facility artifact collections, are grossly inadequate in terms of climate controls. Additionally, some sites do not have the resources necessary to properly conserve many parts of the collections. An example of this is the Heritage Assets on display outside at the Washington Navy Yard.

Required Supplementary Stewardship Information

Non-collections

The Non-collections category includes real property type assets that exemplify the characteristics listed in the definition of Heritage Assets and/or are listed or eligible for listing on the National Register of Historic Places. The following sub-categories were reported under Non-collections:

- Archaeological Sites. Unit of Measure = Sites. Archeological sites listed on or determined eligible for listing on the National register of Historic Places. Criteria for evaluating National Register eligibility of archeological sites may be referenced at 36 CFR 60.4.

- Buildings & Structures. Unit of Measure = Item. Buildings and Structures listed on or eligible for listing on the National Register of Historic Places including multi-use Heritage Assets. This designation includes properties determined to be National Historic Landmarks.

- Cemeteries. Unit of Measure = Site. Government owned burial grounds located on DoD Installations.

- Memorials & Monuments. Unit of Measure = Item. Memorials and Monuments that have significant and/or historical value to the respective DoD Component.

Process used to establish assets as Heritage Assets. Heritage significance of "non-collections" type items for purposes of stewardship reporting varies depending on the sub-category being reported. Criteria for "archeological sites" and "buildings & structures" are predicated on the item either being listed on or eligible for listing on the National Register of Historic Places. All service owned & maintained "cemeteries" are reported. Criteria for reporting of "monuments & memorials" is principally contained in service guidance.

Data Collection Process. In FY 2000, DON intends to enhance and standardize non-collections management software at the significant non-collections type heritage asset components throughout the United States. Software standardization will facilitate efficient and effective reporting and optimize the data collection process. During FY2000, each DON non-collections type heritage asset component will be conducting inventories and updating their accountability systems. Thereafter, non-collections type heritage asset inventories will be conducted in accordance with the inventory requirements set forth in relevant Federal Government financial regulations.

Criteria used to determine condition. The condition assessment of non-collections type 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 non-collections type Heritage Assets are being cared for and managed in accordance with relevant Federal Government regulations. The DON believes that an immaterial amount of non-collections type Heritage Assets are not being cared for or safeguarded in accordance with relevant Federal Government regulations and intends to investigate these areas.

Required Supplementary Stewardship Information

STEWARDSHIP LAND
For Fiscal Year Ended September 30, 1999
(Acres in Thousands)

(a) Land Use	(b) As of 10/1/98	(c) Additions	(d) Deletions	(e) As of 9/30/99
1. Mission	2,067	-	65	2,002
2. Parks & Historic Sites	-	-	-	-
3. Wildlife Preserves	-	-	-	-
Totals	2,067	-	65	2,002

Narrative Statement

The DON followed the definition of Stewardship Land per DoD Guidance to include Public Domain, Land Set Aside, and Donated Land. The Naval Facility Assets Data Base System (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.

The FY 1999 beginning balance does not reflect the ending FY 1998 balance as reported in the FY 1998 Annual Financial Report. This is due to a reclassification of one category of land, Public Domain – license or permit that was not included in Stewardship Land for FY 1998 Reporting.

INVESTMENTS IN RESEARCH AND DEVELOPMENT
Yearly Investment in Research and Development
For Fiscal Years (Preceding 4th Fiscal Year) through FY 1999
(In Millions of Dollars)

(a) Categories	(b) FY95	(c) FY96	(d) FY97	(e) FY98	(f) FY99
1. Basic Research	$545	$491	$387	$341	$344
2. Applied Research	558	535	490	496	510
3. Development					
Advanced Technology Development	284	380	468	518	532
Demonstration and Validation	3,947	2,746	2,035	2,407	2,234
Engineering and Manufacturing Development	1,386	2,262	2,114	2,125	2,019
Research, Development, Test, and Evaluation Management Support	859	751	736	695	709
Operational Systems Development	1,445	2,264	2,060	1,556	1,696
Total	$9,024	$9,429	$8,290	$8,138	$8,044

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 the accounting 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 1999 follows.

Defense Research Sciences.
The Navy's Defense Research Sciences program funded work across a broad spectrum of disciplines focusing on four major thrust areas: Ocean Sciences, Advanced Materials, Information Sciences and Sustaining Programs. Among hundreds of research projects undertaken were development of fouling-release coatings for marine applications, synthesis and processing of nanostructured materials, validation of maneuvering predictions for submarine configurations, brain circuit methods for real-time field applications, and auroral and ionospheric research.

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

A narrative discussion of a representative sample of major new applications achieved by the program during FY 1999 follows.

Aircraft Technology.
Ongoing efforts focused on the areas of propulsion and power, integrated avionics including cockpit technologies, and Naval air vehicle technology. Examples of specific programs include: (1) Investigated feasibility of a flight control system capable of providing assisted or automated maneuvering for Naval mission tasks. (2) Development of a Fighter/Attack Phase III fan for the Joint Technology Demonstrator Engine. In addition to increasing engine efficiency, the fan promises to reduce risks to engines associated with foreign object damage. (3) Demonstration of an intelligent crew station concept capable of unobtrusively monitoring and assessing aircrew physiological functions, while assessing aircraft condition relative to escape envelopes.

C. Development
Development is the systematic use of the 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 developmental projects including the results of projects completed by the program during FY 1999 follows.

1. Advanced Technology Development

Advanced Technology Transition.
Three examples of advanced technology demonstration efforts are: (1) continued development of DNA vaccines for complex multistage organisms and other organisms; (2) continued demonstration of the use of plasma-arc pyrolysis as a method for destroying shipboard waste; and (3) reducing ship crew size by demonstrating an automated system capable of providing environmental, machinery, structural, and personnel situational awareness (reduced ships' crew by Virtual Presence (RSVP)).

2. Demonstration and Validation

Budget Activity 4.
Joint Strike Fighter Program - Concept Demonstration efforts are ongoing, including company unique technology demonstrations, completed final design and continued build of Concept Demonstrator Aircraft and continued refinement for a tri-service family of aircraft.

Environmental Protection - Shipboard Waste Management

In the area of Shipboard Waste Management, the DON accomplished the following during FY 1999:

- Completed Ozone Depleting Substances evaluation of the first submarine refrigeration plants converted to HFC-134a.
- Continued development of backfit modification fits for surface ship 125-ton & 150-ton CFC-114 air-conditioning plant designs.
- Continued development of backfit modification kits for surface ship 300-ton and 363-ton CFC-114 air-conditioning plant designs.
- Continued development and initiated qualification of backfit modifications for remaining surface ship 250-ton CFC-114 air-conditioning plants.
- Continued one-year at-sea ship test and evaluation of HFC-236fa backfit modifications in 200-ton CFC-114 air-conditioning plants.
- Completed laboratory evaluations of future fleet non-chlorofluorocarbon 200-ton centrifugal air-conditioning plant and 1.5 ton refrigeration plant prototypes to qualify systems.
- Completed development of alternative solvents and processes for oxygen systems cleaning applications.
- Completed development of Alternative Firefighting Agent Delivery System (AFFADS) for new ship construction.

Integrated Liquid Wastes. In the Integrated Liquid Wastes area, the DON accomplished the following during FY 1999:

- Continued support of rule making process with the Environmental Protection Agency in development of Uniform National Discharge Standards (UNDS) for liquid waste discharges from Navy vessels.
- Continued development of integrated liquid waste treatment system: continued development of a 10-gal/min unit Oily Waste Polishing System (OWPS)(OWS-10Polisher) and continued development of 50 gal/min OWS-50 Polisher.
- Continued development of Engineering Development Model (EDM) non-oily wastewater treatment system; continued development of advanced Oil Content Monitor (OCM).
- Continued test and evaluation of upgraded shipboard vortex sewage incinerator with emphasis on evaporation/incineration of all concentrated ship liquid wastes.
- Continued development of design fixes for compensated fuel ballast systems.
- Completed testing of Non-Seeping Grease Seal on submarine dive and steering gear.

Ship Concept Advance Design-Design Tools, Plans & Concepts-Pre-Milestone 0 Ship Concepts and Mission Need Analysis.
In the Ship Concept area, the DON:

- Developed ship concepts and performed mission area analysis (MAA) for potential ships 5-10 years out in the SCN plan, including ship size, configuration, capabilities and rough order of magnitude (ROM) ship costs.

- Conducted pre-milestone 0 ship concept studies for joint command ship, medical capabilities afloat, and alternative potential ship concepts in support of SCN planning.
- Conducted joint command ship (JCC(X)) ship versus shore basis mission need analysis.
- Conducted Development Options Study for LHA replacement (large deck amphibious assault ship) including ship concept studies.
- Developed future surface warfare vision including mission needs and concepts.

Total Ship Technology Assessment.

During FY 1999, the DON:

- Analyzed the benefits and impacts of new ship and hull, mechanical and electrical (HM&E) concepts and technologies, and updated the HM&E technology database.
- Supported integration and transition of new technologies in total ship concepts.
- Established baseline ship concepts and technology characterization process for use in technology assessments.

BUDGET ACTIVITY 5
Engineering and Manufacturing Development
T-45 Training System.
The DON continued Navy unique courseware development and began courseware conversion.

Joint Standoff Weapon (JSOW).
The DON continued engineering and manufacturing development (E&MD) efforts, captive flight testing and Cost as an Independent Variable studies; and completed qualification of the Low Cost Guidance Electronics common to all variants of the JSOW missile.

V-22.
The DON continued MV-22 and CV-22 contract development efforts, including flight test, Government Furnished Equipment integration, logistics efforts, Power-by-the-Hour support of the engine, support equipment procurements, repair of repairable and other E&MD efforts. Drop Test Article testing was completed. The DON began development of Weapons Replaceable Assembly/Test Program Sets and began CV-22 modifications for the flight simulator and Naval Air Maintenance Trainer Suite.

Aegis Combat System Engineering. Surface Combatant Combat System Improvements: The DON began modifications to the Aegis Weapon System (AWS) computer program to allow incorporation of Anti-Aircraft Warfare (AAW) capability into the Standard Missile 2 Block IVA (SM2 BLK IVA) missile. Other accomplishments included:

- Continued with Element Test and Evaluation (ET&E) and Multi-element integration Testing (MEIT) for Baseline 6 Phase I.

- Delivered 6 Phase I program to CG 66 and 69 for testing. Continued with integration of Cooperative Engagement Capability (CEC) Baseline 2 functionality into this baseline for cruisers.
- Continued preparation for CEC Operational Evaluation (OPEVAL).
- Continued Baseline 6 Phase III computer program code, debugging, and testing.
- Conducted Critical Design Review (CDR) II.
- Began extensive ET&E and MEIT at the Combat Systems Engineering Development Sight (CSEDS).
- Continued system engineering for full integration of SPY-1D(V) advanced upgrades into new construction AEGIS Combat System in Baseline 7 Phase I.
- Conducted Preliminary Design Review (PDR) for integration of upgrades.
- Began system definition and engineering for the AEGIS cruiser conversion program to incorporate war-fighting capabilities including Theater Ballistic Missile Defense, and land attack into Baseline 3 and 4 Cruisers. This includes Phase IIIC computer program.
- Continued the AADC prototype at Sea installations in USS SHILOIH and Mt Whitney and commenced proof of concept and risk reduction testing in an operational environment employing the prototype shore capability for both operational and technical evaluation to the system developer.
- Continued to provide the RDT&E share of operations and Maintenance of the Combat Systems Engineering Development Site (CSEDS), Program Generation Center, Computer Program Test Site, and Land Based Test Site.

Engineering and Scientific Studies.
During FY 1999, in the Engineering and Scientific Studies area, the DON:

- Provided funds for labs and field activities to support forward fit baseline upgrade in order to conduct engineering and scientific studies and analysis in order to minimize the risk in the introduction of increased war fighting capability including TBMD, CEC, Evolved SEASPARROW Missile System (ESSM), and Advanced Integrated Electronic Warfare System (AIEWS) into the AEGIS Combat System. Studies produced by the Applied Physics Lab and the Naval Surface Warfare Center, Dahlgren Division (NSWC, DD) ensured effective introduction of Commercial Off-the-Shelf Technology (COTS). NSWC, DD personnel also provided on site technical support at contractor facilities during development, testing, and evaluation of upgrades to the AEGIS combat systems. Began development of open computing system architecture prototype (EDM 5A).

Virginia Class Submarine Design Development.
During FY 1999, DON:

- Continued design, manufacturing, and qualification testing of prototype technologies and components such as: ship service turbine generator (SSTG), weapons stowage, handling and launch systems, propulsor, main thrust bearing; electromagnetic signature reduction, special hull treatments; integrated low pressure electrolyzer system; ship control system; and reverse osmosis desalination unit.
- Continued shock qualification testing and analyses of various components.

Required Supplementary Stewardship Information

- Surface ASW Combat System Integration - completed system design specification development for the Multi-Function Towed Array (MFTA) and processor. Also completed array Preliminary Design Review (PDR). Completed design of the MFTA processing. Began design and fabrication of MFTA array hardware and performed array mechanical critical item testing. Completed array self-noise critical item testing.

- Surface ASW System Improvements - Completed analysis of data from Towed Active Receive System (TARS) FY 1998 sea tests. Completed performance specification development for the TARS Engineering Development Model (EDM) to include active classification display upgrades to support implementation with the MFTA. Continued transition of active classification upgrade algorithms for Echo Tracker Classifier (ETC) to support implementation with the hull sensor and mid-frequency active MFTA. Evaluated feasibility of an ASW Data Link (virtual) to support multi-platform coordinated ASW. Continued support of Navy-wide towed array commonality development efforts. Completed developmental test, DT-IIIAN, and analysis on an AN/SQQ-89 (V) 6 system with adjunct processing including torpedo alertment capabilities.

- Began program planning and requirements definition for the LAMPS Mk III BLK II system. Identified critical system performance items, established new interfaces for the KuBand LAMPS Common Datalink (CDL), and explored methods of backfitting these changes to the maximum number of ships.

- MK48 Advanced Capability (ADCAP). Continued the development of Guidance and Control (G&C) Software Block Upgrade IV in preparation for Operational Testing in FY 2000. Supported follow-on test and evaluation (FOT&E) of Software Block Upgrade III. G&C Software efforts continued in order to address fleet identified priorities for MK48 ADCAP modifications (MODS). Efforts included software coding, modeling and simulation of proposed releases (including development and validation of models) and engineering tests in water for evaluation of proposed releases.

- Conducted validation of safety features for submarine crew safety. Provided for COMOPTEVFOR Block Upgrade IV DT Test support. Completed Common Broadband Advanced Sonar System (CBASS) trade studies and requirements analysis that initiated design development. Continued development of advanced wideband algorithms, signal processing, and tactical software. Performed wideband data gathering exercises and completed the fabrication of CBASS test vehicles that will support algorithm development and initial software builds.

- Industrial Preparedness (Manufacturing and Technology). With the goal of improving productivity and responsiveness within the domestic defense industrial base, Centers for Excellence funded under the MANTECH program continued research in numerous areas including processing and fabricating composites, electronics, and metals.

- Navy Meteorological and Oceanographic Sensors-Space (METOC).

In support of Fleet operational requirements, ongoing efforts funded development and demonstration of technologies for Navy-unique sensors to be deployed under the Defense Meteorological Satellite and National Polar-Orbiting Operational Environment Satellite System programs.

Required Supplementary Stewardship Information

Non-Federal Physical Property

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

DEPARTMENT OF THE NAVY

GENERAL FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

Department of Defense
Department of the Navy
DISAGGREGRATED STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
($ in Thousands)

	Military Personnel	Operations & Maintenance	Procurement	Research, Development,Test & Evaluation
BUDGETARY RESOURCES:				
1. Budget Authority	$ 24,663,204	$ 28,054,591	$ 20,557,190	$ 8,997,970
2. Unobligated Balance - Beginning of Period	186,747	548,445	8,821,689	515,973
3. Net Transfers Prior-Year Balance, Actual (+/-)	69,515	16,869	142,877	10,000
4. Spending Authority from Offsetting Collections	285,945	4,049,445	34,774	180,341
5. Adjustments (+/-)	1,106,278	702,151	122,989	14,642
6. Total Budgetary Resources	$ 26,311,689	$ 33,371,501	$ 29,679,519	$ 9,718,926
STATUS OF BUDGETARY RESOURCES:				
7 Obligations Incurred	26,161,890	32,563,205	20,566,913	8,879,289
8. Unobligated Balances - Available	20,984	154,586	8,598,220	766,270
9. Unobligated Balances - Not Available	128,815	653,710	514,386	73,367
10. Total, Status of Budgetary Resources	$ 26,311,689	$ 33,371,501	$ 29,679,519	$ 9,718,926
OUTLAYS:				
11. Obligations Incurred	26,161,890	32,563,205	20,566,913	8,879,289
12. Less: Spending Authority From Offsetting Collections and Adjustments	(1,498,172)	(5,174,575)	(668,562)	(369,195)
13. Obligated Balance, Net - Beginning of Period	1,897,310	7,912,904	30,271,246	3,783,414
14. Obligated Balance Transferred, Net	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	(2,220,126)	(9,739,406)	(31,752,990)	(4,244,667)
16. Total Outlays	$ 24,340,902	$ 25,562,128	$ 18,416,607	$ 8,048,841

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Navy
DISAGGREGRATED STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
($ in Thousands)

BUDGETARY RESOURCES:	Military Construction/ Family Housing	Other General Funds	Combined Total
1. Budget Authority	$ 934,664	$ 729,467	$ 83,937,086
2. Unobligated Balance - Beginning of Period	741,034	619,887	11,433,775
3. Net Transfers Prior-Year Balance, Actual (+/-)	(14,388)	0	224,873
4. Spending Authority from Offsetting Collections	361,544	642,846	5,554,895
5. Adjustments (+/-)	3,015	(16,622)	1,932,453
6. Total Budgetary Resources	$ 2,025,869	$ 1,975,578	$ 103,083,082
STATUS OF BUDGETARY RESOURCES:			
7. Obligations Incurred	1,313,191	1,413,083	90,897,571
8. Unobligated Balances - Available	670,874	562,495	10,773,429
9. Unobligated Balances - Not Available	41,804	0	1,412,082
10. Total, Status of Budgetary Resources	$ 2,025,869	$ 1,975,578	$ 103,083,082
OUTLAYS:			
11. Obligations Incurred	1,313,191	1,413,083	90,897,571
12. Less: Spending Authority From Offsetting Collections and Adjustments	(376,417)	(712,867)	(8,799,788)
13. Obligated Balance, Net - Beginning of Period	1,316,104	1,790,087	46,971,065
14. Obligated Balance Transferred, Net	0	0	0
15. Less: Obligated Balance, Net - End of Period	(1,194,477)	(1,274,214)	(50,425,880)
16. Total Outlays	$ 1,058,401	$ 1,216,089	$ 78,642,968

Additional information included in Note 18.

General Property, Plant, and Equipment
Real Property Deferred Maintenance Amounts
As of September 30, 1999
($ in Thousands)

(a) Property Type/Major Class	(b) Amount
1. Real Property	
A. Buildings	$7,024,531
B. Structures	2,151,263
2. Total	$9,175,794

Narrative Statement:

In addition to the $9,175,794 of Real Property Deferred Maintenance as defined by the Department of Defense (DoD) Financial Management Regulation, Volume 6B, dated October 1999, the DON has an additional $121,471 of deferred demolition expenses.

The federal government lacks standards on the methodology to estimate deferred maintenance information that must be reported based upon FASAB requirements. Until these requirements are defined at the government-wide level, the DON will include in its Required Supplemental Information to its financial statements deferred maintenance amounts reported for General PP&E Real Property that were reported during the budget process. In addition, the DoD has volunteered to chair a Chief Financial Officer (CFO) Council project tasked with developing and recommending government-wide methods for determining deferred maintenance estimates and reporting guidance.

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 Naval Facilities Engineering Command (NAVFAC). 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 financial statement includes both "critical" and "deferrable" maintenance actions as defined in 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 which has degraded mission capability contributing to a C3 or C4 facility condition rating in a standard base report (BASERP) mission area.

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

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

Maintenance actions, which do not meet the above criteria, are categorized by Navy as "deferrable" actions and records are maintained separately by category. Navy only reports "critical" deficiencies in the budget exhibits prepared for Congressional review. The inclusion of both "critical" and "deferrable" deferred maintenance estimates in the above Real Property Deferred Maintenance table is the result of the NAVAUDSVC Audit Report 050-99 of 30 July 1999, Finding 2. In that finding, the NAVAUDSVC criticized the DON for excluding form their deferred maintenance totals the deferrable maintenance that was not an immediate requirement or did not meet the four-part criteria. The audit also recommends that the DON include Family Housing in the deferred maintenance totals. The budget exhibit will include a footnote disclosure to reconcile the budget exhibit reported amount for Real Property Deferred Maintenance to the amounts reported in the Real Property Deferred Maintenance table reported in the Required Supplementary Information section of this report.

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 which combines the elements of hazard severity and mishap probability. The codes are:

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

For Marine Corps Installations, deficiencies are determined by a combination of direct facility inspections and customer input in accordance with the MO-322. Locally (activity) funded maintenance actions are summarized by Cost Account Code (CAC) and reported in summary to Headquarters Marine Corps (HQMC). Larger actions 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 is made by HQMC personnel. Marine Corps does not differentiate maintenance deficiencies by critical or deferrable. All maintenance and repair work remaining as a firm requirement of the annual plan but which lack resources are included as deferred maintenance at year-end. Marine Corps only reports BMAR less than four years old in the budget exhibits prepared for Congressional review.

No changes have been made to condition requirements or standards from the previous reporting year. However, the accompanying table of data represents both "critical" and "deferrable" maintenance requirements remaining at year-end for Navy activities. This is a change from the data reported in the previous year submission, which included only "critical" deferred maintenance. Marine Corps data continues to include all qualifying deferred maintenance.

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 funds do 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, 1999
($ in Thousands)

(a) Major Type/Major Class	(b) Amount
1. Aircraft	$170,761
2. Ships	1,627,653
3. Missiles	34,118
4. Combat Vehicles	5,169
5. Other Weapons Systems	362,454
6. Total	$2,200,155

Narrative Statement:

The federal government lacks standards on the methodology to estimate deferred maintenance information that must be reported based upon FASAB requirements. Until these requirements are defined at the government-wide level, the DON will include in its Required Supplemental Information to the Financial Statements, ND PP&E deferred maintenance amounts that are reported as depot-level deferred maintenance through the budget process. In addition, the DoD has volunteered to chair a Chief Financial Officer (CFO) Council project tasked with developing and recommending government-wide methods for determining deferred maintenance estimates and reporting guidance. The DoD also is reviewing the desirability, feasibility, and benefit of expanding the categories of ND PP&E assets included in the deferred maintenance.

All major types of weapons systems listed above, except ships (see below), are deferred as a result of a lack of adequate resources to induct into the depots. The equipment is categorized as not operable awaiting repair, or operable in a degraded condition. Each major type of weapons system is reviewed continuously to ensure that the Department is able to meet its readiness goals to support and achieve national defense objectives.

There are four sub-categories that define the aircraft maintenance program, and they include airframe maintenance, engine maintenance, software maintenance, and components. Four categories are used to determine missile maintenance. They include strategic missiles, tactical missiles, software maintenance, and other. Within ship maintenance there are four categories and include overhaul, restricted/technical availability, software maintenance and other. The combat vehicles category is for vehicle overhaul. The Other Weapons Systems category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, fire control, target systems, towed arrays, sonar systems, and expeditionary airfield equipment. Three categories define ordnance maintenance and they

include ordnance maintenance, software maintenance and other. Deferred ordnance maintenance included in the Other category is $42,342 (thousand).

The total maintenance requirement for ships is accumulated in the Current Ship's Maintenance Project (CSMP), a database maintained for each ship in the fleet. The database is used to document all maintenance requirements, and does not differentiate between deferred (past due), current, and future requirements. The Navy is unable to segregate deferred maintenance from current and future requirements at this time. The budgeting goal for ship's maintenance is 93.5% of the projected requirement for that year. A significant, but non-quantifiable, portion of the amount reported here as "deferred maintenance" are requirements that will be satisfied in future years' budgets.

No changes have been made to the condition requirements or standards from the previous reporting year, except for ships as explained above.

The cost assessment survey method was used to determine the estimated amounts of deferred maintenance.

The percentage condition operational for ND PP&E is found on the quantity schedule for ND PP&E, Required Supplementary Stewardship Information.

Required Supplemental Information
Part A
Department of Navy GF

Schedule, Part A DoD Intragovernmenal Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury:	Accounts Receivable:	Investments:	Other:
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08		25		
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11		104,141		
Department of Agriculture	12		92		
Department of Commerce	13		2,294		
Department of the Interior	14		9		
Department of Justice	15		264		
Department of Labor	16		89		
Department of the Navy, General Funds (GF)	17				
United States Postal Service	18				
Department of State	19		663		
Department of the Treasury	20	62,901,112	1,072	10,166	
Department of the Army, GF	21		96,060		59,360
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		26,349		
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		1,401		
Securities and Exchange Commission	50				
Federal Deposit Insurance Group	51				
Federal Labor Relations Authority	54				

Required Supplemental Information
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Advisory Commission on Intergovernmental Relations	55				
Central Intelligence Agency	56				
Department of the Air Force, GF	57		36,221		21,643
Federal Emergency Management Agency	58				
National Foundation on the Arts and Humanities	59		420		
Railroad Retirement Board	60		54		
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63		8		
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67		3		
Environmental Protection Agency	68				
Department of Transportation	69		12,140		
Oversees Private Investment Corporation	71				
Agency for International Development	72		182		
Small Business Administration	73				
American Battle Monuments Commission	74				
Department of Health and Human Services	75		142		
Independent Agencies**	76				
Farm Credit	78				
National Aeronautics and Space Administration	80		2,676		
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84		6		
Department of Housing and Urban Development	86		56		
National Archives and Records Administration	88				
Department of Energy	89		735		
Selective Service System	90				
Department of Education	91		90		
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95		12,683		
U.S. Army Corps of Engineers (Civil Works)	96		1		
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001		225		(644)
Department of the Navy, WCF	97-4930-002		55,246		164,631
Department of the Air Force, WCF	97-4930-003		11,272		2,476
Other Defense Organizations, GF	97		230,402		
Other Defense Organizations, WCF	97-4930		26,374		132,707
Unidentifiable Federal Agency Entity	00				
Total		$62,901,112	$621,395	$10,166	$380,173

Required Supplemental Information
Part B
Department of Navy GF

Schedule, Part B DoD Intragovernmenal Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	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			
Department of Labor	16			572,184
Department of the Navy, General Funds (GF)	17			
United States Postal Service	18			
Department of State	19			
Department of the Treasury	20			553,404
Department of the Army, GF	21	52,146		
Resolution Trust Corporation	22			
United States Tax Court	23			
Office of Personnel Management	24			20,866
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			

Required Supplemental Information
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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			
Central Intelligence Agency	56			
Department of the Air Force, GF	57	51,105		
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			

Required Supplemental Information
Part B
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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	3,929		
Military Retirement Trust Fund	97-8097			
Department of the Army, WCF	97-4930-001	13,972		
Department of the Navy, WCF	97-4930-002	223,729		
Department of the Air Force, WCF	97-4930-003	37,016		
Other Defense Organizations, GF	97	2,073		
Other Defense Organizations, WCF	97-4930	150,922		
Unidentifiable Federal Agency Entity	00			
Total		$534,892	$0	$1,146,454

Required Supplemental Information
Part C
Department of Navy GF

Schedule, Part C DoD Intragovernmenal Revenues and Related Costs with Other Federal Agencies	Treasury Index:	Earned Revenue:	Non-exchange Revenue:	Other:	Full Cost to Generate Revenue:
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08	146			
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11	255,978			
Department of Agriculture	12	443			
Department of Commerce	13	40,071			
Department of the Interior	14	30			
Department of Justice	15	921			
Department of Labor	16	174			
Department of the Navy, General Funds (GF)	17				
United States Postal Service	18				
Department of State	19	9,743			
Department of the Treasury	20	1,879	599	70,192	
Department of the Army, GF	21	294,887			
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	198,125			
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			
Independent Agencies**	48				
National Science Foundation	49	36,080			

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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				
Department of the Air Force, GF	57	135,072			
Federal Emergency Management Agency	58	116			
National Foundation on the Arts and Humanities	59	544			
Railroad Retirement Board	60	1,338			
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63	24			
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67	204			
Environmental Protection Agency	68				
Department of Transportation	69	79,629			
Oversees Private Investment Corporation	71	1			
Agency for International Development	72	765			
Small Business Administration	73				
American Battle Monuments Commission	74				
Department of Health and Human Services	75	67			
Independent Agencies**	76				
Farm Credit	78	408			
National Aeronautics and Space Administration	80	160,329			
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84	6			
Department of Housing and Urban Development	86	66			
National Archives and Records Administration	88				
Department of Energy	89	2,667			
Selective Service System	90	367			
Department of Education	91				
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95	14,885			
U.S. Army Corps of Engineers (Civil Works)	96	945			
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001	25,257			
Department of the Navy, WCF	97-4930-002	842,102			
Department of the Air Force, WCF	97-4930-003	30,208			

Required Supplemental Information
Part C
Department of Navy GF

Other Defense Organizations, GF	97	1,921,981			
Other Defense Organizations, WCF	97-4930	158,906			
Unidentifiable Federal Agency Entity	00				
Total		$4,214,365	$599	$70,192	$4,633,170

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

F. Jay Lane
Salvatore D. Guli
Brian M. Flynn
Linda A. Pierce
Edward A. Blair
Amy J. Frontz
William E. Hosick
Modupe M. Akinsika
Noelle G. Blank