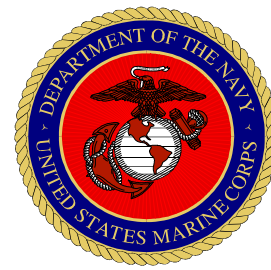


DEPARTMENT OF THE NAVY

ANNUAL FINANCIAL REPORT

FISCAL YEAR 1998



**DEPARTMENT OF THE NAVY
FISCAL YEAR 1998
ANNUAL FINANCIAL REPORT
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THE SECRETARY OF THE NAVY
WASHINGTON, D. C. 20350-1000



February 1999

MESSAGE FROM THE SECRETARY OF THE NAVY

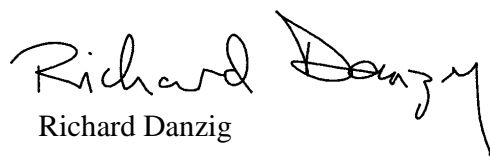
The Department of the Navy (DON) mission is to maintain, train, and equip a combat-ready Naval force capable of winning wars, deterring aggression and maintaining freedom of the seas. During Fiscal Year (FY) 1998, the DON met a number of global emergent challenges that provide clear examples of the operational advantages of a forward deployed force. The Navy and the Marine Corps deployed daily more than 100 ships and 87,000 men and women in global engagements in support of the Nation's defense and our national interests.

Throughout Fiscal Year 1998 the Department focused on execution of programs that not only enhanced Departmental readiness and sustainability, and enabled military forces and capabilities but more importantly, increased quality of life for our Sailors and Marines. However, meeting today's challenges is not enough to ensure the security of our Nation tomorrow. Focus must be shifted on the way we do things. Improving our processes in acquisition management through the use of Strategic Business Plans and pursuing more productive methods of accomplishing labor intensive tasks through technology exchange must be high on our priority list in order to meet tomorrow's challenges within existing resources.

The information presented in the Chief Financial Officer overview is in concert with the Government Performance Act (GPRA) of 1993, performance goals and objectives first reported in the FY 1999 President's Budget. Although statutory performance measurement reporting required by the GPRA does not begin until next year, the DON set the stage for such reporting in last year's CFO report. Implementation of GPRA has been accommodated through the established DON Planning, Programming and Budgeting System process and has been linked to the strategy contained in the Quadrennial Defense Review of May 1997.

The DON is charged with a stewardship role over the resources appropriated by the Congress to support the Naval mission. This is the third year the Department has submitted an Annual Financial Statement in response to the Chief Financial Officers' Act (CFO) of 1990 (P.L. 101-576), as amended by the Government Management Reform Act of 1994 (P.L. 103-356). This legislation provides a framework of accountability to report on our stewardship responsibility through financial statements. The Department has always ensured the prudent use of resources provided by the Congress, and I support the initiatives and improvements in the Federal Government's financial management structure envisioned by this legislation.

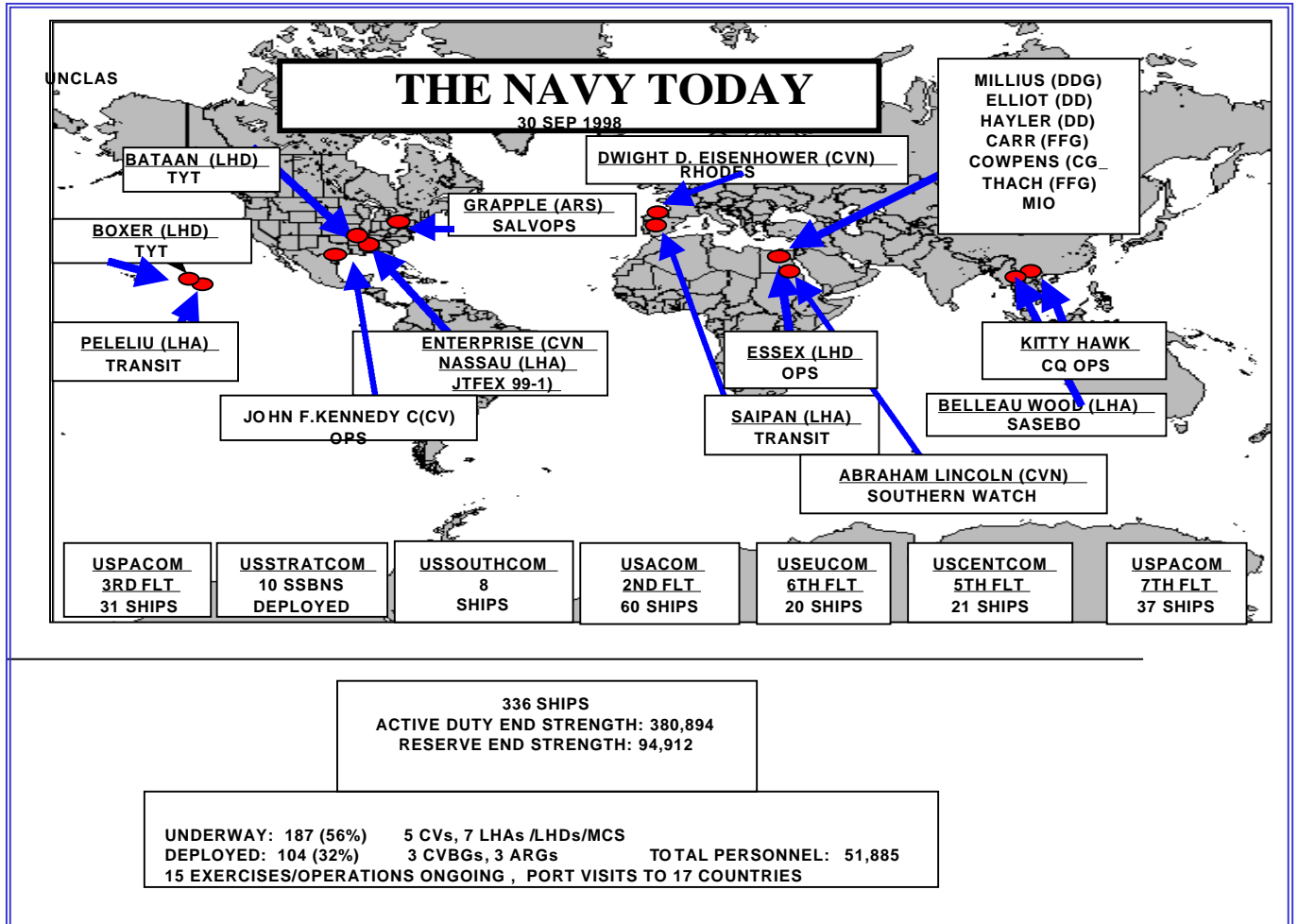
The Department is encouraged by the performance of our programs in Fiscal Year 1998 and we look forward to continued progress in the coming years.


Richard Danzig

DEPARTMENT OF THE NAVY

OVERVIEW

DEPARTMENT OF THE NAVY MISSION AND PERFORMANCE HIGHLIGHTS



The Department of the Navy (DoN) is embarking upon its third year for developing its annual financial report for general funds, in compliance with the Chief Financial Officers' (CFO) Act. The Department was proud to have undertaken and completed this task in a timely manner for the second time last year. The combined effort and joint interest demonstrated by the Navy and Marine Corps have made this undertaking a success. We continue with the same resolve this year, and the content of this report reflects the teamwork exhibited by the competent people who work in the many departments within the DoN.

The Annual Financial Statements and Supplemental information provide the financial condition and operating results for the DoN major programs. In support of the Annual Financial Statements, this Overview highlights the mission areas of readiness, people, quality of life and technology, in relation to their operating (OPTEMPO) performance measures, including the allocation of general funds executed for the major programs for Fiscal Year 1998. During FY1997, the Department of Defense's Quadrennial Defense Review (QDR) was developed in part to meet the requirements of the Government Performance and Results Act. The QDR identifies the DoD corporate goals that will help shape future mission areas and performance measures to be reported in the DoN's Annual Financial Statements.

SHAPE THE INTERNATIONAL ENVIRONMENT

Through DOD Engagement Programs And Activities



Respond to the Full Spectrum of Crises by Providing Appropriately Sized, Positioned and Mobile Forces

Focus Modernization Efforts That Maintain US Qualitative Superiority In Key Warfighting Capabilities



PREPARE NOW FOR AN UNCERTAIN FUTURE



Exploit the Revolution in Military Affairs to Transform US Forces of the Future

Maintain Highly Ready Joint Forces to Perform the Full Spectrum of Military Activities



Fundamentally Reengineer the Department and Achieve a 21st Century Infrastructure by Reducing Costs and Eliminating Unnecessary Expenditures While Maintaining Required Military Capabilities Across DoD Mission Areas

PROGRAM PERFORMANCE

Shaping The International Environment

During Fiscal Year (FY) 1998, the Department of the Navy continued its role as an international leader and partner in shaping the global environment. The naval forces, comprised of the fleets and the Fleet Marine Force, provide influence and power abroad in ways that promote regional economic and political stability. This effort in turn creates a foundation for prosperity with our international friends and allies. On a daily basis, nearly one-third of the Navy and Marine Corps Team (more than 100 ships and 87,000 men and women) are engaged in shaping world events overseas. The visible presence of the Navy carrier battle groups and the Marine Corps amphibious ready groups in regions such as the Mediterranean Sea, the Arabian Gulf/Indian Ocean, the Western Pacific and the Caribbean, reminds friend and foe of the power and capability of the U.S. naval forces. The Navy's global presence sends a positive message worldwide that the U.S. supports friends and allies in their struggle to maintain freedom, peace and stability within their regions through reduction and minimization of threats.

▪ Sustaining and Adapting Security Relationships

From Haiti to the Adriatic, from the Middle East to the Pacific Rim, the world faces sweeping changes. As a national tradition America will continue to need a Navy and Marine Corps team that can go anywhere, fight if it has to, and win. Professional naval men and women have sailed into harm's way to carry on that tradition magnificently. They have served selflessly in their communities, providing strength and leadership at home as well as at sea, and stand as an inspiration to a nation looking for heroes. The Department of the Navy is extremely confident in the abilities of the Navy and Marine Corps, as America's team, to maintain peace and prosperity and to defend her interests around the globe.



▪ Enhance Coalition Warfighting

Assisting allies to help themselves is a key element of conventional deterrence. The Navy and Marine Corps have developed a full schedule of coalition warfighting exercises with nations throughout the world to provide needed support regionally. The expeditionary nature of these forces promotes interaction with the sea, land and air forces of numerous allies. Each exercise directly contributes to successful coalition building. Solid coalitions play a key role in deterring aggression and controlling crises. Even the most routine interactions promote trust and confidence, and encourage measures that increase both the security of the U.S. and that of our allies. Conventional and strategic deterrence, including laying the foundations for future coalitions, is an ingredient in our national strategy of peacetime engagement. Naval forces also take advantage of training opportunities with navies of countries with limited infrastructure or ability to support large-scale military deployments. These training exercises offer emerging democracies a unique opportunity to train with U.S. forces.



Forward deployed naval expeditionary forces also give theater commanders a flexible, responsible force that can be positioned in trouble spots for extended periods, as a viable example of U.S. resolve and commitment. Highly mobile, combat-ready naval forces do not have the political constraints that can delay or interrupt other military forces. This characteristic of a maritime force is invaluable to American policy makers and allows the National Command Authorities to act unilaterally when required.

▪ **Promote Regional Stability**



Peacetime engagement is the Department of the Navy’s primary means of shaping the international environment and promoting regional stability. This is a traditional role for the Navy and Marine Corps. Today, nearly one-third, 87,000 men and women, of the Navy and Marine Corps team is engaged overseas in exercises with allied and other foreign militaries that enhance interoperability and understanding that fosters regional stability. Forward presence provides a psychological reassurance of security and commitment that only visible, yet unobtrusive force can provide.

During Fiscal Year (FY) 1998 the Navy expanded its list of exercise partners and locations. In addition to responding to international crises in Southwest Asia, the Caribbean and Africa, it is now common for U.S. warships to operate with the former states

of the former Soviet Union. The Navy-Marine Corps team responded to national taskings, on average, at least once every five weeks during 1998. This is a 300% increase compared to the period from 1947-1990. Naval forces were called upon to demonstrate their multi-purpose capabilities in myriad assignments, from force presence, to providing humanitarian assistance in Indonesia, or disaster relief in New Guinea. Repeatedly, forward-deployed naval forces answered the nation’s call. Also, more than 50,000 Marines participated in a total of 56 expeditionary-related exercises hosted by some 25 countries. Through these exercises, Marines established or renewed and built upon professional and personal relationships with their foreign counterparts. Exercises such as “Baltic Castle 98”, “Alexander the Great 98”, and “Native Fury 98” are crucial to forming professional bonds and establishing long-term trust with tomorrow’s leaders in these countries.

▪ **Prevent or Reduce Threats and Conflict**

Ballistic missile submarine (SSBN) deterrence patrols will continue to be an essential element of U.S. strategy for deterring a wide range of potential threats. SSBNs are central to U.S. nuclear strategy due to their stealth and survivability, the reliability and security of their command and control systems, and the accuracy

Strategic Sealift Capability		
Sealift Capacity (SqFt in millions)-FY 1998	1997	1998
Navy:		
Afloat Prepositioning Program	4.0	4.0
Current Prepositioning Program	3.0	3.5
<u>Objective:</u> Meet the Sealift capacity in the mobility requirements study (MRS) and MRS Bottom Up Review (BUR).		
<u>Measure:</u> Percent of strategic Sealift capacity achieved, compared to the requirements established by the MRS and MRS BUR.		
<u>Definition:</u> Compare the actual or projected program capacity to the required capacity for the given category in the given fiscal year.		

and flexibility of their weapons. U.S. interests involve trade with partners located at the endpoints of the “highways of the seas.” These endpoints lie in the world’s littoral regions, which coincide with the concentration of our vital interests in Europe, the Middle East, Latin America and particularly in the Pacific Rim and Indian Ocean--the area that is the fastest growing economically and demographically.

The littorals provide homes to more than 75 percent of the world’s population, locations for more than 80 percent of the world’s capital cities and nearly all the major marketplaces of international trade. It is in our national interest, therefore, for the littorals of the world to remain stable. The Navy-Marine Corps team regularly influences events in the littorals from its sovereign combat capable bases at sea. Routinely operating in all the world’s oceans, these combat credible naval expeditionary forces exert real influence and provide assurance to friends.

Overview

- **Highly Mobile, Combat Ready Forces**



Today's Navy and Marine Corps team is capable of projecting U.S. policy through forward deployed naval expeditionary forces. Therefore, they provide theater commanders a flexible, responsive force that can be positioned in trouble spots for extended periods as a visible example of U.S. resolve and commitment. Highly mobile, combat ready naval forces do not have the political constraints that can delay or interrupt other military forces. At the end of 1998 Naval forces inventory included 333 battle force ships and over a half-million people on active duty and in the reserves. Approximately 187 of those ships, 56 percent, are underway; and 104 ships, 32 percent, and 51,885 personnel of ships underway are forward deployed.

Similarly, approximately 23,400 Marines (23% of the Fleet Marine Forces) are forward deployed at any given time. Approximately 70% of the Marine Corps' operational forces are either overseas, preparing to deploy overseas, or returning from overseas.

Naval forces are on station and ready, in a fully joint and combined manner, to lead and participate in unilateral, bilateral and fully combined operations whenever and wherever our Nation requires them. Because we are forward deployed, our Nation can call upon these ships, aircraft and personnel without the need for surge from the United States and without the need for permission to base them on foreign soil. Rapid response, significant force, visible presence - these are all important contributions of Naval forces, Navy and Marine Corps, positioned forward. They provide ready examples of America's power and America's character, reassuring other nations without firing a shot. Contingency operations continue to demonstrate our ability to respond to a major crisis on short notice and underscore the benefits of a forward deployed presence.



The shift in our national strategy from fighting a global war to meeting the challenges of regional contingencies has changed the focus of the Navy and Marine Corps Reserves. The Navy and Marine Corps meet overseas presence and forward engagement responsibilities through cyclical readiness. Forces not deployed are engaged in training exercises such as the annual Cooperation Afloat Readiness and Training (CARAT) exercise, which was conducted in Fiscal Year 1998 with Malaysia, Brunei, Thailand and Singapore. Other reservist functions include maintenance, resupply and personnel turnover in preparation for the next rotational deployment. Examples of Navy and Marine Corps reserve participation include: linguists, staff liaison officers, intelligence specialists, ships and aircraft participation in Bosnia, Iraq, Haiti, evacuation operations, and counter-narcotics operations.

Significant Force Factors-FY 1998	1997	1998
Battle Force Ships	(357)	(333)
Aircraft Carriers	11	11
Reserve Operational Carriers	1	1
Fleet Ballistic Missile Submarines	17	18
Surface Combatants	115	107
Nuclear Attack Submarines	80	65
Amphibious Ships	40	38
Combat Logistics Ships	41	39
Patrol/Support/Mine Warfare	35	36
Reserve Ships	17	18
Strategic Sealift Ships	(18)	(18)
Prepositioning Ships	1	1
Maritime Prepositioning Force Enhancement (MPF(E))	13	13
Aviation Logistics Support Ships (T-AVB)	2	2
Hospital Ships (T-AH)	2	2
Tactical Air Forces	(13/2)	(13/2)
Aircraft Wings (Active/Reserve) – USN	10/1	10/1
Aircraft Wings (Active/Reserve) - USMC	3/1	3/1
Tactical Aircraft*	(1811/369)	(1700/263)
Aircraft (Active/Reserve) – USN	962/190	851/84
Aircraft (Active/Reserve) – USMC	849/179	849/179
*(Total average operating aircraft)		
Marine Corps Divisions	4	4
Active	3	3
Reserve	1	1

Overview

▪ Support United States Regional Security

The role of the Navy and Marine Corps on the world stage is evident. From contributions to multilateral operations under United Nations/North Atlantic Treaty Organization auspices to cooperative agreements with allied Navies, international engagement efforts cross the entire spectrum of the Department's missions and activities. The Navy often participates with allies and other foreign countries in joint services exercises and port visits. Joint/international exercises during FY 1998 and planned for FY 1999 include: Atlantic Resolve; Blue Advance; United International Anti-submarine Warfare Exercise (UNITAS), West Africa Training Cruise and Cobra Gold.



Operational activities include drug interdiction operations, joint maneuvers and multinational training exercises, humanitarian assistance (including medical, salvage, and search and rescue) and when called upon, contingency operations such as in the Persian Gulf and Bosnia. On any given day, nearly 87,000 Sailors and Marines on over 100 ships are deployed to locations around the world.

The annual UNITAS deployment is a primary means of supporting regional stability in the Western Hemisphere. Five months each year, regular and reserve surface combatants and P-3C aircraft, a submarine and Marines embarked on an amphibious ship, circumnavigate South America. In 1998, Canada, Germany, the United Kingdom, South Africa and the Netherlands also participated during certain phases. At each Latin American stop, our naval forces exercised with the host nation's air, sea and land forces. These exercises generally provide the only opportunity each year for many of these Latin American nations to operate with U.S. and other foreign forces. Similarly, regional stability in Southeast Asia is supported by cooperative exercises such as CARAT, patterned after the UNITAS deployment.

Sea-based and self-sustained, amphibious forces take advantage of bilateral training opportunities in countries with limited infrastructure or ability to support large scale military deployments. These training exercises offer emerging democracies a unique opportunity to train with U.S. forces. These same forward deployed amphibious forces give theater commanders a flexible, responsive force that can be positioned in key trouble spots for extended periods as a visible example of U.S. resolve and commitment. During 1998, the Navy/Marine Corps team proved time and again that sea-based forces are a premiere forward presence asset.

▪ Deter Hostile Actors/Activities in Peacetime and in Times of Crisis

Deterrence – the prevention of an act for fear of the consequences - is one of the most important products of shaping international security. State-sponsored as well as transnational threats challenge America's resolve to meet emerging security challenges. National forces must be prepared to confront these threats to the nation, its citizens, and its worldwide interests. These new challenges demand an integrated approach to security issues, involving cooperation between military, nongovernment and government organizations. As a result of continued pressure on defense funding the military must strive to improve technology, tactics and business practices to become both more lethal and more efficient.



The Navy and the Marine Corps are engaged in institutionalizing a process to improve the ability to execute traditional missions as well as developing innovative concepts and ideas that will revolutionize naval warfare. Concept-based experimentation is the means to adapt technology to future warfighting capabilities. The Naval Warfare Development Command's Maritime Battle Center (MCB) and Marine Corps Warfighting Laboratory (MCWL) are the vehicles for development of this process. The Chief of Naval Operations (CNO) Strategic Studies Group (SSG) fellows combine analysis of naval campaigns and scientific methodology to identify future warfighting concepts that offer order of magnitude improvements over current capabilities. The MCB and MCWL charters span the entire range of military

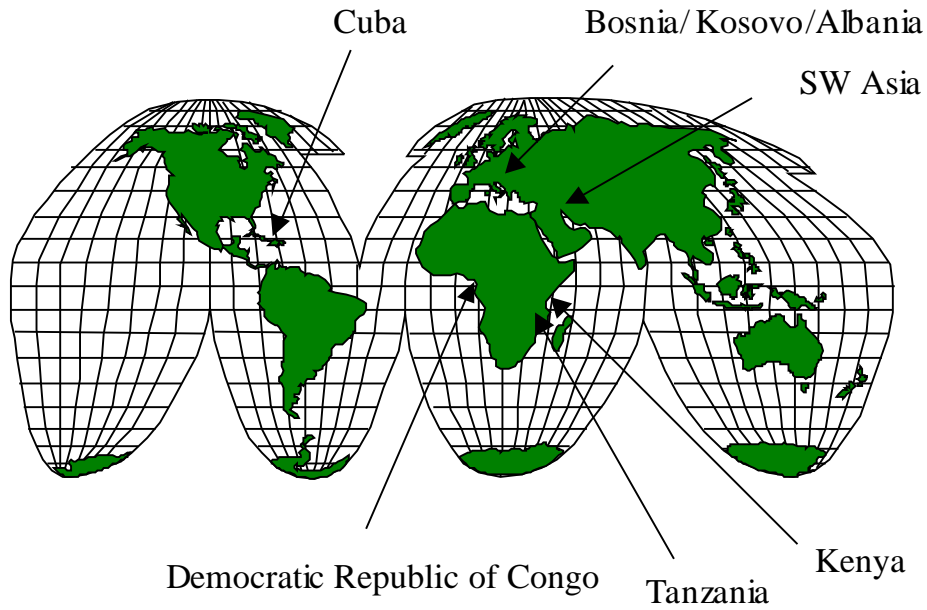
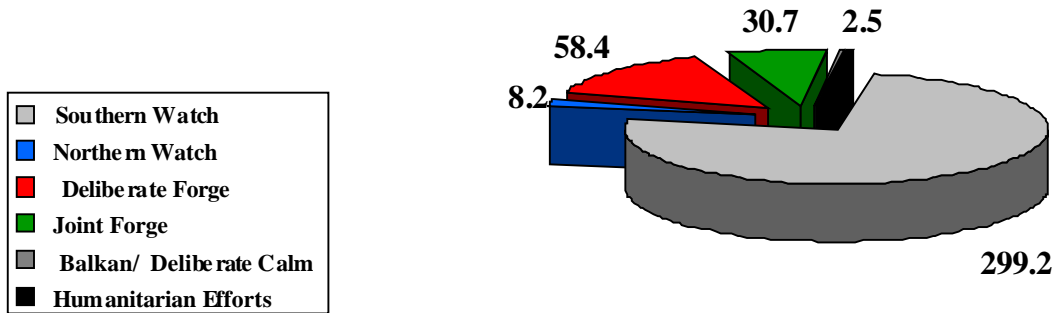
innovation to include tactical, operational, and organization concepts as well as technical innovations. The labs' primary purposes are to develop concepts, tactics, techniques, and procedures, and to evaluate advanced technologies that will lead naval forces through the Revolution in Military Affairs.

- **Conduct Multiple, Concurrent Smaller-Scale Contingencies**

Naval forces have been called upon to respond to significant contingencies and crises around the world as theater commanders called for their unique capabilities. Sea-based forces provided immediate response in support of real-world operations, along with numerous joint and combined exercises with NATO forces. During 1997-98 the European Command's amphibious ready groups, with embarked Marine Expeditionary Units (Special Operations Capable), continued to support NATO forces as the theater reserves in Operation Joint Guard. Naval forces conducted non-combatant evacuation operations in Zaire and Sierra Leone. Naval and Marine aircraft squadrons participated in a joint and combined operation formally known as Operation Deny Flight, to enforce the United Nations mandated no-fly zone in the airspace over the Republic of Bosnia-Herzegovina; and surface combatants and maritime patrol aircraft continued to execute maritime interception operations in the Persian Gulf in support of United Nations sanctions against Iraq.



Contingency Operations (\$Millions)



Strategic Surge Capability - Ashore		
Prepositioned Material Ashore - FY 1998	1997	1998
Marine Corps		
Number of Sites	6	6
Short Tons	26,160	26,160
<u>Objective:</u> Meet or exceed the Prepositioned material at the FY 1994 level.		
<u>Measure:</u> Level of Prepositioned material maintained.		
<u>Definition:</u> The Prepositioned material for the fiscal year, divided by the Prepositioned material in FY 1994.		

Amphibious Shipping Capability - FY 1998		
Marine Expeditionary Brigades (Lift Equivalents)	1997	1998
Troops	2.74	2.65
Vehicle Squared	2.05	2.10
Cargo Cubed	3.33	3.49
Air Spots	3.03	2.99
LCAC Spots	3.38	3.50
<u>Objective:</u> Meet or exceed the 2.5 Marine Expeditionary Brigade (MEB) goal in all five lift categories for active amphibious lift.		
<u>Measure:</u> Percent of active amphibious shipping versus the 2.5 MEB lift goal.		
<u>Definition:</u> Divide the MEBs of lift in each category by 2.5.		

▪ **Fight and Win Two Nearly Simultaneous Major Theater Wars**

The ability to fight and win against any adversary is vital to the National Security Strategy. Throughout the joint campaign, naval forces will capitalize on our command-and-control system to concentrate combat power from dispersed, networked forces and project power far inland. Initial operations by swiftly responding naval forces often can halt aggression early in the conflict. In those cases where aggression is not contained immediately, our initial operations will be critical in enabling a joint campaign to begin. The Navy’s ability to dominate the littorals ensures sea and area control, while defeating enemy area-denial threats, Naval forces can also assert maritime superiority and provide strategic sealift to transport joint and allied forces into theater. Our ability to counter enemy area-denial threats effectively — with potent information warfare, power projection, and force-protection capabilities — increases our decisive impact early in a joint campaign.



An enduring strength of naval forces is their balance. The combined capabilities of a carrier battle group and an amphibious ready group offer air, sea and land power that can be applied across the full spectrum of combat. They are positioned forward, able to provide an immediate, highly visible crisis-response capability. This balance and flexibility provides the National Command Authorities a range of military options that is unique to meeting threats in different parts of the world simultaneously.

FUTURE CHALLENGES

Prepare Now For An Uncertain Future

▪ **Modernization**

In order to prepare now for an uncertain future the Department of the Navy is pursuing a focused modernization effort that maintains U.S. quantitative superiority in key warfighting capabilities. The Department of the Navy is exploiting the explosive changes occurring in high technology to conceive and build new and more capable platforms and weapons systems for the future.

This phenomenon of rapid expansion in technology requires that the Navy and Marine Corps become experts in the innovative application of emerging technology to new and existing weapon systems. Innovation is critical in order to transform the aggregate impact of leading-edge technology into battlespace dominance. Together, the Marine Corps Warfighting Laboratory and the Navy At-Sea Battle Labs provide a venue to institutionalize innovation within the Department of the Navy.



Economic conditions dictate we take advantage of emerging technologies to breathe new life into some of our older systems and platforms or tie together disparate systems to synergize the whole. Capability upgrades to current ships, naval tactical aircraft and various weapons systems all are critical parts of the modernization program. Continued upgrades of our ultra high frequency, super high frequency, extremely high frequency and commercial satellite communications capabilities are necessary to enhance the support and integration of joint/combined operations.

▪ **Acquisition Management**

The Department of the Navy's acquisition investment strategy makes the most of scarce resources through employing innovative technological concepts and improved acquisition strategies. Our approach relies on an acquisition investment strategy that maximizes our scarce procurement dollars without compromising quality or losing critical capabilities while preserving the cutting edge of technology to guarantee the continued operational primacy of our Navy and Marine Corps team. During 1998 the Department built on the Federal Acquisition Streamlining Act and the Clinger-Cohen Act, to pursue a revolution in business affairs to develop affordable and technologically superior warfighting systems. Some examples of successes include the F/A-18E/F, the new attack submarine (NSSN), the SC-21 class Land Attack Destroyer (DD-21), the Advanced Amphibious Assault Vehicle.

Exploiting The Revolution in Military Affairs To Transform U.S. Forces For The Future

- **Revolution in Military Affairs**

A revolution in military affairs (RMA) occurs when new concepts of warfare combine with new technologies to achieve a quantum leap in military capabilities. Carrier aviation, amphibious warfare and ballistic missile submarines are vivid examples of such previous successes. We embarked on a similar innovative path with the 1992 publication of *...From the Sea*, and further refined our strategic vision with *Forward... From the Sea in 1994*. The revolution has continued in the past two years with publication of the Navy's *Operating Forward... From the Sea*, and the Marine Corps' *Operational Maneuver From the Sea* (OMTFTS). These operation concepts show how the naval services will execute the strategic concept and maintain operational primacy into the 21st century.



The Navy and Marine Corps are involved actively in developing concepts that will combine in the future to attain revolutionary capabilities. These include information warfare, precision strikes from the sea, Cooperative Engagement Capability (CEC), Network-Centric Warfare, theater ballistic missile defense, and Ship-to-Objective Maneuver (STOM). These concepts enhance our broad mission areas of sea and area control, power projection, presence, and deterrence. Our revolution is appropriate for the times.

- **Revolution in Business Affairs**



An RMA must combine new concepts, technologies, organization structures, doctrine, and programs. Modernization and recapitulation, using dedicated funds, are necessary to fully exploit the RMA. The Department of the Navy seeks to find some of these funds by instituting a revolution in business affairs. Modernizing our force structure to better reflect tomorrow's challenges and streamlining our support services to make them more efficient are two methods the department uses to realize fiscal savings for reallocation to support more robust modernization efforts. The importance of achieving these savings cannot be overemphasized.

Maintain Highly Ready Joint Forces to Perform the Full Spectrum of Military Activities

▪ **Readiness and Sustainability**

The Navy and Marine Corps team will face myriad challenges as it seeks to maintain sufficient force management levels for readiness in the future in response to the Joint Vision 2010. The Joint Vision 2010 will require all military organizations to become more responsive to contingencies, with less startup time between deployment and employment. In order to meet this challenge, our naval forces must become increasingly more multi-mission capable with other services in a joint arena. This means our Navy and Marine Corps team must acquire different and new skills to become proficient in the wide variety of missions and tasks through effective training and careful time management to ensure our forces remain adaptable and prepared to carry out the multiple missions they may be called upon to perform.

Significant Manpower Factors-FY 1998	1997	1998
Active MILPERS (End Year)	(569,470)	(555,480)
Navy	395,564	382,338
Marine Corps	173,906	173,142
Reserve MILPERS (End Year)	(137,895)	(134,013)
Navy	*95,898	93,171
Marine Corps	41,997	40,842
<u>Objective:</u> Attain planned force structure and military personnel strength.		
<u>Measure:</u> Size of force structure and level of military personnel strength.		
<u>Definition:</u> Compare actual numbers to the plan requirements, and determine the difference.		
* Does not include NROTC numbers.		

Enlisted Reenlistment			
First Term Reenlistment - FY 1998	1997	1998	
Navy	13,672	10,588	
Marine Corps	4,114	4,705	
Career Reenlistment - FY 1998	1997	1998	
Navy	27,275	25,933	
Marine Corps	10,629	9,376	
<u>Objective:</u> Attain 100% of enlisted first term and career reenlist in the plan.			
<u>Measure:</u> Number of enlisted first term and career reenlistment versus plan.			
<u>Definition:</u> Compare the number of enlisted first term and career reenlistment to the plan, and determine the difference.			

The Department's readiness depends on attracting and retaining quality people. Fiscal Year (FY) 1998 proved a challenging year for Navy recruiting and retention of both enlisted personnel as well as officers. The Navy experienced an enlistment shortfall of 6,892 enlistees in FY 1998 and is currently realizing a shortage of general-detail Sailors (GENDETS). To combat this potential problem in FY 1999, the Navy developed a revised recruitment strategy which includes increased compensation and enlistment bonuses as well as increased funding of the Navy College Fund. Further, GENDETS will be offered a broader range of job skill opportunities. The Navy's enlistment retention for FY 1998 was approximately 32%, or 6% less than the desired level to provide a steady-state Navy force level. Although the Navy is currently assured of meeting the FY 1999 officer goals, filling vacancies in the areas of submarine and nuclear-trained surface warfare officers, nurse sub-specialties, and medical and dental corps specialists are expected to continue to present a challenge. During FY 1998, for example, nuclear officers assessments were 19% below the Navy's requirement. Resolutions to this problem are anticipated legislative actions that will increase incentive pay for nuclear officers, continue specialty pay for approved medical department personnel, and increased funding for Armed Forces Health Professions scholarships.

Overall Unit Status Indicators - Marine Corps		
Overall C(*) Level Assessments - FY 1998	1997	1998
Marine Corps (Marine Expeditionary Units/Unit Deployment Plan)	100%	100%
*(C ratings = combat rating)		
<u>Objective:</u> Attain 100% of deployed units (Marine Expeditionary Units/Unit Deployment Program) at C-1 or C-2.		
<u>Measure:</u> Percent of deployed units that are at C-1 or C-2 at time of deployment.		
<u>Definition:</u> Number of deployed units (Marine Expeditionary Units/Unit Deployment Program) at C-1 or C-2, divided by the total number of deployed units.		

Although the civilian economy offered competition for quality personnel during FY 1998, the Marine Corps met all of its recruiting goals, continuing a positive trend in recruitment for over forty months. The Marine enlisted first-term retention was 20%, or the minimum rate required to sustain the Marine Corps force structure. This success was largely attributed to an effective advertising program using the Internet, which proved to be a useful low cost source of leads and contacts. Continued improvements include an expanded and enhanced area canvassing effort through partnerships with youth oriented programs.

▪ **Ship and Aircraft OPTEMPO**

Ship operations underway is budgeted and measured by ship OPTEMPO. Ship OPTEMPO represents the average number of underway days per quarter for ships operating in the deployed (5th Fleet, 6th Fleet and 7th Fleet) operating areas and the nondeployed (2nd Fleet and 3rd Fleet) operating areas. The Department OPTEMPO performance measures for ships is 50.5 underway days per quarter for deployed forces and 28 underway days per quarter for non-deployed forces. Deployed operations are budgeted to maintain highly ready forces, prepared to operate jointly to perform the full spectrum of military activities, and to meet forward deployed operational requirements and overseas presence commitments in support of the National Military Strategy. Non-deployed fleet OPTEMPO provides primarily for the training of fleet units when non-deployed, including participation in individual unit training exercises, multi-unit exercises, joint exercises, refresher training, and various other training evolutions. Non-deployed fleet OPTEMPO levels are considered the minimum required for maintaining a combat ready and rapidly deployable force.



The Naval Reserve plays a significant role in virtually all major operations and exercises. Reserve ships and aircraft are increasingly used for counter-drug and other fleet operations, such as a Mediterranean deployment for the operational reserve carrier *John F. Kennedy* (CVN 67) and a deployment to Europe for a multinational mine countermeasures (MCM) exercise for the reserve MCM command ship *Inchon* (MCS 12). A driving force in this increased deployment of reserve force ships and aircraft has been to lessen active duty personnel operational tempo. This increased role is highlighted by the fact that five of the ten reserve frigates were deployed for periods of four to six months in 1998. These deployments included

CARAT, BALTOPS and counter-drug operations, which were missions previously assigned to active units. Naval reserve force ships have expanded their role in these deployments by rotating selected Reservists that make up one-fourth the crew. The reserves expanded their support of the fleet in other ways as well. Reservists filled critical positions in fleet hospitals, naval hospitals and with the Marine Corps, and participated in virtually all naval medical exercises. Even critical leadership positions have become an area for reserve personnel to assist the fleet.

Overview

Naval aviation is divided into three primary categories: Tactical air (TACAIR), fleet air support and fleet readiness squadrons. This OPTEMPO supports ten active carrier wings and three active Marine Corps aircraft wings. Fleet Navy and Marine Corps tactical air squadrons conduct strike operations against a wide range of threats identified in the national strategy and provide long range and local protection against airborne and surface threats. Fleet air support squadrons provide vital fleet logistics support. Fleet readiness squadrons provide the necessary training to allow pilots to become proficient with their specific type of aircraft and to transition to fleet operations. The TACAIR/Antisubmarine Warfare (ASW) requirement for active flying hours is based on the number of crews assigned to a squadron. Each crew is funded at a specific level of primary mission readiness (PMR) to achieve the overall active Navy goal of 85% PMR including 2% of PMR achieved through simulator usage.

Mission Capable Rates		
Mission Capable Rates - FY 1998	1997	1998
Aircraft:		
Navy and Marine Corps Tactical/Antisubmarine Warfare	68.6%	*68.3%
Ships:		
Battle Forces /1	69.3%	*75.6%
Support Forces /2	92.3%	*91.0%
<u>Objective:</u> For tactical aircraft, attain mission capable rates of 73%; for ships, attain the specified percentage of operating time free of C-3/C-4 casualty reports.		
<u>Measure:</u> Percent of time that naval aircraft and ships are mission capable.		
<u>Definition:</u> For tactical aircraft, number of mission capable hours in the year, divided by the total in-service hours for tactical aircraft. An aircraft is mission capable if it can perform at least one of its assigned primary missions. For ships, the amount of equipment percentage of operating time free of C-3/C-4 casualty reports in the year, divided by the total amount of equipment operating time for these ships. Battle forces include aircraft carriers, surface combatants, combat logistics force ships, amphibious ships, and mine warfare ships. Support forces include mobile logistics and fleet support ships. Percentage of operating time free measures the amount of time during a fiscal year that ships did not report any critical mission degrading equipment casualty reports. Material casualty reports indicate degradation to equipment and systems which cannot be repaired in a timely manner by ship's force due to a lack of onboard spares or the inability to effect repairs because of ongoing operations, ship repair capability, or lack of technical expertise.		
1/ Battle Forces include aircraft carriers, surface combatants, combat logistics force ships, amphibious ships and mine warfare ships.		
2/ Support Forces include all other ship types, excluding submarines.		
* Represents only ¾ of FY 1998 since the fourth quarter data is not available in time for publication.		

Equipment Readiness Indicators		
Equipment Readiness Rates - FY 1998	1997	1998
Navy Deployed Units	93.7%	94.8%
Marine Corps (Ground)	93.9%	93.2%
<u>Navy</u>		
<u>Objective:</u> Maintain deployed units at either C-1 or C-2 in the equipment resources area for 90% of the time they are deployed.		
<u>Measure:</u> Percent of time deployed units were C-1 or C-2 in the equipment resources area.		
<u>Definition:</u> Percent of time for deployed units that total combat essential equipment on-hand and combat ready exceeded 70% of prescribed wartime requirements , major end items of equipment on-hand and combat ready exceeded 70% of prescribed wartime requirement and total aircraft on-hand and operationally ready exceeded 60% of prescribed wartime requirement.		
<u>Marine Corps</u>		
<u>Objective:</u> Attain 94% “R” rating (equipment on hand that is mission capable). For Marine Corps, percentages are calculated for all Fleet Marine Force (FMF) units (to include active, reserve, and newly active units) on all ground equipment listed in a Marine Corps bulletin, 3000 series. This equipment provides a realistic portrayal of a unit’s capability to perform its assigned wartime mission.		
<u>Measure:</u> Percent of equipment in readiness condition.		
<u>Definition:</u> Equipment possessed minus equipment deadlined, divided by equipment possessed.		

▪ **Marine Corps Readiness**

The Marine Corps is organized as a “force-in-readiness” to support national needs. It is divided into three broad categories: Operating Forces; Reserves; and Supporting Establishment. Operating Forces, considered the heart of the Marine Corps, constitute the forward presence, crisis response and fighting power available to the combatant commanders-in-chief. The primary objective of the Marine Corps, as a Naval expeditionary force, is to provide combatant commanders-in-chief with an effective means of dealing with existing and future threats, providing as it does forward-deployed units that are inherently balanced, sustainable, flexible, responsive, expandable and credible. Marine Air-Ground Task Forces (MAGTFs) are the organization through which Marine forces are tailored to meet specific operational requirements. Depending upon the mission for which they are structured, they may include a wide range of combat power, including infantry, tanks, amphibious assault vehicles, light armored vehicles, artillery and aircraft. MAGTFs range in size from small special purpose units to large Marine expeditionary forces. Each Marine Air-Ground Task Force is an integrated combined-arms team, and regardless of size is composed of a command element, a ground combat element, an aviation combat element and a combat service support element.

The Marine Corps Reserve exists to enhance the operational capabilities of the active component. The Marine Corps Reserve currently contributes 26% of the force structure and 37% of the trained manpower to the Total Force Marine Corps. One hundred percent of the adversary squadrons, civil affairs groups, and battalion-sized reconnaissance units; 50% of the tank battalions and theater missile defense detachments; and 33% of the artillery battalions are provided by the Marine Corps Reserve. The full integration of active and reserve personnel into combined-arms air-ground teams are the nation’s force-in-readiness.



Overview

Today, more than 95% of the units of Marine Forces Reserve are assigned to active component forces in support of the Marine commitment to joint operations plans. Reserve participation is essential with today's smaller active-duty force. Success throughout the full range of possible missions, from military operation other than war (MOOTW) to augmenting and reinforcing the active components in periods of crisis, demands the seamless integration of both forces.

- **Jointly Shaping the Force**



Right sizing has been accomplished and the Department is focusing on the replacement recruitments for tomorrow. At the end of Fiscal Year (FY) 1998 the active duty force size of the Department was steady at 555,480 which encompassed 382,338 Navy military personnel and 173,142 Marine Corps personnel. The Department's Reserve military component of 134,013 included 93,171 Sailors and 40,842 Marines. Recruitment replacement challenges during FY 1998 were met with revised innovative recruitment strategies.

Department of the Navy civilian staffing continues to keep pace with overall right sizing objectives, with an actual end strength decline from 215,976 in FY 1997 to 207,782 at the end of FY 1998. Civilian employees represent about 30 percent of our total work force end strength. Forty-nine percent of the Department's civilians work at Navy Working Capital Fund activities supporting depot level maintenance and repair of ships,

aircraft and associated equipment, development of enhanced warfighting capabilities at the Warfare Centers of Excellence, and direct fleet communications, supply and public works support. A significant number of civilians funded directly by operations appropriations provide direct fleet support at Navy and Marine Corps bases and stations. The balance provide essential support in functions such as training, medical care and the engineering, development and acquisition of weapons systems, all of which are necessary for long-range readiness, including achieving our recapitalization plans.

Multinational Force Compatibility		
Data Exchange Agreements (DEAs) - FY 1997	1997	1998*
Percent of Active DEAs	75%	71%
<u>Objective:</u> Ensure that 65% of signed DEAs are active (i.e., had U.S. technical project officer visits and document exchanges with counterparts during the year, to obtain critical R&D technologies to reduce U.S. national efforts and costs to obtain like data).		
<u>Measure:</u> Percent of signed DEAs that are categorized as “active” based upon survey results of U.S. technical project officer activity.		

*The value attached to the technology gain received under the 208 active DEA annexes is estimated to be \$327.2M.

Foreign Comparative Testing (FCT) - FY 1997	1997	1998*
Percent of FCT Procurement	50%	66%
<u>Objective:</u> Maintain an average procurement rate of 30% for FCT projects that fulfill Service operational requirements and that provide significant cost, schedule or performance benefits.		
<u>Measure:</u> Percent of FCT projects procured.		

International Research & Development Agreements - FY 1997	1997	1998*
Number of Concluded Agreements	21	6
<u>Objective:</u> Conclude an average of 6 international R&D armaments cooperation agreements per year.		
<u>Measure:</u> Number of international R&D armaments cooperation agreements concluded during the year.		
* The 6 concluded memorandum of understanding (MOU) resulted in foreign contributions of \$87.65M to various Department of the Navy research, development and acquisition programs.		

▪ **Quality People**

The Department of the Navy’s highest priority and challenge continues to be the accession and retention of people in the necessary quantity and quality to meet operational requirements. The Department will need to recruit and retain a quality force in the future to keep abreast of the advanced technology designed into our new weapon systems for the defense of our nation and its interests. Therefore, the Navy and Marine Corps continue to focus on retaining those enlisted and officer personnel whose mission critical skills contribute directly to readiness and whose talents are in shortest supply. However, recruiting quality is becoming increasingly difficult due to the reduced pool of 17-21 year old males and females and the misperception of the public that the military no longer offers a viable career due to the drawdown. Maintaining the quality of enlisted accessions remains an essential element in the Department’s plans for the 21st century. The Department’s insistence for quality people continues in response to the challenges of leadership as well as to the demands of technology requirements of our ships, submarines, aircraft and ground weapon systems.

Enlisted Accessions-FY 1998		
	1997	1998
Navy:		
Active	50,135	48,429
Reserve	16,820	4,705
Marine Corps:		
Active	34,548	34,123
Reserve	10,744	9,376
<u>Objective:</u> 100% of enlisted accessions in the plan.		
<u>Measure:</u> Number of enlisted accessions versus plan.		
<u>Definition:</u> Compare the number of enlisted accessions to the plan, and determine the difference.		

Overview

Nonprior Service Recruits

Active Duty Nonprior Service Recruits - FY 1998	1997	1998
With High School Diploma	96.3%	94.5%
<p><u>Objective:</u> Maintain a 95% rate of high school graduates from the top half aptitude segment (Categories I-IIIU) in the nonprior service recruiting category.</p> <p><u>Measure:</u> Percent of nonprior service recruits that are high school graduates and are classified in the top half aptitude segment of American youth (Armed Forces Qualification Test Categories I-IIIU).</p> <p><u>Definition:</u> Number of nonprior service recruits with high school diplomas who are Category I-IIIU, divided by the total number of nonprior service recruits.</p>		

Department of the Navy Personnel Support

Department of the Navy Personnel Assigned Out of Department of Defense - FY 1998	1997	1998
Navy	204*	211*
Marine Corps	60	59
<p><u>Objective:</u> Provide necessary personnel to other agency mission requirements.</p> <p><u>Measure:</u> Number of Department of Navy personnel assigned to government agencies outside of Department of Defense.</p> <p><u>Definition:</u> Compare total number of Department of Navy personnel assigned to the projected number, and determine the difference.</p> <p>*Extracted from the MPN Budget, 15 September 1998.</p>		

Department of the Navy Equipment Support - Counterdrug Detection and Monitoring

Transit Zone Support - FY 1998	1997	1998	(\$Thousands)
Ship Steaming Days	1,528	1,515	\$30,917
Aircraft Flying Hours	18,561	18,405	\$41,101
<p><u>Objective:</u> Maintain the OPTEMPO level of Counterdrug support as projected.</p> <p><u>Measure:</u> Level of OPTEMPO; aviation flying hours and ship steaming days in support of Counterdrug operations.</p> <p><u>Definition:</u> Compare the actual OPTEMPO level to the projection, and determine the difference.</p>			

Quality Of Life

The Department of the Navy recognizes quality of life as a vital component in recruiting and retaining the quality men and women needed for the force of the 21st century. The departmental focus is to provide an acceptable level of quality housing, health care and community support services to Sailors, Marines, and their families, regardless of duty station. Key elements of the quality-of-life programs include an adequate compensation and benefits package, as well as a positive environment that provides our personnel the requisite tools to reach their full potential. To this end, the Department of the Navy has established minimum quality-of-life guidelines, and is working toward consistent and professional delivery of all quality-of-life components.



Another critical workforce issue is quality child care at affordable prices. We have reviewed several options to meet the growing child care demand such as contracting for spaces in qualifying off-base civilian centers, expanding Family Child Care to include off-base residences, enhancing our Resource and Referral Program, encouraging school-age care partnerships, and obtaining wrap-around contracts with local providers.

Family Child Care to include off-base residences, enhancing our Resource and Referral Program, encouraging school-age care partnerships, and obtaining wrap-around contracts with local providers.

Child Care - Navy			
Child Care Spaces - FY 1998	Potential Need*	Goal*	Actual**
Child Development Centers (ages 0-5)	56,032	36,421	14,496
Family Child Care (ages 0-5)	-----	-----	11,106
School Age Care (ages 6-12)	18,165	11,807	14,273
Total	74,197	48,228	39,875
<u>Objective:</u> Attain 100% of the goal (65% of potential need).			
<u>Measure:</u> Number of child care spaces available versus plan.			
<u>Definition:</u> Compare the number of child care spaces to the plan, and determine the difference.			
*Goal/Potential Need for children ages 0-5 is determined by the total program, and not broken out by child development centers/family child care (36,421/56,032).			
*Goal/Potential Need for school age care (6-12) is determined by the total program, and not broken out by centers/family child care (11,807/18,160).			
**Actual figures are based on the most recent child care program annual report (1998).			

We are also committed to providing a full range of community and family support services for our family members. These services help prepare family members for the challenges of frequent relocations, major life transitions, employment opportunities, deployments and mobilizations. One of the most important facets of individual and family support continues to be the spiritual services supplied by our Chaplain Corps for numerous religious and counseling programs.

Child Care - Marine Corps		
Child Care Spaces - FY 1998	1997	1998**
Marine Corps Child Care Spaces	----	-----
Child Development Centers Spaces	4,923	4,509
School Age Spaces	593	591
Total	5,516	5,100
Family Child Care Spaces	-----	-----
On-base (other than Centers)	4,494	4,326
Resources and Referral Spaces in off-base facilities	216	131
Total	4,710	4,457
<u>Objective:</u> Attain 100% of the planned number of child care spaces.		
<u>Measure:</u> Number of child care spaces available versus plan.		
<u>Definition:</u> Compare the number of child care spaces to the plan, and determine the difference.		
** FY 1998 numbers represent best estimates.		

Overview

Meeting Medical Needs

Quality health care is the hallmark of the Department of the Navy medicine. In recent years, average accreditation scores for Navy hospitals have been in the 90th percentile, exceeding the average civilian hospitals.

The need to keep faith with the armed forces' retired community with regard to medical benefits requires constant vigilance. The Department of Defense continues to work authority to receive reimbursement from Medicare for health care provided to those Medicare eligibles within the Military Health Services System (Medicare subvention).

New technology enables the Navy to provide specialty consultation in remote areas and achieve cost and time savings by reducing the need to transport patients. It also greatly enhances the ability to provide quality health care for forward-deployed forces and at remote medical treatment facilities. The successful telemedicine technology developed in our operational testbed, *George Washington* (CVN 73) is now being applied to support operational medical services in other locations.



Beneficiary education and customer-focused marketing are some of our important priorities. The Navy and Marine Corps leadership is promoting improvement of services and our response to the needs of Sailors, Marines, retirees, and family members.

Supporting Equal Opportunity



The Department of the Navy offers every Sailor, Marine and civilian employee equal opportunity to succeed and achieve his or her fullest potential, regardless of ethnicity, gender, national origin, race or religion. With strong emphasis on core values, the Department ensures that each individual is treated with dignity and respect. A recent amendment to Department of the Navy regulations prohibits participation in any supremacist organization espousing discrimination based upon race, creed, color, sex or national origin.

In addition, the Department of the Navy continues to emphasize the critical role of women in the fleet. Since 1994, women have been eligible for assignment on board combat ships and aircraft. With the exception of submarine duty and special operations, women train and serve in every Navy community and career field.

<i>Overall Department of the Navy Numbers (as of 9/98)</i>			
	Women	Men	Total
Active-duty Personnel	49,245	328,874	378,119
Enlisted Personnel	41,468	281,652	323,120
Officers	7,777	47,222	54,999
Reserve Personnel	17,198	75,973	93,171
Enlisted Personnel	13,774	59,716	73,490
Officers	3,424	16,257	19,681

<i>Navy Women in Aviation (as of 9/98)</i>			
Total Pilots	7,095	Aviators (Students)	2,530
Total Naval Flight officers	3,762	Pilots (Students)	1,857
Enlisted	6,300	Naval Flight Officers (Students)	673

Fundamentally Reengineer the Department and Achieve a 21st Century Infrastructure while Maintaining Required Military Capabilities Across All DOD Mission Areas

▪ Infrastructure Reform

Infrastructure reductions have attempted to keep pace with force-structure reductions. Previous reductions in infrastructure as a result of the Base Realignment and Closure (BRAC) process have proved helpful in bringing fleet and force support costs down. Additional reductions under a similar program are needed to bring our infrastructure in line with our smaller forces. To this end, the Department is conducting an ongoing review of our organizations and our policies for operations, maintenance, personnel and training. Any efficiencies gained through a leaner infrastructure can be invested in force modernization and readiness. Today's fiscal realities clearly call for efficient responsible use of our precious resources. The Department has been steadfast in its efforts to scrutinize every aspect of our operations, infrastructure, and methodology for efficiencies and cost savings.



The Department is also capitalizing on emerging technologies, employing lessons learned from other successful defense programs, and implementing acquisition policies that stabilize our out-year procurement funding. These efforts are building a foundation for our future success. In conjunction with the National Performance Review, recommendations from the Commission on Roles and Missions of the Armed Forces and other related activities, the Department of the Navy continues to pursue innovative ideas to increase efficiency. The Department is learning a great deal from private industry and has undertaken several major initiatives, including delegation of waiver authority, designation of reinvention laboratories, reduction of cycle time, acquisition reform and initial implementation of the Government Performance and Results Act.

All these initiatives seek to reengineer key management processes so the nation will receive the best return for invested defense dollars. The Department's overall objective is to provide high quality, cost effective, combat ready forces.



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



February 1999

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

As the Department of the Navy (DoN) Senior Civilian Official for the Office of the Assistant Secretary of the Navy (Financial Management & Comptroller), I am proud of the Department's long history of having one of the best systems of resource allocation and execution in the Federal Government. In this annual report, the third for the DoN, we describe many of the Department's accomplishments in meeting the Naval mission through the effective use of available resources. The financial statements included in this report are intended to provide a means for the public and others to evaluate the stewardship role of the Department in its use of the taxpayers' monies.

I foresee the need to institutionalize innovative strategies as part of the Department's Revolution in Business Affairs to form the foundation for improving overall Departmental efficiencies in the coming years. As these innovative techniques are introduced, we will be building upon the Secretary of the Navy's goals and accruing significant benefits to the Department of Defense and taxpayers as a whole. A new strategy is being implemented that will incorporate innovative methods of accomplishing work, using proven techniques to meet challenges of today, as well as of tomorrow. Our focus must be on outcomes. Meeting our goals will draw upon our financial management workforce's knowledge, skills, and abilities. We will also take advantage of the expertise of the private sector. The building blocks for tomorrow's success will depend on a sound financial management system. I look forward to placing the cornerstone of the vision for tomorrow's DoN financial management program.

A handwritten signature in black ink, appearing to read "Charles P. Nemfakos".

Charles P. Nemfakos

FINANCIAL MANAGEMENT ISSUES AND ACCOMPLISHMENTS

Department of the Navy Program Budget Accounting System (DON PBAS)

- PBAS is a single source data flow system from the Departmental Level to the intermediate commands. PBAS has expansion capabilities to bring all field level activities on line into one unified Departmental system for all Navy and Marine Corps activities. This will improve financial management and reporting. PBAS will speed funds distribution and improve internal controls and funds management, by eliminating repetitive data entry and errors that now result from a myriad of local, stand-alone systems.

Business Process Assessment of Marine Corps General Fund Financial Statements

- A business process assessment of Marine Corps general fund financial statements is an overall assessment of the financial statements which focuses on the examination of all aspects of the business process to develop financial statements. The business study includes the preparation of desegregated financial statements as well as internal controls structure. The assessment evaluates the effectiveness of various organizational units in preparation for the annual financial statements within the general funds area. The initiative will serve as a template for other organization within the Department of the Navy.

Business Process Assessment of Naval Aviation Depots Navy Working Capital Fund Financial Statements

- This a business process assessment of the Naval Aviation Depot (NADEP) Navy Working Capital Fund financial statements. The project provides an overall assessment of the financial statements and focuses on the examination of all aspects of the business process to develop financial statements. The business study will include the preparation of desegregated financial statements as well as internal controls structure. The assessment evaluates the effectiveness of various organizational units in preparation of the annual financial statements within the Working Capital Funds area. The initiative will serve as a template for other organizations within the Department of the Navy.

Problem Disbursement Improvement Project

- Coordinate and monitor improvement efforts between the DON and DFAS to identify systemic causes of problem disbursements and to implement business process changes and system enhancements to reduce problem disbursements to an acceptable level for CFO compliance. FY 1999 goal is \$1.5 billion net problem disbursement balance.

Fund Administration and Standardized Document Automation System (FASTDATA)

- FASTDATA is an existing application utilized by a significant portion of the Navy general fund accounting ashore community as a source document and transition system. Source transitions are initiated from non-accounting sources (cost centers) and relayed through comptroller staff (fund administrators) to the official accounting system. As part of the effort to reduce the number of feeder systems, the Assistant Secretary of the Navy (Financial Management and Comptroller) has designated FASTDATA as the Navy's primary source data tool for ashore field level activities
- (8 Apr 98 memorandum). The level of funding provided is being used to maintain the current version while translating its functionality to a graphical user interface (GUI) environment consistent with Windows 95, and NT.

Overview

Enhancement of Organization Internal Control Structures for Financial Statement Audits

- The project provides an assessment of the extant internal control structure of various DON commands and activities. The objective of the assessment is to clearly define the area in need of enhancement at these organizations to ensure greater likelihood of obtaining an unqualified opinion of the Department annual financial statements. The deliverables include a comprehensive checklist and an internal control handbook.
- The need for the project was an outcome of the audit of the Department's annual financial statements. These audits discuss the need to improve the administrative/accounting controls. To accomplish this, a study of organization internal control structures has been initiated to describe and delineate internal control components required for each financial management processing cycle at the command and activity level. This effort will provide specific controls over transaction processing requirements, file maintenance, asset protection, and other controls necessary for creation of audible financial statements. The internal control product will describe the control environment, provide guidelines for risk assessment provide information on organization structure, provide reliable applicability of laws and financial regulations, and provide a means to assess and monitor the internal control system of the organization.

Department of the Navy Civilian Workforce Financial Management Technical Competency Improvement Project

- Provide strategies and goals to DON comptrollers for development, on a continuous basis, of the DON FM work force. The training and development of the financial management work force is a standard requirement of management to ensure a work force ready for the present and the future of financial management operations within the DOD.

Installation Management Accounting Project

- Provides management accounting information for shore installation functional management use by capturing and reporting base operating support costs in a standardized fashion within the boundaries for the Navy's financial accounting system, Standard Accounting and Reporting System, Field Level (STARS-FL).
- This initiative will improve data accuracy (via standardized definitions/procedures) and should result in improved internal control via a standardized reporting methodology for all base operating support costs.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of the operations for the Department of the Navy, pursuant to the requirements for the 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Department of the Navy in accordance with the formats prescribed by the Office of Management and Budget and the Department of Defense, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

DEPARTMENT OF THE NAVY

PRINCIPAL STATEMENTS

Principal Statements

PRINCIPAL STATEMENTS

The Department of the Navy's FY 1998 Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management regulation 7000.14, Volume 6B of December 1998. The statements and related notes summarize financial information for individual funds and accounts within the Department for the fiscal year ending September 30, 1998.

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

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

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

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

Principal Statements

Principal Statements

Department of Defense
Department of the Navy
CONSOLIDATED BALANCE SHEET
As of September 30, 1998
(\$ in Thousands)

ASSETS	<u>1998</u>
1. Entity Assets:	
A. Intragovernmental	
1. Fund Balance with Treasury (Note 2)	\$58,395,185
2. Investments, Net (Note 4)	9,759
3. Accounts Receivable, Net (Note 5)	2,198,818
4. Other Assets (Note 6)	
B. Total Intragovernmental	<u>\$60,603,762</u>
C. Investments, Net (Note 4)	
D. Accounts Receivable, Net (Note 5)	2,525,740
E. Loans Receivable and Related Foreclosed Property, Net (Note 7)	
F. Cash and Other Monetary Assets (Note 3)	
G. Inventory and Related Property, Net (Note 8)	12,449,549
H. General Property, Plant and Equipment (Note 9)	38,097,015
I. Stewardship Assets (National Defense PP&E, etc.)	See Stewardship Statement
J. Other Assets (Note 6)	<u>2,978,606</u>
K. Total Entity Assets	<u>\$116,654,672</u>
2. Non-Entity Assets:	
A. Intragovernmental	
1. Fund Balance with Treasury (Note 2)	(151,543)
2. Accounts Receivable, Net (Note 5)	367,651
3. Other Assets (Note 6)	
B. Total Intragovernmental	<u>\$216,108</u>
C. Accounts Receivable, Net (Note 5)	962
D. Cash and Other Monetary Assets (Note 3)	140,606
E. Other Assets (Note 6)	<u>(45)</u>
F. Total Non-Entity Assets	<u>\$357,631</u>
3. Total Assets	<u><u>\$117,012,303</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Department of the Navy
CONSOLIDATED BALANCE SHEET
As of September 30, 1998
(\$ in Thousands)

	<u>1998</u>
LIABILITIES	
4. Liabilities Covered by Budgetary Resources:	
A. Intragovernmental	
1. Accounts Payable	\$1,080,647
2. Environmental Cleanup (Note 11)	
3. Debt (Note 10)	
4. Other Intragovernmental Liabilities (Notes 11, 12, and 15)	4,541
B. Total Intragovernmental	<u>\$1,085,188</u>
C. Accounts Payable	811,176
D. Liabilities for Loan Guarantees	
E. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 13)	
F. Environmental Cleanup (Note 11)	
G. Other Liabilities (Notes 11, 12, and 15)	<u>1,377,726</u>
H. Total Liabilities Covered by Budgetary Resources:	<u>\$3,274,090</u>
5. Liabilities Not Covered by Budgetary Resources:	
A. Intragovernmental	
1. Accounts Payable	83,461
2. Debt (Note 10)	
3. Environmental Cleanup (Note 11)	
4. Other Liabilities (Notes 11, 12, and 15)	369,301
B. Total Intragovernmental	<u>\$452,762</u>
C. Accounts Payable	437,458
D. Debt (Note 10)	
E. Military Retirements Benefits and Other Employment Related Actuarial Liabilities (Note 13)	1,213,674
F. Environmental Cleanup (Note 11)	5,174,500
G. Other Governmental Liabilities (Notes 11, 12 and 15)	<u>3,508,363</u>
H. Total Liabilities Not Covered by Budgetary Resources	<u>\$10,786,757</u>
6. Total Liabilities	\$14,060,847
NET POSITION	
7. Unexpended Appropriations (Note 14)	60,378,269
8. Cumulative Results in Operations	<u>42,573,187</u>
9. Total Net Position	<u>\$102,951,456</u>
10. Total Liabilities and Net Position	<u><u>\$117,012,303</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Department of the Navy
CONSOLIDATED STATEMENT OF NET COST
For the period ending September 30, 1998
(\$ in Thousands)**

	<u>1998</u>
1. Program Costs	
A. Intragovernmental	\$10,525,895
B. With the Public	<u>72,828,741</u>
C. Total Program Cost	<u>\$83,354,636</u>
D. Less: Earned Revenues	<u>(4,259,706)</u>
E. Net Program Costs	<u>\$79,094,930</u>
2. Costs Not Assigned to Programs	
3. Less: Earned Revenues Not Attributable to Programs	
4. Deferred Maintenance (Note 17)	
5. Net Cost of Operations	<u><u>\$79,094,930</u></u>

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 For the period ending September 30, 1998
 (\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Totals</u>	<u>Intra-agency Eliminations</u>	<u>Consolidated Totals</u>
1. PROGRAM COSTS:					
A. Operations and Maintenance:					
1. Intragovernmental	\$6,938,646	\$1,743,502	\$8,682,148	\$1,072,232	\$7,609,916
2. With the Public	17,973,276	1,232,551	19,205,827		19,205,827
3. Total Program Cost	\$24,911,922	\$2,976,053	\$27,887,975	\$1,072,232	\$26,815,743
4. Less: Earned Revenues	(3,429,759)	(614,388)	(4,044,147)	(1,072,232)	(2,971,915)
5. Net Program Costs	\$21,482,163	\$2,361,665	\$23,843,828	0	\$23,843,828
B. Military Personnel:					
1. Intragovernmental	\$153,254	\$196,568	\$349,822	\$212	\$349,610
2. With the Public	18,305,646	6,307,683	24,613,329		24,613,329
3. Total Program Cost	\$18,458,900	\$6,504,251	\$24,963,151	\$212	\$24,962,939
4. Less: Earned Revenues	(276,958)	(38,800)	(315,758)	(212)	(315,546)
5. Net Program Costs	\$18,181,942	\$6,465,451	\$24,647,393	\$0	\$24,647,393
C. Procurement:					
1. Intragovernmental	\$2,568,309	(\$91,318)	\$2,476,991	\$436,936	\$2,040,055
2. With the Public	17,635,477	(212,961)	17,422,516		17,422,516
3. Total Program Cost	\$20,203,786	(\$304,279)	\$19,899,507	\$436,936	\$19,462,571
4. Less: Earned Revenues	(876,493)	(5,680)	(882,173)	(436,936)	(445,237)
5. Net Program Costs	\$19,327,293	(\$309,959)	\$19,017,334	\$0	\$19,017,334

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Department of the Navy
CONSOLIDATING STATEMENT OF NET COST (CONTINUED)
For the period ending September 30, 1998
(\$ in Thousands)**

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Totals</u>	<u>Intra-agency Eliminations</u>	<u>Consolidated Totals</u>
D. Research, Development, Test & Evaluation:					
1. Intragovernmental	\$183,814	\$0	\$183,814	\$47,439	\$136,375
2. With the Public	8,133,366		8,133,366		8,133,366
3. Total Program Cost	\$8,317,180	\$0	\$8,317,180	\$47,439	\$8,269,741
4. Less: Earned Revenues	(139,447)		(139,447)	(47,439)	(92,008)
5. Net Program Costs	\$8,177,733	\$0	\$8,177,733	\$0	\$8,177,733
E. Military Construction/ Family Housing:					
1. Intragovernmental	\$212,344	\$109,768	\$322,112	\$0	\$322,112
2. With the Public	3,267,589	140,444	3,408,033		3,408,033
3. Total Program Cost	\$3,479,933	\$250,212	\$3,730,145	0	\$3,730,145
4. Less: Earned Revenues	(412,321)	(2,607)	(414,928)		(414,928)
5. Net Program Costs	\$3,067,612	\$247,605	\$3,315,217	\$0	\$3,315,217
F. Other Programs:					
1. Intragovernmental	\$67,827		\$67,827	\$0	\$67,827
2. With the Public	45,670		45,670		45,670
3. Total Program Cost	\$113,497	\$0	\$113,497	\$0	\$113,497
4. Less: Earned Revenues	(20,072)		(20,072)		(20,072)
5. Net Program Costs	\$93,425	\$0	\$93,425	\$0	\$93,425

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST (CONTINUED)
 For the period ending September 30, 1998
 (\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Totals</u>	<u>Intra-agency Eliminations</u>	<u>Consolidated Totals</u>
G. Total Program Costs					
1. Intragovernmental	10,124,194	\$1,958,520	\$12,082,714	\$1,556,819	\$10,525,895
2. With the Public	65,361,024	7,467,717	72,828,741		72,828,741
3. Total Program Cost	\$75,485,218	\$9,426,237	\$84,911,455	\$1,556,819	\$83,354,636
4. Less: Earned Revenues	(5,155,050)	(661,475)	(5,816,525)	(1,556,819)	(4,259,706)
5. Net Program Costs	\$70,330,168	\$8,764,762	\$79,094,930	\$0	\$79,094,930
2. Costs not assigned to Programs					0
3. Less: Earned Revenues not Attributable to Programs					0
4. Deferred Maintenance (Note 17)					
5. Net Cost of Operations	\$70,330,168	\$8,764,762	\$79,094,930	\$0	\$79,094,930

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Department of the Navy
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the period ending September 30, 1998
(\$ in Thousands)**

	<u>1998</u>
1. Net Cost of Operations	\$79,094,930
2. Financing Sources (Other than Exchange Revenues):	
A. Appropriations Used	78,229,846
B. Taxes (and Other Non-exchange Revenue)	
C. Donations (Non-exchange Revenue)	8,890
D. Imputed Financing	421,687
E. Transfers-In	33,692
F. Transfers-Out	
	<hr/>
3. Net Results of Operations (Line 2 less Line 1)	<u>(\$400,815)</u>
4. Prior Period Adjustments (Note 18)	<u>(339,528,420)</u>
5. Net Change in Cumulative Results of Operations	(339,929,235)
6. Increase (Decrease) in Unexpended Appropriations	<u>1,352,934</u>
7. Change in Net Position	(338,576,301)
8. Net Position - Beginning of the Period	<u>441,527,757</u>
9. Net Position - End of the Period	<u><u>\$102,951,456</u></u>

Additional Information included in Note 18.

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
 For the period ending September 30, 1998
 (\$ in Thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Totals</u>	<u>Intra-agency Eliminations</u>	<u>Consolidated Totals</u>
1. Net Cost of Operations	\$70,330,168	\$8,764,762	\$79,094,930		\$79,094,930
2. Financing Sources (Other than Exchange Revenues):					
A. Appropriations Used	69,258,932	8,970,914	78,229,846		78,229,846
B. Taxes (and Other Non-exchange Revenue)	8,890		8,890		8,890
C. Donations (Non-exchange Revenue)	421,687		421,687		421,687
D. Imputed Financing					
E. Transfers-In		33,692	33,692		33,692
F. Transfers-Out					
3. Net Results of Operations (Line 2 less Line 1)	(\$640,659)	\$239,844	(\$400,815)		(\$400,815)
4. Prior Period Adjustments (Note 18)	(330,729,413)	(8,799,007)	(339,528,420)		(339,528,420)
5. Net Change in Cumulative Results of Operations	(331,370,072)	(8,559,163)	(339,929,235)		(339,929,235)
6. Increase (Decrease) in Unexpended Appropriations	463,465	889,469	1,352,934		1,352,934
7. Change in Net Position	(330,906,607)	(7,669,694)	(338,576,301)		(338,576,301)
8. Net Position - Beginning of the Period	420,132,077	21,395,680	441,527,757		441,527,757
9. Net Position - End of the Period	\$89,225,470	\$13,725,986	\$102,951,456		\$102,951,456

Additional Information included in Note 18.

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Department of the Navy
COMBINED STATEMENT OF BUDGETARY RESOURCES
As of September 30, 1998
(\$ in Thousands)**

1998

BUDGETARY RESOURCES:

1. Budget Authority	\$81,804,041
2. Unobligated Balance - Beginning of Period	12,319,131
3. Net Transfers Prior-Year Balance, Actual (+/-)	(82,812)
4. Spending Authority from Offsetting Collections	5,282,567
5. Adjustments	<u>482,077</u>
6. Total Budgetary Resources	<u><u>\$99,805,004</u></u>

STATUS OF BUDGETARY RESOURCES:

7. Obligations Incurred	88,371,230
8. Unobligated Balances - Available	10,060,421
9. Unobligated Balances - Not Available	<u>1,373,353</u>
10. Total, Status of Budgetary Resources	<u><u>\$99,805,004</u></u>

OUTLAYS:

11. Obligations Incurred	88,371,230
12. Less: Spending Authority From Offsetting Collections and Adjustments	<u>(8,276,874)</u>
13. Obligated Balance, Net - Beginning of Period	45,699,112
14. Obligated Balance Transferred , Net	
15. Less: Obligated Balance, Net - End of Period	(46,971,169)
16. Total Outlays	<u><u>\$78,822,299</u></u>

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense

Department of the Navy

COMBINED STATEMENT OF FINANCING

As of September 30, 1998

(\$ in Thousands)

	<u>1998</u>
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:	
A. Obligations Incurred	\$88,371,230
B. Less: Spending Authority for Offsetting Collections and Adjustments	(8,276,874)
C. Donations Not in the Entity's Budget	
D. Financing Imputed for Cost Subsidies	421,686
E. Transfers- In (Out)	33,693
F. Exchange Revenue Not in the Entity's Budget	
G. Other	(879,871)
H. Total Obligations as Adjusted and Nonbudgetary Resources	<u>\$79,669,864</u>
2. RESOURCES THAT TO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services and Benefits Ordered but Not Yet Provided (Net Increases) Net Decreases	(\$1,584,297)
B. Costs Capitalized on the Balance Sheet	(401,977)
C. Financing Sources that Fund Costs of Prior Periods	
D. Other	75,714
E. Total Resources That Do Not Fund Net Cost of Operations	<u>(\$1,910,560)</u>
3. COSTS THAT DO NOT REQUIRE RESOURCES:	
A. Depreciation and Amortization	\$806,652
B. Revaluation of Assets and Liabilities	
C. Other	90,114
D. Total Costs That Do Not Require Resources	<u>\$896,766</u>
4. Financing Sources Yet to be Provided	<u>438,860</u>
5. Net Cost of Operations	<u><u>\$79,094,930</u></u>

Additional information included in Note 20.

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE NAVY

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

Footnotes

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 (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994 (Public Law 103-356), and other appropriate legislation. This report encompasses the financial activities of both the U.S. Navy and the U.S. Marine Corps herein referred to as the Department of the Navy. The financial statements have been prepared from the books and records of the Department in accordance with “Department of Defense Financial Management Regulation” (“DoDFMR”) as adopted from the Office of Management and Budget (OMB) Bulletin No. 97-01, “Form and Content of Agency Financial Statements.” These statements 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.

B. Reporting Entity. The Department of the Navy was created on April 30, 1798 by an act of Congress (1 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 armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal year 1998 represents the third year that the Department of the Navy has prepared and audited, financial statements as required by the Chief Financial Officers Act and the Government Management Reform Act.

1. The accounts used to prepare the principal statements are classified as entity/non-entity and by fund type. 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 of the entity.

Entity Accounts:**General funds**

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps (fiscal year)
17 0810	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

Footnotes

General funds continued

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)

Special funds (Receipt Accounts) continued

17F3886 Civilian Thrift Savings Plan

Special funds

17X3885 Undistributed Intra-Governmental Payments, Navy

17X9082 Intra-Budgetary Transactions-Trust Funds National Defense

Deposit funds17X6001 Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property,
Navy17X6002 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, Navy17X6083 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

2. The accompanying financial statements account for all resources 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 federal financial accounting standards. 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.

Footnotes

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, special, receipt, deposit and trust 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.

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

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

3. Trust funds 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 on investments.

4. Special funds account for receipts of the government that are earmarked for a specific purpose. 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 1998, the Department of the Navy maintained six special fund receipt accounts and internally processed their activities using the pseudo account number reference "17 0002."

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

D. Basis of Accounting. Transactions generally are recorded on a budgetary basis, but are required to be reported (in these financial statements) on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. All known intrafund balances are eliminated.

D. Basis of Accounting. (con't)

1. 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 general ledger balances in those instances where budget execution and expenditure reports do not contain the particular information, for example, "Property, Plant, and Equipment."

2. 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 1992 and prior fiscal years are subject to payment.

E. Revenues and Other Financing Sources. Financing sources for general funds are provided through congressional appropriations that are received on both an annual and multi-year basis. Revenue for business fund activities is recognized at the point the rendered service is completed and billed or at the point inventory items are sold.

1. For financial statement reporting purposes under accrual accounting, operating expenses for general fund activities are recognized in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Department's operations. Unexpended appropriations are recorded as equity of the U.S. Government.

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

F. Accounting for 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 the Navy's facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury does not allocate interest costs to the benefiting agencies.

Footnotes

F. Accounting for Intra-Governmental Activities: (con't)

3. The Department's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Department funds a portion of the civilian and military pensions. Reporting pension benefits under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management. The Department recognizes an imputed expense for civilian employee pensions and other retirement benefits in the statement of net cost; and recognizes imputed revenue for the civilian employee pensions and other retirement benefits in the statement of changes in net position.

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" (the Judgment Fund), these legal actions should not materially affect the Department of the Navy's operations or financial condition.

5. Each year, the Department of the Navy sells 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 1998, the Department of the Navy received reimbursements of \$136 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 financial resources are maintained in U.S. Treasury accounts. The Department of the Navy's cash receipts and disbursements are processed by the Treasury Department, and the balance with the U.S. Treasury represents the aggregate of all unexpended balances. Material disclosures are provided at Note 2.

H. Foreign Currency. The Department of the Navy conducts a portion of its operations overseas. Gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction) are recognized and reported in the net cost statement. 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. Similar gains and losses for other appropriations are not recognized in the net cost statement. Instead, they are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations. Material disclosures are provided at Note 3.

I. Accounts Receivable. As presented in the balance sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other entities. Allowances for uncollectable accounts are based upon analysis of collection experience by fund type.

1. The CFO Financial Statements include both the allowances provided by the Defense Debt Management System (DDMS) and a Navy allowance calculated by DFAS-CL; whereas, the Report on Receivables Due from the Public reflects only the allowances calculated by the DDMS. Other material disclosures are provided at Note 5.

J. Loans Receivable. Not applicable

K. Inventories and Related Property. Inventories, are reported at Latest Acquisition Cost (LAC). LAC is determined by subtracting appropriate surcharges from the Standard Cost to arrive at the price most recently paid for a carried item. No gains or losses are recognized in the net cost statement 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 balance sheet statement. The related property portion of the amount reported includes operating materials and supplies, stockpile materials, seized property and forfeited property. Operating materials and supplies are valued at actual cost. Ammunition and munitions that are not held for sale are treated as operating materials and supplies. The consumption method of accounting for the recognition of expenses has been applied for operating materials and supplies, except where management determined that the purchases method is more appropriate as provided in SFFAS No. 3. Other material disclosures related to inventory and related property are provided at Note 8.

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. 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. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. Material disclosures are provided at Note 4.

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

1. The Department, as encouraged by the Federal Accounting Standards Advisory Board (FASAB), elected to implement the Statement of Federal Financial Accounting Standard No. 11, "Amendments to Accounting for Property, Plant and Equipment - Definitional Changes, in FY 1998. As a result of that decision, the costs of National Defense PP&E are not reported on the Balance Sheet beginning in FY 1998. Any such previously reported costs have been charged to the Net Position of the Entity, and the adjustment is shown as a prior period adjustment. Information on National Defense PP&E is reported in the Required Supplemental Stewardship Information section.

Footnotes

M. General Property, Plant, and Equipment (PP&E). (con't)

2. General PP&E is valued at historical acquisition cost plus capitalized renovations or improvements. General PP&E assets are capitalized when the cost equals or exceeds the DoD capitalization threshold (currently \$100,000) and have a useful life of two or more years. All General PP&E other than land, is depreciated consistent with the requirements in the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment." Depreciation is a new requirement for General Fund Activities in FY 1998. Depreciation of property and equipment is generally calculated on a straight line basis.

3. In some instances, equipment may be valued at latest acquisition cost. In other instances where original acquisition costs of General PP&E were not available, estimates have been used. Such estimates are based on either (1) the cost of similar assets at the time of acquisition or (2) the current cost of similar assets discounted for inflation to the time of acquisition.

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

N. Prepaid and Deferred Charges. Payments in advance of the receipt of goods and services are recorded as prepaid and deferred charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

O. Leases. As of September 30, 1998 the Department of the Navy was committed to numerous annual operating leases and rental agreements. Generally, these leases and agreements were for rental equipment, space, and operating facilities. 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.

1. 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 actions or claims primarily involve tort claims that may result from events such as aircraft, ship, and vehicle accidents, medical malpractice, property and environmental damages, and contract disputes.

P. Contingencies. (con't)

2. Most legal actions, other than contract claims, to which the Department may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Title 10, United States Code, Chapter 163, 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's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect the Department's operations or financial condition. Contingencies related to the Judgment Fund are reflected as current period imputed cost offset by a corresponding imputed financing entry.

3. 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 for completion of these efforts totals \$5,175 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 and military leave are earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of non-vested leave are expensed as taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Accrued leave for the Navy is recorded through automatic postings from the Defense Civilian Payroll System.

R. Equity.

1. Equity consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn and amounts obligated but for which neither legal liabilities for payments have been incurred nor have made actual payments.

2. Cumulative results of operations represents the difference since inception of the activity between expenses and losses, and financing sources including appropriations, revenue, and gains. Beginning in FY 1998, this will include the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, there will no longer be a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or pre-credit reform loans, or a separate negative amount shown for future funding requirements.

Footnotes

S. 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 and other facilities (for example, runways) located on the overseas bases are capitalized as stipulated in Note 1-M. These fixed assets are subject to loss in the event the treaties are not renewed or other agreements are not reached which allow for the continued use by the Department of the Navy. Therefore, in the event these treaties or agreements are terminated whereby any use of foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the United States and the host country have been concluded to determine the amount due the United States for such capital investments.

T. Comparative Data. Comparative data for the prior year has not been presented because this is the first year for which financial statements are prepared using the Office of Management and Budget 97-01 prescribed format. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the Department of the Navy's reporting activities.

U. Undelivered Orders. The Department of the Navy has obligated for goods and services which have been ordered but not yet received (undelivered orders). Accordingly undelivered orders do not represent a liability for payment. The Department of the Navy has Undelivered Orders outstanding at the end of FY 1998 of \$47 billion.

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

	<u>Trust Funds</u>	<u>Revolving Funds</u>	<u>Appropriated Funds</u>	<u>Other Fund Types</u>	<u>Total</u>
A. Entity Fund and Account Balances					
Unobligated Balance Available					
Available	\$19,965	\$560,985	\$9,463,398	\$16,073	\$10,060,421
Restricted			1,373,353		1,373,353
Reserve For Anticipated Resources					
Obligated Balance, Net	6,748	1,648,839	45,262,472	53,110	46,971,169
Unfunded Contract Authority					
Unused Borrowing Authority					
Other	(9,758)				(9,758)
Total Entity Treasury Balance	<u>\$16,955</u>	<u>\$2,209,824</u>	<u>\$56,099,223</u>	<u>\$69,183</u>	<u>\$58,395,185</u>
B. Non-Entity Fund and Account Balance				(\$151,543)	(\$151,543)

C. The Fund Balance with Treasury does not include corrections to canceled appropriation accounts, for which the Department of the Treasury is willing to accept corrections to canceled appropriation accounts, in accordance with the Statement of Federal Financial Accounting Standards Number 1.

D. Other Information:

Other. The amounts reported as Other represent Investment net of premiums and discounts reported by the Trust Funds.

Methodology of Reporting Fund Balance with Treasury. The amount reported as Fund Balance with Treasury on the Fiscal Year 1998 Consolidated Balance Sheet agrees with the Fund Balance reported by the Treasury and is supported by departmental level general ledger accounts.

Funds Returned to the Treasury. During FY 1998 the Department of the Navy returned \$1,732,392 thousand to the Treasury. This consisted of appropriations that were canceled effective 30 September 1998 (appropriations with ending years of FY 1993). The Navy returned \$1,645,681 thousand and the Marine Corps returned \$86,712 thousand.

Footnotes

Note 2. Fund Balances with Treasury: (con't) **(\$ in Thousands)**

Non-Entity Fund Balance with Treasury. The negative balance of \$151,543 thousand recorded in the Non-Entity Fund Balance with Treasury resulted from the negative balance recorded in Budget Clearing (Suspense), 17F3875 account.

Ending Balance 9/30/97	(\$327,502)
Less Canceling Year and Receipt Accounts	146,510
Beginning Balance Restated	(\$180,992)
Collected	174,703
Disbursed	145,254
Ending Balance	(\$151,543)

Deposits in Transit (Suspense): The Fund Balance includes \$5,814 thousand from F3878 Deposits in Transit (suspense).

Note 3. Cash and Other Monetary Assets : **(\$ in Thousands)**

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>
A. Cash	\$0	\$138,747
B. Foreign Currency		1,859
C. Other Monetary Assets		
D. Total Cash, Foreign Currency, and Other Monetary Assets	\$0	\$140,606

E. Other Information. The \$140,606 thousand is from the Department of the Navy Consolidated Statement of Accountability (SF 1219) as of September 30, 1998.

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 2D on the Consolidated Balance Sheet.

Note 4. Investments, Net
(\$ in Thousands):

	(1)	(2)	(3)	(4)	(5)	(6)
	<u>Cost</u>	<u>Amortization</u> <u>Method</u>	<u>Amortized</u> <u>Premium /</u> <u>(Discount)</u>	<u>Investments,</u> <u>Net</u>	<u>Other</u> <u>Adjustments</u>	<u>Market</u> <u>Value</u> <u>Disclosure</u>
A. Intragovernmental Securities:						
(1) Marketable						
(2) Non-Marketable Par Value	\$9,766	N/A	(\$7)	\$9,759		
(3) Non-Marketable Market Based						
Subtotal	<u>\$9,766</u>		<u>(\$7)</u>	<u>\$9,759</u>		
(4) Accrued Interest						
Total	<u><u> </u></u>					<u><u> </u></u>
B. Other Securities:						
(1) Commercial Paper	\$0					
(2) Other						
Subtotal	<u>\$0</u>					
(4) Accrued Interest						
C. Total	<u><u>\$0</u></u>					<u><u> </u></u>

D. Other Information: The Trust Funds have a total net investment of \$9,759 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 as follows:

	<u>Cost</u>	<u>Amortized</u> <u>Premium/</u> <u>(Discount)</u>	<u>Investment</u> <u>Net</u>
Navy General Gift Fund	\$1,297	\$0	\$1,297
Naval Academy Museum Fund	1,601		1,601
Naval Academy General Gift Fund	6,265	(7)	6,258
Naval Historical Center Fund	603		603
Total	<u><u>\$9,766</u></u>	<u><u>(\$7)</u></u>	<u><u>\$9,759</u></u>

Footnotes

Note 5. Accounts Receivable, Net (\$ in Thousands)

	(1) <u>Gross</u> <u>Amount</u> <u>Due</u>	(2) <u>Allowance for</u> <u>Estimated</u> <u>Uncollectibles</u>	(3) <u>Net</u> <u>Amount</u> <u>Due</u>
A. Entity Receivables:			
Intragovernmental	\$2,198,818	N/A	\$2,198,818
With the Public	2,577,776	52,036	2,525,740
B. Non-Entity Receivables:			
Intragovernmental	367,651	N/A	367,651
With the Public	\$1,065	\$103	\$962

C. Allowance Method Used: The Department of the Navy does not have a Department wide rate to be used to determine the allowance for estimated uncollectible receivable. Using the Report on Receivables Due from the Public, an allowance of 2.93% was calculated for FY 1998 and used in instances where the historical rates were not available. In instances where the historical rate exists, the chart below indicates the allowances which were used. The Defense Debt Management System is the source for this allowance.

<u>Appropriation</u>	<u>Allowance</u>
17 1453 - Military Personnel , Navy	19%
17 1105 - Military Personnel, Marine Corps	7%
17 1108 - Reserve Personnel, Marine Corps	9%
17 1106 - O&M, Marine Corps	.02%

D. Other Information:

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. During October 1998, 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. DFAS-CL reported the entire amount as Accounts Receivable-Governmental, in accordance with the recommendation from a 1994 General Accounting Office financial operation audit.

Reconciliation with Report on Receivables Due From the Public. The ending balance of public accounts receivables reported on the Fourth Quarter FY 1998 exceeds the total Public Accounts Receivables reported on the financial statements by \$44,438 thousand. The variance is due to amounts included on the financial statements that are not included in the Receivables Report: (1) (\$5,858 thousand) in reopened year accounts receivables and (2) (\$48,902 thousand) in calculated Navy allowances for uncollectible accounts receivables and (3) an additional receivable balance of \$10,322 thousand which is being researched. The Receivables Report only reflects the actual allowances reported on feeder reports; it does not reflect the DoN average used to prepare the financial statements.

Note 5. Accounts Receivable, Net (con't)
(\$ in Thousands)

Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) Accounts Receivable Balance. During FY 1998 DFAS-CL and DFAS-KC included in Accounts Receivable-Governmental balance, refunds receivable from MOCAS and DDMS. The amounts were \$583 thousand for the MOCAS system debts, \$200,284 thousand for the DDMS-Navy and \$859 thousand for the DDMS-DLA. Administrative write-offs from the DDMS-Navy were \$14,582 thousand.

Vendor Pay Accounts Receivable. During FY 1998, DFAS-CL included in its Accounts Receivable - Governmental balance, amounts from the off-line local Vendor Pay systems at the Operating Locations. These amounts, which totaled \$2,645 thousand, were not recorded in the Standard Accounting and Reporting System (STARS) system.

Non-Entity Accounts Receivable. Included in the accounts receivable balances are \$103,241 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. Also included in the balance are accounts receivable from reopened years.

Interest Receivable. Interest Receivable of \$575 thousand comprises of interest for out of service debt owed by former military personnel.

Note 6. Other Assets
(\$ in Thousands)

A. Other Entity Assets

1. Intragovernmental

(a) Assets Returned for Credit	\$0
(b) Other	
Total Intragovernmental	\$0

2. Other

(a) Advances to Contractors	\$2,936,267
(b) Natural Resources	42,339
Total Other	\$2,978,606

B. Other Information related to entity assets:

Footnotes

Note 6. Other Assets (con't) (\$ in Thousands)

C. Other Non-entity Assets

1. Intragovernmental

(a)		\$0
(b)		
Total Intragovernmental		\$0

2. Other

(a) Advances and Prepayments		(\$45)
(b)		
Total Other		(\$45)

D. Other Information related to non-entity assets:

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers (Not Applicable) (\$ in Thousands)

Note 8A. Inventory (\$ in Thousands)

	(1)	(2)	(3)	(4)
	<u>Inventory</u> <u>Amount</u>	<u>Allowance</u> <u>for (Gains)</u> <u>Losses</u>	<u>Inventory,</u> <u>Net</u>	<u>Valuation</u> <u>Method</u>
1. Inventory Categories:				
(a) Held for Current Sale	\$42	\$0	\$42	Actual Cost
(b) Held in Reserve for Future Sale				
(c) Excess, Obsolete and Unserviceable				
(d) Held for Repair				
Total	\$42	\$0	\$42	

2. Restrictions on Inventory Use, Sale, or Disposition: None

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

Legend: Valuation Methods

LAC = Latest Acquisition

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

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

	(1)	(2)	(3)	(4)
	<u>OM&S Amount</u>	<u>Allowance for (Gains) Losses</u>	<u>OM&S, Net</u>	<u>Valuation Method</u>
1. OM&S Categories:				
(a) Held for Use	\$7,742,767	\$0	\$7,742,767	AC
(b) Held in Reserve For Future Use	4,706,740	0	4,706,740	
(c) Excess, Obsolete, and Unserviceable				
Total	<u>\$12,449,507</u>	<u>\$0</u>	<u>\$12,449,507</u>	

2. Restrictions on operating materials and supplies: None.

3. Other Information: The Department of the Navy Operating Material and Supplies consisted of the following:

	<u>Ammunition</u>	<u>Secondary End Items</u>	<u>Total</u>
Navy	\$6,564,000	\$749,248	\$7,313,248
Marine Corps	<u>4,706,740</u>	<u>429,519</u>	<u>5,136,257</u>
Total	<u>\$11,270,740</u>	<u>\$1,178,767</u>	<u>\$12,449,507</u>

Legend: Valuation Methods

LAC = Latest Acquisition

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

Note 8C. Stockpile Materials (Not Applicable)
(\$ in Thousands)

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

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

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

Footnotes

Note 8. Recap of Inventory and Other Related Property: (\$ in Thousands)

	<u>Amount</u>
Inventory, Net	\$42
Operating Materials and Supplies	12,449,507
Stockpile Materials, Net	
Seized Property, Net	
Forfeited Property, Net	
Total	<u><u>\$12,449,549</u></u>

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

	(1) <u>Depreciation</u> <u>Method</u>	(2) <u>Service</u> <u>Life</u>	(3) <u>Acquisition</u> <u>Value</u>	(4) <u>Accumulated</u> <u>Depreciation</u>	(5) <u>Net Book</u> <u>Value</u>
Major Classes of Assets					
A. Land	N/A	N/A	\$672,863	N/A	\$672,863
B. Structures, Facilities and Leasehold Improvements	SL	40 Year	24,067,240	10,963,955	13,103,285
C. ADP Software					
D. Equipment			20,756,465	1,168,079	19,588,386
E. Assets Under Capital Lease					
F. Construction-in-Progress			4,732,481		4,732,481
G. Other					
Total			<u><u>\$50,229,049</u></u>	<u><u>12,132,034</u></u>	<u><u>\$38,097,015</u></u>

I. Other Information:

Legends:

Column (1) Above
Depreciation Methods

SL = Straight Line
O = Other (explain)

H. Other Information:

The Department, as encouraged by the Federal Accounting Standards Advisory Board (FASAB), elected to implement the Statement of Federal Financial Accounting Standards (SFFAS) Number 11, "Amendments to Accounting for Property, Plant and Equipment - Definitional Changes", in FY 1998. As a result, the costs of National Defense PP&E are not reported on the Balance Sheet. In addition, the Department implemented, during FY 1998, the requirements of SFFAS Number 6 and removed the costs of Heritage Assets and Stewardship Land from the Balance Sheet.

Note 9. General (PP&E), Net: (con't)
(\$ in Thousands)

Military Equipment. All Military Equipment was removed from the Balance Sheet by use of a Prior Period Adjustment. This was in accordance with guidance provided by the Office of the Under Secretary of Defense Comptroller (OUSDC) and the Financial Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) Numbers 6 and 8. This decrease consisted of:

Navy	\$266,956,192
Marine Corps	<u>8,405,984</u>
Total	<u>\$275,362,176</u>

General Property, Plant and Equipment.

Land. The value of the land reported in the FY 1998 CFO statements is net of land which was considered Stewardship Land and removed from the Balance Sheet in accordance with SFFAS Numbers 6 and 8.

Equipment.

The following table provides the breakdown of the general equipment by service life:

<u>Acquisition</u> <u>Value</u>	<u>Service</u> <u>Life</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Book</u> <u>Value</u>
\$16,438,555	Various	\$0	\$16,438,555
2,935,938	Various	0	2,935,938
1,302,378	5 Year	1,104,366	198,012
68,088	10 Year	59,570	8,518
11,506	20 Year	4,143	7,363
<u>\$20,756,465</u>		<u>\$1,168,079</u>	<u>\$19,588,386</u>

The following disclosures discuss various aspects of the general equipment which was capitalized and depreciated for FY 1998.

Government Property in the Hands of Contractors. Government equipment in the hands of contractors decreased between FY 1997 and FY 1998 by approximately \$1,214,533 thousand to \$16,438,555 thousand. There was no depreciation expense or accumulated depreciation applied to this equipment because sufficient information was not available.

Footnotes

Note 9. General (PP&E), Net: (con't) **(\$ in Thousands)**

General Equipment. Total equipment reported was \$3,411,571 thousand. Of this amount, insufficient information was received for \$2,935,936 thousand which prevented the calculation of depreciation expense and accumulated depreciation. The Marine Corps reported \$903,701 thousand of this total amount.

Heritage Assets. Assets valued at \$38,524 thousand were taken off the balance sheet in accordance with Statement of Federal Financial Accounting Standards Number 6 and Number 8.

Capitalization Threshold. A March 26, 1998 memorandum from the OUSD(C) required that a \$100 thousand capitalization threshold be applied to all property, plant and equipment which is to be capitalized. Any equipment, which was previously reported as property, plant and equipment, and did not meet the capitalization threshold was to be taken off the balance sheet using a prior period adjustment. For FY 1998 \$2,060,506 thousand of general equipment did not meet the capitalization threshold. Additionally, military trainers were included as general property, plant, and equipment; however, OUSD(C) made a decision to reclassify military trainers as National Defense Property, Plant, and Equipment. As stated earlier, National Defense Property, Plant and Equipment was removed from the Balance Sheet through the use of a prior period adjustment. The value of military trainers initially reported was \$1,459,118 thousand.

Depreciation. Depreciation expense and accumulated depreciation were computed on equipment which had sufficient information to facilitate a depreciation computation. The straight-line method of depreciation was used, with no residual (salvage) value. The mid-year convention was applied. Equipment acquired in prior years had never been previously depreciated. Accordingly, depreciation expense and the corresponding accumulated depreciation were calculated on such equipment, retroactively to the date on which said equipment was acquired. Accumulated depreciation brought forward from the date the equipment was placed into service until FY 1997 (the year prior to the change to the accounting policy) was shown as a prior period adjustment. This amount was comprised of \$982,262 thousand.

Note 10. Debt: (Not Applicable) **(\$ in Thousands)**

Note 11.A. Environmental Cleanup:
(\$ in Thousands)

1. Environmental Cleanup Liabilities
 Covered by Budgetary Resources

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(a) Intragovernmental			
(1) Accrued Cleanup Costs	\$0.	\$0	\$0
(2) Other Environmental Liabilities			
Total	<u>\$0.</u>	<u>\$0</u>	<u>\$0</u>
(b) With the Public			
(1) Accrued Cleanup Costs	\$0.	\$0	\$0
(2) Other Environmental Liabilities			
Total	<u>\$0.</u>	<u>\$0</u>	<u>\$0</u>

2. Environmental Cleanup Liabilities Not
 Covered by Budgetary Resources

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(a) Intragovernmental			
(1) Accrued Cleanup Costs	\$0.	\$0	\$0
(2) Other Environmental Liabilities			
Total	<u>\$0.</u>	<u>\$0</u>	<u>\$0</u>
(b) With the Public			
(1) Accrued Cleanup Costs	\$4,630,900.	\$543,600	\$5,174,500
(2) Other Environmental Liabilities			
Total	<u>\$4,630,900.</u>	<u>\$543,600</u>	<u>\$5,174,500</u>

Accrued Clean-Up Cost : The amount included in the FY 1999 budget for Environmental Restoration, Navy and BRAC is reported as current liabilities with the balance reported as non-current liabilities.

Footnotes

Note 11.B Other Liabilities: **(\$ in Thousands)**

1. Other Liabilities Covered by Budgetary Resources

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(a) Intragovernmental			
(1) Advances from Others	\$0	\$15,396	\$15,396
(2) Deferred Credits			
(3) Deposit Funds and Suspense Accounts Liabilities		(151,543)	(151,543)
(4) Liability for Borrowings to be Received			
(5) Liability for Subsidy Related to Undisbursed Loans			
(6) Other Liabilities		140,688	140,688
(7) Resources Payable to Treasury			
Total	\$0	\$4,541	\$4,541
(b) With the Public			
(1) Accrued Funded Payroll and Benefits	\$0	\$1,382,200	\$1,382,200
(2) Advances from Others		(4,474)	(4,474)
(3) Deferred Credits			
(4) Deposit Funds and Suspense Accounts			
(5) Other Liabilities			
Total	\$0	\$1,377,726	\$1,377,726

2. Other Information: **Liabilities Covered by Budgetary Resources (Intragovernmental).** Other Liabilities-Current Liability include Disbursing Officer's Cash of \$140,606 thousand.

3. Other Liabilities not Covered by Budgetary Resources

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(a) Intragovernmental			
(1) Accounts Payable - Canceled Accounts	\$0	\$0	\$0
(2) Custodial Liability			
(3) Deferred Credits			
(4) Liability for Borrowings to be Received			
(5) Other Actuarial Liabilities			
(6) Other Liabilities	328,525	40,776	369,301
Total	\$328,525	\$40,776	\$369,301

Note 11.B Other Liabilities: (con't)
(\$ in Thousands)

3. Other Liabilities not Covered by
 Budgetary Resources (con't)

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(b) With the Public			
(1) Accounts Payable - Canceled	\$0	\$0	\$0
(2) Accrued Cleanup/Cost			
(3) Accrued Unfunded Liabilities		351,646	351,646
(4) Deferred Credits			
(5) Other Liabilities	2,143,489	1,013,228	3,156,717
(6) Prior Liens Outstanding on Acquired Collateral			
Total	<u>\$2,143,489</u>	<u>\$1,364,874</u>	<u>\$3,508,363</u>

4. Other Information:

Liabilities Not Covered by Budgetary Resources (Intragovernmental). Other Liabilities Non-Current include Accounts Receivable-Canceling Year of \$53,746 thousand and Accounts Receivable-Reopened Year of \$274,779 thousand.

Liabilities Not Covered by Budgetary Resources (With the Public). Other Liabilities include the following current and non-current items:

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
Accrued Civilian Leave		161,986	161,986
Accrued Military Leave		712,273	712,273
Accts Payable Reopened	\$2,130,337		2,130,337
Contract Incentives	26,831	52,176	79,007
Accts Receivable- Canceling Year	(2,875)		(2,875)
Accts Receivable - Reopened	(10,804)		(10,804)
Judgment Fund		66,468	66,468
Other		20,325	20,325
Total	<u>\$2,143,489</u>	<u>\$1,013,228</u>	<u>\$3,156,717</u>

Note 12. Leases: (Not Applicable)
(\$ in Thousands)

Footnotes

Note 13. Pensions and Other Actuarial Liabilities: (\$ in Thousands)

	(1) <u>Actuarial</u> <u>Present Value of</u> <u>Projected Plan</u> <u>Benefits</u>	(2) <u>Assumed</u> <u>Interest</u> <u>Rate (%)</u>	(3) <u>Assets</u> <u>Available to</u> <u>Pay Benefits</u>	(4) <u>Unfunded</u> <u>Actuarial</u> <u>Liability</u>
Major Program Activities				
A. Pensions and Health Benefits				
1. Military Retirement Pensions	\$0		\$0	\$0
2. Military Retirement Health Benefits				
B. Insurance/Annuity Programs				
1.				
2.				
3.				
Total	<u>\$0</u>		<u>\$0</u>	<u>\$0</u>
C. Other:				
1. Workers Compensation	\$1,213,674	5.60%	\$0	\$1,213,674
2.				
3.				
Total	<u>\$1,213,674</u>		<u>\$0</u>	<u>\$1,213,674</u>
D. Total Lines A+B+C:	<u>\$1,213,674</u>		<u>\$0</u>	<u>\$1,213,674</u>

E. Other Information: The amount of \$2,390,148 thousand was provided by the Department of Labor (DOL) to DoD as the actuarial liability estimate for DoN's future workers' compensation benefits (FWC). Of that amount, \$1,213,674 thousand for General Fund was the result of the ASN(FM&C) FMO breaking down the DoN portion provided by the DOL between the General Fund and the NWCF. The General Fund is by number of civilian employees taken from the Navy Budget Tracking System and the number were 1998 actuals. The liability for FWC benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1998
5.60 % in year 1,
and thereafter

Note 14. Unexpended Appropriations:
(\$ in Thousands)

A. Unexpended Appropriations	
(1) Unobligated	
a. Available	\$10,060,421
b. Unavailable	1,373,353
(2) Undelivered Orders	48,944,495
Total	<u>\$60,378,269</u>

B. Other Information:

Unexpended appropriations - represent the 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 \$1,983,084 thousand.

Note 15. 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 \$5,174,500 thousand. The Department of the Navy resources for these requirements are in the BRAC and the Environmental Restoration, Navy (ERN) account. For FY 1998 CFO Statements this amount was recorded as Other Federal Liability Not Covered by Budgetary Resources.

The Department is subject to various asserted contract claims for over \$100,000 million. Claims which fall within this range total approximately \$1,917,000 thousand as of September 30, 1998. 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 indicated that many such claims are settled for less than claimed, dismissed, or the possibility of the contingency materializing is remote. For FY 1998 the Department of the Navy reported \$1,352,460 thousand in its CFO Statements as Accounts Receivable.

Footnotes

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

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

Costs associated with the following appropriations have been determined to be for National Defense Property, Plant and Equipment Aircraft Procurement, Navy 17 1506 - \$5,465,571 thousand; Weapons Procurement, Navy 17 1507 - \$1,738,425 thousand; Shipbuilding and Conversion, Navy 17 1611 - \$6,107,662 thousand; and Other Procurement, Navy 17 1810 - \$3,003,025 thousand; totaling \$16,314,683 thousand. These costs are reported as Procurement program costs in the Statement of Net Cost.

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

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

Note 16.E. Exchange Revenue: (Note Applicable)
(\$ in Thousands):

Note 16.F. Revenue and Expense Amounts for Foreign Military Sales (FMS) Program Procurements From Contractors: (Not Applicable)
(\$ in Thousands)

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

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

	Budget Function Code	Gross Cost	Earned Revenue	Net Cost
A. Department of Defense Military	051	\$83,354,637	\$4,259,707	\$79,094,930
B. Water Resources by US Army Corps of Engineers	301			
C. Pollution Control and Abatement by US Army Corps of Engineers	304			
D. Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Funds	602			
E. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund	702			
Total		<u>\$83,354,637</u>	<u>\$4,259,707</u>	<u>\$79,094,930</u>

Note 16.I. Imputed Expenses. The Department the Navy reported an Imputed Source for Expenses. The amount relates to:

Retirement Benefits	\$217,840
Health Benefits	203,104
FEGLI	743
Total	<u>\$421,687</u>

Note 17.A. Summary of Deferred Maintenance Amounts By Category of Property, Plant & Equipment (\$ in Thousands):

As of September 30,1998

(a) Category	(b)
1. General Property, Plant and Equipment	\$3,072,495
2. National Defense Property, Plant & Equipment	608,322
3. Heritage Assets	
4. Stewardship Land	
Total	<u>\$3,680,817</u>

Footnotes

Note 17B. General Property, Plant and Equipment Deferred Maintenance Amounts (\$ in Thousands):

For the year ended September 30, 1998

(a)	(b)
<u>Property Type / Major Class</u>	
1. Personal Property	\$0
2. Real Property	
A. Buildings	\$1,949,714
B. Structures	1,113,179
C. Land	9,602
D. Total Real Property	<u>\$3,072,495</u>
3. Total	<u><u>\$3,072,495</u></u>

Other Information: Actual hands-on, on site facility inspections are essential to the accurate determination of real property maintenance and repair requirements. The Reported Backlog of Maintenance and Repair (BMAR) is based on a continuous fence-to-fence inspection of facilities at each Navy installation, the results of which are reported each year in the Annual Inspection Summary (AIS) collected by the Naval Facilities Engineering Command (NAVFAC). The AIS is an inventory of each facility's BMAR deficiencies, including the cost to repair the stated deficiency, remaining at the end of the fiscal year. Deficiencies do not include alterations, additions, equipment installation, or recurring and preventative maintenance.

The reported BMAR, referred to as critical BMAR, includes only those critical deficiencies which are a firm requirement of the installation and meet one of the following criteria:

- Environmental - A deficiency posing an unacceptable risk of environmental damage or violation of statutory or regulatory requirements.
- Loss of Mission - A deficiency which has degraded mission capability contributing to a C3 or C4 facility condition rating in a standard base report (BASEREP) mission area.
- Safety - A deficiency with a risk assessment code of 1, 2, or 3.
- Quality of Life - A deficiency which has degraded the habitability or use of the barracks, galley, MWR facilities or other personnel support and service facilities.

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

Note 17B. General Property, Plant and Equipment Deferred Maintenance Amounts:
(\$ in Thousands) (con't)

BASEREP Rating Procedures:

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

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

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

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

Risk assessment code is an expression of risk which combines the elements of hazard severity and mishap probability. The codes are:

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

Only those deficiencies that qualify as critical BMAR per the standards described above are reported in the above table. Specific details for each of the deficiencies, by site, and location, can be obtained from a review of the summary AIS collected by NAVFAC. The listing is too voluminous for this narrative summary.

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

Note 17C. National Defense Property, Plant and Equipment Deferred Maintenance Amounts (\$ in Thousands):

As of September 30, 1998

	(a)	(b)
	<u>Major Type</u>	
1. Aircraft		\$205,376
2. Ships		
3. Missiles		54,458
4. Combat Vehicles		
5. Other Weapons Systems		348,488
Total		\$608,322

Other Information: Included in the Other Weapons Systems amount is \$41,536 thousand for Ordnance.

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

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

Footnotes

Note 17C. National Defense Property, Plant and Equipment Deferred Maintenance Amounts:

(con't)

(\$ in Thousands):

There are four sub-categories that define the aircraft maintenance program, and they include airframe maintenance, engine maintenance, software maintenance, and components. Four categories are used to determine missile maintenance. They include strategic missiles, tactical missiles, software maintenance, and other. Within ship maintenance there are four categories and include overhaul, restricted/technical availability, software maintenance and other. Ship depot maintenance is based on a notional requirement. This is accomplished by applying a notional repair manday estimate to each ship based on its maintenance cycle. The notional represents the number of mandays required for a maintenance availability taking into account previous execution, material condition of the ship, and other technical requirements identified. It is the Navy's goal to fund to 93.5% of the total notional estimate identified by the above process during the programming and budgeting phase. In execution, actual requirements are assessed during pre-availability inspections and funding levels are adjusted accordingly. Bottom line is in FY 1998, the Department of the Navy executed to the ship maintenance requirement identified in execution and, as a result, there was no deferred maintenance. The combat vehicles category is for vehicle overhaul. Combat vehicles reflect a zero maintenance value because the Department of the Navy decided to remanufacture amphibious assault vehicles in the procurement program vice overhauling them through the depot using Operations and Maintenance, Marine Corps (OMMC) funding. The work may be done by either the prime vendor or by the depot. The other weapons systems category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, fire control, target systems, towed arrays, sonar systems, and expeditionary airfield equipment. Three categories define ordnance maintenance and they include ordnance maintenance, software maintenance and other. The material condition of all equipment in the above categories is classified as not operable in a degraded condition except for ship maintenance which reflects zero maintenance.

In FY 1998, the Navy executed to the ship maintenance requirement identified in execution and, as a result, there was no deferred maintenance.

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

Note 18. Prior Period Adjustments:

(\$ in Thousands)

Prior period adjustment are composed of the following types of transaction:

A. Prior Period Adjustments	
1. Changes in Accounting Standards	(\$340,685,736)
2. Errors and Omission in Prior Year Accounting Reports	1,168,556
3. Other	(11,240)
Total	<u>(\$339,528,420)</u>

Note 18. Prior Period Adjustments: (con't)
(\$ in Thousands)

B. Other Information: Changes in Accounting Standards include: removal of military equipment, removal of heritage assets, application of depreciation, under capitalization threshold, and removal of stewardship land, and removal of war reserve material.

Change in Accounting Standards	
Adjustments to General PP&E	(\$17,068,744)
Removal of Military Equipment	(276,967,715)
Removal of War Reserve net OM&S	(42,140,455)
Progress Payments	(4,508,822)
Total	(\$340,685,736)
Errors and Omissions	
Adjustments to Environmental Cost	(\$668,600)
Adjustments to Workman's Comp	(262,781)
Reopened Years	2,099,937
Total	\$1,168,556

Note 18.B. Other Disclosures to the Statement of Changes in Net Position:
(\$ in Thousands)

A. Other Information:

Imputed Financing. The Department the Navy reported Imputed Financing Source. The amount relates to:

Retirement Benefits	\$217,840
Health Benefits	203,104
FEGLI	743
Total	<u><u>\$421,687</u></u>

Note 19. Disclosures Related to the Statement of Budgetary Resources:
(\$ in Thousands)

1. Net Amount of Budgetary Resources	
Obligated for Undelivered Orders at the	
End of Period	\$47,373,405
2. Available Borrowing and Contract	
Authority at the End of Period	\$0

3. Other Information: The statement does not include any amounts for which the Department of the Treasury is willing to accept corrections to canceled appropriation accounts, in accordance with Statement of Federal Financial Accounting Standards Number 1.

Note 20. Footnote Disclosures Related to the Statement of Financing: (Not Applicable)
(\$ in Thousands)

Footnotes

Note 21. Footnote Disclosures Related to the Statement of Custodial Activity
(\$ in Thousands): (Not Applicable)

Note 22. Inter-Agency Eliminations (\$ in Thousands):

Statement		Balance Sheet	Net Cost	Balance Sheet
Level 1 Schedule, Part A. - Government-wide, Seller Activity	Treasury Index or Appropriation	Accounts Receivable by DoD Entity	Revenue by DoD Entity	Unearned Revenue by DoD Entity
Department of the Army, General Funds	21			
Department of the Navy, General Funds	17	\$133,188	\$286,418	\$0
Department of the Air Force, General Funds	57			
Department of the Army, WCF	97X4930.01			
Department of the Navy, WCF	97X4930.02			
Department of the Air Force, WCF	97X4930.03			
Defense Logistics Agency, WCF	97X4930.05x			
Defense Finance and Accounting Service, WCF	97X4930.05x			
DoD Military Retirement Trust Fund	97-8097			
U.S. Army Corps of Engineers (Civil Works)	96			
Other Defense Organizations, General Funds	97-xxxx			
Other Defense Organization, WCF	97X4930.xxx			
Total		\$133,188	\$286,418	\$0

Note 22. Inter-Agency Eliminations (\$ in Thousands): (con't)

Level 1 Schedule, Part B - Government-wide, DoD Sales to Other Federal Agencies Disaggregated by Customer	Treasury Index:	Accounts Receivable by Customer:	Revenue by Customer	Unearned Revenue by Customer
Executive Office of the President, Defense Security Assistance Agency	11	\$5,388	\$106,144	\$0
Department of Agriculture	12			
Department of Commerce	13			
Department of the Interior	14			
Department of Justice	15			
Department of Labor	16			
Department of State	19			
Department of the Treasury	20	20,082		
Office of Personnel Management	24			
Nuclear Regulatory Commission	31			
Department of Veterans Affairs	36			
General Service Administration	47			
National Science Foundation	49			
Federal Emergency Management Agency	58			
Environmental Protection Agency	68			
Department of Transportation	69			
Department for International Development	72			
Small Business Administration	73			
Department of Health and Human Services	75			
National Aeronautics and Space Administration	80			
Department of Housing and Urban Development	86			
Department of Energy	89			
Department of Education	91			
Social Security Administration	28			
Unidentifiable Federal Agency Entity	00	107,718	180,274	
Miscellaneous Identifiable Federal Agencies Not Required to Prepare CFO Audited Financial Statements	00			
Total		\$133,188	\$286,418	\$0

Footnotes

Note 22. Inter-Agency Eliminations (\$ in Thousands): (con't)

Other Information: The primary source of information used to compute the intrafund elimination is the DD 725, Report on Reimbursements. This report breaks down all 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 presents a major shortfall since Note 22 asks for specific identification of the customer, which cannot be accomplished using the DD 725.

DFAS-CL has eliminated intrafund transactions from the Balance Sheet and the Statement of Net Cost. The Intrafund (Department of the Navy to Department of the Navy) transactions level 3 elimination schedule was used.

Note 23. Other Disclosures: **(\$ in Thousands)**

The following table presents unmatched disbursements, negative unliquidated obligations and aged in-transit disbursements.

Navy, Treasury Index 17
Appropriations

	September <u>1998</u>	September <u>1997</u>	<u>Change</u>	Percent <u>Change</u>
Unmatched Disbursements	\$2,013,883	\$3,785,805	(\$1,771,922)	(46.80%)
Negative Unliquidated Obligations	1,595,178	1,875,842	(280,664)	(14.96%)
Intransit Disbursements	3,777,835	12,750,123	(8,972,288)	(70.37%)
Total	<u>\$7,386,896</u>	<u>\$18,413,767</u>	<u>(\$11,024,874)</u>	<u>(59.88%)</u>

September 1998 Unmatched Disbursements and Negative Unliquidated Obligations included Marine Corps.

Note 23. Other Disclosures: (con't)
 (\$ in Thousands)

Accounts Payable. Accounts payable originally had a balance of (\$3,608,325) thousand which was reported on earlier versions of the FY 1998 CFO statements. By direction of DFAS-HQ, with concurrence from the Department of the Navy, DFAS-CL and DFAS-KC zeroed out any negative balances from accounts payable at the appropriation level. The accounts payable currently being reported on the CFO statements is \$2,412,742 thousand. This created a change in accounts payable of \$6,021,067 thousand.

Adjustments to Revenue and Expense. DFAS-HQ required DFAS-CL to make an adjustment of \$341,042 thousand to both revenue and expense. This adjustment affected the Statement of Net Cost and the values for the level 1 Intra-Agency eliminations. The adjustment was prompted by an erroneous transaction which was processed in FY 1997 for 4/5 1319, Research, Development, Test and Evaluation, and corrected in FY 1998.

Cumulative Results of Operations. Cumulative Results of Operations are comprised of the following:

	Department of the Navy
Invested Capital	\$50,141,889
Cumulative Results of Operations	(404,675)
Future Funding Requirement	<u>(7,164,026)</u>
Total	\$42,573,188

Footnotes

DEPARTMENT OF THE NAVY

GENERAL FUNDS

REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION

Required Supplemental Stewardship Information

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT For the period ending September 30, 1998 (Stated in Number of Systems or Items)

(a)	(b) As Of <u>10/01/97</u>	(c) <u>Additions/(Deletions)</u>	(d) As Of <u>09/30/98</u>	(e) Condition % <u>Operational</u>
<u>Categories/Major Types</u>				
1. Aircraft				
A. Combat	2,552	(414)	2,138	77%
B. Airlift	1,051	(49)	1,002	80%
C. Other Aircraft	1,063	(101)	962	90%
2. Ships				58.3%*
A. Submarines	137	(14)	123	
B. Aircraft Carriers	16	2	18	
C. Surface Combatants	229	2	231	
D. Amphibious Warfare Ships	78	5	83	
E. Mine Warfare Ships	34	4	38	
F. Support Ships	238	(10)	228	
G. Other Ships	1,209	(62)	1,147	
H. Small Boats	3,237	(684)	2,553	30%
3. Missiles				
A. Ballistic Missiles	641	(6)	635	67%
B. Other Missiles	56,627	(428)	56,199	75%
4. Combat Vehicles				
A. Tanks	377	19	396	91%
B. Other Tracked Combat Vehicles	1,466	7	1,473	82%
C. Other Combat Vehicles	1,368	51	1,419	84%
5. Space Systems				
A. Satellites	16	1	17	100%
6. Other Weapons Systems				
A. Torpedoes	7,436	1,050	8,486	50%
B. Other Weapons				

Narrative Statement:

*The Department of the Navy can only give total for percentage operational. Ships that are active or Naval Reserve Force are "mission ready". Ships that have been classified as inactive, or stricken or to be disposed of are considered "not mission ready". For the purposes of this report, the Department of the Navy reported total inventory.

Significant Increases / Decreases for National Defense PP&E are addressed below:

Ships: Significant procurements (ships that have had their Naval Vessel Register status changed from B (Building) to the following status: INACTIVE: Two ships. ACTIVE: Eleven ships and one submarine. Not included are eight new ships under various stages of construction.

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT (con't)

Narrative Statement: (con't)

Other Ships: Decrease of in-service boats due to ship's decommissioning and inventory management of fourteen foot punts being transferred to the Navy Inventory Control Point.

Ballistic Missiles: Forty-eight additional missiles include 32 C4 missiles excluded from the FY 1997 CFO Statements, delivery of fifteen new D5 missiles and one D5 missile transferred from the United Kingdom (UK) during FY 1998. Fifty-four ballistic missiles deleted represent thirty-one C4 missiles disposed and a transfer of fourteen D5 missiles from United States to UK inventory. Five D5 and four C4 missiles were expended for flight-test purposes.

Other Missiles: The ordnance inventory is acquired via appropriation purchase account. The conventional Ammunition Integrated Management System (CAIMS) inventory was not designed to track additions and deletions. Additions and deletions are not all-inclusive and do not provide for a linear translation from the end of one fiscal year to the end of the next fiscal year. Function improvements to CAIMS are limited due to the DoD moving towards the development of a standard ammunition management system. Twelve missiles were expended during authorized training exercise. The Tomahawk missile was added to the inventory of CAIMS during FY 1998.

Other Combat Vehicles: Fifteen Light Armored Vehicles were reported in FY 1997 as PP&E Personal Property. The expensing of these vehicles is included in the prior period adjustment in Note 18 of the Principal Statements.

Aircraft: In addition to the September 30, 1998 ending balance of 4,102 active aircraft used in the performance of military missions as defined by the amendment to SFFASs No. 6 and No. 8 there are an additional 1,771 inactive aircraft stored at Davis-Monthan Air Force Base. It is reasonably possible, although remote, some of them could be reactivated in the case of a national emergency.

Ships: The Naval Vessel Register status of the 1,868 ships and crafts reported for FY 1998 are as follows: 980 Active, 83 Military Sealift Command, 22 Loan or Lease, 26 Reserve, 3 Navy Owned, 82 Inactive, 12 Special, 549 Stricken (to be disposed of), 48 SAP Loaned or Lease, and 63 SAP Stricken (to be disposed of).

Small Boats: Thirty percent of small boats in stock are ready for issue. The remaining seventy percent in stock are not ready for issue. They need minor repairs. Most of the boats are being held as Mobilization assets.

Satellites: The Department of the Navy has 49 satellites, 32 of which are inactive.

National Defense PP&E Deferred Maintenance:

Deferred Maintenance of National Defense PP&E is disclosed in Note 17C to the Statement of Net Cost.

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT (con't)

Narrative Statement (con't)

Other Disclosures:

The Department of Defense elected to implement in FY 1998 the Federal Accounting Standards Advisory Board's (FASAB) amendments to the Statement of Federal Financial Accounting Standards Number 6 and Number 8, as was recommended by the FASAB. In accordance with such decision and the amendments, the quantities of National Defense Property, Plant and Equipment are disclosed in this report.

The amendments to the Statement of Federal Financial Accounting Standards Number 6 and Number 8 require the Department of Defense to separately report additions and deletions of National Defense PP&E. Since the Department's property systems, used for National Defense PP&E, do not capture and/or retain addition and deletion information, the Department cannot separately report such amounts. Therefore, the report reflects the net amount between the opening and closing balances. As the Department's property systems are modified or upgraded, appropriate modifications will be made to accommodate the reporting of additions and deletions separately.

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT YEARLY INVESTMENTS

For the period ending September 30, 1998
(In Millions)

<u>Categories/Major Types</u>	<u>FY 1998</u>
1. Aircraft	6,035
A. Combat	2,698
B. Airlift	
C. Other Aircraft	356
D. Aircraft Support Principal End Items	2,981
2. Ships	7,538
A. Submarines	1,090
B. Aircraft Carriers	1,301
C. Surface Combatants	2,879
D. Amphibious Warfare Ships	753
E. Mine Warfare Ships	89
F. Support Ships	
G. Other Ships	575
H. Ship Support Principal End Items	851
3. Missiles	1,765
A. Ballistic Missiles	474
B. Other Missiles	877
C. Missile Support Principal End Items	414
4. Combat Vehicles	74
A. Tanks	
B. Other Tracked Combat Vehicles	74
C. Other Combat Vehicles	
D. Combat Vehicle Support Principal End Items	
5. Space Systems	130
A. Satellites	
B. Satellite Support Principal End Items	130
6. Other Weapons Systems	279
A. Torpedoes	125
B. Other Weapons	48
C. Other Weapon Systems Support Principal End Items	106
10. Mission Support PP&E¹	1,792
11. Weapons Systems Support Real Property²	28

Notes:

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

2. Includes ammunition bunkers and missile silos in active use as reflected in the Navy Facility Assets Data Base.

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT (con't)

Notes: (con't)

3. The Department of Defense elected to implement in FY 1998 the Federal Accounting Standards Advisory Board's (FASAB) amendments to the Statement of Federal Financial Accounting Standards Number 6 and Number 8, as was recommended by the FASAB. In accordance with such decision and the amendments, the investment for FY 1998 in National Defense Property, Plant and Equipment is disclosed in this report.

Required Supplemental Stewardship Information

HERITAGE ASSETS For the period ending September 30, 1998

(a)	(b) As Of 10/01/97	(c) <u>Additions</u>	(d) <u>Deletions</u>	(e) As Of 09/30/98
<u>Collection Type</u>				
1. Documents	5			5
2. Works of Art	5			5
3. Military Artifacts	14			14
4. Non-Military Artifacts	14			14
5. Classic Weapon Systems	14			14
6. Other				
Total Collection Type*	14			14
<u>Non-Collection Type</u>				
7. Historic Structures or Buildings	930	262		1,192
8. Monuments	468	50		518
9. Battlefields				
10. Cemeteries and other Burial Grounds	53	1		54
11. Land				
12. Other	18,943			18,943
Total Non-Collection Type	20,394	313		20,707

Narrative Statement:

Collection Type

*The total by collection type represents the total number of official museums that the Department of the Navy maintains collections of documents, works of art, military artifacts, non-military artifacts, and classic weapons systems. The Department of the Navy has an additional 34 museums at various Department of the Navy activities that maintain Heritage Assets such as displays that are of local significance but are not reflected in this report.

1. Documents

The official unit of measurement for archived documents in the Department of the Navy is in cubic feet. During FY 1998, the Department of the Navy reported a beginning inventory of 55,387 cubic feet of documents, 6,296 cubic feet of additions and 1,009 cubic feet of deletions, for an ending balance of 60,674 cubic feet.

2. Works of Art

The Department of the Navy art collection, consists of paintings, drawings, and sketches. During FY 1998, the Department of the Navy reported a beginning inventory of 23,488 works of art, 203 additions and 192 deletions, for an ending balance of 23,499. Most of the Department of the Navy art collection is considered to be in good condition.

3. Military Artifacts

The military artifacts collected by the Department of the Navy consists of such things as, but are not limited to, guns, swords, and uniforms. The FY 1998 beginning balance for this category was 228,596 military artifacts, 11,717 additions, and 1,080 deletions, for an ending balance of 239,233. The increase in the objects in the military artifact collections was through the regular tempo of small donations throughout the year.

4. Non-Military Artifacts

The Department of the Navy for non-military artifacts reported a beginning inventory of 3,757 non-military artifacts, 21 additions and no deletions, for a FY 1998 ending balance of 3,778.

5. Classic Weapons Systems

The Department of the Navy for classic weapon systems reported a beginning inventory of 4,470 classic weapons systems, 5 additions and 55 deletions, for a FY 1998 ending balance of 4,420. One significant decrease in the classic weapons systems collection occurred during FY 1998. Fifty excess small arms were deactivated and transferred to the National Park Service for use in an exhibit at the Andersonville Prison Historic Site.

Non-Collection Type

DoN's "other" non-collection type heritage assets are known archeological sites and archeological districts that are not cemeteries or Indian Tribal Burial Grounds.

Heritage Assets Condition Statement:

Heritage assets on display are assumed to be in adequate condition for display purposes, consistent with their origins, unless otherwise noted. Reported heritage assets are free of material conditions that are counter to safeguarding, adequately protecting, and properly managing these assets; they have not materially degraded while under the care of the Department of the Navy. The existence of most of the uncategorized heritage assets is informally known to be adequate for display purposes, however, the condition of many uncategorized heritage assets is unknown. Objects deemed to be no longer of historical value or not restorable are disposed of according to applicable regulations.

Required Supplemental Stewardship Information

STEWARDSHIP LAND

For the period ending September 30, 1998
(Acres in Thousands)

(a) <u>Land Use</u>	(b) <u>As Of</u> 10/01/97	(c) <u>Additions</u>	(d) <u>Deletions</u>	(e) <u>As Of</u> 09/30/98
1. Mission	1,908			1,908
2. Freestanding				
3. Heritage				
4. Other				
Totals	1,908			1,908

Other Information:

The DoN followed the definition of Stewardship Land per DoD guidance to include Public Domain, Land Set Aside, and Donated Land. The Naval Facility Assets Data Base System (NFADB) was used to derive the acres for Stewardship Land. The NFADB defines Mission Stewardship Land as improved, semi-improved and other categories of land.

Required Supplemental Stewardship Information

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Yearly Investment in Research and Development

For the period ending September 30, 1998

(In Millions)

<u>Categories</u>	(a)	(b) FY <u>1998</u>
1. Basic Research		
In-House Lab Independent Research		13
Defense Research Sciences		321
Other		6
Subtotal		340
2. Applied Research		
AAW/ASW Technology		28
Surface Ship Technology		48
Aircraft Technology		24
Marine Corps Landing Force Technology		16
Command, Control & Communication Technology		53
Mission Support Technology		44
Systems Support Technology		82
Electronic Warfare Technology		17
ASW Technology		44
Mine & Special Warfare Technology		42
Ocean & Atmospheric Support Technology		68
Undersea Warfare Weapon Technology		28
Other		8
Subtotal		502
Grand Total		842

Other Information

1. Basic Research

A. The IN-HOUSE LAB INDEPENDENT RESEARCH program supports the missions of various DON commands with high-risk/high-payoff research, responding to the DON Joint Mission Areas/Support Areas (JMA/SA) and enables the technologies that could significantly improve Joint Chiefs of Staff's Future Joint Warfighting Capabilities.

Required Supplemental Stewardship Information

INVESTMENTS IN RESEARCH AND DEVELOPMENT (con't)

Other Information (con't)

B. The DEFENSE RESEARCH SCIENCES program sustains U.S. naval scientific and technological superiority, provides new concepts and technological options for the maintenance of naval power and national security, and provides the means to avoid scientific surprise, while exploiting scientific breakthroughs.

2. Applied Research

A. The ANTI-AIRCRAFT WARFARE/ANTISUBMARINE WARFARE TECHNOLOGY program develops new and innovative technologies which will support future weapons systems for surface and air platforms for Naval Warfare.

B. The SURFACE SHIP TECHNOLOGY program provides for surface ship, submarine, logistics, and environmental quality applied research that contributes to meeting joint warfare capabilities.

C. The AIRCRAFT TECHNOLOGY program develops technology for naval aviation, with emphasis on the demands imposed by aircraft carrier flight operations and Marine Corps amphibious and field operations relating to the Joint Mission Areas of Strike and Littoral Warfare.

D. The MARINE CORPS LANDING FORCE program develops and demonstrates, in conjunction with the Army and Air Force, those phases and technologies of amphibious operations that pertain to tactics, techniques, and equipment used by the landing force.

E. The COMMAND, CONTROL AND COMMUNICATION TECHNOLOGY program supports future command, control, communications (C³) and intelligence, surveillance & reconnaissance (ISR) systems for surface, air and space platforms and ashore for Naval Warfare.

F. The MISSION SUPPORT TECHNOLOGY program provides generic affordable technologies in support of all Joint Mission Areas/Joint Support Areas (JSA), in particular the JSAs for Readiness, Manpower and Personnel, and Training.

G. The SYSTEMS SUPPORT TECHNOLOGY program provides Applied Research to support all Navy advanced weapon and platform system concepts and needs in the areas of materials, electronics, and computer technology.

H. The ELECTRONIC WARFARE TECHNOLOGY program addresses identified technology requirements for EW in cooperation with the other Services, placing special emphasis on Naval EW roles in Information Warfare (IW).

I. The ANTISUBMARINE WARFARE Technology program is classified.

Required Supplemental Stewardship Information

INVESTMENTS IN RESEARCH AND DEVELOPMENT (con't)

Other Information (con't)

J. The MINE AND SPECIAL WARFARE TECHNOLOGY program provides technologies for naval mine countermeasures, sea mines, and Department of Defense (DOD) Explosive Ordnance Disposal (EOD).

K. The OCEAN AND ATMOSPHERIC SUPPORT TECHNOLOGY program provides the fundamental programmatic instrument by which basic research on the natural environment is transformed into technological developments that provide new or enhanced warfare capabilities.

L. The UNDERSEA WARFARE WEAPON TECHNOLOGY program is classified.

Required Supplemental Stewardship Information

NONFEDERAL PHYSICAL PROPERTY
Yearly Investment in State and Local Governments
For the period ending September 30, 1998
(In Thousands)

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

DEPARTMENT OF THE NAVY

**REQUIRED SUPPLEMENTAL
INFORMATION**

Supplemental Information

Consolidating Schedules
STATEMENT OF BUDGETARY RESOURCES
For the period ending September 30, 1998
(\$ in Thousands)

	<u>Operations and</u> <u>Maintenance</u>	<u>Military Personnel</u>
Budgetary Resources:		
1. Budget Authority	\$26,939,089	\$24,560,189
2. Unobligated Balance - Beginning of Period	862,934	178,045
3. Net Transfers Prior - Year Balance, Actual (+/-)	(44,117)	(34,000)
4. Spending Authority from Offsetting Collections	3,895,759	318,191
5. Adjustments	337,118	128,394
6. Total Budgetary Resources	\$31,990,783	\$25,150,819
Status of Budgetary Resources:		
7. Obligations Incurred	\$31,442,339	\$24,964,071
8. Unobligated Balances - Available	80,984	65,795
9. Unobligated Balances - Not Available	467,460	120,953
10. Total Status of Budgetary Resources	\$31,990,783	\$25,150,819
Outlays:		
11. Obligations Incurred	\$31,442,339	\$24,964,071
12. Less: Spending Authority From Offsetting Collections and Adjustments	(4,792,424)	(491,648)
13. Obligated Balance, Net - Beginning of Period	7,221,001	1,545,010
14. Obligated Balance Transferred , Net		
15. Less: Obligated Balance, Net - End of Period	(7,912,904)	(1,897,310)
16. Total Outlays	\$25,958,012	\$24,120,123

Supplemental Information

Consolidating Schedules

STATEMENT OF BUDGETARY RESOURCES

For the period ending September 30, 1998

(\$ in Thousands)

	<u>Procurement</u>	<u>Research, Development, Test and Evaluation</u>
Budgetary Resources:		
1. Budget Authority	\$20,971,485	\$8,152,175
2. Unobligated Balance - Beginning of Period	9,926,151	579,147
3. Net Transfers Prior - Year Balance, Actual (+/-)	4,879	(9,571)
4. Spending Authority from Offsetting Collections	705,201	151,793
5. Adjustments	205,727	(184,605)
6. Total Budgetary Resources	<u>\$31,813,443</u>	<u>\$8,688,939</u>
Status of Budgetary Resources:		
7. Obligations Incurred	\$22,429,362	\$8,172,966
8. Unobligated Balances - Available	8,736,200	418,937
9. Unobligated Balances - Not Available	647,881	97,036
10. Total Status of Budgetary Resources	<u>\$31,813,443</u>	<u>\$8,688,939</u>
Outlays:		
11. Obligations Incurred	\$22,429,362	\$8,172,966
12. Less: Spending Authority From Offsetting Collections and Adjustments	(2,450,672)	(313,626)
13. Obligated Balance, Net - Beginning of Period	31,578,257	3,856,673
14. Obligated Balance Transferred , Net		
15. Less: Obligated Balance, Net - End of Period	(31,975,873)	(3,783,414)
16. Total Outlays	<u>\$19,581,074</u>	<u>\$7,932,599</u>

Supplemental Information

Consolidating Schedules
STATEMENT OF BUDGETARY RESOURCES
For the period ending September 30, 1998
(\$ in Thousands)

	<u>Military Construction</u>	<u>Other</u>
Budgetary Resources:		
1. Budget Authority	\$725,495	\$455,608
2. Unobligated Balance - Beginning of Period	362,767	410,087
3. Net Transfers Prior - Year Balance, Actual (+/-)	(3)	
4. Spending Authority from Offsetting Collections	211,436	187
5. Adjustments	(4,559)	2
6. Total Budgetary Resources	<u>\$1,295,136</u>	<u>\$865,884</u>
Status of Budgetary Resources:		
7. Obligations Incurred	\$1,021,158	\$341,334
8. Unobligated Balances - Available	242,104	516,401
9. Unobligated Balances - Not Available	31,874	8,149
10. Total Status of Budgetary Resources	<u>\$1,295,136</u>	<u>\$865,884</u>
Outlays:		
11. Obligations Incurred	\$1,021,158	\$341,334
12. Less: Spending Authority From Offsetting Collections and Adjustments	(226,303)	(2,201)
13. Obligated Balance, Net - Beginning of Period	904,011	594,160
14. Obligated Balance Transferred , Net		
15. Less: Obligated Balance, Net - End of Period	(919,668)	(482,000)
16. Total Outlays	<u>\$779,198</u>	<u>\$451,293</u>

Supplemental Information

Consolidating Schedules
STATEMENT OF BUDGETARY RESOURCES
For the period ending September 30, 1998
(\$ in Thousands)

	<u>Eliminating Entries</u>	<u>Totals</u>
Budgetary Resources:		
1. Budget Authority	\$0	\$81,804,041
2. Unobligated Balance - Beginning of Period		12,319,131
3. Net Transfers Prior - Year Balance, Actual (+/-)		(82,812)
4. Spending Authority from Offsetting Collections		5,282,567
5. Adjustments		482,077
6. Total Budgetary Resources	<u>\$0</u>	<u>\$99,805,004</u>
Status of Budgetary Resources:		
7. Obligations Incurred	\$0	\$88,371,230
8. Unobligated Balances - Available		10,060,421
9. Unobligated Balances - Not Available		1,373,353
10. Total Status of Budgetary Resources	<u>\$0</u>	<u>\$99,805,004</u>
Outlays:		
11. Obligations Incurred		\$88,371,230
12. Less: Spending Authority From Offsetting Collections and Adjustments		(8,276,874)
13. Obligated Balance, Net - Beginning of Period		45,699,112
14. Obligated Balance Transferred , Net		
15. Less: Obligated Balance, Net - End of Period		(46,971,169)
16. Total Outlays	<u>\$0</u>	<u>\$78,822,299</u>

Department of Defense
National Defense Sealift Fund
SEGMENT INFORMATION
For the period ending September 30, 1998
(\$ in Thousands)

PART A. The National Defense Sealift Fund (NDSF) provides for the construction, purchase, alteration, and conversion of the Department of Defense (DoD) sealift vessels; operations and maintenance and lease or charter of DoD vessels for national defense purposes. The fund is also involved with the installation and maintenance of defense features on privately owned and operated vessels constructed in the United States.

PART B.

	FY 1998
1. Fund Balance with Treasury	\$2,209,824
2. Accounts Receivable	765,431
3. Property, Plant, and Equipment	
4. Other Assets	
5. Liabilities Due and Payable for Goods and Services Received	(1,526,766)
6. Deferred Revenue	
7. Other Liabilities	
8. Cumulative Results of Operations	

PART C.

1. Full Cost of Goods and Services Provided	\$1,639,353
2. The Related Exchange Revenue	621,576
3. The Excess of Cost Over Exchange Revenue	1,017,777

Supplemental Information

Department of Defense
 Department of the Navy
SUPPORTING CONSOLIDATING BALANCE SHEET
 For the period ending September 30, 1998
 (\$ in Thousands)

ASSETS

	Military Personnel	Operation & Maintenance	Procurement	RDT&E	Military Construction	Other Programs	Totals
1. Entity Assets:							
A. Intragovernmental							
1. Fund Balance with Treasury (Note 2)	\$2,084,057	\$7,693,685	\$41,359,954	\$4,299,387	\$2,824,906	\$133,196	\$58,395,185
2. Investments, Net (Note 4)						9,759	9,759
3. Accounts Receivable, Net (Note 5)	73,258	1,025,989	996,070	52,472	51,029		2,198,818
4. Other Assets (Note 5)							
B. Total Intragovernmental	\$2,157,315	\$8,719,674	\$42,356,024	\$4,351,859	\$2,875,935	\$142,955	\$60,603,762
C. Investments, Net (Note 4)							
D. Accounts Receivable, Net (Note 5)	156,639	9,102	776,935	15,583	4,652	1,562,830	2,525,740
E. Loans Receivable and Related Foreclosed Property, Net (Note 7)							
F. Cash and Other Monetary Assets (Note 3)							
G. Inventory and Related Property, Net (Note 8)	429,561		4,706,740			7,313,248	12,449,549
H. General Property, Plant and Equipment (Note 9)	13,407		6,955,029		19,014,880	12,113,699	38,097,015
I. Stewardship Assets (National Defense PP&E, etc.)							
J. Other Assets (Note 6)	63,933	42,097	2,872,575				2,978,606
K. Total Entity Assets	\$2,377,887	\$9,213,842	\$57,667,304	\$4,367,443	\$21,895,466	\$21,132,731	\$116,654,672
*****See Stewardship Statement*****							
2. Non-Entity Assets:							
A. Intragovernmental							
1. Fund Balance with Treasury (Note 2)	19,169					(170,712)	(151,543)
2. Accounts Receivable, Net (Note 5)	397,896		(18,862)	8,760	(22,383)		367,652
3. Other Assets (Note 6)							
B. Total Intragovernmental	\$2,240	\$417,066	(\$18,862)	\$8,760	(\$22,383)	(\$170,712)	\$216,108
C. Accounts Receivable, Net (Note 5)	4,789	(10,902)	455	6,389	231		962
D. Cash and Other Monetary Assets (Note 3)	8,668					131,938	140,606
E. Other Assets (Note 6)							
F. Total Non-Entity Assets	\$15,698	\$406,163	(\$18,452)	\$15,149	(\$22,152)	(\$38,775)	\$357,631
3. Total Assets	\$2,393,584	\$9,620,005	\$57,648,852	\$4,382,592	\$21,873,314	\$21,094,085	\$117,012,303

The accompanying notes are an integral part of these statements.

Supplemental Information

**Department of Defense
Department of the Navy
SUPPORTING CONSOLIDATING BALANCE SHEET
For the period ending September 30, 1998
(\$ in Thousands)**

LIABILITIES	Military Personnel	Operation & Maintenance	Procurement	RDT&E	Military Construction	Other Programs	Totals
4. Liabilities Covered by Budgetary Resources:							
A. Intragovernmental		366,012	103,818		419,000	25,297	1,080,647
1. Accounts Payable	166,520						
2. Environmental Cleanup (Note 11)					(6,987)	(367,236)	4,541
3. Debt (Note 10)	9,739	379,137	(18,872)	8,760	\$412,013	(\$341,939)	\$1,085,188
4. Other Intragovernmental Liabilities (Notes 11 and 12)	\$176,259	\$745,149	\$84,946	\$8,760			
B. Total Intragovernmental							
C. Accounts Payable	550,051	40,283	102,078		112,158	6,607	811,176
D. Liabilities for Loan Guarantees							
E. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 13)							
F. Environmental Cleanup (Note 11)	1,129,737	226,920	455	6,703	231	13,679	1,377,726
G. Other Liabilities (Notes 11 and 12)	\$1,856,047	\$1,012,352	\$187,479	\$15,464	\$524,402	(\$321,653)	\$3,274,090
H. Total Liabilities Covered by Budgetary Resources:							
5. Liabilities Not Covered by Budgetary Resources:							
A. Intragovernmental		26,022	41,862		103		83,461
1. Accounts Payable	15,474						
2. Debt (Note 10)							
3. Environmental Cleanup (Note 11)	5,968	34,862	11			328,461	369,301
4. Other Liabilities (Notes 11 and 12)	\$21,442	\$60,884	\$41,873	\$0	\$103	\$328,461	\$452,762
B. Total Intragovernmental							
C. Accounts Payable	89,837	96,597	242,512	6,838	1,674		437,458
D. Debt (Note 10)							
E. Military Retirements, Benefits and Other Employment Related Actuarial Liabilities (Note 13)						1,213,674	1,213,674
F. Environmental Cleanup (Note 11)	1,048,197	934,395	1,336,819	155,979	(18,425)	5,174,500	5,174,500
G. Other Governmental Liabilities (Notes 11 and 12)	\$1,159,477	\$1,091,875	\$1,621,205	\$162,817	(\$16,648)	51,398	3,508,363
H. Total Liabilities Not Covered by Budgetary Resources							
C. Accounts Payable	\$3,015,523	\$2,104,227	\$1,808,684	\$178,280	\$507,753	\$6,446,380	\$14,060,847
D. Debt (Note 10)							
E. Military Retirements, Benefits and Other Employment Related Actuarial Liabilities (Note 13)							
F. Environmental Cleanup (Note 11)	363,930	7,393,813	44,410,757	4,204,312	2,350,681	1,654,775	60,378,269
G. Other Governmental Liabilities (Notes 11 and 12)	(985,869)	121,965	11,429,411	12,992,801	19,014,880	12,992,801	42,573,187
H. Total Net Position	(\$621,939)	\$7,515,778	\$55,840,168	\$4,204,312	\$21,365,561	\$14,647,576	\$102,951,456
10. Total Liabilities and Net Position	\$2,393,584	\$9,620,005	\$57,648,852	\$4,382,592	\$21,873,314	\$21,093,956	\$117,012,303

The accompanying notes are an integral part of these statements.

Supplemental Information

Entity Accounts:

General funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps (fiscal year)
17 0810	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

Supplemental Information

Financial Statement Attributes

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 programs. Identified are five agency attributes: Operating Cost Attribute, Operating Results Attribute, Financial Obligations Attribute, Financial Condition Attribute, and the Operating Efficiency Attribute. These attributes form the focus of our financial statement analysis. Cross-sectional analyses are presented comparing similar attributes for the Department of the Navy's programs as reported in the Statement of Net Cost. These programs are Operations and Maintenance; Military Personnel, Procurement; Research, Development, Test and Evaluation; Military Construction; and Other related programs.

Operation and Maintenance (O&M) program areas include the costs for both Navy and Marine Corps that pay for the day-to-day operations and maintenance. The costs cover broad areas such as the operating forces; mobilization; training and recruiting; and administration and servicewide activities. More specifically, the O&M program area funds pay for salaries and fringe benefits for civilians; contractors for maintenance of equipment and facilities; fuel, supplies, and repair parts for weapons; and equipment. It includes costs that support the Navy and Marine Corps Reserve activities, ships and aircraft.

The Military Personnel program provides for the pay, allowances, clothing, and permanent change of station moves for active duty Navy and Marine Corps personnel. The Military Personnel program also provides for pay, allowances, clothing, per diem, travel and other related costs for Navy and Marine Corps Reserve personnel.

The Procurement program costs include procurement of the National Defense Property, Plant, and Equipment (PP&E) that includes aircraft, weapons, and shipbuilding and conversion. The costs for procurement of ammunition for both the Navy and the Marine Corps and procurement of other equipment may or may not be categorized as National Defense PP&E.

The Research, Development, Test and Evaluation program includes costs for scientific research, development, test and evaluation of new and improved weapons systems and related equipment for both Navy and the Marine corps. The costs include basic research, exploratory and advanced development, demonstration and validation of technologies, engineering and manufacturing development, management support, and operational system development.

The costs for the Military Construction program include construction, conversion or improvement of permanent or temporary facilities and public works including land acquisition, site preparation, utilities, and integral equipment supporting the active forces of the Navy and Marine Corps. Also included are costs for military construction for reserve forces.

The Other program costs include payments for special environmental activities, construction portion of family housing, and the various trust funds that include the U.S. Naval Academy General Gift and Museum Funds.

Supplemental Information

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 1998

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDI&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Total Costs	24,962,939	26,815,743	19,462,570	8,269,741	3,730,146	113,497	83,354,637
Revenue & Reimb	315,546	2,971,915	445,237	92,009	414,928	20,072	4,259,707
Net Operating Cost FY 98	24,647,394	23,843,828	19,017,333	8,177,733	3,315,218	93,425	79,094,930
Net Operating Cost FY 97	24,593,553	24,462,525	5,297,539	7,608,804	65,005	6,076,920	68,104,346
Net Operating Change	53,841	(618,697)	13,719,794	568,929	3,250,213	(5,983,495)	10,990,584
Annual Percentage Change	0.22%	-2.53%	258.98%	7.48%	4999.94%	-98.46%	16.14%

Supplemental Information

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 1998

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDI&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Revenues							
Appropriations Realized	24,446,737	23,501,632	19,167,187	8,177,733	2,694,384	242,174	78,229,846
Reimbursable Revenue	315,546	2,971,915	445,237	92,009	414,928	20,072	4,259,707
Other Revenue & Financing Sources	0	0	0	0	0	0	0
Total Revenues	24,762,282	26,473,547	19,612,424	8,269,741	3,109,312	262,246	82,489,552
Expenses & Losses	24,962,939	26,815,743	19,462,570	8,269,741	3,730,146	113,497	83,354,637
Net Operating Results	(200,657)	(342,196)	149,854	0	(620,834)	148,749	(865,084)

FY 1997

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDI&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Revenues							
Appropriations Realized	24,593,553	24,462,525	5,297,539	7,608,804	65,005	10,540	62,037,966
Reimbursable Revenue	315,014	3,152,880	722,269	441,994	467,114	22,527	5,121,798
Other Revenue & Financing Sources	0	0	0	0	0	910,190	910,190
Total Revenues	24,908,567	27,615,405	6,019,808	8,050,798	532,119	943,257	68,069,954
Expenses & Losses	24,908,567	27,615,405	6,019,808	8,050,798	532,119	7,009,637	74,136,334
Net Operating Results	0	0	0	0	0	(6,066,380)	(6,066,380)

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 1998

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDI&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Total Current Assets	2,313,954	9,158,337	47,839,699	4,367,443	2,880,587	9,019,032	75,579,052
Total Current Liabilities	2,585,043	1,333,407	258,072	0	546,554	500,263	5,223,340
Current Ratio	0.90	6.87	185.37	4,367,443	5.27	18.03	14.47
Total Quick Assets	2,313,954	8,728,776	43,132,959	4,367,443	2,880,587	1,705,784	63,129,503
Total Current Liabilities	2,585,043	1,333,407	258,072	0	546,554	500,263	5,223,340
Acid Test Ratio	0.90	6.55	167.14	4,367,443	5.27	3.41	12.09

FY 1997

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDI&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Total Current Assets	2,184,364	10,664,094	47,528,679	4,872,884	1,333,739	1,887,770	68,471,530
Total Current Liabilities	2,913,679	1,758,741	911,429	118,405	71,342	429,293	6,202,889
Current Ratio	0.75	6.06	52.15	41.15	18.70	4.40	11.04
Total Quick Assets	2,184,364	10,664,094	47,522,471	4,872,884	1,333,739	1,887,727	68,465,279
Total Current Liabilities	2,913,679	1,758,741	911,429	118,405	71,342	429,293	6,202,889
Acid Test Ratio	0.75	6.06	52.14	41.15	18.70	4.40	11.04

Supplemental Information

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 1998

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDI&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Sources of Cash	2,084,057	7,693,685	41,359,954	4,299,387	2,824,906	133,196	58,395,185
Future Req. for Cash	3,015,523	2,104,227	1,808,684	178,280	507,753	6,446,380	14,060,847
Cash Surplus (Shortfall)	(931,466)	5,589,458	39,551,270	4,121,107	2,317,153	(6,313,183)	44,334,338
Total Assets	2,393,584	9,620,005	57,648,852	4,382,592	21,873,314	21,093,956	117,012,303
Total Liabilities	3,015,523	2,104,227	1,808,684	178,280	507,753	6,446,380	14,060,847
Assets to Debt Ratio	0.79	4.57	31.87	24.58	43.08	3.27	8.32

FY 1997

	<u>Personnel</u>	<u>Maintenance</u>	<u>Procurement</u>	<u>RDI&E</u>	<u>Construction</u>	<u>Programs</u>	<u>Total</u>
Sources of Cash	1,723,056	8,966,543	41,504,468	4,435,820	1,266,734	112,787	58,009,408
Future Req. for Cash	3,006,018	2,847,493	2,403,759	270,534	86,546	7,367,748	15,982,098
Cash Surplus (Shortfall)	(1,282,962)	6,119,050	39,100,709	4,165,286	1,180,188	(7,254,961)	42,027,310
Total Assets	2,189,319	15,918,709	335,240,711	4,877,482	23,884,317	75,399,317	457,509,855
Total Liabilities	3,006,018	2,847,493	2,403,759	270,534	86,546	7,367,748	15,982,098
Assets to Debt Ratio	0.73	5.59	139.47	18.03	275.97	10.23	28.63

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 1998

Procurement
(Appn 4557)

Cost of Goods Sold	1,206,524
Average Inventory	0
Inventory Turn Ratio or in Days	
Sales Revenue	188,747
Daily Accounts Rec.	3,277
Average Rec. Turn Ratio or in Days	58
OP Cycle=Inv. Turn Day	
+Acct Rec Turn Day	58

FY 1997

Procurement
(Appn 4557)

Cost of Goods Sold	227,429
Average Inventory	0
Inventory Turn Ratio or in Days	
Sales Revenue	227,429
Daily Accounts Rec.	3,684
Average Rec. Turn Ratio or in Days	62
OP Cycle=Inv. Turn Day	
+Acct Rec Turn Day	62

DEPARTMENT OF THE NAVY

AUDIT OPINION



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

March 1, 1999

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 1998 Department of the Navy General Fund Financial Statements (Project No. 8FC-2030)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Naval Audit Service (NAS) the audit of the FY 1998 Navy General Fund Financial Statements. Summarized below are the NAS disclaimer of opinion on the FY 1998 Navy General Fund Financial Statements and the results of our review of the NAS audit. The information provided contains reasons for the NAS disclaimer and is based on previous versions of these financial statements. Some numbers may have changed; however, the concerns expressed by NAS also relate to the version of the financial statements contained herein. We endorse the disclaimer of opinion expressed by the NAS (Enclosure).

Disclaimer of Opinion. The NAS disclaimer of opinion on the FY 1998 Navy General Fund Financial Statements, dated March 1, 1999, states that the NAS was unable to express an opinion on the financial statements. We concur with the NAS disclaimer of opinion. In addition, the Department of the Navy did not provide a management representation letter, as of the date of the NAS disclaimer of opinion. The NAS was unable to express an opinion for the reasons summarized below.

- The Department of the Navy still does not have transaction-driven, standard general accounting systems capable of accurately reporting the value of assets and liabilities, including the status of appropriated funds.
- Subsidiary ledgers, which are necessary for maintaining accurate financial records and providing audit trails, still did not exist.

Internal Controls. The NAS determined that internal controls did not ensure that the FY 1998 Navy General Fund Financial Statements contained no material misstatements. For example, the Department of the Navy did not implement controls over the matching of disbursements to obligations. Consequently, the Department of the Navy financial statements reported disbursements that were not correctly matched to obligations in the accounting records. The Department of the Navy and the Defense Finance and Accounting Service have recognized many of the financial reporting weaknesses and reported them in their FY 1998 Annual Statements of Assurance.

Compliance With Laws and Regulations. The NAS also identified areas of noncompliance with laws and regulations, which will be discussed in more detail in a separate report. Under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements," as amended January 25, 1999, the Naval Audit Service disclosed that financial management

systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For example, the Department of the Navy did not have integrated financial management systems from which to extract financial data for use in preparing financial statements and had to rely on a manual data call process that was error prone. As a result, significant quantities of military equipment were excluded from the Required Supplementary Stewardship Information. Details regarding the adequacy of internal controls and on compliance with laws and regulations will be discussed in a separate report.

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

We reviewed the NAS work on the FY 1998 Navy General Fund Financial Statements from March 16, 1998 to March 1, 1999, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the NAS disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.



David K. Steensma
Deputy Assistant Inspector General
for Auditing

Enclosure



DEPARTMENT OF THE NAVY
NAVAL AUDIT SERVICE
5611 COLUMBIA PIKE
ROOM 506B NASSIF BLDG
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Report on Auditor's Opinion

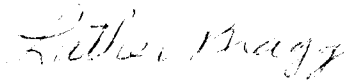
In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the Department of the Navy prepared the accompanying Principal Statements for the fiscal year ended 30 September 1998. In addition, the Government Management Reform Act significantly 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 Principal Statements for Fiscal Year 1996 and beyond. We were requested to audit Department of the Navy Principal Statements in accordance with generally accepted government auditing standards. Our auditing procedures 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 Principal Statements for the fiscal year ended 30 September 1998. 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 cannot ascertain the reliability of the Principal Statements. The Required Supplementary Stewardship Information (including National Defense Property, Plant, and Equipment; Heritage Assets; and Stewardship Land) is not a required part of the basic financial statements, and we do not express an opinion on such information. However, we applied limited procedures to the stewardship statement prescribed by professional standards that raised doubts that we were unable to resolve regarding whether material modifications should be made to the information for it to conform with guidelines established by the Federal Accounting Standards Advisory Board and the Office of Management and Budget.

Financial data in the Overview and the Supplemental Financial and Management Information sections of the Department of the Navy Annual Financial Report was derived from the same sources as the Principal Statements and, therefore, may not be reliable. In addition, our disclaimer of opinion and this report are based on Version 2 of the Department of the Navy Principal Statements. We did not receive Version 3 of the statements in time to review the final balances and therefore could not review any adjustments/changes made in developing Version 3.

Internal controls did not ensure that the Principal 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 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 1998 Assurance Statements on Management Controls.



LUTHER BRAGG

By direction

10 February 1999