

*Audit*



*Report*

INSPECTOR GENERAL, DOD, OVERSIGHT OF THE  
NAVAL AUDIT SERVICE AUDIT OF THE NAVY GENERAL FUND  
FINANCIAL STATEMENTS FOR FYs 1997 AND 1996

Report Number 98-104

April 7, 1998

Office of the Inspector General  
Department of Defense

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### **Acronyms**

GAO	General Accounting Office
IG	Inspector General
NAS	Naval Audit Service



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

April 7, 1998

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

**SUBJECT: Inspector General, DoD, Oversight of the Naval Audit Service Audit of  
the Navy General Fund Financial Statements for FYs 1997 and 1996  
(Report No. 98-104)**

We are providing this audit 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 (NAS) disclaimer of opinion on the Navy General Fund Financial Statements for FYs 1997 and 1996, along with the NAS report, "Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Report on Auditor's Opinion." An audit 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." Since 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. Richard B. Bird, Audit Program Director, at (703) 604-9175 (DSN 664-9175, e-mail [rbird@dodig.osd.mil](mailto:rbird@dodig.osd.mil)) or Ms. Linda A. Pierce, Audit Project Manager, at (216) 522-6091, extension 234 (DSN 580-6091, e-mail [lap@dodig.osd.mil](mailto:lap@dodig.osd.mil)). See Appendix D 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. 98-104  
(Project No. 7FI-2033.02)

April 7, 1998

### Inspector General, DoD, Oversight of the Naval Audit Service Audit of the Navy General Fund Financial Statements for FYs 1997 and 1996

#### Executive Summary

**Introduction.** An audit 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 Navy General Fund Financial Statements for FYs 1997 and 1996 to the Naval Audit Service. This report provides our endorsement of the Naval Audit Service disclaimer of opinion on the Navy General Fund Financial Statements for FYs 1997 and 1996, along with the Naval Audit Service report, "Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Report on Auditor's Opinion."

**Audit Objective.** Our objective was to determine the accuracy and completeness of the Naval Audit Service audit of the Navy General Fund Financial Statements for FYs 1997 and 1996. See Appendix C for a discussion of the audit process.

**Audit Results.** The Naval Audit Service report, "Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Report on Auditor's Opinion," February 27, 1998, stated that the auditors were unable to express an opinion on the Navy General Fund Financial Statements for FYs 1997 and 1996. We concur with the Naval Audit Service disclaimer of opinion; our endorsement of that disclaimer is at Appendix A. The Naval Audit Service report is at Appendix B.



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**Appendix A. Inspector General, DoD,  
Endorsement Memorandum**





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

February 27, 1998

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 1997 Department of the Navy General Fund Financial Statements (Project No. 7FI-2033)

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 audits of the FYs 1997 and 1996 Navy General Fund consolidated financial statements. Summarized below are the NAS disclaimer of opinion on the FYs 1997 and 1996 Navy General Fund financial statements and the results of our review of the NAS audit. We endorse the disclaimer of opinion expressed by the NAS (see the Enclosure).

**Disclaimer of Opinion.** The NAS disclaimer of opinion on the FYs 1997 and 1996 Navy General Fund financial statements, dated February 27, 1998, states that the NAS was unable to express an opinion on the financial statements. We concur with the NAS disclaimer of opinion for the reasons summarized below.

- o The Department of the Navy did not have transaction-driven, standard general ledger accounting systems capable of accurately reporting the value of assets and liabilities, including the status of funds appropriated.

- o No subsidiary ledgers existed, which are necessary for maintaining accurate financial records and for providing an audit trail.

**Internal Controls.** Internal controls did not ensure that the FYs 1997 and 1996 Navy General Fund financial statements contained no material misstatements. Procedural and compliance problems also contributed to the lack of accurate financial reporting. The Department of the Navy and the Defense Finance and Accounting Service have recognized these weaknesses and reported them in their FY 1997 Annual Statements of Assurance. Details on these matters and on compliance with laws and regulations will be discussed in a separate report.

**Compliance With Laws and Regulations.** The NAS also identified areas of noncompliance with laws and regulations. Under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 93-06, Addendum 1, "Audit Requirements for Federal Financial Statements," January 16, 1998, the NAS work disclosed that financial management systems did not comply with Federal financial management system requirements; applicable Federal accounting standards; and the United States Government Standard General Ledger at the transaction level.

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

We conducted our review of the NAS work on the FYs 1997 and 1996 Navy General Fund financial statements from March 11, 1997, to February 27, 1998, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the NAS opinion or its related evaluation of internal controls and compliance with laws and regulations.



David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

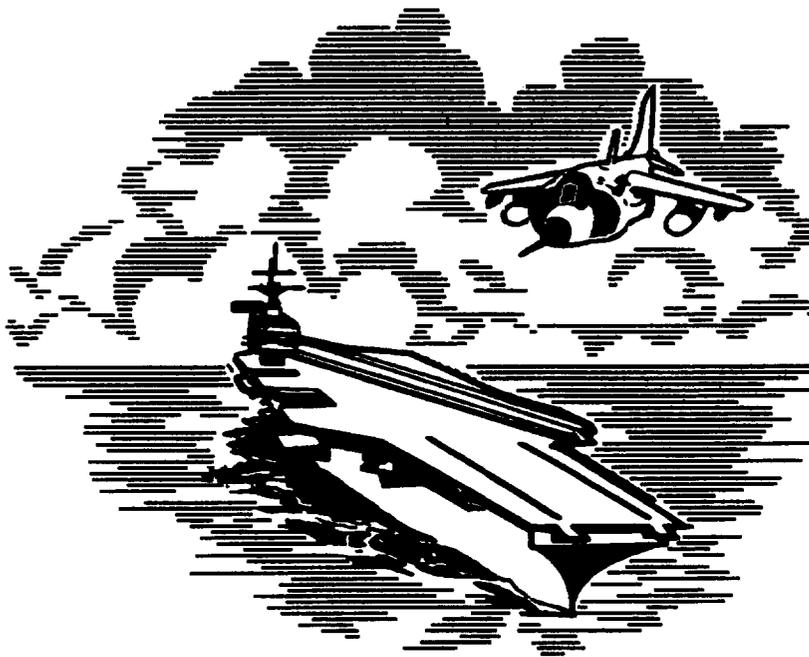
Enclosure

## **Appendix B. Naval Audit Service Report**





# Audit Report



**Department of the Navy  
Principal Statements  
for Fiscal Years 1997 and 1996:  
Report on Auditor's Opinion**

025-98

27 February 1998





DEPARTMENT OF THE NAVY  
AUDITOR GENERAL OF THE NAVY  
5611 COLUMBIA PIKE  
ROOM 506B, NASSIF BUILDING  
FALLS CHURCH, VA 22041-5080

7547/97-0004  
27 Feb 98

From: Auditor General of the Navy

Subj: **DEPARTMENT OF THE NAVY PRINCIPAL STATEMENTS FOR  
FISCAL YEARS 1997 AND 1996: REPORT ON AUDITOR'S OPINION  
(025-98)**

Ref: (a) Public Law 101-576, "Chief Financial Officers Act," 15 Nov 90, as amended  
by Public Law 103-356, "Government Management Reform Act of 1994,"  
13 Oct 94  
(b) SECNAV Instruction 7510.7E, "Department of the Navy Internal Audit"

1. We have completed our audit of the Department of the Navy Principal Statements for fiscal years ended 30 September 1997 and 1996. The audit was conducted as required by reference (a).

2. We are unable to give an opinion on the Principal Statements, primarily because of inadequate financial systems and incomplete and unauditible supporting records. We were unable to apply other audit procedures in these areas to satisfy ourselves as to the fairness and completeness of the data presented. We believe that our audit provides a reasonable basis for our conclusions.

3. The Report on Auditor's Opinion summarizes the reasons for our disclaimer of opinion on the financial statements. Section A describes how we performed our work and Section B provides a brief discussion of our results and conclusions. More detailed discussions of these results and conclusions, along with specific recommendations, are provided in separate reports, as listed in Section E of this report. These other reports include a Report on Internal Controls and Compliance with Laws and Regulations.

4. Any request for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy, in accordance with reference (b).

5. We appreciate the cooperation and courtesies extended to our auditors.

A handwritten signature in black ink that reads "Donald Oliveros".

DONALD OLIVEROS  
By direction

Distribution:

Secretary of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)

Under Secretary of Defense (Comptroller)

Director, Defense Finance and Accounting Service

Inspector General, Department of Defense

**Subj: DEPARTMENT OF THE NAVY PRINCIPAL STATEMENTS  
FOR FISCAL YEARS 1997 AND 1996: REPORT ON  
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# ***Report on Auditor's Opinion***

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the Department of the Navy prepared the accompanying Principal Statements for the fiscal year ended 30 September 1997. In addition, the Government Management Reform Act significantly expanded the statutory audit requirements of the Inspectors General. On 10 May 1995, the Inspector General, Department of Defense, delegated responsibility to the Naval Audit Service for audit of the Department of the Navy's financial statements for Fiscal Year 1996 and beyond. Fiscal Year 1997 was the second year such statements were required. Therefore, this was the second year we were requested to audit the financial statements in accordance with generally accepted government auditing standards. The audit included an evaluation of related internal controls and compliance with laws and regulations.

We are unable to give an opinion on the Department of the Navy's Principal Financial Statements for the fiscal years ended 30 September 1997 and 1996. The primary reason for this disclaimer of opinion is that the Department of the Navy does not have transaction-driven standard general ledger accounting systems that can accurately report the value of assets and liabilities, including the status of funds appropriated. Thus, we can not ascertain the reliability of the financial statements. Based on work we performed, we identified the following: the \$5.7 billion balance in Accounts Receivable, Non-Federal and Federal was materially affected by an invalid \$1.4 billion receivable and a \$430 million understatement; the War Reserve balance of \$54.6 billion was understated by at least \$8.5 billion; the \$293 billion Property, Plant, and Equipment (Military Equipment) balance was understated by at least \$10.8 billion; and the Accounts Payable, Non-Federal balance of \$5.5 billion was understated by \$322 million.

Financial data in the Overview and the Supplemental Financial and Management Information sections of the Department of the Navy's Annual Financial Report was derived from the same sources as the financial statements and, therefore, may not be reliable.

Internal controls did not ensure that the financial statements were free of material misstatements. As a result, the risk of material misstatement is high. Procedural and compliance problems also contributed to the lack of support for financial reporting. Accounting systems represented the foremost compliance problem since these systems did not meet the requirements of the Federal Financial Management Improvement Act of 1996. Specifically, the Department of the Navy's financial management systems do 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. The Department of the Navy and Defense Finance and Accounting Service have recognized these weaknesses and reported them in their Fiscal Year 1997 Assurance Statements on Management Controls.

A handwritten signature in cursive script, appearing to read "Greg Sinclitico".

GREG SINCLITICO  
By direction

# **Section A**

## **Introduction**

### **Background**

The Department of the Navy Annual Financial Report for fiscal years ended 30 September 1997 and 1996 includes General, Revolving, Trust, and Other fund accounts under the control of the Department of the Navy. General Fund accounts are used to record funds appropriated by Congress and financial transactions utilizing the funds. The Department of the Navy manages 24 General Fund accounts. These accounts are funded by either current year appropriations, multi-year appropriations, or no-year appropriations (appropriations that are available for incurring obligations until exhausted or until the purpose for which they were made available has been accomplished).

The Defense Finance and Accounting Service - Cleveland Center is responsible for preparing the Department of the Navy's Annual Financial Report, including the Principal Statements. The Defense Finance and Accounting Service - Kansas City Center is responsible for providing the Cleveland Center with Marine Corps financial information that is consolidated with the Navy's financial data in developing the Department of the Navy's financial statements. The Department of the Navy, with support from the Defense Finance and Accounting Service, is responsible for:

- Preparing the annual financial statements in conformity with generally accepted accounting principles and Office of Management and Budget Bulletin 94-01, "Form and Content of Agency Financial Statements," 16 November 1993, or subsequent issuances.
- Establishing and maintaining management controls and systems to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met.
- Complying with applicable laws and regulations.

As required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, and as requested by the Office of Inspector General, Department of Defense, the Naval Audit Service is responsible for auditing the Department of the Navy Principal Statements and evaluating related internal controls and compliance with laws and regulations.

### **Objective**

The audit objective addressed by this report was to determine whether the Department of the Navy's Principal Statements fairly presented, in all material respects, the financial

position and results of operation for Fiscal Year 1997 in accordance with the other comprehensive basis of accounting described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," 16 November 1993, or subsequent issuances. Other objectives are addressed in other reports.

## Scope and Methodology

In May 1995, the Inspector General, Department of Defense delegated Department of the Navy financial statement audit responsibility to the Naval Audit Service for Fiscal Year 1996 and beyond. Our review of the Department of the Navy's Fiscal Year 1997 Annual Financial Report focused on two key Principal Statements -- the Statement of Financial Position and the Statement of Operations and Changes in Net Position, including related footnotes. We analyzed the comparison of Fiscal Year 1996 data included in the Principal Statements to understand changes in financial position and operations. The Department of the Navy financial statements account for all funds for which the Department is responsible except information relative to classified assets, programs, and operations excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. We focused our audit primarily on the General Fund and the following major accounts:

### Statement of Financial Position

Account	Total Value (\$000)
<b>Assets:</b>	
Fund Balance with Treasury	\$57,681,906 1/
Accounts Receivable, Net, Federal	3,165,602 1/
Accounts Receivable, Net, Non-Federal	2,531,768 1/
Interest Receivable, Net	0 1/
Advances and Prepayments, Non-Federal	4,786,022
Property, Plant, and Equipment, Net	334,588,778
War Reserves	54,589,962
<b>Liabilities:</b>	
Accounts Payable, Federal	182,964 2/
Accounts Payable, Non-Federal	5,467,263 2/
<b>Net Position:</b>	
Unexpended Appropriations	59,026,537
1/ Reflects net of Entity and Non-Entity Assets	
2/ Reflects net of both Liabilities Covered and Not Covered by Budgetary Resources	

## **Statement of Operations and Changes in Net Position**

<b>Account</b>	<b>Total Value (\$000)</b>
<b>Revenues and Financing Sources:</b>	
Appropriated Capital Used	\$62,037,263
<b>Expenses:</b>	
Program or Operating Expenses	62,025,670
Bad Debts and Writeoffs	71,728

Our audit began on 11 March 1997 and was completed on 27 February 1998. We conducted reviews at the Defense Finance and Accounting Service - Cleveland Center and Defense Finance and Accounting Service - Kansas City Center, including their subordinate Operating Locations. We also conducted reviews at the offices of the Assistant Secretary of the Navy (Financial Management and Comptroller), major commands in the Navy and Marine Corps, and selected Navy and Marine Corps subordinate commands. A list of the activities visited or contacted is in Section D.

We conducted our work in accordance with generally accepted government auditing standards. Tests and procedures as deemed necessary were used to assess the reliability of the Fiscal Year 1997 Statement of Financial Position and Statement of Operations and Changes in Net Position, including the adequacy of internal controls and compliance with laws and regulations (discussed in a separate report).

This report provides our disclaimer of opinion on the Department of the Navy Principal Statements for fiscal years ended 30 September 1997 and 1996. A separate report contains our conclusions on internal control and compliance with laws and regulations. Additional reports contain our conclusions on specific deficiencies. A list of those supporting reports is in Section E. Section F provides the Principal Statements and related footnotes.



# **Section B**

## **Results of Audit Work**

The Department of the Navy's Fiscal Year 1997 Principal Statements for its Annual Financial Report contained significant understatements and overstatements. The primary reason for these discrepancies was that transaction-driven accounting systems had not yet been developed for the Department of the Navy. Procedural and compliance problems also contributed to the lack of accurate financial reporting. Without the accounting systems, a manual data call process must be used to accumulate data for at least 85 percent of the dollar value reported as assets on the Statement of Financial Position.

Defense Finance and Accounting Service actions taken have improved the financial statement preparation process and enhanced the auditability of that process. Details on improvement actions taken are in Section C. Significant matters noted during our audit are provided in the following paragraphs. Although correction of these discrepancies should improve financial reporting, these corrections alone could not ensure the balances reported in the individual accounts are accurate and complete.

### **Fund Balance with Treasury**

- The Defense Finance and Accounting Service made improvements in reconciling and clearing budget clearing account F3880 (recertified check payments) balances, which had an impact on the Department of the Navy reconciling the \$58 billion in Fund Balance with Treasury records. However, further progress is needed in reporting unreconciled differences. In addition, improvements are needed in documenting adjustments made to budget clearing account F3879 (undistributed and letters of credit differences) balances.

### **Accounts Receivable, Net, Federal and Non-Federal**

- Of the \$5.7 billion reported in Accounts Receivable, Net, Federal and Non-Federal for the Department of the Navy in Fiscal Year 1997, we noted understatements totaling about \$430 million related to negative balances in individual fiscal year appropriations. This primarily occurred due to unearned revenue being credited to accounts receivable rather than to a separate unearned revenue liability account.
- Accounts Receivable, Net, Non-Federal inappropriately included \$1.4 billion in contractor debt for which a contingency loss existed. The inclusion of the \$1.4 billion contingency as an accounts receivable prevented the Accounts

Receivable, Net, Non-Federal balance from being a useful indicator of collectables for financial reporting.

- The methodology for estimating the uncollectable portion of the Department of the Navy's Fiscal Year 1997 Accounts Receivable, Net, Non-Federal balance did not produce a reliable allowance for uncollectable amounts for either financial reporting or debt management purposes. Instead of a detailed review of the debtor's ability to pay, the allowance was based on computations that were unsupported and inaccurate.

## **War Reserves**

- War Reserves on the Department of the Navy's Fiscal Year 1997 Statement of Financial Position was understated by at least \$8.5 billion. This included items onboard ships that Navy management believed it was not required to report, and material on hand in shore installation supply departments that was not included in the data base used to report War Reserves.
- We were unable to further assess the accuracy of the \$54.6 billion of War Reserves reported on the Fiscal Year 1997 Department of the Navy Statement of Financial Position. This occurred because the manual data call process did not provide a final War Reserve balance in time for review prior to issuing the final financial statements. In addition, documentation to support the \$54.6 billion was not available for review before the final financial statements were issued.

## **Property, Plant, and Equipment, Net**

### **Military Equipment**

- The Department of the Navy's Fiscal Year 1997 balance of \$293 billion for Military Equipment was understated by at least \$10.8 billion. Specifically:
  - ❑ A \$6.1 billion understatement occurred because of misunderstandings about which satellites should be reported and which Navy command had the responsibility for reporting satellites.
  - ❑ A \$2.5 billion understatement occurred because no command had been assigned responsibility for reporting specific items that had been procured by management and subsequently issued to Fleet commands and activities.
  - ❑ A \$2.2 billion understatement occurred because management did not report 74 stricken aircraft because Fiscal Year 1996 data was used instead of Fiscal Year 1997.

- The Department of the Navy included a \$354 million overstatement for Military Equipment because it reported items that did not meet the capitalization threshold.
- The Marine Corps' central data base for military equipment could not be reconciled to supporting property records maintained by individual units. Therefore, the accuracy of the Marine Corps' reported investment in Military Equipment could not be verified. This occurred because the central data base did not record individual equipment serial numbers. Instead, the data base only recorded total number of each type of equipment at individual units.

### **Government Property Held by Contractors**

- We were unable to assess the accuracy of the \$17.7 billion in Government Property Held by Contractors reported on the Fiscal Year 1997 Department of the Navy Statement of Financial Position. This occurred because the information provided for audit on 15 December 1997 included Fiscal Year 1996 data. The Fiscal Year 1997 data was not available from the Department of Defense's Contract Property Management System for review prior to the issuance of the final financial statements.

### **Accounts Payable, Federal**

- One major Navy command did not accrue accounts payable for work performed. Performance reports should be used to accrue accounts payable for the accounting period in which the liabilities occurred. We reviewed the Undelivered Orders balance at the Commander in Chief, U.S. Pacific Fleet and four field activities as of 31 July 1997. The review showed that if accrual accounting procedures had been used, the Accounts Payable balance would have been \$93.3 million instead of the \$95,000 recorded as of that date. In addition, the Undelivered Order balance should be reduced by the \$93.3 million figure. Furthermore, the accounting system used by the Navy's System Commands did not have the capability to accrue accounts payable. At the end of the fiscal year, not accruing such liabilities could significantly understate the Accounts Payable, Federal balance and overstate the Undelivered Order balance by the same amount.

### **Accounts Payable, Non-Federal**

- Accounts Payable, Non-Federal was understated by about \$322 million as of 30 September 1997 and Undelivered Orders overstated by the same amount. This occurred because the Standard Accounting and Reporting System/Headquarters Claimant Module was not capable of converting an undelivered order entry into an accounts payable entry when evidence of work

performance was received. In addition, accounting technicians using the Standard Accounting and Reporting System/Field Level did not establish accounts payable when goods and services were accepted.

## **Program or Operating Expenses**

- The Department of the Navy did not properly record Program or Operating Expenses on the Fiscal Year 1997 Statement of Operations and Changes in Net Position. This amount should represent the total outlays for carrying out specific programs or functions. The footnotes to the Statement of Operations and Changes in Net Position should provide the breakdown of the individual outlays by object classification. However, individual amounts were actually derived by using predetermined percentages of the total for each individual outlay rather than by determining actual amounts.

# **Section C**

## **Actions Initiated to Meet the Chief Financial Officers Act Reporting Requirement**

The General Accounting Office identified significant financial management and reporting problems in its March 1996 report entitled "Increased Attention Must Be Given to Preparing the Navy's Financial Reports" (GAO/AIMD-96-7). Consequently, in Fiscal Year 1996, in cooperation with the Defense Finance and Accounting Service, the Department of the Navy established initiatives to plan and actively involve others in the effort to produce financial statements. These initiatives continued in Fiscal Year 1997. For example:

- The Department of the Navy Chief Financial Officers Act Core Group was established to address specific issues as they related to completing the financial statements required by the Chief Financial Officers Act. Representatives from the Department of the Navy, Naval Audit Service, Defense Finance and Accounting Service, Department of Defense Inspector General, and General Accounting Office met periodically to discuss all aspects of implementation of the Chief Financial Officers Act, including planning, implementation, audit response, and systems upgrades.
- A Chief Financial Officers Act Private Sector Council was established to provide private sector advisory service on the Chief Financial Officers Act implementation by the Department of the Navy.

In addition, Defense Finance and Accounting Service initiated the following actions to improve financial management and reporting:

- Preparing a mid-year financial statement for training Defense Finance and Accounting Service personnel and for identifying procedural and data weaknesses in the report preparation process. This process includes a mid-year certification for which Department of the Navy personnel were asked to certify values or identify errors that needed correction.
- Initiating a process to document journal vouchers for all adjustments to the statements. The process includes numerically sequencing journal voucher sheets, and requiring that all journal vouchers include identification of Chief Financial Officers Act line items and Department of Defense standard general ledger accounts.

- Developing instructions for an automated Chief Financial Officers Act program that identifies and standardizes the sequence of steps for producing financial statements.
- Issuing instructions on preparation of financial statements below the departmental level. These instructions provide guidance to assist in understanding situations unique to this level of reporting.
- Reducing significant differences in the Department of the Navy's Budget Clearing Accounts, for which the Department of the Treasury commended the Defense Finance and Accounting Service.
- Forming a Federal Generally Accepted Accounting Principles working group to provide a forum to identify, discuss, and resolve financial statement and accounting policy issues relating to implementation of the Federal Generally Accepted Accounting Principles standards.
- Developing and planning accounting system corrections to the Standard Accounting and Reporting System ranging from conversion to Department of Defense standard general ledgers to implementing accounts receivable and accounts payable modules.

These and other ongoing initiatives lay the groundwork for improving financial management and reporting within the Department of the Navy. However, senior Department of the Navy leaders recognize that many of the initiatives will take years to complete.

# ***Section D***

## ***List of Activities Visited or Contacted***

- Department of the Treasury, Washington, DC
- Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, DC
- Assistant Secretary of the Navy (Research, Development, and Acquisition), Washington, DC
- Office of the Under Secretary of Defense (Comptroller), Washington, DC
- Chief of Naval Operations, Washington, DC
- Commandant of the Marine Corps, Washington, DC
- Chief of Naval Education and Training, Pensacola, FL
- Chief of Naval Reserves, New Orleans, LA
- Naval Air Systems Command, Patuxent River, MD
- Naval Facilities Engineering Command, Washington, DC
- Naval Sea Systems Command, Washington, DC
- Naval Supply Systems Command, Mechanicsburg, PA
- Space and Naval Warfare Systems Command, San Diego, CA
- Navy Fleet Material Support Office, Mechanicsburg, PA
- Commander in Chief, U.S. Atlantic Fleet, Norfolk, VA
- Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, HI
- Commander, Submarine Force U.S. Pacific Fleet, Pearl Harbor, HI
- Commander, Naval Air Force U.S. Atlantic Fleet, Norfolk, VA
- Commander, Naval Surface Force U.S. Pacific Fleet, San Diego, CA
- Department of the Navy Office of Judge Advocate General, Washington, DC
- Defense Finance and Accounting Service - Headquarters, Washington, DC
- Defense Finance and Accounting Service - Cleveland Center, Cleveland, OH
- Defense Finance and Accounting Service - Kansas City Center, Kansas City, MO
- Defense Finance and Accounting Service - Columbus Center, Columbus, OH
- 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, San Diego, CA
- Defense Finance and Accounting Service Operating Location, Pensacola, FL
- Defense Finance and Accounting Service Operating Location, Honolulu, HI
- Defense Contract Management Command, Cleveland, OH
- Defense Contract Management Command, Fort Belvoir, VA
- Defense Contract Management Command, Pittsburgh, PA
- Defense Contract Management Command, San Diego, CA
- Defense Contract Management Command, Santa Ana, CA
- Defense Contract Management Command, Van Nuys, CA
- Defense Contract Management District East, Boston, MA

- Defense Contract Management District West, El Segundo, CA
- Fleet and Industrial Supply Center, San Diego, CA
- Fleet Anti-Submarine Warfare Center, San Diego, CA
- Fleet Combat Training Center, San Diego, CA
- Marine Corps Air Facility, Quantico, VA
- Marine Corps Air Station, Beaufort, SC
- Marine Corps Air Station, Cherry Point, NC
- Marine Corps Air Station, El Toro, Santa Ana, CA
- Marine Corps Air Station, New River, Jacksonville, NC
- Marine Corps Base, Camp Pendleton, CA
- Military Sealift Command, Washington, DC
- Naval Air Maintenance Training Group Detachment, Miramar, San Diego, CA
- Naval Air Station, Cecil Field, FL
- Naval Air Station, Corpus Christi, TX
- Naval Air Station, Jacksonville, FL
- Naval Air Station, Lemoore, CA
- Naval Air Station, Meridian, MS
- Naval Air Station, Miramar, San Diego, CA
- Naval Air Station, New Orleans, LA
- Naval Air Station, Norfolk, VA
- Naval Air Station, North Island, San Diego, CA
- Naval Air Station, Oceana, Virginia Beach, VA
- Naval Air Station, Patuxent River, MD
- Naval Air Station, Whidbey Island, Oak Harbor, WA
- Naval Air Warfare Center Aircraft Division Annex, Key West, FL
- Naval Air Warfare Center Training Systems Division, Orlando, FL
- Naval Air Warfare Center Weapons Division, China Lake, CA
- Naval Air Warfare Center Weapons Division, Point Mugu, CA
- Naval Amphibious Base, Little Creek, Virginia Beach, VA
- Naval Command, Control, and Ocean Surveillance Center, San Diego, CA
- Naval Construction Battalion Center, Port Hueneme, CA
- Naval Facilities Engineering Command Engineering Field Activity, San Bruno, CA
- Naval Facilities Engineering Command Engineering Field Detachment, San Diego, CA
- Naval Facilities Engineering Command Engineering Field Division, Norfolk, VA
- Naval Historical Center, Washington, DC
- Naval Inactive Ship Maintenance Facility, Pearl Harbor, HI
- Naval Inactive Ship Maintenance Facility, Philadelphia, PA
- Naval Inactive Ship Maintenance Facility, Portsmouth, VA
- Naval Inventory Control Point, Philadelphia, PA  
(Philadelphia, PA and Mechanicsburg, PA offices)
- Naval Reserve Readiness Center, Baltimore, MD
- Naval Service School, Great Lakes, IL

- Naval Shipyard, Mare Island, Vallejo, CA
- Naval Shipyard, Puget Sound, Bremerton, WA
- Naval Station, Ingleside, TX
- Naval Station, Mayport, FL
- Naval Station, New York, Brooklyn, NY
- Naval Station, Pearl Harbor, HI
- Naval Submarine School, Groton, CT
- Naval Surface Warfare Center, Crane, IN
- Naval Undersea Warfare Center Division, Keyport, WA
- Naval Undersea Warfare Center Division, Newport, RI
- Naval Weapons Station, Charleston, SC
- Naval Weapons Station, Concord, CA
- Naval Weapons Station, Seal Beach, CA
- Strategic Systems Programs Office, Washington, DC
- Supervisor of Shipbuilding, Conversion, and Repair, Groton, CT
- Supervisor of Shipbuilding, Conversion, and Repair, Newport News, VA
- U.S. Marine Corps Air Station, Iwakuni, Japan
- U.S. Maritime Administration, James River, VA
- U.S. Naval Air Station, Sigonella, Italy
- U.S. Naval Station, Guantanamo Bay, Cuba
- U.S. Naval Station, La Maddalena, Italy
- U.S. Naval Station, Panama Canal, Rodman, Panama
- AEGIS Training and Readiness Center, Dahlgren, VA
- TRIDENT Refit Facility, Bangor, WA
- TRIDENT Training Facility, Bangor, WA
- USS GEORGE WASHINGTON



# ***Section E***

## ***List of Areas Covered by Supporting Reports***

Fund Balance with Treasury

Accounts Receivable

Plant Property

Military Equipment

Mission Asset Accountability

War Reserves

Selected Assets and Expenses

Accounts Payable

Invested Capital

Financial Statement Preparation, Presentation,  
and Disclosure

Internal Controls and Compliance with  
Laws and Regulations



# ***Section F***

## ***Department of the Navy***

### ***Fiscal Years 1997 and 1996***

#### ***Principal Statements***

This section consists of pages 35 through 93 of the Department of the Navy Annual Financial Report. It includes the Principal Statements, Related Footnotes, and Supplemental Financial and Management Information.



***DEPARTMENT OF THE NAVY***

***PRINCIPAL STATEMENTS***

## Principal Statements

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## **PRINCIPAL STATEMENTS**

The Department of the Navy's FY 1997 Principal Statements are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6, Chapter 6. The statements present the overall financial position and operating results of the Department for the fiscal year ending September 30, 1997.

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

- **Statement of Financial Position**
- **Statement of Operations and Changes in Net Position**
- **Statement of Cash Flows, Revolving Funds only**

The principal statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the Chief Financial Officers Act of 1990 as amended by the Government Management Reform Act.

The footnotes should be considered an integral part of the principal statements.

### **Limitations of the Financial Statements:**

While the statements have been prepared from the books and records of the entity in accordance with the format prescribed by the Department of Defense, the statements are different from the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

**Principal Statements**

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# Principal Statements

Department of Defense  
 Department of the Navy  
 Statement of Financial Position  
 As of September 30, 1997  
 (Thousands)

ASSETS	<u>1997</u>	<u>1996</u>
<b>1. Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$58,009,408	\$64,801,567
(2) Investments, Net (Note 4)	8,610	7,532
(3) Accounts Receivable, Net (Note 5)	3,134,834	1,928,010
(4) Interest Receivable		
(5) Advances and Prepayments		66,579
(6) Other Federal (Intragovernmental) (Note 6)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments, Net (Note 4)		297
(2) Accounts Receivable, Net (Note 5)	2,526,405	4,360,849
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments	4,786,022	202,972
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		51,339
d. Inventory, Net (Note 8)	43	44
e. Work in Process (Note 9)	6,208	5,277
f. Operating Materials/Supplies, Net (Note 10)		27
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)	334,588,778	340,975,064
l. War Reserves	54,589,962	41,441,075
m. Other Entity Assets		74
n. Total Entity Assets	<u>\$457,650,270</u>	<u>\$453,840,706</u>
<b>2. Non-Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	(\$327,502)	(\$572,625)
(2) Accounts Receivable, Net (Note 5)	30,768	117,075
(3) Interest Receivable, Net		
(4) Other (Note 6)		

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The accompanying notes are an integral part of these statements.

# Principal Statements

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Department of Defense  
Department of the Navy  
Statement of Financial Position  
As of September 30, 1997  
(Thousands)

ASSETS, Continued	<u>1997</u>	<u>1996</u>
<b>2. Non-Entity Assets:</b>		
<b>b. Transactions with Non-Federal (Governmental) Entities:</b>		
(1) Accounts Receivable, Net (Note 5)	\$5,363	(\$26,673)
(2) Interest Receivable, Net	0	
(3) Other (Note 6)		
<b>c. Cash and Other Monetary Assets (Note 3)</b>	150,956	65,316
<b>d. Other Non-Entity Assets</b>		
<b>e. Total Non-Entity Assets</b>	<u>(\$140,415)</u>	<u>(\$416,907)</u>
<b>3. Total Assets</b>	<u>\$457,509,855</u>	<u>\$453,423,799</u>
<b>LIABILITIES</b>		
<b>4. Liabilities Covered by Budgetary Resources:</b>		
<b>a. Transactions with Federal (Intragovernmental) Entities:</b>		
(1) Accounts Payable	(\$27,956)	\$2,547,156
(2) Interest Payable		
(3) Debt (Note 16)		
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	146,089	302,605
<b>b. Transactions with Non-Federal (Governmental) Entities:</b>		
(1) Accounts Payable	3,165,383	6,461,703
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	1,204,622	250,455
(b) Annual Accrued Leave		
(c) Severance Pay and Separation Allowance	215,959	405,939
(3) Interest Payable		
(4) Liabilities for Loan Guarantees (Note 7)		
(5) Lease Liabilities (Note 18)		
(6) Pensions and Other Actuarial Liabilities (Note 19)		
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	40,007	40,253
<b>c. Total Liabilities Covered by Budgetary Resources:</b>	<u>\$4,744,104</u>	<u>\$10,008,111</u>

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The accompanying notes are an integral part of these statements.

# Principal Statements

Department of Defense  
 Department of the Navy  
 Statement of Financial Position  
 As of September 30, 1997  
 (Thousands)

**LIABILITIES, Continued**

	<u>1997</u>	<u>1996</u>
<b>5. Liabilities Not Covered by Budgetary Resources:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$210,920	\$0
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	6,070,000	
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	2,301,880	
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4) Pensions and Other Actuarial Liabilities (Note 19)	1,476,455	\$2,161,377
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	1,178,739	1,148,870
c. <b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$11,237,994</b>	<b>\$3,310,247</b>
<b>6. Total Liabilities</b>	<b>\$15,982,098</b>	<b>\$13,318,358</b>
<b>NET POSITION (Note 20)</b>		
<b>7. Balances:</b>		
a. Unexpended Appropriations	\$59,026,537	\$60,976,097
b. Invested Capital	393,702,842	382,395,684
c. Cumulative Results of Operations	14,656	(12,421)
d. Other	21,716	56,328
e. Future Funding Requirements	(11,237,994)	(3,310,247)
f. <b>Total Net Position</b>	<b>\$441,527,757</b>	<b>\$440,105,441</b>
<b>8. Total Liabilities and Net Position</b>	<b>\$457,509,855</b>	<b>\$453,423,799</b>

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The accompanying notes are an integral part of these statements.

# Principal Statements

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Department of Defense  
Department of the Navy  
Statement of Operations and Changes in Net Position  
For the Period Ended September 30, 1997  
(Thousands)

	<u>1997</u>	<u>1996</u>
<b>REVENUES AND FINANCING SOURCES</b>		
1. Appropriated Capital Used	\$62,037,966	\$56,535,616
2. Revenues from Sales of Goods and Services		
a. To the Public	905,244	54,478
b. Intragovernmental	4,215,988	6,645,888
3. Interest and Penalties, Non-Federal	703	616
4. Interest, Federal	566	580
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)	910,190	4,426
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	703	
8. Total Revenues and Financing Sources	<u>\$68,069,954</u>	<u>\$63,241,604</u>
<b>EXPENSES</b>		
9. Program or Operating Expenses (Note 23)	\$62,025,670	\$56,466,260
10. Cost of Goods Sold (Note 24)		
a. To the Public	835,391	48,515
b. Intragovernmental	4,215,988	6,672,509
11. Depreciation and Amortization		176
12. Bad Debts and Writeoffs	71,728	78,600
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other	8,745	237
14. Other Expenses (Note 25)	6,978,812	
15. Total Expenses	<u>\$74,136,334</u>	<u>\$63,266,297</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$6,066,380)	(\$24,693)
17. Plus (Minus) Extraordinary Items (Note 26)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$6,066,380)</u>	<u>(\$24,693)</u>

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The accompanying notes are an integral part of these statements.

# Principal Statements

Department of Defense  
Department of the Navy  
Statement of Operations and Changes in Net Position  
For the Period Ended September 30, 1997  
(Thousands)

	<u>1997</u>	<u>1996</u>
<b>EXPENSES, Continued</b>		
19. Net Position, Beginning Balance, as Previously Stated	\$440,105,441	\$443,232,471
20. Adjustments (Note 27)	<u>0</u>	<u>(1)</u>
21. Net Position, Beginning Balance, as Restated	\$440,105,441	\$443,232,470
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(6,066,380)	(24,693)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>7,488,696</u>	<u>(3,102,336)</u>
24. Net Position, Ending Balance	<u>\$441,527,757</u>	<u>\$440,105,441</u>

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The accompanying notes are an integral part of these statements.

# Principal Statements

Department of Defense  
 Department of the Navy  
 Statement of Cash Flows (Indirect Method)  
 For the Period Ended September 30, 1997 (Revolving Funds Only)  
 (Thousands)

	<u>1997</u>	<u>1996</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$0</u>	<u>\$0</u>
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	754,755	(511,597)
4. Decrease (Increase) in Other Assets	(932)	0
5. Increase (Decrease) in Accounts Payable	(490,490)	21,673
6. Increase (Decrease) in Other Liabilities	0	0
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	<u>0</u>	<u>0</u>
10. Total Adjustments	<u>\$263,333</u>	<u>(\$489,924)</u>
11. Net Cash Provided (Used) by Operating Activities	<u>\$263,333</u>	<u>(\$489,924)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>\$0</u>	<u>\$0</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
20. Appropriations (Current Warrants)	\$1,393,480	\$1,024,220
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	849,641	954,357
b. Transfers of Cash to Others	<u>0</u>	<u>0</u>
23. Net Appropriations	<u>\$543,839</u>	<u>\$69,863</u>

The accompanying notes are an integral part of these statements.

# Principal Statements

**Department of Defense**  
**Department of the Navy**  
**Statement of Cash Flows (Indirect Method)**  
**For the Period Ended September 30, 1997 (Revolving Funds Only)**  
**(Thousands)**

	<u>1997</u>	<u>1996</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES, Continued</b>		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	\$543,839	\$69,863
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	\$807,172	(\$420,061)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	1,846,072	2,266,133
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	\$2,653,244	\$1,846,072
 <b>Supplemental Disclosure of Cash Flow Information:</b>		
	<u>1997</u>	<u>1996</u>
33. Total Interest Paid	\$0	\$0
 <b>Supplemental Schedule of Financing and Investing Activity:</b>		
	<u>1997</u>	<u>1996</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

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The accompanying notes are an integral part of these statements.

# Principal Statements

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The accompanying notes are an integral part of these statements.

# **DEPARTMENT OF THE NAVY**

## **NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS**



**Note 1. Summary of 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, as required by the Chief Financial Officers Act of 1990 expanded by the Government Management Reform Act 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 Department of the Navy. The financial statements are prepared from the books and records of the Department in accordance with the Department of Defense Financial Management Regulation Volume 6, Chapter 6, as adopted from the Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and the applicable portions of OMB Bulletin 97-01. These statements, therefore, are different from the financial reports, also prepared by the Department of the Navy pursuant to OMB directives, that are used to monitor and control the Department of the Navy's use of budgetary resources.

The Chief Financial Officers Act requires that the Department of the Navy issue consolidated principal financial statements with notes for all departmental funds that they manage. These statements are (1) Statement of Financial Position, and (2) Statement of Operations and Changes in Net Position. A Statement of Cash Flows is also required and provided for the revolving fund.

**B. Reporting Entity:**

The Department of the Navy 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 Department of the Navy by an act of Congress on July 11, 1798. The overall mission of the Department of the Navy is to organize, train, and equip forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal year 1997 represents the second year that the Department of the Navy has prepared, and had audited, financial statements for all its departmental managed funds as required by the Chief Financial Officers Act and the Government Management Reform Act.

The accompanying financial statements account for all funds for which the Department of the Navy is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements 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 the Department of Defense accounting policies. Financial statements and reports are prepared by the Defense Finance and Accounting Service - Cleveland Center, based upon data provided by financial reporting systems and specialized data calls.

The accounts used to prepare the principal statements are classified as entity/non-entity and by type of fund. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

## Footnotes

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### Entity Accounts:

#### **General funds**

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps (fiscal year)
17X0810	Environmental Restoration, Navy (fiscal year)
17 1105	Military Personnel, Marine Corps (fiscal year)
17 1106	Operation and Maintenance, Marine Corps (fiscal year)
17 1107	Operation and Maintenance, Marine Corps Reserve (fiscal year)
17 1108	Reserve Personnel, Marine Corps (fiscal year)
17 1109	Procurement, Marine Corps (fiscal year)
17 1205	Military Construction, Navy (fiscal year)
17 1235	Military Construction, Naval Reserve (fiscal year)
17X1236	Payments to Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X1319	Research, Development, Test and Evaluation, Navy
17 1319	Research, Development, Test, and Evaluation, Navy (fiscal year)
17 1405	Reserve Personnel, Navy (fiscal year)
17 1453	Military Personnel, Navy (fiscal year)
17 1506	Aircraft Procurement, Navy (fiscal year)
17 1507	Weapons Procurement, Navy (fiscal year)
17 1508	Procurement of Ammunition, Navy and Marine Corps (fiscal year)
17X1611	Shipbuilding and Conversion, Navy
17 1611	Shipbuilding and Conversion, Navy (fiscal year)
17 1804	Operation and Maintenance, Navy (fiscal year)
17 1806	Operation and Maintenance, Navy Reserve (fiscal year)
17 1810	Other Procurement, Navy (fiscal year)
17X3980	Navy Management Fund

#### **Revolving funds**

17X4557	National Defense Sealift Fund, Navy
17 4557	National Defense Sealift Fund, Navy (fiscal year)

#### **Trust funds**

17X8008	Naval Historical Center Fund (formerly Office of Naval Records and History Fund)
17X8423	Midshipmen's Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship's Stores Profits, the 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
17 5429(001)	Rossmoor Liquidating Trust Settlement Account

**Non Entity Accounts****Special funds (Receipt Accounts)**

17 3041	Recoveries under the Foreign Military Sales Programs
17 3210	General Fund proprietary Receipts, Defense Military, Not Otherwise Classified
17F3875	Budget Clearing Account (Suspense)
17F3878	Budget Clearing Account (Deposits)
17F3879	Undistributed and Letter of Credit Differences (Suspense)
17F3880	Unavailable Check Cancellations and Overpayments (Suspense)
17F3886	Civilian Thrift Savings Plan

**Special funds**

17X3885	Undistributed Intra-Governmental Payments, Navy
17X9082	Intra-Budgetary Transactions-Trust Funds National Defense

**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, Deposit Fund
17X6050	Employees Payroll Allotment Accounts (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for payment of Employee Organization dues, Navy
17X6083	Withheld Allotment of compensation from Charitable Contributions Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotments Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense
17X6999	Accounts Payable, Check Issue Underdrafts, Navy

### **C. Budgets and Budgetary Accounting:**

The Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for directing the Department of the Navy's budget and monitoring its execution against funds appropriated by Congress. Funds are distributed by appropriation directors through major commands to activities responsible for accomplishing the diverse missions for which the Department of the Navy is responsible. As missions are performed, activities report obligations and disbursements against the applicable appropriations.

The Department of the Navy funds are divided into various types, i.e. general, revolving, trust, special, deposit and receipt accounts. These accounts are used to fund and report how the resources have been used in the course of executing the Department of the Navy's missions.

General fund accounts are used to record the amounts appropriated by Congress and the financial transactions utilizing the funds. The Department of the Navy manages 24 general fund accounts: eight are funded by current year appropriations, ten are funded by multi-year appropriations, and six are funded by no-year appropriations (appropriation which is available for incurring obligations until exhausted). Current year appropriations received budget authority of \$49,393 million in fiscal year 1997. Multi-year appropriations received budget authority of \$27,592 million, and no-year appropriations received \$10 million. Within the General funds there is a management fund account, Navy Management Fund, which is a working fund account authorized by law to facilitate accounting for administering intra-governmental activities other than business type operations. In accordance with the CFO Act (Public Law 101-576), the Navy Management Fund was disestablished effective October 1, 1996, but collections were permitted through December 31, 1996. Once the fund becomes inactive, steps may be taken to return the corpus to the Treasury.

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 Department's only revolving fund.

Trust fund accounts are used to record 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 a donor, trust agreement, or statute. Trust accounts include funds collected through gifts and bequests, assets held for particular purposes and interest earned in investments. The National Defense Authorization Act for Fiscal Year 1997 (Public Law 104-201) amended Section 7222 of title 10 U.S.C. to the effect of changing the name of former Office of Naval Records and History Fund to that of Naval Historical Center Fund. Additionally, Public Law 104-201 repealed 10 U.S.C Section 6970 and authorized the conversion of the Midshipmen's Store Trust Fund to a non-appropriated fund effective October 1, 1996.

Special fund accounts for receipts are credited with collections from specific sources that can only be used in accordance with specific provisions of law. The Department of the Navy maintains four special fund accounts.

Deposit fund accounts generally are used to 1) hold assets whose distribution awaits legal determination or for which the Department of the Navy acts as agent or custodian, and 2) account for unidentified remittances. The Department of the Navy expressly requires all check collections to pass under the immediate control of one of these deposit funds upon receipt, regardless of source, if the ultimate recipient is unknown. The Department of the Navy maintains 16 deposit funds.

Receipt accounts are used to categorize collections or receipts. Receipts are "Available" or "Unavailable," meaning an agency may or may not spend its collections depending upon Congressional decisions made during the appropriation process. During fiscal year 1997, the Department of the Navy maintained six special fund receipt accounts and internally processed their activities using the pseudo account number reference "17 0002."

**D. Basis of Accounting:**

Transactions are generally recorded on an accrual basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the actual receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate the Department of the Navy's compliance in meeting both legal and internal control requirements associated with the use of federal funds.

The Department of the Navy's Chief Financial Officers Act financial statements are prepared from a consolidation of accounting information reported from multiple accounting systems as well as departmental level data input by the Defense Finance and Accounting Service - Cleveland Center. At this time, this consolidated accounting data is maintained in the Navy Headquarters Financial System departmental general ledger located at the Naval Computer and Telecommunications Station, Washington Center.

General ledger account balances have been verified to the year-end departmental budget execution and expenditure reports. Budget execution reports are prepared from activity reports that are certified for accuracy and completeness by activity commanders. Other methods, to include feeder reports and logistic data calls, must be used to verify the accuracy of general ledger balances in those instances where budget execution and expenditure reports do not contain the particular information, for example, "Property, Plant, and Equipment."

Accounts payable for goods and services are generally recognized upon receipt of a receiving document providing notification of acceptance of goods or services. According to Public Law 101-510, outstanding accounts payable from fiscal year 1991 and prior fiscal years are subject to payment.

## Footnotes

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

The Department of the Navy receives the majority of funding required to support its programs through Congressional appropriations. A financing source, "Appropriated Capital Used," is recognized each fiscal year to the extent that appropriated funds have been consumed. Purchases of capital items and accruals of unfunded liabilities are excluded from the "Appropriated Capital Used" account. Appropriations may also be supplemented, when authorized, 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 Department of the Navy 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 process. Other revenues and financing sources include donated revenue. Donations to the Department of the Navy are recognized as a financial source upon acceptance of the donated asset. Revenue is recorded for the value of the increase to the asset account.

### **F. Accounting for Intra-Governmental Activities:**

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

1. The Department of the Navy'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 interests costs are not apportioned to federal agencies. The Department'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 the Department of Defense facilities is obtained through appropriations. To the extent this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury does not allocate interest costs to the benefiting agencies.

3. The Department's civilian employees participate in the Civil Service Retirement System and Federal Employees Retirement System, while military personnel are covered by the Military Retirement System. Additionally, employees and personnel also have varying coverage under Social Security. The Department funds a portion of and discloses the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees.

Reporting pension benefits under these retirement systems is the responsibility of the Office of Personnel Management for the Civil Service Retirement System and the Federal Employees Retirement System and the Department of Defense for the Military Retirement System. In fiscal year 1997, the Department contributed the following amounts to the retirement plans and Social Security:

	(in thousands)
Civil Service Retirement System	\$341,100
Federal Employees Retirement System	433,839
Military Retirement System	2,911,696
Social Security	<u>298,442</u>
	<u>\$3,985,077</u>

The Department also contributed \$153.5 million to the Federal Employees Retirement System Thrift Savings Plan on behalf of its participating employees.

The expenses for Pension, Federal Health Benefits, and Federal Employees Life Insurance are represented in the CFO Statement of Operation and Changes in Net Position as net of the employer and employee share of the benefits.

4. Most legal actions, other than contract claims, to which the Department of the Navy may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Chapter 163 of Title 10, United States Code, governing military claims. Either because payments under these statutes are limited to, amounts well below the threshold of materiality for claims payable from the Department of the Navy's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (Judgment Fund), these legal actions should not materially affect the Department of the Navy's operations or financial condition.

5. In fiscal year 1997, the Navy sold assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under provisions of the Act, the Department of the Navy 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 trust funds maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales. In fiscal year 1997, the Department of the Navy received reimbursements of \$355 million for assets and services sold under the Foreign Military Sales program.

**G. Funds with the U.S. Treasury and Cash:**

The Department of the Navy's funding resources are maintained in Treasury receipt and expenditure accounts. The account "Fund Balance with Treasury" represents the aggregate of all the Department of the Navy appropriations. The Department of the Navy is an agent for the Department of the Treasury for cash on hand. As of September 30, 1997, the Department of the Navy had \$58 billion in Fund Balance with Treasury.

**H. Foreign Currency:**

The Department of the Navy conducts a significant portion of its operations overseas. Gains and losses from foreign currency transactions for four general fund appropriations (Operation and Maintenance, Military Construction, Family Housing Operation and Maintenance, and Family

## Footnotes

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Housing Construction) are recognized and reported in the statement of operations. The gains or losses are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year. In fiscal year 1997, the Department recognized a net gain of \$14.1 million due to foreign currency transactions for the four appropriations. Similar gains and losses for other appropriations are not recognized in the Statement of Operations. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations.

### I. Accounts Receivable:

As presented in the Consolidated Statement of Financial Position, Accounts Receivable includes accounts, claims, and refunds receivable and advance payments to other entities.

(in Thousands)

<u>Division</u>	<u>Amount</u>	<u>Allowance</u>	<u>Total Net</u>
Accounts Receivable			
Government	\$3,165,602	\$0	\$3,165,602
Public	2,603,496	71,728	2,531,768
Refunds	0	0	0
Claims	0	0	0
Total	<u>\$5,769,098</u>	<u>\$71,728</u>	<u>\$5,697,370</u>

Allowances for uncollectible accounts are based upon analysis of collection experience by fund type. During fiscal year 1997, the Department wrote off approximately \$71.7 million in uncollectible receivables. Collections of outstanding receivables for fiscal year 1991 and prior fiscal years accounts receivable balances are deposited into a Treasury miscellaneous receipt account.

### J. Loans Receivable:

Not applicable

### K. Inventories:

Inventories, including operating supplies, nonconsumable items, and war reserve material are valued at latest acquisition cost as required by the Department of Defense accounting policies. Generally, these prices are based on prices paid for recently acquired items plus appropriate surcharges. No gains or losses are recognized in the Consolidated Statement of Operations as a result of changes in valuation for operating materials and supplies. Such changes are reflected in the asset valuation and related invested capital as reported in the Statement of Financial Position. War reserve material, as reported from the Supply System Inventory Report (SSIR), is reported in the fiscal year 1997 CFO Financial Statements line 1.1. as directed by OUSD (C). The total war reserve material amounted to \$54,589 million. Additionally, there is a \$43 thousand dollar residual of inventory attributed to the trust funds.

**L. Investments in U.S. Government Securities:**

Investments in U.S. government securities are reported by the Department of the Navy Trust funds at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. The Department of the Navy reported \$8.6 million in investments. It is the intent of the Department of the Navy to hold its trust fund investments to maturity unless they are needed to finance claims or otherwise sustain operations. Therefore, no provisions are made for unrealized gains or losses on these securities.

**M. Property, Plant, and Equipment:**

Property, plant, and equipment consists of tangible assets, including land, that must have estimated useful lives of 2 years or more and meet the threshold requirements as required by the Department of Defense. All fixed assets, including land held in public domain, are valued at acquisition cost. Acquisition cost includes such costs as: purchase price, broker's commissions, fees for examining and recording the title, surveying, razing and removal costs (less salvage proceeds) of structures on the land, transportation, handling and storage, activity, interest, preparation, labor, engineering, appropriate share of the cost of equipment and facilities used in construction, inspections, supervision, legal recording fees, and other related costs of obtaining the property. When the acquisition cost can not be determined, fair market value at the time of acquisition is used.

The various criteria used to establish the fair market value are:

- a. Cash realized in transactions involving the same or similar assets,
- b. Quoted market prices,
- c. Fair market value of other assets or services received in exchange of property, or
- d. Independent appraisals.

Current Department of Defense financial capitalization policy requires that assets previously capitalized at lower thresholds - \$1,000 prior to FY 85; \$5,000 from FY 85-91; \$15,000 from FY 92-93; \$25,000 in FY 1994; \$50,000 in FY 1995; and \$100,000 in FY 1996 - remain in the accounts after the threshold is raised.

No gains or losses were recognized in the Statement of Operations for revaluation changes and/or loss of equipment. However, the assets and related investment accounts reflect both pricing and value changes based on periodic updates to the general ledger. Depreciation is recorded for assets financed by trust fund activities, but not for assets financed by general fund appropriations. Routine maintenance and repair costs are expensed when incurred.

Real property comprising land and facilities are valued at cost. Buildings are capitalized when constructed or at the date of acquisition.

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### **N. Prepaid and Deferred Charges:**

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related goods and services are received.

### **O. Leases:**

As of September 30, 1997 the Department of the Navy was committed to numerous annual operating leases and rental agreements.

The Department owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are purchased with appropriated funds, however, title is retained by the host country.

### **P. Contingencies:**

At any given time, the Department of the Navy may be a party to various legal and administrative actions and claims brought against it. These relate primarily to tort claims resulting from aircraft, ship, and vehicle accidents, medical malpractice, property and environmental damages resulting from Departmental activities, and contract disputes.

The Department is subject to various asserted contract claims for over \$100 million which total approximately \$1,739 million as of September 30, 1997. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding specific claims' likely outcome or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote.

As of September 30, 1997, the Department of the Navy and its components were a party to approximately 807 contract appeals before the Armed Services Board of Contract Appeals. The total value of these appeals was approximately \$994 million. According to management, approximately 80% of appeals are successfully defended by the Department. In fiscal year 1997, contractors recovered about \$358 million from resolved claims. Such claims are funded primarily from Department appropriations.

Liabilities for the Department of the Navy's Environmental Program are comprised of cleanup costs at Navy installations. This estimated environmental requirement includes environmental restoration efforts and environmental costs at Base Realignment and Closure sites. The possible fiscal year 1998 cost to completion for these efforts totals \$6,070 million. The Department of the Navy resources for these requirements are in the Base Realignment and Closure and the Environmental Restoration, Navy accounts.

**Q. Accrued Leave:**

Civilian annual leave is earned and the accrued amounts are reduced as leave is taken. The balances for annual leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of non-vested leave are expensed as taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Accrued leave for the Navy is recorded through automatic postings from the Defense Civilian Payroll System.

**R. Equity:**

Equity which is reflected as net position on the CFO Financial Statements consists of invested capital, donations, cumulative results of operations, and unexpended appropriations less unfunded liabilities. 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. The total department equity is shown as \$441.5 billion.

Invested capital, as presented in the consolidated Statement of Financial Position, represents the value of the Department's capital assets which consists of property, plant and equipment and inventory not held for sale. The donated capital and trust fund balances have been included in invested capital.

Cumulative results of operations for working capital funds represent the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

Adjustments to non operating changes were made to correct the fiscal year 1997 net position beginning balance amounted to 3,611.9 million. These adjustments consist of changes in accounting policy, correction of errors, and inclusion of data omitted in fiscal year 1996. Equity balances for fiscal year 1991 and prior fiscal years were not included in the fiscal year 1997 CFO financial statement due to change in accounting policy. In fiscal year 1996 non-entity receipt, suspense, and budget clearing accounts were improperly reported as equity instead of liabilities; this was corrected on the fiscal year 1997 CFO financial statements.

**S. Aircraft/Ship Crashes:**

An operating loss of \$431.5 million has been recognized in fiscal year 1997 for aircraft/ships which were either destroyed or damaged beyond repair due to aviation/navigation mishaps. The loss represents the book value at unit cost of those aircraft/ships that were either destroyed or damaged. No loss has been separately recognized for aircraft/ships which were damaged by accidents but were repairable. Costs associated with repair of such aircraft/ships are recorded as operating expenses and generally funded from operation and maintenance appropriations.

## Footnotes

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### T. Treaties for Use of Foreign Bases:

The Department of the Navy 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 Department of the Navy continued use of these properties until the treaties expire. Capital investments in buildings, runways, aircraft shelters, and other facilities located on the overseas bases are capitalized. As of September 30, 1997, the Department of the Navy has not financed the cost values of buildings and facilities located in foreign countries. These fixed assets are subject to loss in the event the treaties are not renewed or other agreements are not reached which allow for the continued use by the Department of the Navy. In the event these treaties or agreements are terminated, losses will be recorded for the value of nonretrievable capital assets.

### U. Comparative Data:

Comparative data from fiscal year 1996 CFO financial statements is presented in order to provide an understanding of changes in financial position and operations of the Department of the Navy's reporting activities. Navy's financial statements will continue to reflect restatements and reclassifications due to the evolving nature of federal accounting standards and the development of new reporting financial systems. Restatement of lines 1.d. and 1.l. resulted from new DoD guidance relating to reclassification of War Reserves from the "Inventory, Net" line to a new line entitled "War Reserves".

#### Statement of Financial Position (in Thousands):

<u>FY 1996 Line</u>	<u>FY 1996 Balance</u>	<u>Change</u>	<u>FY 1996 Restated</u>
1.d.	\$41,441,119	\$41,441,075	\$44
1.l.	0	41,441,075	41,441,075

Line 1.l. as it relates to Other Entity Assets in fiscal year 1996 was reclassified to line 1.m. in fiscal year 1997.

Due to a DCFO(AP) policy change in the reporting of Environmental Cleanup Costs, the CFO Statement of Financial Position line 5.a.(3) reflects a material dollar fluctuation between fiscal years 1996 and 1997.

### V. Undelivered Orders:

The Department of the Navy activities are obligated for goods which have been ordered but not yet received (undelivered orders). As of September 30, 1997 undelivered orders amounted to \$45 billion.

**Note 2. Fund Balances with Treasury (in thousands):****A. Fund and Account Balances:**

	Entity Assets				Total
	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	
Unobligated Balance Available:					
Available	\$15,362	\$490,780	\$11,875,262	\$38,902	\$12,420,306
Restricted			(80,003)		(80,003)
Reserve For Anticipated Resources		(30,684)			(30,684)
Obligated (but not expensed)	905	2,193,148	43,495,356	10,380	45,699,789
Unfunded Contract Authority					
Unused Borrowing Authority					
Treasury Balance	<u>\$16,267</u>	<u>\$2,653,244</u>	<u>\$55,290,615</u>	<u>\$49,282</u>	<u>\$58,009,408</u>

**B. Other Information: Funds Returned to the Treasury.** During FY 1997 the Department of the Navy returned \$1,537,846 thousand back to the Treasury. This consisted of the FY 1992 program year that went into a canceled/withdrawn status. The Navy returned \$1,434,233 thousand and the Marine Corps returned \$103,613 thousand.

**Non-Entity Fund Balance with Treasury.** The negative balance of (\$327,502) thousand recorded in the Non-Entity Fund Balance with Treasury resulted from the negative balance recorded in 17F3875, Budget Clearing (Suspense), of (\$805,933) thousand which offsets all other Non-Entity accounts which recorded a balance of \$478,431 thousand.

Ending Balance 9/30/96	(\$572,625)
Less Canceling Year and Receipt Accounts	<u>(126,049)</u>
Beginning Balance Restated	\$ (698,674)
Collected	1,087,655
Disbursed	<u>716,483</u>
Ending Balance	<u>(\$327,502)</u>

**Canceled and Closed Years which have been Reopened.** The fund balances for canceled and closed years which have been reopened for the processing of adjustments have not been included in the Fund Balance with Treasury amounts recorded on the Statement of Financial Position. If the fund balances for the reopened years were included in the FY 1997 CFO statements, this would have increased the Fund Balance with Treasury amount by \$7,462,131 thousand.

## Footnotes

### Note 3. Cash, Foreign Currency and Other Monetary Assets (in thousands):

	<u>Entity Assets</u>		<u>Non-Entity Assets</u>	
A. Cash		\$0		\$132,556
B. Foreign Currency				18,400
C. Other Monetary Assets:				
1. Gold	\$0		\$0	
2. Special Drawing Rights				
3. U.S. Reserves in the International Monetary Fund				
4. Other				
5. Total Other Monetary Assets	<u>\$0</u>	<u>0</u>	<u>\$0</u>	<u>0</u>
D. Total Cash, Foreign Currency and Other Monetary Assets		<u>\$0</u>		<u>\$150,956</u>

E. Other Information: The \$150,956 thousand is from the Department of the Navy Consolidated Statement of Accountability (SF 1219) as of September 30, 1997.

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.

A decision was made in FY 1997 to report all Cash and Other Monetary Assets as Non-Entity on line 2c on the Statement of Financial Position.

### Note 4. Investments, Net (in thousands):

	(1)	(2)	(3)	(4)	(5)
	Cost	Market Value	Amortization Method	Amortized Premium/ (Discount)	Investment Net
A. Intragovernmental Securities:					
1. Marketable	\$0	\$0		\$0	\$0
2. Non-Marketable Par Value	8,626		N/A	(16)	8,610
3. Non-Marketable Market Based					
Subtotal	<u>\$8,626</u>	<u>\$0</u>		<u>\$(16)</u>	<u>\$8,610</u>
B. Governmental Securities:					
Subtotal	<u>\$0</u>	<u>\$0</u>		<u>\$0</u>	<u>\$0</u>
Total	<u>\$8,626</u>	<u>\$0</u>		<u>\$(16)</u>	<u>\$8,610</u>

**Note 4. Investments, Net (in thousands) (cont'd):**

**C. Other Information:** The Trust Funds have a total net investment of \$8,610 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 Par Value securities reported at cost, net of unamortized premiums and discounts. The details for each Trust Fund are the following.

	<u>Cost</u>	<u>Amortized Premium/ (Discount)</u>	<u>Investment Net</u>
Navy General Gift Fund	\$1,322	(\$1)	\$1,321
Naval Academy Museum Fund	1,617	(1)	1,616
Naval Academy General Gift Fund	5,235	(14)	5,221
Naval Historical Center Fund	452		452
<b>Total</b>	<u>\$8,626</u>	<u>(\$16)</u>	<u>\$8,610</u>

**Note 5. Accounts Receivable, Net (in thousands):**

	(1) Gross Amount <u>Due</u>	(2) Allowance For Estimated <u>Uncollectibles</u>	(3) Allowance Method <u>Used</u>	(4) Net Amount <u>Due</u>
<b>A. Entity Receivables:</b>				
Intragovernmental	\$3,134,834	\$0		\$3,134,834
Governmental	2,598,133	71,728	Percentage	2,526,405
<b>B. Non-Entity Receivables:</b>				
Intragovernmental	\$30,768	\$0		\$30,768
Governmental	5,363			5,363

**C. Other Information:**

**National Defense Sealift Fund.** Total Entity Accounts Receivable were \$5,661,239 thousand for FY 1997 and \$6,379,261 thousand for FY 1996. The National Defense Sealift Fund (NDSF) represents a major portion of the Entity Accounts Receivable balance in both years. NDSF Account Receivable were \$1,326,354 thousand in FY 1997 and \$2,081,109 thousand for FY 1996.

## Footnotes

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### Note 5. Accounts Receivable, Net (in thousands) (cont'd):

#### C. Other Information (cont'd):

The purpose of the NDSF is to provide for the construction (including design of vessels), purchase, alteration, and the conversion of Department of Defense (DOD) sealift vessels; operation, maintenance, and lease or charter of DOD vessels for national defense purposes; installation and maintenance of defense features on privately owned and operated vessels that are constructed in the United States and documented under the laws of the United States; and research and development relating to national defense.

The variance between fiscal years in Accounts Receivable Intragovernmental and Governmental was due to the misclassification of the NDSF receivables. NDSF receivables were misclassified as Governmental in FY 1996, and were classified as Intragovernmental in FY 1997.

Fiscal years' 1993 and 1994 vouchers of the NDSF were misclassified as disbursements rather than collections. This resulted in an overstatement of at least \$1,216,340 thousand in FY 1997 and FY 1996. Actions are being taken by the Department of the Navy and DFAS to correct the cause of the overstatement.

**Canceled Contract Receivable Balance.** Included in the Accounts Receivable from Governmental sources 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. On October 7, 1997, DFAS-CL asked the Navy General Counsel for a decision on the feasibility of collecting the entire, partial, or no amount of this advance payment. If it was determined that a partial collection could be made DFAS-CL required a formula which was to determine how the partial amount was derived. DFAS-CL placed the entire amount into Accounts Receivable-Governmental per the recommendation from a 1994 General Accounting Office financial operation audit.

**Eliminating Entries.** Eliminating entries in the amount of \$903,779 thousand were made to the Accounts Receivable Intragovernmental. It is a requirement to eliminate those amounts of accounts receivable which represent intra service transactions (one Navy appropriation selling to another Navy appropriation).

**Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) Accounts Receivable Balance.** During FY 1997 DFAS-CL and DFAS-KC included in its Accounts Receivable-Governmental balance refunds receivable from MOCAS and DDMS. The amounts were \$3,567 thousand for the MOCAS system debts and \$419,304 thousand for the DDMS-Navy. The \$419,304 thousand was net of \$2,146 thousand which was written off in FY 1997.

**Note 5. Accounts Receivable, Net (in thousands) (cont'd):****C. Other Information (cont'd):**

**Allowance for Bad Debts.** The Department of the Navy does not have a Department wide allowance for estimated uncollectibles. Using the Report on Receivables Due from the Public, the overall Department of the Navy allowance was calculated to be 4.64% for FY 1997. In instances where the historical rate exists, the chart below indicates the allowances which were used. This allowance for write-offs is provided by the Department of the Navy.

<u>Appropriation</u>	<u>Allowance</u>
17 1453 - Military Personnel , Navy	27.42%
17 1105 - Military Personnel, Marine Corps	7.72%
17 1108 - Reserve Personnel, Marine Corps	7.70%

**FY 1991 and Prior Years.** For FY 1997 the FY 1991 and prior year balances were included in the Accounts Receivable balances. The amount of account receivable balance was the following (in thousands):

	<u>Intragovernmental</u>	<u>Governmental</u>
Navy	\$271,524	(\$24,247)
Marine Corps	1,937	3,755
Total	<u>\$273,461</u>	<u>(\$20,492)</u>

**Non-Entity Accounts Receivable.** Included in the accounts receivable balances are \$36,131 thousand in Non-Entity Accounts Receivable. These balances are derived from the canceled/withdrawn program years which contained accounts receivable balances outstanding at the time the program year went into a canceled status.

**Abnormal Balances.** The abnormal balance in Non-Entity Governmental Accounts Receivable, was reported as such in both the trial balance and on budgetary reports. Further investigation is to be conducted to determine the cause of the abnormal balance.

**Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets (in thousands):** Not applicable

**Note 7. Loans and Loan Guarantees, Non-Federal Borrowers (in thousands):** Not applicable

## Footnotes

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### Note 8. Inventory, Net (in thousands):

	(1) <u>Inventory Amount</u>	(2) <u>Allowance For Losses</u>	(3) <u>Inventory, Net</u>	(4) <u>Valuation Method</u>
<b>A. Inventory Categories:</b>				
1. Held for Current Sale	\$43	\$0	\$43	Actual Cost
2. Held in Reserve for Future Sale				
3. War Reserve Material				
4. Excess, Obsolete and Unserviceable				
5. Held for Repair				
Total	<u>\$43</u>	<u>\$0</u>	<u>\$43</u>	

### **B. Restrictions on Inventory Use, Sale, or Disposition: None**

**C. Other Information:** The inventory amount represents Naval Academy Museum Fund catalogs of Battle Prints.

In FY 1997, an OUSD(C) decision was made to separately indicate the value for War Reserve material on the Statement of Financial Position on line 1.1. This value is derived by utilizing the Supply System Inventory Report (SSIR) for FY 1997 which was \$54,589,962.

### Note 9. Work in Process (in thousands):

	(1) <u>Work In Process Amount</u>	(2) <u>Valuation Method</u>
<b>A. Work in Process:</b>		
1. In House	\$6,208	Actual Cost
2. Contractor		
3. Other Government Activities		
4. Government Furnished Materials		
Total	<u>\$6,208</u>	

**B. Other Information:** Revolving Funds are the only entities within the General Funds which can have work in process. Currently the National Defense Sealift Fund (NDSF) is the only revolving fund within the General Fund Group.

**Note 10. Operating Materials and Supplies (OM&S), Net (in thousands):** Not applicable

**Note 11. Stockpile Materials, Net (in thousands):** Not applicable

**Note 12. Seized Property (in thousands):** Not applicable

**Note 13. Forfeited Property, Net (in thousands):** Not applicable

**Note 14. Goods Held Under Price Support and Stabilization Programs, Net (in thousands):**  
Not applicable

**Note 15. Property, Plant, and Equipment, Net (in thousands):**

	(1) Depreci- ation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
<b>Classes of Fixed Assets</b>					
A. Land			\$751,743	\$0	\$751,743
B. Structures, Facilities, & Leasehold Improvements			26,957,039		26,957,039
C. Military Equipment			293,015,265		293,015,265
D. ADP Software					
E. Equipment			8,216,821		8,216,821
F. Assets Under Capital Lease					
G. Other			38,523		38,523
H. Natural Resources			190,000		190,000
I. Construction-in-Progress			5,419,387		5,419,387
Total			<u>\$334,588,778</u>	<u>\$0</u>	<u>\$334,588,778</u>

\*Keys:

Depreciation Methods

SL - Straight Line  
 DD - Double-Declining Balance  
 SY - Sum of the Years' Digits  
 IN - Interest (sinking fund)  
 PR - Production (activity or use method)  
 OT- Other (describe)

Range of Service Life

1-5      1 to 5 years  
 6-10     6 to 10 years  
 11-20    11 to 20 years  
 >20      Over 20 years

## Footnotes

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### **Note 15. Property, Plant, and Equipment, Net (in thousands) (cont'd):**

**J. Other Information: Military Equipment** contains \$426,282 thousand which represents Progress Payments made for the Navy Shipbuilding and Conversion appropriation.

Within the Military Equipment Line, Government Furnished Property was reported in FY 1996 as \$32,668,089 thousand. The amount which should have been reported in FY 1996 was \$20,189,218 thousand. This difference was due to amounts reported by the contractors as land, structures, and military property which was already captured by another system or in another line and lead to a duplication of reporting. This problem was identified in the Inspector General, Department of Defense Audit Report No. 97-202 dated August 4, 1997 Financial Reporting of Government Property in the Custody of Contractors. The reported amount for FY 1997 is \$17,653,088 thousand.

The Naval Audit Service Audit Report No. 051-97 dated 25 September 1997, Department of the Navy Fiscal Year 1996 Annual Financial Report: Property, Plant, and Equipment, Net contained several recommendations for adjustments in the FY 1996 balance. The Department of the Navy's position was not to adjust the FY 1996 balance but to correctly reflect the balance for FY 1997. The FY 1996 audit report recommended an increase for stricken ship and aircraft of \$20,100,000 thousand for the military equipment line, an increase of \$81,700 thousand for identified unreported and unrecorded acquisitions and dispositions by activities in the "other line" on the published FY 1996 report but which has been moved to the "equipment" line in FY 1997, and a decrease of \$321,700 thousand for construction projects completed but inadvertently not deleted from construction in process. Corrective actions have been taken for correct balances in FY 1997.

**Other** represents artifacts reported by the United States Naval Academy Museum Fund.

**Plant, Property and Equipment.** Department of the Navy Plant, Property, and Equipment Accounts, are not subject to depreciation for FY 1997.

**Note 16. Debt (in thousands):** Not applicable

**Note 17. Other Liabilities (in thousands):****A. Other Liabilities Covered by Budgetary Resources:**

	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
1. Intragovernmental			
a. Unearned Revenue	\$0	\$10,274	\$10,274
b. Entity Accounts Receivable	271,046		271,046
c. Non-Entity Accounts Receivable	39,162	1,784	40,946
d. Budget Clearing Suspense		(327,502)	(327,502)
e. Disbursing Officer Cash		150,956	150,956
f. Miscellaneous	369		369
Total	<u>\$310,577</u>	<u>(\$164,488)</u>	<u>\$146,089</u>
	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
2. Governmental			
a. Unearned Revenue	\$0	(\$4,246)	(\$4,246)
b. Entity Accounts Receivable	(24,242)		(24,242)
c. Non-Entity Accounts Receivable	(9,393)	4,209	(5,184)
d. Contract Incentives		73,679	73,679
Total	<u>(\$33,635)</u>	<u>\$73,642</u>	<u>\$40,007</u>

**B. Other Information:****C. Other Liabilities Not Covered by Budgetary Resources:**

	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
1. Intragovernmental			
a. Environmental Cleanup Costs	<u>\$5,462,000</u>	<u>\$608,000</u>	<u>\$6,070,000</u>
Total	<u>\$5,462,000</u>	<u>\$608,000</u>	<u>\$6,070,000</u>
	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
2. Governmental			
a. Accrued Annual Leave, Civilian	\$51,012	\$167,423	\$218,435
b. Accrued Annual Leave, Military		960,304	960,304
Total	<u>\$51,012</u>	<u>\$1,127,727</u>	<u>\$1,178,739</u>

**D. Other Information:**

**Environment Clean-Up Cost :** The amount included in the FY 1998 budget for Environmental Restoration, Navy and BRAC is reported as current liabilities with the balance reported as non-current liabilities.

## Footnotes

**Note 18. Leases (in thousands):** Not applicable

**Note 19. Pensions and Other Actuarial Liabilities (in thousands):**

Major Program Activities	(1) Actuarial Present Value of Projected Plan Benefits	(2) Assumed Interest Rate (%)	(3) Assets Available to Pay Benefits	(4) Unfunded Actuarial Liability
<b>A. Pensions and Health Plans</b>	\$0		\$0	\$0
<b>B. Insurance/Annuity Programs:</b>				
Total	\$0		\$0	\$0
<b>C. Other:</b>				
1. Workers' Compensation	\$1,476,455	6.24 %		\$1,476,455
Total	\$1,476,455		\$0	\$1,476,455
<b>D. Total Lines A+B+C:</b>	\$1,476,455		\$0	\$1,476,455

**E Other Information:** The amount of \$1,476,455 thousand was provided from the Department of Labor (DOL). The liability for future workers' compensation (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, June 10, 1997 economic assumptions for 10 year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1997  
6.24 % in year 1,  
5.82 % in year 2,  
5.60 % in year 3,  
5.45 % in year 4,  
5.40 % in year 5,  
and thereafter

**Note 20. Net Position (in thousands):**

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appro- priated Funds</u>	<u>Total</u>
<b>A. Unexpended Appropriations:</b>				
1. Unobligated,				
a. Available	\$490,780	\$2,203	\$11,914,164	\$12,407,147
b. Unavailable	(30,684)		1,685,978	1,655,294
2. Undelivered Orders	3,989,127		40,974,969	44,964,096
<b>B. Invested Capital</b>		46,345	393,656,497	393,702,842
<b>C. Cumulative Results of Operations</b>		14,656		14,656
<b>D. Other</b>			21,716	21,716
<b>E. Future Funding Requirements</b>			(11,237,994)	(11,237,994)
<b>F. Total</b>	<u>\$4,449,223</u>	<u>\$63,204</u>	<u>\$437,015,330</u>	<u>\$441,527,757</u>

**G. Other Information:****Net Position is comprised of the following components:**

**Unexpended appropriations** - amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are restricted for future use and are not available for current use. "Undelivered Orders" represent those goods and services that have not yet been received/performed. Multi-year appropriations remain available to the DoD for obligation in future periods. However, unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed. Generally speaking, accounts close five years after the appropriation expires.

Unexpended Appropriations exceeds Fund Balance With Treasury by \$1,017,130 thousand. This is primarily attributed to the overstatement of Accounts Receivable in the National Defense Sealift Fund (NDSF).

**Invested capital** - Represents the net investment and subsequent appropriations to finance program activities. Also included is the net balance of assets and liabilities that have been transferred in and out to DoD Components or other U.S. Government Agencies without reimbursement.

**Cumulative results of operations** - represent the cumulative net difference between (1) expenses and losses and (2) financing sources to include appropriations, revenues and gains.

**Other** - represents other components of net position not specifically identified above.

## Footnotes

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### Note 20. Net Position (in thousands) (cont'd):

#### G. Other Information (cont'd):

**Future Funding Requirements** - Accrued expenses such as annual and military leave earned but not taken are not funded in the period the expense is recorded. These future funding requirements are recognized as an offset to "Net Position."

The variance in this balance is attributed to the following (in thousands):

Clean -Up Costs	\$6,070,000
FY 1991 and prior years Accounts Payable	2,512,831
Change in Pension Liability	(684,922)
Change in Unfunded Leave	29,838
Total	<u>\$7,927,747</u>

Note 21. Taxes (in thousands): Not applicable

### Note 22. Other Revenues and Financing Sources (in thousands):

	<u>1997</u>	<u>1996</u>
<b>A. Other Revenues and Financing Sources:</b>		
1. Commissions - Western Union	\$0	\$12
2. Gain/Loss dairy herd		(6)
3. Annual donations	1,388	1,884
4. New accounts	1,003	41
5. New facilities		2,477
6. Miscellaneous income		18
7. Imputed Financing Sources	907,799	
Total	<u>\$910,190</u>	<u>\$4,426</u>

**B. Other Information:** The \$907,799 represents the imputed financing for pensions and other retirements benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

Imputed Pension and Other Retirement Benefits (ORB)(in thousands):

CSRS/FERS Retirement	\$706,331
Health	200,914
Life Insurance	554
Total	<u>\$907,799</u>

**Note 23. Program or Operating Expenses (in thousands):**

	<u>1997</u>	<u>1996</u>
<b>A. Operating Expenses by Object Classification:</b>		
1. Personnel Services and Benefits	\$27,353,819	\$26,482,945
2. Travel and Transportation	1,679,432	1,523,958
3. Rental, Communication and Utilities	1,207,887	947,678
4. Printing and Reproduction	65,065	49,906
5. Contractual Services	22,119,298	23,470,785
6. Supplies and Materials	6,026,290	1,129,006
7. Equipment not Capitalized	1,892,534	1,325,230
8. Grants, Subsidies and Contributions	74,158	89,503
9. Insurance Claims and Indemnities	2,671	1,724
10. Other (describe):		
(a) Capital assets	1,192,663	507,945
(b) Purchased services	842,486	674,284
(c) Land and structures	23,797	1,797
(d) Unallocated Expenses	(454,430)	261,499
11. Total Expenses by Object Class	<u>\$62,025,670</u>	<u>\$56,466,260</u>

**B. Operating Expenses by Program: Not Applicable**

**C. Other Information:** Operating Expenses for the Navy were derived from budgetary obligation percentages residing within the Navy Headquarters Financial System (NHFS). Operating expenses for the Marine Corps were provided by DFAS-KC. In FY 1996 the Marine Corps reported Operating Expenses by Program. The Marine Corps restated the FY 1996 Operating Expenses by Object Class. The Marine Corps can provide this information by Program. The total value of Operating Expenses reported by the Marine Corps was \$1,528,005 thousand for FY 1997 and \$774,718 thousand for FY 1996.

Unallocated expenses represent the total of "undistributed expenses", that are not allocated to any particular program. These transactions are being analyzed by the NULO/UMD team to correctly allocate them there by clearing the undistributed expenses.

**Note 24. Cost of Goods Sold (in thousands):**

<b>A. Cost of Services Sold:</b>	
1. Beginning Work-in-Process	\$5,277
2. Plus: Operating Expenses	5,052,310
3. Minus: Ending Work-in-Process	6,208
4. Minus: Completed Work for Activity Retention	
Cost of Services Sold	<u>\$5,051,379</u>

## Footnotes

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### Note 24. Cost of Goods Sold (in thousands) (cont'd):

**B. Cost of Goods Sold from Inventory  
(using Latest Acquisition Cost):** Not Applicable

**C. Cost of Goods Sold from Inventory (using Historical Cost):** Not Applicable

**D. Other Information:** This data represents the cost of providing goods and services to the public or other government entities from reimbursable program resources.

**Analysis of the Variance between line 2a, Revenue from the Sale of Goods and Services-Public and line 10a, Cost of Goods Sold-Public.** The variance between line 2a, Revenue from the Sale of Goods and Services-Public and line 10a, Cost of Goods Sold-Public is attributed to line 12, Bad Debts and Write-offs for the Navy Appropriations and the Excess of Revenue and Financing Sources Over Total Expenses for the Trust Funds.

### Note 25. Other Expenses (in thousands):

	<u>1997</u>	<u>1996</u>
<b>A. Other Expenses:</b>		
1. Pension, Health, and Life Insurance Benefits	\$907,799	\$0
2. Foreign Currency Transaction Expense	1,013	
3. Environmental Clean-Up	6,070,000	
Total	<u>\$6,978,812</u>	<u>\$0</u>

**B. Other Information:** The \$907,799 represents the imputed expense for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and Other Retirement Benefits (ORB). OPM accounts for and reports the pension liability in their financial statements while the employer discloses the imputed expenses. OPM actuaries provide the normal cost rates which are used to calculate the imputed expenses. Environmental Clean-Up represents the estimated costs to complete environmental restoration efforts and environmental costs at Base Realignment and Closure sites.

Imputed Pension and Other Retirement Benefits (ORB)(in thousands):

CSRS/FERS Retirement	\$706,331
Health	200,914
Life Insurance	554
Total	<u>\$907,799</u>

**Note 26. Extraordinary Items (in thousands):** Not applicable

**Note 27. Prior Period Adjustments (in thousands):** Not Applicable

**Note 28. Non-Operating Changes - (Transfers and Donations) (in thousands):**

	<u>1997</u>	<u>1996</u>
<b>A. Increases:</b>		
1. Transfers-In:		
a. Other New Authority Realized	\$0	\$1,315
2. Unexpended Appropriations		2,457,819
3. Donations Received		
4. Other Increases	12,019,157	84,433
5. Total Increases	<u>\$12,019,157</u>	<u>\$2,543,567</u>
<b>B. Decreases:</b>	<u>1997</u>	<u>1996</u>
1. Transfers-Out:		
a. Other	\$0	\$28,181
2. Donations		
3. Other Decreases	4,530,461	5,617,722
4. Total Decreases	<u>\$4,530,461</u>	<u>\$5,645,903</u>
<b>C. Net Non-Operating Changes (Transfers):</b>	<u>\$7,488,696</u>	<u>(\$3,102,336)</u>

**D. Other Information:** Section A. 4., Other Increases, contains changes in Worker's Compensation of \$684,922 thousand, changes in invested capital of \$11,307,158 thousand and changes in cumulative results of operations of \$27,077 thousand. Section B.3., Other Decreases, contains the FY 1991 and prior year accounts payable balance of \$2,512,831 thousand, changes in Other of \$34,612 thousand, changes in Unfunded Accrued Military annual leave balance of \$29,869 thousand, and changes in Unexpended Appropriations of \$1,949,560 thousand and other changes netting to \$3,589 thousand.

## Footnotes

### Note 29. Intrafund Eliminations (in thousands):

#### Schedule A

##### Selling Activity:

	A Column Accounts <u>Receivable</u>	B Column <u>Revenue</u>	C Column Unearned <u>Revenue</u>	D Column <u>Collections</u>
Operation and Maintenance	\$426,886	\$1,096,330	\$0	\$1,108,393
Procurement		339		339
Research and Development	3,926	39,135		39,926
Military Construction	(6,743)	1,462		1,920
Other Funds and Accounts	479,710	479,725		667,907
Unearned Revenue				
<b>Total</b>	<b>\$903,779</b>	<b>\$1,616,991</b>	<b>\$0</b>	<b>\$1,818,485</b>

##### Customer Activity:

	A Column Accounts <u>Payable</u>	B Column <u>Expenses</u>	C Column <u>Advances</u>	D Column <u>Disbursements</u>
Operation and Maintenance	\$426,886	\$1,096,330	\$0	\$1,108,393
Procurement		339		339
Research and Development	3,926	39,135		39,926
Military Construction	(6,743)	1,462		1,920
Other Funds and Accounts	479,710	479,725		667,907
Advances				
<b>Total</b>	<b>\$903,779</b>	<b>\$1,616,991</b>	<b>\$0</b>	<b>\$1,818,485</b>

#### Schedule B Not Applicable

#### Schedule C

##### Selling Activity:

	A Column Accounts <u>Receivable</u>	B Column <u>Revenue</u>	C Column Unearned <u>Revenue</u>	D Column <u>Collections</u>
Department of the Navy	\$1,415,621	\$3,520,376	n/a	\$3,506,396
Unearned Revenue			\$3,128	
<b>Total</b>	<b>\$1,415,621</b>	<b>\$3,520,376</b>	<b>\$3,128</b>	<b>\$3,506,396</b>

##### Customer Activity:

	A Column Accounts <u>Payable</u>	B Column <u>Expenses</u>	C Column <u>Advances</u>	D Column <u>Disbursements</u>
Other DoD Components	\$1,415,621	\$3,520,376	n/a	\$3,506,396
Advances			\$3,128	
<b>Total</b>	<b>\$1,415,621</b>	<b>\$3,520,376</b>	<b>\$3,128</b>	<b>\$3,506,396</b>

**Note 29. Intrafund Eliminations (in thousands) (cont'd):****Schedule D****Selling Activity:**

	A Column Accounts <u>Receivable</u>	B Column <u>Revenue</u>	C Column Unearned <u>Revenue</u>	D Column <u>Collections</u>
Department of the Navy Unearned Revenue	\$523,239	\$695,609	\$0	\$286,440
<b>Total</b>	<b>\$523,239</b>	<b>\$695,609</b>	<b>\$0</b>	<b>\$286,440</b>

**Customer Activity:**

	A Column Accounts <u>Payable</u>	B Column <u>Expenses</u>	C Column <u>Advances</u>	D Column <u>Disbursements</u>
Other US Govt./ Non-Defense Advances	\$523,239	\$695,609	\$0	\$286,440
<b>Total</b>	<b>\$523,239</b>	<b>\$695,609</b>	<b>\$0</b>	<b>\$286,440</b>

**Other Information:** The primary source of information to compute the intrafund elimination is the DD 725, Report on Reimbursements. This report breaks down all types of transactions, related to the reimbursable program, by reimbursable source codes (RSC). The RSC can be used to identify, in a broad sense, the types of customers that the reimbursable activity is servicing. The following is the RSC utilized by the DD 725:

- RSC 1 Non-Federal Sources
- RSC 2 & 3 Trust Funds
- RSC 4 Off-Budget Federal
- RSC 5 Other Defense Funds
- RSC 6 Non-Defense Federal
- RSC 7 Intrafund Sources

However, this does present a major shortfall since the Note 29 asks to specifically identify the customer which cannot be accomplished using the DD 725.

DFAS-CL has eliminated balances from both the Statement of Financial Position and the Statement of Operations and Changes in Net Position utilizing Schedule A, Intrafund (Navy to Navy) transactions. The other two schedules C and D are eliminated at higher levels.

During FY 1997 the DFAS-HQ has guidance which classifies the Defense Security Assistance Agency (DSAA) as a Non-Defense Federal Entity (Schedule D) whereas in FY 1996 DSAA was classified as an Other DoD Entity (Schedule C).

## Footnotes

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**Note 30. Contingencies (in Thousands):** Liabilities for the Department of the Navy's environmental program are comprised of clean-up costs at Navy installations. The environmental requirement estimate includes environmental restoration efforts and environmental costs at the Base Realignment and Closure Commission (BRAC) sites. The possible FY 1998 cost to completion for these efforts totals \$6,070,000 thousand. The Department of the Navy resources for these requirements are in the BRAC and the Environmental Restoration, Navy (ERN) account. For FY 1997 CFO statements this amount was recorded as an Other Federal Liability Not Covered by Budgetary Resources and as a Future Funding Requirement.

The Department is subject to various asserted contract claims for over \$100,000 million. Claims which fall within this range total approximately \$1,738,600 thousand as of September 30, 1997. These claims are in phases ranging from investigation to appeal. While no opinion has been expressed regarding specific claims, likely outcome, or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed, or the possibility of the contingency materializing is remote.

**Note 31. Other Disclosures (in thousands):** The following table presents unmatched disbursements, negative unliquidated obligations and aged in-transit disbursements. (in thousands)

Navy, Treasury Index 17  
Appropriations

	September <u>1997</u>	September <u>1996</u>	<u>Change</u>	Percent <u>Change</u>
Unmatched Disbursements	\$3,785,805	\$6,423,544	(\$2,637,739)	(41.06%)
Negative Unliquidated Obligations	1,875,842	2,690,246	(814,404)	(30.27%)
Intransit Disbursements	12,750,123	6,798,592	5,951,531	87.54%
Total	<u>\$18,411,770</u>	<u>\$15,912,382</u>	<u>\$2,499,388</u>	<u>15.71%</u>

September 1997 Unmatched Disbursements and Negative Unliquidated Obligations included Marine Corps. September 1996 amounts did not include Marine Corps. The amounts not included in the September 1996 column for the Marine Corps were \$164,628 thousand and \$107,670 thousand respectively. Intransit Disbursements were not disclosed in the prior year report.

### Other information:

#### Variations between the Comparative Years

1. **Advances and Prepayments.** The increase of \$4,516,471 thousand from FY 1996 was as a result of the inclusion of Progress Payments in FY 1997 on contracts for the Procurement Appropriations.

**Note 31. Other Disclosures (in thousands) (cont'd):****Other Information (cont'd):**

**2. Advances and Prepayments-Intragovernmental.** In FY 1996 the amount reported in the Statement of Financial Position was attributed to the FY 1992 year reporting of \$66,000 thousand and \$579 thousand in FY 1990 and prior years. For FY 1997 CFO Statements FY 1992 went into a canceled/withdrawn status and no FY 1991 and prior year amount were reported on this line.

**3. Advances and Prepayments-Governmental.** The large variance of \$4,583,050 thousand is attributed mainly to progress payments of \$4,139,925 thousand for the Operations and Maintenance appropriations which were included in the FY 1997 Statement of Financial Position but were not included in the FY 1996 statements.

**4. War Reserves.** The reporting of items held for future use in case of conflict or other emergent need is not clearly addressed in the Statements of Federal Financial Standards (SFFAS). For example, munitions could be reported as operating materials and supplies, as general property, plant and equipment (PP&E), or as National Defense PP&E. Since these items are not held for sale, they will not be reported as inventory. Until the SFFAS is clarified, items held for future use, in case of conflict or other emergent need, will be reported as War Reserves.

The Department of the Navy used the Supply System Inventory Report (SSIR) to capture information reported in the Inventory line of \$41,441,075 thousand for FY 1996. This report includes a category titled "War Reserve" with a value of \$27,418 thousand and the Department used this amount to separate that category. At this time, the items identified for War Reserve should include all the items in the SSIR.

The comparative total War Reserve as derived from the SSIR for FY 1996 and FY 1997 are \$41,441,075 thousand and \$54,589,962 thousand respectively. Increases in this account include corrective actions to capture all the information sources as identified in the Naval Audit Service Audit Report No. 048-97 dated 25 September 1997, Department of the Navy Fiscal Year 1996 Annual Financial Report: Ammunition and Ashore Inventory.

**5. Accounts Payable-Intragovernmental.** The variance of \$2,575,112 thousand between FY 1996 and FY 1997 is attributable to the eliminating entry of \$903,779 thousand which was made in FY 1997 and \$0 in FY 1996. Additionally, the FY 1990 and prior years amount of \$24,007 thousand was included in FY 1996 but not in FY 1997.

## Footnotes

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### Note 31. Other Disclosures (in thousands) (cont'd):

#### Other Information (cont'd):

**6. Account Payable-Governmental.** The variance of \$3,296,320 thousand is attributed to the following:

Adjustment made for military Payrolls. This adjustment was approximately \$900,000 thousand which was reported in FY 1997 but not reported in FY 1996. This represents wages which were earned during September 1997 but not paid until October 1997.

FY 1990 and prior years. The amount reported in FY 1996 was \$1,828,548 thousand was included on this line in FY 1996 there were no FY 1990 and prior years reported on this line in FY 1997.

The FY 1996 amount contained Accounts Payable for contracts accumulated from Accrued Expenditure Reports produced by the MOCAS system. Accounts Payable for contracts was excluded from FY 1997 amount in accordance with the Naval Audit Service Audit Report (97-0046), recommending the discontinuance of including these amounts.

**7. Accrued Payroll and Benefits.** Accrued Payroll and Benefits represents civilian and military payroll and benefits earned but not paid as of the end of the accounting month. The amount is accrued in the financial statements as a non-federal liability. FY 1997 amounts accrued for civilian and military personnel were \$120,000 thousand and \$1,300,500 thousand respectively. Accrued Payroll and Benefits includes severance pay and separation allowances in the amount of \$215,900 thousand.

**8. Severance Pay and Separation Allowance.** This represents the unliquidated liability for the Temporary Early Retirement Authority (TERA) reported in the Military Personnel, Navy (17 1453) and the Reserve Personnel, Navy (17 1405) appropriations. These amounts were \$186,094 thousand and \$24,473 thousand respectively.

**9. Unexpended Appropriations.** The variance in Unexpended Appropriations of \$1,949,560 thousand between FY 1996 and FY 1997 is mainly due to the inclusion of the FY 1990 and prior year balances of \$2,788,972 thousand on the FY 1996 CFO statements.

**10. Revenue from the Sale of Goods and Services - Public.** The variance of \$850,766 thousand can be attributed to the work which was performed to correctly split the revenue between public and government during FY 1997. In FY 1996 all revenue was placed on the intragovernmental line

**11. Revenue for the Sale of Good and Services-Intragovernmental.** This variance of \$2,429,900 thousand can be partially attributed to the intrafund elimination of \$1,616,991 thousand. Additionally, a split between revenue from public and governmental sources was performed in FY 1997 and was not done in FY 1996.

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**Note 31. Other Disclosures (in thousands) (cont'd):****Other Information (cont'd):**

**12. Interest, Other.** This amount is attributed to Prompt Payment Act Interest Expense. The following amounts were reported by Navy and Marine Corps (in thousands):

Navy	\$8,054
Marine Corps	691
Total	<u>\$8,745</u>

**Abnormal Balances.** Intragovernmental Accounts Payable contains an abnormal balance of \$27,956 thousand, which was affected by the following :

Interfund Eliminations of \$903,779 thousand were recorded in FY 1997. Interfund Eliminations were not recorded for FY 1996.

A change in the policy for reporting reopened years for FY 1997 resulted in a \$210,920 thousand decrease.

## Footnotes

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***DEPARTMENT OF THE NAVY***

***SUPPLEMENTAL FINANCIAL  
AND MANAGEMENT  
INFORMATION***



Financial statement attributes represent core DoD financial performance measures used to analyze financial results and trends affecting the overall health and position of the Department of the Navy's financial programs. Identified are five agency attributes; Operating Cost Attribute, Operating Results Attribute, Financial Obligations Attribute, Financial Condition Attribute, and the Operating Efficiency Attribute which form the focus of our financial statement analysis. Cross-sectional analyses are presented comparing similar attributes for the Department of the Navy's General, Revolving, Trust, and Other Funds.

General Funds contain the bulk of congressional appropriations for the Department of the Navy. These appropriations include the military pay and the operations and maintenance accounts which are used to pay and maintain the functional and administrative support of our operating forces. The research and development funds are used to operate and maintain world-wide facilities which perform ongoing test, evaluation and research of systems to be used in the completion of the Department of the Navy's military missions. Finally, the investment/construction accounts are used for specific purposes approved by Congress for acquiring or construction of weapons systems, property and infrastructures.

The Department of the Navy has one revolving fund, the National Defense Sealift Fund, Navy. This account supports vessels for national defense purposes. These vessels are privately owned and operated and constructed in the United States and are documented under the laws of the United States. This fund also supports research and development relating to national defense sealift. The account deposits receipts from the disposition of national defense sealift vessels, charter of vessels, and the disposition of gifts.

Trust funds are used to record the receipt and outlay of funds held in trust by the government for use in carrying out specific purposes in accordance with the terms of a trust agreement or statute. Trust accounts received through gifts and bequests (as well as interest earned on the investments of some of these gifts) and assets held for particular purposes.

Other funds include special, deposit, and special receipt accounts. Special funds are comprised of receipt and expenditure accounts that can only be used in accordance with specific provisions of law. Deposit funds are generally used to hold assets that are awaiting legal determination or where the Department of the Navy acts as agent or custodian. These accounts may also be used for unidentified remittances.

## Supplemental

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### OPERATING COSTS ATTRIBUTE (in thousands)

The Operating Costs Attribute represents how much it costs to operate a program. This information is useful for planning, budgeting, and cost control purposes.

	FY 1997				
	<u>General</u>	<u>Revolving</u>	<u>Trust</u>	<u>Other</u>	<u>Total</u>
Total Costs	\$73,887,439	\$227,429	\$21,298	\$168	\$74,136,334
Revenue & Reimb	5,779,641	227,429	24,918	0	6,031,988
Net Operating Cost FY 97	\$68,107,798	\$0	(\$3,620)	\$168	\$68,104,346
Net Operating Cost FY 96	\$56,537,209	\$0	\$24,693	(\$1,593)	\$56,560,309
Net Operating Change	\$11,570,589	\$0	(\$28,313)	\$1,761	\$11,544,037
Annual Percentage Change	20.47%	0.00%	-114.66%	110.55%	20.41%

	FY 1996				
	<u>General</u>	<u>Revolving</u>	<u>Trust</u>	<u>Other</u>	<u>Total</u>
Total Costs	\$62,000,845	\$741,679	\$525,366	(\$1,593)	\$63,266,297
Revenue & Reimb	5,463,636	741,679	500,673	0	6,705,988
Net Operating Cost FY96	\$56,537,209	\$0	\$24,693	(\$1,593)	\$56,560,309
Net Operating Cost FY 95*	N/A	N/A	N/A	N/A	N/A
Net Operating Change					
Annual Percentage Change					

\* FY 1996 was the first year that these statements were prepared.

OPERATING RESULTS ATTRIBUTE  
(in thousands)

The Operating Results Attribute identifies when a program's operations result in an excess of expenses over revenues and appropriations or vice-versa.

	FY 1997				
	General	Revolving	Trust	Other	Total
<b>Revenues</b>					
Appropriations Realized	\$62,037,798	\$0	\$0	\$168	\$62,037,966
Federal Sources	3,988,559	227,429	566	0	4,216,554
Public Sources	883,283	0	21,961	0	905,244
Other Sources	907,799	0	2,391	0	910,190
<b>Total Revenues</b>	<b>\$67,817,439</b>	<b>\$227,429</b>	<b>\$24,918</b>	<b>\$168</b>	<b>\$68,069,954</b>
Expenses & Losses	73,887,439	227,429	21,298	168	74,136,334
<b>Net Operating Results</b>	<b>(\$6,070,000)</b>	<b>\$0</b>	<b>\$3,620</b>	<b>\$0</b>	<b>(\$6,066,380)</b>

	FY 1996				
	General	Revolving	Trust	Other	Total
<b>Revenues</b>					
Appropriations Realized	\$56,537,209	\$0	\$0	(\$1,593)	\$56,535,616
Federal Sources	5,433,537	741,679	471,252	0	6,646,468
Public Sources	30,099	0	29,421	0	59,520
<b>Total Revenues</b>	<b>\$62,000,845</b>	<b>\$741,679</b>	<b>\$500,673</b>	<b>(\$1,593)</b>	<b>\$63,241,604</b>
Expenses & Losses	62,000,845	741,679	525,366	(1,593)	63,266,297
<b>Net Operating Results</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$24,693)</b>	<b>\$0</b>	<b>(\$24,693)</b>

## Supplemental

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### FINANCIAL OBLIGATION ATTRIBUTE (in thousands)

The Financial Obligation Attribute represents the liabilities that a program incurs in its operations or asset acquisitions. The current ratio indicates the program's ability to pay its obligations that will be due within a year.

#### FY 1997

	General	Revolving	Trust	Other	Total
Total Current Assets	\$64,411,171	\$3,985,808	\$25,269	\$49,282	\$68,471,530
Total Current Liabilities	6,664,931	(463,415)	588	785	6,202,889
Current Ratio	9.66	4,449,223	42.97	62.78	11.04
Total Quick Assets	\$64,411,171	\$3,979,600	\$25,226	\$49,282	\$68,465,279
Total Current Liabilities	6,664,931	(463,415)	588	785	6,202,889
Acid Test Ratio	9.66	4,443,015	42.90	62.78	11.04

#### FY 1996

	General	Revolving	Trust	Other	Total
Total Current Assets	\$108,784,999	\$3,932,459	\$102,461	\$45,649	\$112,865,568
Total Current Liabilities	9,758,162	27,075	132,843	0	9,918,080
Current Ratio	11.15	145.24	0.77		11.38
Total Quick Assets	\$67,343,924	\$3,927,182	\$102,390	\$45,649	\$71,419,145
Total Current Liabilities	9,758,162	27,075	132,843	0	9,918,080
Acid Test Ratio	6.90	145.05	0.77		7.20

FINANCIAL CONDITION ATTRIBUTE  
(in thousands)

The Financial Condition Attribute shows the ability to generate financial resources to maintain operations and to meet financial obligations, when they are due, without considering financial assistance.

FY 1997

	General	Revolving	Trust	Other	Total
Sources of Cash	\$55,290,615	\$2,653,244	\$16,267	\$49,282	\$58,009,408
Future Requirements for Cash	16,444,140	(463,415)	588	785	15,982,098
Cash Surplus (Shortfall)	\$38,846,475	\$3,116,659	\$15,679	\$48,497	\$42,027,310
Total Assets	\$453,410,973	\$3,985,808	\$63,792	\$49,282	\$457,509,855
Total Liabilities	\$16,444,140	(\$463,415)	\$588	\$785	\$15,982,098
Assets to Debt Ratio	27.57	4,449,223	108.49	62.78	28.63

FY 1996

	General	Revolving	Trust	Other	Total
Sources of Cash	\$62,963,305	\$1,846,072	(\$2,120)	\$45,649	\$68,852,906
Future Requirements for Cash	13,158,270	27,075	133,013	0	13,318,358
Cash Surplus (Shortfall)	\$49,805,035	1,818,997	(\$135,133	\$45,649	\$51,534,548
Total Assets	\$449,303,385	\$3,932,459	\$142,306	\$45,649	\$453,423,799
Total Liabilities	\$13,158,270	\$27,075	\$133,013	\$0	\$13,318,358
Assets to Debt Ratio	34.15	145.24	1.07		34.05

## Supplemental

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### OPERATING EFFICIENCY - ASSET MANAGEMENT (in thousands)

The Operating Efficiency Attribute relates performance of a program in terms of what it accomplished to the resources it consumed.

	FY 1997		
	<u>Revolving</u>	<u>Trust</u>	<u>Total</u>
Cost of Goods Sold	<u>\$227,429</u>	<u>\$19,302</u>	<u>\$246,731</u>
Average Inventory	\$0	\$0	\$0
Inventory Turn Ratio or in Days	0	0	0
Sales Revenue	<u>\$227,429</u>	<u>\$21,961</u>	<u>\$249,390</u>
Daily Accounts Receivable	\$3,684	\$0	\$3,684
Average Rec. Turn Ratio or in Days	62	0	62
OP Cycle = Inv. Turn Day + Acct.	62	0	62
Rec. Turn Day			

	FY 1996		
	<u>Revolving</u>	<u>Trust</u>	<u>Total</u>
Cost of Goods Sold	<u>\$741,679</u>	<u>\$19,230</u>	<u>\$760,909</u>
Average Inventory	\$0	\$0	\$0
Inventory Turn Ratio or in Days	0	0	0
Sales Revenue	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Daily Accounts Receivable	\$5,871	\$2	\$5,783
Average Rec. Turn Ratio or in Days	0	0	0
OP Cycle = Inv. Turn Day + Acct.	0	0	0
Rec. Turn Day			

Consolidating Schedules  
Statement of Financial Position  
As of September 30, 1997  
(Thousands)

ASSETS	General Fund	Revolving Fund	Trust Fund	Other	Eliminating Entries	Total
<b>1. Entity Assets:</b>						
a. Transactions with Federal (Intragovernmental) Entities:						
(1) Fund Balance with Treasury	\$55,290,615	\$2,653,244	\$16,267	\$49,282	\$0	\$58,009,408
(2) Investments, Net	0	0	8,610	0	0	8,610
(3) Accounts Receivable, Net	2,228,973	1,809,640	0	0	(903,779)	3,134,834
(4) Interest Receivable	0	0	0	0	0	0
(5) Advances and Prepayments	0	0	0	0	0	0
(6) Other Federal (Intragovernmental)	0	0	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:						
(1) Investments	0	0	0	0	0	0
(2) Accounts Receivable, Net	2,526,056	0	349	0	0	2,526,405
(3) Credit Program Receivables/ Related Foreclosed Property, Net	0	0	0	0	0	0
(4) Interest Receivable, Net	0	0	0	0	0	0
(5) Advances and Prepayments	4,786,020	2	0	0	0	4,786,022
(6) Other Non-Federal (Governmental)	0	0	0	0	0	0
c. Cash and Other Monetary Assets	0	0	0	0	0	0
d. Inventory, Net	0	0	43	0	0	43
e. Work in Process	0	6,208	0	0	0	6,208
f. Operating Materials/Supplies, Net	0	0	0	0	0	0
g. Stockpile Materials, Net	0	0	0	0	0	0
h. Seized Property	0	0	0	0	0	0
i. Forfeited Property, Net	0	0	0	0	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net	0	0	0	0	0	0
k. Property, Plant and Equipment, Net	334,550,255	0	38,523	0	0	334,588,778
l. War Reserves	54,589,962	0	0	0	0	54,589,962
m. Other Entity Assets	0	0	0	0	0	0
n. Total Entity Assets	<u>\$453,971,881</u>	<u>\$4,469,094</u>	<u>\$63,792</u>	<u>\$49,282</u>	<u>(\$903,779)</u>	<u>\$457,650,270</u>
<b>2. Non-Entity Assets:</b>						
a. Transactions with Federal (Intragovernmental) Entities:						
(1) Fund Balance with Treasury	(\$327,502)	\$0	\$0	\$0	\$0	(\$327,502)
(2) Accounts Receivable, Net	30,768	0	0	0	0	30,768
(3) Interest Receivable, Net	0	0	0	0	0	0
(4) Other	0	0	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:						
(1) Accounts Receivable, Net	5,363	0	0	0	0	5,363
(2) Interest Receivable, Net	0	0	0	0	0	0
(3) Other	0	0	0	0	0	0
c. Cash and Other Monetary Assets	150,956	0	0	0	0	150,956
d. Other Non-Entity Assets	0	0	0	0	0	0
e. Total Non-Entity Assets	<u>(\$140,415)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$140,415)</u>
<b>3. Total Assets</b>	<u>\$453,831,466</u>	<u>\$4,469,094</u>	<u>\$63,792</u>	<u>\$49,282</u>	<u>(\$903,779)</u>	<u>\$457,509,855</u>

Consolidating Schedules  
Statement of Financial Position  
As of September 30, 1997  
(Thousands)

LIABILITIES	General Fund	Revolving Fund	Trust Fund	Other	Eliminating Entries	Total
<b>4. Liabilities Covered by Budgetary Resources:</b>						
a. Transactions with Federal (Intragovernmental) Entities:						
(1) Accounts Payable	\$869,615	\$6,208	\$0	\$0	(\$903,779)	(\$27,956)
(2) Interest Payable	0	0	0	0	0	0
(3) Debt	0	0	0	0	0	0
(4) Other Federal (Intragovernmental) Liabilities	146,089	0	0	0	0	146,089
b. Transactions with Non-Federal (Governmental) Entities:						
(1) Accounts Payable	3,150,347	13,663	588	785	0	3,165,383
(2) Accrued Payroll and Benefits						
(a) Salaries and Wages	1,204,622	0	0	0	0	1,204,622
(b) Annual Accrued Leave	0	0	0	0	0	0
(c) Severance Pay and Separation Allowance	215,959	0	0	0	0	215,959
(3) Interest Payable	0	0	0	0	0	0
(4) Liabilities for Loan Guarantees	0	0	0	0	0	0
(5) Lease Liabilities	0	0	0	0	0	0
(6) Pensions and Other Actuarial Liabilities	0	0	0	0	0	0
(7) Other Non-Federal (Governmental) Liabilities	40,007	0	0	0	0	40,007
c. Total Liabilities Covered by Budgetary Resources:	<u>\$5,626,639</u>	<u>\$19,871</u>	<u>\$588</u>	<u>\$785</u>	<u>(\$903,779)</u>	<u>\$4,744,104</u>
<b>5. Liabilities Not Covered by Budgetary Resources:</b>						
a. Transactions with Federal (Intragovernmental) Entities:						
(1) Accounts Payable	\$210,920	\$0	\$0	\$0	\$0	\$210,920
(2) Debt	0	0	0	0	0	0
(3) Other Federal (Intragovernmental) Liabilities	6,070,000	0	0	0	0	6,070,000
b. Transactions with Non-Federal (Governmental) Entities:						
(1) Accounts Payable	2,301,880	0	0	0	0	2,301,880
(2) Debt	0	0	0	0	0	0
(3) Lease Liabilities	0	0	0	0	0	0
(4) Pensions and Other Actuarial Liabilities	1,476,455	0	0	0	0	1,476,455
(5) Other Non-Federal (Governmental) Liabilities	1,178,739	0	0	0	0	1,178,739
c. Total Liabilities Not Covered by Budgetary Resources:	<u>\$11,237,994</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$11,237,994</u>
<b>6. Total Liabilities</b>	<u>\$16,864,633</u>	<u>\$19,871</u>	<u>\$588</u>	<u>\$785</u>	<u>(\$903,779)</u>	<u>\$15,982,098</u>
<b>NET POSITION</b>						
<b>7. Balances:</b>						
a. Unexpended Appropriations	\$54,526,614	\$4,449,223	\$2,203	\$48,497	\$0	\$59,026,537
b. Invested Capital	393,656,497	0	46,345	0	0	393,702,842
c. Cumulative Results of Operations	0	0	14,656	0	0	14,656
d. Other	21,716	0	0	0	0	21,716
e. Future Funding Requirements	(11,237,994)	0	0	0	0	(11,237,994)
f. Total Net Position	<u>\$436,966,833</u>	<u>\$4,449,223</u>	<u>\$63,204</u>	<u>\$48,497</u>	<u>\$0</u>	<u>\$441,527,757</u>
<b>8. Total Liabilities and Net Position</b>	<u>\$453,831,466</u>	<u>\$4,469,094</u>	<u>\$63,792</u>	<u>\$49,282</u>	<u>(\$903,779)</u>	<u>\$457,509,855</u>

Consolidating Schedules  
Statement of Operations and Changes in Net Position  
As of September 30, 1997  
(Thousands)

	General Fund	Revolving Fund	Trust Fund	Other	Eliminating Entries	Total
<b>REVENUES AND FINANCING SOURCES</b>						
1. Appropriated Capital Used	\$62,037,798	\$0	\$0	\$168	\$0	\$62,037,966
2. Revenues from Sales of Goods and Services						
a. To the Public	883,283	0	21,961	0	0	905,244
b. Intragovernmental	5,122,264	710,715	0	0	(1,616,991)	4,215,988
3. Interest and Penalties, Non-Federal	703	0	0	0	0	703
4. Interest, Federal	0	0	566	0	0	566
5. Taxes	0	0	0	0	0	0
6. Other Revenues and Financing Sources	907,799	0	2,391	0	0	910,190
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	703	0	0	0	0	703
8. Total Revenues and Financing Sources	<u>\$68,951,144</u>	<u>\$710,715</u>	<u>\$24,918</u>	<u>\$168</u>	<u>(\$1,616,991)</u>	<u>\$68,069,954</u>
<b>EXPENSES</b>						
9. Program or Operating Expenses	\$62,023,506	\$0	\$1,996	\$168	\$0	\$62,025,670
10. Cost of Goods Sold						
a. To the Public	816,089	0	19,302	0	0	835,391
b. Intragovernmental	5,122,264	710,715	0	0	(1,616,991)	4,215,988
11. Depreciation and Amortization	0	0	0	0	0	0
12. Bad Debts and Writeoffs	71,728	0	0	0	0	71,728
13. Interest						
a. Federal Financing Bank/Treasury Borrowing	0	0	0	0	0	0
b. Federal Securities	0	0	0	0	0	0
c. Other	8,745	0	0	0	0	8,745
14. Other Expenses	6,978,812	0	0	0	0	6,978,812
15. Total Expenses	<u>\$75,021,144</u>	<u>\$710,715</u>	<u>\$21,298</u>	<u>\$168</u>	<u>(\$1,616,991)</u>	<u>\$74,136,334</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$6,070,000)	\$0	\$3,620	\$0	\$0	(\$6,066,380)
17. Plus (Minus) Extraordinary Items	0	0	0	0	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$6,070,000)</u>	<u>\$0</u>	<u>\$3,620</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$6,066,380)</u>
19. Net Position, Beginning Balance, as Previously Stated	436,144,858	3,905,384	9,293	45,906	0	440,105,441
20. Adjustments	0	0	0	0	0	0
21. Net Position, Beginning Balance, as Restated	<u>\$436,144,858</u>	<u>\$3,905,384</u>	<u>\$9,293</u>	<u>\$45,906</u>	<u>\$0</u>	<u>\$440,105,441</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(6,070,000)	0	3,620	0	0	(6,066,380)
23. Plus (Minus) Non Operating Changes	6,891,975	543,839	50,291	2,591	0	7,488,696
24. Net Position, Ending Balance	<u>\$436,966,833</u>	<u>\$4,449,223</u>	<u>\$63,204</u>	<u>\$48,497</u>	<u>\$0</u>	<u>\$441,527,757</u>



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## Appendix C. Audit Process

**Audit Work Performed.** To fulfill our responsibilities under Public Law 101-576, the "Chief Financial Officers Act of 1990," as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," we performed oversight of the independent audit conducted by the Naval Audit Service (NAS) of the Navy General Fund Financial Statements for FYs 1997 and 1996. Our purpose was to determine whether we could rely on the NAS work. We reviewed the NAS audit approach and planning and monitored the progress of the audit 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 plans and programs. We also participated in NAS conferences on the Navy General Fund financial statements. These 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 Executive Steering Committee and Integrated Audit Process Team, 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 draft audit reports issued by the NAS, including the audit opinion report. We reviewed additional documentation, including key working papers and summaries of NAS audit results and conclusions.

**Audit Period and Standards.** We performed this financial statement audit from September 2, 1997, through February 27, 1998, 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 or statistical sampling procedures to conduct the audit.

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

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Public Affairs)  
Director, Defense Logistics Studies Information Exchange

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy  
Superintendent, Naval Postgraduate School

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Cleveland Center

## **Non-Defense Federal Organizations and Individuals**

Inspector General, Department of Education  
Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government Management, Information and Technology,  
Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security



## **Audit Team Members**

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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