Navy Working Capital Fund
Annual Financial Report
Fiscal Year 1999

DEPARTMENT OF THE NAVY
NAVY WORKING CAPITAL FUND

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DEPARTMENT OF THE NAVY

NAVY WORKING CAPITAL FUND

OVERVIEW

Description of the Navy Working Capital Fund

Background of the Navy Working Capital Fund

Working Capital Funds were created in the Department of Defense (DoD) by the National Security Act Amendments of 1949. This legislation gave the Secretary of Defense the authority to establish working capital funds to finance inventories of supplies and to maintain industrial activities that provide common services with the DoD and its various agencies. Working Capital Funds operate under a "revolving fund" business model, where initial working capital investments finance the cost of goods and services delivered to customers. These costs are subsequently recovered through reimbursement from the customer. The Navy has historically operated a large number of its organic commercial and industrial facilities under the revolving funds concept.

The structure of the Working Capital Funds in the DoD underwent a major revision in Fiscal Year (FY) 1992, when the Defense Business Operations Fund (DBOF) was established as a single, DoD-wide revolving fund absorbing working capital and certain appropriated support funds. The primary goal of the DBOF was to focus the attention of DoD management on the total costs of certain common DoD business operations. Initially, the Office of the Under Secretary of Defense (Comptroller) (USD(C)) centrally managed the cash balance of the DBOF. In FY 1995 the control of the cash balance of DBOF was returned to the DoD component level, making each DoD component accountable for the cash balances directly affected by their business decisions. The current structure of the Defense Working Capital Funds was created when the USD(C) canceled the DBOF in FY 1997. At that time, four separate working capital funds were established:

- Army Working Capital Fund,
- Navy Working Capital Fund (NWCF),
- Air Force Working Capital Fund, and
- Defense-wide Working Capital Fund.

The NWCF is a not-for-profit operation. Consistent with the revolving fund concept of operations, the NWCF seeks to break even over the long term by adjusting its rates to offset any profits or losses that might be incurred. The NWCF is a consolidation of several activities that contribute to the common products and services the Department of Navy (DON) and other DoD components require. The business operation of each of these activities is managed and directed by the DON.

> *One of the challenges facing the Navy Working Capital Fund activity managers is setting standard rates for their products or services that are low enough to be competitive yet high enough to ensure that their customers receive quality goods and services, while maintaining the cash liquidity necessary to meet current and future operating requirements.*

Financial Characteristics of the Navy Working Capital Fund

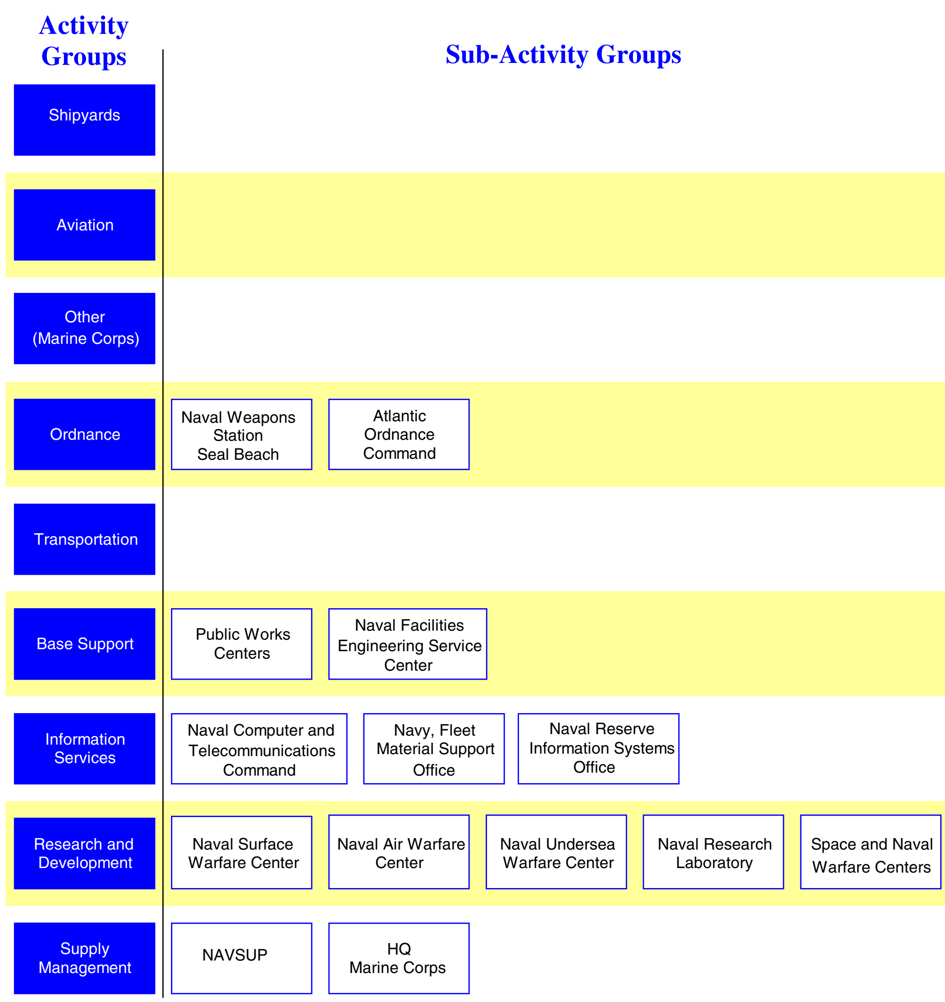
The NWCF's significant accounting policies are characterized by the following features (a detailed description of these can be found in the first note to the accompanying Financial Statements):

- The use of the accrual basis of accounting, where expenses and revenue are recorded when they are incurred or earned, independently of the associated cash disbursements and collections.
- The differentiation between capital costs (those with a long-term benefit) and operating costs (those with only a current-period benefit).
- The capture of all the costs of operating an activity group.
- The reflection of the total cost of doing business in the stabilized rates charged to customers.
- The objective to break even over the long term.
- The return of profits, when and if they occur, to customers in lower rates in subsequent years.
- The recovery of losses, when and if they occur, from the customers in higher rates in subsequent years.
- The maintenance of a cash balance as required by the USD(C) equal to seven to ten days of operating program cash disbursements plus six months of capital program cash disbursements.

Organization of the Navy Working Capital Fund

The NWCF comprises nine activity groups, five of which are further segmented into sub-activity groups. Each sub-activity group shares the common business objectives of its primary activity group, but has a distinct structure and specific mission objectives. The organization of the activities, as included in the FY 1999 Financial Statements, is illustrated below. The NWCF's consolidated presentation of the results of operations and financial position is an aggregation of the performances of these activity groups.

The DON also has a Component-level administrative segment for recording financial transactions that are pending identification with a specific activity group. Historically, this segment has reflected transactions primarily related to collections and disbursements, but the FY 1999 transactions also include department-level adjustments for certain elimination entries. Since the Component-level is an administrative segment, it is not shown in the organizational chart below.

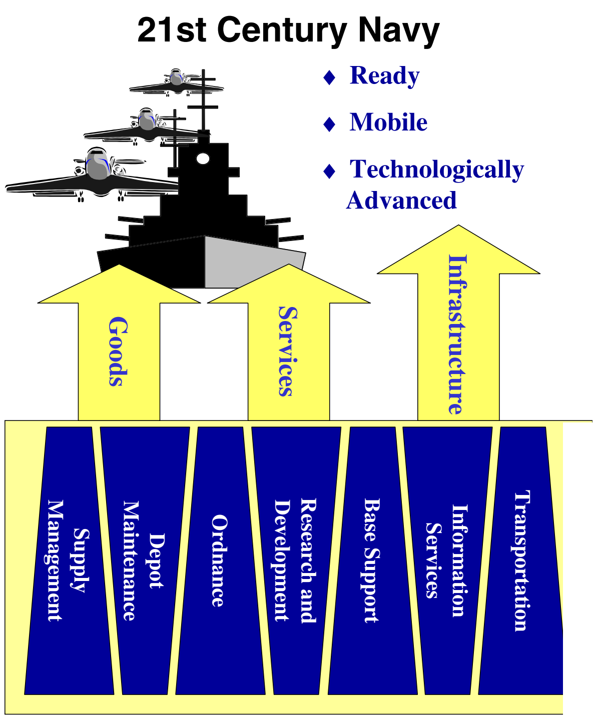


Each activity group's objectives, customer base, and FY 1999 performance analysis is addressed separately in subsequent sections of this overview.

NWCF Performance Mission

The DoD engages in a cycle of strategic planning, performance planning, and evaluation of achievement against a performance plan. For FY 1999, DoD established a series of corporate-level goals addressing the mobility, readiness, and technological advancement of the United States military forces.

NWCF activities perform a support role in the pursuit of these goals. While the NWCF has no engagement programs or deployable troops, the goods, services, and infrastructure provided to the DON and to other DoD customers help ensure our military forces are mobile, ready, and have the most advanced technology at their disposal.



Navy Working Capital Fund Activities

The contributions of the NWCF activities enable the DON to meet its performance goals and mission objectives in the following ways:

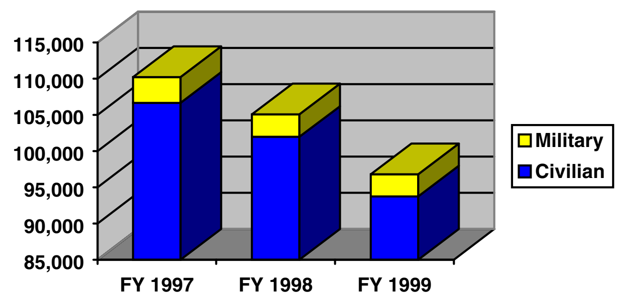
- By providing a common supply source with well-positioned delivery points, the Supply Management activity group helps its customers establish and maintain a global naval presence.
- By providing high-quality, responsive maintenance and maintenance support, the Depot Maintenance and Ordnance activity groups enable their customers to meet the mobilization and surge requirements of a global naval force.
- The Research and Development activity group supports the efforts of its customers to cultivate the forces and arms of the future in an era of rapid technological advances.
- The Base Support, Transportation, and Information Services activity groups help provide the infrastructure needed by the U.S. military now and into the 21st century.

Performance Measurements

The FY 1999 financial statements provide an indication of the financial management performance of the NWCF activities. Additional information about the personnel resources, revenue sources, customer base, net operating results, and cash management is provided to supplement the historical financial data presented in the financial statements and to enable a more comprehensive understanding of the financial management of the NWCF.

Personnel Resources

The NWCF personnel resources enable the NWCF to provide its customers with quality goods and services. In this analysis, the civilian and the military personnel resources are considered separately. The trends for end strength represented in the following graphics serve as an indicator of how well positioned the NWCF is to support the military forces now and into the 21st century.

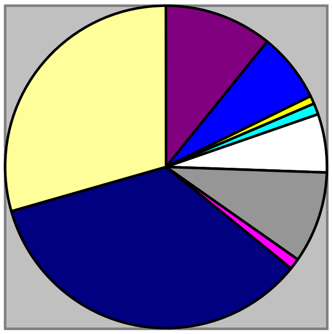


Year	Civilian	Military	Total
FY 1997	106,645	3,573	*110,218*
FY 1998	101,961	3,105	*105,066*
FY 1999	93,754	3,031	*96,785*

The aggregate downward trend in the size of the NWCF workforce continued in FY 1999. The adoption of automation, outsourcing, improved efficiency and streamlined processes have enabled the NWCF to maintain quality customer service. In FY 2000 and FY 2001, the workforce is expected to continue to be reduced through reorganizations, attrition, and the implementation of A-76 commercial activity initiatives.

Revenue

In FY 1999, the NWCF reported combined total revenues of $20,971,894 thousand.

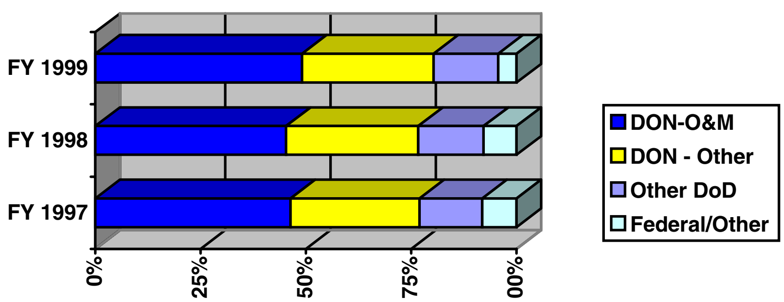


Activity Group	($ thousands) Revenue	%
Depot Maintenance - Shipyards	$ 2,253,083	11%
Depot Maintenance - Aviation	1,484,583	7%
Depot Maintenance - Other (MC)	172,634	1%
Ordnance	229,381	1%
Transportation	1,228,720	6%
Base Support	1,936,705	9%
Information Services	224,762	1%
Research & Development	7,295,189	35%
Supply Management	6,146,800	29%
Total	**$20,971,857**	**100%**

The Research & Development activity group accounted for 35 percent of the total revenue reported for the NWCF in FY 1999. Supply Management accounted for 29 percent of the total revenue and the Depot Maintenance activities (Shipyards, Aviation, and Other (Marine Corps)) accounted for 19 percent. Together, these activity groups accounted for over 80 percent of total NWCF revenue.

Customer Service Base

The NWCF has a customer base that crosses component, and in some instances, department lines. In the past three years the composition of the revenue sources (customer base) has remained substantially unchanged. The following graphic illustrates how total revenue for FY 1997–FY 1999 breaks down according to revenue source:



	REVENUE					
	FY 1997		FY 1998		FY 1999	
Customer	($ thousands)	%	($ thousands)	%	($ thousands)	%
DON–O&M	$10,285,263	46%	$ 9,804,034	45%	$ 10,289,067	49%
DON–Other	6,798,330	31%	6,812,522	31%	6,554,127	31%
DoD–Other	3,297,472	15%	3,362,455	16%	3,217,975	15%
Federal/Other	1,803,914	8%	1,684,310	8%	910,688	5%
Total	**$22,184,979**		**$21,663,321**		**$20,971,857**	

The DON Operations & Maintenance (O&M) remains the most active customer, followed by DON Other, which includes the Procurement and Research, Development, Test and Evaluation (RDT&E) appropriations. The Army, the Air Force, and DoD support agencies are included in the DoD–Other customer base, and the remaining Federal and non-Federal customers in the Federal/Other category.

Net Operating Result

One of the key financial measurements for each activity and sub-activity group is Net Operating Results (NOR). The NOR is calculated as the difference between revenue recorded and the expenses related to that revenue. In the following discussions, the expenses and revenue shown in the NOR calculation may differ from the presentation of the Consolidating Statement of Net Cost. The impact of cash surcharges and extraordinary gains are not included in the NOR activity group discussions, which are based on the budgetary calculation of NOR rather than on the historical NOR reflected in the accompanying Statement of Net Cost. The NORs for FY 1997–FY 1999 and the data submitted with the Presidential Budget in March 1999 are presented in the discussions here for purposes of comparison.

Cash Management

The NWCF is required by the USD(C) to maintain a cash balance equal to seven to ten days of operating program cash disbursements plus six months of capital program cash disbursements. For FY 1999, the cash balance required for the NWCF was between $704 million and $934 million. At the end of FY 1999, the NWCF cash balance was $1,164 million, or $230 million more than the 10-day cash level of $934 million.

The DON has made great strides in stabilizing NWCF rates. Even after recovery of losses through FY 2000 rates, cost reduction initiatives and mission realignments have kept overall rate increases about level with inflation. Beginning in FY 2000, NWCF rates will no longer include a factor for cash since the NWCF is projected to have achieved the necessary cash corpus to meet its operating and capital outlay requirements without any advance billing liability.

When cash responsibility was returned to the individual Components in FY 1995, the Navy received a cash balance of $440 million, with an advance billing liability of $2.2 billion. Since then, the Navy has instituted a cash recovery plan that included imposing a cash surcharge on its goods and services in the following amounts:

	Cash Surcharge ($ thousands)
FY 1997	$512,000
FY 1998	$500,000
FY 1999	$150,000

Cash Surcharge

One of the factors that can impact the revenue reported by NWCF activity groups is the required maintenance of cash liquidity.

To maintain the cash liquidity required, the rate billed to a customer may include a Cash Surcharge in addition to the cost of materials and services provided.

The revenue reported for the activity groups of the NWCF may reflect the revenue attributed to this surcharge in addition to that earned due to the reimbursement of the cost of goods and services provided to NWCF customers.

One of the factors that have had a direct impact on the short-term availability of cash in the NWCF is the practice of advance billing—collecting payment from the customer prior to the delivery of goods or services. As the following table indicates, the cash provided by advance billings has steadily declined. The ultimate goal is to maintain seven to ten days cash balance without any advance billings. The NWCF did not produce any new advance billings at all in FY 1999. Barring the need for any new advance billings, the fund should completely liquidate its remaining balance in FY 2000.

	Advance Billings ($ thousands)
FY 1997	$638,000
FY 1998	$291,000
FY 1999	$ 55,000

Current budget estimates for FY 2000 forecast an end-of-year cash balance of $841 million, $32 million below the FY 2000 ten day cash level of $873 million. This estimate includes most of the positive FY 1999 cash variance, as well as an additional $61 million from a Defense Logistics Agency (DLA) Consumable Item Transfer (CIT) and $40 million from an Aircraft Procurement, Navy appropriation Supplemental.

NWCF Activity Groups

The following sections address the individual performance of the activity groups represented in the FY 1999 financial statements. The mission, supporting sub-activities, the activity sites, and the customer service base of each group are described, and analysis given of the group's NOR. Additional performance measurements for the activity group are described where appropriate.

Depot Maintenance - Shipyards

The mission of Depot Maintenance – Shipyards is to provide logistic support for ships and service craft; to perform construction, overhaul, repair, alteration, dry-docking, and outfitting of ships and craft; to perform design, manufacturing, refit, and restoration; and to provide services and material to other activities and units as required.

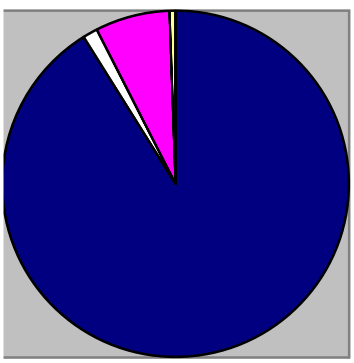
Three Naval Shipyards support the Depot Maintenance – Shipyards Activity:

Portsmouth Naval Shipyard	Portsmouth, NH
Norfolk Naval Shipyard	Norfolk, VA
Puget Sound Naval Shipyard	Bremerton, WA

The schedule performance for all Naval Shipyards in FY 1999 was 99.4 percent, building on the FY 1998 performance improvements.

A fourth shipyard, the Pearl Harbor Naval Shipyard, was combined in an FY 1998 pilot program with the Pacific Fleet (PACFLT) Intermediate Maintenance Facility. On 1 October 1998, the shipyard ceased operation as a Naval Sea Systems Command NWCF activity and began operation as a mission-funded activity under the Commander-in-Chief of the Pacific Fleet (CINCPACFLT).

Customer Service: The great majority of this activity group's revenue - slightly more than 91 percent- is derived from the DON O&M customer base, i.e., the normal operations of the Navy.



Customer	Revenue ($ thousands)	%
DON – O&M	$ 2,051,625	91%
DON – Other	1,720	<1%
Air Force	386	<1%
Army	184	<1%
DoD – Other	29,655	1%
Other Federal	158,968	7%
Non Federal	10,545	<1%
Total	$ 2,253,083	

Net Operating Result: The Net Operating Results (NOR) for the Shipyards activity group includes the NOR from the operations of the three shipyards remaining in the NWCF, as well as residual activity associated with the Pearl Harbor shipyard. Despite continuing efforts to improve work processes, the three remaining NWCF shipyards exceeded the budget NOR target of $19.6 million by $9.2 million. The Pearl Harbor Naval Shipyard completed the year $11.5 million under budget after the settlement was determined for the conversion of the shipyard to the pilot program. The Shipyards activity group thus underexecuted the aggregate budgeted NOR target for FY 1999 of $43.4 million by $3.1 million, in large part because of the residual settlement for the conversion of the Pearl Harbor Naval Shipyard.

	($ thousands)			
	FY 1997	FY 1998	FY 1999 (Actual)	FY 1999 (Planned)
Revenue	$ 2,956,223	$ 2,709,689	$ 2,253,083	$ 1,975,787
Expense	2,576,933	2,475,543	2,212,758	1,932,375
NOR	$ 379,290	$ 234,146	$ 40,325	$ 43,412

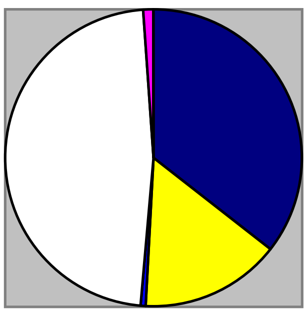
Depot Maintenance - Aviation

The mission of Depot Maintenance – Aviation is to provide responsive worldwide maintenance, engineering, and logistics support to the Fleet and to maintain the essential industrial capability to support mobilization. The activity group must repair aircraft, engines, and components and manufacture parts and assemblies; provide engineering services in the development of hardware design changes; and furnish the technical and other professional services to resolve maintenance and logistics problems.

Three Activity sites support Depot Maintenance – Aviation:

Activities	Location
NAVAVNDEPOT, Cherry Point	Cherry Point, NC
NAVAVNDEPOT, Jacksonville	Jacksonville, FL
NAVAVNDEPOT, North Island	San Diego, CA

Customer Service: Depot Maintenance – Aviation serves both DON and other DoD customers. In FY 1999, total revenue reported was $1,484,583 thousand. DoD – Other customers (including customers within the NWCF) accounted for 47 percent of the total, followed by DON – O&M (35 percent) and DON – Other (15 percent).



Customer	Revenue ($ thousands)	%
DON – O&M	$ 526,070	35%
DON – Other	228,559	15%
Air Force	9,021	<1%
Army	648	<1%
DoD – Other	704,652	47%
Other Federal	15,590	1%
Non Federal	43	<1%
Total	$ 1,484,583	

Net Operating Result: The Aviation NOR for FY 1999 declined $33.4 million from FY 1998, primarily due to a reduction in cash surcharges. The FY 1999 NOR was also $7.1 million below the planned NOR for the year, however, reflecting the impact of such factors as Naval Inventory Control Point (NAVICP) material credit reversal, the loss of direct labor hours due to two hurricanes, and transactions processed for closed depots.

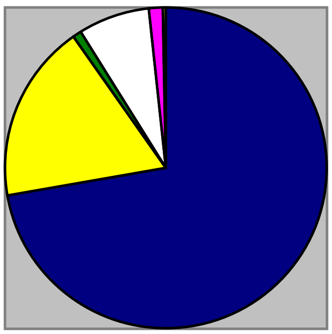
	($ thousands)			
	FY 1997	FY 1998	FY 1999 (Actual)	FY 1999 (Planned)
Revenue	$1,548,306	$1,509,053	$1,484,583	$1,625,200
Expense	1,400,507	1,457,074	1,466,011	1,599,522
NOR	$ 147,799	$ 51,979	$ 18,572	$ 25,678

Depot Maintenance - Other (Marine Corps)

The mission of Depot Maintenance – Other (Marine Corps) is to provide quality, responsive maintenance and maintenance-related products and services to the Fleet Marine Force (FMF) and other customers while maintaining the core industrial base necessary to support mobilization and surge requirements.

The Marine Corps operates two Multicommodity Maintenance Centers at Albany, GA and Barstow, CA. The two centers return unserviceable equipment to serviceable condition, perform maintenance up to the depot repair level, and overhaul, rebuild, and modify all types of ground combat and combat support equipment used by the Marine Corps and other DoD services.

Customer Service: Most of the Depot Maintenance – Other (Marine Corps) customer revenue is derived from DON – O&M customers. In FY 1999, this customer base accounted for 72 percent of revenue, with DON – Other customers contributing 18 percent and DoD – Other customers, 7 percent.



	Customer	Revenue ($ thousands)	%
	DON – O&M	$ 124,523	72%
	DON – Other	31,152	18%
	Air Force	54	<1%
	Army	1,638	<1%
	DoD – Other	12,179	7%
	Other Federal	2,848	2%
	Non Federal	240	<1%
	Total	$ 172,634	

Net Operating Result: In FY 1999, the NOR for the activity group was $12.8 million below plan. Revenue for the year was $5.2 million more than planned, but direct costs exceeded plan by $10.4 million, mainly due to higher direct material, contractual services, and end strength levels. Indirect costs were $7.6 million more than anticipated. The group will adjust its stabilized customer-billing rate in FY 2000 and beyond to recoup the losses incurred.

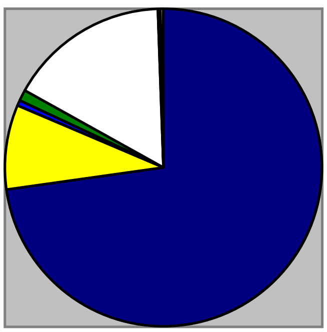
($ thousands)				
	FY 1997	FY 1998	FY 1999 (Actual)	FY 1999 (Planned)
Revenue	$160,154	$211,977	$172,634	$167,417
Expense	148,861	214,307	181,936	163,917
NOR	$ 11,293	$ (2,330)	$ (9,302)	$ 3,500

Ordnance

The mission of the Naval Ordnance Center is to coordinate Fleet and Fleet Marine Forces requirements and issues; to control the distribution of ordnance; to administer and provide waterfront support operations; to perform intermediate maintenance management; and to manage in-service ordnance logistics efforts.

FY 1999 was a time of reorganization for the Ordnance activity group. On 1 October 1998, the Naval Weapons Station, Seal Beach, CA was transferred with its detachments to the Pacific Fleet (PACFLT) Command claimancy. On the east coast, the support of the Naval Weapons Center at Yorktown, VA and its four detachments were transferred to the Atlantic Fleet (LANTFLT) Command claimancy. In addition, effective 1 October 1999, the Ordnance activity group for the Pacific and the Atlantic Fleets was converted from a Working Capital Fund to a Direct-funded activity. The reporting of its operations for FY 2000 and beyond will be reflected in the DON General Fund financial statements.

Customer Service: Most of the Ordnance activity group's customer revenue comes from DON – O&M. In FY 1999, 73 percent of revenue was attributable to DON – O&M. Other major customer groups included DoD – Other (16 percent) and DON – Other (9 percent).



Customer	Revenue ($ thousands)	%
DON – O&M	$166,682	73%
DON – Other	19,988	9%
Air Force	1,597	<1%
Army	2,234	<1%
DoD – Other	37,437	16%
Other Federal	667	<1%
Non Federal	686	<1%
Total	$ 229,381	

Net Operating Result: The reorganization of the Ordnance activity group had a significant impact on its NOR. At $379 thousand, the decline from plan for FY 1999 was within tolerance, but represents a significant decrease from prior years. This decline in the Revenue and Expenses can be attributed mainly to the separation of NWAS Corona, CA from the Ordnance reporting activity group. NWAS Corona was transferred to the Research & Development – Naval Surface Warfare Center activity.

	($ thousands)			
	FY 1997	FY 1998	FY 1999 (Actual)	FY 1999 (Planned)
Revenue	$ 539,411	$636,907	$229,381	$210,728
Expense	559,590	430,947	234,684	216,410
NOR	$ (20,179)	$205,960	$ (5,303)	$ (5,682)

Transportation - Military Sealift Command

The mission of the Military Sealift Command is to provide efficient sea transportation, combat-ready logistics forces, and reliable special mission ships for the Department of Defense in times of peace and war.

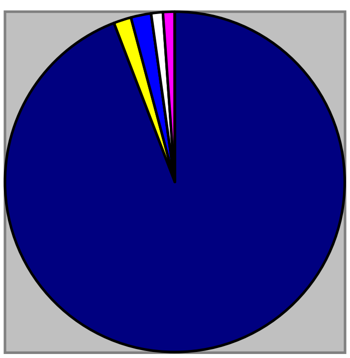
The Military Sealift Command (MSC) has dual reporting responsibilities to the DON and to the U.S. Transportation Command (USTRANSCOM). As a working capital fund, MSC reports on three business lines:

- Naval Fleet Auxiliary Force (NFAF) provides support using civilian mariner manned noncombatant ships for material support,
- Special Mission ships (SMS) - provides unique seagoing platforms; and
- Afloat Pre-positioning Ships – Navy (APF-N) – provides deployment of advance material for strategic lifts.

MSC ships are separate and distinct from other US Navy ships in that:

- They are non-combatant;
- They include both government-owned and chartered vessels; and
- They are crewed by civilian mariners from the US Civil Service and from private operating companies.

Customer Service: Most of the customer revenue earned by MSC is attributable to DON Operations and Maintenance. In FY 1999, the DON–O&M customer base provided slightly more than 94 percent of all revenue, or $1,157,105 thousand of a total of $1,228,720 thousand.



Customer	Revenue ($ thousands)	%
DON – O&M	$ 1,157,105	94%
DON – Other	19,333	2%
Air Force	24,870	2%
Army	10	<1%
DoD – Other	12,295	1%
Other Federal	15,107	1%
Non Federal	0	
Total	$ 1,228,720	

Net Operating Results: The difference in the actual NOR recorded for FY 1999 of $17,192 thousand, and the planned NOR of $18,027 thousand can be attributed, in part, to additional Information Technologies cost of $3,286 thousand, which was offset by the revenue earned in excess of plan for ship reimbursable of $2,451.

	($ thousands)			
	FY 1997	FY 1998	FY 1999 (Actual)	FY 1999 (Planned)
Revenue	$1,141,101	$1,342,397	$1,228,720	$1,226,269
Expense	1,186,425	1,211,122	1,211,528	1,208,242
NOR	$ (45,324)	$ 131,275	$ 17,192	$ 18,027

Ship Availability: One of the performance measures used by MSC is Ship Availability, which is defined as the number of days that ships are available to perform the function for which they are acquired, expressed as a percentage of the number of planned days of availability. The goal is to ensure that the ships are available for the mission to which they are assigned and is expressed as a percentage of meeting the number of planned days.

For the past three years, ship availability has been in the upper 90 percentile, as the following table illustrates:

	Goal (days)	Actual (days)	Actual Days to Goal Days (%)
Naval Fleet Auxiliary Force			
FY 1999	9,058	9,528	105%
FY 1998	11,800	11,315	99%
FY 1997	11,315	11,937	105%
Afloat Pre-positioning Ships – Navy			
FY 1999	5,475	5,332	97%[1]
FY 1998	5,110	5,009	98%
FY 1997	5,110	5,073	99%
Special Mission Ships			
FY 1999	8,183	8,144	99%
FY 1998	8,375	8,195	98%
FY 1997	8,434	8,118	96%

[1]The late delivery of Maritime Prepositioning Force Enhancement (MPF-E) had a direct and negative impact on the ratio of actual days to goal days in FY 1999.

Base Support

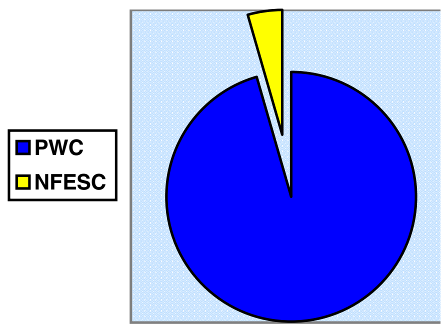
The mission of the Base Support activities is to provide the worldwide infrastructure needed to ensure that the DON and the U.S. military are able to maintain their full operational capabilities.

The Base Support activity group is supported by two sub-activities:

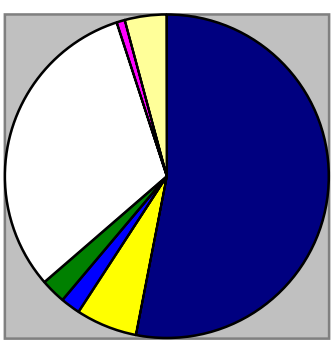
- **Public Works Centers (PWC).** The PWCs provide utilities services, facilities maintenance, family housing services, transportation support, and engineering services, in addition to the shore facilities planning support required by operating forces and other activities.
- **Naval Facilities Engineering Service Center (NFESC).** The NFESC provides engineering, design, construction, technology implementation, and management support worldwide to shore, ocean, and waterfront activities and to amphibious and expeditionary operations. The center also provides environment, energy, and utility services.

In FY 1999, the Public Works Centers accounted for 95.6 percent of the total revenue for the Base Support activity group, as illustrated below:

	Revenue ($ thousands)
PWC	$ 1,852,010
NFESC	84,695
Total	$ 1,936,705



Customer Service: The Base Support group serves all types of customers, but the majority of its revenue comes from the DON–Operations and Maintenance. In FY 1999, DON – O&M accounted for 53 percent of revenue, with the other significant customer, DoD – Other, providing 32 percent.



Customer	Revenue ($ thousands)	%
DON – O&M	$1,028,178	53%
DON – Other	115,436	6%
Air Force	40,364	2%
Army	45,793	2%
DoD – Other	610,857	32%
Other Federal	15,362	<1%
Non Federal	80,715	4%
Total	$1,936,705	

Net Operating Results: In FY 1999, the PWCs and the NFESC both earned revenue in excess of projections. The reduced or delayed execution of major MRP projects planned for the fourth quarter reduced expenses, with the result that even though the receipt and expensing of civil engineering support equipment put total expenses above plan, the NOR for the PWCs exceeded projections. Unanticipated revenue generated by contract administration fees enabled the NFESC to reduce its NOR loss below plan.

	($ thousands)			
	FY 1997	**FY 1998**	**FY 1999 (Actual)**	**FY 1999 (Planned)**
PWCs				
Revenue	$2,016,428	$1,841,588	$1,852,011	$1,815,097
Expense	2,013,269	1,788,531	1,818,237	1,791,186
NOR	**$ 3,159**	**$ 53,057**	**$ 33,774**	**$ 23,911**
NFESC				
Revenue	$62,373	$74,575	$84,695	$71,692
Expense	62,395	75,591	84,721	72,561
NOR	**$ (22)**	**$ (1,106)**	**$ (26)**	**$ (869)**

The continued commitment by the PWCs to keeping costs low and customer satisfaction high has resulted in an increase in their overall customer satisfaction rating from 3.75 in FY 1998 to 4.00 in FY 1999 (on a 5.00 scale).

Information Services

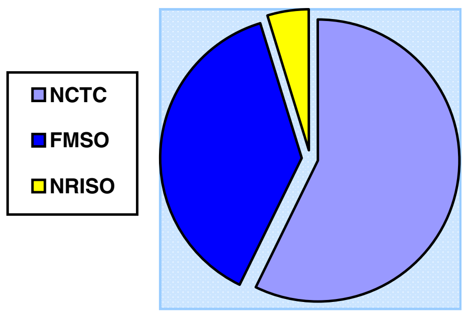
The mission of the Information Services activity group is to provide communications and information technology design, development, maintenance, and environmental support to the DON and other customers worldwide.

The Information Services activity group is supported by three sub-activities:

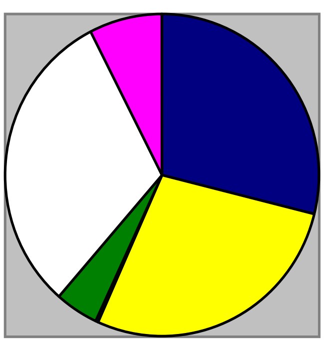
- Naval Computer and Telecommunications Command (NCTC): Provides regional communications and automated information systems services to customers; manages remote facilities; provides local information systems support in coordination with Defense Information Systems Agency (DISA) information processing centers; and designs, develops, and maintains standard DON automated information systems.
- Navy, Fleet Material Support Office (FMSO): Provides responsive and innovative software engineering for the DON, DoD, and other federal agencies.
- Naval Reserve Information Systems Office (NRISO): Provides regional communication and automated information systems services to customers, manages remote facilities, and provides local information systems support in coordination with Defense Information Systems Agency (DISA) information processing centers.

In FY 1999, NCTC accounted for 57 percent of the total revenue earned by the Information Services activity group. FMSO contributed 38 percent, and NRISO the remainder.

Activity	Revenue ($ thousands)
NCTC	$128,481
FMSO	85,495
NRISO	10,786
Total	$224,762



Customer Service: The Information Services activity serves customers across the DoD, as well as doing some work for non-DoD (Federal) customers. In FY 1999, the top three revenue sources for the activity were DoD Other (31 percent), DON O&M (29 percent), and DON Other (28 percent).



Customer	Revenue ($ thousands)	%
DON – O&M	$ 65,085	29%
DON – Other	62,298	28%
Air Force	508	<1%
Army	10,286	4%
DoD – Other	70,006	31%
Other Federal	16,579	7%
Non Federal	0	
Total	$224,762	

Net Operating Result: The FY 1999 NOR for each sub-activity of the Information Services activity group is displayed in the table below.NCTC and FMSO both returned NORs lower than planned, but the NRISO achieved a NOR that, while negative, was above plan, due to customer budget cuts and subsequent reductions in their requirements. The shortfalls for the other two sub-activities can be attributed in part to a variance in labor costs, where the activity paid more for military labor than was ultimately billed.

	($ thousands)			
	FY 1997	FY 1998	FY 1999 (Actual)	FY 1999 (Planned)
NCTC				
Revenue	$152,443	$134,059	$128,481	$124,204
Expense	163,573	132,294	128,101	118,422
NOR	**$(11,130)**	**$ 1,765**	**$ 380**	**$ 5,782**
FMSO				
Revenue	$ 78,544	$ 88,912	$ 85,495	$ 75,932
Expense	82,748	87,911	84,935	75,149
NOR	**$ (4,204)**	**$ 1,001**	**$ 560**	**$ 783**
NRISO				
Revenue	$12,457	$18,706	$10,786	$17,044
Expense	13,129	17,610	13,531	19,984
NOR	**$ (672)**	**$ 1,096**	**$(2,745)**	**$ (2,940)**

Research and Development

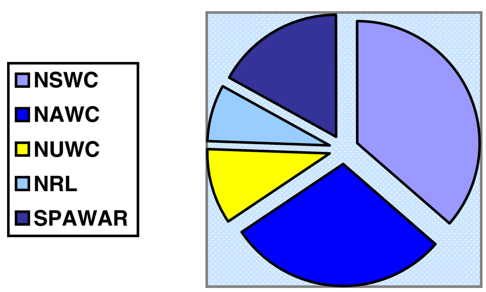
The mission of the Research and Development activity group is to develop technologically advanced warfare tools and technology for Naval forces deployed on land, at sea, and in the air.

The Research and Development activity group is supported by five sub-activities:

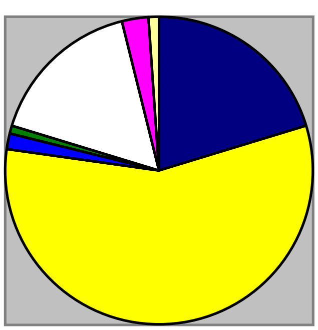
- Naval Surface Warfare Center(NSWC): Operates the Navy's full spectrum research, development, test and evaluation, engineering and fleet support center for ship hull, mechanical, and electrical systems, surface ship combat systems, coastal warfare systems, and other offensive and defensive systems associated with surface warfare. The NSWC accepted the transfer of NWAS Corona, CA from the Ordnance activity group in FY 1999.
- Naval Air Warfare Center(NAWC): Operates the DON's full spectrum research, test, and evaluation, in-service engineering, and Fleet support activity for naval aircraft engines, avionics, and aircraft support systems, ship/shore/air operations, weapons systems associated with air warfare, missiles, and missile subsystems, aircraft weapons integration, and airborne electronics warfare systems. The center also operates the department's air, land, and sea test ranges.
- Naval Undersea Warfare Center(NUWC): Develops new technologies for the submarines, autonomous underwater systems, and offensive and defensive weapons systems associated with undersea warfare.
- Naval Research Laboratory (NRL): Develops maritime applications of new and improved materials, techniques, equipment, and systems developed by the oceanic, atmospheric, and space sciences.
- Space and Naval Warfare Systems Centers (SPAWAR): Provides innovative scientific and technical expertise, facilities, and understanding of defense requirements necessary to ensure that the Navy can develop, acquire, and maintain warfare systems needed to meet current and emerging requirements.

The relative sizes of these sub-activities are illustrated by their contributions to the total revenue of the Research and Development activity group. In FY 1999, NSWC contributed 36 percent of all revenue, followed by NAWC (29 percent), SPAWAR (17 percent), NUWC (10 percent), and NRL (8 percent).

Activity	Revenue ($ thousands)
NSWC	$2,647,402
NAWC	2,127,716
NUWC	735,074
NRL	547,983
SPAWAR	1,237,103
Total	**$7,295,278**



Customer Service: The largest customer source of revenue for the Research & Development activity group is DON-Other (57%), which includes DON RDT&E dollars.



	Customer	Revenue ($ thousands)	%
	DON – O&M	**$1,479,399**	**20%**
	DON – Other	**4,148,330**	**57%**
	Air Force	**126,730**	**2%**
	Army	**63,933**	**<1%**
	DoD – Other	**1,190,948**	**16%**
	Other Federal	**204,849**	**3%**
	Non Federal	**81,089**	**1%**
	Total	**$7,295,278**	

Net Operating Results: The table below presents the NOR for each of the sub-activities of the Research & Development activity group. In FY 1999, all returned NORs above plan, although the NUWC planned and actual results were in close alignment and may be considered satisfactory. For the NSWC, the variance can be attributed in part to customers underestimating their workloads and ultimately paying the center for more services than projected. The planned and actual NAWC NORs for FY 1999 incorporated a gain engineered to recoup earlier losses, including those incurred by BRAC closures and privatization at Indianapolis in FY 1997. At the NRL, work done for the National Aeronautics and Space Administration's (NASA) Interim Control Module (ICM) project resulted in increased revenue levels; the laboratory also successfully reduced its overhead costs. SPAWAR similarly returned a greater NOR than planned, again reflecting an increased workload and lower costs.

	($ thousands)			
	FY 1997	FY 1998	FY 1999 (Actual)	FY 1999 (Planned)
NSWC				
Revenue	$2,355,746	$2,484,829	$2,647,402	$2,421,002
Expense	2,390,511	2,461,709	2,650,679	2,426,067
NOR	**$ (34,765)**	**$ 23,120**	**$ (3,277)**	**$ (5,065)**
NAWC				
Revenue	$2,312,992	$2,103,079	$2,127,716	$2,113,422
Expense	2,326,347	2,099,233	2,117,921	2,103,740
NOR	**$ (13,355)**	**$ 3,846**	**$ 9,795**	**$ 9,682**
NUWC				
Revenue	$ 814,534	$ 735,524	$ 735,074	$ 714,050
Expense	821,213	738,810	735,718	714,800
NOR	**$ (6,679)**	**$ (3,286)**	**$ (644)**	**$ (750)**
NRL				
Revenue	$ 515,172	$ 531,400	$ 547,983	$ 531,391
Expense	512,590	536,815	542,318	546,823
NOR	**$ 2,582**	**$ (5,415)**	**$ 5,665**	**$ (15,432)**
SPAWAR				
Revenue	$1,092,864	$1,096,026	$1,237,103	$1,099,636
Expense	1,086,446	1,098,277	1,240,265	1,110,038
NOR	**$ 6,418**	**$ (2,251)**	**$ (3,162)**	**$ (10,402)**

Supply Management

The mission of the Supply Management activity group is to provide our naval forces with high-quality supplies and services. The group must maintain sufficient inventory to meet customer demands for consumable and repairable items without incurring the costs associated with excess or redundant supplies.

The Supply Management activity group is supported by two sub-activities:

- **Supply Management – Navy** (SM,N): Performs wholesale and retail inventory management, physical distribution functions, and procurement support for the Fleet and shore establishments. This activity is supported by eight supply management locations:

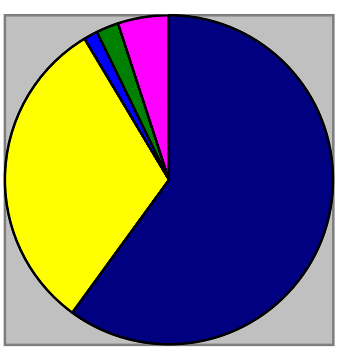
  Naval Inventory Control Point (NAVICP-M), Mechanicsburg, PA
  Naval Inventory Control Point (NAVICP-P), Philadelphia, PA
  Fleet and Industrial Supply Center (FISC), Norfolk, VA
  Fleet and Industrial Supply Center (FISC), San Diego, CA
  Fleet and Industrial Supply Center (FISC), Puget Sound, WA
  Fleet and Industrial Supply Center (FISC), Jacksonville, FL
  Fleet and Industrial Supply Center (FISC), Pearl Harbor, HI
  Fleet and Industrial Supply Center (FISC), Yokosuka, Japan

- **Supply Management – Marine Corps** (SM,MC): Consists of retail and wholesale operations. Retail operations concentrate on fast-moving items supporting base/station functions, stocked at issue points close to the customer. The wholesale component supplies Marine Corps managed consumable and reparable items to the Fleet Marine Force and other customers.

The Navy segment accounts for the great majority of the revenue of the Supply Management activity. For FY 1999, revenues for the two sub-activities were as shown below:

Activity	Revenue ($ thousands)
SM, N	$5,976,246
SM, MC	170,500
Total	**$6,146,746**

Customer Service: A wide variety of customers purchase material from the NWCF Supply Management activity, including the Fleet and Marine forces, shore activities, the Army, the Air Force, and other Defense and Federal Activities.



	Customer	Revenue ($ thousands)	%
	DON – O&M	**$3,690,400**	**60%**
	DON – Other	**1,927,346**	**31%**
	Air Force	**87,200**	**1%**
	Army	**126,000**	**2%**
	DoD – Other	**8,400**	**<1%**
	Other Federal	**307,400**	**5%**
	Non Federal	**0**	
	Total	**$6,146,746**	

Net Operating Results: The NOR for the Supply Management activity group is not reliable. Included in the expense portion of the NOR is a component, cost of goods sold, which is calculated based on a spreadsheet model developed by USD(C) in conjunction with DFAS. The model has not yet produced a reliable value for this component and the NOR cannot therefore be considered representative of the business results of the activity. The gain or loss reflected in these operating results consequently cannot be used in the rate/price-setting process of this activity group. Until such time as the model produces a reliable NOR, rates and prices will be set based on budget results. The Naval Audit Service (NAVAUDSVC) has reviewed the model and has recommended changes. Efforts by USD(C), DFAS, and the DON to effect improvements will continue into FY 2000.

	($ thousands)		
	FY 1997	FY 1998	FY 1999
SM, N			
Revenue	$ 5,990,400	$6,253,700	$ 5,976,246
Expense	7,914,200	6,049,900	7,162,846
NOR	**$(1,923,800)**	**$ 203,800**	**$(1,186,600)**
SM, MC			
Revenue	$171,900	$ 154,200	$ 170,500
Expense	204,200	294,100	294,500
NOR	**$(32,300)**	**$(139,900)**	**$(124, 000)**

Supply Management Fill Rate: The fill rate or Supply Material Availability (SMA) rate is calculated as the percentage of customer requisitions satisfied from on-hand wholesale managed assets.

	Fill rate (%)	
	SM, N	SM, MC
FY 1997	80.4%	79.2%
FY 1998	80.5%	80.0%
FY 1999	81.6%	83.9%

As the above table shows, Supply Management has continually raised the fill rate over the past three fiscal years, consequently allowing customer orders to be filled from stock on hand.

Financial Management Accomplishments and Initiatives

Working Groups

In 1998, DoD initiated two efforts to speed its progress toward an unqualified audit opinion: the Biennial Financial Management Improvement Plan and the DoD Implementing Strategies. The Biennial Financial Management Improvement Plan was introduced to comply with the Defense Authorization Act of 1998, as a system to address financial management within DoD, including that of feeder systems not owned or controlled by the financial community that provide data to the Department's financial and accounting systems. The plan defines the environment DoD wants to attain in the future and provides a concept of operations to guide transition to that environment. The second initiative, the DoD Implementing Strategies, responds to the Office of Management and Budget (OMB) requirement to submit a plan, including milestones, that will enable the resolution of financial reporting deficiencies identified by the General Accounting Office and the DoD Inspector General. The Implementing Strategies additionally support the Administration's goal for an unqualified opinion on the Government-wide financial statements.

In response to the Biennial Financial Management Improvement Plan requirements and the DoD Implementing Strategies, the Deputy Under Secretary of the Navy formed 13 working groups under the responsibility of the DON Organization Management and Infrastructure Team (DONOMIT). The working groups, each led by a senior civilian or a flag officer from the functional area that the working group will address, are responsible for assessing, developing, and implementing solutions that will move the DON toward an unqualified audit opinion. The working groups include broad representation from a wide range of functional and financial areas, and include front-line managers, Command representatives, audit community participants, and DONOMIT staff.

The Deputy Under Secretary of the Navy has made a long-term commitment of both personnel and financial resources to the program, giving momentum to the program but also underlining the urgency for change. He has sent a clear message that longstanding systemic problems within the DON must be immediately addressed. The 13 working groups are as follows:

Real Property
Personal Property (Navy)
Personal Property (Marine Corps)
National Defense Plant Property and Equipment
Government Property in the Hands of Contractors
Heritage Assets
Inventory and Logistics
Operating Materials and Supplies
Environmental Restoration
Hazardous Waste Disposal
Deferred Maintenance
Time and Attendance
Personnel Systems

Each of the 13 working groups made progress during FY 1999, addressing the need for changes in business practices, functional approach, and culture. The following section highlights some of the progress made during FY 1999, and outlines plans for FY 2000.

- The Real Property working group assessed the Naval Facilities Asset Database (NFADB) and identified the necessary modifications that will enable depreciation to be calculated and heritage assets to be incorporated into the database. The group plans to complete these modifications in FY 2000. In addition, the group will propose revisions to DoD policy to establish NFADB as the source system for all DON real property, and will document the relationship between internal controls of financial and nonfinancial information.

- The Personal Property (Navy) working group is leading efforts to deploy the Defense Property Accountability System (DPAS) to more than 900 DON activities, with priority given to those activities with significant capital assets. Key plans for FY 2000 include the development of personal property policy, operating procedures, and internal controls. Other work will include the development of a standard DON personal property catalog, creation of a DON standard barcode, and personnel training.

- The Personal Property (Marine Corps) working group is conducting an inventory of personal property, and will follow this with a clean-up of the DPAS database. The group will also introduce new desktop procedures to facilitate the future accurate maintenance of personal property records.

- The Government Property in Possession of Contractors working group is working to identify an appropriate approach to accounting in this sector. This group's work is complicated by the constraints imposed by hierarchical regulations that include Federal Acquisition Regulations, and Federal Management Regulations (FMR).

- The Inventory and Logistics working group has performed an analysis of the Material Financial Control System and other systems to determine compliance with accounting standards. Changes are currently being made. Plans for FY 2000 include the refinement of the inventory valuation model and the analysis of historical costing methods.

- The Operating Materials and Supplies group is working toward the consolidation and functional improvement of the accounting systems used to create the financial statements required of this sector in accordance with the FMR.

- The Deferred Maintenance working group is planning to identify the different systems and interfaces in use in this discipline, with a view to reviewing and rationalizing their use.

- The Time and Attendance working group assessed the 23 critical systems in use DON-wide and selected the Standard Labor Data Collection and Distribution Application (SLDCADA) system to be the DON standard Time and Attendance system. Implementation plans, which include modifications to address issues of compliance, are being developed.

The initial results of the DON working groups during FY 1999 have been impressive. The groups have an ambitious agenda for FY 2000 will enable them to build on these early accomplishments and to quickly move the department toward the use of improved business processes, better financial management, and subsequently to an unqualified audit opinion.

Cash Management

The DON and DFAS have taken the initiative to improve the timely and accurate reporting of cash collections, disbursements, and non-expenditure cash transfers to support more effective cash management.

When the DBOF was established in FY 1992, the responsibility for the accurate and timely reporting of cash balances was assumed by the USD(C). With the transfer of the cash accountability to the DoD components in FY 1995 and the subsequent dissolution of the DBOF, the Navy Working Capital Fund became responsible for reporting the collection, disbursement, and transfer of cash. Reporting was initially handled in FY 1995–FY 1996 at the department level, but this approach proved to be ineffective in managing cash at the activity level.

To improve cash management, the DON and DFAS have developed a phased plan to establish and maintain cash reporting at the responsible activity level. In the first phase, implemented in FY 1997, general ledger accounts were established at the activity level to represent actual cash balance, and the transfer of collections and disbursements to the department level was eliminated. In FY 1998, the second phase was implemented, aligning nonexpenditure transfers of cash with the activity groups rather than with the aggregate department-level reporting. The third phase was implemented in FY 1999, with the establishment of activity-specific general ledger accounts to record current-year, nonexpenditure cash transfers. The first three phases have together established the framework for the accurate and timely reporting of cash collections, disbursements, and transfers at the responsible activity level.

The focus of cash management initiatives in FY 2000 and beyond will be on fitting the activity-specific, cumulative FY 1995–FY 1999 cash balances into this framework. A significant challenge to be met in this endeavor will be the appropriate assignment of historic transactions related to activities that have been closed, consolidated, or re-assigned in the intervening years.

The DON continues to work with DFAS to improve the effectiveness of the cash management of the NWCF by implementing procedures designed to record and report the collections, disbursements, and transfers of cash at the responsible activity level.

Supply Management Inventory Valuation and Operating Results

The Statement of Federal Financial Accounting Standard (SFFAS) No. 3, Accounting for Inventory and Related Property, prescribes that inventory be valued at historical cost or at an approximation of historical cost. The latest acquisition cost method, which requires the recognition of an allowance account for unrealized holding gains and losses, is used to arrive at an inventory value that approximates historical cost. The adjustments made to the allowance account are a component of the cost of goods sold and, therefore, of the operating results.

A spreadsheet model was developed by the USD(C) in conjunction with DFAS to calculate the value of inventory and the cost of goods sold for the Navy sub-activity group of the Supply Management activity. Although the model appears to be producing an inventory value that compares favorably with the values assessed in previous years (FY 1999 of $13,634 million; FY 1998 of $14,102 million; and FY 1997 of $12,692 million), the values calculated for cost of goods sold are considered to be unreliable. These calculated values have given NOR values for FY 1999 of negative $1,187 million, for FY 1998 of $203 million, and for FY 1997 of negative $1,924 million. In its audit of the FY 1998 NWCF financial statements, the Naval Audit Service (NAVAUDSVC) identified many problems with the model that gave rise to a material misstatement of the inventory balance and cost of goods sold. The NAVAUDSVC could not determine if the model would produce a reasonable approximation of historical costs even were the audit conditions to be adequately addressed. The USD(C), DFAS, the DON, and NAVAUDSVC will continue to work with the model in FY 2000 in an attempt to produce reasonable approximations of inventory value and cost of goods sold.

Year 2000 Issues

One of the DON's highest priorities in FY 1999 was to ensure that no mission-critical system failures occurred due to Year 2000 (Y2K)-related problems. The Y2K problem describes the potential failure of information technology systems to process or perform date-related functions before, on, or after the turn of the century. To address this issue, the DON provided guidelines for a centralized management/decentralized execution policy. Congress additionally appropriated $238.1 million to the DoD budget exclusively to fund a resolution of the Y2K problem. Progress on the issue was reported to senior management during regularly scheduled briefings.

Our state of Y2K readiness at the close of 1999 was very strong, with 100 percent of mission-critical systems Y2K-compliant. Contingency plans for all mission-critical systems were also in place. Y2K-compliance for mission support systems was 99.9 percent prior to the end of the year: the one outstanding system had a certified Y2K fix in place at 13 of 14 sites, with the final site scheduled to receive the fix before the end of December.

With our mission-critical systems Y2K-ready, we enlarged our focus from fixing and testing individual systems to exercising these systems in an operational environment using existing processes such as battle group systems integration testing (BGSIT) and Marine Corps operational evaluations. We used BGSITs to operationally validate mission readiness for five battle groups, beginning with Constellation in February 1999 and concluding with Eisenhower in November. The Marine Corps participated in all five BGSITs and additionally ran Y2K operational validations in nine exercises.

The DON has also participated in JCS/CINC operational evaluations and functional end-to-end testing. No mission-degrading failures were seen. Ashore, all 203 DON installations also successfully completed installation-level Y2K testing and found their mission-essential services (safety and security of personnel and support to core mission) to be Y2K-compliant.

Contingency plans should the Y2K problem affect DON operations were handled by the contingency planning and consequence management (CM) effort. The CM program developed continuity-of-operations plans (COOPs) for all mission critical systems for the Navy and the Marine Corps and exercised where appropriate. The CM effort also developed a Y2K communications strategy, as part of which the DON hosted two table-top exercises to familiarize senior naval leaders with the types of problems they might potentially have faced as a result of Y2K breakdowns. The Marine Corps conducted a similar Table Top exercise.

DEPARTMENT OF THE NAVY

NAVY WORKING CAPITAL FUND

PRINCIPAL STATEMENTS

Introduction to the Financial Statements

The FY 1999 financial position and results of operations for NWCF are reported in these financial statements and their accompanying notes.

The FY 1999 financial statements cover the period from 1 October 1998 through 30 September 30, 1999. These statements present the consolidated financial information for the NWCF consistent with the presentation of the FY 1998 Annual Financial Statements. Although some comparison has been provided in the overview and in selected footnotes, the statements themselves are not presented in a comparative format.

The objective of these financial statements is to provide accurate, consistent, and meaningful information to DoD program managers, the Congress, and the public, thereby facilitating both effective allocation of resources and assessment of management performance and stewardship.

The statements and footnotes herein presented are designed to embody the financial accounting concepts and the recognition and measurement requirements contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal Financial Accounting Standards (SSFASs) recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General.

Limitations on the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and revised by OMB. The Department is unable to fully implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

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

		FY 1999
ASSETS		
1. Entity Assets		
A. Intragovernmental		
1. Fund Balance with Treasury (Note 2)	$	1,164,185
2. Investments, Net (Note 3)		0
3. Accounts Receivable (Note 4)		465,606
4. Other Assets (Note 5)		45,976
5. Total Intragovernmental	$	1,675,767
B. Accounts Receivable, Net (Note 4)		131,099
C. Loans Receivable and Related Foreclosed Property, Net (Note 6)		0
D. Cash and Other Monetary Assets (Note 7)		0
E. Inventory and Related Property, Net (Note 8)		15,797,095
F. General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)		4,428,563
G. Other Assets (Note 5)		1,373,684
H. Total Entity Assets	$	23,406,208
2. Nonentity Assets		
A. Intragovernmental		
1. Fund Balance with Treasury (Note 2)	$	0
2. Accounts Receivable (Note 4)		0
3. Other Assets (Note 5)		0
4. Total Intragovernmental	$	0
B. Accounts Receivable, Net (Note 4)		0
C. Cash and Other Monetary Assets (Note 7)		0
D. Other Assets (Note 5)		0
E. Total Nonentity Assets	$	0
3. Total Assets	$	23,406,208

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

		FY 1999
LIABILITIES		
4. Liabilities covered by Budgetary Resources		
A. Intragovernmental		
1. Accounts Payable	$	345,555
2. Debt (Note 11)		1,025,589
3. Environmental Liabilities (Note 12)		0
4. Other Liabilities (Note 13)		419,885
5. Total Intragovernmental	$	1,791,029
B. Accounts Payable		484,596
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		0
D. Environmental Liabilities (Note 12)		0
E. Other Liabilities (Note 13)		2,103,970
F. Total Liabilities covered by Budgetary Resources	$	4,379,595
5. Liabilities not covered by Budgetary Resources		
A. Intragovernmental		
1. Accounts Payable	$	0
2. Debt (Note 11)		15,675
3. Environmental Liabilities (Note 12)		0
4. Other Liabilities (Note 13)		0
5. Total Intragovernmental	$	15,675
B. Accounts Payable		0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		1,106,251
D. Environmental Liabilities (Note 12)		0
E. Other Liabilities (Note 13)		0
F. Total Liabilities not covered by Budgetary Resources	$	1,121,926
6. Total Liabilities	$	5,501,521
NET POSITION (Note 15)		
7. Unexpended Appropriations	$	0
8. Cumulative Results of Operations		17,904,687
9. Total Net Position	$	17,904,687
10.Total Liabilities and Net Position	$	23,406,208

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

		FY 1999
1. Program Costs		
A. Intragovernmental	$	6,900,925
B. With the Public		12,154,273
C. Total Program Cost	$	19,055,198
D. (Less: Earned Revenues)		(18,344,236)
E. Net Program Costs	$	710,962
2. Costs not assigned to Programs	$	0
3. (Less: Earned Revenues not attributable to Programs)		0
4. Net Cost of Operations	$	710,962
5. Deferred Maintenance (See Required Supplementary Information)		

Additional information included in Note 16.

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

1. Net Cost of Operations	$	710,962
2. Financing Sources (other than exchange revenues)		
A. Appropriations used		0
B. Taxes and other nonexchange revenue		0
C. Donations - nonexchange revenue		0
D. Imputed financing (Note 17.B)		405,580
E. Transfers-in		0
F. (Transfers-out)		0
G. Other		0
H. Total Financing Sources (other than exchange revenues)	$	405,580
3. Net Results of Operations (Line 2H less Line 1)	$	(305,382)
4. Prior Period Adjustments (Note 17.A)		2,013,928
5. Net Change in Cumulative Results of Operations	$	1,708,546
6. Increase (Decrease) in Unexpended Appropriations		0
7. Change in Net Position	$	1,708,546
8. Net Position-Beginning of the Period		16,196,141
9. Net Position-End of the Period	$	17,904,687

Additional information included in Note 17.

The accompanying notes are an integral part of these statements.

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

		FY 1999
BUDGETARY RESOURCES:		
1. Budget Authority	$	15,012
2. Unobligated Balance - Beginning of Period		2,632,641
3. Net Transfers Prior-Year Balance, Actual (+/-)		0
4. Spending Authority from Offsetting Collections		20,474,840
5. Adjustments (+/-)		(281,301)
6. Total Budgetary Resources	$	22,841,192
STATUS OF BUDGETARY RESOURCES:		
7. Obligations Incurred	$	20,378,876
8. Unobligated Balances - Available		2,462,316
9. Unobligated Balances - Not Available		0
10. Total, Status of Budgetary Resources	$	22,841,192
OUTLAYS:		
11. Obligations Incurred	$	20,378,876
12. Less: Spending Authority From Offsetting Collections and Adjustments		(20,474,840)
13. Obligated Balance, Net - Beginning of Period		2,502,139
14. Obligated Balance Transferred, Net		0
15. Less: Obligated Balance, Net - End of Period		(2,444,896)
16. Total Outlays	$	(38,721)

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

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

		FY 1999
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:		
A. Obligations Incurred	$	20,378,876
B. Less: Spending Authority for Offsetting Collections and Adjustments		(20,474,843)
C. Donations Not in the Entity's Budget		0
D. Financing Imputed for Cost Subsidies		405,580
E. Transfers-in (Out)		0
F. Less: Exchange Revenue Not in the Entity's Budget		0
G. Other		0
H. Total Obligations as Adjusted and Nonbudgetary Resources	$	309,613
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:		
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided - (Increases)/Decreases		(917,768)
B. Costs Capitalized on the Balance Sheet - (Increases)/Decreases		(2,779,930)
C. Financing Sources That Fund Costs of Prior Periods		(70,223)
D. Other - (Increases)/Decreases		1,991,506
E. Total Resoures That Do Not Fund Net Costs of Operations	$	(1,776,415)
3. COSTS THAT DO NOT REQUIRE RESOURCES:		
A. Depreciation and Amortization	$	195,078
B. Revaluation of Assets and Liabilities - Increases/(Decreases)		1,982,686
C. Other - Increases/(Decreases)		0
D. Total Costs That Do Not Require Resources	$	2,177,764
4. Financing Sources Yet to be Provided		0
5. Net Cost of Operations	$	710,962

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

NAVY WORKING CAPITAL FUND

NOTES TO THE PRINCIPAL STATEMENTS

Notes

NOTES TO THE FISCAL YEAR 1999 PRINCIPAL STATEMENTS NAVY WORKING CAPITAL FUND PERIOD ENDING 30 SEPTEMBER 1999

Note 1. Significant Accounting Policies:

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of the Navy (DON) Navy Working Capital Fund (NWCF), as required by the Chief Financial Officer's (CFO) Act expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. This report has also been prepared to provide information with which Congress, agency managers, the public and other interested parties can assess management performance. The financial statements have been prepared from the books and records of the DON, in accordance with Department of Defense (DoD) Guidance on Form and Content of DoD Audited Financial Statements, as adopted from Office of Management and Budget (OMB) Bulletin 97-01, "Form and Content of Agency Financial Statements" and, to the extent possible, the Statements of Federal Financial Accounting Standards (SFFAS) as recommended by the Federal Financial Accounting Standards Advisory Board and issued by OMB. These statements are in addition to the financial reports, also prepared by the DON pursuant to OMB, DoD, the Defense Finance and Accounting Service (DFAS) and DON directives, that are used to monitor and control DON's use of budgetary resources.

The DFAS has developed a financial statement software application to facilitate the compilation, review, and analysis of DoD entity and agency-wide financial statements. However, the software application notes could not be produced in a camera-ready format. At the direction of DFAS, the principal statements presented for the NWCF have been produced from the software application, while the notes have been developed by the DON and the DFAS accounting center supporting the DON. The NWCF Combined Statement of Financing and Combining Statement of Financing as produced by the DFAS software application encountered difficulties in mapping financial information from their accounting center's systems to the database of the application. DFAS is reviewing the data mapping in their financial statement software application for resolution of this problem in FY 2000. See Note 19 for additional note disclosures on the Statement of Financing. Except for minor rounding differences, the amounts presented in the notes agree with the amounts presented in the principal statements produced by the DFAS application.

The NWCF is unable to implement all elements of the SFFAS due to limitations of the financial management processes and systems, including financial and nonfinancial feeder systems and processes. Reported values and information for the NWCF major asset categories are derived from nonfinancial feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations and not current emphasis of businesslike financial management. As a result, the NWCF cannot currently implement all elements of the SFFAS. However, DFAS continues to implement process and system improvements addressing the limitations of its financial accounting systems and DON continues to implement process and system improvements addressing the limitations of its nonfinancial feeder systems. See Note 1.E, Note 1.K and Note 8.B for more details.

There are other instances when the DoD application of the accounting standards is different from the auditor's interpretation of the standards. In those situations, the DoD has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent. Financial statement elements impacted by different applications of the accounting standards are financing payments under firm fixed price contracts. A more detailed explanation of these items is discussed in the note applicable to the financial statement line item affected. See Note 1.P and Note 5 for more details.

The NWCF is unable to implement all elements of the DoD guidance on eliminating entries due to limitations of the financial management processes and systems, including DFAS financial accounting systems and DON nonfinancial feeder systems and processes. See the Required Supplementary Information section of this report for more details.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

The consolidated statements include the accounts and transactions of the NWCF activities. All policies and procedures, unless otherwise noted, comply with the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) guidance and the DoD Working Capital Fund guidance implemented by DFAS.

The amounts presented in the financial statements and notes for Fiscal Year (FY) 1999 are rounded to the nearest thousand of dollars.

B. Reporting Entity

FY 1999 represents the ninth year that the DON has prepared financial statements as required by the CFO Act. The CFO Act requires that the DON prepare and have audited financial statements for each revolving fund and account that performed substantial commercial functions during the preceding fiscal year.

The consolidating NWCF financial statements include all activities and functions previously financed through the Navy Industrial Fund and DON Stock Fund which were converted to the Defense Business Operations Fund (DBOF) on 1 October 1991. The Under Secretary of Defense (Comptroller) (USD(C)) memorandum of 11 December 1996 eliminated the DBOF and established four working capital funds. One of the four working capital funds is the NWCF. Establishment of the NWCF did not change any previous organizational reporting structure.

The following identifies the NWCF primary and secondary activity groups.

<u>Primary and Secondary Activity Groups</u>

Depot Maintenance - Shipyards
Depot Maintenance - Aviation
Depot Maintenance - Other (Marine Corps)
Ordnance
- Commanders-In-Chief Atlantic Fleet (CINCLANTFLT)
- Commanders-In-Chief Pacific Fleet (CINCPACFLT)

Transportation
Base Support
- Public Works Centers (PWCs)
- Naval Facilities Engineering Service Center (NFESC)

Information Services
- Naval Computer and Telecommunications Command (NAVCOMTELCOM)
- Navy, Fleet Material Support Office (FMSO)
- Naval Reserve Force (COMNAVRESFOR)

Research and Development
- Naval Surface Warfare Center (NSWC)
- Naval Air Warfare Center (NAWC)
- Naval Undersea Warfare Center (NUWC)
- Naval Research Laboratory (NRL)
- Space and Naval Warfare Systems Centers (SSCs)

Supply Management
- Navy
- Marine Corps

Navy Component

The Defense Printing Service (DPS) transferred from the DON Commander, Naval Supply Systems Command (COMNAVSUPSYSCOM) to the Defense Logistics Agency (DLA) on 1 October 1996. The general ledger transferred in whole to DLA at that time. However, certain residual balances on the Report of Budget Execution (SF 133) continued to be reported on the Consolidated NWCF SF 133, pending DFAS guidance on the proper reporting of the transfer. Final DFAS guidance was issued in October 1998, and the residual obligated balance of $1,501 thousand was transferred to DLA. In FY 1999 the DPS residual undistributed cash disbursements of $3,344 thousand is still being reported by the NWCF under the Navy Component and impacts the Balance Sheet Line 1.A.1 and the Statement of Budgetary Resources Lines 15 and 16.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

Two entity reporting changes occurred during FY 1999. First, the Pearl Harbor Naval Shipyard ceased operating as a Commander, Naval Sea Systems Command (COMNAVSEASYSCOM) NWCF activity and began operating as a CINCPACFLT mission funded activity. Unlike FY 1998, this shipyard is not reported as a NWCF activity for FY 1999. This change followed a Program Budget Decision (PBD) 404 of 11 December 1997 that included a pilot demonstration project to consolidate management of the Pearl Harbor Naval Shipyard and the Pearl Harbor Intermediate Maintenance Facility. Second, the Ordnance activity group was functionally transferred from COMNAVSEASYSCOM to CINCPACFLT and CINCLANTFLT. The Ordnance CINCPACFLT and the Ordnance CINCLANTFLT NWCF activity groups each prepared separate financial statements and related notes for FY 1999.

C. Budgets and Budgetary Accounting

NWCF funded activities provide services and materials to DoD components and other federal government agencies through buyer-seller relationships. The buyers, who are the NWCF activities' customers, identify requirements that justify the need for funds from Congress. NWCF activities operate under the revolving fund concept wherein customers are to reimburse the NWCF activities to cover the cost of services or material provided.

The Navy industrial activities' financial management systems, which operate under NWCF, accumulate all cost incurred in various programs or jobs plus overhead which are subsequently billed to the customers. NWCF finances the purchase of consumable and repairable items, which are held in inventory at stock activities until issued, and then charges the customer with reimbursement to NWCF activities.

The net cost of operations includes the implementation by the USD(C) and DFAS of DoD Financial Management Regulation (FMR) 7000.14-R, Volume 11B procedures for Supply Management (Navy) inventory valuation and Cost of Goods Sold (COGS) model. The Navy is considered the prototype in the implementation of this model. The treatment of the Supply Management (Navy) cost of transfers to disposal overstates expenses by assigning a larger cost to disposal than is warranted considering the significant quantities of inventory that are sent to disposal which are received from customers without cost. DFAS, in their implementation of the USD(C) concept of Holding Gains and Losses/Cost of Goods and Services Sold (as specified in DoD FMR 7000.14-R, Volume 11B), has stated that the issue of how to consider disposal actions needs further study to counter the understatement of costs of sales and the overstatement of expenses. USD(C) has advised that the treatment of disposal actions in the operating results calculations is under review and they are considering applying customer returns without credit as an offset to disposal actions. The treatment of disposal actions is a base line requirement in moving to an accounting Net Operating Result (NOR) that can be used in the budget development.

D. Basis of Accounting

NWCF records accounting transactions on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. NWCF also records budgetary accounting transactions, which facilitates compliance with legal constraints and controls over the use of federal funds. The effects of some intra-agency transactions were not eliminated in preparing the NWCF consolidated financial statements for FY 1999. The data necessary to eliminate intra-agency transactions were not always readily available in financial systems supporting this fund.

E. Revenues and Other Financing Sources

Revenue is earned primarily from providing services, materials, and products to DON and others and recognized on a percentage of completion or material issue basis in accordance with NWCF guidance as promulgated by the USD(C). Revenue related to the distribution of inventory and procurement support is recognized at the point inventory items are sold or for the billing of work performed against reimbursable work orders. In August 1996, estimating of Revenues and Funds Collected, and sales, ceased for ships and naval activities in the Supply Management (Navy) activity group. See Note 21.B Depot Maintenance – Aviation and Depot Maintenance – Other (Marine Corps) to the NWCF's financial statements for material disclosure of specific instances of non-compliance with DFAS-Cleveland (CL) Center guidance of 31 August 1998 on Revenue Recognition Policy for the DoD. The USD(C) guidance of 2 April 1998 requires the DoD to only utilize the percentage of completion method for recognizing revenue and costs on

NWCF NOTES TO THE PRINCIPAL STATEMENTS

all orders. That revised DoD policy and the DFAS operating policy and procedures for revenue recognition incorporated the new accounting standard published by OMB in SFFAS No. 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting".

F. Accounting for Intragovernmental Activities

The NWCF activities interact with, and are dependent upon, other financial activities of the Federal Government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the agency as though the agency was a stand-alone entity.

1. The DON's proportionate share of the public debt and related expenses of the Federal Government are not included. Debt issued by the Federal Government and the related interest costs are not apportioned to Federal agencies. The 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 DON facilities is obtained through budget appropriations. To the extent this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury Department does not allocate interest costs to the benefiting agencies.

3. NWCF 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 are also covered by Social Security. The individual NWCF activity groups fund a portion of pension benefits under these retirement systems but do not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pensions liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS.

The NWCF Departmental level CFO statements have recognized an imputed expense for civilian employee pensions and other retirement benefits in the Statement of Net Cost and have recognized imputed revenue for the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position. The retirement actuarial liabilities for military MRS is reported on the CFO financial statements of the Military Retirement Trust Fund. In FY 1999, the individual NWCF activity groups contributed the following amounts to the retirement plans, Social Security and to the Thrift Savings Plan (TSP). See next page.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

(in thousands)

Activity Group	CSRS	FERS	MRS	Social Security	TSP	Total
Depot Maintenance – Shipyards	$47,664	$28,242	$0	$21,476	$11,338	$108,720
Depot Maintenance – Aviation	24,243	19,204		13,238	7,855	64,540
Depot Maintenance – Other (Marine Corps)	2,812	3,397		2,658	1,436	10,303
Ordnance						
CINCLANTFLT	1,524	869		1,086	362	3,841
CINCPACFLT	1,787	1,545		1,735	590	5,657
Transportation	7,646	10,200		10,674	3,944	32,464
Base Support						
PWCs	17,054	13,544		12,394	7,365	50,357
NFESC	972	830		521	369	2,692
Information Services						
NAVCOMTELCOM	2,694	2,022		1,327	848	6,891
FMSO[1]	4,159			1,476	511	6,146
COMNAVRESFOR	120	256		167	94	637
Research and Development						
NSWC	38,105	48,137		37,619	19,879	143,740
NAWC	25,372	35,927		52,883	15,000	129,182
NUWC	11,129	11,477		7,220	4,820	34,646
NRL	6,722	9,429		8,179	3,908	28,238
SSCs	13,597	13,843		8,702	5,744	41,886
Supply Management (Navy)[2]	32,061			14,087	5,212	51,360
Supply Management (Marine Corps)[3]						
Total	$237,661	$198,922	$0	$195,442	$89,275	$721,300

[1]Information on contributions related to the identification of specific amounts to CSRS and FERS is not readily available.

[2]The Defense Business Management System (DBMS) supporting this activity group does not have individual CSRS and FERS contributed amounts.

[3]Contributions related to retirement plans are reported on statements for the Operation and Maintenance, Marine Corps appropriation.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

4. In FY 1999, the NWCF activity groups sold inventory items or services to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provisions of the act, DoD has authority to sell Defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to a trust fund maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales. In FY 1999, the NWCF Supply Management activity group sold $116,495 thousand under the Foreign Military Sales (FMS) program. In FY 1999, the NWCF industrial activity groups received reimbursements of $264,267 thousand for assets sold under the FMS program. The following table provides the amount of assets and services sold under the FMS program.

	(in thousands)	
Activity Group	Supply Activities	Industrial Activities
Depot Maintenance - Shipyards		$1,264
Depot Maintenance – Aviation		35,704
Depot Maintenance - Other (Marine Corps)		137
Ordnance		
CINCLANTFLT		2,002
CINCPACFLT		7,812
Transportation		3
Base Support		
PWCs		43
NFESC		
Information Services		
NAVCOMTELCOM[1]		
FMSO		3,504
COMNAVRESFOR[1]		
Research and Development		
NSWC		83,274
NAWC		69,038
NUWC		31,932
NRL		1,012
SSCs		28,542
Supply Management (Navy)	$114,629	
Supply Management (Marine Corps)	1,866	
Total	$116,495	$264,267

[1]Sales of services to foreign governments is not applicable.

5. To prepare reliable financial statements, transactions occurring between 2 or more entities within the NWCF or 2 or more federal agencies must be eliminated. However, the NWCF accounting firm (DFAS), as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, the NWCF accounting firm (DFAS) provided NWCF summary seller-side transactions to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to agree with the seller-side. See the Required Supplementary Information section of this report for more details on eliminating entries and reconciling Intragovernmental transactions impacting the NWCF financial statements included in this report.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

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

In a memorandum dated 5 January 1995, the USD(C) returned management of DBOF cash and its associated anti-deficiency limitations to the DON and other military components effective 1 February 1995. This action effectively merged the component's responsibility for monitoring collection and disbursement transactions, as well as taking actions to correct operational problems, with the responsibility for control over the cash balance. Fund Balances with Treasury are managed at the DON Departmental level of the NWCF.

The practice of closing activity collections and disbursements to the DON departmental level was discontinued 1 October 1997 (for FY 1997) and, thus, Fund Balances with Treasury were reestablished at the activity level. Fund Balances with Treasury at the activity group and activity level reflect the ending FY 1997 balance plus FY 1998 and FY 1999 collections, disbursements, and non-expenditure transfers recorded in the NWCF Treasury sub-limit 97X4930.002. During FY 1998 DON and DFAS completed work to record all non-expenditure transfers at the activity level vice at the Departmental level. Plans are being developed to move activity level collections and disbursements closed to the departmental level in FY 1995 and FY 1996 back to the activity level. Once this is accomplished, all activity level collection, disbursement, and non-expenditure transactions, effective from the date USD(C) returned management of cash to the DON, will be recorded in the activity general ledgers. Completion of this plan in FY 2000 will be contingent upon the development of procedures by DFAS. See Note 2.

H. Foreign Currency

Not Applicable

I. Accounts Receivable

As presented in the Consolidated NWCF Balance Sheet, accounts receivable includes accounts, claims, refunds, and interest receivable from intragovernmental and public entities. No allowances for uncollectible accounts are provided for amounts owed by intragovernmental activities.

J. Loans Receivable

NWCF activities recorded no loans receivable in FY 1999.

K. Inventories and Related Property

Inventory for supply type activities includes Navy-managed consumable items and repairable items, and Other Service, the DLA, and General Services Administration (GSA) managed items. These items are recorded in the accounting records at Standard Price. A Standard Price as used in the operations of Supply Management (Navy) consists of the cost of the material plus appropriate cost recovery rates. Inventories for reporting purposes are revalued from Standard Price to utility value using the Latest Acquisition Cost (LAC) method prescribed by the USD(C). The LAC method is used because inventory data are maintained in logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the SFFAS Number 3, "Accounting for Inventory and Related Property." This revaluation results in the recognition of unrealized holding gains and losses in the Supply Management (Navy) ending inventory value. Upon adjustment for unrealized holding gains and losses, the LAC method then results in an approximation of historical cost. The FY 1996 through FY 1999 inventory values for Supply Management (Navy) reflect the execution by DFAS of interpreted guidance given by USD(C) which clarified and provided additional instructions to those contained in DoD FMR 7000.14.-R, Volume 11B. The non-Navy managed material is recorded in the accounting records at LAC. Supply Management (Marine Corps) inventories are valued at the LAC as required by DoD accounting policies. Generally, these values are based on prices paid for recently acquired items plus appropriate cost recovery rates. Gains and losses that result from valuation changes for NWCF inventory items are recognized in the allowance account. Realized gains or losses are reflected in the Statement of Net Cost. See Note 8.A for material disclosure regarding inventory items.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

NWCF industrial activities include the Depot Maintenance, Ordnance, Base Support, Information Services, and Research and Development primary activity groups, each of which has reported Operating Materials and Supplies balances as of 30 September 1999. These NWCF industrial activities maintain operating materials and supplies for use on customer work as needed. These items are recorded at cost, primarily using a weighted average method, and charged as an expense using the consumption method of accounting. See Note 8.B for material disclosures regarding operating materials and supplies.

The Naval Audit Service (NAVAUDSVC) has recommended in past audit reports that the ASN(FM&C) and DFAS establish procedures for the NWCF industrial activities to revalue excess, obsolete, and unserviceable operating materials and supplies to their net realizable value. Today the NWCF industrial activities' excess, obsolete, and unserviceable operating materials and supplies are not revalued to their estimated net realizable value and, therefore, are not in compliance with SFFAS No.3 "Accounting for Inventory and Related Property" or the DoD FMR, Volume 11B, Chapter 56. Additionally, current DON nonfinancial feeder systems are not able to categorize operating materials and supplies as Held for Use, Held in Reserve for Future Use, and Excess, Obsolete, and Unserviceable as required by DoD FMR and SFFAS No.3 accounting standards. A DON Working Group supporting the DoD Implementation Strategy on "Operating Materials and Supplies" is currently assessing what policies, business processes, and systems changes are required to comply with these accounting standards. DFAS has the lead with DON support to implement the DoD FMR, Volume 11B, Chapter 56, accounting policy and procedures to comply with this requirement.

L. Investments in U.S. Government Securities

NWCF activities had no investments in U.S. Government Securities.

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

In FY 1998 there were significant policy changes impacting what categories of assets (e.g., National Defense PP&E, Heritage Assets and Stewardship Land) were no longer to be reported by some reporting entities on the Balance Sheet. However, for entities operating as business-type activities (Working Capital Funds (WCF) activities), all PP&E used in the performance of their mission shall be categorized as General PP&E whether or not it meets the definition of other PP&E categories. Therefore, all NWCF PP&E continue to be categorized as General PP&E and reported on the Balance Sheet whether or not it meets the definition of other PP&E categories as required by the SFFAS No. 6. According to the DoD FMR, Volume 6B of October 1999, this does not preclude WCF activities from reporting Heritage Assets they own and that are not used in the performance of their mission.

The requirement for the WCF activities to report CFO Required Supplementary Stewardship Information on Heritage Assets they own and that are not used in the performance of their mission is a new reporting requirement for FY 1999. Additionally, the requirement for WCF activities to report in the CFO Required Supplementary Stewardship Information on Heritage Assets the quantities of assets categorized as Multi-use Heritage Assets that are already included on the NWCF Balance Sheet is also a new reporting requirement in FY 1999. To prevent duplicative reporting of the same Heritage Assets within DON, the total number of DON-wide Heritage Assets will be reported on the CFO Annual Financial Statements of the DON General Funds (Treasury Index 17) under the Required Supplementary Stewardship Information. This will include both the DON General Funds (Treasury Index 17) and the NWCF activities Heritage Assets. This DON-wide reporting method is also disclosed in the CFO Annual Financial Statements of the DON General Funds (Treasury Index 17). The other CFO Required Supplementary Stewardship Information reporting requirements on Stewardship PP&E (National Defense PP&E and Stewardship Land) and Stewardship Investments (Non-Federal Physical Property Investments and Research and Development Investments) do not apply to the WCF activities.

The USD(C) memorandum of 26 March 1998, as modified by USD(C) memorandums of 22 October 1998 and 5 August 1999 policy for computing depreciation of General PP&E, is effective for all WCF General PP&E assets acquired on or after 1 October 2000. The expense, known as depreciation, is recognized on all General PP&E, except land and land rights of unlimited duration.

The General Accounting Office (GAO) has determined that real property used by the NWCF, but under the jurisdiction of the Military Departments, represents an asset of the NWCF and such property should be reported on the

NWCF NOTES TO THE PRINCIPAL STATEMENTS

financial statements as an entity asset to show the full costs of all resources and assets used in NWCF operations. DFAS is currently developing accounting and reporting procedures to allow NWCF to report finance sources and expenses associated with assets not acquired with NWCF resources (e.g., real property) as Other Revenues and Financing Sources and Depreciation and Amortization Expense.

Land, plant property, and equipment are valued at historical acquisition cost. Cost is based upon a specific amount paid or estimated value if a receipt document is not available. The General PP&E capitalized amount includes the acquisition cost of the asset plus any additional costs such as transportation, installation and any internal costs incurred to make the asset ready for use. Based upon the current expense/investment criteria, any piece of General PP&E with a unit cost of $100,000 or more and a useful life of two years or more is capitalized and depreciated. The expense/investment criteria which is the capitalization threshold has varied by fiscal year of acquisition. The expense/investment for capital equipment and capital improvements to property was $15,000 in FY 1992 and FY 1993; $25,000 in FY 1994; $50,000 in FY 1995; and $100,000 in FY 1996, FY 1997, FY 1998 and FY 1999. When the expense/investment funding threshold changes, an asset capitalized within NWCF at a previous threshold continues to be capitalized and depreciated at the threshold at which it was originally capitalized, in accordance with DoD FMR 7000.14-R, Volume 11B and USD(C) memorandum of 26 March 1998.

Property and equipment in inventory prior to 1 October 1991 are depreciated using the straight line method of depreciation under the existing expected service life for each item. New property and equipment items introduced into the NWCF since 1 October 1991 are being depreciated using the straight line method under the service life schedule starting with the first full month of operation.

All maintenance and repair costs are recorded as an expense when they are incurred. Additional information regarding the value of fully depreciated and sponsor funded equipment is provided in Note 9.

N. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges and reported on Lines 1.A.(4) and 1.G of the Balance Sheet at the time of prepayment and recognized as expenditures and expenses when the related goods and services are received.

O. Leases

Generally, lease payments are for rental of equipment, space, and operating facilities and are classified as either capital or operating leases. NWCF does not have any leases meeting the DoD FMR requirements for capitalization.

The Military Sealift Command (MSC) Transportation activity group does not report the value of leased Maritime Prepositioning Ships (MPS) as capital leases under Line 1.F, Entity Assets, General Property, Plant and Equipment on the Balance Sheet as recommended in NAVAUDSVC Audit Reports 075-S-92 and 035-96. The USD(C) has reviewed the NAVAUDSVC recommendations and has concluded that the lease of the MPS ships does not meet the criteria for a capital lease and, therefore, payments made for the use of those ships should continue to be recorded as an operating lease. The debt for the outstanding principal balance on the MPS ships is, however, reported on Line 1.G, Entity Assets, Other Assets and Line 4.A.(2), Liabilities Covered by Budgetary Resources (Intragovernmental), Debt on the Balance Sheet. See Note 5 and Note 11 for more details on the debt for the outstanding principal balance on the MPS ships.

P. Other Assets

Included as Other Assets are entity intragovenmental assets and entity assets not classified as intragovernmental that are not included on other lines of the Balance Sheet. Note 5 provides additional disclosures related to Other Assets.

NWCF activities conduct business with commercial contractors under two primary types of contracts, namely, fixed price contracts and cost contracts. In order to alleviate the potential financial burden on the contractor that these long-term contracts can cause, NWCF activities sometimes provide financing payments. One type of financing payment that NWCF makes is based upon a percentage of completion. In accordance with SFFAS No. 1, "Accounting For Selected Assets and Liabilities," these payments are reported as work in process and are not reported as advances or

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prepayments in the "Other Assets" line item of the Balance Sheet. However, the NWCF has reported progress payments provided to contractors under the terms of fixed price contracts as an advance or prepayment in the "Other Assets" line item of the Balance Sheet. While auditors do not agree with this presentation because SFFAS No. 1 does not address this type of financing payment, DoD treats these payments as advances because the NWCF becomes liable only after the contractor delivers the good in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the NWCF is not obligated to reimburse the contractor for their costs and the contractor is liable to repay the NWCF for the full amount of the advance. See Note 5, Line 1.b(1).

Q. Contingencies

At any given time, DON may be subject to various legal and administrative actions and claims brought against it. These actions or claims primarily involve claims that may result from events such as aircraft, ship, and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Most legal actions, other than contract claims, to which the NWCF 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.

A liability is recognized on the Balance Sheet for individual cases of pending, threatened, or potential litigation when it is extremely doubtful that the reporting entity will prevail, and the amount of loss can be reasonably estimated.

Other contingencies which are not reported on the Balance Sheet are disclosed when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred.

Note 13 provides additional material disclosures related to Contingencies.

R. Accrued Leave

Supply Type NWCF Activities.

Navy: Civilian annual leave is accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual leave at the end of the fiscal year is adjusted to 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.

Marine Corps: Civilian annual leave is accrued as earned and the accrued amount is reduced as leave is taken. The balances for civilian annual leave and military leave at the end of the fiscal year are adjusted to reflect current pay rates for the leave that is earned but not taken. To the extent current fiscal year fund balances are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick and other types of non-vested leave are expensed as taken. Accruals of leave for civilian employees are reported against the Operation and Maintenance, Marine Corps appropriation.

Industrial Type NWCF Activities. Civilian accrued leave for industrial activities is accrued as it is earned and the accrual is reduced as leave is taken. At least once per year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of non-vested leave are expensed as taken.

S. Equity

The Balance Sheet presented for FY 1998 and FY 1999 displays only Unexpended Appropriations and Cumulative Results of Operations (CRO) as components of the Net Position. The CRO for FY 1999 contains all transactions heretofore represented by Invested Capital, CRO, Other, and Future Funding Requirements on the FY 1997 Statement of Financial Position.

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The CRO thus includes donated capital, transfers of assets in and out without reimbursement, the net results of operations (revenue minus expenses), prior period adjustments, and investments in capital assets and inventory assets. Investments in capital assets are recorded at actual cost of acquisition or construction while inventory assets are recorded using the LAC method of valuation.

The merging of equity accounts into the CRO on the Balance Sheet and the elimination of the related note describing all the elements of the Net Position results from the direction of the OMB Guidance on Form and Content of Agency Financial Statements as promulgated by the DoD Guidance on Form and Content of Audited Financial Statements for reporting entities.

See Note 15, Line 2, Other Information for details on the elements of the NWCF net position.

T. Treaties for Use of Foreign Bases

The following provides note disclosure as applicable by activity group.

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

Base Support.

PWCs. The Government of Japan is responsible for facility replacement.

Research and Development.

SSCs. While some SSC San Diego operations take place outside the United States, the operations are performed as tenants to other Naval activities. The SSC San Diego's only significant foreign presence is in Japan where it has a detachment located as a tenant to the Naval Ship Repair Facility, Yokosuka. The detachment employs 17 Foreign National Indirect Hire personnel under a Master Labor Contract with Japan. Japan now pays the majority of the cost of these employees. The U.S. Government is liable for any shortfall that is borne by the activity for Special Measures Agreement expenses incurred, which was about $95 thousand in FY 1999. These costs can be for management-directed severance obligations, overtime costs, or additional schedule pay costs.

U. Comparative Data

Comparative data is not required by OMB 97-01 until FY 2000 annual financial statements. Comparative data will be presented starting in FY 2000 in order to provide an understanding of changes in the financial position and operations of this activity group.

V. Undelivered Orders

NWCF activities are obligated for goods that have been ordered but not yet received (undelivered orders). As of 30 September 1999, undelivered orders amounted to $3,235,916 thousand for supply type activities and $2,939,362 thousand for industrial type activities for a total of $6,175,278 thousand.

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Undelivered Orders
(in thousands)

Activity Group	Supply Activities	Industrial Activities
Depot Maintenance – Shipyards		$505,630
Depot Maintenance – Aviation		251,704
Depot Maintenance – Other (Marine Corps)		32,899
Ordnance		
CINCLANTFLT		7,225
CINCPACFLT		28,829
Transportation		30,923
Base Support		
PWCs		465,271
NFESC		28,819
Information Services		
NAVCOMTELCOM		41,276
FMSO		4,532
COMNAVRESFOR		806
Research and Development		
NSWC		576,067
NAWC		426,303
NUWC		134,156
NRL		115,895
SSCs		289,027
Supply Management (Navy)	$3,328,552	
Supply Management (Marine Corps)[1]	(92,636)	
Total	$3,235,916	$2,939,362

[1]The Marine Corps was not able to certify the Supply Management (Marine Corps) activity group undelivered orders due to accounting system problems. See Note 21.B Supply Management (Marine Corps). The primary reason for this abnormal balance for undelivered orders is due to the problem with the accounts payable function. In the past, the accounts payable function had Accounts Payable matched against overstated undistributed disbursements. To correct the problem, outstanding obligations were validated against receipts. The Marine Corps and DFAS have agreed on procedures to guard against future reoccurrence, and they continue on a monthly basis reviewing Accounts Payable.

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

1. Fund Balances:

Fund Type	Entity Assets	Non-Entity Assets	Total
a. Appropriated funds	$0	$0	$0
b. Revolving funds	1,164,185		1,164,185
c. Trust Funds			
d. Other Fund Types			
e. Total	$1,164,185	$0	$1,164,185

2. Fund Balance Per Treasury Versus Agency:

	Entity Assets	Non-Entity Assets
a. Fund Balance Per Treasury	$1,164,185	$0
b. Fund Balance Per NWCF	1,222,657	
c. Reconciling Amount	($58,472)	$0

3. Explanation of Reconciliation Amount: The value of $58,472 thousand represents the difference between Centralized Expenditures/Reimbursement Processing Systems (CERPS) and the Treasury Fiscal Service (TFS) 6653 indicating that transactions made by other entities on behalf of DON have been recognized by the Department of the Treasury but have not been received by systems reporting the DON's expenditures and reimbursements.

4. Other Information Related to Fund Balance With Treasury:

The Fund Balances with Treasury of $1,164,185 thousand reflects the FY 1998 ending balance of $1,192,502 thousand plus FY 1999 collections, disbursements, and non-expenditure transfers recorded in the NWCF Treasury sub-limit 97X4930.002. The following table details the amounts recorded in FY 1999:

Collections	$20,128,054
Disbursements	20,089,333
Non-expenditure Transfers, Net	(67,038)

The non-expenditure transfers are comprised of Transfers-in of $2,083 thousand and Transfers-out of $69,121 thousand. The transfers were made from or to the following NWCF activity groups:

Activity Group	(in thousands) Non-expenditure Transfers
Transportation	(69,121)
Base Support – PWCs	2,083
Total	$(67,038)

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The NWCF received transfers totaling $2,083 thousand for Base Support - PWCs for disaster relief to repair storm damage associated with Hurricane Bonnie at PWC Norfolk and Hurricane Georges at PWC Pensacola. In the Transportation activity group a transfer-out of $69,121 thousand was made to the Federal Financing Bank (FFB) for the principal payment of loans related to Afloat Prepositioning Ships-Navy (APF-N) ships. See Note 11.

Fund Balances with Treasury have been reestablished at the activity group and activity level. This effort started 1 October 1997 (for FY 1997) when the process of transferring activity level collections and disbursements to the DON departmental level at the end of each fiscal year was discontinued. During FY 1998 DON and DFAS completed work to record non-expenditure transfers at the activity level vice at the Departmental level. Plans are being developed to move activity level collections and disbursements closed to the Departmental level in FY 1995 and FY 1996 back to the activity level during FY 2000. This will be contingent upon the development of procedures by DFAS. Additionally, Fund Balances with Treasury contains transactions processed through Treasury but not to the activity level. Without identification of these transactions to an activity, the required reconciliation of cash cannot be completed.

Note 3. Investments, Net ($ in Thousands): Not Applicable

Note 4. Accounts Receivable:
($ in Thousands)

	(1) Gross Amount Due	(2) Allowance for Estimated Uncollectibles	(3) Net Amount Due
1. Entity Receivables:			
a. Intragovernmental	$465,605	N/A	$465,605
b. With the Public	131,100		131,100
2. Non-Entity Receivables:			
a. Intragovernmental			
(1) Cancelled appropriations	$0	N/A	$0
(2) Other			
b. With the Public			
(1) Cancelled appropriations	$0	$0	$0
(2) Other			

See paragraph two of Note 1.A. Except for minor rounding differences, the amounts presented in this note developed by DON and DFAS-CL agree with the amounts presented in the principal statements produced by the DFAS software application.

3. Allowance Method Used: An allowance for uncollectable Accounts Receivable (Intragovernmental) has not been established. In accordance with DFAS-CL/AACA memorandum of 1 May 1998, there is no legal authority to write off intragovernmental receivables.

4. Other Information:

a. Included in the FY 1999 Entity Receivables (Intragovernmental) line is the value of industrial activities Navy Account 1543 Undistributed Collections – Unmatched. This is an account with a normal credit balance which impacts Accounts Receivable, Net. Depending on the amount in the account it can cause a negative (abnormal) balance in Accounts Receivable, Net. Navy Account 1543 Undistributed Collections – Unmatched represents the value of refunds/collections received which are initially posted as increases to activity level cash, but must be researched in order to determine the appropriate receivable to liquidate. The Base Support – NFESC and Research and

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Development – NUWC activity groups' FY 1999 ending balance in Navy Account 1543 caused an abnormal balance to be reported at the individual activity group level on Line 1.A.3 Entity Assets (Intragovernmental), Accounts Receivable of the Balance Sheet and in related Note 4. Included in the FY 1999 Entity Receivables (With the Public) line is an abnormal balance of negative ($21) thousand for the Depot Maintenance – Aviation activity group.

b. The following provides disclosures by specific activity groups:

(1) **Depot Maintenance – Shipyards.** The Shipyard Management Information System does not have an automated accounts receivable system with the exception of Navy Account 1310 Accounts Receivable-Government. The correction of this deficiency is expected in FY 2000.

(2) **Depot Maintenance - Other (Marine Corps).** During FY 1999, there was $1,147 thousand of accounts receivables written off.

(3) **Research and Development. SSCs.** Included in Entity Receivables (Intragovernmental) is Navy 1543, Account Undistributed Costs – Unmatched in the amount of $912 thousand. This is an account with a normal credit balance; however, this account has a debit balance for SSC San Diego. This problem was created during the conversion to the DIFMS in FY 1998 and still has not been corrected. The Central Design Agency (CDA) DFAS has been notified of the problem. Interest accrued on uncollectable accounts receivables that have not been officially waived or the associated debt written off is $0.4 thousand.

Note 5. Other Assets:
($ in Thousands)

1. Other Entity Assets	
a. Intragovernmental	
(1) Assets Returned for Credit	$0
(2) Advances and Prepayment	45,976
(3) Other	
(4) Total Intragovernmental	$45,976
b. Other	
(1) Outstanding Contract Financing Payments	$1,025,589
(2) Advances and Prepayment	177,216
(3) Fixed Assets Not In Use	34,477
(4) Property Awaiting Disposal	13,525
(5) Other	122,877
(6) Total Other	$1,373,684

2. Other Information Related to Entity Assets.

a. Included in Line 1.b(1), Other Entity Assets (Other), Outstanding Contract Financing Payments, is the Transportation activity group's outstanding principal balance of $1,025,589 thousand related to loans from the FFB for the APF-N ships. See Note 11. Prior to FY 1997, the principal balance was reported as Entity Assets, (Governmental), Accounts Receivable. So as not to distort the true value of Accounts Receivable, DFAS and DON agreed in FY 1997

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to reflect this outstanding principal balance as Entity Assets, Other (Governmental). In FY 1999 the principal balance is reported on Line 1.G, Entity Assets, Other Assets. During the 29 November 1999 Joint Review of these statements and notes, the audit community indicated they plan on assessing the appropriateness of this reporting as an Other Asset on the Balance Sheet. The NWCF has reported financing payments for fixed price contracts as an advance and pre-payment, because under the terms of the fixed price contracts, the NWCF becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the NWCF is not obligated to reimburse the contractor for their costs and the contractor is liable to repay the NWCF for the full amount of the advance. The auditors disagree with the DoD's application of the accounting standard pertaining to advances and prepayments because SFFAS No. 1 does not address this type of financing payments.

b. The following shows those NWCF activity groups with Fixed Assets Not in Use included in Other Entity Assets (Other) in Note 1.b(3) above.

(in thousands)

Activity Group	No Fixed Assets Not in Use Included on Line 1.G "Other Assets" of Balance Sheet	Net Book Value of Fixed Assets Not in Use Included on Line 1.G "Other Assets" of Balance Sheet
Depot Maintenance – Shipyards		$8,226[1]
Depot Maintenance – Aviation		2,203
Depot Maintenance – Other (Marine Corps)	X	
Ordnance		
CINCLANTLFT	X	
CINCPACFLT	X	
Transportation	X	
Base Support		
PWCs		281
NFESC	X	
Information Services		
NAVCOMTELCOM	X	
FMSO	X	
COMNAVRESFOR	X	
Research and Development		
NSWC		19,893[1]
NAWC	X	
NUWC		3,822[1]
NRL		51
SSCs	X	
Supply Management (Navy)	X	
Supply Management (Marine Corps)	X	
		$34,476[2]

[1]The reported amount is the gross book value. The accumulated depreciation of "Fixed Assets Not in Use" continues to be reported under Note 9 because current systems have not been revised to implement the DFAS-CL guidance of 16

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October 1997 for reporting Accumulated Depreciation - Assets Not in Use under Contra Account 1671.

[2]The difference between this chart and related Note 5 is due to rounding.

c. Included in Line 1.b(5) Other Entity Assets (Other) Other are amounts for Deferred Charges and Assets Returned for Credit in the amount of $122,877 thousand. The FY 1999 presentation of some material amounts which in previous years were displayed on the Balance Sheet, Line 1.A.4, Entity Assets (Intragovernmental) Other Assets and disclosed further in the related Note, Other Entity Assets (Intragovernmental) Assets Returned for Credit and Deferred Charges was modified. In FY 1999 this practiced was modified as a result of eliminating entry guidance outlined in DoD FMR, Volume 6B, Chapter 13 (draft unpublished) as directed by USD(C) and implemented by DFAS. As a result, some material amounts are now displayed on the Balance Sheet, Line G, Entity Assets, Other Assets. In addition, that information is disclosed further in Note 5, Other Entity Assets (Other) Other instead of (Intragovernmental). See Note 5, Line 2.d under Navy Component for additional disclosures on the eliminating entry impact on Note 5.

d. The following provides other disclosures by specific activity group.

(1) **Depot Maintenance – Shipyards.** Navy Account 1520, Travel Advances, does not have an automated subsidiary ledger. The correction of this deficiency is expected in FY 2000.

(2) **Research and Development. SSCs.** Within Other Entity Assets an amount has been established for the Purchase Card Program. The current financial accounting system (DIFMS) has deficiencies when it comes to the posting of the bankcard. This work around was developed to ensure that bankcard invoices were processed in a timely manner. Until DFAS the DIFMS CDA can correct this error, this account has been set aside to capture the expenditures associated with the Purchase Card Program.

(3) **Navy Component.** Included in Line 1.a(2) Other Entity Assets (Intragovernmental) Advances and Prepayments is $344,589 thousand representing an upward adjustment to support preparation and presentation of intragovernmental elimination entries. This adjustment is included in Line 1.A.4 Entity Assets (Intragovernmental) Other Assets of the Component column of the NWCF Consolidating Balance Sheet. The adjustment was calculated by DFAS-CL and was based upon seller-side elimination information from intragovernmental (DoD and non-DoD) trading partners. Also included in Line 1.a(2) Other Entity Assets (Intragovernmental) Advances and Prepayments is a negative ($441,596) thousand representing the Intra-Entity Eliminations. This adjustment is included in Line 1.A.4 Entity Assets (Intragovernmental) Other Assets of the Intra-Entity Eliminations column of the NWCF Consolidating Balance Sheet. See also Required Supplementary Information section of this CFO report.

3. Other Non-Entity Assets

a. Intragovernmental	
(1)________________	$0
(2)________________	
(3) Total Intragovernmental .	$0
b. Other	
(1)________________	$0
(2)________________	
(3) Total Other	$0

4. Other Information Related to Non-Entity Assets: Not Applicable.

<u>Note 6. Loans Receivable and Related Foreclosed Property ($ in Thousands):</u> Not Applicable

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Note 7. Cash and Other Monetary Assets ($ in Thousands): Not Applicable

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

	Amount
Inventory, Net (Note 8.A)	$15,249,885
Operating Materials and Supplies, Net (Note 8.B)	547,209
Stockpile Materials, Net (Note 8.C)	
Seized Property (Note 8.D)	
Forfeited Property (Note 8.E)	
Goods Held Under Price Support and Stabilization Programs (Note 8.F)	
Total	$15,797,094

See paragraph two of Note 1.A. Except for minor rounding differences, the amounts presented in this note developed by DON and DFAS-CL agree with the amounts presented in the principal statements produced by the DFAS software application.

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

	(1) Inventory Amount	(2) Allowance for Gains (Losses)	(3) Inventory, Net	(4) Valuation Method
1. Inventory Categories:				
a. Available and Purchased For Resale	$14,341,603	($7,435,784)	$6,905,819	LAC
b. Held in Reserve For Future Sale	85,335		85,335	LAC
c. Held for Repair	8,843,378	(1,919,455)	6,923,923	LAC
d. Excess, Obsolete, and Unserviceable	132,177		132,177	NRV
e. Raw Materials				
f. Work in Process	1,202,631		1,202,631	AC
g. Total	$24,605,124	($9,355,239)	$15,249,885	

2. Restrictions on Inventory Use, Sale, or Disposition: Generally, there are no restrictions with regard to the use, sale, or disposition to applicable DoD activities and personnel. Other than safety and Pre-war Reserve levels, inventory may be sold to foreign, state and local governments, private parties and contractors in accordance with DoD, DFAS and DON policies and guidance or at the direction of the President.

3. Other Information: Inventory balances, except for the Work in Process balance, apply to the NWCF supply activity group and not to the industrial activity groups. The amount reported as inventory Work in Process includes Work in Process at industrial activities. The Work in Process at the industrial activities had to be recorded as inventory Work in Process because the U.S. Government Standard General Ledger (US SGL) does not contain an account for Work in Process that is not inventory. The Work in Process balances at NWCF industrial activities includes partly finished products or services at the activity, consisting of direct material, direct labor, applied overhead and other direct costs.

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Activity Work in Process also includes the value of completed products or services prior to the preparation of a billing to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor and the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered. The following provides disclosure by activity group:

Supply Management (Navy). Navy managed inventories are carried in the accounting records at Standard Price. Standard Price is used in the day to day operations of the fund and is comprised of the cost of the material and cost recovery rate to recover operating and inventory costs in managing the Supply Management (Navy) activity group. Inventories not managed by the Navy (DLA, GSA, Army, Air Force and Marine Corps) are carried at LAC and are used in the day to day operations of the fund. For reporting purposes, inventories are valued using the LAC method. Additionally, an allowance for unrealized holding gains and losses has been established to value inventory to an approximation of historical cost. The valuation is in accordance with DoD FMR 7000.14-R, Volume 11B as modified by additional guidance from USD(C) and DFAS.

Application of the LAC method requires a series of journal adjustments which: (1) remove the cost recovery rate included in the Standard Price; (2) remove the cost to repair from the value of unserviceable inventory; (3) reduce to salvage value inventory which is not expected to survive the repair process; and (4) reduce to salvage value inventory which is categorized as Potential Reutilization/Disposal Stocks. These adjustments are applied to the total of the inventory and are considered (along with other computed factors) in the inventory valuation model developed by USD(C) and DFAS. The surcharge and estimated cost to repair are variable depending upon the material category being valued. The FY 1999 salvage rate based at the time of CFO reporting was 2.9 percent. This method reduced Standard Price inventory value by $14,799,915 thousand as follows:

	(in thousands)
Remove Cost Recovery Rate:	$9,291,926
Remove cost to repair:	1,919,455
Reduce to salvage value:	3,588,534
Total reduction:	$14,799,915

The pricing policy for exchange transactions for goods is based on the customer's requisition. If the requisition indicates a turn-in of a carcass (unserviceable unit), then the initial price charged is the Exchange Price which is comprised of the repair price plus a cost recovery rate. Follow-up is conducted until proof of carcass turn-in is received. If the carcass is not returned then the carcass value is billed to the customer which makes the total charge equal to Standard Price. If the requisition indicates no carcass turn-in, then the initial price charged is Standard Price.

The necessary adjustments to inventory based on NAVAUDSVC Draft Audit Report 1999-0137, Recommendation 1 were made in FY 1999 for a net loss of $12,428 thousand. This action is complete.

The Supply Management (Navy) value of War Reserve Material is $ 26,521 thousand (LAC). The value is reported in Note 8.A, Line 1.a, Available and Purchased for Resale. The Supply Management (Navy) activity group does not have sponsor funded inventory.

Supply Management (Marine Corps). Inventory is valued at LAC as required by DoD accounting policies. Generally, these values are based on prices paid for recently acquired items. Gains and losses that result from valuation changes for stock fund items are recognized in the allowance account. Only the realized gains and losses are reflected in the Total Program Cost.

The Supply Management (Marine Corps) value of War Reserve Material is $94,969 thousand. This value is reported in Note 8.A, Line 1.a, Available and Purchased for Resale. The Supply Management (Marine Corps) activity group does not have sponsor funded equipment.

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

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

	(1) OM&S Amount	(2) Allowance For Gains (Losses)	(3) OM&S, Net	(4) Valuation Method
1. OM&S Categories:				
a. Held for Use	$530,224	($2,381)	$527,843	Weighted Average and Other
b. Held in Reserve for Future Use	19,366		19,366	
c. Excess, Obsolete, and Unserviceable				
d. Total	$549,590	($2,381)	$547,209	

2. Restrictions on operating materials and supplies: Generally, there are no restrictions with regard to the use, sale, or disposition of Operating Materials and Supplies to applicable DoD activities and personnel.

3. Other Information:

a. The amount reported in Note 8.A as inventory Work in Process includes Work in Process at industrial activities. The Work in Process at the industrial activities had to be recorded as inventory Work in Process vice operating materials and supplies Work in Process because the US SGL does not contain an account for Work in Process that is not inventory. The Work in Progress balance at the NWCF industrial activities includes partly finished products or services at the activity, consisting of direct material, direct labor, applied overhead and other direct costs. Activity Work in Process also includes the value of completed products or services prior to the preparation of a billing to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor and the amount withheld from payment to ensure performance and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered.

b. NAVAUDSVC Audit Reports 035-96 and 049-98 recommended that the use of the Allowance for Losses be discontinued. The DFAS-CL/AACA memorandum of 8 March 1999, advised that industrial activities are no longer authorized to use the Allowances for Losses on Materials and Supplies, and Allowances for Losses on Direct Materials accounts. Therefore, there should be no value reported in Note 8.B, Column 2, Allowance for Gains (Losses). To date two NWCF industrial activities (Depot Maintenance – Shipyards and Base Support – PWC) are still using the Allowances for Losses on Materials and Supplies, and Allowances for Losses on Direct Materials accounts. The required system changes to discontinue the Allowances for Losses on Materials and Supplies, and Allowances for Losses on Direct Materials accounts should be made in FY 2000.

c. Operating Materials and Supplies are held at NWCF industrial activity groups for use on customer work. These inventories are maintained at cost, primarily using a weighted average and primarily charged as an expense using the consumption method of accounting in accordance with DoD FMR, Volume 11B, Chapter 56. Today the NWCF industrial activities' excess, obsolete and unserviceable operating materials and supplies are not revalued to their estimated net realizable value and, therefore, are not in compliance with SFFAS No. 3 "Accounting for Inventory and Related Property" or the DoD FMR, Volume 11B, Chapter 56. See Note 1.K for disclosure of noncompliance with DoD FMR, Volume 11B and SFFAS No. 3. The following provides additional disclosures by activity group.

Depot Maintenance – Shipyards. Navy Account 1491 Material-In-Transit – Government is not in balance with the subsidiary accounts. Research is ongoing and this discrepancy will be corrected in FY 2000.

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Transportation. There were no changes from prior year's accounting methods. All Operating Materials and Supplies are categorized as "Held for Use" because they are needed to provide services for MSC customers. The following is a description of MSC's active inventory categories:

(1) Consumable inventories are frozen inventories for United States Navy Ship (USNS) ships based on the values for a period of one to three months of actual expenses. Values were examined during FY 1997 and found to be adequate. Also, a 100 percent actual physical inventory is conducted upon transfer or inactivation of the vessel.

(2) Ship subsistence inventories for USNS ships reflect the chief steward's on-hand inventory and is processed at the end of each month using current unit price paid. A 100 percent actual on board inventory is taken quarterly, in accordance with MSC instructions.

(3) For the ships for which fuel inventory are maintained, inventory is based on the bunkers available at month end, as reported by the ship operators times the standard rate or the market price for spot fuel purchases.

(4) Miscellaneous materials are inventory items stored at Cheatham Annex and Oakland, CA. A 100 percent physical inventory was taken in May 1998 for Commander, Military Sealift Command West (COMSCWEST) and (COMSCEAST). These inventory items are priced either at the actual purchase price or estimated worth of material when material is taken off the ship. The latter methodology was established in cases where the original inventory taken had no unit prices. In such cases, the related cost was determined by an outside party who was contracted to perform a physical inventory of these items.

(5) MPS spares are inventory stored at the contractors' site.

Research and Development.

NUWC. The NUWC Newport activity has applied the purchase method of accounting because materials are ordered just in time for use and are expensed when received.

d. The following table identifies those industrial activity groups that do not have sponsor funded material and those that have sponsor funded material. Sponsor funded material is recorded only in a statistical account and not reported on the Balance Sheet or in the numeric portion of Note 8.B. See next page.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

Sponsor Funded Material Recorded in Statistical Account, But Not Reported on the Balance Sheet or in Numeric Note 8.B

Activity Group	No Sponsor Funded Material	Sponsor Funded Material	(in thousands) Amount
Depot Maintenance – Shipyards		X	$736
Depot Maintenance – Aviation		X	6,540
Depot Maintenance – Other (Marine Corps)	X		
Ordnance			
CINCLANTFLT		X	10,401
CINCPACFLT	X		
Transportation	X		
Base Support			
PWCs	X		
NFESC		X	414
Information Services			
NAVCOMTELCOM	X		
FMSO[1]			
COMNAVRESFOR	X		
Research and Development			
NSWC		X	1,557,467
NAWC		X	218,343
NUWC		X	637,550
NRL	X		
SSCs		X	553,734
Total			$2,985,185

[1]This activity group does not have Operating Materials and Supplies.

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

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

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

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

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

NWCF NOTES TO THE PRINCIPAL STATEMENTS

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

	(1) Depreciation/ Amortization Method	(2) Service Life	(3) Acquisition Value	(4) (Accumulated Depreciation/ Amortization)	(5) Net Book Value
1. Major Asset Classes					
a. Land	N/A	N/A	$123,452	N/A	$123,452
b. Buildings, Structures, and Facilities	S/L	20 or 40	6,744,598	(4,006,545)	2,738,053
c. Leasehold Improvements	S/L	Lease Term			
d. ADP Software	S/L	2 to 5 or 10	99,281	(76,080)	23,201
e. Equipment	S/L	5 or 10	3,626,770	(2,464,057)	1,162,713
f. Assets Under Capital Lease	S/L	Lease Term			
g. Construction-in-Progress	N/A	N/A	379,698	N/A	379,698
h. Other			1,839	(394)	1,445
i. Total			$10,975,638	($6,547,076)	$4,428,562

See paragraph two of Note 1.A. Except for minor rounding differences, the amounts presented in this note developed by DON and DFAS-CL agree with the amounts presented in the principal statements produced by the DFAS software application.

2. Other Information:

a. For those activities with General PP&E real property in the possession of contractors, the value of NWCF's General PP&E real property in the possession of contractors is included in the values reported above for the Major Classes of Land, Buildings, Structures, and Facilities, and Leasehold Improvements. The value of General PP&E personal property (Major Classes of ADP Software and Equipment) in the possession of contractors is not included in the values reported above. The DoD presently is reviewing its process for reporting these amounts in an effort to determine the best method to annually collect this information. However, preliminary results of the DoD's review have indicated that the value of non-fully depreciated General PP&E personal property in the possession of contractors that would be reported on the NWCF financial statements is immaterial in relation to the DoD's total assets.

b. Past audit results have lead to uncertainties as to whether all General PP&E assets in the possession or control (existence) of the NWCF are properly and accurately recorded in the system (completeness). The DoD contracted with two certified public accounting firms to obtain an independent assessment of the cost information maintained as well as the reliability of the systems for the existence and completeness of the assets. As of the publication date of these statements, the contractor's assessment of the DoD's General PP&E is ongoing.

c. When records are not available to support the original acquisition cost of General PP&E at the time of capitalization, estimates are used. Estimates are based on the cost of similar assets at the time of acquisition. As mentioned in paragraph 2.b. above, the DoD has major efforts underway to value its General PP&E. These efforts are commonly referred to as DoD Implementation Strategies. However, these efforts were not completed in time to report the adjusted General PP&E cost amounts in FY 1999. The efforts should be completed for FY 2000 reporting and are expected to result in reasonably accurate property amounts.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

d. Included in the major asset classes disclosed above is $2,225 thousand of General PP&E which is Outside of the Continental U.S. (OCONUS).

e. The following table identifies those activity groups that do not have sponsor funded equipment and those that have sponsor funded equipment. This sponsor funded equipment is recorded only in a statistical account and not reported on the Balance Sheet or in the numeric portion of Note 9.

Activity Group	No Sponsor Funded Equipment	Sponsor Funded Equipment	(in thousands) Net Book Value
Depot Maintenance – Shipyards		X	$11,807
Depot Maintenance – Aviation			
Individual Material Readiness List (IMRL)		X	323,438
Non-IMRL		X	21,443
Depot Maintenance – Other (Marine Corps)	X		
Ordnance			
CINCLANTFLT		X	595
CINCPACFLT		X	342
Transportation	X		
Base Support			
PWCs	X		
NFESC		X	414
Information Services			
NAVCOMTELCOM	X		
FMSO	X		
COMNAVRESFOR	X		
Research and Development			
NSWC		X	117,138
NAWC			
IMRL		X	138,114
Non-IMRL		X	18,098
NUWC (IMRL)		X	107,700
NRL		X	69,136
SSCs		X	101,900
Supply Management (Navy)	X		
Supply Management (Marine Corps)[1]	X		
Total			$910,125

[1]This activity group does not have any General PP&E.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

f. The following table provides disclosure of the fully depreciated assets included in the numeric portion of Note 9.

Activity Group	(in thousands) Amount of Fully Depreciated Assets
Depot Maintenance – Shipyards	$520,610
Depot Maintenance – Aviation	216,383
Depot Maintenance – Other (Marine Corps)	23,878
Ordnance	
CINCLANTFLT	403,322
CINCPACFLT	180,172
Transportation	12,985
Base Support	
PWCs	450,966
NFESC	13,953
Information Services	
NAVCOMTELCOM	3,851
FMSO	
COMNAVRESFOR	546
Research and Development	
NSWC	403,322
NAWC	854,185
NUWC	269,494
NRL	193,113
SSCs	36,637
Supply Management (Navy)	483,076
Supply Management (Marine Corps)[1]	
Total	$4,066,493

[1] This activity group does not have any General PP&E.

g. The following table provides note disclosure of NWCF activity groups which still include the accumulated depreciation of “Fixed Assets Not in Use” under the numeric portion of Note 9 which deviates from the DoD guidance. For those NWCF activity groups the current systems have not been revised to implement the DFAS-CL guidance of 16 October 1997 for reporting Accumulated Depreciation - Assets Not in Use under Contra Account 1671.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

Activity Group	Depreciation Related to Fixed Assets Not in Use Still Included in Note 9	Fixed Assets Not in Use Included in Note 9 But Not Depreciated
Depot Maintenance – Shipyards	X	
Depot Maintenance – Aviation		
Depot Maintenance – Other (Marine Corps) [1]		
Ordnance		
CINCLANTFLT[1]		
CINCPACFLT[1]		
Transportation[1]		
Base Support		
PWCs		
NFESC[1]		
Information Services		
NAVCOMTELCOM[1]		
FMSO[1]		
COMNAVRESFOR[1]		
Research and Development		
NSWC	X	
NAWC[1]		
NUWC	X	
NRL		
SSCs[1]		
Supply Management (Navy) [1]		
Supply Management (Marine Corps) [2]		

[1]This activity group had no Fixed Assets Not In Use on Line G of the Balance Sheet as of 30 September 1999.

[2]This activity group does not have any General PP&E.

h. The NWCF activities have no multi-heritage assets included in the General PP&E reported on Line F of the Balance sheet, or in the numeric disclosures included in Note 9.

i. The following provides other disclosures by activity group.

Transportation. Based on direction provided by DFAS, fixed assets such as ships are considered as used but not owned by the WCF activity group. In accordance with such guidance, Ships, Seasheds, Flatracks, Modular Fuel Delivery Systems, and Containership Cargo Stowage Adapters are Statistically recorded and depreciated by MSC, but not included in the Transportation activity group's Balance Sheet or numeric portion of Note 9. These assets are reported on the Required Supplementary Stewardship Information section of the DON General Funds (Treasury Index 17) Financial Statements. The amounts for NWCF are as follows:

Account Title	Amount (in thousands)
Fixed asset-ships	$6,562,370
Accumulated depreciation	2,065,385
Net Value	$4,496,985

NWCF NOTES TO THE PRINCIPAL STATEMENTS

The triennial inventory of plant property was conducted during FY 1999 for COMSCEAST; COMSCWEST; Commander, Military Sealift Command, Europe (COMSCEUR) and Commander, Military Sealift Command, Far East (COMSCFE); and during FY 1998 for Commander, Military Sealift Command, Headquarters (COMSCHQ).

Supply Management (Navy). NAVAUDSVC Audit Report 024-98, Recommendation 40, indicated the value reported for Property, Plant and Equipment was understated by $2,389 thousand and recommended a physical inventory be conducted. A wall to wall inventory is scheduled prior to the implementation of the Defense Property Accountability System (DPAS), which is the DoD migratory system. DPAS is scheduled for implementation prior to CY 2000.

j. See Note 1.M for note disclosure of the General PP&E capitalization threshold policy and additional information on the depreciation policy being used by the NWCF activities**.**

Note 9.A. Assets Under Capital Lease :
($ in Thousands)

ENTITY AS LESSEE:

1. Capital Leases:

a. Summary of Assets Under Capital Lease:		$0
	Land and Buildings	$0
	Machinery and Equipment	$0
	Other	$0
	Accumulated Amortization	$0

b. Description of Lease Arrangements: Not Applicable

Note 10. Reserved For Future Use.
Not Applicable

NWCF NOTES TO THE PRINCIPAL STATEMENTS

Note 11. Debt :
($ in Thousands)

	Beginning Balance	Net Borrowing	Ending Balance
1. Public Debt:			
a. Held by Government Accounts	$0	$0	$0
b. Held by the Public			
c. Total Public Debt	$0	$0	$0
2. Agency Debt:			
a. Debt to the Treasury	$0	$0	$0
b. Debt to the Federal Financing Bank	1,110,384	(69,121)	1,041,263
c. Debt to Other Federal Agencies			
d. Held by the Public			
e. Total Agency Debt	$1,110,384	($69,121)	$1,041,263
3. Total Debt	$1,110,384	($69,121)	$1,041,263
4. Classification of Debt			
a. Intragovernmental Debt			$1,041,263
b. Governmental Debt			
c. Total Debt			$1,041,263
5. Funding of Debt			
a. Covered by Budgetary Resources			$1,025,589
b. Not Covered by Budgetary Resources			15,674
c. Total Debt			$1,041,263

See paragraph two of Note 1.A. Except for minor rounding differences, the amounts presented in this note developed by DON and DFAS-CL agree with the amounts presented in the principal statements produced by the DFAS software application.

6. Other Information:

The $1,025,589 thousand debt, Line 5.a Debt (Funding of Debt), Covered by Budgetary Resources, represents the Transportation activity group outstanding principal balance on the APF-N ships. See Note 2 regarding the Transportation activity group transfer-out of $69,121 thousand made to the FFB for the principal payment of loans related to APF-N ships. See Note 5 for the recognition of the Other Entity Assets (Other), related to the outstanding principal balance of $1,025,589 thousand for loans from the FFB for the APF-N ships. The $15,674 thousand, Line 5.b Debt (Funding of Debt), Not Covered by Budgetary Resources, represents the Accrued Interest Payable Unfunded debt of the Transportation activity group on the APF-N ships.

The APF-N program provided ships for Time Charter to MSC to meet requirements not available in the marketplace. The program was approved by the Congress. The ships were built/converted by private Interim Vessel Owners using private, non-government financing obtained from various banking institutions. No payments were made by the government during the building/conversion phase.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

When each vessel was delivered to MSC for use under the Time Charter Party, the interim financing was replaced by permanent financing, and vessel ownership was transferred to the permanent vessel owners (a trust company acting for the benefit of equity investors). The ships were financed with approximately 30 percent equity investments and 70 percent debt borrowings. The debt is in the form of loans from the FFB to the vessel owners. Capital hire payments under the Time Charter are assigned to FFB to cover the loan obligations, and to the vessel owners to cover the equity obligations.

The Time Charter Party requires MSC to pay Capital Hire twice a year. These payments cover repayment of principal and interest on the FFB loans, and any equity payments due the vessel owners. Separately, Operating Hire is paid twice a month to the vessel operators to cover crew costs, provisions, ship management, etc., and specified reimbursements such as fuel and port expenses are paid to the operators. These expenses are paid from the NWCF. APF-N Time Charters are for five years with four option renewal periods of five years each, for a total of 25 years. At the end of the contract, the ships belong to the ship owner. The government does have an option to purchase the ships, if the contract is terminated, at the greater of the fair market value or termination value.

In order to simplify the payments to the FFB and to meet their requirements, the FFB cross-disburses the semi-annual principal and interest payments directly from the NWCF. This is done instead of having MSC make Capital Hire payments to the vessel owners, who would in turn make their loan obligation payments to the FFB. This is very much the same as other Time Charters where payment is assigned directly to a bank. Equity payments, on the other hand, are made by MSC from the NWCF, upon receipt of invoices.

The Time Charters contain a clause requiring payment of stipulated termination penalties in the event the government desires to end the contracts prior to their final expiration (25 years for the APF-N). These penalties apply whether the termination results from a Termination for Convenience by the government, or by mere failure of the government to exercise its five-year renewal options. The contract requires that the ships be sold for the best price obtainable, and, if that is below the applicable termination value, the government makes up the difference. The Time Charters also contain casualty loss values in case of total loss of the ships which would be payable by the government to the vessel owners investors. In case of total loss the Time Charter requires the contractor to maintain casualty insurance sufficient to cover the casualty values due to the vessel owners including the amounts that they would owe to the FFB.

The DoD Appropriation Act passed in December 1985 required that 10 percent of the fifth year termination value of the vessels be obligated from Operation and Maintenance, Navy funds. This was done as each vessel was delivered.

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

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

NWCF NOTES TO THE PRINCIPAL STATEMENTS

Note 13. Other Liabilities:
($ in Thousands)

1. Other Liabilities Covered by Budgetary Resources:

	Current Liability	Noncurrent Liability	Total
a. Intragovernmental			
(1) Advances from Others	$419,885	$0	$419,885
(2) Deferred Credits			
(3) Deposit Funds and Suspense Account Liabilities			
(4) Liability for Borrowings to be Received			
(5) Liability for Subsidy Related to Undisbursed Loans			
(6) Resources Payable to Treasury			
(7) Disbursing Officer Cash			
(8) Nonenvironmental Disposal Liabilities			
(a) Nuclear Powered Aircraft Carriers			
(b) Nuclear Powered Submarines			
(c) Other Nuclear Powered Weapon Systems			
(d) Other National Defense Weapon Systems			
(e) Conventional Munitions			
(9) Other Liabilities			
Total	$419,885	$0	$419,885
b. With the Public			
(1) Accrued Funded Payroll and Benefits	$760,534	$0	$760,534
(2) Advances from Others	94,638		94,638
(3) Deferred Credits			
(4) Deposit Funds and Suspense Accounts			
(5) Temporary Early Retirement Authority			
(6) Nonenvironmental Disposal Liabilities			
(a) Nuclear Powered Aircraft Carriers			
(b) Nuclear Powered Submarines			
(c) Other Nuclear Powered Weapon Systems			
(d) Other National Defense Weapon Systems			
(e) Conventional Munitions			
(7) Other Liabilities	1,248,799		1,248,799
Total	$2,103,971	$0	$2,103,971

See paragraph two of Note 1.A. Except for minor rounding differences, the amounts presented in this note developed by DON and DFAS-CL agree with the amounts presented in the principal statements produced by the DFAS software application.

2. Other Information:

The following provides other disclosures by activity group.

Depot Maintenance - Aviation. The balance reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities includes $210,176 thousand in Accrued Expenses-Other. In addition, the Depot Maintenance – Aviation activity group identified contingent liabilities between Depot Maintenance – Aviation North Island, and the fair Labor Standards Act and the International Federation of Professional & Technical Engineers (IFPTE) Local 16 in the estimated amount of $230 thousand. This amount is not reported in the Consolidated Balance Sheet. Equal Employment Opportunity (EEO) actions pending by Depot Maintenance – Aviation employees against

NWCF NOTES TO THE PRINCIPAL STATEMENTS

Depot Maintenance – Aviation activity group are as follows: 38 cases in the amount of $760 thousand, and another 53 cases in the amount of $520 thousand.

Depot Maintenance – Other (Marine Corps). The balance reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities of $4,292 thousand consists of Accrued Expenses – Other in the amount of $3,629 thousand; Accrued Expenses TAD in the amount of $300 thousand; Advances/Loans to the Public in the amount of $85 thousand; and Progress Billings in the amount of $277 thousand. The balance reported in Line 1.b(1) Other Liabilities Covered by Budgetary Resources (With the Public) Accrued Funded Payroll and Benefits in the amount of $6,881 thousand consists of Accrued Expense – Leave in the amount of $1,367 thousand; Accrued Expense – Salaries and Wages in the amount of $4,562 thousand; and Accrued Expense – Fringe Benefits in the amount of $952 thousand.

Ordnance.

CINCLANTFLT. The balance reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities includes Undistributed Disbursements in the amount of $3,809 thousand and Accrued Expenses – Other in the amount of $1,429 thousand.

CINCPACFLT. The balance reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities includes Undistributed Collections and Undistributed Disbursements in the amounts of $254,165 thousand and negative ($251,830) thousand, respectively, plus Accrued Expenses – Other in the amount of $17,703 thousand.

Transportation. Contingencies (Reserves) have been established to provide for anticipated accident and damage repairs and estimated value of claims. Their values are $4,607 thousand included in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities. It should be noted that the reserve for accident and damage repairs has been abolished and the remaining value in such account represents funds already obligated. Line 1.b(1) Other Liabilities Covered by Budgetary Resources (With the Public) Accrued Funded Payroll and Benefits consists of MSC's accrued expenses for payroll and benefits in the amount of $30,012 thousand. Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities, Accrued Expenses – Other consists of MSC's accrued expenses for ship charters, fuel expenses, port charges-tolls, training expenses, supplies and materials, M&R ships, travel expenses, supply and services, shipping contracts, and miscellaneous expenses in the amount of $436,891 thousand.

While claimants have alleged that MSC has breached various contracts, and the collective settlement amounts proposed by the claimants approximate $19,000 thousand, the actual litigative risk, as assessed by MSC's legal office, are considered non-existent. Therefore the amount of contingent liabilities resulting from claims is assessed at zero dollars.

Information Services.

NCTC. The balance reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities consists of $36,711 thousand in Accrued Expenses – Other on contracts related to customer orders.

FMSO. The balance reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities consists of $14,645 thousand resulting from the change in net outlays (CERPS Trial Balance) between FYs 1997, 1998, and 1999.

Research and Development.

NSWC. The balance reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities consists of Accrued Expenses in the amounts of negative ($49,493) thousand and $400,979 thousand.

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NAWC. The balance reported for Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities includes Accrued Expenses – Other related to contract and travel accruals amounting to $508,530 thousand. The amount is large due to accruals in anticipation of DIFMS implementation.

NUWC. Per DFAS instruction, NUWC has netted its balances for Undistributed Collections and Undistributed Disbursements and included a net balance in the amount of negative ($56,910) thousand in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities. The balance reported for Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities also includes $169,387 thousand in Accrued Expenses – Other.

SSCs. The balance reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities consists of $200,615 thousand. This amount accounts for accruals on direct cost contractual services.

Supply Management (Navy). The balance reported Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities consists of a difference between the Advance Return of Navy Stock Account DLR Carcass (SGL 29023) in the amount of $785,100 thousand and the Liability for Property Furnished by others (SGL 2992) in the amount of negative ($308,076) thousand. This resulted in a net liability of $477,024 thousand. The carcass (unserviceable unit) liability account was overstated by $143,749 thousand when compared to supporting records.

Navy Component. The value reported in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities represents the net of collections and disbursements held in this activity group pending identification to another activity group. Also included in Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities is $1,044,715 thousand which is an allocation of disbursements from the DWCF Corporate account. This allocation was directed by a DFAS memorandum of 10 October 1997. This directed allocation was not supported by specific transactional information which would identify the value as belonging to the NWCF. ASN(FM&C) challenged the validity and requested reversal of this allocation in a memorandum of 24 November 1997. DFAS is reviewing the NWCF cash reconciliation process, inclusive of the validation of undistributed disbursements and undistributed collections, to ensure cash transactions are properly reflected on activity general ledgers by the end of FY 2000.

Additional Disclosures. In addition to the above amounts disclosed by activity group, Line 1.b(7) Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities also includes a negative ($2,178,646) thousand which is the remaining net amount of undistributed collections and disbursements, Military Sealift Command Claims Payable, Contract Holdbacks, Accrued Expenses-Military Labor, Accrued Expenses - Other and Miscellaneous Other Liabilities.

The FY 1999 presentation of some material amounts which in previous years were displayed on the Balance Sheet, Line 4.A.4, Liabilities Covered by Budgetary Resources (Intragovernmental) Other Liabilities and disclosed further in related Note, Other Liabilities Covered by Budgetary Resources (Intragovernmental) Advances from Other, Deferred Credits and Other Liabilities was modified. In FY 1999 this practiced was modified as a result of eliminating entry guidance outlined in DoD FMR, Volume 6B, Chapter 13 (draft unpublished) as directed by USD(C) and implemented by DFAS. As a result, some material amounts are now displayed on the Balance Sheet, Line 4.E, Liabilities Covered by Budgetary Resources, Other Liabilities. In addition, that information is disclosed further in Note 13, Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities instead of (Intragovernmental). See Note 21.J for more details on the FY 1999 presentation of the undistributed collections and undistributed disbursements.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

3. Other Liabilities not Covered by Budgetary Resources:

	Current Liability	Noncurrent Liability	Total
a. Intragovernmental			
(1) Accounts Payable - Canceled Appropriations	$0	$0	$0
(2) Custodial Liability			
(3) Deferred Credits			
(4) Liability for Borrowings to be Received			
(5) Other Actuarial Liabilities			
(6) Judgement Fund Liabilities			
(7) Workman's Compensation Reimbursement			
(8) Nonenvironmental Disposal Liabilities			
(a) Nuclear Powered Aircraft Carriers			
(b) Nuclear Powered Submarines			
(c) Other Nuclear Powered Weapon Systems			
(d) Other National Defense Weapon Systems			
(e) Conventional Munitions			
(9) Other Liabilities			
Total	$0	$0	$0
b. With the Public			
(1) Accounts Payable Canceled	$0	$0	$0
(2) Accrued Unfunded Liabilities			
(3) Accrued Unfunded Annual Leave			
(4) Accrued Entitlement Benefits for Military Retirees and Survivors			
(5) Deferred Credits			
(6) Nonenvironmental Disposal Liabilities			
(a) Nuclear Powered Aircraft Carriers			
(b) Nuclear Powered Submarines			
(c) Other Nuclear Powered Weapon Systems			
(d) Other National Defense Weapon Systems			
(e) Conventional Munitions			
(7) Other Liabilities			
Total	$0	$0	$0

4. Other Information: In FY 1999 the DON total liability amounts for both General Funds and NWCF for the Judgement Fund and the Workman’s Compensation Reimbursement liabilities have been reported in the DON General Funds (Treasury Index 17) Note 13. This reporting method was necessary since current DFAS accounting systems do not separately identify the Judgement Fund and Workman’s Compensation Reimbursement liabilities from other liabilities.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

5. Leases:

ENTITY AS LESSEE:

1. Capital Leases:

a. Future Payments Due:

Fiscal Year	Asset Category (1)	(2)	(3)	Totals
Year 1 (CY + 1)	$0	$0	$0	$0
Year 2 (CY + 2)				
Year 3 (CY + 3)				
Year 4 (CY + 4)				
Year 5 (CY + 5)				
After 5 Years				
Total Future Capital Lease Payments	$0	$0	$0	$0
Less: Imputed Interest Executory Costs (e.g., Taxes)	(0)	(0)	(0)	(0)
Net Capital Lease Liability	$0	$0	$0	$0

b. Liabilities Covered by Budgetary Resources $0

c. Liabilities not Covered by Budgetary Resources $0

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

Major Program Activities	(1) Actuarial Present Value of Projected Plan Benefits	(2) Assumed Interest Rate (%)	(3) (Less: Assets Available to Pay Benefits)	(4) Unfunded Actuarial Liability
1. Pensions and Health Benefits:				
a. Military Retirement Pensions	$0		$0	$0
b. Military Retirement Health Benefits				
2. Insurance/Annuity Programs:				
a.	$0		$0	$0
b.				
Total	$0		$0	$0
3. Other:				
a. Workmen's Compensation (FECA)	$1,106,251		$0	$1,106,251
b. Voluntary Separation Incentive Program				
c. DoD Education Benefits Fund				
d.				
Total	$1,106,251		$0	$1,106,251
4. Total Lines A+B+C:	$1,106,251		$0	$1,106,251

NWCF NOTES TO THE PRINCIPAL STATEMENTS

5. Other Information:

a. Actuarial Cost Method Used: The liability for future workers' compensation benefits (FWC) includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The amount of $2,411,211 thousand was provided by the Department of Labor (DOL) to DoD as the actuarial liability estimate for DON's FWC. This amount was distributed between the NWCF ($1,106,251) and DON General Funds ($1,304,960) based upon the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System for FY 1999. 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.

b. Assumptions: Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. In computing the projected annual benefit payments, the interest rate assumptions used in the discount calculations were as follows:

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

c. Market Value of Investments in Market-Based and Marketable Securities: None

d. Other: The amount of change in workers' compensation from FY 1998 to FY 1999 for the Other Actuarial Liability is a decrease of $70,223 thousand (FY 1999 $1,106,251 thousand minus FY 1998 $1,176,474 thousand). In accordance with DFAS guidance of 20 January 1999, the change in workers' compensation from FY 1998 to FY 1999 is reported on the Consolidated Statement of Net Cost as Program Costs (With the Public), which is reported under the Component activity group on the Consolidating Statement of Net Cost as Program Costs (With the Public). Also see Note 16.H and Note 16.I.

Note 15. Net Position:
($ in Thousands)

1. Unexpended Appropriations	
a. Unobligated,	
(1) Available	$0
(2) Unavailable	
b. Undelivered Orders	
c. Total Unexpended Appropriations	$0

2. Other Information: The following supplemental disclosure is provided in accordance with the DoD FMR, Volume 6B, Form and Content of the DoD Audited Financial Statements in support of Line 8 of the Balance Sheet presentation.

	(in thousands) Revolving Funds
A. Unexpended Appropriations	$0
B. Invested Capital	23,936,172
C. Cumulative Results of Operations	
a. Operating	(5,632,555)
b. Deferred	(398,931)
D. Total	$17,904,686

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See paragraph two of Note 1.A. Except for minor rounding differences, the amounts presented in this note developed by DON and DFAS-CL agree with the amounts presented in the principal statements produced by the DFAS software application.

CRO includes a negative ($398,931) thousand recorded as CRO - Deferred. This category of CRO, which requires the approval of USD(C) prior to recording, is excluded from the calculation of customer billing rates. The following table displays the deferred amounts by activity group:

Activity Group	(in thousands) Deferred Amounts	Reason for Deferral
Depot Maintenance – Shipyards	($70,112)	JLSC
Depot Maintenance – Aviation	(58,102)	JLSC
Depot Maintenance – Other (Marine Corps)	(7,562)	JLSC
Ordnance		
CINCLANTFLT	(5,453)	JLSC
CINCPACFLT	(3,667)	JLSC
Research and Development		
NSWC	(813)	JLSC
Supply Management		
Navy	(243,824)	JLSC
Subtotal	(389,533)	
Research and Development		
NSWC	(4,569)	Depreciation
NSWC	(4,829)	Explosive Incident
Total	($398,931)	

Of the total, negative ($389,533) thousand results from the closure of the Joint Logistics Service Center (JLSC). This was directed by USD(C) memorandum of 19 August 1998, which also provided the allocation of system development costs incurred by JLSC to the appropriate DoD WCF activity groups. As instructed by the USD(C) memorandum, the DON distributed the transferred amounts among the affected NWCF activities. This distribution of the transferred amounts was provided to DFAS, who made the accounting entries based on the USD(C) memorandum. These system development costs were incurred from FY 1992 through 30 September 1998.

The negative ($4,569) thousand represents the amount of discontinued depreciation expense at closing activities not previously reported in the financial statements. This recording of discontinued depreciation costs is the result of Recommendation 4 of NAVAUDSVC Audit Report 040-97.

The negative amount of ($4,829) thousand is due to an explosive incident at NSWC Indian Head in FY 1998. The recognition of this amount as CRO – Deferred was directed by USD PBD 426 of January 1999.

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

Note 16.B. Cost of National Defense PP&E ($ in Thousands): Not Applicable

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

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

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

Note 16.F. Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors ($ in Thousands): Not Applicable

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

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

	Budget Function Code	Gross Cost	(Less Earned Revenue)	Net Cost
1. Department of Defense Military	051	$19,055,199	($18,344,236)	$710,963
2. Water Resources by US Army Corps of Engineers	301			
3. Pollution Control and Abatement by US Army Corps of Engineers	304			
4. Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Fund	602			
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund	702			
6. Total		$19,055,199	($18,344,236)	$710,963

See paragraph two of Note 1.A. Except for minor rounding differences, the amounts presented in this note developed by DON and DFAS-CL agree with the amounts presented in the principal statements produced by the DFAS software application.

7. Other Information:

The Gross Cost of $19,055,199 thousand includes the activity groups program costs, the imputed expense for civilian employee pensions and ORBs, the amount of change in workers' compensation from FY 1998 to FY 1999 for the Other Actuarial Liability, and the intra-entity eliminations. The Earned Revenue also includes intra-entity eliminations. See also Note 16.I.

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

1. CSRS/FERS Retirement	$189,286
2. Health	215,582
3. Life Insurance	712
4. Total	$405,580

NWCF NOTES TO THE PRINCIPAL STATEMENTS

5. Other Information:

The NWCF Departmental level statements have recognized an imputed expense for civilian employee pensions and ORBs in the Statement of Net Cost and have recognized imputed revenue for the civilian employee pensions and ORBs in the Statement of Changes in Net Position. Imputed pensions and ORBs expenses are displayed on Line 1.A, Program Costs (Intragovernmental) on the Consolidated Statement of Net Cost, which is reported under the Component activity group on the Consolidating Statement of Net Cost on Line 1.A.1 Program Costs (Intragovernmental). Also see Note 1.F, Note 16.H, and Note 17.B. Imputed pension and ORBs was computed by DFAS.

Also included on Line 1.A.1 in the Navy Component activity group is a NWCF Departmental adjustment of a negative $11,992,482 thousand prepared by DFAS-CL based upon draft eliminating entry guidance for Chapter 13 of the DoD FMR, Volume 6B. One portion of this adjustment (negative $589,450 thousand) was required to ensure NWCF buyer-side amounts for intragovernmental accounts payable and advance to others were adjusted to equal seller-side records for intragovernmental accounts receivable and advances from others. The effect of this adjustment lowered Total Program Costs for the NWCF by $589,450 thousand and correspondingly lowered Net Program Costs by an equal amount. The second portion of this adjustment to Line 1.A.1 (negative $11,403,033 thousand) was to reclassify program costs from "Intragovernmental" to "With the Public" on Line 1.A.2. This second adjustment was based upon the same draft DoD FMR guidance whereby seller-side records for revenues was used to adjust buyer-side program cost records. The impact of these adjustments has materially distorted the Net Cost of Operations on the NWCF financial statements. See also the Required Supplementary Information, Intragovernmental Eliminations section of this report for additional discussion of this draft eliminating entry guidance.

The amount of change in workers' compensation from FY 1998 to FY 1999 for the Other Actuarial Liability is a decrease of $70,223 thousand (FY 1999 $1,106,251 thousand minus FY 1998 $1,176,474 thousand). In accordance with DFAS guidance of 20 January 1999, the change in workers' compensation from FY 1998 to FY 1999 is reported on the Consolidated Statement of Net Cost as Program Costs (With the Public), which is reported under the Component activity group on the Consolidating Statement of Net Cost on Line 1.A.2 Program Costs (With the Public). Also see Note 14.

Note 16.J. Other Disclosures:
($ in Thousands)

Supply Management (Navy).

The values reflected in the Statement of Net Cost, Line 1.A. Program Costs (Intragovernmental) includes non-recoverable costs such as disposal actions and adjustments to inventory balances. As a result of the implementation of USD(C) Inventory Valuation Model, prior year values in Equity, Inventory, and Inventory Allowance have been impacted. For the reporting period of October 1997, one change to the USD(C)/DFAS Inventory Valuation Model that has taken place is the use of the monthly change of DoD SGL account 1520C, Property Clearing Account, as inventory gains. These gains represent timing differences between the receipt of material in the inventory accounting system and the related accounts payable posting for material receipt. Until the inventory accounting system and the allotment accounting system are integrated into a single system these timing differences will continue. The inventory gains associated with the Property Clearing Account for FY 1999 was an increase of $233,931 thousand and is included in the Statement of Net Cost, Line 1.D, Program Costs (Less: Earned Revenues), as directed by DFAS and USD(C). The changes associated with the USD(C) Inventory Valuation Model will remain pending further guidance from USD(C) and DFAS.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

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

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

1. Changes in Accounting Standards	$0
2. Errors and Omission in Prior Year Accounting Reports	1,962,518
3. Other	51,411
4. Total	$2,013,929

B. Imputed Financing

1. CSRS/FERS Retirement	$189,286
2. Health	215,582
3. Life Insurance	712
4. Total	$405,580

See paragraph two of Note 1.A. Except for minor rounding differences, the amounts presented in this note developed by DON and DFAS-CL agree with the amounts presented in the principal statements produced by the DFAS software application.

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

1. Additional disclosures related to the prior period adjustments of $2,013,929 thousand to Net Position Beginning Balance follow.

Depot Maintenance - Shipyards. This activity group recorded prior period adjustments of $5,533 thousand that is included in Line A.3 Other. The prior year adjustment is due to purification of accrued expense at the closed shipyards. This is offset by a prior year adjustment of $3,161 thousand at Pearl Harbor Naval Shipyard for overhead expense as a result of the Pearl Pilot (see Note 1.B) and $5,921 thousand relating to Puget Sound Naval Shipyard for Material Access Technology implementation error.

Depot Maintenance - Other (Marine Corps). This activity group recorded prior period adjustment of $1,562 thousand that is included in the Line A.3 Other. The $1,562 thousand represents the net effect of Accounts Payables and Accounts Receivables recorded in prior years that were written off during FY 1999.

Base Support. The PWCs segment of the Base Support activity group recorded prior period adjustments of $4 thousand that is included in the Line A.3 Other. The $4 thousand adjustments resulted from travel cost corrections made at the PWC Pensacola activity.

Information Services.

NAVCOMTELCOM. This activity group recorded a prior period adjustment of a negative ($4,874) thousand that is included in Line A.2 Errors and Omission in Prior Year Accounting Reports above. The adjustment is the net of two adjustments: Reserve for Major Repair Maintenance of $303 thousand and DON recoupment of the FY 1998 cash surcharge of a negative ($5,177) thousand.

COMNAVRESFOR. Included in Line A.2 Errors and Omission in Prior Year Accounting Reports is an adjustment of a negative ($927) thousand to offset a FY 1998 cash surcharge in the FY 1999 AOR.

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Supply Management (Marine Corps). This activity reported that the amount included in Line A.2 Errors and Omission in Prior Year Accounting Reports is mostly related to Accounts Receivable for the write-off of Bad Debts totaling a negative ($21,514) thousand. Line A.3 Other includes Material Returns Credit $5,283 thousand and the revaluation of inventory from standard unit price to latest acquisition cost of $36,227 thousand. The activity has other prior year adjustments of $2,802 thousand.

Supply Management (Navy). Prior Period Adjustment, Line A.2 Errors and Omission in Prior Year Accounting Reports, consists of an adjustment computation included in the USD(C) Inventory Valuation Model in the amount of $3,690 thousand for prior period adjustments, $652,602 thousand for prior year adjustments to Cost of Goods Sold, and $735,044 thousand for Capital Investments Adjustment. Additionally, $600,434 thousand in residual balances were removed for activities that were Base Realignment and Closure (BRAC), Partnered with a Fleet and Industrial Supply Center (FISC) or converted to a Transaction Item Reporting (TIR) activity in the Material Financial Control System (MFCS).

Navy Component. The $535 thousand Prior Period Adjustment in the Component column of the Consolidating Statement of Changes in Net Position corrects duplicate reporting of a FY 1998 non-expenditure transfer. The transfer was originally recorded at the Navy Component level because of late receipt of the transaction in FY 1998. It was subsequently recorded and duplicated in the FY 1999 NAWC segment of the Research and Development activity group.

2. The NWCF Departmental level CFO statements have recognized an imputed expense for civilian employee pensions and ORBs in the Statement of Net Cost and have recognized imputed revenue for the civilian employee pensions and ORBs in the Statement of Changes in Net Position. Imputed pensions and ORBs revenue is displayed on Line 2.D, Imputed Financing, of the Statement of Changes in Net Position. Also see Note 1.F, Note 16.H and Note 16.I. Imputed pension and ORBs was computed by DFAS.

3. Disclosures related to the Consolidating Statement of Changes in Net Position, Financing Sources (other than exchange revenues) Transfers-in and Transfers-out follow:

Supply Management (Navy).

The Navy portion of the Supply Management column of the Consolidating Statement of Changes in Net Position, Line 2.E Financing Sources (other than exchange revenues) Transfers-in value of $3,931,512 thousand includes DoD SGLs 3220, 322051 and 34001. Line 2.E Transfers-in includes the following:

a. material transfers at standard price from other Navy or Marine Corps inventory managers. Includes all transfers into end-use as a result of cognizance transfers or pipeline Other Supply Officer receipts,

b. the value at standard price of material taken up in NWCF for item management responsibility pursuant to extension, and/or expansion of the NWCF,

c. material transfers at a standard price to the carrying cognizance symbol from Small Ships Stores account,

d. the value at standard price of material received into NWCF inventory at a specific site which was issued by another site from NWCF inventory within the same ledger system at a specific stock point, and

e. the value at standard price of material received from other supply officers. NAVICP will report under this line the value at standard price the value of material not under the control of a supply officer.

The Navy portion of the Supply Management column of the Consolidating Statement of Changes in Net Position, Line 2.F Financing Sources (other than exchange revenues) Transfers-out value of $3,931,512 thousand includes DoD SGLs 3230, 323051 and 34002. Line 2.F Transfers-out includes the following:

a. material transferred out at standard price pursuant to cognizance transfer to other Navy and

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Marine Corps Inventory Managers, change in mission, and other item management changes. Under end-use, includes cognizance migrations out of Depot Level Reparable Inventory to end-use at standard price,

b. material transferred at standard price from NWCF inventory pursuant to a change in item management,

c. material at standard price issued on a nonreimbursable basis to other DoD agencies, other government departments, Security Assistance Program, States, municipalities, organizations and educational activities approved by DoD. Under end-use, will be utilized for all on-station issues at either net or standard price,

d. material at standard price issued to a Centralized Accounting and Billing (CAB) stock point by another CAB stock point where the financial accountability inventory control point will also report the receipt under DoD SGLs 152131 and 152123. This process is for use by NAVICP only,

e. material at standard price issued from NWCF inventory at a specific site which will be received into NWCF inventory by another site within the same ledger system at a specific stock point, and

f. material transferred at standard price to other supply officers for NWCF inventory and includes non-CAB activities shipping material to contractors for repair, testing or as Government Furnished Material under NAVICP contracts.

Additional Disclosures. DFAS followed the policy and procedures outlined in the draft Chapter 13, FY 1999 Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures, of the DoD FMR Volume 6B, and direction from USD(C) to compute the elimination entry amounts for the Transfers-in and Transfers-out lines on the Statement of Changes in Net Position. The effect of this computation was to eliminate all Intragovernmental amounts reported for Transfers-in and Transfers-out for each NWCF activity group. For each individual activity group on the Consolidating Statement of Changes in Net Position, Financing Sources (other than exchange revenues) DFAS reviewed Line 2.E Transfers-in, Line 2.F Transfers-out, and Line 2.G Other to identify trading partners for amounts originally reported by the activity group. Amounts for which trading partners could not be identified were reclassified as either a gain or loss and included in the Statement of Net Cost. This resulted in an adjustment of $430,104 thousand gain to the Net Cost of Operations.

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

1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$6,690,011
2. Available Borrowing and Contract Authority at the End of Period	$3,743,027

3. Other Information:

The Statement of Budgetary Resources is an image of the monthly Report of Budget Execution (SF 133). These reports should be produced using budgetary accounts, however, NWCF uses proprietary accounts because its financial accounting systems were not designed to produce budgetary accounting data.

The SF 133 does not measure the NWCF's budget execution against budgetary resources. Budgetary resources are recorded in the accounting records and reported on the basis of customer orders received and contract authority invoked. On these reports, the spending authority from offsetting collections during the period of execution is based upon the approved president's budget estimate of anticipated customer orders. However, at 30 September, the actual customer orders are used to populate this line on the report since actual execution experience replaces the estimated values.

For the SF 133, Supply Management's revenue is defined as gross sales less credit returns. For Accounting Report (AR) 1307 and the financial statements, revenue is defined as gross sales. Credit returns are used to affect the

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cost of the inventory and cost of goods sold. The difference in "meanings" has caused significant variances in the reports.

On these budgetary reports, the net outlays (collections and disbursements) year to date are reported based on the amounts reported to U.S. Treasury from the CERPS. In FY 1999, the differences between the U.S. Treasury and the NWCF activity ledgers have been minimal and the cause is related to timing or the type of transactions (i.e. non-expenditure transfers). The differences are recorded as undistributed disbursements and collections on the departmental reports. Due to the changes in policy and reporting practices, the undistributed balance has been reduced at the field level from prior years.

While there may be no impact upon the U.S. Treasury balance, this has created distortions in the Accounts Payable and Accounts Receivable from a budgetary reporting perspective on the SF 133. In addition, Accounts Payable and Accounts Receivable are handled differently on the SF 133 as compared to the AR 1307 and financial statements. Also, problems with undistributed disbursements and collections have created abnormal balances for the receivables and payables on the SF 133. In April 1999, USD(C) sent a letter to DFAS requesting information regarding the Statement of Budgetary Resources. In an on-going effort, the DON is working with USD(C) and DFAS to correct these abnormal balances and prepare a crosswalk from the proprietary accounts to the budgetary reports that will improve budgetary reporting on the SF 133.

The brought forward unobligated balance for Depot Maintenance - Shipyards, Depot Maintenance - Aviation, and Ordnance activity groups understated the DON's total budgetary resources because of the recording of the cash surcharges as obligations by DFAS at the end of FY 1997. DFAS has been notified of the erroneous transactions.

The DON and DFAS are in the process of implementing new accounting systems, such as DIFMS and DWAS in the industrial activities. These new accounting systems will contain both proprietary and budgetary account structures and, therefore, the capability to produce the Statement of Budgetary Resources and SF 133.

Intra-agency transactions have not been eliminated because the statements are presented as combined and combining. Eliminating entries for this statement are deferred by the revised OMB 97-01 bulletin for FY 1999.

The Undelivered Orders in Line 1, Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period includes Undelivered Orders - Unpaid (US SGL Account 4801) for both Direct and Reimbursable funds. Line 1 does not include Undelivered Orders -Paid (US SGL Account 4802).

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in Line 5 Budgetary Resources, Adjustments on the Statement of Budgetary Resources), are not included in Line 12 Outlays, Less: Spending Authority From Offsetting Collections and Adjustments on the Statement of Budgetary Recourses or Line 1.B Obligations and Non Budgetary Resources, Less: Spending Authority for Offsetting Collections and Adjustments on the Statement of Financing.

See the combining disaggregated Statement of Budgetary Resources in the Supporting Consolidating/Combining Statements section of this report for more details.

Note 19. Disclosures Related to the Statement of Financing:
($ in Thousands)

The Statement of Financing is designed to provide information on the total resources used by an entity and explain how those resources were used to finance orders for goods and services not yet delivered, to acquire assets and liabilities, and to fund the entity's net cost of operations. It is designed to report the differences and facilitate the reconciliation of accrual-based amounts used in the Statement of Net Cost and obligation-based amounts used in the Statement of Budgetary Resources. The computations and presentation of items in the Statement of Financing demonstrate that the budgetary and proprietary information in an entity's financial management systems are in agreement. Because NWCF DFAS accounting systems do not include budgetary accounts, the Statement of Budgetary Resources is produced using proprietary accounts. Additionally, current NWCF DFAS accounting systems may not contain the detail level

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information required to appropriately complete this Statement. Therefore, the data presented on the Statement of Financing may not meet the intent of the DoD Guidance on Form and Content of DoD Audited Financial Statements. During FY 2000 DoD will develop alternative procedures to better prepare the Statement of Financing for FY 2000 CFO Reporting.

See paragraph two of Note 1.A. The NWCF Combined Statement of Financing and Combining Statement of Financing as produced by the DFAS software application encountered difficulties in mapping financial information from their accounting center's systems to the database of the application. The below disclosures relate to NWCF Combined Statement of Financing and Combining Statement of Financing produced by the DFAS software application and presented in this financial report. DFAS is reviewing the data mapping in their financial statement software application for resolution of this problem in FY 2000.

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

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. This causes a difference in Net Cost between the Statement of Net Cost and the Statement of Financing. The Statement of Financing, Line 2.B Resources That Do Not Fund Net Cost of Operations, Costs Capitalized on the Balance Sheet - (Increases)/Decreases has been adjusted by $1,573,072 thousand to make the two statements match.

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

Note 21.A. Other Disclosures; Leases:
($ in Thousands)

1. ENTITY AS LESSEE:
   a. Operating Leases:

(1) Description of lease arrangements: Except as reported for the Transportation activity group, herein, the operating leases at NWCF activities are for a one year period and therefore, are not included in this note. An operating lease is defined in DoD FMR, Volume 4, Chapter 7, as any lease that is not a capital lease. For FY 1999 the Transportation activity group's time charters and MPSs are not included in Note 21.A, Line 1.a(2). See Note 1.O, Note 5, and Note 11 for more details. A review is ongoing to determine the appropriateness for reporting the Transportation activity group's time charters and MPSs as operating leases in FY 2000. The Transportation activity group has ADP equipment with a 3 year lease for $1,300 thousand per year as shown below and the proper amount has been expensed and is reflected in the financial statements.

(2) Future Payments Due:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	(4)
Year 1 (CY + 1)	$1,300	$0	$0	$0
Year 2 (CY + 2)	1,300			
Year 3 (CY + 3)	1,300			
Year 4 (CY + 4)				
Year 5 (CY + 5)				
After 5 Years				
Total Future Lease Payments	$3,900	$0	$0	$0

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2. ENTITY AS LESSOR:

a. Capital Leases:

(1) Description of lease arrangements: This note is not applicable to the NWCF activity groups because they do not have any capital assets that are leased out.

(2) Future Projected Receipts:

Fiscal Year	Asset Category (1)	(2)	(3)	Totals
Year 1 (CY + 1)	$0	$0	$0	$0
Year 2 (CY + 2)				
Year 3 (CY + 3)				
Year 4 (CY + 4)				
Year 5 (CY + 5)				
After 5 Years				
Total Future Capital Lease Receivable	$0	$0	$0	$0

b. Operating Leases:

(1) Description of lease arrangements: This note is not applicable to the NWCF activity groups because they do not have any assets or facilities that are leased out.

(2) Future Projected Receipts:

Fiscal Year	Asset Category (1)	(2)	(3)	Totals
Year 1 (CY + 1)	$0	$0	$0	$0
Year 2 (CY + 2)				
Year 3 (CY + 3)				
Year 4 (CY + 4)				
Year 5 (CY + 5)				
After 5 Years				
Total Future Operating Lease Receivable	$0	$0	$0	$0

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Note 21.B Other Disclosures

A. Depot Maintenance – Aviation.

The DFAS accounting system, DFIMS, is being changed as of 1 October 1999 to reflect revenue recognition as required by DFAS-CL memorandum of 31 August 1998.

B. Depot Maintenance – Other (Marine Corps).

The FY 1998 CFO statements reported a problem with large undistributed balances, which impacted Accounts Payable. This problem has been corrected in FY 1999. DFAS-Kansas City Center now waits for the CERPS to run before completing the Activity financial statements.

DIFMS has not been modified to recognize revenue using the percentage of completion method as required by the 31 August 1998 DFAS-CL memorandum. The DFAS system modification should be completed during FY 2000.

C. Ordnance.

CINCLANTFLT. Accounts Payable is correctly reflected; however, the breakdown between Commercial and Government is incorrect. The commercial is overstated and the government is understated and should have a reversal Journal Voucher processed. The error occurred due to the method of treatment of the transactions by the accounting system. A Navy Ordnance Management Information System (NOMIS) system change was submitted to the COMNAVSEASYSCOM but has not been implemented due to the planned phase-out of the system. The Accounts Payable – Commercial and Government accounts are overstated by an undetermined amount based upon historical research. Collective efforts are on-going between Navy and DFAS to validate and correct the subsidiary account balances.

CINCPACFLT. The Accounts Payable – Government accounts are higher than normal because of about $2,422 thousand in the unallocated cost account. This is primarily due to cash processing delays at DFAS-CL Operating Location (OPLOC) Oakland and CINCPACFLT Ordnance. CINCPACFLT Ordnance is working to reduce the backlog more during FY 2000. The Accounts Payable – Commercial accounts are higher than normal because of about a negative ($17,040) thousand in the unallocated costs account, which made the account total a negative amount, which is not normal. This is primarily due to cash processing delays at DFAS-CL OPLOC Oakland and CINCPACFLT Ordnance. CINCPACFLT Ordnance is working to reduce the backlog more during FY 2000. The Accounts Receivable accounts are higher than normal because of about $1,510 thousand in the unallocated costs account. This is primarily due to cash processing delays at DFAS-CL OPLOC Oakland. CINCPACFLT Ordnance is working to reduce the backlog during FY 2000.

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D. Transportation.

The Transportation column on the Consolidating Balance Sheet Line 4.A.1, Liabilities Covered by Budgetary Resources, (Intragovernmental), Accounts Payable, shows an abnormal balance. The value for Undistributed Disbursements, Summary Registers, GLA 1545, is subtracted when calculating the value for Line 4.A.1.

E. Base Support.

PWCs. PWC Pearl Harbor certified their FY 1999 year-end financial data with the exception of the cash account because it had not been reconciled. PWC Pensacola was unable to substantiate the account balances reported for cash, inventories, accrued expenses and unallocated costs and did not certify the accuracy of their FY 1999 year end financial data. PWC San Francisco Bay FY 1999 financial data was not certified because most of the active GLAs were not reconciled. Defense Working Capital Accounting System (DWAS) implementation problems at PWC San Diego affected FY 1999 account balances for Capital Assets and Cash Surcharges, Liabilities Assumed, Depreciation, Military Labor, and Undelivered Orders.

F. Research and Development.

NRL. The NRL segment of the Research and Development column of the Consolidating Balance Sheet Line 4.A.1, Liabilities Covered by Budgetary Resources, (Intragovernmental), Accounts Payable, has been offset by Undistributed Disbursements-NWCF Summary registers in the amount of $3,297 thousand. These disbursements have not been distributed in detail registers to NRL through the Industrial Fund Centralized Disbursement Reimbursement System. These net disbursements were recorded only in summary registers at the appropriation/subhead level and have not been identified by detail register, amount, or document to validate that they are NRL transactions. The NRL segment of the Research and Development column of the Consolidating Balance Sheet Line 4.B, Liabilities Covered by Budgetary Resources, Accounts Payable, reflects an abnormal balance because the amount has been offset by Undistributed Disbursements-Unmatched in the amount of $22,307 thousand. The Undistributed Disbursements-Unmatched are either unidentifiable or have not yet been matched to specific payable or accrual transactions; some may have been charged to NRL in error. Many, once identified, will liquidate accounts payable or accrued expenses.

SSCs. Effective with the conversion of the accounting system from a local accounting system to the DIFMS in January 1998, numerous GLAs have been out of balance with their supporting subsidiary ledgers. These accounts remain unreconciled for the second year: cash, accounts receivables, accounts payable, the unallocated accounts, and advances. Teams have been formed to try and reconcile these accounts. Therefore, the amounts reported in these statements only attest to the fact that the amounts reported by DIFMS are the same as those reported on the financial statements.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

G. Supply Management (Navy).

Accounts Payable are overstated by approximately $18,000 thousand caused by processing irregularities at the DFAS payment office for Budget Projects (BPs) 14 and 81. Progress Payments are overstated by approximately $27,300 thousand caused by processing irregularities at the DFAS payment office for BPs 14 and 81. In accordance with DFAS-CL year-end guidance, NWCF activities are required to include all transactions through 30 September of the reporting fiscal year in their financial reports. Current reporting due dates require activities to close their "books" prior to 30 September in order to be included in year-end reports. Delays resulting from ADP scheduling and processing constraints will be encountered and result in some transactions being excluded from year-end reports. Also, financial processing will preclude some measure of transactions from processing to accounting records. These transactions are output to exception files and are reviewed, reconciled, and reprocessed to accounting records. Financial reporting deadlines provide insufficient time to affect corrections and, thus, corrections are processed and reported in subsequent reporting periods. Therefore, financial information presented in the financial statements of this activity group is not as of 30 September 1999. This is not considered material when viewing and drawing conclusions from these financial statements.

H. Supply Management (Marine Corps).

The Marine Corps continues to experience problems in Accounts Payable and Undelivered Order abnormal balances and accounting for these funds in the new Standard Accounting Budgeting and Reporting Systems 2 (SABRS2).

The methodology to determine Accounts Payable Commercial is to compare CERPS payment registered with compared inventory receipts. This methodology has resulted in negative Accounts Payable Commercial due to selected registered payments exceeding inventory receipts. We have determined that this methodology is invalid to determine the split between commercial and government Accounts Payable. We have recommended DFAS to use another method for matching receipts against disbursements.

The non-certification of undelivered orders is due to accounting system problems. The primary reason for this abnormal balance for undelivered orders is due to the problem with the accounts payable function. In the past the accounts payable function had accounts payable matched against overstated undistributed disbursements. To correct the problem, outstanding obligations were validated against receipts. The Marine Corps and DFAS have agreed on procedures to guard against future reoccurrence and continue on a monthly basis reviewing accounts payable.

I. Navy Component.

Included in Line 4.A.1, Liabilities Covered by Budgetary Resources (Intragovernmental), Accounts Payable, of the Component column of the Consolidating Balance Sheet is a negative ($244,861) thousand representing a downward adjustment to Intragovernmental Accounts Payable to support preparation and presentation of intragovernmental elimination entries. The adjustment was calculated by DFAS and was based upon seller-side elimination information from intragovernmental (DoD and non-DoD) trading partners. See also the Required Supplementary Information section of this CFO report.

The NAVAUDSVC audit report 049-98 reported that the FY 1997 NWCF CFO Consolidated Financial Statement overstated Non-Entity Assets by $393.5 million because the IMRL equipment was improperly reported as NWCF assets even though they did not meet the criteria for inclusion in accordance with DoD FMR. According to the audit report the IMRL equipment are not controlled by the NWCF activities. NAVAUDSVC Recommendation 41, recommended that ASN(FM&C) direct that the financial statements that report Commander, Naval Air Systems Command (COMNAVAIRSYSCOM) transactions include the IMRL equipment rather than the NWCF. Notwithstanding, the

NWCF NOTES TO THE PRINCIPAL STATEMENTS

ASN (FM&C) 7 July 1998 response to the audit report, DON has decided to take immediate action to comply with NAVAUDSVC Recommendation 41. Therefore, the gross value of IMRL equipment is no longer reported as Non-Entity Assets in the NWCF Consolidated Financial Statement. In FY 1999, like in FY 1998, the IMRL equipment assets will be reported in the DON General Funds (Treasury Index 17) Financial Statements as Supplementary Stewardship Information when appropriate. COMNAVAIRSYSCOM has made the determination that the IMRL equipment assets meet the definition of National Defense PP&E assets. The Net Book Value of the IMRL equipment is $461,552 thousand as disclosed in Note 9 above. The Net Book Value of IMRL equipment is not included in the numeric portion of Note 9, but is provided for full disclosure of sponsor funded equipment.

J. Undistributed Collections and Undistributed Disbursements.

The department level Undistributed Collections and Undistributed Disbursements are captured in DoD SGL Accounts 1014 and 1015, respectively. The DoD FMR requires that these accounts be reported as adjustments to the reported Accounts Receivable and Accounts Payable values. The methodology for recording the Undistributed Collections and Undistributed Disbursements is different for the supply type activity groups than for the industrial type activities groups as discussed below. This inconsistent treatment between activity groups was cited by the NAVAUDSVC in draft audit report 98-0099 Finding 12, Recommendation 47.

In the Supply Management (Navy) activity group, Accounts Receivable and Accounts Payable, were adjusted for Undistributed Collections and Undistributed Disbursements, respectively, based on percentages computed from current relationships among the four accounts. The total values of Accounts Payable and Accounts Receivable were not changed.

In previous years, presentation of undistributed amounts for the Navy industrial type activity groups and the Navy Component SGL Accounts 1014B and 1015B were netted against each other and displayed on the Balance Sheet, Line 4.A.4, Liabilities Covered by Budgetary Resources (Intragovernmental) Other Liabilities. In addition, this information was disclosed further in related Note, Other Liabilities Covered by Budgetary Resources (Intragovernmental) Other Liabilities. That display followed the practice established in FY 1997 per guidance from DFAS dated 2 December 1997.

However, in FY 1999, this practiced was modified as a result of eliminating entry guidance outlined in DoD FMR, Volume 6B, Chapter 13 (draft unpublished) as directed by USD(C) and implemented by DFAS. As a result, Navy Industrial activity groups and Navy Component SGL Accounts 1014B and 1015B continued to be netted against each other, however, the netted value is now displayed on the Balance Sheet, Line 4.E, Liabilities Covered by Budgetary Resources, Other Liabilities. In addition, this information is disclosed further in Note 13, Other Liabilities Covered by Budgetary Resources (With the Public) Other Liabilities instead of (Intragovernmental). The FY 1999 net value of Undistributed Collections and Disbursements (Navy Account 1156) is $1,879,698 thousand.

K. Abnormal Balances Not Disclosed Elsewhere in the Notes.

A few NWCF activity groups are reflecting a negative balance in Navy Account 2110 Accounts Payable. These negative Accounts Payable balances are the result of procedures which apply Navy Account 1545 Undistributed Disbursements - Unmatched to the Navy Account 2110 Accounts Payable. An abnormal (negative) Accounts Payable balance results when the Navy Account 1545 Undistributed Disbursements - Unmatched balance is greater than the Navy Account 2110 Accounts Payable balances. The Navy Account 1545 Undistributed Disbursements - Unmatched must be researched in order for it to be applied to the correct account within the Liabilities section of the statement and preclude an abnormal balance. The overall NWCF Navy Account 2110 Accounts Payable is not abnormal.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

L. Unmatched Disbursements, Negative Unliquidated Obligations, and Aged In-Transit Disbursements.

Treasury Index Appropriation 4930	September 1999	September 1998	Change	Percent Change
Unmatched Disbursements	$473,957	$468,418	$5,539	1.2%
Negative Unliquidated Obligations	Not Applicable	Not Applicable		
Aged In-Transit Disbursements	$390,741	$447,102	($56,361)	(12.6%)
Totals	$864,698	$915,520	($50,822)	(5.6%)

M. Adjustments Made for Eliminating Entries.

The NOR has been affected by an adjustment to accounts payable, operating expenses, expended authority and undelivered orders as required by draft Chapter 13 of the DoD FMR 7000.14R, Volume 6B.

	($ in thousands)
NOR Prior to Adjustment	($894,832)
NOR Subsequent to the Adjustment	($305,382)
Difference	$589,450

The adjustment entry is based upon data received by DFAS-CL from the trading partners that is applicable to Level 2. The following entry was made:

	Debit ($ in thousands)	Credit
Accounts Payable	$244,861	
Operating Expense		$244,861
Expended Authority (Unpaid)	$244,861	
Undelivered Orders (Unpaid)		$244,861
Advances to Others	$344,589	
Operating Expenses		$344,589
Expended Authority (Paid)	$344,589	
Undelivered Orders (Paid)		$344,589

N. Reclassification of Expenses between Government and Public.

DFAS-CL reclassified expenses between government and public expenses of $11,403,033 thousand. This entry reduced government expenses to $9,528,583 thousand. The support for this adjustment is the trading partner information received by DFAS-CL on behalf of the NWCF from each of the DFAS Centers.

O. Intragovernmental Eliminations.

See the Required Supplementary Information section of this CFO report.

NWCF NOTES TO THE PRINCIPAL STATEMENTS

DEPARTMENT OF THE NAVY

NAVY WORKING CAPITAL FUND

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

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

ASSETS	Depot Maintenance Shipyards	Depot Maintenance, Aviation	Depot Maintenance, Ordnance	Supply Management	Transportation
1. Entity Assets					
A. Intragovernmental					
1. Fund Balance with Treasury (Note 2)	$ 185,976	$ (127,672)	$ 132,236	$ 177,452	$ 168,470
2. Investments, Net (Note 3)	0	0	0	0	0
3. Accounts Receivable (Note 4)	25,098	30,474	26,468	224,555	46,532
4. Other Assets (Note 5)	110,785	0	0	122	193
5. Total Intragovernmental	$ 321,859	$ (97,198)	$ 158,704	$ 402,129	215,195
B. Accounts Receivable, Net (Note 4)	158	(22)	946	84,034	429
C. Loans Receivable and Related Foreclosed Property, Net (Note 6)	0	0	0	0	0
D. Cash and Other Monetary Assets (Note 7)	0	0	0	0	0
E. Inventory and Related Property, Net (Note 8)	326,093	961,233	7,697	14,047,255	33,149
F. General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)	930,494	321,407	143,558	320,427	8,441
G. Other Assets (Note 5)	29,588	9,370	404	274,807	1,026,405
H. Total Entity Assets	$ 1,608,192	$ 1,194,790	$ 311,309	$ 15,128,652	$ 1,283,619
2. Nonentity Assets					
A. Intragovernmental					
1. Fund Balance with Treasury (Note 2)	$ 0	$ 0	$ 0	$ 0	$ 0
2. Accounts Receivable (Note 4)	0	0	0	0	0
3. Other Assets (Note 5)	0	0	0	0	0
4. Total Intragovernmental	$ 0	$ 0	$ 0	$ 0	$ 0
B. Accounts Receivable, Net (Note 4)	0	0	0	0	0
C. Cash and Other Monetary Assets (Note 7)	0	0	0	0	0
D. Other Assets (Note 5)	0	0	0	0	0
E. Total Nonentity Assets	$ 0	$ 0	$ 0	$ 0	$ 0
3. Total Assets	$ 1,608,192	$ 1,194,790	$ 311,309	$ 15,128,652	$ 1,283,619

The accompanying notes are an integral part of these statements

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

ASSETS	Base Support	Information Services	Research & Development	Depot Maintenance. Other	Component Level
1. Entity Assets					
A. Intragovernmental					
1. Fund Balance with Treasury (Note 2)	$ 76,538	$ (8,534)	(884,068)	$ (42,204)	$ 1,485,991
2. Investments, Net (Note 3)	0	0	0	0	0
3. Accounts Receivable (Note 4)	244,946	29,052	184,661	11,510	(2)
4. Other Assets (Note 5)	1,422	1,134	29,327	0	344,589
5. Total Intragovernmental	$ 322,906	$ 21,652	(670,080)	$ (30,694)	$ 1,830,578
B. Accounts Receivable, Net (Note 4)	36,040	0	8,895	617	2
C. Loans Receivable and Related Foreclosed Property, Net (Note 6)	0	0	0	0	0
D. Cash and Other Monetary Assets (Note 7)	0	0	0	0	0
E. Inventory and Related Property, Net (Note 8)	96,320	2,952	275,327	47,069	0
F. General Property, Plant and Equipment, Net (Note 9 (See Required Supplementary Stewardship Information)	662,739	3,115	1,978,332	60,050	0
G. Other Assets (Note 5)	1,684	881	30,517	27	0
H. Total Entity Assets	$ 1,119,689	$ 28,600	1,622,991	$ 77,069	$ 1,830,580
2. Nonentity Assets					
A. Intragovernmental					
1. Fund Balance with Treasury (Note 2)	$ 0	$ 0	0	$ 0	$ 0
2. Accounts Receivable (Note 4)	0	0	0	0	0
3. Other Assets (Note 5)	0	0	0	0	0
4. Total Intragovernmental	$ 0	$ 0	0	$ 0	$ 0
B. Accounts Receivable, Net (Note 4)	0	0	0	0	0
C. Cash and Other Monetary Assets (Note 7)	0	0	0	0	0
D. Other Assets (Note 5)	0	0	0	0	0
E. Total Nonentity Assets	$ 0	$ 0	0	$ 0	$ 0
3. Total Assets	$ 1,119,689	$ 28,600	1,622,991	$ 77,069	$ 1,830,580

The accompanying notes are an integral part of these statements

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

ASSETS	Combined Totals	Intra-entity eliminations	Consolidated Totals
1. Entity Assets			
A. Intragovernmental			
1. Fund Balance with Treasury (Note 2)	$ 1,164,185	$ 0	$ 1,164,185
2. Investments, Net (Note 3)	0	0	0
3. Accounts Receivable (Note 4)	823,294	(357,688)	465,606
4. Other Assets (Note 5)	487,572	(441,596)	45,976
5. Total Intragovernmental	$ 2,475,051	$ (799,284)	$ 1,675,767
B. Accounts Receivable, Net (Note 4)	131,099	0	131,099
C. Loans Receivable and Related Foreclosed Property, Net (Note 6)	0	0	0
D. Cash and Other Monetary Assets (Note 7)	0	0	0
E. Inventory and Related Property, Net (Note 8)	15,797,095	0	15,797,095
F. General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)	4,428,563	0	4,428,563
G. Other Assets (Note 5)	1,373,684	0	1,373,684
H. Total Entity Assets	$ 24,205,492	$ (799,284)	$ 23,406,208
2. Nonentity Assets			
A. Intragovernmental			
1. Fund Balance with Treasury (Note 2)	$ 0	$ 0	$ 0
2. Accounts Receivable (Note 4)	0	0	0
3. Other Assets (Note 5)	0	0	0
4. Total Intragovernmental	$ 0	$ 0	$ 0
B. Accounts Receivable, Net (Note 4)	0	0	0
C. Cash and Other Monetary Assets (Note 7)	0	0	0
D. Other Assets (Note 5)	0	0	0
E. Total Nonentity Assets	$ 0	$ 0	$ 0
3. Total Assets	$ 24,205,492	$ (799,284)	$ 23,406,208

The accompanying notes are an integral part of these statements

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

LIABILITIES	Depot Maintenance, Shipyards	Depot Maintenance, Aviation	Depot Maintenance, Ordnance	Supply Management	Transportation
4. Liabilities covered by Budgetary Resources					
A. Intragovernmental					
1. Accounts Payable	$ 77,291	$ 282,926	$ 30,257	$ 376,947	$ (68,818)
2. Debt (Note 11)	0	0	0	0	1,025,589
3. Environmental Liabilities (Note 12)	0	0	0	0	0
4. Other Liabilities (Note 13)	88,671	662,495	2,409	64,668	0
5. Total Intragovernmental	$ 165,962	$ 945,421	$ 32,666	$ 441,615	$ 956,771
B. Accounts Payable	57,485	(24,047)	30,602	193,382	88,016
C. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 14)	0	0	0	0	0
D. Environmental Liabilities (Note 12)	0	0	0	0	0
E. Other Liabilities (Note 13)	361,360	292,914	44,544	509,011	483,788
F. Total Liabilities covered by Budgetary Resources	$ 584,807	$ 1,214,288	$ 107,812	$ 1,144,008	$ 1,528,575
5. Liabilities not covered by Budgetary Resources					
A. Intragovernmental					
1. Accounts Payable	$ 0	$ 0	$ 0	$ 0	$ 0
2. Debt (Note 11)	0	0	0	0	15,675
3. Environmental Liabilities (Note 12)	0	0	0	0	0
4. Other Liabilities (Note 13)	0	0	0	0	0
5. Total Intragovernmental	$ 0	$ 0	$ 0	$ 0	$ 15,675
B. Accounts Payable	$ 0	$ 0	$ 0	$ 0	$ 0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)	0	0	0	0	0
D. Environmental Liabilities (Note 12)	0	0	0	0	0
E. Other Liabilities (Note 13)	0	0	0	0	0
F. Total Liabilities not covered by Budgetary Resources	$ 0	$ 0	$ 0	$ 0	$ 15,675
6. Total Liabilities	$ 584,807	$ 1,214,288	$ 107,812	$ 1,144,008	$ 1,544,250

The accompanying notes are an integral part of these statements

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

LIABILITIES	Base Support	Information Service	Research & Development	Depot Maintenance, Other	Component Level
4. Liabilities covered by Budgetary Resources					
A. Intragovernmental					
1. Accounts Payable	$ 76,953	$ 36,748	$ 131,162	$ 4,639	$ (244,862)
2. Debt (Note 11)	0	0	0	0	0
3. Environmental Liabilities (Note 12)	0	0	0	0	0
4. Other Liabilities (Note 13)	0	0	43,240	0	(2)
5. Total Intragovernmental	$ 76,953	$ 36,748	$ 174,402	$ 4,639	$ (244,864)
B. Accounts Payable	8,633	30,292	95,224	5,009	0
C. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 14)	0	0	0	0	0
D. Environmental Liabilities (Note 12)	0	0	0	0	0
E. Other Liabilities (Note 13)	356,226	72,285	1,728,676	11,173	(1,756,009)
F. Total Liabilities covered by Budgetary Resources	$ 441,812	$ 139,325	$ 1,998,302	$ 20,821	$ (2,000,873)
5. Liabilities not covered by Budgetary Resources					
A. Intragovernmental					
1. Accounts Payable	$ 0	$ 0	$ 0	$ 0	$ 0
2. Debt (Note 11)	0	0	0	0	0
3. Environmental Liabilities (Note 12)	0	0	0	0	0
4. Other Liabilities (Note 13)	0	0	0	0	0
5. Total Intragovernmental	$ 0	$ 0	$ 0	$ 0	$ 0
B. Accounts Payable	0	0	0	0	0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)	0	0	0	0	1,106,251
D. Environmental Liabilities (Note 12)	0	0	0	0	0
E. Other Liabilities (Note 13)	0	0	0	0	0
F. Total Liabilities not covered by Budgetary Resources	$ 0	$ 0	$ 0	$ 0	$ 1,106,251
6. Total Liabilities	$ 441,812	$ 139,325	$ 1,998,302	$ 20,821	$ (894,622)

The accompanying notes are an integral part of these statements

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

	Combined Totals	Intra-entity eliminations	Consolidated Totals
LIABILITIES			
4. Liabilities covered by Budgetary Resources			
A. Intragovernmental			
1. Account Payable	$ 703,243	$ (357,688)	$ 345,555
2. Debt (Note 11)	1,025,589	0	1,025,589
3. Environmental Liabilities (Note 12)	0	0	0
4. Other Liabilities (Note 13)	861,481	(441,596)	419,885
5. Total Intragovernmental	$ 2,590,313	$ (799,284)	$ 1,791,029
B. Accounts Payable	484,596	0	484,596
C. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 14)	0	0	0
D. Environmental Liabilities (Note 12)	0	0	0
E. Other Liabilities (Note 13)	2,103,970	0	2,103,970
F. Total Liabilities covered by Budgetary Resources	$ 5,178,879	$ (799,284)	$ 4,379,595
5. Liabilities not covered by Budgetary Resources			
A. Intragovernmental			
1. Accounts Payable	$ 0	$ 0	$ 0
2. Debt (Note 11)	15,675	0	15,675
3. Environmental Liabilities (Note 12)	0	0	0
4. Other Liabilities (Note 13)	0	0	0
5. Total Intragovernmental	$ 15,675	$ 0	$ 15,675
B. Accounts Payable	$ 0	$ 0	$ 0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)	1,106,251	0	1,106,251
D. Environmental Liabilities (Note 12)	0	0	0
E. Other Liabilities (Note 13)	0	0	0
F. Total Liabilities not covered by Budgetary Resources	$ 1,121,926	$ 0	$ 1,121,926
6. Total Liabilities	$ 6,300,805	$ (799,284)	$ 5,501,521

The accompanying notes are an integral part of these statements

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

NET POSITION (Note 15)	Depot Maintenance, Shipyards	Depot Maintenance, Aviation	Depot Maintenance, Ordnance	Supply Management
7. Unexpended Appropriations	$ 0	$ 0	$ 0	$ 0
8. Cumulative Results of Operations	1,023,385	(19,498)	203,497	13,984,644
9. Total Net Position	$ 1,023,385	$ (19,498)	$ 203,497	$ 13,984,644
10. Total Liabilities and Net Position	$ 1,608,192	$ 1,194,790	$ 311,309	$ 15,128,652

NET POSITION (Note 15)	Transportation	Base Support	Information Services	Research & Development
7. Unexpended Appropriations	$ 0	$ 0	$ 0	$ 0
8. Cumulative Results of Operations	(260,631)	677,877	(110,725)	(375,311)
9. Total Net Position	$ (260,631)	$ 677,877	$ (110,725)	$ (375,311)
10. Total Liabilities and Net Position	$ 1,283,619	$ 1,119,689	$ 28,600	$ 1,622,991

NET POSITION (Note 15)	Depot Maintenance, Other	Component Level	Combined Total	Intra-entity eliminations	Consolidated Totals
7. Unexpended Appropriations	$ 0	$ 0	$ 0	$ 0	$ 0
8. Cumulative Results of Operations	56,248	2,725,202	17,904,687	0	17,904,687
9. Total Net Position	$ 56,248	$ 2,725,202	$ 17,904,687	$ 0	$ 17,904,687
10. Total Liabilities and Net Position	$ 77,069	$ 1,830,580	$ 24,205,492	$ (799,284)	$ 23,406,208

The accompanying notes are an integral part of these statements

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

		Total	Intra-entity eliminations	Consolidated Totals
1. Program Costs				
A. Depot Maintenance Shipyards				
1. Intragovernmental	$	2,230,988		
2. With the Public		(2,968)		
3. Total Program Cost	$	2,228,020		
4. (Less: Earned Revenues)		(2,253,085)		
5. Net Program Costs	$	(25,065)		
B. Depot Maintenance Aviation				
1. Intragovernmental	$	1,493,757		
2. With the Public		(11,998)		
3. Total Program Cost	$	1,481,759		
4. (Less: Earned Revenues)		(1,484,583)		
5. Net Program Costs	$	(2,824)		
C. Depot Maintenance Ordnance				
1. Intragovernmental	$	225,463		
2. With the Public		34,616		
3. Total Program Cost	$	260,079		
4. (Less: Earned Revenues)		(229,380)		
5. Net Program Costs	$	30,699		
D. Supply Management				
1. Intragovernmental	$	6,582,866		
2. With the Public		539,733		
3. Total Program Cost	$	7,122,599		
4. (Less: Earned Revenues)		(6,146,746)		
5. Net Program Costs	$	975,853		
E. Transportation				
1. Intragovernmental	$	1,229,138		
2. With the Public		(16,540)		
3. Total Program Cost	$	1,212,598		
4. (Less: Earned Revenues)		(1,228,720)		
5. Net Program Costs	$	(16,122)		
F. Base Support				
1. Intragovernmental	$	1,851,464		
2. With the Public		60,050		
3. Total Program Cost	$	1,911,514		
4. (Less: Earned Revenues)		(1,936,706)		
5. Net Program Costs	$	(25,192)		
G. Information Service				
1. Intragovernmental	$	229,912		
2. With the Public		(11,264)		
3. Total Program Cost	$	218,648		
4. (Less: Earned Revenues)		(224,762)		
5. Net Program Costs	$	(6,114)		

Additional information included in Note 16

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

	Total	Intra-entity eliminations	Consolidated Totals
H. Research & Development			
1. Intragovernmental	$ 7,123,276		
2. With the Public	217,350		
3. Total Program Cost	$ 7,340,626		
4. (Less: Earned Revenues)	(7,295,278)		
5. Net Program Costs	$ 45,348		
I. Depot Maintenance Other			
1. Intragovernmental	$ 148,620		
2. With the Public	12,486		
3. Total Program Cost	$ 161,106		
4. (Less: Earned Revenues)	(172,634)		
5. Net Program Costs	$ (11,528)		
J. Component Level			
1. Intragovernmental	$ (11,586,901)		
2. With the Public	11,332,808		
3. Total Program Cost	$ (254,093)		
4. (Less: Earned Revenues)	0		
5. Net Program Costs	$ (254,093)		
K. Total Program Costs			
1. Intragovernmental	$ 9,528,583	$ (2,627,658)	$ 6,900,925
2. With the Public	12,154,273	0	12,154,273
3. Total Program Cost	$ 21,682,856	$ (2,627,658)	$ 19,055,198
4. (Less: Earned Revenues)	(20,971,894)	2,627,658	(18,344,236)
5 Net Program Costs	$ 710,962	$ 0	$ 710,962
2. Costs not assigned to Programs	0	0	0
3. (Less: Earned Revenues not attributable to Programs)	0	0	0
4. Net Cost of Operations	$ 710,962	$ 0	$ 710,962

5. Deferred Maintenance (See Required Supplementary Information)

Additional information included in Note 16

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

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Ordnance	Supply Management
1. Net Cost of Operations	$ (25,065)	$ (2,824)	$ 30,699	$ 975,853
2. Financing Sources (other than exchange revenues)				
A. Appropriations used	0	0	0	0
B. Taxes and other nonexchange revenue	0	0	0	0
C. Donations - nonexchange revenue	0	0	0	0
D. Imputed financing (Note 17.B)	0	0	0	0
E. Transfers-in	4,968	0	0	3,932,705
F. (Transfers-out)	(4,968)	0	0	(3,932,705)
G. Other	0	0	0	0
H. Total Financing Sources (other than exchange revenues)	$ 0	$ 0	$ 0	$ 0
3. Net Results of Operations (Line 2H less Line 1)	$ 25,065	$ 2,824	$ (30,699)	$ (975,853)
4. Prior Period Adjustments (Note 17.A)	5,533	0	0	2,013,165
5. Net Change in Cumulative Results of Operations	$ 30,598	$ 2,824	$ (30,699)	$ 1,037,312
6. Increase (Decrease) in Unexpended Appropriations	0	0	0	0
7. Change in Net Position	$ 30,598	$ 2,824	$ (30,699)	$ 1,037,312
8. Net Position-Beginning of the Period	992,787	(22,322)	234,196	12,947,332
9. Net Position-End of the Period	$ 1,023,385	$ (19,498)	$ 203,497	$ 13,984,644

Additional information included in Note 17.

The accompanying notes are an integral part of these statements.

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

	Transportation	Base Support	Information Services	Research & Development
1. Net Cost of Operations	$ (16,122)	$ (25,192)	$ (6,114)	$ 45,348
2. Financing Sources (other than exchange revenues)				
A. Appropriations used	0	0	0	0
B. Taxes and other nonexchange revenue	0	0	0	0
C. Donations - nonexchange revenue	0	0	0	0
D. Imputed financing (Note 17.B)	0	0	0	0
E. Transfers-in	0	0	0	0
F. (Transfers-out)	0	0	0	0
G. Other	0	0	0	0
H. Total Financing Sources (other than exchange revenues)	$ 0	$ 0	$ 0	$ 0
3. Net Results of Operations (Line 2H less Line 1)	$ 16,122	$ 25,192	$ 6,114	$ (45,348)
4. Prior Period Adjustments (Note 17.A)	0	4	(5,801)	0
5. Net Change in Cumulative Results of Operations	$ 16,122	$ 25,196	$ 313	$ (45,348)
6. Increase (Decrease) in Unexpended Appropriations	0	0	0	0
7. Change in Net Position	$ 16,122	$ 25,196	$ 313	$ (45,348)
8. Net Position-Beginning of the Period	(276,753)	652,681	(111,038)	(329,963)
9. Net Position-End of the Period	$ (260,631)	$ 677,877	$ (110,725)	$ (375,311)

Additional information included in Note 17.

The accompanying notes are an integral part of these statements.

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

	Depot Maintenance Other	Component Level	Combined Total	Intra-entity eliminations	Consolidated Totals
1. Net Cost of Operations	$ (11,528)	$ (254,093)	$ 710,962	$ 0	$ 710,962
2. Financing Sources (other than exchange revenues)					
A. Appropriations used	0	0	0	0	0
B. Taxes and other nonexchange revenue	0	0	0	0	0
C. Donations - nonexchange revenue	0	0	0	0	0
D. Imputed financing (Note 17.B)	0	405,580	405,580	0	405,580
E. Transfers-in	0	0	3,937,673	(3,937,673)	0
F. (Transfers-out)	0	0	(3,937,673)	3,937,673	0
G. Other	0	0	0	0	0
H. Total Financing Sources (other than exchange revenues)	$ 0	$ 405,580	$ 405,580	$ 0	$ 405,580
3. Net Results of Operations (Line 2H less Line 1)	$ 11,528	$ 659,673	$ (305,382)	$ 0	$ (305,382)
4. Prior Period Adjustments (Note17.A)	1,561	(534)	2,013,928	0	2,013,928
5. Net Change in Cumulative Results of Operations	$ 13,089	$ 659,139	$ 1,708,546	$ 0	$ 1,708,546
6. Increase (Decrease) in Unexpended Appropriations	0	0	0	0	0
7. Change in Net Position	$ 13,089	$ 659,139	$ 1,708,546	$ 0	$ 1,708,546
8. Net Position-Beginning of the Period	43,159	2,066,063	16,196,141	0	16,196,141
9. Net Position-End of the Period	$ 56,248	$ 2,725,202	$ 17,904,687	$ 0	$ 17,904,687

Additional information included in Note 1

The accompanying notes are an integral part of these statements.

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

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Ordnance	Supply Management	Transportation	Base Support
BUDGETARY RESOURCES:						
1. Budget Authority	$ 0	$ 9,321	$ 0	$ 0	$ 2,880	$ 2,083
2. Unobligated Balance - Beginning of Period	(132,496)	274,904	204,868	29,063	777,075	339,478
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0	0	0	0	0
4. Spending Authority from Offsetting Collections	2,372,785	1,527,216	161,520	5,458,587	1,216,608	1,780,339
5. Adjustments (+/-)	(22,833)	0	(4,919)	(175,529)	(69,121)	(2,013)
6. Total Budgetary Resources	$ 2,217,456	$ 1,811,441	$ 361,469	$ 5,312,121	$ 1,927,442	$ 2,119,887
STATUS OF BUDGETARY RESOURCES:						
7. Obligations Incurred	$ 2,142,583	$ 1,626,525	$ 199,573	$ 5,287,851	$ 1,197,132	$ 2,146,234
8. Unobligated Balances - Available	74,873	184,916	161,896	24,270	730,310	(26,347)
9. Unobligated Balances - Not Available	0	0	0	0	0	0
10. Total, Status of Budgetary Resources	$ 2,217,456	$ 1,811,441	$ 361,469	$ 5,312,121	$ 1,927,442	$ 2,119,887
OUTLAYS:						
11. Obligations Incurred	$ 2,142,583	$ 1,626,525	$ 199,573	$ 5,287,851	$ 1,197,132	$ 2,146,234
12. Less: Spending Authority From Offsetting Collections and Adjustments	(2,372,785)	(1,527,216)	(161,520)	(5,458,587)	(1,216,608)	(1,780,339)
13. Obligated Balance, Net - Beginning of Period	839,517	801,459	46,395	2,314,806	(283,335)	(179,190)
14. Obligated Balance Transferred, Net	0	0	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	(618,887)	(951,853)	(33,965)	(2,165,228)	228,042	(241,423)
16. Total Outlays	$ (9,572)	$ (51,085)	$ 50,483	$ (21,158)	$ (74,769)	$ (54,718)

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

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

	Information Services	Research & Development	Depot Maintenance Other	Component Level	Combined Total
BUDGETARY RESOURCES:					
1. Budget Authority	$ 0	$ 0	$ 728	$ 0	$ 15,012
2. Unobligated Balance - Beginning of Period	87,132	48,550	18,574	985,493	2,632,641
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0	0	0	0
4. Spending Authority from Offsetting Collections	214,370	7,562,748	180,667	0	20,474,840
5. Adjustments (+/-)	(213)	(6,673)	0	0	(281,301)
6. Total Budgetary Resources	$ 301,289	$ 7,604,625	$ 199,969	$ 985,493	$ 22,841,192
STATUS OF BUDGETARY RESOURCES:					
7. Obligations Incurred	$ 248,143	$ 7,360,346	$ 170,489	$ 0	$ 20,378,876
8. Unobligated Balances - Available	53,146	244,279	29,480	985,493	2,462,316
9. Unobligated Balances - Not Available	0	0	0	0	0
10. Total, Status of Budgetary Resources	$ 301,289	$ 7,604,625	$ 199,969	$ 985,493	$ 22,841,192
OUTLAYS:					
11. Obligations Incurred	$ 248,143	$ 7,360,346	$ 170,489	$ 0	$ 20,378,876
12. Less: Spending Authority From Offsetting Collections and Adjustments	(214,371)	(7,562,748)	(180,667)	0	(20,474,840)
13. Obligated Balance, Net - Beginning of Period	12,384	661,901	11,668	(1,723,466)	2,502,139
14. Obligated Balance Transferred, Net	0	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	(48,486)	(418,337)	23,303	1,781,938	(2,444,896)
16. Total Outlays	$ (2,330)	$ 41,162	$ 24,793	$ 58,472	$ (38,721)

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

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

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Ordnance	Supply Management	Transportation	Base Support
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:						
A. Obligations Incurred	$ 2,142,583	$ 1,626,525	$ 199,573	$ 5,287,851	$ 1,197,132	$ 2,146,234
B. Less: Spending Authority for Offsetting						
Collections and Adjustments	(2,372,785)	(1,527,216)	(161,520)	(5,458,587)	(1,216,609)	(1,780,339)
C. Donations Not in the Entity's Budget	0	0	0	0	0	0
D. Financing Imputed for Cost Subsidies	0	0	0	0	0	0
E. Transfers-in (Out)	0	0	0	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0	0	0	0
G. Other	0	0	0	0	0	0
H. Total Obligations as Adjusted and Nonbudgetary Resources	$ (230,202)	$ 99,309	$ 38,053	$ (170,736)	$ (19,477)	$ 365,895
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:						
A. Change in Amount of Goods, Services, and Benefits Ordered						
but Not Yet Received or Provided - (Increases)/Decreases	89,963	(187,925)	(37,510)	218,992	(77,837)	(313,737)
B. Costs Capitalized on the Balance Sheet-(Increases)/Decreases	75,552	54,292	22,455	(3,057,887)	78,015	(94,482)
C. Financing Sources That Fund Costs of Prior Periods	0	0	0	0	0	0
D. Other - (Increases)/Decreases	5,534	0	0	1,991,770	0	3
E. Total Resoures That Do Not Fund Net Costs of Operations	$ 171,049	$ (133,633)	$ (15,055)	$ (847,125)	$ 178	$ (408,216)
3. COSTS THAT DO NOT REQUIRE RESOURCES:						
A. Depreciation and Amortization	$ 34,088	$ 31,500	$ 7,701	$ 11,028	$ 3,177	$ 17,129
B. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	1,982,686	0	0
C. Other - Increases/(Decreases)	0	0	0	0	0	0
D. Total Costs That Do Not Require Resources	$ 34,088	$ 31,500	$ 7,701	$ 1,993,714	$ 3,177	$ 17,129
4. Financing Sources Yet to be Provided	0	0	0	0	0	0
5. Net Cost of Operations	$ (25,065)	$ (2,824)	$ 30,699	$ 975,853	$ (16,122)	$ (25,192)

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

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

	Information Services	Research & Development	Depot Maintenance Other	Component Level	Combined Total
1. OBLIGATIONS AND NONBUDGETARY RESOURCES					
A. Obligations Incurred	$ 248,143	$ 7,360,346	$ 170,489	$ 0	$ 20,378,876
B. Less: Spending Authority for Offsetting Collections and Adjustments	(214,370)	(7,562,748)	(180,668)	0	(20,474,843)
C. Donations Not in the Entity's Budget	0	0	0	0	0
D. Financing Imputed for Cost Subsidies	0	0	0	405,580	405,580
E. Transfers-in (Out)	0	0	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0	0	0
G. Other	0	0	0	0	0
H. Total Obligations as Adjusted and Nonbudgetary Resources	$ 33,773	$ (202,402)	$ (10,179)	$ 405,580	$ 309,613
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:					
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided - (Increases)/Decreases	(34,930)	10,341	4,325	(589,450)	(917,768)
B. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	361	150,950	(9,186)	0	(2,779,930)
C. Financing Sources That Fund Costs of Prior Periods	0	0	0	(70,223)	(70,223)
D. Other - (Increases)/Decreases	(5,801)	0	0	0	1,991,506
E. Total Resoures That Do Not Fund Net Costs of Operations	$ (40,370)	$ 161,291	$ (4,861)	$ (659,673)	$ (1,776,415)
3. COSTS THAT DO NOT REQUIRE RESOURCES:					
A. Depreciation and Amortization	$ 483	$ 86,459	$ 3,512	$ 0	$ 195,078
B. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	0	1,982,686
C. Other - Increases/(Decreases)	0	0	0	0	0
D. Total Costs That Do Not Require Resources	$ 483	$ 86,459	$ 3,512	$ 0	$ 2,177,764
4. Financing Sources Yet to be Provided	0	0	0	0	0
5. Net Cost of Operations	$ (6,114)	$ 45,348	$ (11,528)	$ (254,093)	$ 710,962

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE NAVY

NAVY WORKING CAPITAL FUND

REQUIRED SUPPLEMENTARY INFORMATION

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

(a) Property Type/Major Class	(b) Amount
1. Real Property	
A. Buildings	$761,881
B. Structures	564,664
2. Total	$1,326,545

Narrative Statement:

In addition to the $1,326,545 thousand of Real Property Deferred Maintenance as defined by the DoD FMR, Volume 6B, the DON has an additional $34,668 thousand of deferred demolition expenses.

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

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

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

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

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

- Safety – A deficiency with a Risk Assessment Code of 1, 2, or 3.

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

Maintenance actions, which do not meet the above criteria, are categorized by Navy as "deferrable" actions and records are maintained separately by category. There is no NWCF budget exhibit relating to Real Property Deferred Maintenance amounts submitted for Congressional review. The inclusion of both "critical" and "deferrable" deferred maintenance estimates in the above Real Property Deferred Maintenance table is the result of the NAVAUDSVC Audit Report 050-99 of 30 July 1999, Finding 2. In that finding, the NAVAUDSVC criticized the DON for excluding from their deferred maintenance totals the deferrable maintenance that was not an immediate requirement or did not meet the four-part criteria.

BASEREP Rating Procedures:

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

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

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

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

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

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

For Marine Corps Installations, deficiencies are determined by a combination of direct facility inspections and customer input. Locally (activity) funded maintenance actions are summarized by Cost Account Code (CAC) and reported in summary to Headquarters Marine Corps (HQMC). Larger actions funded by HQMC (defined as “M2” special projects), which comprise approximately two-thirds of the total Marine Corps real property backlog, are reported on a project basis to HQMC and an on-site validation is made by HQMC personnel. The Marine Corps does not differentiate maintenance deficiencies by “critical” or “deferrable”. All maintenance and repair work remaining as a firm requirement of the annual plan but which lack resources are included as deferred maintenance at year-end. Marine Corps only reports BMAR less than four years old in the budget exhibits prepared for Congressional review.

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

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

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

The NWCF does not have any material amounts of deferred maintenance for General PP&E Personal Property.

Intragovernmental Eliminations

To prepare reliable financial statements, transactions occurring between 2 or more entities within the NWCF or 2 or more federal agencies must be eliminated. However, the NWCF accounting firm (DFAS), as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, the NWCF accounting firm (DFAS) provided NWCF summary seller-side transactions to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to agree with the seller-side. Internal NWCF balances were eliminated. In addition, DFAS for the NWCF implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide thereby eliminating and reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management. As further improvements are made at the government-wide level, DFAS for the NWCF plans on expanding their eliminating procedures to include additional categories.

DFAS-CL followed the policy and procedures for conducting intra-agency eliminating entries outlined in the draft Chapter 13, FY 1999 Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures, of the DoD FMR Volume 6B. This included consolidating the NWCF seller-side trading partner information, sending this information to all other DFAS Centers, and making adjustments to the NWCF financial presentation of accounts payable, expenses, and advances and prepayment account balances based upon seller-side trading partner information DFAS-CL received from the other DFAS Centers. These draft procedures also required DFAS-CL to reclassify "Intragovernmental" program expenses as "With the Public" program expenses based upon the totality of seller-side information reported by all trading partners of the NWCF. The impact of these adjustments has materially distorted the Net Cost of Operations on the NWCF financial statements. See Note 16. In addition, based upon draft Chapter 13 and direction from USD(C), DFAS computed elimination entry amounts for the Transfers-in and Transfers-out lines on the Statement of Changes in Net Position. The effect of this computation was to eliminate all Intragovernmental amounts reported for Transfers-in and Transfer-out for each NWCF activity group. For each individual activity group on the Consolidating Statement of Changes in Net Position, DFAS reviewed Transfers-in (line 2.E), Transfers-out (line 2.F), and Other (line 2.G) to identify trading partners for amounts originally reported by the activity group. Amounts for which trading partners could not be identified were reclassified as either a gain or loss and included in the Statement of Net Cost. This resulted in an adjustment to the Net Cost of Operations.

For FY 1999 the seller-side elimination entry data for the industrial activities was developed jointly by DFAS and NWCF activities from field level revenue classification reports called the Summary Sources of Revenue (SSR). Supplemental information was submitted with this report to include additional seller-side data for accounts receivable, advances, progress payments, and detailed federal agency information. Elimination entry information for industrial activity "buyer-side" is not available. For supply activities DFAS produced seller-side and buyer-side elimination entries for the NWCF. Required elimination data was obtained from several accounting systems: (1) Navy Inventory Control Point (NAVICP) GO3 Allotment Accounting System; (2) Material Financial Control System (MFCS); (3) Uniform Automated Data Processing System (UADPS); (4) Defense Business Management System (DBMS); and (5) Standard Accounting Reporting System (STARS).

Intragovernmental eliminations are prepared at three different levels. Each level provides the information necessary to properly eliminate certain transactions depending on the consolidation level of the report. Level 1 represents seller-side transaction data from the NWCF to Other Federal (non-DoD) Entities. This data will be used to prepare eliminating entries for the U.S. Government-wide Consolidated Financial Statements. Level 2 represents seller-side transaction data from the NWCF to other entities within DoD. Level 2 data is used to prepare eliminating entries for the DoD Agency-wide Financial Statements. Level 3 represents seller-side data from one NWCF activity to another NWCF activity. Level 3 data is used to compute the Intra-agency Eliminations column on the Consolidating NWCF statements and, therefore, is not part of the Required Supplementary Information. Level 3 data is maintained by DFAS-CL. DFAS-CL has been directed by DFAS to only recognize intra-agency eliminating entries on the FY 1999 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. Therefore, intra-agency eliminating entries are not recognized on the FY 1999 Statement of Budgetary Resources nor the Statement of Financing. DFAS prepared the following schedules that include Level 1 and Level 2 elimination entry data.

Until standard USD(C) policy for the treatment of intra-agency and inter-agency elimination transactions is issued and DFAS implementing procedures and controls are provided, the data disclosed may not meet the intent of the DoD Guidance on Form and Content of DoD Audited Financial Statements.

Schedule, Part A DoD Intragovernmenal Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury:	Accounts Receivable:	Investments:	Other:
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08				
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11		22,623		
Department of Agriculture	12		725		
Department of Commerce	13		97		
Department of the Interior	14		92		
Department of Justice	15		2,373		
Department of Labor	16		14		
Department of the Navy, General Funds (GF)	17		223,729		
United States Postal Service	18				
Department of State	19		277		
Department of the Treasury	20	1,164,185	9,757		
Department of the Army, GF	21		10,666		
Resolution Trust Corporation	22				
United States Tax Court	23				
Office of Personnel Management	24				
National Credit Union Administration	25				
Federal Retirement Thrift Investment Board	26				
Federal Communications Commission	27				
Social Security Administration	28				
Federal Trade Commission	29				
Nuclear Regulatory Commission	31		75		
Smithsonian Institution	33				
International Trade Commission	34				
Department of Veterans Affairs	36				
Merit Systems Protection Board	41				
Pennsylvania Avenue Development Corporation	42				
U.S. Equal Employment Opportunity Commission	45				
Appalachian Regional Commission	46				
General Service Administration	47		57		
Independent Agencies**	48				
National Science Foundation	49		219		
Securities and Exchange Commission	50				
Federal Deposit Insurance Group	51				
Federal Labor Relations Authority	54				
Advisory Commission on Intergovernmental Relations	55				
Central Intelligence Agency	56				
Department of the Air Force, GF	57		18,527		
Federal Emergency Management Agency	58		1,219		

Schedule, Part A DoD Intragovernmenal Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury:	Accounts Receivable:	Investments:	Other:
National Foundation on the Arts and Humanities	59				
Railroad Retirement Board	60				
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63				
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67				
Environmental Protection Agency	68		(39)		
Department of Transportation	69		23,981		
Oversees Private Investment Corporation	71				
Agency for International Development	72		2,206		
Small Business Administration	73				
American Battle Monuments Commission	74				
Department of Health and Human Services	75		283		
Independent Agencies**	76				
Farm Credit	78				
National Aeronautics and Space Administration	80		124		
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84				
Department of Housing and Urban Development	86				
National Archives and Records Administration	88				
Department of Energy	89		5,648		
Selective Service System	90				
Department of Education	91				
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95		12		
U.S. Army Corps of Engineers (Civil Works)	96				
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001		131		
Department of the Navy, WCF	97-4930-002				
Department of the Air Force, WCF	97-4930-003		3,329		
Other Defense Organizations, GF	97		57,548		
Other Defense Organizations, WCF	97-4930		81,933		
Unidentifiable Federal Agency Entity	00				
Total		$1,164,185	$465,606	$0	$0

Schedule, Part B DoD Intragovernmenal Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies:	Other:
Library of Congress	03			
Government Printing Office	04			
General Printing Office	05			
Congressional Budget Office	08			
Other Legislative Branch Agencies	09			
The Judiciary	10			
Executive Office of the President, Defense Security Assistance Agency	11			
Department of Agriculture	12			
Department of Commerce	13			
Department of the Interior	14			
Department of Justice	15			
Department of Labor	16			
Department of the Navy, General Funds (GF)	17	55,246		
United States Postal Service	18			
Department of State	19			
Department of the Treasury	20			
Department of the Army, GF	21	11,623		
Resolution Trust Corporation	22			
United States Tax Court	23			
Office of Personnel Management	24			
National Credit Union Administration	25			
Federal Retirement Thrift Investment Board	26			
Federal Communications Commission	27			
Social Security Administration	28			
Federal Trade Commission	29			
Nuclear Regulatory Commission	31			
Smithsonian Institution	33			
International Trade Commission	34			
Department of Veterans Affairs	36			
Merit Systems Protection Board	41			
Pennsylvania Avenue Development Corporation	42			
U.S. Equal Employment Opportunity Commission	45			
Appalachian Regional Commission	46			
General Service Administration	47			
Independent Agencies**	48			
National Science Foundation	49			
Securities and Exchange Commission	50			
Federal Deposit Insurance Group	51			
Federal Labor Relations Authority	54			
Advisory Commission on Intergovernmental Relations	55			

Schedule, Part B DoD Intragovernmenal Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies:	Other:
Central Intelligence Agency	56			
Department of the Air Force, GF	57	37		
Federal Emergency Management Agency	58			
National Foundation on the Arts and Humanities	59			
Railroad Retirement Board	60			
Consumer Product Safety Commission	61			
Office of Special Counsel	62			
National Labor Relations Board	63			
Tennessee Valley Authority	64			
Federal Maritime Commission	65			
United States Information Agency	67			
Environmental Protection Agency	68			
Department of Transportation	69			
Oversees Private Investment Corporation	71			
Agency for International Development	72			
Small Business Administration	73			
American Battle Monuments Commission	74			
Department of Health and Human Services	75			
Independent Agencies**	76			
Farm Credit	78			
National Aeronautics and Space Administration	80			
Export-Import Bank of the United States	83			
Armed Forces Retirement Home	84			
Department of Housing and Urban Development	86			
National Archives and Records Administration	88			
Department of Energy	89			
Selective Service System	90			
Department of Education	91			
Federal Mediation and Conciliation Services	93			
Arms Control and Disarmament Agency	94			
Independent Agencies**	95			
U.S. Army Corps of Engineers (Civil Works)	96			
Military Retirement Trust Fund	97-8097			
Department of the Army, WCF	97-4930-001	5,664		
Department of the Navy, WCF	97-4930-002			
Department of the Air Force, WCF	97-4930-003	438		
Other Defense Organizations, GF	97			
Other Defense Organizations, WCF	97-4930	272,547		
Unidentifiable Federal Agency Entity	00			
Total		$345,555	$0	$0

Schedule, Part C DoD Intragovernmenal Revenues and Related Costs with Other Federal Agencies	Treasury Index:	Earned Revenue:	Non-exchange Revenue:	Other:	Full Cost to Generate Revenue:
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08				
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11	395,536			
Department of Agriculture	12	2,035			
Department of Commerce	13	639			
Department of the Interior	14	26			
Department of Justice	15	9,527			
Department of Labor	16				
Department of the Navy, General Funds (GF)		15,108,533			
United States Postal Service	18	20,511			
Department of State	19	4,543			
Department of the Treasury	20				
Department of the Army, GF	21	151,694			
Resolution Trust Corporation	22				
United States Tax Court	23				
Office of Personnel Management	24				
National Credit Union Administration	25				
Federal Retirement Thrift Investment Board	26				
Federal Communications Commission	27				
Social Security Administration	28				
Federal Trade Commission	29				
Nuclear Regulatory Commission	31	1,283			
Smithsonian Institution	33				
International Trade Commission	34				
Department of Veterans Affairs	36				
Merit Systems Protection Board	41				
Pennsylvania Avenue Development Corporation	42				
U.S. Equal Employment Opportunity Commission	45				
Appalachian Regional Commission	46				
General Service Administration	47	217			
Independent Agencies**	48				
National Science Foundation	49	1,113			
Securities and Exchange Commission	50				
Federal Deposit Insurance Group	51				
Federal Labor Relations Authority	54				
Advisory Commission on Intergovernmental Relations	55				
Central Intelligence Agency	56				
Department of the Air Force, GF	57	265,981			

Schedule, Part C DoD Intragovernmenal Revenues and Related Costs with Other Federal Agencies	Treasury Index:	Earned Revenue:	Non-exchange Revenue:	Other:	Full Cost to Generate Revenue:
Federal Emergency Management Agency	58	1,330			
National Foundation on the Arts and Humanities	59				
Railroad Retirement Board	60				
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63				
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67				
Environmental Protection Agency	68	61			
Department of Transportation	69	187,141			
Oversees Private Investment Corporation	71				
Agency for International Development	72	2,991			
Small Business Administration	73				
American Battle Monuments Commission	74				
Department of Health and Human Services	75				
Independent Agencies**	76				
Farm Credit	78				
National Aeronautics and Space Administration	80	9,962			
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84				
Department of Housing and Urban Development	86				
National Archives and Records Administration	88				
Department of Energy	89	1,096			
Selective Service System	90				
Department of Education	91				
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95	3			
U.S. Army Corps of Engineers (Civil Works)					
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001	31,551			
Department of the Navy, WCF	97-4930-002				
Department of the Air Force, WCF	97-4930-003	164,993			
Other Defense Organizations, GF	97	975,210			
Other Defense Organizations, WCF	97-4930	131,559			
Unidentifiable Federal Agency Entity	00				
Total		$17,467,535	$0	$0	$17,467,535

DEPARTMENT OF THE NAVY

NAVY WORKING CAPITAL FUND

OTHER ACCOMPANYING INFORMATION

Appropriations, Funds, and Accounts Included in the Financial Statements

Reporting Entity:

Navy Working Capital Fund

Fund/Account Treasury Symbol and Title:

97X4930.002

Navy Working Capital Fund Activity Group Treasury Symbol and Title:

97X4930.NA1*	Depot Maintenance-Shipyards
97X4930.NA2*	Depot Maintenance-Aviation
97X4930.NA4*	Depot Maintenance-Other (Marine Corps)
97X4930.NA3*	Ordnance
97X4930.ND**	Transportation
97X4930.NE**	Base Support
97X4930.NF**	Information Services
97X4930.NH**	Research & Development
97X4930.NC**	Supply Management

Note: The '*' represents alpha or numeric characters which identify an activity or reporting segment of the activity group.

DEPARTMENT OF THE NAVY

NAVY WORKING CAPITAL FUND

AUDIT OPINION

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

FEB 14 2000

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

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 1999 Department of the Navy Working Capital Fund Financial Statements (Project No. 0FC-2113)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Naval Audit Service (NAS) the audit of the FY 1999 Department of the Navy Working Capital Fund financial statements. Summarized are the NAS disclaimer of opinion on the FY 1999 Department of the Navy Working Capital Fund Financial Statements and the results of our review of the NAS audit. The information provided in this memorandum contains reasons for the NAS disclaimer. We endorse the disclaimer of opinion expressed by the NAS (Enclosure).

Disclaimer of Opinion. The NAS disclaimer of opinion on the FY 1999 Department of the Navy Working Capital Fund financial statements, dated February 14, 2000, states that NAS was unable to express an opinion on the financial statements. We concur with the NAS disclaimer of opinion. The Department of the Navy did not provide the FY 1999 principal statements in time for us to perform the necessary audit work. However, NAS identified the following deficiencies that precluded an audit opinion.

- The Department of the Navy Working Capital Fund and its accountant, the Defense Finance and Accounting Service, could not provide sufficient information to evaluate all of management's assertions contained in the September 30, 1999, financial statements.

- The Department of the Navy Working Capital Fund did not implement a sound statistical sampling plan for measuring the dollar accuracy of the reported inventory. Operating material and supplies were not revalued to historical cost, and information was not available to evaluate its impact. Accounts Receivable, Net, Federal and Accounts Receivable, Net, Non-Federal for the Supply Management business area were not supported by individual transactions. Eliminating entries for Accounts Receivable, Net, Federal and Accounts Receivable, Net, Non-Federal could not be tested at the transaction level. General Property, Plant and Equipment, Net, for the Supply Management Business Area was not supported by individual records.

- The Department of the Navy Working Capital Fund did not provide a management representation letter for review by the auditors.

Internal Controls. The NAS determined that internal controls did not provide reasonable assurance that the FY 1999 Department of the Navy Working Capital Fund financial statements contained no material misstatements. For example, the Department of the Navy Working Capital Fund did not implement effective controls over General Property, Plant, and Equipment, Net, acquisitions, disposals, and capital improvements. As a result, General Property, Plant, and Equipment, Net was misstated. The Department of the Navy and the Defense Finance and Accounting Service recognized many of the financial reporting weaknesses and reported them in their FY 1999 Annual Statements of Assurance.

Compliance With Laws and Regulations. The NAS identified areas of noncompliance with laws and regulations. Under the Federal Financial Management Improvement Act of 1996, the NAS audit work disclosed that mixed systems did not 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 Working Capital Fund had not fully developed financial systems to capture and report Accounts Receivable, Net, Federal and Accounts Receivable, Net, Non-Federal and eliminating entries for accounts receivable. Details on the adequacy of internal controls and on compliance with laws and regulations will be discussed in a separate report.

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

We reviewed the NAS work on the FY 1999 Navy Working Capital Fund Financial Statements from June 9, 1999 to February 14, 2000, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the NAS disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

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

Independent Auditor's Opinion on the Consolidated Financial Statements for the Fiscal Year 1999 Department of the Navy Working Capital Fund

We attempted to audit the Balance Sheet of the Consolidated Financial Statements of the Department of the Navy Working Capital Fund as of 30 September 1999, and the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing for the year then ended. These financial statements are the responsibility of the Department of the Navy Working Capital Fund management.

The Department of the Navy Working Capital Fund and its accountant, the Defense Finance and Accounting Service, could not provide us sufficient information to allow us to evaluate all of management's assertions contained in the 30 September 1999 financial statement presentation. Specifically, a sound statistical sampling plan for measuring the dollar accuracy of the reported inventory stored at Government and contractor locations was not implemented. As a result of the inadequate periodic sampling system used to support the perpetual inventory system, we could not rely on the reported Inventory and Related Property, Net value reported on the financial statements. The Department of the Navy Working Capital Fund did not provide a Management Representation letter for our review. Operating Materials and Supplies held for use at industrial activities reported in Inventory and Related Property, Net, were not revalued to historical cost and information was not available to evaluate the impact. Supply Management's Accounts Receivable, Net, Federal and Non-Federal reported values on the financial statements were not based on individual transactions, and eliminating entries for those accounts could not be tested at the transaction level. Also, Supply Management's General Property, Plant and Equipment, Net reported values were not supported by individual records. Various activity year-end account balances were not certified as accurate for financial reporting purposes. We were not able to satisfy ourselves as to the effect of the issues noted through other audit tests.

The Department of the Navy Working Capital Fund and its accountant, the Defense Finance and Accounting Service, were unable to provide us with sufficient information necessary to evaluate management's assertions contained in the financial statements. Since we were unable to perform other audit tests necessary to satisfy ourselves as to the fair presentation of the statements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these statements.

JAMES D. WATTS, CPA
Audit Director
Financial Management Audits
Navy Working Capital Fund
Naval Audit Service

14 February 2000