DEPARTMENT OF THE NAVY

NOTES TO PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies:

A. Basis of Presentation. These financial statements have been prepared to report the financial position and results of operations of the Department of the Navy (DON), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994 (Public Law 103-356), and other appropriate legislation. This report encompasses the financial activities of both the U.S. Navy and the U.S. Marine Corps herein referred to as the DON. The financial statements have been prepared from the books and records of the DON in accordance with "Department of Defense Financial Management Regulation" ("DoD FMR") as adapted from the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements," and to the extent possible, the Statements of Federal Financial Accounting Standards (SFFAS). The DON's financial statements are in addition to the financial reports, also prepared by the DON pursuant to OMB directives that are used to monitor and control the DON's use of budgetary resources.

1. The DON is unable to implement all elements of the SFFAS due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the DON's major asset and liability categories are derived from nonfinancial feeder systems, such as inventory systems and logistics systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations, and not the current emphasis of business-like financial reporting. As a result, the DON can not currently implement all elements of SFFAS. However, the DON continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems.

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

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

B. Reporting Entity. The DON was created on April 30, 1798 by an act of Congress (I Stat. 533; 5 U.S.C. 411-12). The Marine Corps and the Navy joined as the DON by an act of Congress on July 11, 1798. The overall mission of the DON is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal Year (FY) 1999 represents the fourth year that the DON has prepared audited financial statements as required by the Chief Financial Officers Act and the Government Management Reform Act.

1. The accounts used to prepare the statements are classified as entity/nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

Entity Accounts:

General funds

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

Revolving funds

17 4557	National Defense Sealift Fund, Navy

Trust funds

17X8008	Office of Naval Records and History Fund
17X8421	Surcharge, Commissary Store
17X8423	Midshipmens Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
17X8730	United States Naval Academy Museum Fund
17X8733	United States Naval Academy General Gift Fund

Special funds

17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account

Non Entity Accounts

Special funds (Receipt Accounts)

17 3041	Recoveries Under the Foreign Military Sales Program
17 3210	General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified
17F3875	Budget Clearing Account (Suspense)
17F3878	Budget Clearing Account (Deposits)
17F3879	Undistributed Letter of Credit Differences
17F3880	Unavailable Check Cancellations and Overpayments
17F3885	Undistributed Intra-Governmental Payments, Navy
17F3886	Civilian Thrift Savings Plan

Deposit funds

17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
17X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
17X6025	Pay of the Navy, Deposit Fund
17X6026	Pay of the Marine Corps
17X6050	Employee Payroll Allotment Account (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
17X6083	Withheld Allotment of Compensation for Charitable Contributions, Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Income Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotment Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense, Navy
17X6999	Accounts Payable, Check Issue Underdrafts, Navy

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

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

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

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

3. Trust funds represent the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

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

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

D. Basis of Accounting. Transactions generally are recorded on a cash basis and not on an accrual accounting basis as required by the SFFAS. Normally, the DON's financial and nonfinancial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis as is required by the SFFASs. However, there are some systems that do use accrual accounting as required by the SFFAS. The DON has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of the SFFAS. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USGSGL).

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

1. Intrafund transactions are eliminated based upon trading partner information obtained from the Standard Accounting and Reporting System – Field Level (STARS-FL) and the Standard Accounting and Reporting System – Headquarters Claimant Module (STARS-HCM). The elimination data obtained from these systems included seller appropriation, grantor (buyer) appropriation, grantor subhead, grantor code, reimbursable source code, accounts receivable, revenue and unearned revenue.

2. In addition, the DON identifies programs based upon the major appropriation groups provided by Congress. The DON is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the SFFAS No. 4 "Managerial Cost Accounting Concepts and Standards," with the need to keep the financial statements from becoming overly voluminous.

E. Revenues and Other Financing Sources. Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multi-year basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. Revenue is recognized to the extent the revenue is payable to the DON from other federal agencies and the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable order process. Revenue for business fund activities is recognized according to the percentage of completion method.

1. For financial statement reporting purposes, DoD policy requires the recognition of operating expenses for general fund activities in the period incurred. However, because the DON's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full

accrual accounting basis, accrual adjustments are made for major items in an attempt to report expenses when incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the DON's operations. Unexpended appropriations are recorded as equity of the U.S. Government.

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

F. <u>Accounting for Intragovernmental Activities</u>. The DON, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the DON as though the agency was a stand-alone entity.

1. The DON's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related interest costs are not apportioned to federal agencies. The DON's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

2. Financing for the construction of facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

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

4. Each year, the DoD's Components sell assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, the DON has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to a trust fund maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales. In FY 1999, the DON received reimbursements of $296,222,498.29 for assets and services sold under the Foreign Military Sales Program.

5. To prepare reliable financial statements, transactions occurring between two or more entities within the DoD or two or more federal agencies must be eliminated. However, the DON, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, the DON provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Internal DoD balances were eliminated. In addition, the DON implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide thereby eliminating and reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

G. <u>Funds with the U.S. Treasury and Cash</u>. The DON's financial resources are maintained in U.S. Treasury accounts. The DON's cash receipts and disbursements are processed by the Treasury Department, and the balance with the U.S. Treasury represents the aggregate of all unexpended balances. Cash collections, disbursements, and adjustments are processed worldwide at Defense Finance and Accounting Service (DFAS) and Military Service disbursing stations as well as Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits. In addition, the DFAS centers and the U.S. Army Corps of Engineers Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. Treasury then records this information to the appropriation Fund Balance With Treasury (FBWT) account maintained in the Treasury's system. Differences between the DON's recorded balance in the FBWT account and Treasury's FBWT often result and are reconciled. Material disclosures are provided at Note 2.

H. <u>Foreign Currency</u>. The DON conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). The gains or losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign Currency fluctuations related to other appropriations requires adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified. Material disclosures are provided at Note 7.

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

J. <u>Loans Receivable</u>. The DON General Fund has no loan activity to report.

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

1. Operating Materials and Supplies (OM&S) consists of Appropriation Purchases Account (APA) secondary inventory, ammunition and munitions that are not held for sale, sponsor owned material (SOM), and government furnished/contractor acquired material. OM&S are valued at actual cost, with the exception of portions of sponsor owned material, APA secondary inventory, ammunition and munitions. Sponsor owned material is reported in numerous systems. Some of these systems utilize the standard price methodology while others use actual cost. APA secondary inventory, ammunition, and munitions are valued at latest acquisition cost (LAC). No gains or losses are recognized in the Statement of Net Cost as a result of changes in valuation for general fund operating supplies and materials. Such changes are reflected in the asset valuations and related invested capital as reported in the Balance Sheet. The LAC method is used because data is maintained in logistics systems designed for material management purposes. These legacy systems do not maintain the historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these legacy systems provide controls to ensure accountability and visibility over inventory items, they were not designed to ensure that all of the inventory items are included in the values reported on the Balance Sheet. The consumption method of accounting for the recognition of expenses has been applied to OM&S. Other material disclosures related to inventory and related property are provided at Note 8.

L. Investments in U.S. Treasury Securities. Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The DON's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. Material disclosures are provided at Note 3.

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

1. The only type of PP&E that the DON has reported on the FY 1999 Balance Sheet is General PP&E. As required by SFFAS No. 11, "Amendments to Accounting for PP&E – Definitions," information pertaining to National Defense PP&E has not been reported on the Balance Sheet. Rather, it has been reported in the Required Supplementary Stewardship Information. In addition, as required by SFFAS No. 8, "Supplementary Stewardship Reporting," Heritage Assets and Stewardship Land have not been reported on the Balance Sheet but rather in the Required Supplementary Stewardship Information.

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

3. To bring the DON into compliance with federal accounting standards, the DoD will issue new property accountability regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions will be structured to provide the information necessary for compliance with federal-wide accounting standards.

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

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

6. Material disclosures are provided at Note 9.

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

O. **Leases.** Generally, lease payments are for the rental of equipment, space, and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses during the period.

P. **Other Assets.** The DON conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. In order to alleviate the potential financial burden on the contractor that these long-term contracts can cause, the DON often provides financing payments. One type of financing payment that the DON makes is based upon a percentage of completion. In accordance with SFFAS No. 1 "Accounting for Selected Assets and Liabilities," these payments are reported as work in process and are not reported as advances and prepayments in the "Other Assets" line item. In addition, based on the provision of the Federal Acquisition Regulations, the DON makes financing payments under fixed price contracts that are not based on a percentage of completion. The DON reports these financing payments as advances or prepayments in the "Other Assets" line item. The DON treats these payments as advances or prepayments because the DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the DON for the full amount of the advance. The DON does not believe that the SFFAS No. 1 addresses this type of financing payment. The auditor's disagree with the DON's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

Q. **Liabilities and Contingencies.**

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

2. SFFAS No. 5 "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the DON. The uncertainty will be resolved when one or more future events occur or fail to occur. The DON only records loss contingencies. These contingencies are recognized as a liability when it is probable that the future event or events will confirm the loss or the incurrence of a liability for the reporting entity and the amount of loss can be reasonably estimated. Other contingencies are disclosed when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The DON's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

3. The DON's liabilities can arise as a result of anticipated disposal costs for the DON's assets. This type of liability has two components—nonenvironmental and environmental. Based upon the DoD's interpretation of the SFFAS No. 5 "Accounting for Liabilities of the Federal Government," a disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The DoD's auditors disagree with this application of the standard for nonenviromental disposal liabilities based on their interpretation that the disposal liability recognition should commence at the time the asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all Federal Agencies. Until the issue is resolved on a government-wide basis, the DoD has agreed to adhere to the explicit literal provisions of the SFFAS No. 5, except for the recognition of nonenvironmental disposal costs of nuclear powered assets. Material disclosures are provided at Notes 12 and 13.

4. The DON's liabilities also arise as a result of training range preservation and management activities. Training range preservation and management activities are those precautions considered necessary to protect personnel and to maintain long-term range viability. These activities may include the removal and disposal of solid wastes, clearance of unexploded munitions, and efforts considered necessary to address pollutants and contaminants. The reported amounts for training range preservation and management represent the current cost basis estimates of required training range preservation and management activities, beyond recurring operating and maintenance, for active and inactive training ranges at active installations. The estimated costs are recognized systematically based on the estimated use of physical capacity.

R. Accrued Leave. Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Accrued leave for the DON is recorded through automated postings from the Defense Civilian Payroll System.

S. Equity.

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

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

T. Treaties for Use of Foreign Bases. The DON has the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the DON continued use of these properties until the treaties expire. Capital investments in buildings and other facilities (for example, runways) located on the overseas bases are capitalized as stipulated in Note 1.M. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the DON. Therefore, in the event treaties or other agreements are terminated whereby use of foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the United States and the host country have been concluded to determine the amount to be paid the United States for such capital investments.

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

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

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

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

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

1. Fund Balances:

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

2. Fund Balance With Treasury Versus Agency

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

3. Explanation of Reconciling Amount:

4. Other Information Related to Fund Balance With Treasury:

Categorization of Entity Fund Balance With Treasury:

	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
Entity Fund and Account Balances:					
Unobligated Balances					
Available	$19,897	$499,544	$10,212,341	$41,752	$10,773,534
Restricted			1,412,082		1,412,082
Reserve For Anticipated Resources					
Obligated Balance, Net	1,450	1,149,477	49,207,441	67,512	50,425,880
Unfunded Contract Authority					
Unused Borrowing Authority					
Other	(10,166)				(10,166)
Total Entity Treasury Balance	$11,181	$1,649,021	$60,831,864	$109,264	$62,601,330

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

Additional Disclosures Concerning Fund Balance With Treasury. The following provides additional disclosures of amounts included in the FBWT reporting process. These are internal reconciliation mechanisms verifying the disbursing process. These differences may ultimately affect the FBWT, but until they can be verified as valid transactions or amounts they are not considered differences between the DON and Treasury FBWT. Many of these items represent timing differences, supporting identifying data is not or is no longer available or Treasury will not support the identification of certain stale dated items.

($ in Thousands)

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

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

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

Statement of Differences:
The following table exhibits aged deposit differences as reported on the Treasury Statement of Differences:

Statement of Differences – Aging ($ in Thousands)	Net Amount	Absolute Amount
0-30 Days	($232,272)	$302,133
31-60 Days	123,315	131,489
61-90 Days	(256)	1,380
91-120 Days	(4,250)	7,703
121-180 Days	(36,926)	37,145
181 Days & Over	20,275	20,877
Total	($130,114)	$500,727

Check Issue Discrepancy. The DON is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices; (2) the Treasury will not assist in research efforts for transactions over one year old; or (3) corrections were processed for transactions that Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations, will be provided to the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the DON and the Treasury for processing checks. Further, no empirical evidence has been presented that demonstrates check issue discrepancies adversely affect FBWT. The DoD plans to request that the Treasury remove $177,455 thousand (net) and $442,688 thousand (absolute) from the check issue comparison report. The following table exhibits the aged check issue differences:

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

On Line Payment and Collection (OPAC) Differences. The OPAC differences represent amounts reported by an organization but not reported by its trading partner. As of September 30, 1999, there was $16 million (net) and $30 million (absolute) of OPAC differences greater than 180 days old. A majority of the differences represent internal DoD transactions and therefore do not affect FBWT at the DoD consolidated level. However, for individual entity level statements these differences would affect the amount reported for FBWT. The DoD is working with the Defense Finance and Accounting Service (DFAS) Centers, Treasury, and Treasury's contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers have established metrics and will be implementing monthly reporting requirements for Fiscal Year 2000. These actions will aid the DON in clearing many of the old balances and establishing better internal controls over the OPAC process. The following table exhibits the aged OPAC differences:

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

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

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

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

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

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

4. Other Information: The Trust Funds have a total net investment of $10,166 thousand. The Trust Funds that have investments are the following: Navy General Gift Fund, Naval Academy Museum Fund, Naval Academy General Gift Fund and Naval Historical Center Fund. These investments are Non-Marketable Par Value Market-Based securities reported at cost, net of unamortized premiums and discounts. The details for each Trust Fund are as follows:

($ in Thousands)	Cost	Amortized [Premium]/ Discount	Net
Navy General Gift Fund	$1,293	$1	$1,294
Naval Academy Museum Fund	1,564	17	1,581
Naval Academy General Gift Fund	6,553	128	6,681
Naval Historical Center Fund	597	13	610
Total	$10,007	$159	$10,166

Note 4. Accounts Receivable:

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

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

4. Other Information:

Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) Accounts Receivable Balance. During FY 1999 DFAS CL and DFAS KC included in Accounts Receivable-Public, refunds receivable from MOCAS and DDMS. The amounts were $23,133 thousand for the MOCAS system debts and $1,552,926 thousand for the DDMS-Navy and the Defense Logistics Agency (DLA) combined. Included in the DDMS amount is an advance payment of $1,352,460 thousand made to two contractors. The contract was subsequently canceled. The contract was for the A-12 aircraft program, which is still in litigation. During October 1998, DFAS CL asked the DON General Counsel for a decision on the feasibility of collecting the entire, partial, or no amount of this advance payment. DFAS CL reported the entire amount in accordance with the recommendation from a 1994 General Accounting Office financial operations audit.

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

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

Note 5. Other Assets:
($ in Thousands)

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

2. Other Information related to entity assets. The DON has reported financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, the DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the DON is not obligated to reimburse the contractor for their costs and the contractor is liable to repay the DON for the full amount of the advance. The auditors disagree with the DON's application of the accounting standard pertaining to advances and prepayments because SFFAS No. 1 "Accounting for Selected Assets and Liabilities," does not address this type of financing payment.

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

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

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

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

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

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

Foreign currency has been translated into U.S. dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government for the acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

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

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

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

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

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

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

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

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

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

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

2. Restrictions on operating materials and supplies:

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

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

Valuation. OM&S are valued at actual cost, with the exception of portions of sponsor owned material, APA secondary inventory, ammunition, and munitions. Sponsor owned material is reported in numerous systems. Some of these systems utilize the standard price methodology while others use actual cost. APA secondary inventory, ammunition, and munitions are valued at latest acquisition cost (LAC). No gains or losses are recognized in the Statement of Net Cost as a result of changes in valuation for general fund operating supplies and materials. Such changes are reflected in the asset valuations and related invested capital as reported in the Balance Sheet. The LAC method is used because data is maintained in logistics systems designed for material management purposes. These legacy systems do not maintain the historical cost data necessary to comply with SFFAS No. 3, “Accounting for Inventory and Related Property.” In addition, while these legacy systems provide controls to ensure accountability and visibility over inventory items, they were not designed to ensure that all of the inventory items are included in the values reported on the Balance Sheet. The consumption method of accounting for the recognition of expenses has been applied to OM&S.

Method of Accounting. The consumption method of accounting for the recognition of expenses has been applied to OM&S. However, current financial and logistics systems can not fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The Department has reached an agreement with the Office of Management and Budget (OMB), the General Accounting Office (GAO) and the Inspector General, Department of Defense (IG, DoD) to move to the consumption method of accounting for OM&S in future years. Based on this agreement, the

DoD, in consultation with its auditors, will (1) develop a framework for conducting cost-benefit analyses for use in determining whether the consumption method is cost beneficial for selected instances of OM&S; (2) develop specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method; (3) develop functional requirements for feeder systems to support the consumption method; and (4) identify feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method.

Shipboard Assets. Shipboard assets are an engineered estimate of various asset allowance lists that a ship must contain before leaving port to perform its mission. Because shipboard assets are vital to ship operations, the DON considers the ship to be an "end user." As such, shipboard assets are expensed when issued to the ship.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Other Information:

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

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

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

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

Defense Property Accountability System (DPAS). The DON is currently converting all equipment property records to the Defense Property Accountability System (DPAS). As a part of the conversion process, efforts are being undertaken to inventory and reconcile each converting activity's property records, and to obtain accurate historical cost data. This process is not expected to be complete in FY 2001.

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

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

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

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

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

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

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

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

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

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

1. Intragovernmental	Current Liability	Noncurrent Liability	Total
a. Accrued Restoration Costs			
(1) Active Installations			
(2) BRAC Installations			
(3) Formerly Used Defense Sites (FUDS)			
b. Other Environmental Liabilities			
(1) Nuclear Powered Aircraft Carriers			
(2) Nuclear Powered Submarines			
(3) Other Nuclear Powered Ships			
(4) Other National Defense Weapons Systems			
(5) Chemical Weapons Disposal			
(6) Conventional Munitions Disposal			
(7) Training Ranges			
(8) Other			
c. Total			

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

1. Other Information:

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

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

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

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

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

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

Training Ranges. The estimates presented do not include 1) Ranges used by the DON, but owned/managed by another service; 2) Ranges which may be located outside the 50 United States and its territories; 3) Water ranges; or 4) Ranges on BRAC/FUDS sites. The liability figure presented is intended to represent the lowest estimable liability cost. This liability estimate is based upon the following documents and assumptions: 1) Acreage figures for the Navy are derived from the DoD Draft Final Report, “Information Related to the Munitions Rule Economic Assessment Collected in Response to a Request from the United States Environmental Protection Agency”, dated April 1995; 2) Acreage figures for the Marine Corps are derived from the report, “Impact Analysis for the Environmental Protection Agency Military Munitions Rule and the Department of Defense Range Rule Implementation”, dated April 1997; 3) Cost factors are derived from the “Department of Defense (DoD) Final Report Range Rule Regulatory Impact Analysis” dated 03 July 1996 and do not include evaluation and documentation costs of approximately $4M per site; 4) Cost factors applied assume clean-up/remediation to return properties to “Limited Public Access” criteria and that the site contamination levels are considered to be “low” or “light,” which is the least financially burdensome option and results in an estimated minimum liability of $10K/acre.

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

Note 13. Other Liabilities:
($ in Thousands)

1. Other Liabilities Covered by Budgetary Resources:

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

2. Other Information:

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

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

Disposal Cost of Real Property. For FY 1999, the DON did not report nonenvironmental disposal liability for the preliminary cost estimate for completing the disposal or demolition of excess and or obsolete real property and structures at active installations. The DON has already (during FY 1998-1999) demolished 6.08 million square feet of the 12.0 million square feet of the Defense Reform Initiative Decision (DRID) number 36 target. To meet the target of DRID #36, the DON plans to dispose of an additional 5.92 million square feet of real property assets by 2002 at a total estimated cost of $122,035 thousand. This target includes both the Navy and the Marine Corps real property assets. By 2005, the DON has targeted additional real property and structures for disposal at active installations at an estimated cost of $144,782 thousand.

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

Judgment Fund. In FY 1999, the DON total liability amount for both General Funds and Navy Working Capital Funds for the Judgment Fund has been reported in the DON General Funds (Treasury Index 17) financial statements. This reporting methodology was necessary because the current accounting systems do not specify this liability as General Funds or Working Capital Funds. The Judgment Fund liability was determined by using the Department of Treasury's Judgment Fund website. The Judgment Fund claims were pulled from the website by month for FY 1999. The total number of FY 1999 claims paid by the Judgment Fund on behalf of the DON (Navy and Marine Corps) was $128,155 thousand. Amounts paid by appropriation 1743 (Contract Disputes Act of 1978) are reimbursable by the DON. By a review of the detailed data in the website it was determined that $57,963 thousand of Judgment Fund claims relate to the Contract Disputes Act. However, additional documentation from the Treasury shows that of this amount $2,952 thousand is reimbursable by the Department of the Air Force. Therefore, the difference of $55,011 thousand should be recorded as a liability by the DON. This liability amount does not consider reimbursements made by the DON on these claims during FY 1999. The amount of reimbursements made by DON to the Treasury could not be determined through the use of the website and could not be obtained by the Treasury. The remaining amount, $70,192 thousand was recorded as Imputed Financing/Imputed Costs. The table below summarizes these calculations.

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

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

Workers' Compensation. In FY 1999, the DON total liability amounts for both General Funds and Navy Working Capital Funds for the Workers' Compensation liability has been reported in the DON General Funds (Treasury Index 17) financial statements. This reporting methodology was necessary because the current accounting systems do not specify this liability as General Funds or Working Capital Funds. The liabilities reported by the DON for FY 1999 represent the balances due as reported by the Department of Labor.

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

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

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

5. Leases: (Not Applicable)

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

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

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

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

The Department of Labor (DOL) provided the amount of $2,411,211 thousand to DoD as the actuarial liability estimate for DON's future workers' compensation benefits (FWC). Of that amount, $1,304,960 thousand is the DON General Funds portion of the future workers' compensation benefit. The split between General Funds and Navy Working Capital Funds was calculated by determining a percentage based on the number of civilian employees taken from the Navy Budget Tracking System. The reporting methodology was necessary because the current accounting systems do not specify this liability as General Funds or Working Capital Funds.

The liability for FWC benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

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

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

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

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

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

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

Note 15. Net Position:
($ in Thousands)

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

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

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

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

Note 16.B. Cost of National Defense PP&E:
($ in Thousands)
Costs associated with the following appropriations have been determined to be associated with National Defense Property, Plant and Equipment: Procurement, Marine Corps, 17 1109 - $865,654 thousand; Aircraft Procurement, Navy 17 1506 - $6,408,344 thousand; Weapons Procurement, Navy 17 1507 - $1,284,982 thousand; Shipbuilding and Conversion, Navy 17 1611 - $6,902,464 thousand; and Other Procurement, Navy 17 1810 - $3,353,424 thousand; totaling $18,814,868 thousand. These costs are reported as Procurement program costs in the Statement of Net Cost.

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

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

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

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

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

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

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

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

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

Note 16.J. Other Disclosures:

Basis of Accounting. The amounts presented in this statement are based on obligations and disbursements and not actual accrued costs. The DON generally records transactions on a cash basis and not an accrual accounting basis as is required by the Statements of Federal Financial Accounting Standards (SFFAS.) Therefore, DON's systems do not capture actual costs. As such, information presented in the Statement of Net Cost is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems and adjusted to record known accruals for major items such as payroll expenses, accounts payable, Environmental liabilities, etc.

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

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

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

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

B. Imputed Financing:

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

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

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

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

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

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

Other Information:

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

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

3. Other Information:

3. Other Information:

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

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

Suspense /Budget Clearing Accounts. The DON has made a concerted effort to reduce balances in the suspense and budget clearing accounts, and to establish an accurate and consistent use of these accounts. Beginning in February 1997, the DFAS has issued 27 memorandums providing guidance and establishing policy in this area. Below is a table that indicates the significant reductions the DON has achieved in the various suspense/budget clearing accounts.

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

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

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

Note 19. Disclosures Related to the Statement of Financing:

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

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

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

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

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

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

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

The Navy Management Fund was established in 1955 to finance operations supported by two or more appropriations under 10 U.S.C. 2209. Its purpose was to finance and account for payment of transportation charges of moving material within the DON. In 1981, the General Accounting Office (GAO) issued a report objecting to the use of management funds to finance transportation costs and advised that payments could be distributed and charged directly to an appropriation. In conjunction with the GAO report, the Assistant Secretary of Defense (Comptroller) stated that the Navy Management Fund should be discontinued. A memorandum dated June 17, 1994 from the DoD Office of the Comptroller requested that the management fund be closed no later than October 1, 1996. Effective September 30, 1999 the corpus of $1 million reverted to Treasury.

Note 21D. Other Disclosures; Problem Disbursements:

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

Absolute $ in Millions

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

The DON has $1,310 million (absolute) and $713 million (net) problem disbursements that represent disbursements of DON funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursement arises when the DON and DFAS CL contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the transactions in all applicable systems. The DON has efforts underway to improve the systems and to resolve all previous problem disbursements. As of September 30, 1999, these efforts resulted in a decrease of $1,541 million in In-Transit Disbursements, a decrease of $704 million in UMD's and a decrease of $457 million in NULO's over the balances reported as of September 30, 1998.