



NAVY WORKING CAPITAL FUND

Annual Financial Report

Fiscal Year 2000



Navy Working Capital Fund

FISCAL YEAR 2000



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Department of the Navy
Navy Working Capital Fund



Background

The Navy Working Capital Fund (NWCF) is comprised of activities, or business areas, that provide goods and/or services that support the missions and objectives of the Department of the Navy (DON), and the Department of Defense (DoD), and operate under business financial management principles in a buyer-and-seller approach. To be included in a Working Capital Fund, a business activity must meet four criteria:

1. The business operations of the activity must produce identifiable outputs, either goods or services, that serve Military Department or Defense Agency requirements.
2. The activity must have an accounting system capable of collecting the costs of production and assigning these costs to the appropriate outputs.
3. The activity must be able to clearly identify its customers and to align its resources to best meet the requirements of these customers.
4. The activity must have evaluated the advantages and disadvantages of the buyer-seller relationship; and assessed the customer's ability to influence the activity's cost by changing demand.

History of the Navy Working Capital Fund

The Navy Working Capital Fund (NWCF) is one of four Defense Working Capital Funds (DWCFs):

- Army Working Capital Fund
- Navy Working Capital Fund
- Air Force Working Capital Fund
- Defense-wide Working Capital Fund

The basic concept of working capital funds evolved from a dual categorization of funds: Stock Funds and Industrial Funds. Stock Funds, used by the Navy since the 1870's, dealt with procuring materials in volume from commercial sources and holding an inventory for subsequent sale to customers. Industrial Funds, used by the Navy since the 1940's, provided industrial and commercial goods and services such as depot maintenance, transportation, and research and development. The National Security Act Amendments of 1949 authorized the Secretary of Defense to establish revolving funds as the business model for the operation of these funds.

In FY 1992, the Department of Defense (DoD) consolidated the multiple stock and industrial funds throughout the service into one Defense Business Operations Fund (DBOF), centrally managed by the Office of the Under Secretary of Defense (Comptroller) (USD(C)). The primary goal of the DBOF was to focus the attention of DoD management on the total costs of certain common DoD business operations.

In FY 1995, the central cash management function assumed by USD(C) was returned to the DoD component level providing activity group managers control of and accountability for their operations. In FY 1997, the DBOF was reorganized into the current DWCF structure to clearly establish the components' overall responsibility for managing and operating their respective working capital functions.

Unique Features of the NWCF

Organizational Structure

The Principal Statements included in this annual financial report present the consolidated financial position and results of operations for all the activities included in the NWCF. To provide the reader with a more complete understanding of the NWCF, these activities are segregated by their respective business areas in the supporting consolidating/combining financial statements. These activity groups include:

Depot Maintenance: The NWCF activities include the Depot Maintenance function for the Shipyards, Aviation, and the Marine Corps. Each Depot Maintenance function is presented separately in the supporting consolidating/combining financial statements.

Transportation: The Military Sealift Command provides the transportation services required to maintain the Navy's global position and infrastructure. On the supporting consolidating/combining statements, the financial position and the results of the operations of the Military Sealift Command are shown in the Transportation activity group.

Base Support: The daily operations of the today's Navy require a solid infrastructure supporting its global presence. The Naval Facilities Engineering Service Center and the Public Works Centers support the daily operations of the Navy, and are included in the Base Support activity group in the supporting consolidating/combining financial statements.

Information Services: In the twenty-first century, the electronic infrastructure of the Navy is supported in the NWCF by the Navy, Fleet Material Support Office, the Naval Computer and Telecommunications Centers, and the Naval Reserve Information Systems Office. The financial position and the operating results of these activities are grouped together and presented as the Information Services activity group in the supporting consolidating/combining financial statements.

Research and Development: The development of the tools and technology of the Navy of tomorrow is supported in the Research and Development activity group of the NWCF. The Naval Surface Warfare Center, the Naval Air Warfare Systems Center, the Naval Undersea Warfare Center, the Naval Research Laboratory, and the Space and Naval Warfare Centers are included in the Research and Development activity group in the supporting consolidating/combining financial statements.

Supply Management: The challenge of providing our global Naval forces with high-quality goods and supplies is met by the Supply Management activities. Supply Management - Navy, and Supply Management - Marine Corps are the two activities combined in the Supply Management activity group presented in the supporting consolidating/combining financial statements.

In addition to the activity groups reporting the FY 2000 cost of operations, the NWCF financial statements also reflect the residual financial activity associated with the Ordnance Activity Group, which was transferred to the Department of the Navy General Fund and the Department of the Army Working Capital Fund effective 1 October 1999. The Combining/Consolidating Statements also

show the Component level reporting activity. The Component Level is not an operational activity unit or group, but is rather an administrative reporting mechanism used to reflect transactions that are not readily identifiable with a single activity or activity group. Historically, the Component Level reflects transactions related to disbursements, collections, and department-level adjustments for certain eliminating entries.

Sources of Funding

The funding of the NWCF is based on a revolving-fund concept of operations, under which the NWCF activities received their initial working capital through an appropriation or through a transfer of resources from existing appropriations of funds and used those resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders.



Customer Orders

Customer orders accepted by the NWCF activities must be either obligations of a federal government activity or cash advances from non-federal government customers. The acceptance of a customer order creates a quasi-contractual relationship between the NWCF activity and its customer.

In FY 2000, the customer orders placed with the NWCF activities included those initiated by:

1. DON Commands and Activities
2. Other Military Departments
3. Other DoD agencies
4. Non-DoD federal government agencies
5. Others not officially representing the federal government.

The customers of each NWCF activity are responsible for budgeting for and budgetary control of the cost of end products and services ordered from the NWCF activity. The customer cannot use its appropriated funds to do indirectly (through the NWCF activity) what it is not permitted to do directly.

The availability of an appropriation cannot be expanded or otherwise changed by transfer to the NWCF. The customer bears the primary responsibility for the determination of the applicability of its appropriated funds in the orders placed with the NWCF activity.

Stabilized Rates

One of the features of the NWCF that allows its customers to accurately plan and budget their

appropriated funds for NWCF support requirements is the rate stabilization policy adopted by the NWCF. For each budget year, the NWCF establishes customer rates on an end product basis whenever feasible. These rates are set at levels estimated to recover the cost of products or services to be provided. This “stabilized rate” policy protects appropriated fund customers from unforeseen cost changes, and also minimizes fluctuations in planned NWCF work levels, permitting a more effective use of NWCF resources.

In conjunction with the stabilized rate policy, the NWCF uses a cost recovery—or break-even—policy. With stabilized rates, gains or losses in operations may occur as a result of variations in program execution. To maintain full cost recovery and thereby to break even over the long term, NWCF activities generally adjust their rates each year to reflect such realized gains and losses.

For the Supply Management activity group, customer rates are established using commodity costs in conjunction with a cost recovery factor that recovers such costs as

transportation and certain personnel costs. The other NWCF activity groups customer rates are established on the basis of unit cost rates established based on the identified unit of output. These unit cost rates incorporate the recovery of costs, and prior year gains and losses.

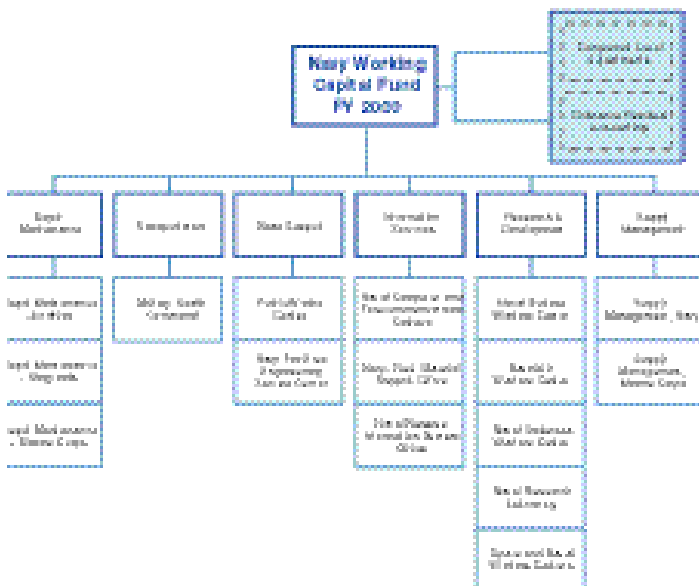
Budget Execution

During budget execution, activity groups calculate the difference between the amount of revenue collected from customer orders and the actual cost of meeting customer demands, and record either a positive or negative Operating Result. The revenue collected from customers for orders placed and the costs incurred to fill those orders differ from the earned revenue and the program costs and the earned revenue appearing in the Consolidated Statement of Net Cost included in the accompanying financial statements. Within the Consolidated Statement of Net Cost, the Program Cost and Earned Revenue have been adjusted to support intragovernmental elimination-entry requirements.

The term “end product” refers to the item or service requested by the customer (output) rather than to the processes or other inputs required to achieve of the requested output (for example, the product requested rather than the direct labor hours expended in the achievement of that product).

NWCF Activity Groups

The NWCF is comprised of activity groups with a variety of missions, resources, and capabilities to address the Navy and other customer's specialized needs. Two major changes have occurred in the activity group structure since FY 1999. The first change entailed the transfer of the Ordnance activity group to the Department of the Navy General Fund and the Department of the Army Working Capital Fund, effective 1 October 1999. The financial information presented for the Ordnance activity group reflects the residual accounting data related to operations conducted prior to September 30, 1999. The second change was the transfer of financial accountability for the Naval Computer and Telecommunications Station from the Information Services activity group to the Research and Development activity group's Space and Naval Warfare Systems Center, effective 1 October 2000 (FY 2001). The organizational structure of the NWCF for FY 2000 is illustrated below:



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.



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

The Depot Maintenance-Shipyards activity group operates three regional shipyards:

Portsmouth Naval Shipyard's primary mission is the overhaul, repair, modernization, and refueling of Los Angeles Class nuclear-powered submarines. Located in Portsmouth, NH, this is the Navy's most experienced shipyard in submarine design, construction, modernization, and maintenance. The shipyard is currently diversifying into deep ocean submersibles and special operations, and additionally serves as

the planning yard for the Navy’s deepest diving submarine and submersible and for other scientific research, defense prototype testing, and submerged rescue platforms.

Norfolk Naval Shipyard is the largest of the Navy Shipyards. This shipyard, located in Portsmouth, VA, operates seven dry docks and about 400 cranes. In addition to its ship-work, the Norfolk Naval Shipyard also serves as the East Coast cryptographic repair depot which repairs, modifies, overhauls, certifies and installs cryptographic equipment, and as a depot-level antenna repair facility and range site that removes, restores, tests, and reinstalls Information Delivery Devices (IDD), Automatic Carrier Landing Systems (ACLS), and navigation and surface/air search antennas.

The Portsmouth Shipyard celebrated its bicentennial in FY 2000, having been established by the Secretary of the Navy on June 12, 1800. The Honorable Richard Danzig, Secretary of the Navy, provided the keynote address for this anniversary.

Puget Sound Naval Shipyard is the Pacific Northwest’s largest Naval shore facility and the largest shipyard on the West Coast. Located in Bremerton, WA, the shipyard has pioneered an environmentally safe method of deactivating and recycling nuclear-powered ships, making the U.S. Navy the world’s only organization able to design, build, operate, and recycle nuclear-powered ships. Approximately 30 percent of the shipyard’s workload involves the inactivation, reactor compartment disposal, and recycling of ships.

Operating Results

The three NWCF Naval Shipyards exceeded budgeted Operating Results as a result of increased workload and fixed price gains. This positive Operating Results performance has allowed the implementation of the quarterly surcharge policy. This is the first time a DoD Activity has implemented this policy to reduce costs to the customer, and has resulted in freeing \$32.1 million for their customer, CINCPACFLT, to reprogram in accordance with its mission objectives.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 1,500,053	\$ 1,486,583	\$ 1,722,416	\$ 2,531,372
Expense	1,457,074	1,466,011	1,772,548	2,528,513
Operating Results	\$ 51,979	\$ 18,572	\$ (132)	\$ 2,859

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.

The mission of Depot Maintenance - Aviation is supported by three modern industrial facilities commissioned by the Navy to perform in-depth overhaul, repair, and modification of aircraft, engines, and aeronautical components. Although these depots share a common mission, each location specializes in particular aircraft, engines, components, and support programs.

NAVANDEPOT Cherry Point, NC: The only facility of its kind under the management of Marine Corps officers, this facility includes the AV-8B Harrier, the vertical takeoff and landing tactical attack jet flown by the Marines, among its specialties.



An Aviation Electronics Technician positions the cable that will hoist a MK62 mine onto the P-3's bomb rack at the Naval Air Station, Jacksonville.

NAVANDEPOT Jacksonville, FL: A number of carrier battle group aircraft, such as the F-14 Tomcat, the F/A-18 Hornet, and the EA-6B Prowler, are kept in the air through the dedication of the Jacksonville facility.

NAVANDEPOT North Island, CA: In addition to supporting the F/A-18 Hornet, this facility in San Diego supports the E-2 Hawkeye, the C-2 Greyhound, and the S-3 Viking, helping the Navy to keep technical aircraft superiority.

Operating Results

There are several operational and financial system sources for the variance between the actual and planned Operating Results for Depot Maintenance - Aviation. The planned result anticipated full implementation by September 2000 of a new completion methodology for revenue recognition, but successful transition to this methodology was

not achieved by all of the programs engaged in the changeover. Other factors contributing to this variance include the component program, where physically completed units (G-condition units) were not billed; funding shortfalls; and delays in aircraft, engine, and other support and manufacturing programs.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 1,500,053	\$ 1,484,583	\$ 1,722,416	\$ 2,531,372
Expense	1,457,074	1,466,011	1,772,548	2,528,513
Operating Results	\$ 51,979	\$ 18,572	\$ (132)	\$ 2,859

Marine Corps Depot Maintenance Activity Group

The mission of the Marine Corps Depot Maintenance Activity Group (DMAG) 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 DMAG consists of two Multicommodity Maintenance Centers, located in 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. The Marine Corps DMAG performs work for all Components of the Department of Defense. The primary customer of the group is the Marine Corps, whose requirements originate from the Life Cycle Management Center and the Fleet Support Division, Marine Corps Logistics Bases in Albany, GA and Barstow, CA.



A group of Filipino Marines wait for an armored assault vehicles to come ashore from USS Mount Vernon (LSD 39). Filipinos and U.S. Marines will work together to defend and assault the beach in Ternate, Philippines.

Operating Results

Operating Results increased \$31.9 million in FY 2000, as compared to the actual Operating Results recorded in FY 1999. Although revenue was \$7.1 million lower than plan; Operating Results exceeded plan by \$3.1 million, or 15.9%. The reduction of costs resulted from intense management efforts to control costs within the Maintenance Centers and the stabilized rates established to recover operating expenses and to offset prior years unbudgeted operating losses.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue*	\$ 211,977	\$ 172,004	\$ 215,592	\$ 222,082
Expense	214,307	181,295	193,005	203,191
Operating Results	\$(2,330)	\$(9,292)	\$ 22,587	\$ 18,891

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).

MSC supports three business lines:

Afloat Prepositioning Ships – Navy (APF-N) place U.S. Marine Corps, Army, and Air Force equipment in strategic locations around the world, such as the Mediterranean Sea and Persian Gulf, and are key in keeping the U.S. military forward-deployed.

Special Mission Ships (SMS) work with scientific and military commands to expand knowledge of the world’s oceans, combat drug smuggling, monitor international compliance with strategic arms treaties, and lay submarine cable.

Naval Fleet Auxiliary Force (NFAF) ships support the Navy around the world, providing everything from fuel to food to ammunition and towing services. NFAF ships keep the Navy’s combatants at sea, on station, and combat-ready.

All MSC ships are crewed by civil service or contract merchant mariners, freeing active duty sailors for more traditional war-fighting assignments.

The heavy lift ship MV Blue Marlin, under contract with MSC, transported the damaged Navy destroyer USS Cole from the Gulf of Aden to the United States for repairs. (The 505-foot USS Cole survived a terrorist attack that left a 40-by-40-foot hole in her port side and 17 U.S. Sailor casualties.)

The organization of MSC is geographically diverse, to support the needs of its widespread customer base:

MSC Headquarters is located in Washington, D.C., with the mission to administer and direct MSC resources to meet the needs of its global customer base.

MSC Europe is located in Naples, Italy, serving customers based in the European theater. MSC Far East is located in Yokohama, Japan, serving MSC customers based in Japan and along the Pacific Rim.



Military Sealift Command Cargo Ship Three Zero Four (T-AKR 304) is officially christened Pililaa in honor of Medal of Honor recipient Private First Class Herbert K. Pililaa.

MSC Pacific is located in San Diego, CA, providing support throughout Southern California and, in conjunction with MSC Pacific in Alameda, CA, to customers in Northern California.

MSC Atlantic is situated in Camp Pendleton, VA, sponsoring representatives in Puerto Rico and New Orleans in support of the MSC customer base in the Gulf of Mexico, the Caribbean, and Puerto Rico.

MSC Central, established in FY 2000 in Manama, Bahrain, provides direct support to the Navy's Fifth Fleet Commander in theater.

Operating Results

The congressional budget reflected planned Operating Results of \$.8 million, but the actual expenses exceeded the revenue reported for FY 2000 by \$8.9 million, resulting in Operating Results at \$9.8 million less than planned.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 1,342,597	\$ 1,229,720	\$ 1,295,070	\$ 1,273,162
Expense	1,211,122	1,211,528	1,504,936	1,272,342
Operating Results	\$ 131,275	\$ 17,192	\$ -8,966	\$ 20

MSC has saved taxpayers \$30 million since the 1993 inception of its Afloat Residual Asset Management System (ARAMS) for the allocation of ship parts. MSC received the Hammer Award for this innovative, cost-saving program.

Base Support

The Naval Facilities Engineering Service Center and the Public Works Centers are the activities that provide the infrastructure necessary to support the global operations of Naval forces. In FY 2000, these activities accounted for 8.5 percent, or \$1.7 billion, of total NWCF revenue.

Naval Facilities Engineering Service Center

The Naval Facilities Engineering Service Center (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 environmental, energy, and utility services.



A builder 3rd Class plasters a wall inside the Bundy Barracks at NAS Roosevelt Roads, Puerto Rico.

Located in Port Hueneme, CA, the Naval Facilities Engineering Service Center (NFESC) was established when the missions of six components of the Naval Facilities Engineering Command were consolidated for greater efficiency.

NFESC operates specialized engineering and technology facilities, working in partnership with its customers to deliver products and services in the four areas of:

- Shore, Ocean, and Waterfront Facilities
- Environment
- Amphibious and Expeditionary Operations
- Energy and Utilities

NFESC also provides engineering, design, construction, consultation, test and evaluation, technology implementation, and management support services.

Operating Results

\$ in thousands	Actual FY 1996	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$74,575	\$84,855	\$92,047	\$ 84,858
Expenses	75,521	84,721	91,010	81,708
Operating Results	\$(1,016)	\$(120)	\$ 1,037	\$ 1,150

Public Works Centers

The Public Works Centers 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.

The Public Works Centers (PWCs) provide utilities and transportation support; major maintenance of buildings and structures, grounds, streets, walks, and parking lots; janitorial, refuse collection and disposal and pest control services; and engineering and facilities inspection functions. These products and services are provided in-house or through contracts awarded and administered by PWC.



The Guam Fire Department battles a roaring fire, one of the 43 it battled in a single, record-breaking day.

A presidential commission in 1947 recommended that, where possible, government industrial-type activities should consolidate. The Navy followed this direction in 1948 by successfully setting up its first PWC in Norfolk, VA. Nine other PWCs, consolidating more than 80 public works departments, were established as follows:

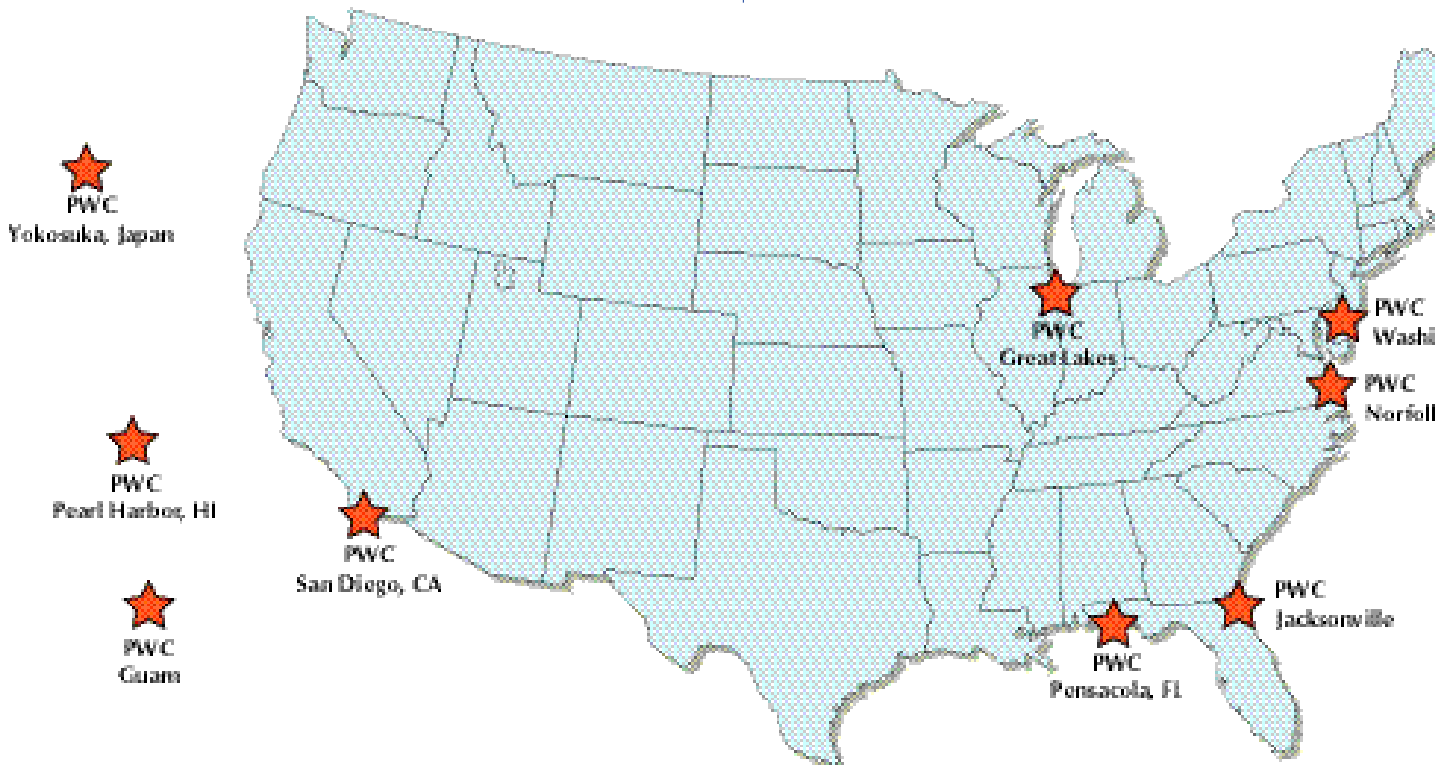
- 1952 Pearl Harbor, Hawaii
- 1958 Guam
- 1963 Pensacola, Florida
- 1965 Great Lakes
- 1965 Yokosuda, Japan
- 1974 San Francisco, California
- 1992 Washington, D.C.
- 1992 Jacksonville, Florida

On 7 April 2000, PWC Guam transferred all operational functions to Raytheon Technical Services Guam (RTSG), reducing its rolls as a consequence from 732 to 105 civilian employees. The transfer was made under the terms of a Base Operating Services (BOS) contract decreed as a result of an A-76/ Commercial Activities (CA) decision.

Operating Results

Revenues and expenses were both above plan in FY 2000, producing a net operating result \$1.2 million above plan. Key contributing factors to this variance were the increased cost of electricity purchased at PWC San Diego and the conversion of PWC Guam to a BOS contract.

\$ in Thousands	Actual FY 1999	Actual FY 1998	Actual FY 2000	Planned FY 2000
Revenue	\$ 1,841,588	\$ 1,852,010	\$ 1,877,738	\$ 1,885,102
Expense	1,788,531	1,818,236	1,714,361	1,822,915
Operating Results	\$ 53,057	\$ 33,774	\$ (36,626)	\$ (37,813)



Information Services

The Information Services activity group includes the Naval Computer and Telecommunication Centers (NCTC); the Navy, Fleet Material Support Office (FMSO); and the Naval Reserve Information Systems Office (NIRSO). The comparative size of these organizations and their respective contributions to the financial statement presentations can be illustrated by their relative revenue contributions: in FY 2000, NCTC reported revenue of \$121 million; FMSO, \$75.9 million; and NIRSO, \$13.6 million.



Senator Charles Robb receives an on-hands demonstration by getting his hand scanned for access purposes to the new Smart Card Technology Center.

Naval Computer and Telecommunications Centers



A view of the satellite dish arrays at the Naval Computer and Telecommunications Area Master Station in Honolulu, HI.

The Naval Computer and Telecommunications Centers provide regional communications and automated information systems services to customers; manage remote facilities; provide local information systems support in coordination with Defense

Information Systems Agency (DISA) information processing centers; and design, develop, and maintain standard DON automated information systems.

The flow of information in the Navy can be classified into two broad categories: message information and data information. NCTC melds communication and computer technologies to provide its global customer base with advanced automated information systems.

Effective 1 October 1999, the NWCF portion of NCTC became a part of the Space and Naval Warfare Systems Centers (SSCs). The NCTC support centers have retained their geographical locations, but control of the centers has been assigned to SSC Charleston and SSC San Diego as follows:

Space and Naval Warfare Systems Center	Geographic Location
SSC Charleston	Washington, D.C.
	Pensacola, Florida
	Norfolk, Virginia
	Jacksonville, Florida
SSC San Diego	San Diego, California
	Pearl Harbor, Hawaii

Effective 1 October 2000, all financial reporting for the centers is consolidated in the Research and Development sub-activity group for either SSC San Diego or SSC Charleston. The only accounts that will remain open will be those required to support the residual accounting effort for one year.

Operating Results

Six Thousands	Actual FY 1999	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 104,050	\$ 128,481	\$ 121,080	\$ 112,442
Expense	102,294	128,101	119,294	111,242
Operating Results	\$ 1,755	\$ 380	\$ 2,085	\$ 2,200

Navy, Fleet Material Support Office

The mission of the Navy, Fleet Material Support Office (FMSO) is to employ information technology for the design, development, integration, and maintenance of automated information systems for Navy, DoD, and other Federal agencies, with specific emphasis on systems supporting Naval supply, inventory and material management, financial processing, and maintenance operations.

From its two Naval Support Stations, one in Mechanicsburg, PA, and one in Philadelphia, PA, FMSO continues to operate as the first and only Navy activity to achieve a Capability Maturity Model (CMM) level IV rating, placing it in a select group of software (Maintenance and Development) agencies. Fewer than 3 percent of all DoD activities have a rating of IV or higher.

The FMSO vision is to produce quality products on time and in full partnership with its customers. FMSO's commitment to this vision is evidenced by its support of the Navy Supply System Command's effort to improve its business processes. FMSO supplied a team of approximately 100 personnel to support the Enterprise Resource Planning (ERP) project, a private industry initiative undertaken by NAVSUP. The goal of ERP is to develop a business management system that integrates all facets of business, including strategic planning, manufacturing, sales, distribution, human resources, and reporting. FMSO's contribution to the business case analysis of the project and its recommendation of business software is crucial to the success of ERP.

Operating Results

The Defense Finance and Accounting Service charges for services provided contributed to

the actual Operating Result exceeding the planned amount by \$698 thousand.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 88,912	\$ 85,495	\$ 79,942	\$ 75,955
Expense	87,911	84,935	77,157	75,771
Operating Results	\$ 1,001	\$ 960	\$ (1,215)	\$ (1,013)

Naval Reserve Information Systems Office

The Naval Reserve Information Systems Office provides quality information management and information technology products, services, and solutions to satisfy requirements of the Navy, the DoD, and other government agencies; and performs other functions and tasks as directed by a higher authority.

Effective 1 October 2000, control of the Naval Reserve Information Systems Office (NIRSO) was transferred from the Commander Naval Systems Office to the Space and Naval Warfare Systems Centers (SSCs). With this realignment, the name of this activity changed to SPAWAR Information Technology Center (ITC) New Orleans. The effects of the realignment are rather complicated. For FY 2001, the operations of this activity will continue to be included in the NWCF. In FY 2002 (1 October 2001), however, the activity will be absorbed by the General Fund; only the residual accounting, rather than results of operations, will be included in the NWCF from that point forward.

Operating Results

FY 2000 Operating Results were \$282,000 higher than planned, in large part due to a credit labor adjustment of approximately \$200,000.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 10,705	\$ 10,795	\$ 10,659	\$ 11,944
Expense	17,610	13,531	13,884	12,441
Operating Results	\$ 1,095	\$ (2,745)	\$ (215)	\$ (497)

Research and Development

The Research and Development activity group generated \$7.8 billion dollars in FY 2000, representing 37.7 percent of total NWCF revenue. The group is divided functionally into five subactivities, contributing revenues to the activity group as follows:

Naval Surface Warfare Center (NSWC)	\$ 2,674,970	34.6%
Naval Air Warfare Center (NAWC)	\$ 2,180,508	27.5%
Naval Undersea Warfare Center (NUWC)	\$ 783,244	10.0%
Naval Research Laboratory (NRL)	\$ 534,234	6.8%
Space and Naval Warfare System Centers (SSC)	\$ 1,502,334	19.1%

Naval Surface Warfare Center

The Naval Surface Warfare Center 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.



USS Caron fires its five-inch guns in a live fire exercise on Vieques, Puerto Rico.

The Naval Surface Warfare Center (NSWC) is dedicated to the production of advanced weapon products for the readiness and the advancement of

the Navy of the 21st Century. NSWC is organized into five divisions— Carderock, Crane, Dahlgren, Indian Head, and Port Hueneme—and the Naval Warfare Assessment Station, Corona.

The NSWC Crane Division was recognized for its innovative efforts to reduce costs with two DoD Value Engineering Awards: for its work with the AN/ALQ Electronic Countermeasures system; and for its part in developing new battery designs with tri-service applications and benefits.

Operating Results

Actual FY 2000 Operating Results were \$13.1 million above plan, in large part because of the execution of more direct labor hours than estimated.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 2,484,833	\$ 2,647,402	\$ 2,674,570	\$ 2,309,296
Expense	2,481,709	2,650,679	2,650,140	2,318,076
Operating Results	\$ 23,124	\$ (3,277)	\$ 5,421	\$ (7,680)

Naval Air Warfare Center

The Naval Air Warfare Center operates the Navy'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.

The Naval Air Warfare Center (NAWC) has two divisions supporting its mission objectives:

The NAWC Aircraft Division (NAWAD) is the Navy's full spectrum research, development, test and evaluation (RDT&E), engineering, and

fleet support center for air platforms. Its product areas include aircraft systems technology, propulsion, flight test and engineering, avionics design and production, and the aircraft-platform interface.



An F-14B "Tomcat" drops a GBU-16 laser guided bomb during a live fire training exercise.

The NAWC Weapons Division combines the resources of its sites in China Lake, CA and Pt. Mugu, CA to provide the Navy and DoD with effective and affordable integrated warfare systems and life cycle support to ensure battlespace dominance.

Operating Results

FY 2000 Operating Results were \$3.9 million below plan. This is attributable to several factors, including increases in labor acceleration costs and increased costs associated with the implementation of the Defense Industrial Financial Management System (DIFMS).

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 2,100,079	\$ 2,127,718	\$ 2,160,509	\$ 2,072,400
Expense	2,099,293	2,117,622	2,160,256	2,068,219
Operating Results	\$ 3,846	\$ 9,795	\$ 249	\$ 4,181

Naval Undersea Warfare Center

The mission of the Naval Undersea Warfare Center is to operate the Navy's full-spectrum research, development, test and evaluation, engineering, and fleet support center for submarines, autonomous underwater systems, and offensive and defensive weapon systems associated with undersea warfare.



USS Alabama (SSBN 731) cruises at high speed on the surface as she approaches the Naval Submarine Base at San Diego following the completion of the sub's 50th deterrent patrol.

The Naval Undersea Warfare Center (NUWC) is supported by two divisions: Division Newport, located in Newport, RI, and Division Keyport, in Keyport, WA.

In addition to these two main sites, NUWC has several smaller detachments across North

America, ranging from Andros Island in the Bahamas to Lualualei, HI, and from San Diego, CA to Nanoose, British Columbia.

Operating Results

FY 2000 Operating Results exceeded plan by \$2.9 million, primarily because NUWC executed more direct labor hours than originally planned.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 735,524	\$ 735,074	\$ 753,244	\$ 680,049
Expense	735,810	735,718	758,746	686,439
Operating Results	\$ (3,286)	\$ (644)	\$ (3,502)	\$ (6,390)

Naval Research Laboratory

The Naval Research Laboratory conducts a broad-based multidisciplinary program of scientific research and advanced technological development, directed toward maritime applications of new and improved materials, techniques, equipment, and systems, and development of ocean, atmospheric, and space sciences and related technologies.

Serving as the Navy’s corporate laboratory, Naval Research Laboratory (NRL) product lines include:

- Broad research of natural science, including long-range research, in areas of interest to the Navy.
- Exploratory and advanced technological development deriving from or appropriate to the scientific program areas.
- Development of prototype systems applicable to specific projects within areas of technological expertise.
- Space technology and space systems development and support.
- Mapping, charting, and geodesy (MC&G) research and development for the National Imagery and Mapping Agency.



USS Hawbill (SSN 666) surfaced at ice camp APLIS (Applied Physics Laboratory Ice Station). Hawbill is at the North Pole in support of the Science Ice Expedition.

In its role as the Navy’s corporate laboratory, NRL supports scientific research and development for other Navy activities and, where qualified, for other DoD and government agencies.

Operating Results

FY 2000 operating results, although negative, were higher than planned. With revenue and expense levels remaining relatively stable, operating losses are planned through FY 2002 to reduce positive Accumulated Operating Results.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000	Planned FY 2000
Revenue	\$ 531,400	\$ 547,083	\$ 584,234	\$ 548,028
Expense	536,815	542,318	580,587	556,608
Operating Results	\$ (5,415)	\$ 5,665	\$ (5,353)	\$ (7,690)

Financial Management Improvement Initiatives at NRL are consistent with the Navy Strategic Sourcing Program in their incorporation of A-76 studies, contract efficiencies, and functionality assessments.

1. In FY 2000, NRL completed a study of administrative services, concluding that the function should be retained in-house. Additional A-76 studies are planned for supply operations (FY 2001), audio-visual

Improved Predictions of Tropical Cyclone Tracks

Tropical cyclones can adversely affect the military in many ways, from impacting specific missions to affecting routine daily activities in port. NRL has consequently developed and demonstrated a global numerical weather prediction system, the Navy Operational Global Atmospheric Prediction System (NOGAPS), that has the ability to predict the path of tropical cyclones. Recent enhancements to this system, undertaken following research within the academic community, have led to significant improvements in the ability of NOGAPS to predict tropical cyclone tracks.

services (FY 2001), and management information systems (FY 2002).

2. NRL will assess the potential of alternative contracting processes to reduce contract costs. Procedures that will be evaluated include the use or further use of single process initiatives, milestone-based progress payments, and/or the consolidation of contracting requirements.
3. NRL is continuing its program of concentrating research division personnel into a smaller number of buildings at the Washington, D.C. site. Older, unused buildings will be demolished, reducing operating, maintenance, and upkeep costs.

Space and Naval Warfare System Centers

The Space and Naval Warfare Systems Centers serve as the Navy's full spectrum research, development, test and evaluation, engineering, and fleet support centers for command, control, and communication systems and ocean surveillance. The centers are also responsible for integrating those systems that overarch multiplatforms.



1 Operations Specialist plots a star contact on a Dead Reckoning Tacer (DRT) in the Combat Information Center (CIC) aboard USS Belleau Wood (LHA 3).

The Space and Naval Warfare Systems Centers (SSCs) provide the scientific and technical expertise, facilities, and understanding of defense requirements necessary to ensure that the Navy can develop, acquire, and maintain the warfare systems it needs to meet current and emerging requirements. In FY 2000, this mission was supported by two Centers:

Advanced Human-Computer Interface (AHCI)

SSC San Diego completed in FY 2000 the development of an advanced human-computer interface that includes the Open System Advanced Workstation (OSAW) and Display User Enhancement Technology Systems (DUETS). OSAW offers next-generation workstations for command and control systems by integrating state-of-the-art technologies, including flat-panel displays, touch screens, speech recognition, and 3-D audio localization. OSAW work continues under DUETS, a program that provides common tactical pictures of the battlespace in 3-D to the tactical action officer in the combat information center. The AHCI (OSAW/DUETS) offers a cost-effective, user-centered, and mission-relevant 3-D tactical display system with multimodal human-computer interfaces.

SSC Charleston designs, builds, tests, fields, and supports the Navy's frontline command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) systems.

SSC San Diego is responsible for development of the technology to collect, transmit, process, display, and, most critically, to manage the information that is essential to naval operations.

Operating Results

FY 2000 Operating Results were \$21.4 million above plan due to the SSCs handling more workload than planned. This resulted in increased direct labor hours, which in turn generated more overhead than was spent.

Operating Results	FY 2000	FY 99	FY 98	FY 97
Revenue	\$1,100,000	\$1,000,000	\$1,000,000	\$1,000,000
Expenses	\$1,121,400	\$980,000	\$980,000	\$980,000
Operating Results	\$21,400	\$20,000	\$20,000	\$20,000

Supply Management

The Navy and the Marine Corps are represented by separate subactivities within the Supply Management activity group. In FY 2000, Supply Management accounted for \$5.4 billion of total NWCF revenue, or 26.3 percent. Navy Supply Management generated \$5.2 billion and Marine Corps Supply Management, \$166 million.



The aircraft carrier USS Enterprise (CVN 65) enters the port of Jebel Ali (Dubai), United Arab Emirates.

services include material management, contracting, transportation, fuel services, customer service, hazardous materials management, household goods movement support, consolidated mail services, and supply consultation.

Navy Supply Management

The mission of the Navy Supply Management Activity is succinct: "To provide Navy, Marine Corps, Joint, and Allied Forces with quality supplies and services."

The worldwide, integrated Navy Supply System gets the Fleet what it needs, where and when it needs it. This supply activity is supported through the Naval Inventory Control Point (NAVICP), headquartered in Philadelphia, PA; two sites in Mechanicsburg and Philadelphia, PA; and six Fleet and Industrial Supply Centers (FISCs).

NAVICP exercises centralized control over 350,000 different line items of the repair parts, components, and assemblies that keep ships, aircraft, and weapons operating. NAVICP also provides logistic and supply assistance to friendly and allied nations through the Foreign Military Sales program.

The FISCs provide a variety of logistics support services and products to Navy and other military customers. These products and

Operating Results

For supply-type activities, the most effective performance measure is a comparison of operating results over time, rather than a comparison of planned and actual results. Between FY 1998 and FY 1999, the Operating Result fell, largely due to a clean-up of the Central Data Base (CDB) subsequent to the conversion of ships and stock points to an inactive status (i.e., through base realignment and closure (BRAC) and decommissioning). The FY 2000 Operating Results showed a return to a positive figure, but it should be noted that the result was significantly influenced by the capitalization of aviation depot-level repairable (AVDLR) inventories aboard aviation-capable ships and with the Marine Aviation Logistics Squadron.

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000
Revenue	\$ 8,253,700	\$ 5,978,248	\$ 6,201,664
Expense	8,049,500	7,162,648	4,785,788
Operating Results	\$ 204,200	\$ (1,184,400)	\$ 1,415,876

The Naval Supply Systems Command and the Defense Finance and Accounting Service (DFAS) recently completed a project that will dramatically improve the Navy's financial accountability and control of funds used to

procure equipment, supplies, and services. The new system provides faster and better access to data, improving financial management efficiency.

The Fleet Material Support Office partnered with NAVSUP and DFAS to create, develop, and incorporate two new modules for the Navy’s Material Financial Control System (MFCS). The new modules, referred to as the Allotment Accrual Accounting Module (PX02) and the Expenditure Processing Module

(PX04), replaced a mainframe system of approximately 1 million lines of computer code. These modules are compatible with the Internet-ready, flexible, and secure client/server architecture that provides such key benefits as system security, expandability, and scalability. Navy personnel received extensive training on the new modules, enabling the operation to be self-sustaining from its inception. No outside consulting resources are required for day-to-day operations and maintenance.

Marine Corps Supply Management

The Marine Corps Supply Management activity supports the Fleet Marine Force, the Navy, and the Department of Defense by providing consumable and reparable items essential to the mission of its customers.



Marines from the 24th Marine Expeditionary Unit Special Operations Capability (SOC) disembark from a Landing Craft Air Cushion (LCAC) as part of Operation Dynamic Mix 2000.

Marine Corps Supply Management consists of both retail and wholesale operations. Retail operations are performed primarily under the Direct Support Stock Control (DSSC) concept.

Under this concept, fast-moving items in support of base or station functions are stocked at issue points close to the customer. Currently, the Marine Corps operates nine DSSC activities, namely, Quantico, Parris Island, Camp LeJeune, Albany, Barstow, San Diego, Twentynine Palms, Camp Pendleton, and Camp Butler. In addition to DSSCs, the Marine Corps

manages one Inventory Control Point (ICP) at the Marine Corps Logistics Base in Albany, GA. As the wholesale component of the supply management business area, the ICP supplies Marine Corps-managed consumable and reparable items to the Fleet Marine Force (FMF) and other customers.

Operating Results

\$ in Thousands	Actual FY 1998	Actual FY 1999	Actual FY 2000
Revenue	\$ 154,300	\$ 170,900	\$ 185,300
Expense	294,100	294,900	132,900
Operating Results	\$ (139,800)	\$ (124,000)	\$ (33,400)

Performance Measurement

Objectives of the Navy Working Capital Fund:

The NWCF activity groups share common operating objectives, against which their performance is measured. These objectives include:

- Ensuring, through effective cash management, that there are sufficient cash reserves to maintain responsiveness to customer requirements.
- Producing the high-quality goods and services that support the mission of the DON and the operational objectives of other customers.

Cash Management

NWCF Objective: To ensure, through effective cash management, that there are sufficient cash reserves to maintain responsiveness to customer requirements.

The operational model of the NWCF activities requires that the activity secure and deliver the goods or services required by the customer before it is reimbursed for the cost of providing those goods or services. To ensure that the NWCF has adequate cash reserves to cover the cost of goods and services sold until reimbursement is received, the USD (C) recommends a cash balance be maintained that is equal to seven to 10 days of operating cash disbursements plus six month’s balance of capital expenditures.

For FY 2000, the target cash balance to meet this recommendation was \$668 million (seven days) to \$890 million (10 days). Not only did the NWCF meet this target but, as FY 2000 closed, the cash position more than met the recommended 10-day level, the result of unanticipated sales growth experienced by Supply Management, Navy and workload above budgeted levels in the Research and Development activity group. This strong FY 2000 performance should ensure that the NWCF continues to accommodate cash flow requirements needed to meet customer demand for services.

Customer Support

NWCF Objective: To produce the high-quality goods and services that support the mission of the DON and the operational objectives of other customers.

The volume of work performed by the NWCF activities is indicated by the revenue that the NWCF generates. The distribution of that revenue by source indicates the relative importance of each customer to the operations of the NWCF. The table below illustrates the total NWCF Revenue for FY 1998 through FY 2000, by customer. The figures for FY 1998 and FY 1999 include revenue attributed to the Ordnance activity group, which was transferred to a mission-based or General Fund activity in FY 2000. The Ordnance revenue, the NWCF customer base for the past three years is shown below:

\$ in Thousands	FY 1998	FY 1999	FY 2000
DON Operations and Maintenance	9,804,034	10,259,067	10,225,145
DON Other	6,612,522	6,554,127	6,951,942
DoD Other	3,362,465	3,217,975	3,253,845
Other Federal/Non-Federal	1,634,370	910,885	596,097
Total Revenue	21,413,391	20,932,034	20,927,032
Ordnance Revenue	(838,907)	(229,381)	(27,985)
Comparative Revenue	21,225,434	20,742,476	20,799,032

Challenges and Opportunities

The challenges and opportunities facing the NWCF activity groups are the same challenges that face any complex business organization in a global market. These challenges include:

- Continuing the delivery of excellence with a shrinking workforce.
- Reducing or eliminating advance billings to more effectively manage the cash balance of the NWCF
- Implementing financial management and process improvements through nonfinancial feeder teams.
- Maintaining Financial Management Systems in compliance with current regulatory guidance.
- Reevaluating the methods and processes for assessing managerial control risks.

Personnel Resources

One of the challenges facing the NWCF is how to maintain or improve current levels of service as its workforce shrinks. To counter this challenge, the NWCF has adopted automated processes, outsourcing techniques, and other innovative solutions to ensure that its customers continue to receive the best possible service.

The following table illustrates the continued downward trend for the numbers of civilian and military personnel engaged in the missions of the NWCF activity groups:

Year	Civilian	Military	Total
FY 1998	101,961	3,105	105,066
FY 1999	93,754	3,031	96,785
FY 2000	89,169	2,059	91,228

Cash Management: Advance Billings

To improve short-term cash solvency, customers may be billed in advance of service or product delivery. But while these advance billings improve the ready cash balance, they do not change the customer work schedule or reduce the cost of filling the customer order.

In 1995, when the responsibility for managing the cash balances was returned to the individual components, the NWCF received a \$442 million cash balance and responsibility for a \$2.2 billion liability for advance billings. The NWCF then faced the challenge of filling the orders associated with these advance billings, requiring further outlay of cash, while simultaneously rebuilding the cash balance to provide sufficient resources to cover seven to 10 days of operating requirements.

The NWCF instituted an aggressive cash recovery plan to rebuild a positive cash position. The objectives of the plan were threefold: to eliminate the \$2.2 billion liability for advance billings; to maintain cash balances equal to seven to 10 days of operating requirements; and to cease new advance billings. Through assessing cash surcharges, the NWCF has steadily reduced its unliquidated advanced billing balance to just \$4 million at the end of FY 2000.

FY 1996	1.4 billion
FY 1997	638 million
FY 1998	291 million
FY 1999	55 million
FY 2000	4 million

Working Groups

In 1998, DoD initiated two efforts to speed its progress toward an unqualified opinion: the Biennial Financial Management Improvement Plan and the DoD Implementation Strategies. The Biennial Financial Management Improvement Plan defines the environment the DoD would like to attain in the future and provides a concept of operations to guide transition toward this environment. The DoD Implementation Strategies establish specific milestones and tasks to be achieved when addressing financial management initiatives and deficiencies. These efforts complement one another and provide the cornerstone of the DON's strategy to develop fully integrated financial management systems. They mandate a course of aggressive action, including:

- Reengineering business processes to achieve an integrated, data-sharing environment.
- Adopting a business philosophy that uses a proprietary/budgetary financial structure within a performance-oriented financial management environment.
- Tracking the life cycle costs of property assets from acquisition through usage to final disposal.
- Establishing electronic exchanges or system interfaces between standalone, nonfinancial feeder systems and standard accounting and reporting systems.
- Establishing a risk management environment incorporating internal controls such as competency training to ensure data integrity and protection against fraud.

Working Groups

The DON has created nonfinancial feeder teams, or working groups, to oversee financial

management and process improvements and to support DoD Implementation Strategies. Each working group is led by a senior civilian or a flag officer and includes broad representation of program and financial personnel from the Secretariat, Navy and Marine Corps Headquarters, the audit community (General Accounting Office, DoD Inspector General, and Naval Audit Service), DoD agencies, and, where appropriate, contractor support. In addition, a representative from each working group attends Executive Steering Committee (ESC) meetings with staff of the Office of the Under Secretary of Defense (Comptroller).

DON Working Groups include:

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

During FY 2000, the working groups continued to change business practices, eliminate redundant and manually intensive systems, and bring remaining systems into compliance with Federal Accounting Standards. All teams made considerable progress, reaching different stages of completion according to the complexity of their implementation strategy.

Working group highlights

Real Property. The Navy Facility Assets Data Base (NFADB) is the DON's central repository for land, building, and structure assets. Work in FY 2000 focused primarily on raising the accuracy of data (existence, completeness, and

valuation) and on bringing the system into compliance with federal accounting standards. The team also identified the modifications necessary to enable the calculation of depreciation, and developed the internal controls necessary to sustain accurate financial reporting over the long term. The team will continue to work with the Defense Finance and Accounting Service (DFAS) to develop an electronic interface with our Standard Accounting and Reporting System (STARS) during FY 2001.

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

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

We made significant progress in FY 2000, implementing DPAS at 140 sites that together account for 99 percent of capital assets, by

dollar value (acquisition cost of \$100,000 or higher). Implementation will continue in FY 2001, as will the efforts to improve the financial reporting of personal property. DPAS will ultimately be implemented at more than 900 Navy activities.

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

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

Government Property in Possession of Contractors (GPPC). The working group continued its efforts to identify an appropriate approach to account for property and material held by contractors. During FY 2000, DoD completed a draft study to determine the extent to which existing systems already maintain accountability of GPPC, in an effort to reduce areas of duplicate reporting and to

develop a methodology for collecting GPPC information within the constraints of federal regulations. A report has not yet been issued in final.

Operating Materials and Supplies (OM&S).

During FY 2000, the OM&S team evaluated business processes, put forth a strategy for streamlining the number of feeder systems, and identified eight major systems for compliance evaluation. Working closely with the Office of the Secretary of Defense (OSD), DFAS, and the audit community, the team took steps to implement a model for valuing OM&S for financial statement purposes. System modifications will be required once an OM&S valuation model has been selected in order to bring the systems into compliance with federal accounting standards.

Inventory and Logistics. The team is reviewing systems and processes for managing the DON's Inventory Held for Sale. The team is ensuring that feeder systems comply with financial requirements, that in-transit assets are properly managed, and that physical inventory sampling and counting are accomplished according to DoD policy. The team is also revising the current acquisition inventory valuation method and studying the feasibility of implementing a direct historical cost method of valuation. In FY 2000, two new modules were additionally introduced in the Navy's Material Financial Control System (MFCS), replacing a mainframe system of approximately 1 million lines of computer code. The new modules will support the enhancement of system security, expandability, and scalability.

Summary

The working groups are making considerable progress in assessing and reengineering the DON's business processes toward realization

of a standard, compliant system enabling streamlined data flow and effective internal control. A major outcome of this process will be the elimination of redundant systems and the development of interfaces between finance and accounting systems and subsidiary systems. Once realized, a fully integrated financial management system will support the program/budget process, provide information for internal decision making, and produce auditable financial statements that are sustainable over the long term.

Financial Management Systems

One of the specific requirements for an activity to be included in the working capital fund classification is that the activity be supported by an accounting system that is capable of collecting the costs of production and assigning these costs to the appropriate outputs. The activities of the NWCF are supported by financial systems as varied as the specialized contribution each makes to the support of the Navy and the defense of the United States. The challenge facing the NWCF is to establish and maintain financial management systems that not only support the unique business areas of its activity groups, but which also meet the regulatory requirements for a federal financial management system.

To meet this challenge, the NWCF has been working with the Defense Finance and Accounting Service (DFAS) to implement a number of migratory systems that will meet the current standards for federal financial management systems. The table below illustrates the financial management systems supporting the NWCF activity groups. For those activity groups where a legacy system is in use, the targeted migratory system and planned implementation date are also displayed.

Risk management Initiative

The expanding legal and regulatory requirements, the powerful but vulnerable Internet, and the uncertainties inherent in maintaining an able, ready Naval force make it difficult to provide assurance that effective controls are in place to mitigate the risks involved in managing the complex, global organization that is supported by the NWCF activity groups.

To address the challenge of effective risk management, the Navy is reviewing its traditional, reactive approach of monitoring control weakness reporting. In its place, DON plans to implement a new risk management

process that will be proactive and that will invigorate the organization to create a cultural change and awareness of risk management effectiveness.

The cultural change and the paradigm shift from the traditional reactive model to one that is focused on early detection of potential management risks and their associated control weaknesses are being tested in a pilot program by NAVFAC. This pilot program combines elements of facilitation, group meetings, and proactive resolution in a structured environment. Although it is still too early to evaluate the impact of the pilot program, the initial reports have been positive.

NWCF Activity Group	Legacy System	Migratory System
Depot Maintenance–Shipyards	Naval Shipyard Management Information System (SYMIS)	TBD (April 01)
Depot Maintenance–Aviation		Defense Industrial Financial Management System (DIFMS)
Depot Maintenance–Marine Corps		Defense Industrial Financial Management System (DIFMS)
Transportation		Military Sealift Command Financial Management System (MSCFMS)
Base Support	Public Works Center Management Information System (PWCNIS)	DWAS (September 03)
Information Services	Industrial Fund Accounting System (IFAS) Defense Business Management System (DBMS)	Transfers to GF activity (October 01) CO-WCF
Research and Development		Defense Industrial Financial Management System (DIFMS)
	Information Management/Processing System (IMPS)	DIFMS (October 01)
	Naval Operations and Management Information Systems (NOMIS)	DIFMS (January 02)
	Realtime Integrated Management System (RIMS) D	IFMS (April 01)
Supply Management, NAVICP		Material Financial Control System (MFCS)
Supply Management, Marine Corps	Marine Corps Unified Material Management System (MUMMS)	ATLASSII



Department of the Navy
Navy Working Capital Fund
Principal Statements



Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code, section 3515(b).

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

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

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

Principal Statements

The Department of the Navy's FY 2000 Principal Financial Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B of October 2000. The statements and related notes summarize financial information for individual funds and accounts within the Department for the fiscal year ending September 30, 2000.

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

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

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

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

Department of Defense
Navy Working Capital Fund
Consolidated Balance Sheet

As of September 30, 2000

(\$ in Thousands)

	FY 2000
ASSETS (Note 2)	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	\$ 1,473,779
Investments (Note 4)	0
Accounts Receivable (Note 5)	583,425
Other Assets (Note 6)	17,657
Total Intragovernmental Assets	<u>\$ 2,074,861</u>
Cash and Other Monetary Assets (Note 7)	<u>\$ 0</u>
Accounts Receivable (Note 5)	650,124
Loans Receivable (Note 8)	0
Inventory and Related Property (Note 9)	16,870,713
General Property, Plant and Equipment (Note 10)	4,118,173
Other Assets (Note 6)	1,377,027
TOTAL ASSETS	<u>\$ 25,090,898</u>
LIABILITIES (Note 11)	
Intragovernmental:	
Accounts Payable (Note 12)	\$ 985,695
Debt (Note 13)	967,512
Environmental Liabilities (Note 14)	0
Other Liabilities (Note 15 & Note 16)	76,152
Total Intragovernmental Liabilities	<u>\$ 2,029,359</u>
Accounts Payable (Note 12)	<u>\$ (1,034,979)</u>
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,223,914
Environmental Liabilities (Note 14)	0
Loan Guarantee Liability (Note 8)	0
Other Liabilities (Note 15 & Note 16)	3,781,870
TOTAL LIABILITIES	<u>\$ 6,000,164</u>
NET POSITION	
Unexpended Appropriations (Note 18)	\$ 0
Cumulative Results of Operations	19,090,734
TOTAL NET POSITION	<u>\$ 19,090,734</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 25,090,898</u>

Department of Defense
Navy Working Capital Fund
Consolidated Statement of Net Cost

Year Ended September 30, 2000

(\$ in Thousands)

	FY 2000
Program Costs:	
Intragovernmental	\$ 5,646,484
With the Public	7,978,806
Total Program Cost	<u>\$ 13,625,290</u>
(Less: Earned Revenue)	<u>(13,724,470)</u>
Net Program Costs	<u>\$ (99,180)</u>
Cost Not Assigned to Programs	0
(Less: Earned Revenue not attributable to Programs)	0
Net Costs of Operations	<u>\$ (99,180)</u>

See Notes 1 and 19.

Department of Defense
Navy Working Capital Fund
Consolidated Statement of Changes in Net Position

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

	FY 2000
Net Cost of Operations	\$ (99,183)
Financing Sources (other than exchange revenues)	
Appropriations Used	0
Taxes and Other Nonexchange Revenue	0
Donations - Nonexchange Revenue	0
Imputed Financing (Note 20)	408,766
Transfers - In	77,193
Transfers - Out	(418,821)
Other	3,716,827
Total Financing Sources (other than Exchange Revenues)	\$ 3,783,965
Net Results of Operations	\$ 3,883,148
Prior Period Adjustments (Note 20)	(2,697,098)
Net Change in Cumulative Results of Operations	\$ 1,186,050
Increase (Decrease) in Unexpended Appropriations	0
Change in Net Position	\$ 1,186,050
Net Position - Beginning of the Period	17,904,688
Net Position - End of the Period	\$ 19,090,738

See Notes 1 and 20.

Department of Defense
Navy Working Capital Fund
Combined Statement of Budgetary Resources

As of September 30, 2000

(\$ in Thousands)

	FY 2000
BUDGETARY RESOURCES	
Budget Authority	\$ 563,355
Unobligated Balance - Beginning of Period	2,462,318
Net Transfers Prior-Year Balance, Actual	61,600
Spending Authority from Offsetting Collections	20,653,232
Adjustments	(132,935)
Total Budgetary Resources	\$ 23,607,570
STATUS OF BUDGETARY RESOURCES	
Obligations Incurred	\$ 21,518,414
Unobligated Balances - Available	2,089,158
Unobligated Balances - Not Available	(2)
Total Status of Budgetary Resources	\$ 23,607,570
OUTLAYS	
Obligations Incurred	\$ 21,518,414
Less: Spending Authority from Offsetting Collections and Obligation Adjustments	(20,653,232)
Obligated Balance, Net - Beginning of Period	2,444,895
Obligated Balance Transferred, Net	0
Less: Obligated Balance, Net - End of Period	(3,630,862)
Total Outlays	\$ (320,785)

See Notes 1 and 21.

Department of Defense
Navy Working Capital Fund
Combined Statement of Financing

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

	FY 2000
OBLIGATIONS AND NONBUDGETARY RESOURCES	
Obligations Incurred	\$ 21,518,414
Less: Spending Authority from Offsetting Collections and Obligation Adjustments	(20,653,232)
Donations Not in the Entity's Budget	0
Financing Imputed for Cost Subsidies	408,766
Transfers-In (Out) - Financing	88
Less: Exchange Revenue Not in the Entity's Budget	(295,461)
Nonexchange Revenue Not in the Entity's Budget	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0
Other	0
Total Obligations as Adjusted and Nonbudgetary Resources	<u>\$ 978,575</u>
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	\$ (984,254)
Change in Unfilled Customer Orders	(316,547)
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(1,476,123)
Financing Sources that Fund Costs of Prior Periods	(14,946)
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0
Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0
Other - (Increases)/Decreases	0
Total Resources That Do Not Fund Net Costs of Operations	<u>\$ (2,791,870)</u>
COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES	
Depreciation and Amortization	\$ 205,930
Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0
Revaluation of Assets and Liabilities - Increases/(Decreases)	1,394,793
Loss of Disposition of Assets	0
Other - Increases/(Decreases)	(4,272)
Total Costs That Do Not Require Resources	<u>\$ 1,596,451</u>
FINANCING SOURCES YET TO BE PROVIDED	<u>\$ 117,663</u>
NET COST OF OPERATIONS	<u>\$ (99,181)</u>

See Notes 1 and 22.

Department of the Navy
Navy Working Capital Fund
***Notes to Principal
Statements***



Note 1. Significant Accounting Policies

A. Basis of Presentation.

These financial statements have been prepared to report the financial position and results of operations of the Navy Working Capital Fund (NWCF). The financial statements are required by the Chief Financial Officer's (CFO) Act, as amended and expanded by the Government Management Reform Act (GMRA) of 1994 and other relevant legislation. This report provides information to enable Congress, agency managers, the public, and other interested parties to assess management performance. These statements are in addition to the Department of the Navy (DON) financial reports, prepared 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.

To the extent possible, the financial statements have been prepared from the books and records of the DON in accordance with the "Department of Defense Financial Management Regulation" ("DoD FMR"), the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements" and generally accepted accounting principles (GAAP). However, the NWCF is unable to implement certain elements of GAAP and the OMB Bulletin No. 97-01 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 business-like financial management. As a result, the NWCF cannot currently implement certain aspects of GAAP and the OMB Bulletin No. 97-01. See Note 1.D, Note 1.K, Note 9, and Note 10 for more details.

Further, the NWCF is unable to implement certain 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 and Notes 5, 6, 12, and 15.

DFAS and DON continue to implement process and system improvements addressing the limitations of financial accounting systems and nonfinancial feeder systems to produce NWCF financial statements in accordance with applicable federal standards and requirements.

In addition to systems limitations, the DoD application of the accounting standards is different in some instances from the auditor's interpretation of the standards. The DoD has reviewed the intent of the standards and applied them in a manner that management believes fulfills that intent. One financial statement element impacted by different applications of the accounting standards is financing payments under firm fixed price contracts. A more detailed explanation of this item is discussed in the note applicable to the financial statement line item affected. See Note 1.P and Note 6 for more details.

The amounts presented in the financial statements and notes for Fiscal Year (FY) 2000 are rounded to the nearest thousand of dollars.

B. Mission of the Reporting Entity.

The overall mission of the DON is to organize, train, and equip forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. The NWCF provides goods, services, and infrastructure to DON and other DoD customers to help ensure our military forces are mobile, ready, and have the most advanced technology.

FY 2000 represents the tenth year that the DON has prepared financial statements as required by the CFO Act, as amended. 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 accompanying financial statements account for all resources for which the NWCF is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified.

The 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) in October 1991. In December 1996, Under Secretary of Defense (Comptroller) (USD(C)) 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.

Depot Maintenance

- Depot Maintenance - Shipyards
- Depot Maintenance - Aviation
- Depot Maintenance - 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 (NCTC)
- Navy, Fleet Material Support Office (FMSO)
- Naval Reserve Force (NAVRESFOR)

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

In FY 2000, the Ordnance activity group transferred from NWCF to the DON General Fund in accordance with Program Budget Decision 407 of 12 November 1998. Because residual accounting remains in the NWCF, the Ordnance activity group prepared financial statements and related notes for FY 2000, which are a part of the consolidated financial statements included in this report. Additionally, subsequent to the FY 2000 reporting date, the NWCF portion of the Information Service's Naval Computer and Telecommunications Command became a part of the Research and Development's Space and Naval Warfare Systems Centers. This change does not affect the FY 2000 NWCF financial statements.

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. Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders.

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. The NWCF also finances the purchase of consumable and repairable items, which are held in inventory at stock activities until issued and billed to the customer with reimbursement to the NWCF activities.

D. Basis of Accounting.

When possible, the financial statements are presented on the accrual basis of accounting as required by GAAP. The NWCF also records budgetary accounting transactions, which facilitates compliance with legal constraints and controls over the use of federal funds.

For FY 2000, the NWCF's financial management systems are unable to fully comply with requirements for accrual accounting. Additionally, most NWCF financial and nonfinancial feeder systems are not designed to perform budgetary accounting. Hence, the information presented on the Statement of Budgetary Resources was developed using proprietary accounts. The NWCF has undertaken efforts to determine the additions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of GAAP. One such significant action is the revision of its accounting systems to incorporate the United States Government Standard General Ledger (SGL) and, thusly, to record financial events in both budgetary and proprietary accounts at the transaction level.

E. Revenues and Other Financing Sources.

Revenue is earned primarily from providing services, materials, and products to the DON and others and is recognized on a percentage of completion or material issue basis. Revenue for NWCF Supply Management activities is recognized when an item is dropped from inventory at the time of sale.

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the NWCF's operations.

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 (OPM) or CSRS and FERS. The consolidated NWCF financial statements recognize 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 the MRS are reported on the financial statements of the Military Retirement Trust Fund.

4. In FY 2000, 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 2000, the NWCF received reimbursements of \$380,762 thousand for assets sold under the FMS program.

5. To prepare stand-alone NWCF financial statements, transactions occurring between and among NWCF activities must be eliminated. However, the NWCF cannot accurately identify all intra-NWCF transactions by customer. For FYs 1999 and 2000, the NWCF accounting firm (DFAS) provided NWCF summary seller-side balances for revenue, accounts receivable, and advances from others and required the adjustment of the buyer-side records to recognize expenses, accounts payable, and advances to others. The effects of intra-NWCF transactions were then eliminated from the financial statements. In addition, the NWCF implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Transactions Accounting Guide" for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transaction with OPM. 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.

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

The NWCF's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, DON, and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits. In addition, the DFAS centers and the USACE Finance Center submit reports to the Department of Treasury, by appropriation, on collections received and disbursements issued. The Department of Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the NWCF's FBWT account and Treasury's FBWT often result and are reconciled. Material Disclosures are provided in Note 3.

Effective February 1995, the USD(C) returned management of FBWT and its associated anti-deficiency limitations to the DON and other military components. 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 FBWT. FBWT is managed at the NWCF corporate level.

The practice of closing activity collections and disbursements to the DON departmental level was discontinued in October 1997 and FBWT was reestablished at the activity level. FBWT at the activity group and activity level reflect the ending FY 1997 balance plus FY 1998 - FY 2000 collections, disbursements, and non-expenditure transfers recorded in the NWCF Treasury sub-limit 97X4930.002. During FY 1998, the 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 February 1995 will be recorded in the activity general ledgers. This plan is estimated to be completed in FY 2001. See Note 3.

H. Foreign Currency.

Not Applicable.

I. Accounts Receivable.

As presented in the NWCF Balance Sheet, accounts receivable includes accounts, claims, refunds, and interest receivable from other federal entities or from the public. No allowances for uncollectible accounts are provided for amounts owed by a federal agency. Claims against another federal agency are to be resolved between the agencies. Material disclosures are provided in Note 5.

J. Loans Receivable.

Not applicable.

K. Inventories and Related Property.

Inventory is managed in the Supply Management Activity Group and includes DON-managed consumable and repairable items, and other Service, DLA, and General Services Administration (GSA) managed items. These items are recorded in the accounting records at Standard Price. A Standard Price 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 allowed by SFFAS No. 3, "Accounting for Inventory and Related Property" and procedures prescribed by the USD(C) and DFAS. The LAC method is used because logistics systems were designed for material management purposes and do not maintain historical cost. The LAC method of revaluation requires the recognition of unrealized holding gains and losses in an inventory allowance account. Adjustment of the inventory value for unrealized holding gains and losses should result in an inventory valued at an approximation of historical cost.

During FY 2000 the Navy segment of the Supply Management Activity Group revised the inventory revaluation model calculation of the cost recovery factor and estimated repair cost and DFAS modified calculations and adjustments in the model affecting disclosures. However, significant issues with the reliability of the estimates calculated by the model remain. The cost associated with transfers to disposal overstates expenses by assigning a larger cost to the inventory transferred to disposal than is warranted considering that significant quantities of inventory sent to disposal are received from

customers without cost. Inventory losses are offset with inventory gains and treated as adjustments to the inventory allowance account vice period expenses which affects operating results. The treatment of disposal actions and inventory losses are requirements that must be addressed to improve the auditability of the results of the model. See Note 9.A for material disclosure.

Depot Maintenance, Transportation, Base Support, Information Services, and Research and Development Activity Groups reported Operating Materials and Supplies balances as of 30 September 2000. These Activity Groups 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. The nonfinancial systems supporting Operating Materials and Supplies do not, in all cases, maintain the historical cost data necessary to comply with SFFAS No. 3. Additionally, the systems do not revalue excess, obsolete, and unserviceable Operating Materials and Supplies to their net realizable value nor do the systems adequately categorize these assets as Held for Use, Held in Reserve for Future Use, Held for Repair, and Excess, Obsolete, and Unserviceable as required by SFFAS No.3. See Note 9.B for material disclosures.

L. Investments in U.S. Treasury Securities.

Not Applicable.

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

The NWCF categorizes all PP&E used in the performance of its mission as General PP&E. Beginning in FY 1999, NWCF activities were required to report Required Supplementary Stewardship Information (RSSI) on Heritage Assets they own, but do not use, in performing their mission. To prevent duplicative reporting of the same Heritage Assets within DON, the total number of DON-wide Heritage Assets are reported in the RSSI of the Audited Financial Statements of the DON General Funds (Treasury Index 17). The RSSI 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 NWCF activities.

In March 1998, the USD(C) modified earlier policy for computing depreciation of General PP&E acquired on or after 1 October 2000. Depreciation expense 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 that such property should be reported on the 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.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when (1) an asset has a useful life of two or more years, and (2) the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E should be capitalized. 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.

The expense/investment criteria which is the capitalization threshold has varied by fiscal year of acquisition. Two certified public accounting (CPA) firms have recommended that the DoD retain its current capitalization threshold of \$100,000.

Fiscal Years	Expense/Investment Threshold
FY 1996 - FY 2000	\$ 100,000
FY 1995	50,000
FY 1994	25,000
FY 1992 - FY 1993	15,000

When the expense/investment funding threshold changes, an asset capitalized within the NWCF at a previous threshold continues to be capitalized and depreciated at the threshold at which it was originally capitalized.

All maintenance and repair costs are recorded as an expense when they are incurred. Additional information is provided in Note 10.

N. Advances and Prepayments.

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

O. Leases.

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

P. Other Assets.

Included as Other Assets are intragovernmental and non-federal assets that are not included on other lines of the Balance Sheet. Note 6 provides additional disclosures related to Other Assets.

NWCF activities conduct business with commercial contractors under two primary types of contracts—fixed price contracts and cost contracts. In order to alleviate the potential financial burden on the contractor of long-term contracts, the NWCF sometimes provides financing payments. One type of financing payment that the NWCF makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," these payments are reported as construction in progress and are disclosed by the NWCF in Note 10, General Property, Plant and Equipment (PP&E). The NWCF makes other financing payments pursuant to the Federal Acquisition Regulation under fixed price contracts that are not based on percentage of completion. The NWCF reports these financing payments as advances or prepayments on the "Other Assets" line of the Balance Sheet, with related disclosures provided in Note 6. The NWCF treats these payments as advances and prepayments because it 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 its costs, and the contractor is liable to repay the NWCF for the full amount of the advance. The NWCF does not believe that the SFFAS No. 1 addresses this type of financing payment. The auditors disagree with the NWCF's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

The Military Sealift Command (MSC) Transportation activity group reported an amount relating to Afloat Pre-positioning Force - Navy (APF-N) ships as Other Assets on Line 1.G of the Balance Sheet. However, the USD(C) has concluded that MSC's arrangement for use of the APF-N ships does not meet the criteria for a capital lease and that payments made for the use of those ships should be recorded as an operating expense. The Transportation activity group has made long-term arrangements for use of the ships that involved Federal Financing Bank (FFB) debt financing. The outstanding principal owed to the FFB for the ships is reported as Assets - Intragovernmental - Investments on the Balance Sheet. A decision on the proper recognition and disclosure of this APF-N financing agreement and MSC's charter arrangements for the long-term use of the ships had not been made at the time the FY 2000 NWCF financial statements were finalized. See Note 6 and Note 13 for more details on APF-N related balances reported for FY 2000.

Q. Contingencies and Other Liabilities.

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the NWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when it is probable that the future event or events will confirm the loss or incurrence of a liability for the reporting entity and the amount of loss can be reasonably estimated. 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.

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.

NWCF is reporting no contingent liabilities for FY 2000.

R. Accrued Leave.

Civilian annual leave and military leave are accrued as earned, and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken.

S. Net Position.

Net Position consists of Unexpended Appropriations and Cumulative Results of Operations (CRO). CRO for the NWCF represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to U.S. Treasury. The CRO 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.

T. Treaties for Use of Foreign Bases.

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the DoD Components. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

U. Comparative Data.

The OMB has waived the requirement to present comparative financial statements for FY 2000.

V. Undelivered Orders.

NWCF records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods and services have yet to be delivered. As of 30 September 2000, undelivered orders amounted to \$6,543,784 thousand.

Note 2. Nonentity Assets**As of September 30, 2000**

(\$ in Thousands)

	FY 2000
1. Intragovernmental Nonentity Assets:	
A. Fund Balance with Treasury	\$ 0
B. Investments	0
C. Accounts Receivable	0
D. Other Assets	0
E. Total Intragovernmental Nonentity Assets	<u>\$ 0</u>
2. Nonfederal Nonentity Assets:	
A. Cash and Other Monetary Assets	\$ 0
B. Accounts Receivable	0
C. Loans Receivable	0
D. Inventory & Related Property	0
E. Other Assets	0
F. Total Nonfederal Nonentity Assets	<u>\$ 0</u>
3. Total Nonentity Assets	\$ 0
4. Total Entity Assets	25,090,898
5. Total Assets	\$ 25,090,898
6. Other Information:	

Note 3. Fund Balance with Treasury

As of September 30, 2000

(\$ in Thousands)

	FY 2000
1. Fund Balances:	
A. Appropriated Funds	\$ 0
B. Revolving Funds	1,473,779
C. Trust Funds	0
D. Other Fund Types	0
E. Total Fund Balances	<u>\$ 1,473,779</u>
2. Fund Balances Per Treasury Versus Agency:	
A. Fund Balance per Treasury	\$ 1,473,779
B. Fund Balance per NWCF	1,473,779
C. Reconciling Amount	<u>\$ 0</u>

3. Explanation of Reconciliation Amount:

4. Other Information Related to Fund Balance with Treasury:

The Fund Balance with Treasury of \$1,473,779 thousand reflects the FY 1999 ending balance of \$1,164,185 thousand plus FY 2000 collections, disbursements, and non-expenditure transfers recorded in the NWCF Treasury sub-limit 97X4930.002. The following table details the amounts recorded in FY 2000:

Collections	\$ 20,874,926
Disbursements	(20,554,139)
Non-expenditure Transfers, Net	(11,193)

The non-expenditure transfers, as recorded on SF 1151, Non Expenditure Transfer Authorization, are comprised of Transfers-in of \$61,601 thousand and Transfers-out of \$72,794 thousand. The transfers were made from or to the following NWCF activity groups:

Activity Group	(in thousands) Non-expenditure Transfers
Transportation	\$ (72,794)
Supply Management (Navy)	61,601
Total	<u>\$ (11,193)</u>

In the Transportation activity group, a transfer-out of \$72,794 thousand was made to the FFB for the principal payment of loans related to APF-N ships. See Note 13. The NWCF received transfers totaling \$61,601 thousand for Supply Management, Navy from the Defense Logistics Agency in connection with Consumable Item Transfers (CIT), as directed by OSD(C).

Fund Balances with Treasury have been reestablished at the activity group and activity level. This effort started 1 October 1996 (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. 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. This plan is estimated to be completed in FY 2001.

Note 4. Investments

Not Applicable.

Note 5. Accounts Receivable

As of September 30, 2000 (\$ in Thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables:	\$ 583,425	N/A	\$ 583,425
2. Nonfederal Receivables (From the Public):	\$ 649,843	\$ 281	\$ 650,124
3. Total Accounts Receivables:	\$ 1,233,268	\$ 281	\$ 1,233,549

4. Allowance Method:

Under SFFAS No. 1, an allowance for uncollectible Accounts Receivable Non-federal should be recognized to reduce the gross amount of receivables to net realizable value. The DoD FMR cites the requirement of GAO and the Department of the Treasury that federal agencies establish allowances for uncollectible accounts. However, no allowances for uncollectible accounts are provided for amounts owed by non-federal customers. Rather, the NWCF uses the direct write-off method for Accounts Receivable Non-federal that are determined to be uncollectible.

The FY 2000 Allowance for Estimated Uncollectibles in the amount of \$281 thousand for the Navy segment of Supply Management results from the erroneous processing of a collection voucher in December 1999. The abnormal balance is also affected by a Material Financial Control System

(MFCS) error. The collection voucher and a change, if necessary, to the MFCS posting logic will be completed in FY 2001.

5. Other information:

DFAS Arlington required balances in Undistributed and Unmatched Collections and Disbursements to be reported against Accounts Receivable and Accounts Payable, respectively. This is a change from prior year's practice. Prior to FY 2000, the DON obtained a waiver, from DFAS Arlington, to record the net of these transactions as Other Liabilities due to the unusually large balances in Undistributed Disbursements. Total undistributed collections applied against Accounts Receivable amounted to \$83,661 thousand.

For the NWCF, the total undistributed collections were allocated between Intragovernmental and Non-federal per DFAS Arlington memo dated 4 October 2000. This was based on the ratio of amounts reported in accounts receivable Intragovernmental and Non-federal, prior to any adjusting entries, as of 30 September 2000.

The negative Accounts Receivable Non-federal status in the Depot Maintenance Aviation column of the Consolidating Balance Sheet is due to a problem disbursement that was improperly coded as a receivable at Depot Maintenance-Aviation facility in Jacksonville, FL. This error will be corrected in FY 2001. Had this miscoding not occurred, the Accounts Receivable Non-federal balance for Depot Maintenance-Aviation would have been approximately \$124 thousand as of 30 September 2000.

Supply Management, Navy has several activities that report financial data from the Financial Inventory Reporting (FIR) System. In the system, cash sales are posted to current year collections instead of being recorded directly as an account receivable. However, since undistributed collections are netted to accounts receivable, the resulting balance in accounts receivable is correctly stated. This process results from the inability of the FIR System to report trial balance data. Currently, DFAS is in the process of converting the FIR system users to the Material Financial Control System (MFCS). MFCS will enable these activities to properly record cash sales as accounts receivable rather than influencing the balance of accounts receivable through undistributed collections. Estimated completion date of all FIR systems users conversion to MFCS is FY 2002.

The NWCF is required to report intragovernmental eliminations in the FY 2000 financial statements to offset the effect of transactions between individual activity groups within the NWCF. Additionally, the NWCF provides a schedule of intragovernmental eliminations to be used in the DoD-wide and Federal Government-wide financial statements to offset the effect of transactions between the NWCF and other DoD reporting entities and other federal agencies. Elimination data from the seller-side, i.e., the entity making sales or providing services, must agree with elimination data of the buyer-side, i.e., the entity receiving those goods or services. NWCF accounting systems do not capture eliminating entry (trading partner) data at the transaction level in a manner that facilitates trading partner aggregations and reconciliations required for the financial statement process.

For purposes of presentation in the NWCF FY 2000 financial statements, buyer-side accounts (accounts payable, advances to others, and expenses) have been adjusted where required to agree with the seller-side accounts (accounts receivable, advances from others, and earned revenue).

The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with existing or foreseeable resources. Therefore, the DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. See Note 24, Other Disclosures, for detail adjustment amounts made to NWCF financial statements for eliminations.

Note 6. Other Assets

As of September 30, 2000

(\$ in Thousands)

	FY 2000
1. Intragovernmental Other Assets:	
A. Advances and Prepayments	\$ 17,657
B. Other Assets	0
C. Total Intragovernmental Other Assets	<u>\$ 17,657</u>
2. Nonfederal Other Assets:	
A. Outstanding Contract Financing Payments	\$ 0
B. Other Assets (With the Public)	1,377,027
C. Total Nonfederal Other Assets	<u>\$ 1,377,027</u>
3. Total Other Assets:	<u>\$ 1,394,684</u>

4. Other Information Related to Other Assets:

Line 2.B, Other Assets (With the Public) includes an amount reported by the Transportation activity group relating to Time Charter arrangements made by MSC for the long-term use of the APF-N Ships. The Line 2.B amount of \$1,377,027 thousand includes the outstanding debt principal, amounting to \$952,795 thousand, owed to the FFB relating to the MSC's use of the ships. See Note 1.P and Note 13 for additional details.

Also included in the Line 2.B amount are advances and prepayments amounting to \$144,356 thousand for Navy Non-Supply Management Activities, and \$133,975 thousand which represents primarily payments made to contractors in the form of government-furnished materials by Supply Management, Navy. The remaining amounts of \$141,165 thousand represents inventory returned to suppliers pending credit for Supply Management, Marine Corps, and \$4,736 thousand represents unmatched commercial material bills for Depot Maintenance - Marine Corps activity groups. See Note 1.P for additional details on NWCF's practice of reporting prepayments as Other Assets.

The NWCF is required to report intragovernmental eliminations in the FY 2000 financial statements to offset the effect of transactions between individual activity groups within the NWCF. Additionally, the NWCF provides a schedule of intragovernmental eliminations to be used in the DoD-wide and Federal Government-wide financial statements to offset the effect of transactions between the NWCF and other DoD reporting entities and other federal agencies. Elimination data from the seller-side, i.e., the entity making sales or providing services, must agree with elimination data of the buyer-side, i.e., the entity receiving those goods or services. NWCF accounting systems do not capture eliminating entry (trading partner) data at the transaction level in a manner that facilitates trading partner aggregations and reconciliations required for the financial statement process.

For purposes of presentation in the NWCF FY 2000 financial statements, buyer-side accounts (accounts payable, advances to others, and expenses) have been adjusted where required to agree with the seller-side accounts (accounts receivable, advances from others, and earned revenue).

The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with existing or foreseeable resources. Therefore, the DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. See Note 24, Other Disclosures, for detail adjustment amounts made to NWCF financial statements for eliminations.

Note 7. Cash and Other Monetary Assets

Not Applicable.

Note 8. Direct Loans and Loan Guarantees, Nonfederal Borrowers

Not Applicable.

Note 9. Inventory and Related Property

As of September 30, 2000

(\$ in Thousands)

	FY 2000
1. Inventory, Net (Note 9.A)	\$ 16,323,851
2. Operating Materials & Supplies, Net (Note 9.B)	546,862
3. Stockpile Materials, Net (Note 9.C)	0
4. Forfeited Property	0
5. Goods Held Under Price Support and Stabilization Programs	0
6. Total	\$ 16,870,713

Note 9.A. Inventory, Net

As of September 30, 2000 (\$ in Thousands)	Inventory, Gross	Revaluation Value	Inventory, AllowanceNet	Valuation Method
1. Inventories Categories:				
A. Available and Purchased for Resale	\$ 10,808,297	\$ (4,889,134)	\$5,919,163	LAC
B. Held in Reserve for Future Sale	2,659,140	(1,214,387)	1,444,753	LAC
C. Held for Repair	9,991,179	(2,158,638)	7,832,541	LAC
D. Excess, Obsolete, and Unserviceable	100,546	0	100,546	NRV
E. Raw Materials	0	0	0	
F. Work in Process	1,026,848	0	1,026,848	AC
G. Total	\$ 24,586,010	\$ (8,262,159)	\$16,323,851	

Legend for Valuation Methods

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

2. Restrictions of 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 Prepositioned 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. Definitions of Column Titles:

Inventory, Gross Value represents the standard value used for inventory transactions in the financial system. Revaluation Allowance is the total difference between standard inventory values and either historical cost or net realizable value. Inventory, Net is approximate historical cost or net realizable value.

4. Other Information:

Except for the Work in Process, all Inventory Categories shown in the table above apply to the Supply Management Activity Group only.

Supply Management. Navy and Marine Corps managed inventories as well as inventory items purchased from DLA, GSA, Army, and Air Force, are carried in the accounting records at Standard Price. Standard Price is used in day-to-day operations and is comprised of the cost of the material and a cost recovery rate to recover operating and inventory costs in managing the Supply Management Activity Group. Inventory is revalued from Standard Price to an approximation of cost using the Latest Acquisition Cost (LAC) method of valuation in accordance with DoD FMR 7000.14-R, Volume 11B as modified by additional guidance from USD(C) and DFAS. A revaluation allowance has been established to recognize unrealized holding gains and losses.

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 2000 salvage rate based at the time of Audited Financial Statements (AFS) reporting was 1.8 percent. This method reduced Standard Price inventory value by \$14,337,153 thousand as follows:

(\$ in Thousands)

	FY 2000
Remove Cost Recovery Rate:	\$ 9,415,388
Remove cost to repair:	2,165,554
Reduce to salvage value:	<u>2,756,211</u>
Total reduction:	<u>\$ 14,337,153</u>

Inventory items are bought from DLA, GSA, Army and Air Force at Standard Price and are held in inventory at Standard Price. As noted above, Standard Price includes a cost recovery rate. One of the adjustments made by the inventory valuation model is to reduce the inventory value by the amount associated with the cost recovery rate. Since the reduction of this cost recovery amount understates the cost value of the inventory bought from non-Navy inventory managers, DON is initiating improvements to the model to eliminate this adjustment in FY 2001. The Inventory, Net on the Balance Sheet and on line 1.G in the table above is understated by approximately \$382,000 thousand.

The Supply Management, Navy value of War Reserve Material is \$ 90,588 thousand. The Supply Management, Marine Corps value of War Reserve Material is \$71,354 thousand. These values are included in Note 9.A, Line 1.A, Available and Purchased for Resale.

In FY 1997 the Navy segment of the Supply Management Activity Group commenced the "DLR capitalization" initiative. Under this initiative, end-user held depot level repairable assets with aviation ships (e.g., aircraft carriers and helicopter ships), air stations, and Marine Aviation Logistics Squadrons

are capitalized by the Supply Management, Navy Activity Group and are being reported as inventory. Approximately \$4,000 million of inventory at Standard Price value were capitalized through September 2000. This initiative continues through FY 2001.

Out of balance conditions between the ledger values in the accounting system and the supporting detail records have been identified in the inventory accounting system supporting the Navy segment of the Supply Management Activity Group. The out of balance conditions began when the inventory accounting system was first deployed in FY 1993. Over time, as systemic problems were identified and corrected, reconciliation of the ledgers, which were at a summary level, with the detailed records could not be accomplished. The cumulative impact of the differences between the inventory accounting systems and the detailed records is estimated to be about \$500,000 thousand at LAC. Given the stable nature of the system during FY 2000, the ledgers will be adjusted, through a Prior Period Adjustment, to the detailed records in FY 2001.

Work in Process. The Work in Process in the table above are amounts reported by non-Supply Management Activity Groups. The Work in Process balances include partly finished products or services at an activity, consisting of direct material, direct labor, applied overhead and other direct costs. 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 under cost reimbursable contracts, including 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.

Note 9.B. Operating Materials and Supplies, Net

As of September 30, 2000 (Amounts in thousands)	OM&S Amount	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories:				
A. Held for Use	\$ 535,001	\$ 36	\$ 535,037	O
B. Held in Reserve for Future Use	11,825	0	11,825	O
C. Held for Repair	0	0	0	
D. Excess, Obsolete, and Unserviceable	0	0	0	
E. Total	\$ 546,826	\$ 36	\$ 546,862	

Legend for Valuation Methods

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

2. Restrictions of Inventory Use, Sale, or Disposition: 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. Definitions of Column Titles: OM&S Amounts represents the standard value used for OM&S transactions in the financial system. Revaluation Allowance is the total difference between standard OM&S values and either historical cost or net realizable value. OM&S, Net is approximate historical cost or net realizable value.

4. Other Information:

Operating Materials and Supplies are held by Depot Maintenance, Transportation, Base Support, Information Services, and Research and Development Activity Groups for use on customer work. These assets are maintained at cost, primarily using a weighted average and primarily charged as an expense using the consumption method of accounting in accordance with the DoD FMR. The cost paid by the Activity Group may be Standard Price if the asset is obtained from a Supply Management Activity Group entity. See Note 9.A, above. The Operating Materials and Supplies reported on the financial statement are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, the systems are not able to either accurately categorize or report Operating Materials and Supplies as Held for Use, Held in Reserve for Future Use, Held for Repair, and Excess, Obsolete, and Unserviceable. Consequently, Held for Repair and Excess, Obsolete, and Unserviceable assets are not shown or revalued (Revaluation Allowance) to their estimated net realizable value and, therefore, are not in compliance with SFFAS No. 3.

The amount of \$36 thousand shown as Revaluation Allowance represents amounts reported as Allowance for Losses. Allowance for Losses for OM&S within the NWCF is no longer authorized and will be discontinued.

Note 9.C. Stockpile Materials, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30, 2000 (\$ in Thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes:					
A. Land	N/A	N/A	\$ 66,839	N/A	\$ 66,839
B. Buildings, Structures, Facilities	S/L	20 or 40	6,332,186	\$ (3,832,068)	2,500,118
C. Leasehold Improvements	S/L		0	0	0
D. Software	S/L	2-5 or 10	96,009	(69,326)	26,683
E. Equipment	S/L	5 or 10	3,487,272	(2,437,886)	1,049,386
F. Assets Under Capital Lease ¹	S/L		0	0	0
G. Construction-in- Progress	N/A	N/A	431,866	N/A	431,866
H. Other			43,281	0	43,281
I. Total General PP&E			\$10,457,453	\$ (6,339,280)	\$ 4,118,173

Legend for Depreciation/Amortization Methods

S/L = Straight Line

N/A = Not Applicable

2. Other Information:

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.

The acquisition value of fully depreciated assets included in the table above and reported in the Balance Sheet amount to \$2,368,253 thousand as of 30 September 2000.

For those activities with General PP&E real property in the possession of contractors, the value of this real property is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of personal property in Major Asset Classes of Software and Equipment does not include all of the General PP&E in the possession of contractors that is above the DoD capitalization threshold. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the OMB, the GAO, the Inspector General, DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal-wide accounting standards.

Included in the Major Asset Classes disclosed in Note 10 are assets totaling \$90,897 thousand located Outside of the Continental United States (OCONUS).

The \$43,281 thousand amount on Line 1.H, Other, is the net book value of General PP&E items that for the most part were either (1) not in use but were expected to be returned to use or (2) determined to be excess to requirements or beyond economic repair and awaiting disposal as of 30 September 2000. Line 1.H does not show an amount for Accumulated Depreciation/Amortization because current systems and related cross-walks do not provide for recording and presenting the acquisition cost, accumulated depreciation, and net book value of such items in accordance with DoD FMR requirements. This limitation will be addressed as part of future DFAS and DON efforts to record and report all General PP&E according to relevant standards and requirements.

Note 10.A. Assets Under Capital Lease

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30, 2000

(\$ in Thousands)

	FY 2000
1. Intragovernmental Liabilities:	
Not Applicable.	
2. Nonfederal Liabilities:	
A. Accounts Payable	\$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,223,914
C. Environmental Liabilities	0
D. Loan Guarantee Liability	0
E. Other Liabilities	0
F. Total Nonfederal Liabilities	\$ 1,223,914
3. Total Liabilities Not Covered by Budgetary Resources:	\$ 1,223,914
4. Total Liabilities Covered by Budgetary Resources:	4,776,250
5. Total Liabilities:	\$ 6,000,164

6. Other Information:

Note 12. Accounts Payable

As of September 30, 2000 (\$ in Thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables:	\$ 985,695	\$ 0	\$ 985,695
2. Nonfederal Payables (to the public):	\$ (1,034,979)	\$ (0)	\$ (1,034,979)
3. Total	\$ (49,284)	\$ 0	\$ (49,284)

4. Other Information:

During FY 2000, NWCF was able to reconcile major fiduciary balances with the Office of Personnel Management. The reconciliation amount was based on amounts taken from Defense Civilian Pay System.

DFAS Arlington required balances in Undistributed and Unmatched Collections and Disbursements to be reported against Accounts Receivable and Accounts Payable, respectively. This is a change from prior years' practice. Prior to FY 2000, the DON obtained a waiver, from DFAS Arlington, to record the net of these transactions as Other Liabilities due to the unusually large balances in Undistributed Disbursements.

For the NWCF, the total undistributed disbursements were allocated between Intragovernmental and With the Public per DFAS Arlington memorandum dated 4 October 2000. This was based on the ratio of amounts reported in accounts payable Intragovernmental and With the Public, prior to any adjusting entries, as of 30 September 2000. This allocation resulted in negative Accounts Payable status for Depot Maintenance Shipyards, Depot Maintenance Aviation, and Base Support in the Consolidating Balance Sheet.

The negative Accounts Payable status for the Component column of the Consolidating Balance Sheet is due to Undistributed Disbursements. This Undistributed Disbursement amount includes \$1,044,715 thousand, which was an allocation of disbursements from the DWCF corporate account. A DFAS memorandum dated 10 October 1997 directed this allocation. This allocation was not supported by specific transactional information, which would identify the value as belonging to NWCF.

The NWCF is required to report intragovernmental eliminations in the FY 2000 financial statements to offset the effect of transactions between individual activity groups within the NWCF. Additionally, the NWCF provides a schedule of intragovernmental eliminations to be used in the DoD-wide and Federal Government-wide financial statements to offset the effect of transactions between the NWCF and other DoD reporting entities and other federal agencies. Elimination data from the seller-side, i.e., the entity making sales or providing services, must agree with elimination data of the buyer-side, i.e., the entity receiving those goods or services. NWCF accounting systems do not capture eliminating entry

(trading partner) data at the transaction level in a manner that facilitates trading partner aggregations and reconciliations required for the financial statement process.

For purposes of presentation in the NWCF FY 2000 financial statements, buyer-side accounts (accounts payable, advances to others, and expenses) have been adjusted where required to agree with the seller-side accounts (accounts receivable, advances from others, and earned revenue).

The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with existing or foreseeable resources. Therefore, the DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. See Note 24, Other Disclosures, for detail adjustment amounts made to NWCF financial statements for eliminations.

Note 13. Debt

As of September 30, 2000 (\$ in Thousands)	Beginning Balance	Net Borrowings	Ending Balance
1. Public Debt:			
A. Held by Government Accounts	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A
2. Agency Debt:			
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	1,041,263	(73,751)	967,512
C. Debt to Other Federal Agencies	0	0	0
D. Total Agency Debt	\$ 1,041,263	\$ (73,751)	\$ 967,512
3. Total Debt:	\$ 1,041,263	\$ (73,751)	\$ 967,512
4. Classification of Debt:			
A. Intragovernmental Debt			\$ 967,512
B. Nonfederal Debt			N/A
C. Total Debt			\$ 967,512

5. Other Information:

The ending balance for Agency Debt to the FFB on line 2.B represents the Transportation activity group's outstanding principal balance on the APF-N ships of \$952,795 thousand and accrued interest payable of \$14,717 thousand for FY 2000. The net borrowings on line 2.B represent the FY 2000 principal payment of \$72,794 thousand and the difference in accrued interest payable between FY

1999 and FY 2000 of \$957 thousand. See Note 3 for additional information on the principal payment. As disclosed in Note 6, the amount of unpaid principal above Debt is reported in the NWCF Balance Sheet as Other Assets.

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.

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. 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 its 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 its 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 14. Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities

Not applicable.

Note 15.A. Other Liabilities

As of September 30, 2000 (\$ in Thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental:			
A. Advances from Others	\$ 46,101	\$ 0	\$ 46,101
B. Deferred Credits	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0
D. Resources Payable to Treasury	0	0	0
E. Disbursing Officer Cash	0	0	0
F. Nonenvironmental Disposal Liabilities:			
(1) ND PP&E (Non-nuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
G. Accounts Payable-Cancelled Appropriations	0	0	0
H. Judgment Fund Liabilities	0	0	0
I. FECA Reimbursement to the Department of Labor	0	0	0
J. Capital Lease Liability	0	0	0
K. Other Liabilities	30,051	0	30,051
L. Total Intragovernmental Other Liabilities	\$ 76,152	\$ 0	\$ 76,152
2. Nonfederal:			
A. Accrued Funded Payroll and Benefits	\$ 622,995	\$ 0	\$ 622,995
B. Advances from Others	168,308	0	168,308
C. Deferred Credits	0	0	0
D. Loan Guarantee Liability	0	0	0
E. Liability for Subsidy Related to Undisturbed Loans	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0

As of September 30, 2000 (\$ in Thousands)	Current Liability	Noncurrent Liability	Total
2. Nonfederal (cont'd):			
G. Temporary Early Retirement Authority	0	0	0
H. Nonenvironmental Disposal Liabilities:			
(1) NP PP&G (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
I. Accounts Payable— Cancelled Appropriations	0	0	0
J. Accrued Unfunded Annual Leave	0	0	0
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0
L. Capital Lease Liability	0	0	0
M. Other Liabilities	2,990,567	0	2,990,567
N. Total Nonfederal Other Liabilities	\$ 3,781,870	\$ 0	\$ 3,781,870
3. Total Other Liabilities	\$ 3,858,022	\$ 0	\$ 3,858,022

4. Other Information Pertaining to Other Liabilities:

Prior to FY 2000, DON obtained a waiver, from DFAS Arlington, to record the net of Undistributed and Unmatched Collections and Disbursements as Other Liabilities due to the unusually large balance in Undistributed Disbursements. This large balance includes \$1,044,715 thousand, which was an allocation of disbursements from the DWCF corporate account. A DFAS memorandum dated 10 October 1997 directed this allocation. This allocation was not supported by specific transactional information. During FY 2000, DFAS Arlington required balances in Undistributed and Unmatched Collections and Disbursements to be reported against Accounts Receivable and Accounts Payable, respectively, vice Other Liabilities. See also Notes 5 and 12.

Line 1.A, Advances from Others, includes \$21,370 thousand for Advances from Others for Level 1 Trading Partners.

Line 1.K, Intragovernmental Other Liabilities, represents liabilities of \$30,051 thousand for fringe benefits and the Voluntary Separation Incentive Program.

Line 2.B, Non-federal Advances from Others, includes \$58,915 thousand in Advances from foreign governments under the Cooperative Logistics Supply Support Arrangement program. These Advances are used by the Navy segment of Supply Management to procure additional levels of inventory to support the military requirements of a foreign government. The additional level of inventory is necessary to both ensure timely response to the needs of the foreign customer and to preclude the satisfaction of foreign customer requirements from impacting the capability to satisfy DoD requirements.

Line 2.M, Nonfederal Other Liabilities, includes amounts that are significant portions of the total liabilities presented in the NWCF Balance Sheet. A breakout of the major components of Other Liabilities follows.

Title	Amount (in thousands)
Accrual of Contractual Services	\$2,053,378
Depot Level Repairable Carcass Return Liability	916,846
Other Liabilities	13,120
Employer Contributions and Payroll Taxes Payable	4,396
Contract Holdback	2,827
Total, Line 2.M	\$2,990,567

The Accrual of Contractual Services of \$2,053,378 thousand represents an accrued liability for direct work performed through contractors, but not yet due for payment.

The Depot Level Repairable Carcass Return Liability of \$916,846 thousand represents the value of returned depot level repairable carcasses that have been received by an accountable activity from an end-use activity but for which an issue has not yet been processed.

The Other Liabilities amount of \$13,120 thousand consists primarily of Progress Payments and Property Furnished by Others Liability. Progress Payments are maintained to show the balance of progress payments taken for accrued costs charged to Work in Process or the value of material procured and held for specific orders received from customers within the Department of Defense. The Liability for Property Furnished by Others represents the value of inventory in-transit from one accountable activity but not yet received by another accountable activity.

The NWCF is required to report intragovernmental eliminations in the FY 2000 financial statements to offset the effect of transactions between individual activity groups within the NWCF. Additionally, the NWCF provides a schedule of intragovernmental eliminations to be used in the DoD-wide and Federal Government-wide financial statements to offset the effect of transactions between the NWCF and other DoD reporting entities and other federal agencies. Elimination data from the seller-side, i.e., the entity making sales or providing services, must agree with elimination data of the buyer-side, i.e., the entity receiving those goods or services. NWCF accounting systems do not capture eliminating entry (trading partner) data at the transaction level in a manner that facilitates trading partner aggregations and reconciliations required for the financial statement process.

For purposes of presentation in the NWCF FY 2000 financial statements, buyer-side accounts (accounts payable, advances to others, and expenses) have been adjusted where required to agree with the seller-side accounts (accounts receivable, advances from others, and earned revenue).

The volume of intragovernmental transactions is so large such that after-the-fact reconciliation can not be accomplished with existing or foreseeable resources. Therefore, the DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. See Note 24, Other Disclosures, for detail adjustment amounts made to NWCF financial statements for eliminations.

Note 15.B. Capital Lease Liability

Not Applicable.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:
None.

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

As of September 30, 2000 (Amounts in Thousands)	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits	Unfunded Actuarial Liability
1. Pension and Health Benefits:				
A. Military Retirement Pensions	\$ 0	0%	\$ 0	\$ 0
B. Military Retirement Health Benefits	0	0%	0	0
C. Total Pension and Health Benefits	\$ 0		\$ 0	\$ 0
2. Other:				
A. FECA	\$ 1,223,914	6.15%	\$ 0	\$ 1,223,914
B. Voluntary Separation Incentive Programs	0	0%	0	0
C. DoD Education Benefits Fund	0	0%	0	0
D.	0	0%	0	0
E. Total Other	\$ 1,223,914		\$ 0	\$ 1,223,914
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:				
	\$ 1,223,914		\$ 0	\$ 1,223,914

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

Actuarial Cost Method Used: The liability for workmen's compensation (FECA) includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The Department of Labor (DOL) provided the amount of \$2,665,434 thousand to DoD as the actuarial liability estimate for DON's FECA. This amount was distributed between the NWCF (\$1,223,914 thousand) and DON General Funds (\$1,441,520 thousand) based upon the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System for FY 2000.

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. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. In computing the projected annual benefit payments, the interest rate assumptions used in the discount calculations were as follows:

2000

6.15% in year 1,
6.28% in year 2,
6.30% in year 3,
and thereafter

Market Value of Investments in Market-based and Marketable Securities: None

The portion of the military retirement benefits actuarial liability applicable to the NWCF is reported on the financial statements of the Military Retirement Fund.

Note 18. Unexpended Appropriations

Not applicable.

Note 19. Disclosures Related to Statement of Net Cost

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

Disclosures Related to the Statement of Net Cost:

The balances presented in the NWCF Statement of Net Cost for FY 2000 represent the net result of post-closing adjusting and eliminating entries made in compiling and consolidating the NWCF financial statements. These entries significantly affected the reported amounts of Intragovernmental Program Cost, Program Cost With the Public, Earned Revenue, and Net Program Cost.

To a large extent, the post-closing adjustments were made in order to increase or decrease certain NWCF accounts balances reported as of 30 September 2000 to agree with related balances reported by other DoD and other federal reporting entities. The adjustments were made as part of a required process instituted to enable matching eliminating entries to be recorded at each financial statement consolidation level - the NWCF, DoD and Federal Government levels. To illustrate, other DoD entities often recorded Accounts Receivables due from NWCF activity groups that differed from the Accounts Payable balance reported as owed to other DoD entities by NWCF activity groups. In these situations, the NWCF adjusted its Accounts Payable balance upward or downward to agree with the balance reported by the other DoD entity. A similar process was followed for other accounts, such as Prepayments and Advances, and for other customers, i.e., non-DoD federal entities. In addition, the NWCF ending balances reported for some activity groups and for certain accounts were reclassified from Intragovernmental to Public and from Public to Intragovernmental as part of the FY 2000 post-closing compilation and consolidation process. See Note 24.A, Other Disclosures, for details on the dollar values of the adjustments.

Additional details on procedures followed for adjusting and eliminating entry are provided in individual notes affected by the entries (Note 5, Accounts Receivable; Note 6, Other Assets; Note 12, Accounts Payable; Note 15, Other Liabilities) and in the Required Supplementary Information provided with this report.

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

Not applicable.

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

Not applicable.

Note 19.D. Imputed Expenses

As of September 30, 2000

(\$ in Thousands)

	<u>FY 2000</u>
1. Civilian (CSRS/FERS) Retirement	\$ 184,297
2. Civilian Health	223,783
3. Civilian Life Insurance	686
4. Military Retirement Pension	0
5. Military Retirement Health	0
6. Total Imputed Expenses	\$ 408,766

Note 19.E. Benefit Program Expenses

Not applicable.

Note 19.F. Exchange Revenue

Disclosures Related to Exchange Revenue:

None.

Note 19.G. Amounts for FMS Program Procurements from Contractors

Disclosures Related to Amounts for FMS Program Procurements from Contractors:

Not applicable.

Note 19.H. Stewardship Assets

Disclosures Related to Stewardship Assets:

Not applicable.

Note 19.I. Reconciliation of Intragovernmental Revenue

Disclosures Related to Intragovernmental Revenue and Expense:

None.

Note 19.J. Suborganization Program Costs

Not applicable.

Note 20. Disclosures Related to the Statement of Changes in Net Position

As of September 30, 2000

(\$ in Thousands)

	FY 2000
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:	
A. Changes in Accounting Standards	\$ 0
B. Errors and Omission in Prior Year Accounting Reports	(2,715,540)
C. Other Prior Period Adjustments	18,442
D. Total Prior Period Adjustments	<u>\$ (2,697,098)</u>
2. Imputed Financing:	
A. Civilian CSRS/FERS Retirement	\$ 184,297
B. Civilian Health	223,783
C. Civilian Life Insurance	686
D. Military Retirement Pension	0
E. Military Retirement Health	0
F. Judgment Fund/Litigation	0
G. Total Imputed Financing	<u>\$ 408,766</u>

3. Other Information:

The Statement of Changes in Net Position, Financing Sources, of \$3,716,828 thousand, primarily represents amounts reclassified to Other Gains or Other Losses from Transfers - In and Transfers - Out that could not be eliminated through intragovernmental eliminations. For the purpose of presentation in the NWCF FY 2000 financial statements, Transfers - In were required to agree with Transfers - Out received from the seller-side data. Amounts that could not be eliminated were reclassified to Other Gains or Other Losses.

In the table above, line 1.B., Errors and Omissions in Prior Year Accounting Reports, consists of the net amount of several positive and negative adjustments. The amount primarily consists of negative prior period adjustments amounting to (\$2,722,032) thousand made by Supply Management, Navy. Of that amount, (\$2,468,219) thousand resulted from calculations made in the inventory valuation model which implements valuation policy as prescribed in the DoD FMR, as modified and implemented by DoD and DFAS. This model calculates a prior year adjustment to the cost of goods sold. See Note 1.K for further discussion of the inventory revaluation model. The remaining negative (\$253,813) thousand adjustment by Supply Management, Navy was for removal of residual inventory balances of ships that were converted to the Retail Afloat System and balances of shore-based activities that were either partnered with the Fleet and Industrial Supply Centers or closed. Due to the systems conversion, the

residual balances were erroneously reflected in the Supply Management, Navy accounts at the close of FY 1999.

Line 1.C., Other Prior Period Adjustments, is a net amount after positive and negative adjustments and consists primarily of an adjustment of \$15,423 thousand for clean up and reallocations associated with the conversion from the Financial Management Information System (FMIS) to the ORACLE financial application system, Financial Management System (FMS), during FY 2000. Also included in line 1.C is the write off of liabilities in the amount of \$3,520 thousand associated primarily with residual accounting for closed Depot Maintenance-Shipyard facilities.

Note 21.A. Disclosures Related to the Statement of Budgetary Resources

As of September 30, 2000 <i>(\$ in Thousands)</i>	<u>FY 2000</u>
1. Net Amount of Budgetary Resources Obligated for Undelivered at the End of the Period	<u>\$ 7,118,877</u>
2. Available Borrowing and Contract Authority at the End of the Period	<u>\$ 4,207,375</u>
3. Other Information:	

The Statement of Budgetary Resources is an image of the monthly Report on Budget Execution (SF 133). These reports should be produced using budgetary accounts. However, the NWCF uses proprietary accounts because its financial accounting systems were not designed to produce budgetary accounting data. The DON and DFAS are in the process of implementing new accounting systems, such as the Defense Industrial Financial Management System (DIFMS) at Depot Maintenance and Research and Development activities and the Defense Working Capital Accounting System (DWAS) at Base Support activities. These new accounting systems will contain both proprietary and budgetary account structures using the U.S. Standard General Ledger and, therefore, will have the capability to produce the Statement of Budgetary Resources and SF 133.

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 reported on this line of 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 these financial statements, revenue is defined as gross sales. Credit returns are used to the inventory valuation model to calculate the cost value of the inventory and cost of goods sold. The difference in use of this terminology causes 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 Centralized Expenditures/Reimbursement Processing System. In FY 2000, the differences between the U.S. Treasury and the NWCF activity ledgers have been minimal, and 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, the above differences have created distortions in the Accounts Receivable and Accounts Payable from a budgetary reporting perspective on the SF 133. In addition, Accounts Receivable and Accounts Payable are handled differently on the monthly SF 133 as compared to the monthly Accounting Report (AR) 1307 and financial statements. Also, problems with undistributed collections and disbursements have created abnormal balances for Accounts Receivable and Accounts Payable on the SF 133.

Commencing in April 1999, DFAS and DON have been working with USD(C) to correct these abnormal balances and to prepare a new crosswalk using proprietary accounts that will improve budgetary reporting on the SF 133 as well as the Statement of Budgetary Resources. This new crosswalk will be used in FY 2001. As noted above, once new accounting systems are deployed at NWCF activities, the budgetary account structure will replace the proprietary account crosswalk. Intra-agency transactions have not been eliminated on the Statement of Budgetary Resources 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 2000.

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid only and does not include Undelivered Orders-Paid.

The balance appearing as, Unobligated Balances Available, on the Combining Statement of Budgetary Resources is abnormal for Depot Maintenance Shipyards and Depot Maintenance Ordnance due to obligations incurred greater than the resources available.

See the Combining Statement of Budgetary Resources in the Required Supplementary Information section of this report.

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

As of September 30, 2000 <i>(\$ in Thousands)</i>	1998	1999	2000	Cumulative <i>(Decrease)/Increase</i>
1. Problem Disbursements	\$ 945,000	\$ 471,000	\$ 376,000	\$ (569,000)
2. In-transit Disbursements, Net	\$ 447,102	\$ 390,741	\$ 271,181	\$ (175,921)

3. Other Information Related to Problem Disbursements and In-transit Disbursements:

The NWCF has \$376,000 thousand of problem disbursements and \$271,181 thousand of in-transit disbursements that represent disbursements of NWCF funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursements and in-transit disbursements arise when the NWCF various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. The NWCF has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements.

4. Suspense/Budget Clearing Accounts

Account	Sep 1998	Sep 1999	Sep 2000	(Decrease)/Increase
F3875	\$ 0	\$ 0	\$ 0	\$ 0
F3880	(36,975)	(7,927)	2,118	39,093
F3885	0	0	0	0
F3886	0	0	0	0
Total	\$ (36,975)	\$ (7,927)	\$ 2,118	\$ 39,093

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

The NWCF has made a concerted effort to reduce balances in the suspense and budget clearing accounts, and to establish an accurate and consistent use of these accounts.

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

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

The Statement of Financing is designed to provide information on the total resources used by an entity, to 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 information required to appropriately complete this Statement. Therefore, the data presented on the Statement of Financing may not meet the intent of the DoD FMR.

Intra-agency transactions have not been eliminated on the Statement of Financing 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 2000.

Note 23. Disclosures Related to the Statement of Custodial Activity

Not applicable.

Note 24.A. Other Disclosures: Leases

1. ENTITY AS LESSEE-Operating Leases

A. Description of lease arrangements:

The Transportation activity group's ADP equipment was acquired under a 3-year lease for \$1,300 thousand annually. The Transportation group will not lease the equipment after FY 2001.

Note 24.A. Other Disclosures: Leases

As of September 30, 2000 (\$ in Thousands)	Asset Category 1	Asset Category 2	Asset Category 3	Total
B. Future Payments Due:				
Fiscal Year				
2001	\$ 1,300	\$ 0	\$ 0	\$ 1,300
2002	0	0	0	0
2003	0	0	0	0
2004	0	0	0	0
2005	0	0	0	0
After 5 Years	0	0	0	0
Total Future Lease Payments Due	\$ 1,300	\$ 0	\$ 0	\$ 1,300

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

	Asset Category 1	Asset Category 2	Asset Category 3	Total
2. ENTITY AS LESSOR:				
A. Capital Leases:				
1. Description of lease arrangements:				
2. Future Projected Receipts, Capital Leases:				
Fiscal Year				
2001	\$ 0	\$ 0	\$ 0	\$ 0
2002	0	0	0	0
2003	0	0	0	0
2004	0	0	0	0
2005	0	0	0	0
After 5 Years	0	0	0	0
<hr/>				
Total Future Capital Lease Receivables	\$ 0	\$ 0	\$ 0	\$ 0
<hr/>				
B. Operating Leases:				
1. Description of lease arrangements:				
2. Future Projected Receipts:				
Fiscal Year				
2001	\$ 0	\$ 0	\$ 0	\$ 0
2002	0	0	0	0
2003	0	0	0	0
2004	0	0	0	0
2005	0	0	0	0
After 5 Years	0	0	0	0
<hr/>				
Total Future Operating Leases Receivables	\$ 0	\$ 0	\$ 0	\$ 0
<hr/>				

Note 24.B. Other Disclosures

Other Disclosures:

1. Eliminating Entries. The NWCF is required to report intragovernmental eliminations in the FY 2000 financial statements to offset the effect of transactions between individual activity groups within the NWCF. Additionally, the NWCF provides a schedule of intragovernmental eliminations to be used in the DoD-wide and Federal Government-wide financial statements to offset the effect of transactions between the NWCF and other DoD reporting entities and other federal agencies. Elimination data from the seller-side, i.e., the entity making sales or providing services, must agree with elimination data of the buyer-side, i.e., the entity receiving those goods or services. NWCF accounting systems do not capture eliminating entry (trading partner) data at the transaction level in a manner that facilitates trading partner aggregations and reconciliations required for the financial statement process.

For purposes of presentation in the NWCF FY 2000 financial statements, buyer-side accounts (accounts payable, advances to others, and expenses) have been adjusted where required to agree with the seller-side accounts (accounts receivable, advances from others, and earned revenue). The resulting reconciling amounts are reflected in the following table using the applicable United States Government Standard General Ledger (SGL) accounts.

(\$ in Thousands)

Total of Seller Amounts Reported for the Navy Working Capital Fund		Navy Working Capital Fund Trial Balance Amounts		Amount of Accrual Adjustment
1310 (Fed) Accounts Receivable \$1,326,881	Less -	2110 (Fed) Accountss Payable \$2,162,427	Equals =	(\$835,546)
2310 (Fed) Advances from Others \$29,215	Less -	1410 (Fed) Advances to Others \$90	Equals =	\$29,125
2320 (Fed) Deferred Credits \$0	Less -	1450 (Fed) Prepayments \$0	Equals =	\$0
5100 (Fed) Revenue from Goods Sold Plus	Less	6100 (Fed) Operating Expenses/ Program Costs (related to goods or services purchased) Plus	Equals	
5200 (Fed) Revenue from Services Provided Plus		6500 (Fed) Cost of Goods Sold		
5400 (Fed) Benefit Program Revenue Plus		Plus		
5900 (Fed) Other Revenue \$12,407,471	-	\$13,559,277	=	(\$1,151,806)

2. New Systems Implementation. A number of NWCF activity groups are implementing new accounting systems (e.g., DIFMS, DWAS, and Oracle Financials) in a concerted effort to bring the entire NWCF into compliance with the CFO Act and other statutory requirements, FASAB standards, and the DoD FMR. During this transition phase, subsidiary accounts and related supporting records do not always agree with general ledger accounts in the new accounting systems.

3. Abnormal Balances. A few NWCF activity groups reported a negative balance in Accounts Payable. These negative Accounts Payable balances are the result of procedures, which apply Undistributed Disbursements - Unmatched to the Accounts Payable. An abnormal (negative) Accounts Payable balance results when the Undistributed Disbursements - Unmatched balance is greater than the 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 Accounts Payable is not abnormal.

4. Adjustments Related to Draft Program Budget Decision (PBD) 416. Draft Program Budget Decision (PBD) 416 addresses the assumption that DoD components are not liable for costs in excess of those budgeted for goods and services received from the DoD WCFs. The Draft PBD 416 found that goods and services provided by the DFAS WCF to DoD Components, which in some cases were in excess of the Components' budgeted costs, are within scope and must be paid from FY 2000 or FY 1999 funds as appropriate. The resulting additional costs for the DON represent material subsequent events occurring after the close of FY 2000, which must be recognized by the DON in the FY 2000 financial statements. The NWCF made adjustments in the amount of \$4,260 thousand for additional costs owed the DFAS WCF.

5. Cumulative Results of Operations - Deferred. Included in the NWCF's Net Position, Cumulative Results of Operations are amounts that were approved by USD(C) as a deferral for recovery from, or return to, customers in later fiscal years' billing rates. As of 30 September 2000, the total NWCF amount of CRO-Deferred was (\$406,314) thousand. The following table displays the CRO - Deferred amounts by event:

<i>(\$ in Thousands)</i>	FY 1999 CRO Deferred Amounts	FY 2000 Change	FY 2000 CRO Deferred Amounts
JLSC	\$ (389,533)	\$ 0	\$ (389,533)
Depreciation	(4,569)	0	(4,569)
Explosive Incident	(4,829)	0	(4,829)
Material and Supplies - BRAC	0	(7,383)	(7,383)
Total	\$ (398,931)	\$ (7,383)	\$ (406,314)

The FY 2000 change of (\$7,383) thousand relates to a Program Budget Decision (PBD) dated 5 January 2000 to reclassify a FY 1999 extraordinary expense to a "deferred" expense related to materials and supplies sent from four closed BRAC activities to NAD Cherry Point.

6. Transfer of NWCF Ordnance Activities to Navy General Fund. The FY 2000 President's Budget included the transfer of Navy Ordnance activities from the NWCF to the DON General Fund. Program Budget Decision (PBD) No. 407, Naval Ordnance, of December 1998 approved the transfer, except for the Naval Weapons Station (NWS)-Concorde Detachment, which was transferred to an Army activity, effective 1 October 2000. As part of this transfer, the CINCLANTFLT and CINCPACFLT NWCF ordnance activities received reimbursement from the DON General Fund. This reimbursement was to finance the buyout of the net of the remaining 30 September 1999 balances of Accounts Receivable, Accounts Payables, Unbillable Work-In-Process, Cumulative Results of Operations, and capital purchase program outlays.

The CINCLANTFLT NWCF Ordnance Activity Group received a General Fund reimbursement of \$28,571 thousand. The CINCPACFLT NWCF Ordnance Activity Group received \$14,748 thousand reimbursement.

As stated in Note 1.B, residual accounting remained in NWCF during FY 2000, and each Ordnance activity group prepared NWCF financial statements and related notes for FY 2000, which are included in this report.

7. Other Information. For information regarding Intragovernmental Eliminations, refer to the Required Supplementary Information section of this AFS report.

Department of the Navy
Navy Working Capital Fund

*Supporting
Consolidating/Combining
Statements*

A large aircraft carrier is shown sailing on the ocean, viewed from an elevated perspective. The ship is moving towards the right, leaving a white wake behind it. The deck is visible, with various structures and equipment. The water is a deep blue, and the sky is a lighter blue. The overall scene is a high-angle, wide shot of the carrier at sea.

Department of Defense
Navy Working Capital Fund
Consolidating Balance Sheet

As of September 30, 2000

(\$ in Thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance
ASSETS				
Intragovernmental:				
Fund Balance with Treasury	\$ 174,518	\$ (207,744)	\$ (25,797)	\$ 169,859
Investments	0	0	0	0
Accounts Receivable	114,121	37,737	11,362	1,798
Other Assets	15,525	6,838	0	21
Total Intragovernmental Assets	\$ 304,164	\$ (163,169)	\$ (14,435)	\$ 171,678
Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0
Accounts Receivable	994	(29)	4,479	766
Loans Receivable	0	0	0	0
Inventory and Related Property	230,133	881,900	40,131	2,302
General Property, Plant and Equipment	712,482	334,922	52,595	1,932
Other Assets	98,828	989	4,756	339
TOTAL ASSETS	\$ 1,346,601	\$ 1,054,613	\$ 87,526	\$ 177,017
LIABILITIES				
Intragovernmental:				
Accounts Payable	\$ 39,169	\$ 70,727	\$ 3,194	\$ 4,890
Debt	0	0	0	0
Environmental Liabilities	0	0	0	0
Other Liabilities	31,354	2,496	365	78
Total Intragovernmental Liabilities	\$ 70,523	\$ 73,223	\$ 3,559	\$ 4,968
Accounts Payable	\$ (21,138)	\$ (109,547)	\$ 8,831	\$ 102,061
Military Retirement Benefits and Other Employment-Related	0	0	22,618	0
Actuarial Liabilities				
Environmental Liabilities	0	0	0	0
Loan Guarantee Liability	0	0	0	0
Other Liabilities	361,930	792,221	9,609	19,420
TOTAL LIABILITIES	\$ 411,315	\$ 755,897	\$ 44,617	\$ 126,449
NET POSITION				
Unexpended Appropriations	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	935,286	298,716	42,909	50,568
TOTAL NET POSITION	\$ 935,286	\$ 298,716	\$ 42,909	\$ 50,568
TOTAL LIABILITIES AND NET POSITION	\$ 1,346,601	\$ 1,054,613	\$ 87,526	\$ 177,017

Department of Defense
Navy Working Capital Fund
Consolidating Balance Sheet

As of September 30, 2000

(\$ in Thousands)

ASSETS	Transportation	Base Support	Information Services	Research & Development
Intragovernmental:				
Fund Balance with Treasury	\$ 86,102	\$ 89,947	\$ (21,348)	\$ (718,297)
Investments	0	0	0	0
Accounts Receivable	18,717	184,875	26,089	246,442
Other Assets	0	93	5	1,213
Total Intragovernmental Assets	\$ 104,819	\$ 274,915	\$ 4,746	\$ (470,642)
Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0
Accounts Receivable	168	37,454	0	27,968
Loans Receivable	0	0	0	0
Inventory and Related Property	21,124	108,394	1,402	288,325
General Property, Plant and Equipment	13,645	661,856	2,925	1,993,785
Other Assets	953,974	5,858	2,061	34,584
TOTAL ASSETS	\$1,093,730	\$1,088,477	\$ 11,134	\$ 1,874,020
LIABILITIES				
Intragovernmental:				
Accounts Payable	\$ 31,457	\$ 179,201	\$ 26,095	\$ 46,827
Debt	967,512	0	0	0
Environmental Liabilities	0	0	0	0
Other Liabilities	1,475	4,086	688	44,393
Total Intragovernmental Liabilities	\$1,000,444	\$ 183,287	\$ 26,783	\$ 91,220
Accounts Payable	\$ 79,737	\$ (34,388)	\$ 6,988	\$ 21,119
Military Retirement Benefits and Other				
Employment-Related	0	0	0	0
Actuarial Liabilities				
Environmental Liabilities	0	0	0	0
Loan Guarantee Liability	0	0	0	0
Other Liabilities	44,299	362,650	52,821	1,738,565
TOTAL LIABILITIES	\$ 1,124,480	\$ 511,549	\$ 86,592	\$ 1,850,904
NET POSITION				
Unexpended Appropriations	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	(30,750)	576,928	(75,458)	23,116
TOTAL NET POSITION	\$ (30,750)	\$ 576,928	\$ (75,458)	\$ 23,116
TOTAL LIABILITIES AND NET POSITION	\$1,093,730	\$1,088,477	\$ 11,134	\$ 1,874,020

Department of Defense
Navy Working Capital Fund
Consolidating Balance Sheet

As of September 30, 2000

(\$ in Thousands)

	Supply Management	Component Level	2000 Combined	Eliminations	2000 Consolidated
ASSETS					
Intragovernmental:					
Fund Balance with Treasury	\$ 351,724	\$ 1,574,815	\$ 1,473,779	\$ 0	\$ 1,473,779
Investments	0	0	0	0	0
Accounts Receivable	243,669	1	884,811	301,386	583,425
Other Assets	4,016	0	27,711	10,054	17,657
Total Intragovernmental Assets	\$ 599,409	\$ 1,574,816	\$ 2,386,301	\$ 311,440	\$ 2,074,861
Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Accounts Receivable	45,720	532,604	650,124	0	650,124
Loans Receivable	0	0	0	0	0
Inventory and Related Property	15,297,002	0	16,870,713	0	16,870,713
General Property, Plant and Equipment	344,031	0	4,118,173	0	4,118,173
Other Assets	275,638	0	1,377,027	0	1,377,027
TOTAL ASSETS	\$ 16,561,800	\$ 2,107,420	\$ 25,402,338	\$ 311,440	\$ 25,090,898
LIABILITIES					
Intragovernmental:					
Accounts Payable	\$ 885,520	\$ 1	\$ 1,287,081	\$ 301,386	\$ 985,695
Debt	0	0	967,512	0	967,512
Environmental Liabilities	0	0	0	0	0
Other Liabilities	1,271	0	86,206	10,054	76,152
Total Intragovernmental Liabilities	\$ 886,791	\$ 1	\$ 2,340,799	\$ 311,440	\$ 2,029,359
Accounts Payable	\$ 242,020	\$ (1,330,662)	\$ (1,034,979)	\$ 0	\$ (1,034,979)
Military Retirement Benefits and Other Employment-Related	0	1,201,296	1,223,914	0	1,223,914
Actuarial Liabilities					
Environmental Liabilities	0	0	0	0	0
Loan Guarantee Liability	0	0	0	0	0
Other Liabilities	449,138	(48,783)	3,781,870	0	3,781,870
TOTAL LIABILITIES	\$ 1,577,949	\$ (178,148)	\$ 6,311,604	\$ 311,440	\$ 6,000,164
NET POSITION					
Unexpended Appropriations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	14,983,851	2,285,568	19,090,734	0	19,090,734
TOTAL NET POSITION	\$ 14,983,851	\$ 2,285,568	\$ 19,090,734	\$ 0	\$ 19,090,734
TOTAL LIABILITIES AND NET POSITION	\$ 16,561,800	\$ 2,107,420	\$ 25,402,338	\$ 311,440	\$ 25,090,898

Department of Defense
Navy Working Capital Fund
Consolidating Statement of Net Cost

For the Year Ended September 30, 2000

(\$ in Thousands)

	Total	Eliminations	2000 Consolidated
Program Costs			
A. Depot Maintenance, Shipyards			
Intragovernmental	\$ 1,497,656	\$ (993,753)	\$ 503,903
With the Public	554,467	0	554,467
Total Program Cost	\$ 2,052,123	\$ (993,753)	\$ 1,058,370
(Less: Earned Revenue)	(2,138,111)	95,798	(2,042,313)
Net Program Costs	\$ (85,988)	\$ (897,955)	\$ (983,943)
B. Depot Maintenance, Aviation			
Intragovernmental	\$ 1,378,606	\$ (818,060)	\$ 560,546
With the Public	47,657	0	47,657
Total Program Cost	\$ 1,426,263	\$ (818,060)	\$ 608,203
(Less: Earned Revenue)	(1,686,904)	954,361	(732,543)
Net Program Costs	\$ (260,641)	\$ 136,301	\$ (124,340)
C. Depot Maintenance, Marine Corps			
Intragovernmental	\$ 77,730	\$ (21,443)	\$ 56,287
With the Public	147,715	0	147,715
Total Program Cost	\$ 225,445	\$ (21,443)	\$ 204,002
(Less: Earned Revenue)	(215,592)	0	(215,592)
Net Program Costs	\$ 9,853	\$ (21,443)	\$ (11,590)
D. Ordnance			
Intragovernmental	\$ 54,076	\$ (13,403)	\$ 40,673
With the Public	277,670	0	277,670
Total Program Cost	\$ 331,746	\$ (13,403)	\$ 318,343
(Less: Earned Revenue)	(272,822)	27,944	(244,878)
Net Program Costs	\$ 58,924	\$ 14,541	\$ 73,465
E. Transportation			
Intragovernmental	\$ 821,379	\$ (603,610)	\$ 217,769
With the Public	267,374	0	267,374
Total Program Cost	\$ 1,088,753	\$ (603,610)	\$ 485,143
(Less: Earned Revenue)	(1,294,853)	11,904	(1,282,949)
Net Program Costs	\$ (206,100)	\$ (591,706)	\$ (797,806)
F. Base Support			
Intragovernmental	\$ 961,707	\$ (741,067)	\$ 220,640
With the Public	904,440	0	904,440
Total Program Cost	\$ 1,866,147	\$ (741,067)	\$ 1,125,080
(Less: Earned Revenue)	(1,732,920)	317,155	(1,415,765)
Net Program Costs	\$ 133,227	\$ (423,912)	\$ (290,685)

Department of Defense
Navy Working Capital Fund
Consolidating Statement of Net Cost

For the Year Ended September 30, 2000

(\$ in Thousands)

	Total	Eliminations	2000 Consolidated
Program Costs			
G. Information Services			
Intragovernmental	\$ 155,822	\$ (91,782)	\$ 64,040
With the Public	40,266	0	40,266
Total Program Cost	\$ 196,088	\$ (91,782)	\$ 104,306
(Less: Earned Revenue)	(209,988)	92,521	(117,467)
Net Program Costs	\$ (13,900)	\$ 739	\$ (13,161)
H. Research & Development			
Intragovernmental	\$ 2,029,095	\$ (711,858)	\$ 1,317,237
With the Public	2,811,381	0	2,811,381
Total Program Cost	\$ 4,840,476	\$ (711,858)	\$ 4,128,618
(Less: Earned Revenue)	(5,118,392)	2,583,773	(2,534,619)
Net Program Costs	\$ (277,916)	\$ 1,871,915	\$ 1,593,999
I. Supply Management			
Intragovernmental	\$ 3,045,077	\$ (379,688)	\$ 2,665,389
With the Public	2,488,203	0	2,488,203
Total Program Cost	\$ 5,533,280	\$ (379,688)	\$ 5,153,592
(Less: Earned Revenue)	(5,429,552)	291,208	(5,138,344)
Net Program Costs	\$ 103,728	\$ (88,480)	\$ 15,248
J. Component Level			
Intragovernmental	\$ 0	\$ 0	\$ 0
With the Public	439,633	0	439,633
Total Program Cost	\$ 439,633	\$ 0	\$ 439,633
(Less: Earned Revenue)	0	0	0
Net Program Costs	\$ 439,633	\$ 0	\$ 439,633
K. Total Program Costs			
Intragovernmental	\$ 10,021,148	\$ (4,374,664)	\$ 5,646,484
With the Public	7,978,806	0	7,978,806
Total Program Cost	\$ 17,999,954	\$ (4,374,664)	\$ 13,625,290
(Less: Earned Revenue)	(18,099,134)	4,374,664	(13,724,470)
Net Program Costs	\$ (99,180)	\$ 0	\$ (99,180)
Costs Not Assigned to Programs	0	0	0
(Less: Earned Revenue not attributable to Programs)	0	0	0
Net Cost of Operations	\$ (99,180)	\$ 0	\$ (99,180)

Department of Defense
Navy Working Capital Fund
Consolidating Statement of Changes in Net Position

For the Year Ended September 30, 2000

(\$ in Thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance
Net Cost of Operations	\$ (85,989)	\$(260,641)	\$ 9,853	\$ 58,924
Financing Sources (other than exchange revenues)				
Appropriations Used	0	0	0	0
Taxes and Other Nonexchange Revenue	0	0	0	0
Donations - Nonexchange Revenue	0	0	0	0
Imputed Financing	91,932	50,437	6,978	411
Transfers - In	0	0	0	0
Transfers - Out	0	0	0	(418,821)
Other	(269,541)	7,136	0	324,346
Total Financing Sources (other than Exchange Revenues)	\$ (177,609)	\$ 57,573	\$ 6,978	\$ (94,064)
Net Results of Operations	\$ (91,620)	\$ 318,214	\$ (2,875)	\$(152,988)
Prior Period Adjustments	3,520	0	(10,464)	59
Net Change in Cumulative Results of Operations	\$ (88,100)	\$ 318,214	\$ (13,339)	\$(152,929)
Increase (Decrease) in Unexpended Appropriations	0	0	0	0
Change in Net Position	\$ (88,100)	\$ 318,214	\$ (13,339)	\$(152,929)
Net Position-Beginning of the Period	1,023,385	(19,498)	56,248	203,497
Net Position-End of the Period	\$ 935,285	\$ 298,716	\$ 42,909	\$ 50,568

Department of Defense
Navy Working Capital Fund
Consolidating Statement of Changes in Net Position

For the Year Ended September 30, 2000

(\$ in Thousands)

	Transportation	Base Support	Information Services	Research & Development
Net Cost of Operations	\$ (206,101)	\$ 133,227	\$ (13,900)	\$ (277,917)
Financing Sources (other than exchange revenues)				
Appropriations Used	0	0	0	0
Taxes and Other Nonexchange Revenue	0	0	0	0
Donations - Nonexchange Revenue	0	0	0	0
Imputed Financing	4,940	35,456	9,484	192,317
Transfers - In	0	0	0	0
Transfers - Out	0	0	0	0
Other	3,417	6,714	11,887	(71,828)
Total Financing Sources (other than Exchange Revenues)	\$ 8,357	\$ 42,170	\$ 21,371	\$ 120,489
Net Results of Operations	\$ 214,458	\$ (91,057)	\$ 35,271	\$ 398,406
Prior Period Adjustments	15,423	(9,891)	(3)	22
Net Change in Cumulative Results of Operations	\$ 229,881	\$ (100,948)	\$ 35,268	\$ 398,428
Increase (Decrease) in Unexpended Appropriations	0	0	0	0
Change in Net Position	\$ 229,881	\$ (100,948)	\$ 35,268	\$ 398,428
Net Position-Beginning of the Period	(260,631)	677,877	(110,725)	(375,311)
Net Position-End of the Period	\$ (30,750)	\$ 576,929	\$ (75,457)	\$ 23,117

Department of Defense
Navy Working Capital Fund
Consolidating Statement of Changes in Net Position

For the Year Ended September 30, 2000

(\$ in Thousands)

	Supply Management	Component Level	2000 Combined	Eliminations	2000 Consolidated
Net Cost of Operations	\$ 103,728	\$ 439,633	\$ (99,183)	\$ 0	\$ (99,183)
Financing Sources					
(other than exchange revenues)					
Appropriations Used	0	0	0	0	0
Taxes and Other Nonexchange Revenue	0	0	0	0	0
Donations - Nonexchange Revenue	0	0	0	0	0
Imputed Financing	16,811	0	408,766	0	408,766
Transfers - In	77,193	0	77,193	0	77,193
Transfers - Out	0	0	(418,821)	0	(418,821)
Other	3,704,696	0	3,716,827	0	3,716,827
Total Financing Sources (other than Exchange Revenues)	\$ 3,798,700	\$ 0	\$ 3,783,965	\$ 0	\$ 3,783,965
Net Results of Operations	\$ 3,694,972	\$ (439,633)	\$ 3,883,148	\$ 0	\$ 3,883,148
Prior Period Adjustments	(2,695,764)	0	(2,697,098)	0	(2,697,098)
Net Change in Cumulative Results of Operations	\$ 999,208	\$ (439,633)	\$ 1,186,050	\$ 0	\$ 1,186,050
Increase (Decrease) in Unexpended Appropriations	0	0	0	0	0
Change in Net Position	\$ 999,208	\$ (439,633)	\$ 1,186,050	\$ 0	\$ 1,186,050
Net Position-Beginning of the Period	13,984,644	2,725,202	17,904,688	0	17,904,688
Net Position-End of the Period	\$14,983,852	\$ 2,285,569	\$19,090,738	\$ 0	\$19,090,738

Department of Defense
Navy Working Capital Fund
Combining Statement of Budgetary Resources

For the Year Ended September 30, 2000

(\$ in Thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance
BUDGETARY RESOURCES				
Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Unobligated Balance - Beginning of Period	74,873	184,916	29,480	161,897
Net Transfers Prior-Year Balance, Actual	0	0	0	0
Spending Authority from Offsetting				
Collections	2,284,536	1,786,115	273,273	26,271
Adjustments	(20,786)	(3,472)	(705)	(1,896)
Total Budgetary Resources	\$ 2,338,623	\$ 1,967,559	\$ 302,048	\$ 186,272
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	\$ 2,430,516	\$ 1,697,904	\$ 247,333	\$ 191,969
Unobligated Balances - Available	(91,893)	269,655	54,715	(5,697)
Unobligated Balances - Not Available	0	0	0	0
Total, Status of Budgetary Resources	\$ 2,338,623	\$ 1,967,559	\$ 302,048	\$ 186,272
OUTLAYS				
Obligations Incurred	\$ 2,430,516	\$ 1,697,904	\$ 247,333	\$ 191,969
Less: Spending Authority from Offsetting				
Collections and Adjustments	(2,284,536)	(1,786,115)	(273,273)	(26,271)
Obligated Balance, Net				
- Beginning of Period	618,887	951,853	(23,304)	33,965
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net				
- End of Period	(753,409)	(783,570)	32,837	(237,285)
Total Outlays	\$ 11,458	\$ 80,072	\$ (16,407)	\$ (37,622)

Department of Defense
Navy Working Capital Fund
Combining Statement of Budgetary Resources

For the Year Ended September 30, 2000

(\$ in Thousands)

	Transportation	Base Support	Information Services	Research & Development
BUDGETARY RESOURCES				
Budget Authority	\$ 5,599	\$ 0	\$ 161	\$ 5,816
Unobligated Balance - Beginning of Period	730,310	(26,347)	53,146	244,279
Net Transfers Prior-Year Balance, Actual	0	0	0	0
Spending Authority from Offsetting				
Collections	1,254,702	1,655,986	193,123	8,214,389
Adjustments	(72,794)	(59)	0	0
Total Budgetary Resources	\$ 1,917,817	\$ 1,629,580	\$ 246,430	\$ 8,464,484
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	\$ 1,774,866	\$ 1,504,604	\$ 219,249	\$ 7,960,959
Unobligated Balances - Available	142,951	124,976	27,181	503,525
Unobligated Balances - Not Available	0	0	0	0
Total, Status of Budgetary Resources	\$ 1,917,817	\$ 1,629,580	\$ 246,430	\$ 8,464,484
OUTLAYS				
Obligations Incurred	\$ 1,774,866	\$ 1,504,604	\$ 219,249	\$ 7,960,959
Less: Spending Authority from Offsetting				
Collections and Adjustments	(1,254,702)	(1,655,986)	(193,123)	(8,214,389)
Obligated Balance, Net				
- Beginning of Period	(228,042)	241,423	48,486	418,337
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net				
- End of Period	(282,547)	(103,449)	(61,799)	(330,678)
Total Outlays	\$ 9,575	\$ (13,408)	\$ 12,813	\$ (165,771)

Department of Defense
Navy Working Capital Fund
Combining Statement of Budgetary Resources

For the Year Ended September 30, 2000

(\$ in Thousands)

	Supply Management	Component Level	2000 Combined
BUDGETARY RESOURCES			
Budget Authority	\$ 551,779	\$ 0	\$ 563,355
Unobligated Balance - Beginning of Period	24,270	985,494	2,462,318
Net Transfers Prior-Year Balance, Actual	61,600	0	61,600
Spending Authority from Offsetting Collections	4,964,837	0	20,653,232
Adjustments	(33,223)	0	(132,935)
Total Budgetary Resources	\$ 5,569,263	\$ 985,494	\$ 23,607,570
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	\$ 5,491,014	\$ 0	\$ 21,518,414
Unobligated Balances - Available	78,251	985,494	2,089,158
Unobligated Balances - Not Available	(2)	0	(2)
Total, Status of Budgetary Resources	\$ 5,569,263	\$ 985,494	\$ 23,607,570
OUTLAYS			
Obligations Incurred	\$ 5,491,014	\$ 0	\$ 21,518,414
Less: Spending Authority from Offsetting Collections and Adjustments	(4,964,837)	0	(20,653,232)
Obligated Balance, Net - Beginning of Period	2,165,228	(1,781,938)	2,444,895
Obligated Balance Transferred, Net	0	0	0
Less: Obligated Balance, Net - End of Period	(2,804,076)	1,693,114	(3,630,862)
Total Outlays	\$ (112,671)	\$ (88,824)	\$ (320,785)

Department of Defense
Navy Working Capital Fund
Combining Statement of Financing

For the Year Ended September 30, 2000

(\$ in Thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance
1. OBLIGATIONS AND NONBUDGETARY RESOURCES				
A. Obligations Incurred	\$ 2,430,516	\$ 1,697,904	\$ 247,333	\$ 191,969
B. Less: Spending Authority for Offsetting Collections and Adjustments	(2,284,536)	(1,786,115)	(273,273)	(26,271)
C. Donations Not in the Entity's Budget	0	0	0	0
D. Financing Imputed for Cost Subsidies	91,932	50,437	6,978	411
E. Transfers-In (Out) - Financing	0	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0	(244,877)
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0	0
I. Other	0	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	\$ 237,912	\$ (37,774)	\$ (18,962)	\$ (78,768)
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS				
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received - (Increases)/Decreases	\$ (505,369)	\$ (204,695)	\$ 5,737	\$ 76,284
B. Change in Unfilled Customer Orders	130,837	13,699	7,092	(246,602)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	11,607	(62,593)	617	308,010
D. Financing Sources that Fund Costs of Prior Periods	0	0	(10,464,059)	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
G. Other - (Increases)/Decreases	0	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	\$ (362,925)	\$ (253,589)	\$ 2,982	\$ 137,692

Department of Defense
Navy Working Capital Fund
Combining Statement of Financing

For the Year Ended September 30, 2000
(\$ in Thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES				
A. Depreciation and Amortization	\$ 39,023	\$ 35,450	\$ 3,216	\$ 0
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	0
D. Loss of Disposition of Assets	0	0	0	0
E. Other - Increases/(Decreases)	0	(4,727)	0	0
F. Total Costs That Do Not Require Resources	\$ 39,023	\$ 30,723	\$ 3,216	\$ 0
4. FINANCING SOURCES YET TO BE PROVIDED	\$ 0	\$ 0	\$ 22,618	\$ 0
5. NET COST OF OPERATIONS	\$ (85,990)	\$ (260,640)	\$ 9,854	\$ 58,924

Department of Defense
Navy Working Capital Fund
Combining Statement of Financing

For the Year Ended September 30, 2000

(\$ in Thousands)

	Transportation	Base Support	Information Services	Research & Development
1. OBLIGATIONS AND NONBUDGETARY RESOURCES				
A. Obligations Incurred	\$ 1,774,866	\$ 1,504,604	\$ 219,249	\$ 7,960,959
B. Less: Spending Authority for Offsetting Collections and Adjustments	(1,254,702)	(1,655,986)	(193,123)	(8,214,389)
C. Donations Not in the Entity's Budget	0	0	0	0
D. Financing Imputed for Cost Subsidies	4,940	35,456	9,484	192,317
E. Transfers-In (Out) - Financing	0	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	(2,241)	0	(48,343)
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0	0
I. Other	0	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	\$ 525,104	\$ (118,167)	\$ 35,610	\$ (109,456)
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS				
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received - (Increases)/Decreases	\$ (617,730)	\$ 259,294	\$ (22,728)	\$ (605,705)
B. Change in Unfilled Customer Orders	(41,268)	(116,337)	(18,178)	311,161
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(80,757)	101,001	(9,135)	34,052
D. Financing Sources that Fund Costs of Prior Periods	0	(9,313)	0	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
G. Other - (Increases)/Decreases	0	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	\$ (739,755)	\$ 234,645	\$ (50,041)	\$ (260,492)

Department of Defense
Navy Working Capital Fund
Combining Statement of Financing

For the Year Ended September 30, 2000

(\$ in Thousands)

	Transportation	Base Support	Information Services	Research & Development
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES				
A. Depreciation and Amortization	\$ 8,550	\$ 15,948	\$ 531	\$ 92,377
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	0
D. Loss of Disposition of Assets	0	0	0	0
E. Other - Increases/(Decreases)	0	802	0	(347)
F. Total Costs That Do Not Require Resources	\$ 8,550	\$ 16,750	\$ 531	\$ 92,030
4. FINANCING SOURCES YET TO BE PROVIDED	\$ 0	\$ 0	\$ 0	\$ 0
5. NET COST OF OPERATIONS	\$ (206,101)	\$ 133,228	\$ 13,900	\$ (277,918)

Department of Defense
Navy Working Capital Fund
Combining Statement of Financing

For the Year Ended September 30, 2000

(\$ in Thousands)

	Supply Management	Component Level	2000 Combined
1. OBLIGATIONS AND NONBUDGETARY RESOURCES			
A. Obligations Incurred	\$ 5,491,014	\$ 0	\$ 21,518,414
B. Less: Spending Authority for Offsetting Collections and Adjustments	(4,964,837)	0	(20,653,232)
C. Donations Not in the Entity's Budget	0	0	0
D. Financing Imputed for Cost Subsidies	16,811	0	408,766
E. Transfers-In (Out) - Financing	88	0	88
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	(295,461)
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0
I. Other	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	\$ 543,076	\$ 0	\$ 978,575
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS			
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received - (Increases)/Decreases	\$ 286,069	\$ 344,589	\$ (984,254)
B. Change in Unfilled Customer Orders	(356,951)	0	(316,547)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(1,778,925)	0	(1,476,123)
D. Financing Sources that Fund Costs of Prior Periods	4,831	0	(14,946)
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0
G. Other - (Increases)/Decreases	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	\$ (1,844,976)	\$ 344,589	\$ (2,791,870)

Department of Defense
Navy Working Capital Fund
Combining Statement of Financing

For the Year Ended September 30, 2000

(\$ in Thousands)

	Supply Management	Component Level	2000 Combined
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES			
A. Depreciation and Amortization	\$ 10,835	\$ 0	\$ 205,930
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	1,394,793	0	1,394,793
D. Loss of Disposition of Assets	0	0	0
E. Other - Increases/(Decreases)	0	0	(4,272)
F. Total Costs That Do Not Require Resources	\$ 1,405,628	\$ 0	\$ 1,596,451
4. FINANCING SOURCES YET TO BE PROVIDED	\$ 0	\$ 95,045	\$ 117,663
5. NET COST OF OPERATIONS	\$ 103,728	\$ 439,634	\$ (99,181)

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, 2000

(\$ in Thousands)

NWCF Property Type/Major Class	Amount
1. Real Property	
A. Buildings	\$ 891,031
B. Structures	397,857
2. Total	<u>\$ 1,288,888</u>

Narrative Statement:

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

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

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

Navy categorizes maintenance actions that do not meet the above criteria, as "deferrable" actions and records are maintained separately by category.

BASEREP Rating Procedures:

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

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

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

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

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

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

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

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

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

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

Summary information for Navy activities deficiencies can be obtained from a review of the 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

The OMB requires DoD to prepare stand-alone audited financial statements for eight component reporting entities, one of which is the NWCF, as well as DoD-wide financial statements. To prepare reliable consolidated financial statements at successive levels within the federal government, the effects of transactions occurring among and between entities within the NWCF, the DoD, and the federal government must be eliminated. However, DoD's accounting systems were designed and implemented before the requirement for consolidated financial statements existed. Consequently, the systems in use during FY 2000 did not record the data necessary for accurate, transaction-based eliminating entries. Therefore, when preparing the FY 2000 NWCF consolidated financial statements, the NWCF accounting firm (DFAS) implemented interim elimination policies and procedures developed for DoD-wide use until required systems and process improvements can be implemented. For FY 2000, the 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 implemented the policies and procedures contained in Chapter 13 of the DoD FMR Volume 6B, Fiscal Year 2000 Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures. As a result of the procedures, 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 were eliminated and reconciled. As further improvements are made at the government-wide level, DFAS for the NWCF plans on expanding its eliminating procedures to include additional categories.

In order to comply with the policy and procedures set forth in Chapter 13, consolidated NWCF seller-side information was distributed to other DFAS centers. Adjustments were made 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. DFAS-CL was required to reclassify "Intragovernmental" program expenses as "With the Public" program expenses based upon the totality of seller-side information reported by all NWCF trading partners. The impact of these adjustments has materially distorted the Net Cost of Operations on the NWCF financial statements.

Based upon Chapter 13 and at the direction of USD(C), DFAS computed elimination entry amounts for the Transfers-in and Transfers-out lines on the Statement of Changes in Net Position, to eliminate all Intragovernmental amounts reported for each NWCF 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.

For FY 2000 the seller-side elimination entry data for the industrial activities were developed jointly by DFAS and NWCF activities from field level revenue classification reports, referred to as Summary Sources of Revenue (SSR). Supplemental information was submitted with this report to include seller-side data for accounts receivable, advances, progress payments, and detailed federal agency information. Elimination entry information for industrial activity "buyer" side information 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; and (5) Standard Accounting and Reporting System (STARS).

Intragovernmental transactions are performed 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 is 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 complete the "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. Eliminating entries are provided on the FY 2000 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. Eliminating entries are not required, at this time, for the FY 2000 Statement of Budgetary Resources and 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 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.

See Note 24.B for additional information on eliminating entries.

Schedule, Part A DoD Intragovernmental 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		22,231		
Department of Agriculture	12		305		
Department of Commerce	13		1,189		
Department of the Interior	14		106		
Department of Justice	15		70		
Department of Labor	16				
Department of the Navy, General Funds (GF)	17		408,678		
United States Postal Service	18				
Department of State	19		2		
Department of the Treasury	20	1,473,779	1,497	0.00	
Department of the Army, GF	21		14,096		
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		2,101		
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		588		
Independent Agencies**	48				
National Science Foundation	49		79		
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		27,294		
Federal Emergency Management Agency	58				
National Foundation on the Arts and Humanities	59				
Railroad Retirement Board	60				

Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index:	Funds Balance with Treasury:	Accounts Receivable:	Investments:	Other
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		14,376		
Overseas 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		2,700		
Independent Agencies**	76				
Farm Credit	78				
National Aeronautics and Space Administration	80		6,452		
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		14,591		
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		1,033		
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001		302		2,961
Department of the Navy, WCF	97-4930-002				
Department of the Air Force, WCF	97-4930-003		3,352		79
Other Defense Organizations, GF	97		41,212		0.00
Other Defense Organizations, WCF	97-4930		21,171		14,617
Unidentifiable Federal Agency Entity	00				
Total		1,473,779	\$583,425	\$0.00	\$17,657

Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index:	Earned Revenue:	Non-exchange Revenue:	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			0
Department of Agriculture	12			
Department of Commerce	13			3,200
Department of the Interior	14			7
Department of Justice	15			28
Department of Labor	16			
Department of the Navy, General Funds (GF)	17	812,775		24,382
United States Postal Service	18			
Department of State	19		0.00	
Department of the Treasury	20		967,512	2
Department of the Army, GF	21	1,220		0
Resolution Trust Corporation	22			
United States Tax Court	23			
Office of Personnel Management	24			30,051
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			
Ment Systems Protection Board	41			
Pennsylvania Avenue Development Corporation	42			
U.S. Equal Employment Opportunity Commission	45			
Appalachian Regional Commission	46			
General Service Administration	47			0
Independent Agencies**	48			
National Science Foundation	49			115
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	338		0
Federal Emergency Management Agency	58			
National Foundation on the Arts and Humanities	59			
Railroad Retirement Board	60			

Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index:	Earned Revenue:	Non-exchange Revenue:	Other:
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			101
Department of Transportation	69			771
Overseas Private Investment Corporation	71			
Agency for International Development	72			
Small Business Administration	73			
American Battle Monuments Commission	74			11
Department of Health and Human Services	75			
Independent Agencies**	76			
Farm Credit	78			15,833
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			1,302
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		141	
Military Retirement Trust Fund	97-8097			
Department of the Army, WCF	97-4930-001		9,589	
Department of the Navy, WCF	97-4930-002			
Department of the Air Force, WCF	97-4930-003		9,387	
Other Defense Organizations, GF	97		836	349
Other Defense Organizations, WCF	97-4930		151,409	
Unidentifiable Federal Agency Entity	00			
Total			\$967,512	\$76,152

Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies	Treasury Index:	Earned Revenue:	Non-exchange Revenue:	Other:
Library of Congress	03		0.00	0.00
Government Printing Office	04		0.00	0.00
General Printing Office	05		0.00	0.00
Congressional Budget Office	08		0.00	0.00
Other Legislative Branch Agencies	09		0.00	0.00
The Judiciary	10		0.00	0.00
Executive Office of the President, Defense Security Assistance Agency	11	239,186	0.00	0.00
Department of Agriculture	12	1,556	0.00	0.00
Department of Commerce	13	7,733	0.00	0.00
Department of the Interior	14	676	0.00	0.00
Department of Justice	15	194	0.00	0.00
Department of Labor	16	1,786	0.00	0.00
Department of the Navy, General Funds (GF)	17	11,744,319	0.00	0.00
United States Postal Service	18		0.00	0.00
Department of State	19		0.00	0.00
Department of the Treasury	20	519	0.00	0.00
Department of the Army, GF	21	68,250	0.00	0.00
Resolution Trust Corporation	22		0.00	0.00
United States Tax Court	23		0.00	0.00
Office of Personnel Management	24	199	0.00	0.00
National Credit Union Administration	25		0.00	0.00
Federal Retirement Thrift Investment Board	26		0.00	0.00
Federal Communications Commission	27		0.00	0.00
Social Security Administration	28		0.00	0.00
Federal Trade Commission	29		0.00	0.00
Nuclear Regulatory Commission	31		0.00	0.00
Smithsonian Institution	33		0.00	0.00
International Trade Commission	34		0.00	0.00
Department of Veterans Affairs	36	4,891	0.00	0.00
Merit Systems Protection Board	41		0.00	0.00
Pennsylvania Avenue Development Corporation	42		0.00	0.00
U.S. Equal Employment Opportunity Commission	45		0.00	0.00
Appalachian Regional Commission	46		0.00	0.00
General Service Administration	47	1,105	0.00	0.00
Independent Agencies**	48		0.00	0.00
National Science Foundation	49	329	0.00	0.00
Securities and Exchange Commission	50		0.00	0.00
Federal Deposit Insurance Group	51		0.00	0.00
Federal Labor Relations Authority	54		0.00	0.00

Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies	Treasury Index:	Earned Revenue:	Non-exchange Revenue:	Other:	Full Cost to Generate Revenue:
Advisory Commission on Intergovernmental Relations	55		0.00	0.00	
Central Intelligence Agency	56		0.00	0.00	
Department of the Air Force, GF	57	144,093	0.00	0.00	
Federal Emergency Management Agency	58		0.00	0.00	
National Foundation on the Arts and Humanities	59		0.00	0.00	
Railroad Retirement Board	60		0.00	0.00	
Consumer Product Safety Commission	61		0.00	0.00	
Office of Special Counsel	62		0.00	0.00	
National Labor Relations Board	63		0.00	0.00	
Tennessee Valley Authority	64		0.00	0.00	
Federal Maritime Commission	65		0.00	0.00	
United States Information Agency	67		0.00	0.00	
Environmental Protection Agency	68	249	0.00	0.00	
Department of Transportation	69	34,382	0.00	0.00	
Overseas Private Investment Corporation	71		0.00	0.00	
Agency for International Development	72		0.00	0.00	
Small Business Administration	73		0.00	0.00	
American Battle Monuments Commission	74		0.00	0.00	
Department of Health and Human Services	75	9,253	0.00	0.00	
Independent Agencies**	76		0.00	0.00	
Farm Credit	78		0.00	0.00	
National Aeronautics and Space Administration	80	64,534	0.00	0.00	
Export-Import Bank of the United States	83		0.00	0.00	
Armed Forces Retirement Home	84		0.00	0.00	
Department of Housing and Urban Development	86	5,471	0.00	0.00	
National Archives and Records Administration	88		0.00	0.00	
Department of Energy	89	17,899	0.00	0.00	
Selective Service System	90		0.00	0.00	
Department of Education	91	2	0.00	0.00	
Federal Mediation and Conciliation Services	93		0.00	0.00	
Arms Control and Disarmament Agency	94		0.00	0.00	
Independent Agencies**	95		0.00	0.00	
U.S. Army Corps of Engineers (Civil Works)	96	591	0.00	0.00	
Military Retirement Trust Fund	97-8097		0.00	0.00	
Department of the Army, WCF	97-4930-001	34,081	0.00	0.00	
Department of the Navy, WCF	97-4930-002		0.00	0.00	
Department of the Air Force, WCF	97-4930-003	209,990	0.00	0.00	
Other Defense Organizations, GF	97	317,755	0.00	0.00	
Other Defense Organizations, WCF	97-4930	57,310	0.00	0.00	
Unidentifiable Federal Agency Entity	00		0.00	0.00	
Total		\$12,966,3	\$0	\$0	\$12,966,353

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* ^a	Ordnance
97X4930.ND*	Transportation
97X4930.NE* *	Base Support
97X4930.NF**	Information Services
97X4930.NH**	Research and Development
97X4930.NC**	Supply Management

Notes

* - The "*" represents alpha or numeric characters which identify an activity or reporting segment of the activity group.

^a - The Ordnance activity group became a part of the DON General Fund in FY 2000. The Ordnance information included in this report represents residual NWCF accounting for this group.

Department of the Navy
Navy Working Capital Fund
Audit Opinion





**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**

February 7, 2001

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

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 2000
Navy Working Capital Fund Financial Statements
(Project No. D2000FC-0279.001)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Naval Audit Service (NAS) the audit of the FY 2000 Navy Working Capital Fund financial statements. Summarized as follows are the NAS disclaimer of opinion on the FY 2000 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.

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

- The Navy Working Capital Fund did not have transaction-driven standard general ledger accounting systems that could accurately report the value of assets and liabilities.
- Financial accounting systems did not contain sufficient audit trails to enable transaction-level verification.
- Financial and non-financial feeder systems and processes were noncompliant and not integrated as required by statutory requirements and other regulations. In addition, internal controls for the financial management feeder systems were absent or unreliable, resulting in information that had a high risk of being inaccurate.
- The inventory valuation model used to compute inventory and cost of goods sold contained errors, and the policies and procedures used to revalue inventory to historic cost did not provide an accurate inventory valuation.

Internal Controls. The NAS determined that internal controls did not provide reasonable assurance that the FY 2000 Navy Working Capital Fund financial statements contained no material misstatements. The major internal control weakness, as reported in the management representation letter and FY 2000 Annual Statement(s) of Assurance, was the continued lack of an integrated transaction-driven general ledger accounting system. The NAS also reported that numerous control deficiencies in prior audit reports have not been remedied. For example, cash reconciliations for naval shipyards were not performed, nor was all supporting documentation retained; operating procedures for naval shipyard financial accounting were not consistent or complete; wholesale inventory for the Marine Corps was not reported nor valued correctly because an integrated transaction-driven accounting system was lacking; and personal property was not accurately reported because assets were capitalized using an incorrectly placed in-service date and because property was depreciated after disposal.

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 the Navy Working Capital Fund used financial management and accounting systems, including feeder systems, which were error prone and did not substantially comply with Federal financial management systems requirements and Federal accounting standards. Also, journal vouchers used by the Defense Finance and Accounting Service Norfolk to adjust the financial statements for naval shipyards lacked required documentation, were incomplete, or inaccurate. In addition, inventory in the custody of the Defense Logistics Agency was adjusted without performing required causative research and property loss investigations.

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

We reviewed the NAS work on the FY 2000 Navy Working Capital Fund financial statements from April 19, 2000, through February 7, 2001, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the NAS disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.



David K. Steensma
Deputy Assistant Inspector General
for Auditing



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

Report on Auditor's Opinion

We performed audit work relative to the Department of the Navy Working Capital Fund Principal Statements as of 30 September 2000, in accordance with generally accepted government auditing standards. Our auditing procedures included an evaluation of related internal controls and compliance with laws and regulations. The Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for these financial statements, for establishing and maintaining internal controls, and for complying with laws and regulations applicable to Department of the Navy financial accounting and reporting.

Disclaimer of Opinion. We are unable to express an opinion on the Department of the Navy Working Capital Fund Principal Statements as of 30 September 2000. As reported in the management representation letter and annual Statements of Assurance, the following deficiencies preclude an audit opinion.

- The Department of the Navy Working Capital Fund did not have transaction-driven standard general ledger financial accounting systems that could accurately report the value of assets and liabilities.
- Financial accounting systems did not contain sufficient audit trails to enable transaction-level verification.
- Department of the Navy Working Capital Fund financial and non-financial feeder systems and processes were noncompliant and not integrated as required by statutory requirements and other regulations.
- Internal controls for financial management feeder systems used by the Department of the Navy Working Capital Fund activities were absent or unreliable, resulting in information that had a high risk of being inaccurate. These deficiencies increased the likelihood of fraud, errors, and material misstatements within the system and the resulting financial statements.
- The Inventory Valuation model used to compute an inventory value and a value for cost of goods sold contained errors. The reported inventory in the Department of the Navy Working Capital Fund financial statements was unreliable. The policies and procedures used to revalue inventory to historic cost did not provide an accurate inventory valuation.

As a result of deficiencies cited above, we were unable to ascertain the reliability of amounts reported on the financial statements.

Internal Controls. Limited tests found internal controls were not adequate to ensure that resources were properly managed and accounted for, that the Department of the Navy complied with applicable laws and regulations, and that the Department of the Navy Working Capital Fund Principal Statements were free of material misstatements. Internal controls did not ensure that assets and liabilities were properly accounted for and valued, and that accounting transactions were accurate and properly supported.



BILL A. RODERICK
Assistant Auditor General
Financial and Forces Management Audits
Naval Audit Service

7 February 2001