

Department of the Navy

GENERAL FUND PRINCIPAL STATEMENTS



LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

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

LIMITATIONS CONCERNING REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards (SFFAS) No. 6 to require the capitalization of military equipment (formerly National Defense Property, Plant and Equipment (ND PP&E)) for fiscal years 2003 and beyond and encouraged early implementation. Based on this, the Department terminated the reporting of quantities and condition of military equipment and will begin the process of capitalizing these assets on its Balance Sheet in FY 2002.



General Fund Principal Statements

Principal Statements

The FY 2002 Department of the Navy, General Fund Principal Financial Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the General Fund for the fiscal year ending September 30, 2002.

The following statements are included in the Department of the Navy, General Fund Principal Statements:

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

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

The accompanying notes should be considered an integral part of the Principal Statements.



Department of Defense
 Department of the Navy
CONSOLIDATED BALANCE SHEET
 As of September 30, 2002 and 2001
 (\$ in thousands)

	2002	Restated 2001	2001
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 68,249,955	\$ 66,338,979	\$ 66,338,979
Investments (Note 4)	9,625	9,517	9,517
Accounts Receivable (Note 5)	742,467	1,042,814	1,042,814
Other Assets (Note 6)	67,081	47,170	47,170
Total Intragovernmental Assets	<u>69,069,128</u>	<u>67,438,480</u>	<u>67,438,480</u>
Cash and Other Monetary Assets (Note 7)	130,664	160,589	160,589
Accounts Receivable (Note 5)	2,799,887	1,682,230	1,682,230
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	33,003,595	36,295,749	61,061,553
General Property, Plant and Equipment (Note 10)	26,109,437	24,961,487	24,961,487
Other Assets (Note 6)	4,780,462	6,056,832	6,056,832
TOTAL ASSETS	<u>\$ 135,893,173</u>	<u>\$ 136,595,367</u>	<u>\$ 161,361,171</u>
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 748,279	\$ 1,002,282	\$ 1,002,282
Debt (Note 13)	127	61	61
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	3,489,503	2,549,550	1,066,185
Total Intragovernmental Liabilities	<u>4,237,909</u>	<u>3,551,893</u>	<u>2,068,528</u>
Accounts Payable (Note 12)	1,510,329	2,075,026	2,075,026
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	1,546,375	1,595,890	1,595,890
Environmental Liabilities (Note 14)	15,469,073	15,584,458	15,584,458
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	4,185,487	3,610,899	3,610,899
TOTAL LIABILITIES	<u>\$ 26,949,173</u>	<u>\$ 26,418,166</u>	<u>\$ 24,934,801</u>
NET POSITION			
Unexpended Appropriations (Note 18)	64,774,328	63,535,842	61,982,518
Cumulative Results of Operations	44,169,672	46,641,359	74,443,852
TOTAL NET POSITION	<u>\$ 108,944,000</u>	<u>\$ 110,177,201</u>	<u>\$ 136,426,370</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 135,893,173</u>	<u>\$ 136,595,367</u>	<u>\$ 161,361,171</u>

The accompanying notes are an integral part of these financial statements.



General Fund Principal Statements

Department of Defense
Department of the Navy

CONSOLIDATED STATEMENT OF NET COST

For the years ended September 30, 2002 and 2001
(\$ in thousands)

	2002	Restated 2001	2001
Program Costs			
Intragovernmental Gross Costs	\$ 29,911,090	\$ 26,953,769	\$ 26,953,769
(Less: Intragovernmental Earned Revenue)	<u>(1,209,933)</u>	<u>(2,460,197)</u>	<u>(2,460,197)</u>
Intragovernmental Net Costs	<u>28,701,157</u>	<u>24,493,572</u>	<u>24,493,572</u>
Gross Costs With the Public	75,636,019	72,044,614	72,044,614
(Less: Earned Revenue From the Public)	<u>(1,721,649)</u>	<u>(1,229,404)</u>	<u>(1,229,404)</u>
Net Costs With the Public	<u>73,914,370</u>	<u>70,815,210</u>	<u>70,815,210</u>
Total Net Cost	102,615,527	95,308,782	95,308,782
Costs Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0
Net Costs of Operations	<u>\$ 102,615,527</u>	<u>\$ 95,308,782</u>	<u>\$ 95,308,782</u>



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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2002 and 2001

(\$ in thousands)

	2002 Cumulative Results of Operations	2002 Unexpended Appropriations	Restated 2001 Cumulative Results of Operations
Beginning Balances	\$ 46,641,359	\$ 63,535,842	\$ 43,816,182
Prior period adjustments (+/-)	0	0	4,039,166
Beginning Balances, as adjusted	<u>\$ 46,641,359</u>	<u>\$ 63,535,842</u>	<u>\$ 47,855,348</u>
Budgetary Financing Sources:			
Appropriations Received	0	99,524,458	0
Appropriations transferred in/out (+/-)	0	2,727,308	0
Other adjustments (recisions, etc) (+/-)	0	(1,363,575)	0
Appropriations used	99,612,675	(99,649,705)	93,245,566
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	5,871	0	358,769
Imputed financing from costs absorbed by others	525,294	0	490,458
Other (+/-)	0	0	0
Total Financing Sources	<u>100,143,840</u>	<u>1,238,486</u>	<u>94,094,793</u>
Net Cost of Operations (+/-)	102,615,527	0	95,308,782
Ending Balances	<u>\$ 44,169,672</u>	<u>\$ 64,774,328</u>	<u>\$ 46,641,359</u>



The accompanying notes are an integral part of these financial statements. See notes 1 and 20.

General Fund Principal Statements

Department of Defense
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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2002 and 2001
(\$ in thousands)

	Restated 2001 Unexpended Appropriations	2001 Cumulative Results of Operations	2001 Unexpended Appropriations
Beginning Balances	\$ 64,902,672	\$ 43,816,182	\$ 64,902,672
Prior period adjustments (+/-)	1,553,324	31,841,659	0
Beginning Balances, as adjusted	<u>66,455,996</u>	<u>75,657,841</u>	<u>64,902,672</u>
Budgetary Financing Sources:			
Appropriations Received	(2,920,154)	0	(2,920,154)
Appropriations transferred in/out (+/-)	0	0	0
Other adjustments (recisions, etc) (+/-)	0	0	0
Appropriations used	0	93,245,566	0
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	358,769	0
Imputed financing from costs absorbed by others	0	490,458	0
Other (+/-)	0	0	0
Total Financing Sources	<u>(2,920,154)</u>	<u>94,094,793</u>	<u>(2,920,154)</u>
Net Cost of Operations (+/-)	0	95,308,782	0
Ending Balances	<u>\$ 63,535,842</u>	<u>\$ 74,443,852</u>	<u>\$ 61,982,518</u>



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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the years ended September 30, 2002 and 2001
 (\$ in thousands)

BUDGETARY RESOURCES	2002 Budgetary Financing Accounts	Restated 2001 Budgetary Financing Accounts	2001 Budgetary Financing Accounts
Budget Authority:			
Appropriations Received	\$ 99,561,202	\$ 94,848,409	\$ 94,848,409
Borrowing Authority	0	0	0
Contract Authority	0	0	0
Net transfers (+/-)	2,676,247	387,346	387,346
Other	0	0	0
Unobligated Balance:			
Beginning of period	13,835,827	13,624,084	13,624,084
Net transfers, actual (+/-)	51,061	365,723	365,723
Anticipated Transfers Balances	0	0	0
Spending Authority from Offsetting Collections:			
Earned			
Collected	6,489,963	4,878,546	4,878,546
Receivable from Federal sources	(263,453)	915,971	915,971
Change in unfilled customer orders			
Advances received	1,286	4,165	4,165
Without advance from Federal sources	186,518	(201,723)	(201,723)
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	<u>6,414,314</u>	<u>5,596,959</u>	<u>5,596,959</u>
Recoveries of prior year obligations	2,286,834	3,277,598	3,277,598
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(1,399,956)	(1,773,918)	(1,773,918)
Total Budgetary Resources	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>	<u>\$ 116,326,201</u>



The accompanying notes are an integral part of these financial statements. See notes 1 and 21.

General Fund Principal Statements

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COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2002 and 2001
(\$ in thousands)

	2002 Budgetary Financing Accounts	Restated 2001 Budgetary Financing Accounts	2001 Budgetary Financing Accounts
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:			
Direct	\$ 99,307,751	\$ 95,682,240	\$ 95,682,240
Reimbursable	12,208,795	6,807,699	6,807,699
Subtotal	<u>111,516,546</u>	<u>102,489,939</u>	<u>102,489,939</u>
Unobligated balance:			
Apportioned	10,590,567	12,391,407	12,391,407
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	1,318,416	1,444,855	1,444,855
Total, Status of Budgetary Resources	<u><u>123,425,529</u></u>	<u><u>116,326,201</u></u>	<u><u>116,326,201</u></u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
Obligated Balance, Net-beginning of period	\$ 52,333,850	\$ 48,385,598	\$ 48,385,598
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, net-end of period:			
Accounts Receivable	(2,109,374)	(2,372,828)	(2,372,828)
Unfilled customer order from Federal sources	(2,027,193)	(1,840,675)	(1,840,675)
Undelivered Orders	55,633,755	50,942,279	50,942,279
Accounts Payable	4,603,000	5,604,765	5,604,765
Outlays:			
Disbursements	105,540,310	94,550,149	94,550,149
Collections	(6,491,249)	(4,882,711)	(4,882,711)
Subtotal	<u>99,049,061</u>	<u>89,667,438</u>	<u>89,667,438</u>
Less: Offsetting receipts	(213,345)	0	0
Net Outlays	<u><u>\$ 98,835,716</u></u>	<u><u>\$ 89,667,438</u></u>	<u><u>\$ 89,667,438</u></u>



Department of Defense
 Department of the Navy
COMBINED STATEMENT OF FINANCING
 For the years ended September 30, 2002 and 2001
 (\$ in thousands)

	2002	Restated 2001	2001
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
Obligations Incurred	\$ 111,516,546	\$ 102,489,939	\$ 102,489,939
Less: Spending Authority from offsetting collections and recoveries (-)	(8,701,148)	(8,874,558)	(8,874,558)
Obligations net of offsetting collections and recoveries	102,815,398	93,615,381	93,615,381
Less: Offsetting receipts (-)	(213,345)	(22,039)	(22,039)
Net obligations	102,602,053	93,593,342	93,593,342
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	353,201	353,201
Imputed financing from costs absorbed by others	525,294	490,458	490,458
Other (+/-)	0	0	0
Net other resources used to finance activities	525,294	843,659	843,659
Total resources used to finance activities	\$ 103,127,347	\$ 94,437,001	\$ 94,437,001
Resources Used to Finance Items not Part of the Net Cost of Operations:			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered orders (-)	\$ (10,676,267)	\$ (142,028)	\$ (142,028)
Unfilled Customer Orders	187,805	(197,557)	(197,557)
Resources that fund expenses recognized in prior periods	(620,162)	(65,407)	(65,407)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0
Resources that finance the acquisition of assets	7,487,846	(656,355)	(656,355)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations	0	0	0
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0
Other (+/-)	0	0	0
Total resources used to finance items not part of the Net Cost of Operations	(3,620,778)	(1,061,347)	(1,061,347)
Total resources used to finance the Net Cost of Operations	\$ 99,506,569	\$ 93,375,654	\$ 93,375,654

The accompanying notes are an integral part of these financial statements. See notes 1 and 22.



General Fund Principal Statements

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COMBINED STATEMENT OF FINANCING

For the years ended September 30, 2002 and 2001
(\$ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Periods:

	2002	Restated 2001	2001
Increase in annual leave liability	\$ 263,070	\$ 0	\$ 0
Increase in environmental and disposal liability	595,543	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0
Other (+/-)	117,595	1,186,410	1,186,410
Total components of Net Cost of Operations that will require or generate resources in future periods	976,208	1,186,410	1,186,410

Components not Requiring or Generating Resources:

Depreciation and amortization	916,360	714,583	714,583
Revaluation of assets and liabilities (+/-)	(1,684,366)	0	0
Other (+/-)	2,900,756	32,135	32,135
Total components of Net Cost of Operations that will not require or generate resources	\$ 2,132,750	\$ 746,718	\$ 746,718

Total components of Net Cost of Operations that will not require or generate resources in the current period

Net Cost of Operations

	\$ 3,108,958	\$ 1,933,128	\$ 1,933,128
	<u>\$ 102,615,527</u>	<u>\$ 95,308,782</u>	<u>\$ 95,308,782</u>



Department of the Navy

GENERAL FUND NOTES TO THE 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 Navy (DON), as required by the "Chief Financial Officers (CFO) Act of 1990", expanded by the "Government Management Reform Act (GMRA) of 1994", and other appropriate legislation. The financial statements have been prepared from the books and records of DON in accordance with the "Department of Defense Financial Management Regulation" (DoD FMR), the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which DON is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. DON's financial statements are in addition to the financial reports also prepared by DON pursuant to OMB directives that are used to monitor and control DON's use of budgetary resources.

DON is unable to fully implement all elements of Federal GAAP and the OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for DON's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, DON cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. DON continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable footnote.

B. Mission of the Reporting Entity.

DON was created on 30 April 1798 by an act of Congress (1 Stat. 533; 5 U.S.C. 411-12). The overall mission of DoD, as stated in the FY 2002 Annual Defense Report is to assure allies and friends, dissuade future military competition, deter threats and coercion against U.S. interests, and defeating adversaries if deterrence fails. Fiscal Year (FY) 2002 represents the seventh year that DON has prepared audited financial statements as required by the CFO Act and the GMRA.

C. Appropriations and Funds.

DON's appropriations and funds are divided into the general, working capital (revolving funds), trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing DON's missions.

- General funds are used for financial transactions arising under Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.
- Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The National Defense Sealift Fund is DON's only revolving fund.
- 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.



General Fund Notes to the Principal Statements

- Special funds account for receipts of the government that are earmarked for a specific purpose.
- Deposit funds generally are used to (1) hold assets for which DON is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

The asset accounts used to prepare the statements are categorized as either entity or 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

Revolving funds

17 4557	National Defense Sealift Fund, Navy
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Trust funds

17X8423	Midshipmen Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
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

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

**D. Basis of Accounting.**

DON generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2002, DON's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. 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 Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of DON's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, DON's financial data will be based on budgetary transactions (obligations, disbursements, and collections), and transactions from nonfinancial feeder systems, adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement on Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

In addition, DON identifies programs based upon the major appropriation groups provided by Congress. 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 Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

General Fund Notes to the Principal Statements

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 multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. DON recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

F. Recognition of Expenses.

For financial reporting purposes, DON policy requires the recognition of operating expenses in the period incurred. However, because 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 such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in DON's operations until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

Operating expenses were adjusted as a result of elimination of balances between DoD components. See Note 19.I, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

G. Accounting for Intragovernmental Activities.

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 DON as though the agency was a stand-alone entity.

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 costs are not apportioned to federal agencies. 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.

Financing for the construction of DoD 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.

DON's civilian employees participate in the Civil Service Retirement System (CSRS) and the 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. DON funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). DON recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. DoD recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column of the DoD Agency-wide consolidating/combining statements.



To prepare reliable financial statements, transactions occurring between components or activities within DON must be eliminated. However, DON, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Services (DFAS) is responsible for eliminating transactions between components or activities of DON. For FY 1999 and beyond seller entities within DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Department of the Treasury, Financial Management Services (FMS) is responsible for eliminating transactions between DoD and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." DoD was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. DON, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide" as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DOL), and benefit program transactions with the OPM.

H. Transactions with Foreign Governments and International Organizations.

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of this Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

I. Funds with the U.S. Treasury.

DON'S financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between DON's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

J. Foreign Currency.

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 operations and maintenance, and family housing construction.) The gains and 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 require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified.



General Fund Notes to the Principal Statements

K. Accounts Receivable.

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided at Note 5.

L. Loans Receivable.

Not applicable.

M. Inventories and Related Property.

DON manages and reports Operating Materials & Supplies (OM&S), which consists of spare and repair parts, and ammunition and munitions that are not held for sale. OM&S are reported in numerous systems using different valuation methodologies. Some systems utilize the standard price methodology while others use actual cost. DoD uses various methods because its logistics systems were designed for material management rather than accounting. The systems provide accountability and visibility over OM&S, however, they do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208).

DoD uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, DoD uses the purchase method - that is, expensed when purchased. For FY 2002, DoD reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

SFFAS No. 3 "Accounting For Inventory And Related Property" distinguishes between "OM&S held for use" and "OM&S held in reserve for future use." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. DON holds material based on military need and support for contingencies. Therefore, DON does not attempt to account separately for items held for "current" or "future" use.

DoD implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided at Note 9.





N. Investments in U.S. Treasury Securities.

Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premium or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other methods if similar results are obtained. DON's intent is to hold investments to maturity; unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities. Material disclosures are provided at Note 4.

O. General Property, Plant and Equipment.

General PP&E, exclusive of Military Equipment, is capitalized at historical acquisition cost plus capitalized improvements 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. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E, exclusive of Military Equipment, are required to be capitalized. All General PP&E, other than land and Military Equipment, is depreciated on a straight-line basis. Land is not depreciated. The cost of Military Equipment acquisition programs is depreciated on a composite or group basis over the estimated useful life of the items in the group. Group depreciation is where an average rate of depreciation is applied to a number of homogeneous assets, as characterized by similar characteristics and service lives. Composite depreciation is where an average or composite rate of depreciation is applied to a number of heterogeneous assets having dissimilar characteristics and service lives.

In June 2002 the Federal Accounting Standards Advisory Board issued a standard entitled "Eliminating the Category National Defense Property, Plant, and Equipment (ND PP&E)". In addition to eliminating the category ND PP&E, this standard rescinded SFFAS No. 11, "Amendment to Property, Plant, and Equipment – Definitional Changes"; amended SFFAS No. 8, "Supplementary Stewardship Reporting"; and amended SFFAS No. 6, "Accounting for Property, Plant, and Equipment". This standard is effective for years ending after September 30, 2002. The standard is currently sitting before Congress for a 45-day period in accordance with provisions of the CFO Act of 1990.

Prior standards provided for the expensing of ND PP&E when costs were incurred and the reporting of such costs as supplementary stewardship information. In addition, prior standards provided for reporting of ND PP&E condition and deferred maintenance information. DoD has not reported the cost of ND PP&E in accordance with prior standards due to an absence of detailed cost information for property acquired over many decades.

The standard on eliminating the category of ND PP&E provides for the capitalization of property previously defined as ND PP&E and the reporting of such property as General PP&E. In recognition of the absence of detailed historical cost information, this standard provides that "If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or engineering documents and other reports reflecting amounts expended may be used as the basis for estimating historical cost." The standard acknowledges that imprecision may result from the use of estimates or other information.

DON is implementing this standard through a "phased" approach. Capitalization of property previously defined as ND PP&E will take several years because of the extensive research needed to develop cost estimates for the extensive property inventory. Therefore, DON cannot fully implement the standard on its effective date.

The first "phase" consists of reporting values for one pilot program, the DDG 51 Arleigh Burke Class destroyer, in the fiscal year 2002 is disclosed in Note 10 to the financial statements. Each year as DON completes the valuation of additional programs, it will disclose the values of these programs in the notes. The estimated cost of this program is based on budget, appropriation, or engineering documents and other reports reflecting amounts expended.

General Fund Notes to the Principal Statements

When it is in the best interest of the government, DON provides to contractors government property necessary to complete contract work. Such property is either owned or leased by DON, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on DON's Balance Sheet. DoD completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to DoD's financial statements. Regardless, DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, DON currently reports only government property in the possession of contractors that is maintained in DON'S property systems.

To bring DON into fuller compliance with federal accounting standards, DoD has issued new property accountability and reporting 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 are structured to capture and report the information necessary for compliance with federal accounting standards. Material disclosures are provided at Note 10.

DON is participating in the Office of the Secretary of Defense (OSD) working group that is currently examining issues related to Internal Use Software. As of the date these statements were prepared, OSD had not determined the final reporting requirements for Internal Use Software. To ensure that the costs associated with Internal Use Software are correctly recognized and reported, DON will use its personal property system to capture this information once OSD adopts permanent reporting requirements.

P. Advances and Prepayments.

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

Q. Leases.

Generally, lease payments are for the rental of equipment 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 lesser of 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, or the assets fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease term.





R. Other Assets.

DON conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, DON provides financing payments. One type of financing payment that DON makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulation (FAR), DON makes financing payments under fixed price contracts that are not based on a percentage of completion. DON reports these payments as advances or prepayments in the "Other Assets" line item. DON treats these payments as advances or prepayment because 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, DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay DON for the full amount of the advance. DoD has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." DON has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

S. Contingencies and Other Liabilities.

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to DON. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure 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. 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.

Other liabilities arise as a result of anticipated disposal costs for DON's assets. This type of liability has two components: nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon DON's policies and consistent with SFFAS No. 5 "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. DoD has agreed to the recognition of nonenvironmental disposal liability for nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with and not easily identifiable separately from environmental disposal costs. Material disclosures are provided at Notes 14 and 15.

T. Accrued Leave.

Civilian annual leave and military leave that has been accrued and not used as of the balance sheet date are reported as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates.

General Fund Notes to the Principal Statements

U. Net Position.

Net Position 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 legal liabilities for payments have not been incurred.

Cumulative results of operations represent the balances that result from subtracting expenses and losses from financing sources including appropriations, revenue, and gains since the inception of the activity. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

V. Treaties for Use of Foreign Bases.

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

W. Comparative Data.

In FY 2002, DON modified the financial statement presentation for the Statements of Net Cost, Changes in Net Position, and Financing. As a result, DON's statements during this reporting period may not always lend themselves to comparative analysis. In some instances, amounts on the statements were reported on one financial line in FY 2001 and split into multiple financial lines for FY 2002, in accordance with OMB's guidance.

X. Unexpended Obligations.

DON records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods or services have yet to be delivered.

Y. Data Collection Approach.

DON financial statements include 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. DON collects financial information from non-financial feeder systems through a data call process and submits it to DFAS-CL for incorporation into the financial statements. For FY 2002, DON utilized a web-based data collection instrument (DCI) that captures all required financial information from non-financial feeder systems for both the General Fund (GF) statements and Required Supplementary Stewardship Information (RSSI). This is the fourth year DON has used the DCI to collect non-financial feeder information. The DCI identifies the information requirements to the source provider, provides an audit trail, and integrates into the DFAS-CL financial statement preparation process.



NOTE 2. NONENTITY AND ENTITY ASSETS

As of September 30,
(Amounts in thousands)

	2002			2001
	Nonentity	Entity	Total	
1. Intra-governmental Assets:				
A. Fund Balance with Treasury	\$ 250,075	\$ 67,999,880	\$ 68,249,955	\$ 66,338,979
B. Investments	0	9,625	9,625	9,517
C. Accounts Receivable	0	742,467	742,467	1,042,814
D. Other Assets	0	67,081	67,081	47,170
E. Total Intra-governmental Assets	<u>\$ 250,075</u>	<u>\$ 68,819,053</u>	<u>\$ 69,069,128</u>	<u>\$ 67,438,480</u>
2. Non-Federal Assets:				
A. Cash and Other Monetary Assets	\$ 130,664	\$ 0	\$ 130,664	\$ 160,589
B. Accounts Receivable	2,460,546	339,341	2,799,887	1,682,230
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	33,003,595	33,003,595	61,061,553
E. General Property, Plant and Equipment	0	26,109,437	26,109,437	24,961,487
F. Other Assets	0	4,780,462	4,780,462	6,056,832
G. Total Non-Federal Assets	<u>\$ 2,591,210</u>	<u>\$ 64,232,835</u>	<u>\$ 66,824,045</u>	<u>\$ 93,922,691</u>
3. Total Assets:	<u>\$ 2,841,285</u>	<u>\$ 133,051,888</u>	<u>\$ 135,893,173</u>	<u>\$ 161,361,171</u>

4. Other Information Related to Nonentity and Entity Assets.

Assets are categorized as:

Entity assets consist of resources that DON has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets held by an entity, but are not available for use in the operations of the entity.

Other DON Disclosures

Nonentity Assets.

As of 9/30/02, DON holds \$2,841,285 thousand nonentity assets. These assets are not available for use by DON in its day-to-day operations but DON maintains stewardship accountability and responsibility to report. There are three categories of significant nonentity assets held by DON: (1) the Nonentity Intragovernmental Fund Balance with Treasury, (2) Cash and Other Monetary Assets, and (3) the Nonentity Nonfederal Accounts Receivable.

Non-Entity Nonfederal Accounts Receivable (public).

Non-Entity Accounts Receivable with the public contains \$1,333,494 thousand (gross) in advance payments made to contractors and \$1,018,952 thousand in associated accrued interest for the A-12 aircraft program, which was subsequently cancelled and remains in litigation. These balances are being reported in Non-Entity Accounts Receivable since the original appropriation year has been cancelled, and any funds collected as a result of this litigation would not be available for DON's use in normal operations. See Note 5 for additional information.

For Additional Line Item discussion, see:

- Note 3, Fund Balance with Treasury
- Note 4, Investments
- Note 5, Accounts Receivable
- Note 6, Other Assets



General Fund Notes to the Principal Statements

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30,
(Amounts in thousands)

1. Fund Balances:

- A. Appropriated Funds
- B. Revolving Funds
- C. Trust Funds
- D. Other Fund Types
- E. Total Fund Balances

	2002	2001
A. Appropriated Funds	\$ 66,480,155	\$ 65,459,616
B. Revolving Funds	1,491,480	665,726
C. Trust Funds	15,995	14,033
D. Other Fund Types	262,325	199,604
E. Total Fund Balances	<u>\$ 68,249,955</u>	<u>\$ 66,338,979</u>

2. Fund Balances Per Treasury Versus Agency:

- A. Fund Balance per Treasury
- B. Fund Balance per DON
- C. Reconciling Amount

A. Fund Balance per Treasury	\$ 68,249,955	\$ 66,338,979
B. Fund Balance per DON	68,249,955	66,338,979
C. Reconciling Amount	<u>\$ 0</u>	<u>\$ 0</u>

3. Explanation of Reconciliation Amount:

Not applicable.

4. Other Information Related to Fund Balance with Treasury:

Additional Disclosures Concerning Fund Balance With Treasury (FBWT).

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 FBWT, but until they can be verified as valid transactions or amounts they are not considered differences between 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 aged items.

The increase in revolving fund balance from FY 2001 to FY 2002 is a result of an increase in the National Defense Sealift Fund, Navy (APPN 4557). Public Law (P.L.) 107-117 and 107-107 provided for a current year Fund transfer of \$360,800 thousand and P.L. 106-259 and 106-79 for a total of \$764,000 thousand prior year transfer in the revolving fund, National Defense Sealift Fund, Navy.

The non-entity Fund Balance with the Treasury (FBWT) balance contributed to the increase in Other Fund Types. For example, within the Non-entity FBWT, the state and local taxes withheld account, \$24,200 thousand, civilian employees allotments account, \$20,000 thousand, and the military thrift savings plan, \$23,900 thousand contributed to the increase in FY 2002.

Intragovernmental Payment and Collection (IPAC).

The Intra-governmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. As of the end of FY 2001, there was \$1,135 thousand difference in IPAC greater than 180-days old. DoD has worked with the DFAS sites, the Department of the Treasury, and a Treasury Department contractor in the development of automated tools, metrics and monthly reporting requirements that aided in reconciling the Treasury's Statement of Differences. These actions aided DON in clearing all of the old balances and established better internal controls over the IPAC process. As of the end of FY 2002 there were no IPAC differences greater than 60-days old.



The following table exhibits the aged IPAC differences:

IPAC Differences – Aging
(Amounts in thousands)

	<u>Net Amount</u>	<u>Absolute Amount</u>
90 Days or Less	\$ 9,871	\$ 92,198
91-180 Days	0	0
181 Days and Over	0	0
Total	<u>\$ 9,871</u>	<u>\$ 92,198</u>

Check Issue Discrepancy.

DON is in the process of collecting information for all check issue discrepancy data that are unsupported because: (1) records have been lost during deactivation of disbursing offices; (2) the Department of the Treasury may not assist in research efforts for transactions over 1-year old; or (3) corrections were processed for transactions that the Department of the Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations, shall be provided to the Department of 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 DON and the Department of the Treasury for processing checks. The following table exhibits the aged check issue differences:

Check Issue Differences – Aging
(Amounts in thousands)

	<u>Net Amount</u>	<u>Absolute Amount</u>
0-30 Days	\$ 354,172	\$ 356,847
31-90 Days	17,947	39,772
91-180 Days	(2,958)	3,250
181-365 Days	0	4
Greater than 1 year	(5,172)	5,303
Total	<u>\$ 363,989</u>	<u>\$ 405,176</u>

Deposit Differences.

The Deposit differences are reconcilable differences that represent deposit amounts reported by the Department of the Treasury or the organization. As of September 30, FY 2002 and FY 2001, there was \$4 thousand and \$(201) thousand, respectively, of deposit differences greater than 180-days old.

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

Statement of Differences – Aging
(Amounts in thousands)

	<u>Net Amount</u>	<u>Absolute Amount</u>
0-30 Days	\$ 21,145	\$ 24,783
31-60 Days	1,464	3,926
61-90 Days	(355)	533
91-120 Days	11	13
121-180 Days	100	102
181-365 Days	4	239
365 Days and Over	0	442
Total	<u>\$ 22,369</u>	<u>\$ 30,038</u>



General Fund Notes to the Principal Statements

Other DON Disclosures

To deal with reconciliation of check issue discrepancy and deposit differences that are aged 90 days or greater some of the following actions are being taken: (1) Follow-up action with disbursing officers on the status of their resolving transactions listed on their statement of differences; (2) Weekly teleconferences with the field sites and site visits; and (3) improving training.

See Note Disclosure 1.I. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

NOTE 4. INVESTMENTS

As of September 30,
(Amounts in thousands)

	2002					2001
	Cost	Amortization Method	Amortized (Premium/Discount)	Investments, Net	Market Value Disclosure	Investments, Net
1. Intragovernmental Securities:						
A. Marketable	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	9,671	N/A	(206)	9,465	9,465	9,317
D. Subtotal	\$ 9,671		\$ (206)	\$ 9,465	\$ 9,465	\$ 9,317
E. Accrued Interest	\$ 160		\$	\$ 160	\$ 160	\$ 200
F. Total Intragovernmental Securities	\$ 9,831		\$ (206)	\$ 9,625	\$ 9,625	\$ 9,517

2. Other Investments:

3. Other Information Related to Investments

Other DON Disclosures

During FY 2001, per HR 4205, section 912, DON consolidated the Naval Academy Museum Fund together with the Naval Academy General Gift Fund and the Naval Records and History Fund together with the Navy General Gift Fund. The two remaining Trust Funds are the Naval Academy General Gift Fund and the Navy General Gift Fund, which have a total net investment of \$9,625 thousand. These investments are Non-Marketable Market-Based securities reported at cost, net of amortized premiums and discounts. The details for each Trust Fund are as follows:

(Amounts in thousands)

	Cost	Amortized [Premium]/Discount	Net
Navy General Gift Fund	\$ 2,313	\$ (30)	\$ 2,283
Naval Academy General Gift Fund	7,358	(176)	7,182
Total	\$ 9,671	\$ (206)	\$ 9,465

See Note Disclosure 1.N. – Investments in U.S. Treasury for additional DoD policies governing Investments in U.S. Treasury Securities.



NOTE 5. ACCOUNTS RECEIVABLE

As of September 30,
(Amounts in thousands)

	2002		2001	
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intra-governmental Receivables:	\$ 742,467	N/A	\$ 742,467	\$ 1,042,814
2. Non-Federal Receivables (From the Public):	\$ 2,940,843	\$ (140,956)	\$ 2,799,887	\$ 1,682,230
3. Total Accounts Receivable:	<u>\$ 3,683,310</u>	<u>\$ (140,956)</u>	<u>\$ 3,542,354</u>	<u>\$ 2,725,044</u>

4. Allowance Method

DON does not have a standard rate for the allowance for estimated uncollectible receivables. For all program groups except Military Personnel appropriations, DON estimate for uncollectible accounts is 2.93%. Accounts receivable uncollectible allowance balances in the Military Personnel appropriations are estimated to be 14.49%. Each estimate is based on write-offs of accounts receivable over the last three-year period.

Fluctuations and/or Abnormalities

The decrease in the Accounts Receivable Intragovernmental is a result of a systems change request that has improved collecting the intragovernmental elimination data.

Accounts Receivable increased 29.9% or \$817,310 thousand from FY 2001 to FY 2002. The associated accrued interest for the A-12 aircraft program in the amount of \$1,018,952 thousand represents the increase in Non-federal receivable. Other factors affecting the balance changes in accounts receivable include the allocation of undistributed collections, elimination adjustments and abnormal account balances caused by the elimination process.

5. Other Information Related to Accounts Receivables:

Intragovernmental Accounts Receivable Adjustments

Allocation of Undistributed Collections

Undistributed disbursements and collections are allocated between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable as submitted in the field level general ledgers. This allocation was suggested as appropriate in a DFAS Arlington memorandum dated 4 October 2000, which required disclosure to the audit community of the applicable methodology used to allocate undistributed.

Elimination Adjustments

DON's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DON was unable to reconcile intragovernmental accounts receivable balances with its trading partners. DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

Intrafund transactions are eliminated based upon trading partner information obtained from the Bureau of Naval Personnel System (BUPERS), Standard Accounting and Reporting System – Field



General Fund Notes to the Principal Statements

Level (STARS-FL), and the Standard Accounting and Reporting System – Headquarters Module (STARS-HQ). 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.

Nonentity Nonfederal Accounts Receivables

During FY 2002 Nonentity Nonfederal Accounts Receivable included refunds receivable accounted for by Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) and refunds due from contract carriers reported by the Judge Advocate General (JAG). The following table lists the MOCAS, DDMS, and JAG receivable balances:

(Amounts in thousands)

	FY 2002 Nonentity Non-Federal Accounts Receivable (Gross)
A-12 Program Advance (DDMS) and Interest	\$ 2,352,446
CDS/DDMS Navy and Defense Logistics Agency (DLA)	43,830
Contract (MOCAS) system debts	9,460
Penalties, Fines and Admin. Fees and Interest	5,666
JAG	3,954
Civilian Pay receivables	2,659

Included in DDMS (separately identified above) are unliquidated progress payments of \$1,333,494 thousand, and accrued interest receivable of \$1,018,952 thousand for the A-12 aircraft program that was subsequently cancelled and remains in litigation. The entire amount is reported in accordance with a 1994 General Accounting Office audit recommendation.

Other DON Disclosures

Abnormal Account Balances.

Abnormal Accounts Payable and Accounts Receivable balances may occur for two main reasons – 1) the application of undistributed disbursement/collections and 2) as a result of the intragovernmental transaction elimination process. DFAS Arlington has provided guidance in a memorandum dated 1 March 2001 to record accruals, for financial statement presentation purposes, to correct abnormal balances.

Undistributed disbursements/collections are recorded in Accounts Payable and Accounts Receivable, respectively. For a variety of reasons, the application of undistributed transactions may result in abnormal balances.

In accordance with the DoD FMR, Volume 6B, Chapter 13, adjustments are recorded, at the appropriation level, to bring DON's intragovernmental accounts into agreement with its trading partners' intragovernmental accounts. These elimination process adjustments may also result in abnormal Accounts Payable and Accounts Receivable.

See Note Disclosure 1.K. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.



NOTE 6. OTHER ASSETS

As of September 30,
(Amounts in thousands)

	<u>2002</u>	<u>2001</u>
1. Intra-governmental Other Assets:		
A. Advances and Prepayments	\$ 67,081	\$ 47,170
B. Other Assets	<u>0</u>	<u>0</u>
C. Total Intra-governmental Other Assets	\$ 67,081	\$ 47,170
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	\$ 4,609,272	\$ 5,873,494
B. Other Assets (With the Public)	<u>171,190</u>	<u>183,338</u>
C. Total Non-Federal Other Assets	\$ 4,780,462	\$ 6,056,832
3. Total Other Assets:	<u>\$ 4,847,543</u>	<u>\$ 6,104,002</u>

4. Other Information Related to Other Assets:

Fluctuation and/or Abnormalities

Advances and Prepayments increased \$19,911 thousand from FY 2001. Amounts are recorded based upon elimination data as provided by DON trading partners. Outstanding Contract Financing Payments decreased \$1,264,222 thousand from FY 2001. The decrease in Other Assets Nonfederal implies fewer contracts with contract financing payments and contracts maturing. These payments are determined by current level of funding, current status of projects under which these payments occur.

Accounting Standards

Outstanding Contract Financing Payments.

DON has reported outstanding financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, 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, DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay DON for the full amount of the outstanding contract financing payments. DoD has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32,48, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." DON has concluded that the SFFAS No. 1, "Accounting for Selected Assets and Liabilities" does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate. The following table displays the Outstanding Contract Financing Payments attributed by program:

(Amounts in millions)

	<u>FY 2002</u>
Aircraft Procurement	\$ 2,765
Shipbuilding and Conversion	567
Weapons Procurement	518
Other Procurement	625
Other (O&M, RDT&E)	134
Total	<u>\$ 4,609</u>



General Fund Notes to the Principal Statements

Advances and Prepayment

The buyer-side advances to others balances were adjusted to agree with seller-side advances from others on the books or other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits on the books of other DoD reporting entities.

See Note Disclosure 1.R. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

NOTE 7. CASH AND OTHER MONETARY ASSETS

As of September 30,
Amounts in thousands)

	2002	2001
1. Cash	\$ 130,162	\$ 160,291
2. Foreign Currency (non-purchased)	502	298
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ 130,664</u>	<u>\$ 160,589</u>
5. Other Information Related to Cash and Other Monetary Assets		

Fluctuations and/or Abnormalities

The \$30,129 thousand cash balance decrease from FY 2001 to FY 2002 is due to the events on September 11, 2001. The Disbursing Officers (D.O.'s) at Atlantic Fleet, Pacific Fleet and Marine Corps had more cash on hand than necessary for their normal operational requirements. With the unknown impact of a national disaster close to FY2001 fiscal year end, the D.O.'s had more cash on hand to prevent disruption of their operations. Since then cash levels have returned to normal operating levels.

Definitions

Cash – The total of cash resources under the control of DON, which includes coin, paper currency, purchased foreign currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use should include petty cash funds and cash held in revolving funds which will not be transferred into the U.S. Government General Fund.

Foreign Currency – consists of the total U.S. dollar equivalent of non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts).

Other Monetary Assets - includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

Restriction on Cash

All cash and other monetary assets reported are classified as nonentity, which means that the assets are not available for DON's use in normal operations.

Other DON Disclosures

Cash and Foreign Currency reported consists primarily of cash held by Disbursing Officers to carry out their paying, collecting, and foreign currency accommodation exchange mission. The primary source of the amounts reported is the Standard Form 1219, Statement of Accountability reported by DoD Disbursing Officers.



DON translates foreign currency to 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's acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

See Note Disclosure 1.J. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

NOTE 8.A. DIRECT LOANS AND/OR LOAN GUARANTEE PROGRAMS

The DoD operates the following Direct Loan and/or Loan Guarantee Program:

Military Housing Privatization Initiative

Other Information Related to Direct Loan and/or Loan Guarantee Programs.

The Military Housing Privatization Initiative (MHPI) fosters a mutually beneficial relationship between the DoD and the private sector. For the DoD, the MHPI results in the construction of more housing built to market standards, at a lower cost than through the military construction process. Commercial construction (Private Sector) is faster and less costly than military construction and significantly stretches and leverages the DoD's limited housing funds. The MHPI also provides protection against specific risks, such as base closure or member deployment, for the private sector partner.

An analysis of loans receivables, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided in the following sections of this note.

DoD operates a loan guarantee program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106 Stat. 186 Section 2801, includes a series of powerful authorities that allow DoD to work with the private sector to renovate military housing. DoD's goals are to:

- obtain private capital to leverage government dollars,
- make efficient use of limited resources, and
- use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

The Act also provides DoD with a variety of authorities to obtain private sector financing and expertise to improve military housing. DoD uses these authorities individually, or in combination. They include:

- guarantees, both loan and rental
- conveyance/leasing of existing property and facilities
- differential lease payments
- investments, both limited partnerships and stock/bond ownership
- direct loans

In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

- Direct loans - are reported net of allowance for subsidy at present value, and
- Loan Guarantee Liabilities - are reported at present value.



General Fund Notes to the Principal Statements

NOTE 9. INVENTORY AND RELATED PROPERTY, NET

As of September 30,
(Amounts in thousands)

1. Inventory, Net (Note 9.A.)
2. Operating Materials & Supplies, Net (Note 9.B.)
3. Stockpile Materials, Net (Note 9.C.)
4. Total

	2002	2001
1. Inventory, Net (Note 9.A.)	\$ 0	\$ 0
2. Operating Materials & Supplies, Net (Note 9.B.)	33,003,595	61,061,553
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	<u>\$ 33,003,595</u>	<u>\$ 61,061,553</u>

NOTE 9.A. INVENTORY, NET

Not applicable.

NOTE 9.B. OPERATING MATERIALS AND SUPPLIES, NET

As of September 30,
(Amounts in thousands)

1. OM&S Categories:

- A. Held for Use
- B. Held for Repair
- C. Excess, Obsolete, and Unservicable
- D. Total

	2002			2001	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
A. Held for Use	\$ 27,307,223	\$ 0	27,307,223	\$ 58,175,833	LAC, SP, AC
B. Held for Repair	8,478,545	(3,260,744)	5,217,801	1,210,403	LAC, SP, AC
C. Excess, Obsolete, and Unservicable	1,101,108	(622,537)	478,571	1,675,317	LAC, SP, AC
D. Total	<u>\$ 36,886,876</u>	<u>\$ (3,883,281)</u>	<u>\$ 33,003,595</u>	<u>\$ 61,061,553</u>	

Legend for Valuation Methods:

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





2. Restrictions on Operating Materials & Supplies:

None

General Composition of Operating Materials and Supplies (OM&S)

OM&S includes spare and repair parts, ammunition, tactical missiles aircraft configuration pods, and centrally managed aircraft engines.

The general composition of OM&S is as follows:

(Amounts in thousands)	<u>FY 2002</u>
Ammunition and Munitions	\$ 9,659,749
Appropriation Purchase Account (APA) Principal End Items	10,317,471
Sponsor Owned Material	9,814,710
APA Secondary Inventory	1,654,127
Residual Assets	1,288,052
Other	269,486
Total	<u>\$ 33,003,595</u>

Balances

In addition to the account balances shown in Table 9.B., the SFFAS No.3, "Accounting for Inventory and Related Property" requires disclosure of the amount of OM&S held for "future use." This information is not captured by current OM&S systems which were designed for material management rather than accounting. However, DON major commands were able to identify approximately \$2,462,762 thousand of the OM&S held for use that will not be used within the next fiscal year.

Decision Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned

In order to standardize reporting of the categories Held for Use, Held for Repair, and Excess, Obsolete, Unserviceable, DON implemented the Under Secretary of Defense (Comptroller) (USD(C)) condition code crosswalk as defined in the memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies" dated 12 August 2002. OM&S was reported as follows:

OM&S Category	Condition Codes
Held for Use	A, B, C, D
Held for Repair	E, F, G, J, K, L, M, N, R
Excess, Obsolete, Unserviceable	P, H, S

On 15 September 2002, USD(C) amended the condition code crosswalk to include code "V" in the Excess, Obsolete, Unserviceable category. Because DON's reporting guidance had already been issued, this was not implemented for FY 2002. It will be implemented for FY 2003 reporting.

Changes In The Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned

The category "Held for Use" includes all issuable material. The category "Held for Repair" includes all economically repairable material. Before FY 2002, DON showed "Potentially redistributable" material, regardless of condition, as "Excess, Obsolete, and Unserviceable."

General Fund Notes to the Principal Statements

Other Information Related to Operating Material and Supplies, Net

Fluctuations and/or Abnormalities

Operating Materials & Supplies Held for Use, Net decreased from \$58,175,833 thousand in FY 2001 to \$27,307,223 thousand in FY 2002, a total decrease of \$30,868,610 thousand. This decrease is primarily attributable to two audit adjustments. The first one is to remove \$24,765,804 thousand of tactical missiles and torpedoes that were previously reported as ammunition and munitions in FY 2001. The second one is to remove \$6,904,493 thousand of Mobile Facilities, Aviation Support Equipment, and Calibration Standards. These items were erroneously included in the OM&S values reported as of 9/30/01.

Operating Materials & Supplies Held for Repair, Net increased from \$1,210,403 thousand in FY 2001 to \$5,217,801 thousand in FY 2002, a total increase of \$4,007,398 thousand. The increase is mainly the result of DON's implementation of USD(C)'s policy regarding condition codes. Numerous condition codes reported as Excess, Obsolete, and Unserviceable in FY 2001 are being reported as "Held for Repair" in FY 2002. For FY 2001, the USSGL did not include an account for OM&S held for repair and the Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements" did not provide for specific footnote disclosure of the OM&S held for repair. Recognizing that DoD holds OM&S in need of repair, the USSGL Board approved for use, beginning in FY 2002, USSGL account 1514, OM&S Held for Repair.

Excess, Obsolete, and Unserviceable, Net decreased from \$1,675,317 thousand in FY 2001 to \$478,571 thousand in FY 2002. As a result of USD(C)'s memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies" dated 12 August 2002, because the costs of disposal are greater than the potential scrap value, all OM&S reported in this category has been revalued to zero. The residual balance of \$478,571 reported as Excess, Obsolete, and Unserviceable Net represents a prior period adjustment that was recorded to adjust the general ledger balance to comply with current reporting requirements. DoD implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

Operating Materials & Supplies Prior Period Adjustment

During FY 2001, early implementation of the exposure draft Statement of Federal Financial Accounting Standards (SFFAS) to eliminate the category National Defense Property, Plant, and Equipment (NDPP&E), military equipment, was encouraged. Consequently, DON reclassified conventional missiles and torpedoes from military equipment to operating materials and supplies and recognized a value of \$24,765,804 thousand on the Inventory and Related Property line of DON FY 2001 Financial Statements. Per the Department of Defense Inspector General (DoDIG) directive, DoD should not have implemented an exposure draft SFFAS early and therefore requested that the value for the conventional missiles and torpedoes be removed from FY 2001 and also not recognized in FY 2002. Therefore, a prior period adjustment removed \$24,765,804 thousand from FY 2001 Inventory and Related Property (Operating Materials and Supplies) and an adjusted amount of \$23,671,570 thousand for FY 2002. This restatement of FY 2001 values aligns DON's financial statement with the FY 2001 U.S. Government-wide financial statements.

Government Furnished Material (GFM) and Contractor Acquired Material (CAM)

Generally, the value of DON's GFM and CAM in the hands of contractors is not included in the OM&S values reported above. DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems.





Other DON Disclosures

The OM&S, including munitions not held for sale, are generally valued at standard purchase price. DoD uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, DoD uses the purchase method - that is, expensed when purchased. For FY 2002, DON reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

The OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, they do not directly support the categorization of OM&S as held for use, held in reserve for future use, held for repair, or excess, obsolete, and unserviceable. The DoD manages only military or government specific material under normal circumstances. Material held for use includes material held due to operational economies. Similarly, material held for use includes material held due to a managerial determination that it should be retained to support departmental contingencies.

Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Further, unlike the commercial sector, DON's operational cycles, based on national need, are irregular. In addition, the military risks associated with stock-out positions (e.g., weapon systems that are not mission capable due to lack of supplies, are totally different from a commercial activity's risk of losing sales. Therefore, DON does not attempt to account separately for items held for "current" or "future" use.

The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, (3) identifying feeder systems that are used to manage OM&S items, and (4) developing plans to revise those systems to support the consumption method.

Effective July, 2001, the DoD adopted the moving average cost method of valuing inventory at all DoD components. Because DON's OM&S are derived from logistics systems designed for material management purposes, the moving average cost methodology has not been implemented for FY 2002.

Ammunition and Munitions.

The Conventional Ammunition Integrated Management System (CAIMS) database does not meet all the requirements of the SFFAS No. 3, particularly regarding valuation at historical cost. DON has begun the analysis and cost benefit identification of making CAIMS compliant with Federal accounting standards.

Principal End Items.

Principal End Items includes OM&S items such as shipboard hull, mechanical and electronic equipment, and uninstalled aircraft engines. Principal End Items are items of such importance that central inventory control is required. They normally possess one of the following characteristics: (a) essential for combat or training; (b) high dollar value; (c) difficult to procure or produce; or (d) critical basic materials or components.

Sponsor Owned Material (SOM).

Per General Accounting Office (GAO) subject letter GAO-01-37R "Financial Management: Improvements Needed in the Navy's Reporting of General Fund Inventory" dated 27 October 2000 DON has been identifying and validating SOM to gain total asset visibility.

General Fund Notes to the Principal Statements

Residual Assets.

This material is considered excess to the owner, but may not be excess to the Navy. Standard price is used to value all stock-numbered items. Part-numbered items are valued by best available information. Residual assets increased from \$834,276 thousand in FY 2001 to \$1,288,052 thousand in FY 2002 as a result of the implementation of Re-engineered Residual Asset Management (RRAM) at Orange Park, FL and Cheatham Annex , VA.

Other Operating Material & Supplies.

Other OM&S totaled \$269,486 thousand in FY 2002. This consists primarily of \$208,071 thousand in Fleet Hospitals and War Reserves, and \$53,639 thousand material in the possession of the US Coast Guard.

Fleet Hospitals and War Reserves.

The Fleet Hospital Program is reporting a balance of \$208,071 thousand for FY 2002. This reflects a \$6,957 thousand increase from FY 2001. Per Naval Audit Service Audit No. N2001-0016, the subject Command has completed their review of the Fleet Hospital inventory valuation. This information was computed based on the best estimates available of the value of Fleet Hospitals inventory. This system will be used until the automated information system (AIS) becomes fully operational.

See Note Disclosure 1.M. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

NOTE 9.C. STOCKPILE MATERIALS, NET

Not applicable.



NOTE 10. GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E) (NET)

As of September 30, 2002

(Amounts in thousands)

	2002				2001	
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes:						
A. Land	N/A	N/A	\$ 645,924	N/A	\$ 645,924	\$ 655,751
B. Buildings, Structures, and Facilities	S/L	20 - 40	32,862,380	\$ (12,612,305)	20,250,075	19,483,307
C. Leasehold Improvements	S/L	Lease Term	0	0	0	0
D. Software	S/L	2, 5 Or 10	1,059	(423)	636	1,067
E. Equipment	S/L	5 Or 10	2,837,863	(1,993,072)	844,791	916,938
F. Military Equipment	Composite/Group	Varied	0	0	0	0
G. Assets Under Capital Lease ¹	S/L	Lease Term	1,116	(206)	910	7,153
H. Construction-in-Progress	N/A	N/A	4,367,101	N/A	4,367,101	3,896,679
I. Other			0	0	0	592
J. Total General PP&E			<u>\$ 40,715,443</u>	<u>\$ (14,606,006)</u>	<u>\$ 26,109,437</u>	<u>\$ 24,961,487</u>

¹ Note 15.B for additional information on Capital Leases

Legend for Depreciation/Amortization Methods:

S/L = Straight Line N/A = Not Applicable

2. Other Information Related to General PP&E, Net

Real Property

The Internet Naval Facility Asset Database Store (iNFADS) is used to derive real property values for financial reporting purposes. Land decreased from \$655,751 thousand in FY 2001 to \$645,924 thousand in FY 2002 and is mainly due to the Base Realignment and Closure (BRAC) sales. The increase in Buildings, Structures, and Facilities is a result of database cleanup and timing of moving completed projects into the property database.

Leasehold Improvements

No leasehold improvements are reported for FY 2002, because DON's real property system does not track leasehold improvements as a separate component of a building's total value.

Preponderant Use

Per the DoD FMR, Volume 4, Chapter 6, legal ownership is not always the determinant factor when establishing which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes. If the following four criteria are met, the preponderant user should report the property regardless of legal ownership or funding:

- The asset embodies a probable future benefit;
- The DoD Component that reports the asset obtains the benefit and controls access to the benefit inherent in the asset;
- The transaction or event giving the Component the right to, and control over, the benefit has already occurred; and
- The predominantly used assets, taken as a whole, are material to the Component's financial statements.



General Fund Notes to the Principal Statements

During the course of FY 2002, DON has continued to identify properties whose preponderant users are other DoD Components. Those entities utilizing material amounts of DON owned property are as follows (dollar values include both acquisition value and improvements meeting the capitalization threshold):

(Amounts in thousands)	
	<u>FY 2002</u>
Defense Commissary Agency (DeCA)	\$ 47,013
DoD Schools	39,481
Defense Logistics Agency (DLA)	20,126

While DON has begun identifying the major parties involved, we continue to report the asset values of preponderant use assets in FY 2002. This is due to difficulties encountered when comparing our property records with those of the other entities. We will continue to work with the other DoD Components to come to agreement on the recording of preponderant use asset values for FY 2003.

Software

DON is participating in the OSD working group that is currently examining issues related to Internal Use Software. As of the date these statements were prepared, OSD had not determined the final reporting requirements for Internal Use Software. To ensure that the costs associated with Internal Use Software are correctly recognized and reported, DON will use the Defense Property Accountability System (DPAS) to capture this information once OSD adopts permanent reporting requirements.

Construction-in-Progress (CIP)

CIP balances were obtained from the Facilities Information System (FIS). CIP increased from \$3,896,679 thousand in FY 2001 to \$4,367,101 thousand in FY 2002, a net increase of \$470,422 thousand. This increase is due to additional military construction and the fact that the beneficial occupancy date BOD is 30 days after the building project is completed.

Other

During the deployment of the DPAS and data base conversion, some of the personal property assets were coded as "Other". Approximately \$592 thousand was reported under "Other" in FY 2001. In FY 2002, DON reviewed those items coded as "Other" and made the appropriate adjustments them in the correct asset classification.

Property in the Possession of Contractors.

The value of DON's General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. Per the DoD FMR Volume 6B Chapter 10, DON is not supplementing General PP&E information with values from the Defense Contract Management Agency's CPMS (DD Form 1662) database. In accordance with an approved strategy with OMB, the GAO and the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with Federal GAAP.





Military Equipment (Unaudited Supplementary Information)

In June 2002 the Federal Accounting Standards Advisory Board issued a standard entitled "Eliminating the Category National Defense Property, Plant, and Equipment (ND PP&E)". In addition to eliminating the category ND PP&E, this standard rescinds Statement of Federal Financial Accounting Standards (SFFAS) No. 11, "Amendment to Property, Plant, and Equipment – Definitional Changes"; amends SFFAS No. 8, "Supplementary Stewardship Reporting"; and amends SFFAS No. 6, "Accounting for Property, Plant, and Equipment". This standard is effective for years ending after September 30, 2002. The standard is currently sitting before Congress for a 45-day period in accordance with provisions of the CFO Act of 1990.

Prior standards provide for the expensing of ND PP&E when costs are incurred and the reporting of such costs as supplementary stewardship information. DoD has not reported the cost of ND PP&E in accordance with these standards due to an absence of detailed cost information for property acquired over many decades.

The standard on eliminating the category of ND PP&E provides for the capitalization of property previously defined as ND PP&E and the reporting of such property as General PP&E. In recognition of the absence of detailed historical cost information, this standard provides that, "If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or engineering documents and other reports reflecting amounts expended may be used as the basis for estimating historical cost." The standard acknowledges that imprecision may result from the use of estimates or other information.

Capitalization of property previously defined as ND PP&E will require extensive research to develop cost estimates for the property inventory. DoD initiated the valuation process this fiscal year by conducting detailed reviews of three selected "pilot" programs including the DDG-51 Arleigh Burke Class of Destroyers. The objective of this effort was the development of a valuation methodology and associated business rules, which DoD could use to value the pilot programs and the balance of its military equipment. The following information summarizes the results of the review of the DDG-51 program.

Valuation basis - The valuation is based on information derived from reports reflecting amounts expended on this program.

Included costs - The estimated total program costs include funds expended for procurement, research, development, test and evaluation, trainers and simulators, government furnished equipment, and other items included in the cost of the acquisition programs. The estimated portion of total program cost attributable to equipment under construction is reported as "work-in-process."

Useful life and depreciation - The estimated useful life used for the Arleigh Burke Class of Destroyers is 35 years. Depreciation is calculated on a group basis whereby the depreciation rate is applied to the estimated cumulative cost of the equipment "placed in service."

Excluded costs - The cost of military construction (MILCON) has been excluded and is reported as real property. The costs of modifications to the DDG 51 are not accounted for in the valuation. The cost of DDG-51 modifications will be captured and reported separately in later phases of the implementation of this standard.

Estimated program cost, accumulated depreciation, and net book value for the Arleigh Burke Class of Destroyers are presented in the following table.

General Fund Notes to the Principal Statements

(Amounts in Thousands)

	Program Cost	Amortized Depreciation	Net Book Value
DDG 51 Arleigh Burke Class of Destroyer			
- Placed in service	\$ 32,991,100	\$ (4,595,189)	\$ 28,395,911
- Work in process	6,452,776	-	6,452,776

See Note Disclosure 1.N. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General PP&E.

NOTE 10.A. ASSETS UNDER CAPITAL LEASE

As of September 30,
(Amounts in thousands)

	2002	2001
1. Entity as Lessee, Assets Under Capital Lease:		
A. Land and Buildings	\$ 0	\$ 0
B. Equipment	1,116	16,928
C. Other	0	0
D. Accumulated Amortization	(206)	(9,775)
E. Total Capital Leases	<u>\$ 910</u>	<u>\$ 7,153</u>

2. Description of Lease Arrangements:

3. Other Information Related to Assets Under Capital Lease

Fluctuation and/or Abnormalities

Total Capital Leases decreased by \$6,243 thousand from \$7,153 thousand in FY 2001 to \$910 thousand in FY 2002. The decrease primarily consists of:

(\$3,417 thousand) Adjustment to correct erroneous coding in DPAS related to database cleanup and conversion of additional sites to DPAS.

(\$2,825 thousand) Expiration of lease agreements.

Leased assets consist primarily of personal property reported via the DPAS system. Disclosures pertaining to future payments due are provided at Note 15.

See Note Disclosure 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.



NOTE 11. LIABILITIES NOT COVERED AND COVERED BY BUDGETARY RESOURCES

As of September 30,
(Amounts in thousands)

	2002			2001
	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	Total
1. Intra-governmental Liabilities:				
A. Accounts Payable	\$ 745,883	\$ 2,396	\$ 748,279	\$ 1,002,282
B. Debt	0	127	127	61
C. Environmental Liabilities	0	0	0	0
D. Other	465,069	3,024,434	3,489,503	1,066,185
E. Total Intra-governmental Liabilities	\$ 1,210,952	\$ 3,026,957	\$ 4,237,909	\$ 2,068,528
2. Non-Federal Liabilities:				
A. Accounts Payable	\$ 1,510,329	\$ 0	\$ 1,510,329	\$ 2,075,026
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	1,546,375	1,546,375	1,595,890
C. Environmental Liabilities	0	15,469,073	15,469,073	15,584,458
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	1,106,890	3,078,597	4,185,487	3,610,899
F. Total Non-Federal Liabilities	\$ 2,617,219	\$ 20,094,045	\$ 22,711,264	\$ 22,866,273
3. Total Liabilities:	<u>\$ 3,828,171</u>	<u>\$ 23,121,002</u>	<u>\$ 26,949,173</u>	<u>\$ 24,934,801</u>

4. Other Information:

Liabilities Not Covered and Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

Other Information Related to Liabilities Not Covered by Budgetary Resources

Intragovernmental Liabilities - Other includes the following:

(Amounts in thousands)

	Current	Non-Current	Total
Unfunded FECA Liability	\$ 246,882	\$ 316,264	\$ 563,146
A -12 Program Liability to Treasury	2,352,446	0	2,352,446
Judgment Fund	105,842	0	105,842
Total	<u>\$ 2,705,170</u>	<u>\$ 316,264</u>	<u>\$ 3,021,434</u>



General Fund Notes to the Principal Statements

Workers' Compensation.

DON total liability amounts of the Workers' Compensation (FECA) and Judgment Fund for both General Fund and Working Capital Fund are reported in DON's General Fund financial statements. This methodology is necessary due to the current accounting systems not identifying these liabilities as General Fund or Navy Working Capital Fund.

The current FECA liability of \$246,882 thousand represents the balance due for remittance in FY 2003. The remaining balance of \$316,264 thousand will be billed beyond FY 2003. These balances are provided by DFAS-Arlington and confirmed with the Department of Labor.

A-12 Program.

Unliquidated progress payments and associated accrued interest receivable for the A-12 contractor debt is reported as an unfunded liability to Treasury. Collections on this debt will be due and payable to Treasury as the Appropriations are in a cancelled status. See Note 5 for further disclosure.

Judgment Fund.

During FY 2002 DON has made substantial progress in identifying and resolving Judgment Fund liabilities. It is in compliance with USD(C) action to resolve any outstanding debt due to the Department of Treasury for repayment of the Judgment Fund. DON is in the process of working with the appropriate Management Commands either to provide documentation that these amounts have been remitted to the Treasury, or to provide necessary funding to liquidate these liabilities. DON is working with Treasury to secure further detailed information concerning the amounts owed. In FY 2002 DON reported \$105,842 thousand as an outstanding Judgment Fund liability. Among this, \$104,056 thousand is attributed to Navy and \$1,786 thousand belongs to Marine Corps.

Nonfederal Liabilities - Other includes the following:

(Amounts in thousands)

	Current	Non-Current	Total
Annual Leave	\$ 2,031,961	\$ 0	\$ 2,031,961
Contract Incentives	5,701	72,464	78,165
Nonfederal, Nonenvironmental Disposal Liabilities	1,707	564,446	566,153
Nonfederal, Disposal Liabilities for Excess/Obsolete Structures	41,685	290,890	332,575
Accounts Payable — Cancelled Appropriations	68,833	0	68,833
Capital Lease Liability	910	0	910
Total	\$ 2,150,797	\$ 927,800	\$ 3,078,597

For Additional Line Item discussion, see:

Note 8, Direct Loans and/or Loan Guarantee Programs

Note 12, Accounts Payable

Note 13, Debt

Note 14, Environmental Restoration Liabilities, and Environmental Disposal Liabilities

Note 15, Other Liabilities

Note 16, Commitments and Contingencies

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



NOTE 12. ACCOUNTS PAYABLE

As of September 30, 2002
(Amounts in thousands)

	2002			2001
	Accounts Payable	Interest, Penalties, Administrative Fees	Total	Total
1. Intra-governmental Payables:	\$ 748,279	\$ N/A	\$ 748,279	\$ 1,002,282
2. Nonfederal Payable (to the Public):	\$ 1,510,329	\$ 0	\$ 1,510,329	\$ 2,075,026
3. Total	<u>\$ 2,258,608</u>	<u>\$ 0</u>	<u>\$ 2,258,608</u>	<u>\$ 3,077,308</u>

4. Other Information Related to Accounts Payable

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal Payables (to the Public) are payments to nonfederal government entities.

Fluctuation and/or Abnormalities

Accounts Payable decreased overall 26.6% from FY 2001. DON is actively pursuing the timely payment of vendors. Additionally, Intragovernmental and Nonfederal accounts payable are directly affected by the elimination process based upon trading partner submissions. See the disclosures below addressing Undistributed, Intragovernmental Eliminations and Abnormal Account Balances. Those items along with current levels of funding and the status of budget execution affect current accounts payable balances.

Undistributed Disbursements

Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD 1329 and DD1400. This should agree with the undistributed reported on accounting reports (SF 133/ (M) 1002/ (M) 1307). In-transit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records.

Intragovernmental Eliminations

For the majority of intra-agency sales DON's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DON was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable.

The DoD summary level seller accounts receivables were compared to DON's accounts payable. An adjustment was posted to DON'S accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to DON.

DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.



General Fund Notes to the Principal Statements

Other DON Disclosures

Abnormal Account Balances.

Abnormal Accounts Payable and Accounts Receivable balances may occur for two main reasons – 1) the application of undistributed disbursement/collections and 2) as a result of the intragovernmental transaction elimination process. DFAS Arlington has provided guidance in a memorandum dated March 1, 2001 to record accruals, for financial statement presentation purposes, to correct abnormal balances.

Undistributed disbursements/collections are recorded in Accounts Payable and Accounts Receivable, respectively. For a variety of reasons, the application of undistributed transactions may result in abnormal balances.

In accordance with the DoD FMR, Volume 6B, Chapter 13, adjustments are recorded, at the appropriation level, to bring DON's intragovernmental accounts into agreement with its trading partners' intragovernmental accounts. These elimination process adjustments may also result in abnormal accounts payable and accounts receivable.

DON has initiated the development of an Accounts Payable Implementation Strategy to improve the recording and reporting of accounts payable. The strategy addresses the overall DON approach to recording accounts payable, including accounts payable from commercial and intragovernmental sources. Development of the implementation strategy is in its final stages and includes several recommendations for improvements. These address, for example, the timely recording of accounts payable transactions, the proper classification of accounts payable between the government and the public, the identification of intragovernmental trading partners and related transactions, and the support of end-of-period adjusting entries for undistributed disbursements and intragovernmental eliminations.

See Note Disclosure 1.G. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.



NOTE 13. DEBT

As of September 30,
(Amounts in thousands)

	Beginning Balance	2002 Net Borrowings	Ending Balance	2001 Ending Balance
1. Agency Debt:				
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	61	66	127	61
D. Total Agency Debt	\$ 61	\$ 66	\$ 127	\$ 61
2. Total Debt:	\$ 61	\$ 66	\$ 127	\$ 61
3. Classification of Debt:				
A. Intra-governmental Debt			\$ 127	\$ 61
B. Non-Federal Debt			N/A	N/A
C. Total Debt			\$ 127	\$ 61

4. Other Information Related to Debt

Debt to Other Federal Agencies is related to interest payable from DON to the Education Benefit Trust Fund which is part of DoD Military Trust Fund. Amounts due and payable are based upon the DoD Education Trust as the trading partner (seller side) submission.

See Note Disclosure 1.G. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounting for Intragovernmental Activities, Public Debt.



General Fund Notes to the Principal Statements

NOTE 14. ENVIRONMENTAL RESTORATION (CLEANUP) LIABILITIES AND ENVIRONMENTAL DISPOSAL LIABILITIES

As of September 30,
(Amounts in thousands)

1. Environmental Liabilities:

A. Intragovernmental: Not Applicable.

B. Non-federal:

	2002			2001
	Current Liability	Noncurrent Liability	Total	Total
1. Accrued Environmental Restoration (DERP funded) Costs:				
a. Active Installations—Environmental Restoration (ER)	\$ 259,389	\$ 3,261,449	\$ 3,520,838	\$ 3,661,174
b. Active Installations—ER for Closed Ranges	7,000	342,975	349,975	88,239
c. Formerly Used Defense Sites (FUDS) – ER	0	0	0	0
d. FUDS—ER for Transferred Ranges	0	0	0	0
2. Other Accrued Environmental Costs (Non-DERP funds)				
a. Active Installations—Environmental Corrective Action	0	0	0	0
b. Active Installations—Environmental Closure Requirements	0	0	0	0
c. Active Installations—Environ.Response at Active Ranges	0	0	0	0
d. Other	0	0	0	0
3. Base Realignment and Closure (BRAC)				
a. BRAC Installations—Environmental Restoration (ER)	160,210	1,133,101	1,293,311	1,316,295
b. BRAC Installations—ER for Transferring Ranges	0	29,896	29,896	0
c. BRAC Installations—Environmental Corrective Action	0	0	0	0
d. Other	0	0	0	0
4. Environmental Disposal for Weapons Systems Programs				
a. Nuclear Powered Aircraft Carriers	0	4,890,000	4,890,000	4,890,000
b. Nuclear Powered Submarines	43,600	4,845,300	4,888,900	5,122,400
c. Other Nuclear Powered Ships	0	269,100	269,100	269,100
d. Other National Defense Weapons Systems	6,809	220,244	227,053	237,250
e. Chemical Weapons Disposal Program	0	0	0	0
f. Other	0	0	0	0
5. Total Nonfederal Environmental Liabilities:	\$ 477,008	\$ 14,992,065	\$ 15,469,073	\$ 15,584,458
2. Total Environmental Liabilities:	<u>\$ 477,008</u>	<u>\$ 14,992,065</u>	<u>\$ 15,469,073</u>	<u>\$ 15,584,458</u>

3. Other Information Related to Environmental Liabilities:

Fluctuation and/or Abnormalities

When comparing FY 2001 with FY 2002 the increase in the environmental restoration for closed ranges at active installations is due to the fact that this is a new reporting requirement. The 100% increase for transferring ranges and Base Realignment and Closure is a result of a new reporting requirement. The DON is currently in the process of conducting Preliminary Assessment/Site Investigations (PA/SI) to determine the nature of the environmental restoration work that is actually at the ranges so estimates for cleanup can be completed. PA/SIs are expected to be completed by end of FY 2003.





Environmental Restoration (DERP Funded) Cost Liabilities

For FY 2002, DON estimated and reported \$3,870,813 thousand for environmental restoration liabilities. This is comprised of \$3,520,838 thousand in Active Installations - Environmental Restoration (ER) liabilities and \$349,975 thousand in Active Installations - ER for Closed Ranges liabilities which represents Unexploded Ordnance Cost (UXO) related to twelve sites. DON was not segregating and reporting UXO prior to FY 2001 as part of the total amount disbursed. The DoD FMR, Volume 6B, Chapter 10 requires that "any estimate produced must be based on site specific information and use cost models validated in accordance with DoD instruction 5000.61". DON plans to support this requirement and continue validating its range inventory and pursuing the process of obtaining valid cost estimates for each range. The increase in the ER closed ranges is due to the addition of ranges from the start up of the munitions response program (MRP).

Other Accrued Environmental Costs (Non-DERP funds)

During FY 2002, DON participated in DoD Environmental Quality Liabilities Working Group to develop guidance. In addition, the DON developed guidance for the DON Major Commands to use as they begin to identify site data and develop estimates for DON's "ongoing" operations. The DON continued review of program areas such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retrofill, and/or disposal of PCB transformers, underground storage tank remedial investigation and closure. For these areas the DON has identified an estimated total potential long term liability of \$17,344 thousand. In addition to cleanup costs associated with ongoing operations, the Kaho'Olawe Island Trust Fund provides for cleanup of Kaho'Olawe Island. Congress initially set a funding limit of \$400,000 thousand with annual execution of \$25,000 thousand. Further investigation is needed prior to recognizing an estimate on the financial statements for cleanup of Kaho'Olawe Island.

Base Realignment and Closure (BRAC)

The increase of BRAC Installations - ER for Transferring Ranges is due to the addition of ranges from the start up of the MRP.

Environmental Disposal for Weapons Systems Programs

DON reported an environmental disposal liability for Weapons Systems Programs of \$10,275,053 thousand in FY 2002. This includes nuclear powered aircraft carriers, nuclear powered submarines, other nuclear powered ships and other national defense weapons systems. The liability amount associated with nuclear powered ships of \$269,100 thousand did not change from FY 2001 to FY 2002.

Range Characteristics

For FY 2002, the DON determined that it owns 12 closed ranges.

Ranges. DON is currently in the process of doing Preliminary Site Investigations (PSIs). The purpose of the PSI is to help DON staff determine the nature of the work that is actually at the ranges so then actual estimates can be completed. Expected completion date of the PSIs is the end of FY 03.

Closed Ranges. \$349,975 thousand must be expended to characterize and investigate the ranges. Until such characterization is completed, total environmental liabilities cannot be estimated. These are ranges that have been taken out of service as a range and that either have been put to new uses that are incompatible with ranges activities or are not considered by the military to be potential range area. A closed range is still under the control of a DOD Component.

General Fund Notes to the Principal Statements

Methodology Used to Estimate Environmental Liabilities:

Accrued Environmental Restoration (DERP Funded) Costs:

Accrued Environmental Restoration Activity.

Accrued restoration (cleanup) liabilities represent the cost to correct past environmental problems that are funded under the Defense Environmental Restoration Program in accordance with "Management Guidance for the DERP," and "Accrued Environmental Restoration (Cleanup) Liabilities," Chapter 14 of Volume 4 of the DoD FMR. These liabilities relate to PP&E, including acquired land and Stewardship Land, as those major asset categories are described in Chapter 6 of Volume 4 of the DoD FMR. Environmental restoration activities may be conducted at operating installations, at FUDS, at Closed, Transferred, and Transferring Ranges. Environmental restoration measurements involve the use of cost estimates that consider, on a current cost basis, the anticipated costs of the level of effort required to affect the restoration, as well as applicable legal and/or regulatory requirements. The estimates are based on DON's cost-to-complete (CTC) module of the DON Normalization of Data System (NORM). Certification of the CTC module was completed early in FY 2002. Such cost estimates are based on the current technology available. Site inventory and estimated cost data prepared for the DERP report to the Congress was used by the DON as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services). The Accrued Environmental Restoration (Cleanup) Costs do not include the costs of environmental compliance, pollution prevention, conservation activities, contamination or spills associated with current operations, or treaty obligations, all of which are accounted for as part of ongoing operations.

Active Installations – Environmental Restoration For Closed Ranges.

This represents the environmental liabilities associated with the identification, investigation and removal and remedial actions to address environmental contamination at ranges that are closed or will be closed prior to September 30, 2002. The contamination may include munitions, chemical residues from military munitions and munitions scrap at ranges on active installations that pose a threat to human health or the environment. The amount reported is the portion of the liability that can be estimated based on site level investigations and characterizations. The estimate produced is based on site specific information and use cost models validated in accordance with DoD Instruction 5000.61. Total liabilities (cost to complete) are not estimated until there is sufficient site specific data available to estimate the total liability.

Information regarding changes

Survey data of the Department of the Navy Environmental Restoration Program cost estimate changes, representing FY 2002 through completion changes between end of year 2001 and end of year 2002, for sites that had over 10% change or 500K indicates diverse reasons for change in estimates. Multiple reasons may apply both as plus-ups and deducts at any site. The reasons for changes are estimation changes (26%), regulatory changes (60%), and technical changes (15%). Reasons for changes in estimation are as follows: cost to complete (CTC) overlooked or previously unknown, better site characterization with sampling, cost avoidance rerun CTC, re-estimation based on different assumptions and/or escalation, and re-estimation of costs based on lessons learned. Reasons for changes in the area of regulatory are as follows: addition of range rule/munitions requirements, additional or extended long term monitoring requirements or 5 year reviews, no further action agreement with regulator, and risk based corrective action. Reasons for changes in the area of technical are as follows: additional contamination level reduction with sampling, additional or extended remedial action operation, additional sites and incomplete site data, and technical solution changed.

For additional information concerning applicable laws and regulations, methodology for assigning estimated cleanup costs, and description of sites and technology used for cleanup consult the DON publication "DON Environmental Restoration: Report for Fiscal Year 2002-2006"



NOTE 15.A. OTHER LIABILITIES

As of September 30,
(Amounts in thousands)

	2002			2001
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental:				
A. Advances from Others	\$ 0	\$ 0	\$ 0	\$ 0
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	250,075	0	250,075	178,939
D. Resources Payable to Treasury	930	0	930	480
E. Disbursing Officer Cash	130,664	0	130,664	160,589
F. Non-environmental Disposal Liabilities				
1. National Defense PP&E (Nonnuclear)	0	0	0	0
2. Excess/Obsolete Structures	0	0	0	0
3. Conventional Munitions Disposal	0	0	0	0
4. Other	0	0	0	0
G. Accounts Payable -- Cancelled Appropriations	0	0	0	0
H. Judgment Fund Liabilities	105,842	0	105,842	135,716
I. FECA Reimbursement to the Department of Labor	246,881	319,264	566,145	558,574
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	2,435,847	0	2,435,847	31,887
L. Total Intragovernmental Other Liabilities	<u>\$ 3,170,239</u>	<u>\$ 319,264</u>	<u>\$ 3,489,503</u>	<u>\$ 1,066,185</u>
2. Nonfederal:				
A. Accrued Funded Payroll and Benefits	\$ 1,011,367	\$ 0	\$ 1,011,367	\$ 986,194
B. Advances from Other	1,135	0	1,135	0
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	2,209	0	2,209	12,471
H. Nonenvironmental Disposal Liabilities:				
1. National Defense PP&E (Nonnuclear)	1,707	564,445	566,152	588,025
2. Excess/Obsolete Structures	41,685	290,890	332,575	117,000
3. Conventional Munitions Disposal	0	0	0	0
4. Other	0	0	0	0
I. Accounts Payable -- Cancelled Appropriations	68,833	0	68,833	0
J. Accrued Unfunded Annual Leave	2,031,961	0	2,031,961	1,768,195
K. Accrued Entitlement Benefits for Military Retiree's and Survivors	0	0	0	0
L. Capital Lease Liability	910	0	910	10,134
M. Other Liabilities	97,880	72,464	170,344	128,880
N. Total Nonfederal Other Liabilities	<u>\$ 3,257,687</u>	<u>\$ 927,799</u>	<u>\$ 4,185,486</u>	<u>\$ 3,610,899</u>
3. Total Other Liabilities:	<u>\$ 6,427,926</u>	<u>\$ 1,247,063</u>	<u>\$ 7,674,989</u>	<u>\$ 4,677,084</u>
4. Other Information Related to Other Liabilities:				



General Fund Notes to the Principal Statements

Fluctuations and/or Abnormalities.

Intragovernmental Fluctuations
(Amounts in thousands)

	FY 2002	FY 2001	Increase
A-12 aircraft program (principal and interest)	\$ 2,352,446	\$ 0	\$ 2,352,446
Military Thrift Savings deposit fund	23,966	0	23,966
Withheld state and local taxes	86,980	62,692	24,288
Civilian employee allotments	21,841	72	21,769
Total	<u>\$ 2,485,233</u>	<u>\$ 62,764</u>	<u>\$ 2,422,469</u>

Other Intragovernmental Liabilities increased 227.2% or \$2,423,318 thousand from FY 2001 to FY 2002. A liability to Treasury for the A-12 aircraft program unliquidated progress payments and associated accrued interest represents \$2,352,446 thousand of this increase. See Notes 5 and 11 for further disclosure. Deposit funds and suspense account liabilities increased \$71,136 thousand from FY 2001 to FY 2002. Deposit funds and suspense accounts ending balances may fluctuate based upon the timing of clearing suspense and the transfer of funds in deposit accounts. The major items comprising the increase are the new Military Thrift Savings Plan for \$23,966 thousand, Withheld State and local taxes for \$24,288 thousand and Civilian employee allotments for \$21,769 thousand.

Nonenvironmental Disposal Liability Disclosure

Nuclear Assets

DON has agreed to recognize the nonenvironmental disposal liability for nuclear powered assets when the asset is initially placed in service. The nonenvironmental cost are included with the environmental disposal costs and reported in Note 14.

Excess/Obsolete Structures

Included in the reported amounts is the current cost basis estimates of disposing of, or demolishing, approximately \$332,575 thousand worth of square feet of excess/obsolete structures at active installations, in accordance with disposal plans directed by Defense Reform Initiative Directive No. 36 Dated 5 May 1998. The expected completion date is FY 2003. This target includes both the Navy and the Marine Corps real property assets.

Intragovernmental Reconciliation for Fiduciary Transactions With DOL and OPM

With respect to the major fiduciary balances with DOL and OPM, DON was able to reconcile with the DOL and OPM. In FY 2002, DON reported the following Intragovernmental liabilities with DOL and OPM:

Intragovernmental Fiduciary Liabilities DOL and OPM:

(Amounts in thousands)

	Current	Non-Current	Total
FECA Reimbursement liability with DOL	\$ 246,881	\$ 319,264	\$ 566,145
Unemployment Benefits liability with DOL	50,729	0	50,729
VSIP/VERA liability with OPM	32,672	0	32,672
Total	<u>\$ 330,282</u>	<u>\$ 319,264</u>	<u>\$ 649,546</u>

Judgment Fund.

DON must reimburse the Department of Treasury for payments made from the Judgment Fund on its behalf. These payments are a result of claims being resolved under the Contracts Dispute Act. In FY 2002, DON made great strides in reconciling and identifying outstanding liability due to the Department of the Treasury Judgment Fund. As of September 30, 2002, DON identified \$105,842 thousand of outstanding Judgment Fund Liabilities. DON is working closely with Treasury to reconcile and to resolve the outstanding liabilities.



Intragovernmental Liabilities, Other.

Other Intragovernmental Liabilities includes the liability to Treasury for the A-12 aircraft program with associated accrued interest of \$2,352,446 thousand, Unemployment benefits due and payable of \$50,729 thousand and the Voluntary Separation Incentive Program/VERA liability of \$32,671 thousand.

Nonfederal Liabilities.

Nonfederal Fluctuations
(Amounts in thousands)

	<u>FY 2002</u>	<u>FY 2001</u>	<u>Increase</u>
Accrued (unfunded) annual leave	\$ 2,031,960	\$ 1,768,195	\$ 263,765
Nonenvironmental Disposal Excess and Obsolete	332,575	117,000	215,575
Accounts payable for cancelled appropriations	68,833	0	68,833
Accrued funded payroll	1,011,367	986,194	25,173
Total	<u>\$ 3,444,735</u>	<u>\$ 2,871,389</u>	<u>\$ 573,346</u>

Nonfederal Liabilities increased 15.9% or \$574,587 thousand from FY 2001 to FY 2002. Accrued unfunded annual leave increased \$263,765 thousand from FY 2001 to FY 2002. Increases and decreases in leave are affected by the timing of leave earned versus leave taken. Nonenvironmental Disposal liabilities for Excess/Obsolete Structures increased \$215,575 thousand from FY 2001 to FY 2002 based upon current estimates. Accounts Payable for cancelled appropriations increased by \$68,833 thousand over FY 2001 to FY 2002. Cancelled year accounts payable were not recorded in FY 2001. Nonfederal, Accrued Funded Payroll increased by \$25,173 thousand from FY 2001 to FY 2002 due to the September 2002 month end Military payroll being paid in October 2002.

Nonfederal Liabilities, Other.

Other Nonfederal Liabilities includes Contract Incentives of \$78,165 thousand, which increased \$14,926 thousand from FY 2001 to FY 2002 based upon current contract terms in outstanding vendor performance contracts. The remainder represents contract holdbacks of \$92,179 thousand, which increased \$26,538 thousand from FY 2001 to FY 2002. Contract holdbacks may fluctuate depending on the volume and stage of completion of contracts with vendors

See Note Disclosure 1.S. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.



General Fund Notes to the Principal Statements

NOTE 15.B. CAPITAL LEASE LIABILITY

As of September 30,
(Amounts in Thousands)

	2002 Asset Category				2001
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due:					
A. Fiscal Year 2003	\$ 0	\$ 910	\$ 0	\$ 910	\$ 2,184
B. Fiscal Year 2004	0	0	0	0	641
C. Fiscal Year 2005	0	0	0	0	0
D. Fiscal Year 2006	0	0	0	0	0
E. Fiscal Year 2007	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 910	\$ 0	\$ 910	\$ 2,825
H. Less: Imputed Interest Executory Costs	0	0	0	0	0
I. Net Capital Lease Liability	<u>\$ 0</u>	<u>\$ 910</u>	<u>\$ 0</u>	<u>\$ 910</u>	<u>\$ 2,825</u>
2. Capital Lease Liabilities Covered by Budgetary Resources:				\$ 910	\$ 2,184
3. Capital Lease Liabilities Not Covered by Budgetary Resources:				\$ 0	\$ 641

4. Other Information Related to Capital Lease Liability

The liabilities associated with capital leases are captured in legacy systems and are often not recorded. The DON has recognized a liability equal to the net value of the assets (i.e. gross value less accumulated amortization). The resulting liability was recorded as a payment due in FY 2003. The proper breakout of future payments to appropriate years will be done when a process for capturing lease liabilities is implemented.

See Note Disclosure 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.



NOTE 16. COMMITMENTS AND CONTINGENCIES

Other Information Related to Commitments and Contingencies

- At this time the DON is unable to collect data concerning cancelled appropriations that have a contractual commitment for payment and amounts for contractual arrangements which may require future financial obligations (undelivered orders).
- Disclosure Related to Contingencies Liabilities

The DON reported contingencies as “reasonably possible.” Federal Accounting Standards Advisory Board defines “Reasonably Possible,” as: “The chance of the future confirming event or events occurring is more than remote but less than probable.” “Reasonably possible” events require disclosure only in the footnotes.

For FY 2002, the DON is subject to various asserted claims. These claims are in various stages ranging from investigation to appeal. While remaining unresolved as of the close of FY 2002, prior experience affords the DON the ability to forecast the possible loss associated with the claims. It is to be noted that most claims are settled for less than the amount initially claimed, dismissed outright, or fail to materialize. As of 30 September 2002, contingent liabilities consist of an estimated \$117,474 thousand resulting from contractual actions; \$6,774 thousand for employee related actions; and \$139,353 thousand for Italian civil litigation.

Category	\$ in thousands
Contractual Actions	\$ 117,474
Employee Related Actions	6,774
Italian Civil Litigation	139,353
Total	\$ 263,601

See Note Disclosure 1.S. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.



General Fund Notes to the Principal Statements

NOTE 17. MILITARY RETIREMENT BENEFITS AND OTHER EMPLOYMENT RELATED ACTUARIAL LIABILITIES

As of September 30,
(Amounts in Thousands)

	2002			2001	
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits:					
A. Military Retirement Pensions	\$ 0	0%	\$ 0	\$ 0	\$ 0
B. Military Retirement Health Benefits	0	0%	0	0	0
C. Medicare-Eligible Retiree Benefits					
D. Total Pension and Health Benefits	<u>\$ 0</u>		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
2. Other:					
A. Federal Employees Compensation Act	\$ 1,546,375	5.21%	\$ 0	\$ 1,546,375	\$ 1,595,890
B. Voluntary Separation Incentive Programs	0	0%	0	0	0
C. DoD Education Benefits Fund	0	0%	0	0	0
D. Total Other	<u>\$ 1,546,375</u>		<u>\$ 0</u>	<u>\$ 1,546,375</u>	<u>\$ 1,595,890</u>
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	<u><u>\$ 1,546,375</u></u>		<u><u>\$ 0</u></u>	<u><u>\$ 1,546,375</u></u>	<u><u>\$ 1,595,890</u></u>

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

Reporting of Military Retirement Benefits by the Military Retirement Fund (MRF). The portion of the military retirement benefits actual liability applicable to the DON is reported on the financial statements of MRF.

Reporting of Liability Pertaining to Military Health Benefits Compensation. Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to DON is reported only on the DoD Agency-wide financial statements.

Federal Employees Compensation Act (FECA).

Actuarial Cost Method Used:

Assumptions:

Future Workers' Compensation

The DON's actuarial liability for workers' compensation benefits is developed by DOL and provided to DON at the end of each fiscal year. The liability 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 to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. Interest rate assumptions utilized for discounting were as follows:

FY 2002

5.21% in Year 1

5.21% in Year 2 and thereafter

Inflation factors were applied to provide more specifically the effects on the liability for future workers' compensation benefits. Cost of living adjustments (COLAs) were used as a wage inflation factor and consumer price index medical (CPIMs) were used as medical inflation factors. These factors were also used to adjust the methodology's historical payments to current year constant dollars.



The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

The estimate was allocated between General Fund and Navy Working Capital Fund using a percentage based on the number of civilian employees taken from the Navy Budget Tracking System. The following table details the numbers used in support of the allocation:

	<u>Personnel</u>	<u>Allocation %</u>
DON General Fund	104,672	54%
DON Working Capital Fund	89,212	46%
Total	193,884	100%

Voluntary Separation Incentive (VSI) Program. The Voluntary Separation Incentive (VSI) Fund (recorded on the books of the U.S. Treasury) is used to accumulate funds to finance, on an actuarially sound basis, the liabilities of the DoD incurred under this program. The VSI benefit is an annual annuity paid to members who have separated under this program, and is paid for a period of time equal to twice the members' years of service. These benefits are paid by the VSI fund, which receives contributions from the services from their military personnel accounts. Contributions amounts are determined by the DoD, Office of the Actuary in conjunction with the USD(C), based on a comparison of liabilities to assets.

DoD Education Benefits Fund. The DoD Education Benefits Fund is designed to accumulate funds for the educational programs described under Title 10 United States Code, section 2006. This program promotes the recruitment and retention of members for the All-Volunteer Forces program and the Total Force Concept of the Armed Forces and aids in the readjustment of members of the Armed Forces to civilian life after separation from military service.

NOTE 18. UNEXPENDED APPROPRIATIONS

As of September 30,
(Amounts in Thousands)

1. Unexpended Appropriations:

	<u>2002</u>	<u>2001</u>
A. Unobligated, Available	\$ 10,567,040	\$ 12,391,407
B. Unobligated, Unavailable	1,318,416	1,444,855
C. Unexpended Obligations	52,888,872	48,146,256
D. Total Unexpended Appropriations	<u>\$ 64,774,328</u>	<u>\$ 61,982,518</u>

2. Other Information Pertaining to Unexpended Appropriations:



General Fund Notes to the Principal Statements

NOTE 19.A. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

The amounts presented in the Statement of Net Cost (SoNC) are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The DON generally records transactions on a cash basis and not an accrual basis as is required by Federal GAAP. Therefore, the DON systems do not capture actual costs. As such, information presented in the SoNC is based on budgetary obligations, disbursements, and collection transactions, as well as non-financial feeder systems; then adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

The Intragovernmental costs for FY 2001 is \$1,357 thousand higher than the published statement last year, while the earned revenue is \$1,357 thousand lower than the published statement last year. It is due to erroneous mapping in the Statement of Net Cost last year. Expense account 6800F was mapped to revenue account in FY 2001. The error was corrected in FY 2002.

NOTE 19.B. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION - Not applicable

NOTE 19.C. GROSS COST TO GENERATE INTRA-GOVERNMENTAL REVENUE AND EARNED REVENUE (TRANSACTIONS WITH OTHER FEDERAL - NON-DoD - ENTITIES) BY BUDGET FUNCTIONAL CLASSIFICATION - Not applicable

NOTE 19.D. IMPUTED EXPENSES

As of September 30,
(Amounts in thousands)

1. Civilian (e.g., CSRS/FERS) Retirement
2. Civilian Health
3. Civilian Life Insurance
4. Judgment Fund/Litigation
5. Military Retirement Pension
6. Military Retirement Health
7. Total Imputed Expenses

	2002	2001
	\$ 183,704	\$ 186,162
	235,713	244,331
	880	835
	104,997	59,130
	0	0
	0	0
	<u>\$ 525,294</u>	<u>\$ 490,458</u>

Other Information Related to Imputed Expenses

The DON financial statements have recognized an imputed expense for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed expenses for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

NOTE 19.E. BENEFIT PROGRAM EXPENSES

Not applicable.

NOTE 19.F. EXCHANGE REVENUE

Disclosures Related to the Exchange Revenue: None.



**NOTE 19.G. AMOUNTS FOR FOREIGN MILITARY SALES (FMS) PROGRAM
PROCUREMENTS FROM CONTRACTORS**

Disclosures Related to Amounts for FMS Program Procurements from Contractors: Not applicable.

**NOTE 19.H. STEWARDSHIP ASSETS OTHER INFORMATION RELATED TO STEWARDSHIP
ASSETS**

Stewardship assets include Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The current year cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost. Material yearly investment amounts related to stewardship assets are provided in the Required Supplementary Stewardship Information section of this financial report.

NOTE 19.I. INTRAGOVERNMENTAL REVENUE AND EXPENSE

The majority of DON accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DON was unable to reconcile intragovernmental revenue balances with its trading partners. DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with existing or foreseeable resources.

**NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET
POSITION**

As of September 30,
(Amounts in thousands)

	Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
1. Prior Period Adjustments Increases (Decreases) to Net Position				
Beginning Balance:				
A.Changes in Accounting Standards	\$ 0	\$ 0	\$ 24,765,804	\$ 0
B.Errors and Omissions in Prior Year Accounting Reports	(27,802,492)	1,553,324	8,693,901	0
C.Other Prior Period Adjustments	0	0	(1,618,046)	0
D.Total Prior Period Adjustments	<u>\$ (27,802,492)</u>	<u>\$ 1,553,324</u>	<u>\$ 31,841,659</u>	<u>\$ 0</u>
2. Imputed Financing:				
A.Civilian CSRS/FERS Retirement	\$ 183,704	\$ 0	\$ 186,162	\$ 0
B.Civilian Health	235,713	0	244,331	0
C.Civilian Life Insurance	880	0	835	0
D.Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	104,997	0	59,130	0
G.Total Imputed Financing	<u>\$ 525,294</u>	<u>\$ 0</u>	<u>\$ 490,458</u>	<u>\$ 0</u>

3. Other Information Related to the Statement of Changes in Net Position.

Errors and Omissions in Prior Year Accounting Reports

Several prior period adjustments were recorded to DON financial statements and were recognized as "mistakes in the application of accounting principles," as described in paragraph 10 of SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." The overall impact of the prior period adjustments warrants the restatement of the FY 2001 DON financial statements for comparative



General Fund Notes to the Principal Statements

purposes. These adjustments affected the following financial statements for restatement: Balance Sheet and Statement of Changes in Net Position. The prior period adjustments were categorized as follows:

(Amounts in thousands)

	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
Progress Payments	\$ 6,034,550	\$ (6,034,550)
A-12 Program Contractor Advance and Interest		(1,483,365)
Erroneous Correcting Entry in FY 2001	(8,539,173)	8,539,173
Environmental Liabilities	(532,065)	532,065
Removal of Tactical Missiles	(24,765,804)	0
Total	<u>\$ (27,802,492)</u>	<u>\$ 1,553,323</u>

Progress Payments (Outstanding Contract Financing Payments) were properly recorded in FY 2001 on the Balance Sheet as a capitalized asset. This entry was made as an adjustment to capitalize what was initially recorded as an expense. The offsetting entry was made to Unexpended Appropriations. Instead of an offsetting entry to Unexpended Appropriations, the entry should have reduced expenses. The offset would then have closed to Cumulative Results of Operations. This prior period adjustment reclassifies \$6,034,550 thousand between Unexpended Appropriations and Cumulative Results of Operations.

The A-12 Program Account Receivable was properly recorded in FY 2001 on the Balance Sheet as an asset. The offsetting entry was made to Unexpended Appropriations. The offsetting entry should have been made to Other Liabilities. This reflects the fact that this contract receivable is a non-entity asset, since any collections made under the A-12 contract are to a cancelled appropriation. Collections will be turned over to the Treasury. This prior period adjustment for \$1,483,365 thousand reverses the original offsetting entry to Unexpended Appropriations and records Other Liabilities with Treasury. See other pertinent disclosures in Notes 2, 5, 11 and 15.

A correcting entry for \$8,539,173 thousand was posted in FY 2001 to realign Unexpended Appropriations (Note 18) based upon budgetary accounts to the Balance Sheet Unexpended Appropriations based upon proprietary accounts. The other three items described herein comprise the basis of that correcting entry. This prior period adjustment reverses the effect of the FY 2001 entry.

Environmental Liabilities were properly recognized as a liability in FY 2000; however, the offset was recorded to Unexpended Appropriations. The offsetting entry should have been made to expenses. The offset would then have closed to Cumulative Results of Operations. This prior period adjustment reclassifies \$532,065 thousand between Unexpended Appropriations and Cumulative Results of Operations.

The FY 2002 "Errors and Omissions in Prior Years Accounting Reports" line is a result of the DoDIG directing DON that a prior period adjust be made to remove \$24,765,804 thousand in Operating Materials and Supplies (OM&S) from the Inventory and Related Property line of the FY 2001 DON Financial Statements. In addition, any adjustment needed to reflect that those assets are not included in the FY 2002 DON financial statements also should be made. Therefore, this PPA removes all conventional missiles and torpedoes previously reported as OM&S from the FY 2001 and FY 2002 financial statements. This restatement of the FY 2001 values aligns DON financial statement with the FY 2001 U.S. Government-wide financial statement.

Imputed Financing

DON financial statements have recognized an imputed financing source for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed financing sources for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).



Judgment Fund

Treasury provided information related to amounts paid for Judgment Fund liabilities on behalf of the DON, which the DON may or may not be required to repay. Judgment Fund payments made out of the following Treasury appropriations do not require reimbursement, and therefore represent imputed financing to DON: 20X1740, 20X1741, and 20X1742. Only those payments made from Treasury appropriation 20X1743 are required to be repaid by DON.

NOTE 21.A. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2002

(Amounts in thousands)

	<u>2002</u>	<u>2001</u>
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 61,642,520	\$ 50,965,920
2. Available Borrowing and Contract Authority at the End of the Period	<u>0</u>	<u>0</u>
3. Other Information Related to the Statement of Budgetary Resources		

Apportionment Categories

(Amounts in thousands)

	<u>Direct Obligations</u>	<u>Reimbursable Obligations</u>	<u>Total</u>
Category A Obligations	\$ 99,307,751	\$ 12,208,795	\$ 111,516,546
Category B Obligations	0	0	0
Exempt From Apportionment	0	0	0
Total	<u>\$ 99,307,751</u>	<u>\$ 12,208,795</u>	<u>\$ 111,516,546</u>

Undelivered Orders

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both direct and reimbursable funds. DON has not fully implemented the USSGL in all operational accounting systems.

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 the "Adjustments" line on the Statement of Budgetary Resources), are not included in the "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or the "Spending Authority for Offsetting Collections and Adjustments" line on the Statement of Financing.

Other DON Disclosures

Due to accounting system deficiencies, intragovernmental transactions were not eliminated for the presentation of a Consolidated Statement of Budgetary Resources (SBR). As a result a Disaggregated SBR is presented in the Required Supplementary Information (RSI) section of the Statements.

In FY 2002, DoD treated Foreign Military Sales (FMS) Trust Fund transactions as nonfederal, and are presented as such in the Balance Sheet (BS) and the Statement of Net Cost. Accounts Receivable and Revenues related to FMS are recognized in the SBR. Therefore, reconciling differences exist between the SBR and the BS. OUSD(C) Accounting Policy is currently researching the issue to determine the proper treatment of FMS Trust Fund transactions to ensure proper reporting.



General Fund Notes to the Principal Statements

In FY 2002, the following two enhancements were made to the Statement of Budgetary Resources to facilitate the reconciliation of information between the Statement of Budgetary Resources, the budget execution reports (SF 133), and the Budget of the U.S. Government:

Separate Column for Non-budgetary Credit Program Financing Accounts, This change allows for a clear distinction between budgetary and non-budgetary credit program financing account information. Non-budgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the U.S. Government. Separate reporting on the Statement of Budgetary Resources enhances the reconciliation of the two sets of information.

Offsetting Receipts line, Offsetting Receipts are introduced as a new line item in the Statement of Budgetary Resources. These receipts are collections that are credited to the general fund, special fund or trust fund receipt accounts. In addition they represent offsetting receipts distributed to DON. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of U.S. Government. Offsetting receipts must be included in the Statement of Budgetary Resources to reconcile it to information in the Budget of the U.S. Government.

Appropriations received in the Statement of Budgetary Resources (SBR) differs from Appropriations received in the Statement of Changes in Net Position by \$36,744 thousand, due to the reporting of Trust Fund investments that are included as appropriations received in the SBR.

The Surcharge Commissary Store Trust Fund (8421) was closed in FY 2000. Remaining residual unobligated balances were transferred subsequent to FY 2001 year-end to the Midshipman's Store Trust Fund (8423). As a result of this transfer the comparative amounts on the Combined Statement of Budgetary Resources FY 2001 ending Unobligated balances, and Obligated balances reconcile to the FY 2002 beginning Unobligated and Obligated balances by the amounts of \$435 thousand and \$308 thousand respectively. The Midshipman's Store Trust Fund was subsequently closed in FY 2002 with no residual balances.

NOTE 21.B. DISCLOSURES RELATED TO PROBLEM DISBURSEMENTS, IN-TRANSIT DISBURSEMENTS AND SUSPENSE/BUDGET CLEARING ACCOUNTS

As of September 30,
(Amounts in thousands)

	September 2000	September 2001	September 2002	(Decrease)/ Increase from 2001 to 2002
1. Total Problem Disbursements, Absolute				
A. Unmatched Disbursements, (UMDs)	\$ 874,000	\$ 366,000	\$ 352,000	\$ (14,000)
B. Negative Unliquidated Obligations (NULO)	718,000	69,000	41,000	(28,000)
2. Total In-transit Disbursements, Net	\$ 530,000	\$ 65,256	\$ 51,551	\$ (13,705)

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

Definitions

Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign.

- UMDs occur when payments do not match to a corresponding obligation in the accounting system.
- NULOs occur when payments have a valid obligation but the payment is greater than the amount of the



obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.

- In-Transits represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet posted in an accounting system.

The DON has \$ 352,000 thousand in aged UMDs, \$41,000 thousand in aged NULOs, and \$ 51,551 in aged in-transit 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 disbursements and in-transit disbursements arise when the DON's various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. The DON has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements. The elimination of both Problem Disbursements and aged in-transits is one of the highest financial management priorities of the USD(C). Problem Disbursements and In-Transits represent a significant financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the age of the problem disbursements increase. As of 30 September 2002, these efforts resulted in a decrease (net) of \$13,705 thousand in In-Transit Disbursements, an decrease (absolute) of \$ 14,000 thousand in UMD's and a decrease (absolute) of \$ 28,000 thousand in NULOs over the balances reported as of 30 September 2001.

The following table presents aged unmatched disbursements, negative unliquidated obligations, and in-transit disbursements as of 30 September 2002 for the DON, including Foreign Military Sales:

(Amounts in thousands)

Aging	In-Transit Disbursements	Unmatched Disbursements (UMD's)	Negative Unliquidated Obligations (NULO's)
0-30 Days	\$ 687,198	\$ 152,000	\$ 15,000
31-60 Days	138,834	62,000	5,000
61-120 Days	102,500	52,000	5,000
121-180 Days	841	15,000	1,000
181-360 Days	45,542	37,000	7,000
Over 360 Days	174,048	34,000	8,000
Total – Absolute	<u>\$ 1,148,963</u>	<u>\$ 352,000</u>	<u>\$ 41,000</u>
Total – Net	<u>\$ 51,551</u>	<u>\$ 248,000</u>	<u>\$ 42,000</u>



General Fund Notes to the Principal Statements

2. Suspense/Budget Clearing Accounts

As of September 30,
(Amounts in thousands)

4. Suspense/Budget Clearing Accounts, Net

Account	September 2000	September 2001	September 2002	(Decrease)/ Increase from FY 01 to FY 02
F3875	\$ 96,358	\$ 43,344	\$ 112,731	\$ 69,387
F3880	2,118	(1,749)	2,510	4,259
F3882	0	0	23,966	23,966
F3885	556,213	801,469	445,921	(355,548)
F3886	47	(1)	622	623
Total	<u>\$ 654,736</u>	<u>\$ 843,063</u>	<u>\$ 585,750</u>	<u>\$ (257,313)</u>

5. Other Information Related to Suspense/Budget Clearing Accounts

DON has made a concerted effort to reduce balances in the suspense and budget clearing accounts related to disbursements that are disclosed on line 4 of this note. Additionally, DON is establishing policies and procedures to ensure accurate and consistent use of these accounts. The information presented indicates the significant reductions DON has achieved in the various suspense/ budget clearing accounts. On 30 September of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to proper appropriation accounts. On 1 October of the following year, the uncleared suspense/clearing account balances are only reestablished for transactions that were less than 60 days old at the end of the FY (excluding transactions dated before 1 January 2001).

The suspense accounts F3875/3885/3886 temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation. Each suspense account represents the source of transaction coming from, i.e. Disbursing Officer's (DO) suspense (F3875), Interfund/OPAC (F3885), and Payroll (TSP) (F3886) suspense. DFAS-CL has implemented several initiatives to improve the suspense clearing process and works with DOs to reduce suspense. Matching criteria are currently being developed that will automate the manual process now used to clear Interfund transactions from suspense. These initiatives should result in reduced suspense balances at year-end. The suspense F3880 represents the Treasury checks that have either been lost by the payee and need reissued or never cashed by the payee, cancelled by Treasury and require to be transferred to the original appropriation in accordance to the DoD FMR, Volume 5, Chapter 8. Account F3882 Uniformed Services Thrift Savings Plan was first established in FY 2002, so there will be not be any trend information for FY 2001 and prior.



NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

Other Information Related to the Statement of Financing

The Statement of Financing is presented as combined or combining statements rather than consolidated statements due to intragovernmental transactions not being eliminated. Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or on the Statement of Financing.

The Statement of Financing was expanded to further articulate and detail the relationship between new obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect its components. Several new line items were added to separately identify and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

Budgetary data is not in agreement with proprietary expenses and assets capitalized. This causes a difference in net cost between the Statement of Net Cost and the Statement of Financing. Adjustments are posted to the Statement of Financing for these differences.

NOTE 23. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY

Not applicable.

NOTE 24. OTHER DISCLOSURES

NOTE 24.A. OTHER DISCLOSURES - LEASES

1. ENTITY AS LESSEE-Operating Leases

As of September 30,
(Amounts in thousands)

	2002 Asset Category				2001
	Equipment and Facilities	Military Family Housing	Motor Vehicles	Total	Total
Future payments Due: <u>Fiscal Year</u>					
1 (CY+1)	\$ 10,933	\$ 0	\$ 0	\$ 10,933	\$ 12,520
2 (CY+2)	9,220	0	0	9,220	15,698
3 (CY+3)	9,464	0	0	9,464	13,307
4 (CY+4)	9,619	0	0	9,619	11,249
5 (CY+5)	8,955	0	0	8,955	0
After 5 Years	0				0
Total Future Lease Payments Due	<u>\$ 48,191</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 48,191</u>	<u>\$ 52,774</u>



General Fund Notes to the Principal Statements

Other Information Related to Entity as Lessee – Operating Leases

Description of Leases

Asset Category 1, Equipment and Facilities, in the amount of \$48,191 thousand represents \$42,412 thousand Land and Buildings, \$663 thousand equipment, and \$5,117 thousand Other.

Other Information

Definitions

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

Operating Lease – A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expenses over the lease term as it becomes payable.

ENTITY AS LESSOR:

None.

Other Information Related to Entity as Lessor – Operating Leases

Other Information

Definitions

Lessor – A person or entity who owns property (for example, real estate or equipment) to which a lessee receives use and possession in exchange for a payment of funds.

Capital Lease – A lease that transfers substantially all the benefits and risk of ownership. The lease is recorded as an asset by the lessee and is amortized in a manner similar to depreciating assets.

Operating Lease – A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

NOTE 24.B. OTHER DISCLOSURES

Not applicable.



Department of the Navy

GENERAL FUND SUPPORTING CONSOLIDATING/COMBINING STATEMENTS



Department of Defense
 Department of the Navy
CONSOLIDATING BALANCE SHEET
 As of September 30, 2002 and 2001
 (\$ in thousands)

ASSETS (Note 2)	Navy	Marine Corps	Combined Total	Eliminations
Intragovernmental:				
Fund Balance with Treasury (Note 3)	\$ 65,347,754	\$ 2,902,201	\$ 68,249,955	\$ 0
Investments (Note 4)	9,625	0	9,625	0
Accounts Receivable (Note 5)	731,480	74,728	806,208	63,741
Other Assets (Note 6)	67,063	18	67,081	0
Total Intragovernmental Assets	<u>66,155,922</u>	<u>2,976,947</u>	<u>69,132,869</u>	<u>63,741</u>
Cash and Other Monetary Assets (Note 7)	129,556	1,108	130,664	0
Accounts Receivable (Note 5)	2,725,732	74,155	2,799,887	0
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	32,544,435	459,160	33,003,595	0
General Property, Plant and Equipment (Note 10)	21,406,959	4,702,478	26,109,437	0
Other Assets (Note 6)	4,561,695	218,767	4,780,462	0
TOTAL ASSETS	<u>\$ 127,524,299</u>	<u>\$ 8,432,615</u>	<u>\$ 135,956,914</u>	<u>\$ 63,741</u>
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 668,444	\$ 143,576	\$ 812,020	\$ 63,741
Debt (Note 13)	91	36	127	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	3,430,322	59,181	3,489,503	0
Total Intragovernmental Liabilities	<u>4,098,857</u>	<u>202,793</u>	<u>4,301,650</u>	<u>63,741</u>
Accounts Payable (Note 12)	1,404,238	106,091	1,510,329	0
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	1,332,273	214,102	1,546,375	0
Environmental Liabilities (Note 14)	15,469,073	0	15,469,073	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	3,820,475	365,012	4,185,487	0
TOTAL LIABILITIES	<u>\$ 26,124,916</u>	<u>\$ 887,998</u>	<u>\$ 27,012,914</u>	<u>\$ 63,741</u>
NET POSITION				
Unexpended Appropriations (Note 18)	61,818,979	2,955,349	64,774,328	0
Cumulative Results of Operations	39,580,404	4,589,268	44,169,672	0
TOTAL NET POSITION	<u>\$ 101,399,383</u>	<u>\$ 7,544,617</u>	<u>\$ 108,944,000</u>	<u>\$ 0</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 127,524,299</u>	<u>\$ 8,432,615</u>	<u>\$ 135,956,914</u>	<u>\$ 63,741</u>

The accompanying notes are an integral part of these financial statements.



Supporting Consolidating/Combining Statements

Department of Defense
 Department of the Navy
CONSOLIDATING BALANCE SHEET
 As of September 30, 2002 and 2001
 (\$ in thousands)

	2002	Restated 2001	2001
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 68,249,955	\$ 66,338,979	\$ 66,338,979
Investments (Note 4)	9,625	9,517	9,517
Accounts Receivable (Note 5)	742,467	1,042,814	1,042,814
Other Assets (Note 6)	67,081	47,170	47,170
Total Intragovernmental Assets	<u>69,069,128</u>	<u>67,438,480</u>	<u>67,438,480</u>
Cash and Other Monetary Assets (Note 7)	130,664	160,589	160,589
Accounts Receivable (Note 5)	2,799,887	1,682,230	1,682,230
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	33,003,595	36,295,749	61,061,553
General Property, Plant and Equipment (Note 10)	26,109,437	24,961,487	24,961,487
Other Assets (Note 6)	4,780,462	6,056,832	6,056,832
TOTAL ASSETS	<u>\$ 135,893,173</u>	<u>\$ 136,595,367</u>	<u>\$ 161,361,171</u>
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 748,279	\$ 1,002,282	\$ 1,002,282
Debt (Note 13)	127	61	61
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	3,489,503	2,549,550	1,066,185
Total Intragovernmental Liabilities	<u>4,237,909</u>	<u>3,551,893</u>	<u>2,068,528</u>
Accounts Payable (Note 12)	1,510,329	2,075,026	2,075,026
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	1,546,375	1,595,890	1,595,890
Environmental Liabilities (Note 14)	15,469,073	15,584,458	15,584,458
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	4,185,487	3,610,899	3,610,899
TOTAL LIABILITIES	<u>\$ 26,949,173</u>	<u>\$ 26,418,166</u>	<u>\$ 24,934,801</u>
NET POSITION			
Unexpended Appropriations (Note 18)	64,774,328	63,535,842	\$ 61,982,518
Cumulative Results of Operations	44,169,672	46,641,359	74,443,852
TOTAL NET POSITION	<u>\$ 108,944,000</u>	<u>\$ 110,177,201</u>	<u>\$ 136,426,370</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 135,893,173</u>	<u>\$ 136,595,367</u>	<u>\$ 161,361,171</u>

The accompanying notes are an integral part of these financial statements.



Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 As of September 30, 2002 and 2001
 (\$ in thousands)

	Navy	Marine Corps	Combined Total	Eliminations
Program Costs				
A. Military Personnel				
Intragovernmental Gross Costs	\$ 3,597,493	\$ 1,473,337	\$ 5,070,830	\$ 111
(Less: Intragovernmental Earned Revenue)	<u>(189,587)</u>	<u>(19,602)</u>	<u>(209,189)</u>	<u>0</u>
Intragovernmental Net Costs	<u>3,407,906</u>	<u>1,453,735</u>	<u>4,861,641</u>	<u>111</u>
Gross Costs With the Public	18,682,797	6,378,837	25,061,634	0
(Less: Earned Revenue From the Public)	<u>(54,974)</u>	<u>(13,106)</u>	<u>(68,080)</u>	<u>0</u>
Net Costs With the Public	<u>18,627,823</u>	<u>6,365,731</u>	<u>24,993,554</u>	<u>0</u>
Net Program Costs	<u>\$ 22,035,729</u>	<u>\$ 7,819,466</u>	<u>\$ 29,855,195</u>	<u>\$ 111</u>
B. Operation and Maintenance				
Intragovernmental Gross Costs	\$ 19,268,243	\$ 1,489,097	\$ 20,757,340	\$ 183,482
(Less: Intragovernmental Earned Revenue)	<u>(696,024)</u>	<u>(328,274)</u>	<u>(1,024,298)</u>	<u>(199,512)</u>
Intragovernmental Net Costs	<u>18,572,219</u>	<u>1,160,823</u>	<u>19,733,042</u>	<u>(16,030)</u>
Gross Costs With the Public	12,909,344	2,305,864	15,215,208	0
(Less: Earned Revenue From the Public)	<u>(954,744)</u>	<u>(76,348)</u>	<u>(1,031,092)</u>	<u>0</u>
Net Costs With the Public	<u>11,954,600</u>	<u>2,229,516</u>	<u>14,184,116</u>	<u>0</u>
Net Program Costs	<u>\$ 30,526,819</u>	<u>\$ 3,390,339</u>	<u>\$ 33,917,158</u>	<u>\$ (16,030)</u>
C. Procurement				
Intragovernmental Gross Costs	\$ 4,049,743	\$ 58,469	\$ 4,108,212	\$ 234
(Less: Intragovernmental Earned Revenue)	<u>(100,053)</u>	<u>0</u>	<u>(100,053)</u>	<u>0</u>
Intragovernmental Net Costs	<u>3,949,690</u>	<u>58,469</u>	<u>4,008,159</u>	<u>234</u>
Gross Costs With the Public	23,715,709	575,934	24,291,643	0
(Less: Earned Revenue From the Public)	<u>(463,320)</u>	<u>0</u>	<u>(463,320)</u>	<u>0</u>
Net Costs With the Public	<u>23,252,389</u>	<u>575,934</u>	<u>23,828,323</u>	<u>0</u>
Net Program Costs	<u>\$ 27,202,079</u>	<u>\$ 634,403</u>	<u>\$ 27,836,482</u>	<u>\$ 234</u>
D. Research, Development, Test & Evaluation				
Intragovernmental Gross Costs	\$ 42,431	\$ 0	\$ 42,431	\$ 15,624
(Less: Intragovernmental Earned Revenue)	<u>(1,736)</u>	<u>0</u>	<u>(1,736)</u>	<u>(2)</u>
Intragovernmental Net Costs	<u>40,695</u>	<u>0</u>	<u>40,695</u>	<u>15,622</u>
Gross Costs With the Public	10,376,773	0	10,376,773	0
(Less: Earned Revenue From the Public)	<u>(53,676)</u>	<u>0</u>	<u>(53,676)</u>	<u>0</u>
Net Costs With the Public	<u>10,323,097</u>	<u>0</u>	<u>10,323,097</u>	<u>0</u>
Net Program Costs	<u>\$ 10,363,792</u>	<u>\$ 0</u>	<u>\$ 10,363,792</u>	<u>\$ 15,622</u>

The accompanying notes are an integral part of these financial statements.



Supporting Consolidating/Combining Statements

Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 As of September 30, 2002 and 2001
 (\$ in thousands)

	2002	Restated 2001	2001
Program Costs			
A. Military Personnel			
Intragovernmental Gross Costs	\$ 5,070,719	\$ 4,451,006	\$ 4,451,006
(Less: Intragovernmental Earned Revenue)	<u>(209,189)</u>	<u>(144,552)</u>	<u>(144,552)</u>
Intragovernmental Net Costs	<u>4,861,530</u>	<u>4,306,454</u>	<u>4,306,454</u>
Gross Costs With the Public	25,061,634	22,539,243	22,539,243
(Less: Earned Revenue From the Public)	<u>(68,080)</u>	<u>(112,567)</u>	<u>(112,567)</u>
Net Costs With the Public	<u>24,993,554</u>	<u>22,426,676</u>	<u>22,426,676</u>
Net Program Costs	<u>\$ 29,855,085</u>	<u>\$ 26,733,130</u>	<u>\$ 26,733,130</u>
B. Operation and Maintenance			
Intragovernmental Gross Costs	\$ 20,573,858	\$ 16,544,475	\$ 16,544,475
(Less: Intragovernmental Earned Revenue)	<u>(824,786)</u>	<u>(1,493,767)</u>	<u>(1,493,767)</u>
Intragovernmental Net Costs	<u>19,749,072</u>	<u>15,050,708</u>	<u>15,050,708</u>
Gross Costs With the Public	15,215,208	19,400,086	19,400,086
(Less: Earned Revenue From the Public)	<u>(1,031,092)</u>	<u>(685,738)</u>	<u>(685,738)</u>
Net Costs With the Public	<u>14,184,116</u>	<u>18,714,348</u>	<u>18,714,348</u>
Net Program Costs	<u>\$ 33,933,188</u>	<u>\$ 33,765,056</u>	<u>\$ 33,765,056</u>
C. Procurement			
Intragovernmental Gross Costs	\$ 4,107,978	\$ 3,428,497	\$ 3,428,497
(Less: Intragovernmental Earned Revenue)	<u>(100,053)</u>	<u>(566,858)</u>	<u>(566,858)</u>
Intragovernmental Net Costs	<u>4,007,925</u>	<u>2,861,639</u>	<u>2,861,639</u>
Gross Costs With the Public	24,291,643	22,538,324	22,538,324
(Less: Earned Revenue From the Public)	<u>(463,320)</u>	<u>(236,509)</u>	<u>(236,509)</u>
Net Costs With the Public	<u>23,828,323</u>	<u>22,301,815</u>	<u>22,301,815</u>
Net Program Costs	<u>\$ 27,836,248</u>	<u>\$ 25,163,454</u>	<u>\$ 25,163,454</u>
D. Research, Development, Test & Evaluation			
Intragovernmental Gross Costs	\$ 26,807	\$ 2,413,244	\$ 2,413,244
(Less: Intragovernmental Earned Revenue)	<u>(1,734)</u>	<u>(32,312)</u>	<u>(32,312)</u>
Intragovernmental Net Costs	<u>25,073</u>	<u>2,380,932</u>	<u>2,380,932</u>
Gross Costs With the Public	10,376,773	7,160,451	7,160,451
(Less: Earned Revenue From the Public)	<u>(53,676)</u>	<u>(71,710)</u>	<u>(71,710)</u>
Net Costs With the Public	<u>10,323,097</u>	<u>7,088,741</u>	<u>7,088,741</u>
Net Program Costs	<u>\$ 10,348,170</u>	<u>\$ 9,469,673</u>	<u>\$ 9,469,673</u>

The accompanying notes are an integral part of these financial statements.



Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 As of September 30, 2002 and 2001
 (\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Total</u>	<u>Eliminations</u>
E. Military Construction/Family Housing				
Intragovernmental Gross Costs	\$ 62,095	\$ 0	\$ 62,095	\$ 41
(Less: Intragovernmental Earned Revenue)	<u>(73,804)</u>	<u>0</u>	<u>(73,804)</u>	<u>0</u>
Intragovernmental Net Costs	<u>(11,709)</u>	<u>0</u>	<u>(11,709)</u>	<u>41</u>
Gross Costs With the Public	647,686	0	647,686	0
(Less: Earned Revenue From the Public)	<u>(69,133)</u>	<u>0</u>	<u>(69,133)</u>	<u>0</u>
Net Costs With the Public	<u>578,553</u>	<u>0</u>	<u>578,553</u>	<u>0</u>
Net Program Costs	<u>\$ 566,844</u>	<u>\$ 0</u>	<u>\$ 566,844</u>	<u>\$ 41</u>
F. Other				
Intragovernmental Gross Costs	\$ 69,696	\$ 0	\$ 69,696	\$ 23
(Less: Intragovernmental Earned Revenue)	<u>(367)</u>	<u>0</u>	<u>(367)</u>	<u>0</u>
Intragovernmental Net Costs	<u>69,329</u>	<u>0</u>	<u>69,329</u>	<u>23</u>
Gross Costs With the Public	43,076	0	43,076	0
(Less: Earned Revenue From the Public)	<u>(36,348)</u>	<u>0</u>	<u>(36,348)</u>	<u>0</u>
Net Costs With the Public	<u>6,728</u>	<u>0</u>	<u>6,728</u>	<u>0</u>
Net Program Costs	<u>\$ 76,057</u>	<u>\$ 0</u>	<u>\$ 76,057</u>	<u>\$ 23</u>
G. Total Program Costs				
Intragovernmental Gross Costs	\$ 27,089,701	\$ 3,020,902	\$ 30,110,603	\$ 199,514
(Less: Intragovernmental Earned Revenue)	<u>(1,061,571)</u>	<u>(347,876)</u>	<u>(1,409,447)</u>	<u>(199,514)</u>
Intragovernmental Net Costs	<u>26,028,130</u>	<u>2,673,026</u>	<u>28,701,156</u>	<u>0</u>
Gross Costs With the Public	66,375,386	9,260,634	75,636,020	0
(Less: Earned Revenue From the Public)	<u>(1,632,195)</u>	<u>(89,454)</u>	<u>(1,721,649)</u>	<u>0</u>
Net Costs With the Public	<u>64,743,191</u>	<u>9,171,180</u>	<u>73,914,371</u>	<u>0</u>
Net Program Costs	<u>\$ 90,771,321</u>	<u>\$ 11,844,206</u>	<u>\$ 102,615,527</u>	<u>\$ 0</u>
Cost Not Assigned to Programs	0	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Cost of Operations	<u>\$ 90,771,321</u>	<u>\$ 11,844,206</u>	<u>\$ 102,615,527</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.



Supporting Consolidating/Combining Statements

Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 As of September 30, 2002 and 2001
 (\$ in thousands)

	2002	Restated 2001	2001
E. Military Construction/Family Housing			
Intragovernmental Gross Costs	\$ 62,054	\$ 68,741	\$ 68,741
(Less: Intragovernmental Earned Revenue)	<u>(73,804)</u>	<u>(222,166)</u>	<u>(222,166)</u>
Intragovernmental Net Costs	(11,750)	(153,425)	(153,425)
Gross Costs With the Public	647,686	357,946	357,946
(Less: Earned Revenue From the Public)	<u>(69,133)</u>	<u>(101,383)</u>	<u>(101,383)</u>
Net Costs With the Public	578,553	256,563	256,563
Net Program Costs	<u>\$ 566,803</u>	<u>\$ 103,138</u>	<u>\$ 103,138</u>
F. Other			
Intragovernmental Gross Costs	\$ 69,673	\$ 47,806	\$ 47,806
(Less: Intragovernmental Earned Revenue)	<u>(367)</u>	<u>(542)</u>	<u>(542)</u>
Intragovernmental Net Costs	69,306	47,264	47,264
Gross Costs With the Public	43,076	48,565	48,565
(Less: Earned Revenue From the Public)	<u>(36,348)</u>	<u>(21,497)</u>	<u>(21,497)</u>
Net Costs With the Public	6,728	27,068	27,068
Net Program Costs	<u>\$ 76,034</u>	<u>\$ 74,332</u>	<u>\$ 74,332</u>
G. Total Program Costs			
Intragovernmental Gross Costs	\$ 29,911,089	\$ 26,953,769	\$ 26,953,769
(Less: Intragovernmental Earned Revenue)	<u>(1,209,933)</u>	<u>(2,460,197)</u>	<u>(2,460,197)</u>
Intragovernmental Net Costs	28,701,156	24,493,572	24,493,572
Gross Costs With the Public	75,636,020	72,044,614	72,044,614
(Less: Earned Revenue From the Public)	<u>(1,721,649)</u>	<u>(1,229,404)</u>	<u>(1,229,404)</u>
Net Costs With the Public	73,914,371	70,815,210	70,815,210
Net Program Costs	<u>\$ 102,615,527</u>	<u>\$ 95,308,782</u>	<u>\$ 95,308,782</u>
Cost Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	<u>0</u>	<u>0</u>	<u>0</u>
Net Cost of Operations	<u>\$ 102,615,527</u>	<u>\$ 95,308,782</u>	<u>\$ 95,308,782</u>



Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
 As of September 30, 2002 and 2001
 (\$ in thousands)

	Navy	Marine Corps	Combined Total	Eliminations
Cumulative Results of Operations				
Beginning Balances	\$ 42,280,550	\$ 4,360,809	\$ 46,641,359	\$ 0
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	<u>42,280,550</u>	<u>4,360,809</u>	<u>46,641,359</u>	<u>0</u>
Budgetary Financing Sources:				
Appropriations received	0	0	0	\$ 0
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescission, etc) (+/-)	0	0	0	0
Appropriations used	87,594,558	12,018,117	99,612,675	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	4,733	1,138	5,871	0
Imputed financing from costs absorbed by others	471,884	53,410	525,294	0
Other (+/-)	0	0	0	0
Total Financing Sources	<u>88,071,175</u>	<u>12,072,665</u>	<u>100,143,840</u>	<u>0</u>
Net Cost of Operations (+/-)	90,771,321	11,844,206	102,615,527	0
Ending Balances	<u>\$ 39,580,404</u>	<u>\$ 4,589,268</u>	<u>\$ 44,169,672</u>	<u>\$ 0</u>
Unexpended Appropriations				
Beginning Balances	\$ 60,572,763	\$ 2,963,079	\$ 63,535,842	\$ 0
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	<u>60,572,763</u>	<u>2,963,079</u>	<u>63,535,842</u>	<u>0</u>
Budgetary Financing Sources:				
Appropriations received	87,658,419	11,866,039	99,524,458	0
Appropriations transferred-in/out (+/-)	2,447,218	280,090	2,727,308	0
Other adjustments (rescission, etc) (+/-)	(1,264,863)	(98,712)	(1,363,575)	0
Appropriations used	(87,594,558)	(12,055,147)	(99,649,705)	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	<u>1,246,216</u>	<u>(7,730)</u>	<u>1,238,486</u>	<u>0</u>
Net Cost of Operations (+/-)	0	0	0	0
Ending Balances	<u>\$ 61,818,979</u>	<u>\$ 2,955,349</u>	<u>\$ 64,774,328</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.



Supporting Consolidating/Combining Statements

Department of Defense
Department of the Navy

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2002 and 2001
(\$ in thousands)

	2002	Restated 2001	2001
Cumulative Results of Operations			
Beginning Balances	\$ 46,641,359	\$ 43,816,182	\$ 43,816,182
Prior period adjustments (+/-)	0	4,039,166	31,841,659
Beginning Balances, as adjusted	<u>46,641,359</u>	<u>47,855,348</u>	<u>75,657,841</u>
Budgetary Financing Sources:			
Appropriations received	\$ 0	\$ 0	\$ 0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescission, etc) (+/-)	0	0	0
Appropriations used	99,612,675	93,245,566	93,245,566
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	5,871	358,769	358,769
Imputed financing from costs absorbed by others	525,294	490,458	490,458
Other (+/-)	0	0	0
Total Financing Sources	<u>\$ 100,143,840</u>	<u>\$ 94,094,793</u>	<u>\$ 94,094,793</u>
Net Cost of Operations (+/-)	\$ 102,615,527	\$ 95,308,782	\$ 95,308,782
Ending Balances	<u>\$ 44,169,672</u>	<u>\$ 46,641,359</u>	<u>\$ 74,443,852</u>
Unexpended Appropriations			
Beginning Balances	\$ 63,535,842	\$ 64,902,672	\$ 64,902,672
Prior period adjustments (+/-)	0	1,553,324	0
Beginning Balances, as adjusted	<u>63,535,842</u>	<u>\$ 66,455,996</u>	<u>\$ 64,902,672</u>
Budgetary Financing Sources:			
Appropriations received	\$ 99,524,458	\$ (2,920,154)	\$ (2,920,154)
Appropriations transferred-in/out (+/-)	2,727,308	0	0
Other adjustments (rescission, etc) (+/-)	(1,363,575)	0	0
Appropriations used	(99,649,705)	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
Total Financing Sources	<u>\$ 1,238,486</u>	<u>\$ (2,920,154)</u>	<u>\$ (2,920,154)</u>
Net Cost of Operations (+/-)	\$ 0	\$ 0	\$ 0
Ending Balances	<u>\$ 64,774,328</u>	<u>\$ 63,535,842</u>	<u>\$ 61,982,518</u>

The accompanying notes are an integral part of these financial statements.



Department of Defense
 Department of the Navy
COMBINING STATEMENT OF BUDGETARY RESOURCES
 As of September 30, 2002 and 2001
 (\$ in thousands)

BUDGETARY FINANCING ACCOUNTS
BUDGETARY RESOURCES

	Navy	Marine Corps	2002	Restated 2001	2001
Budget Authority:					
Appropriations Received	\$ 87,695,163	\$ 11,866,039	\$ 99,561,202	\$ 94,848,409	\$ 94,848,409
Borrowing Authority	0	0	0	0	0
Contract Authority	0	0	0	0	0
Net transfers (+/-)	2,408,424	267,823	2,676,247	387,346	387,346
Other	0	0	0	0	0
Unobligated Balance:					
Beginning of period	13,384,503	451,325	13,835,828	13,624,084	13,624,084
Net transfers, actual (+/-)	38,794	12,267	51,061	365,723	365,723
Anticipated Transfers Balances	0	0	0	0	0
Spending Authority from Offsetting Collections:					
Earned					
Collected	5,951,549	538,413	6,489,962	4,878,546	4,878,546
Receivable from Federal sources	(255,512)	(7,941)	(263,453)	915,971	915,971
Change in unfilled customer orders					
Advances received	1,286	0	1,286	4,165	4,165
Without advance from Federal sources	158,569	27,949	186,518	(201,723)	(201,723)
Anticipated for the rest of year, without advances	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0
Subtotal	5,855,892	558,421	6,414,313	5,596,959	5,596,959
Recoveries of prior year obligations	2,044,987	241,847	2,286,834	3,277,598	3,277,598
Temporarily not available pursuant to Public Law	0	0	0	0	0
Permanently not available	(1,265,353)	(134,603)	(1,399,956)	(1,773,918)	(1,773,918)
Total Budgetary Resources	<u>\$ 110,162,410</u>	<u>\$ 13,263,119</u>	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>	<u>\$ 116,326,201</u>



The accompanying notes are an integral part of these financial statements.

Supporting Consolidating/Combining Statements

Department of Defense
Department of the Navy

COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2002 and 2001
(\$ in thousands)

STATUS OF BUDGETARY RESOURCES

	Navy	Marine Corps	2002	Restated 2001	2001
Obligations Incurred:					
Direct	\$ 86,885,832	\$ 12,421,919	\$ 99,307,751	\$ 95,682,240	\$ 95,682,240
Reimbursable	11,634,487	574,308	12,208,795	6,807,699	6,807,699
Subtotal	98,520,319	12,996,227	111,516,546	102,489,939	102,489,939
Unobligated balance:					
Apportioned	10,468,911	121,656	10,590,567	12,391,407	12,391,407
Exempt from apportionment	0	0	0	0	0
Other available	0	0	0	0	0
Unobligated Balances Not Available	1,173,180	145,236	1,318,416	1,444,855	1,444,855
Total, Status of Budgetary Resources	<u>\$ 110,162,410</u>	<u>\$ 13,263,119</u>	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>	<u>\$ 116,326,201</u>

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:

Obligated Balance, Net-beginning of period	\$ 49,357,568	\$ 2,976,282	\$ 52,333,850	\$ 48,385,598	\$ 48,385,598
Obligated Balance transferred, net (+/-)	0	0	0	0	0
Obligated Balance, net-end of period:					
Accounts Receivable	(1,875,766)	(233,608)	(2,109,374)	(2,372,828)	(2,372,828)
Unfilled customer order from Federal sources	(2,061,109)	33,916	(2,027,193)	(1,840,675)	(1,840,675)
Undelivered Orders	53,198,000	2,435,755	55,633,755	50,942,280	50,942,280
Accounts Payable	4,203,754	399,246	4,603,000	5,604,765	5,604,765
Outlays:					
Disbursements	92,464,965	13,075,345	105,540,310	94,550,149	94,550,149
Collections	(5,952,836)	(538,413)	(6,491,249)	(4,882,711)	(4,882,711)
Subtotal	86,512,129	12,536,932	99,049,061	89,667,438	89,667,438
Less: Offsetting receipts	(213,345)	0	(213,345)	0	0
Net Outlays	<u>\$ 86,298,784</u>	<u>\$ 12,536,932</u>	<u>\$ 98,835,716</u>	<u>\$ 89,667,438</u>	<u>\$ 89,667,438</u>



Department of Defense
 Department of the Navy
COMBINING STATEMENT OF FINANCING
 As of September 30, 2002 and 2001
 (\$ in thousands)

Resources Used to Finance Activities:

	Navy	Marine Corps	2002
Budgetary Resources Obligated			
Obligations Incurred	\$ 98,520,319	\$ 12,996,227	\$ 111,516,546
Less: Spending Authority from offsetting collections and recoveries (-)	<u>(7,900,880)</u>	<u>(800,268)</u>	<u>(8,701,148)</u>
Obligations net of offsetting collections and recoveries	90,619,439	12,195,959	102,815,398
Less: Offsetting receipts (-)	<u>(213,345)</u>	<u>0</u>	<u>(213,345)</u>
Net obligations	<u>90,406,094</u>	<u>12,195,959</u>	<u>102,602,053</u>
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	471,884	53,410	525,294
Other (+/-)	<u>0</u>	<u>0</u>	<u>0</u>
Net other resources used to finance activities	<u>471,884</u>	<u>53,410</u>	<u>525,294</u>
Total resources used to finance activities	<u>\$ 90,877,978</u>	<u>\$ 12,249,369</u>	<u>\$ 103,127,347</u>

Resources Used to Finance Items not Part of the Net Cost of Operations:

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered orders (-)	\$ (10,471,615)	\$ (204,652)	\$ (10,676,267)
Unfilled Customer Orders	159,856	27,949	187,805
Resources that fund expenses recognized in prior periods	(611,620)	(8,542)	(620,162)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0
Resources that finance the acquisition of assets	7,487,846	0	7,487,846
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations			
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0
Other (+/-)	<u>0</u>	<u>0</u>	<u>0</u>
Total resources used to finance items not part of the Net Cost of Operations	<u>(3,435,533)</u>	<u>(185,245)</u>	<u>(3,620,778)</u>
Total resources used to finance the Net Cost of Operations	<u>\$ 87,442,445</u>	<u>\$ 12,064,124</u>	<u>\$ 99,506,569</u>



The accompanying notes are an integral part of these financial statements.

Supporting Consolidating/Combining Statements

Department of Defense
 Department of the Navy
COMBINING STATEMENT OF FINANCING
 As of September 30, 2002 and 2001
 (\$ in thousands)

Resources Used to Finance Activities:	Restated 2001	2001
Budgetary Resources Obligated		
Obligations Incurred	\$ 102,489,939	\$ 102,489,939
Less: Spending Authority from offsetting collections and recoveries (-)	<u>(8,874,558)</u>	<u>(8,874,558)</u>
Obligations net of offsetting collections and recoveries	93,615,381	93,615,381
Less: Offsetting receipts (-)	<u>(22,039)</u>	<u>(22,039)</u>
Net obligations	93,593,342	93,593,342
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	353,201	353,201
Imputed financing from costs absorbed by others	490,458	490,458
Other (+/-)	<u>0</u>	<u>0</u>
Net other resources used to finance activities	843,659	843,659
Total resources used to finance activities	<u>\$ 94,437,001</u>	<u>\$ 94,437,001</u>
 Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered orders (-)	\$ (142,028)	\$ (142,028)
Unfilled Customer Orders	(197,557)	(197,557)
Resources that fund expenses recognized in prior periods	(65,407)	(65,407)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
Resources that finance the acquisition of assets	(656,354)	(656,354)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations		
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0
Other (+/-)	<u>0</u>	<u>0</u>
Total resources used to finance items not part of the Net Cost of Operations	<u>(1,061,346)</u>	<u>(1,061,346)</u>
Total resources used to finance the Net Cost of Operations	<u>\$ 93,375,655</u>	<u>\$ 93,375,655</u>



Department of Defense
 Department of the Navy
COMBINING STATEMENT OF FINANCING
 As of September 30, 2002 and 2001
 (\$ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

	<u>Navy</u>	<u>Marine Corps</u>	<u>2002</u>
Components Requiring or Generating Resources in Future Periods:			
Increase in annual leave liability	\$ 263,070	\$ 0	\$ 263,070
Increase in environmental and disposal liability	595,543	0	595,543
Upward/Downward reestimates of credit subsidy expense	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0
Other (+/-)	<u>79,659</u>	<u>37,936</u>	<u>117,595</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>938,272</u>	<u>37,936</u>	<u>976,208</u>
Components not Requiring or Generating Resources:			
Depreciation and amortization	760,996	155,364	916,360
Revaluation of assets and liabilities (+/-)	(1,228,479)	(455,887)	(1,684,366)
Other (+/-)	<u>2,858,087</u>	<u>42,669</u>	<u>2,900,756</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 2,390,604</u>	<u>\$ (257,854)</u>	<u>\$ 2,123,750</u>
Total components of Net Cost of Operations that will not require or generate resources in the current period	<u>\$ 3,328,876</u>	<u>\$ (219,918)</u>	<u>\$ 3,108,958</u>
Net Cost of Operations	<u>\$ 90,771,321</u>	<u>\$ 11,844,206</u>	<u>\$ 102,615,527</u>



The accompanying notes are an integral part of these financial statements. See notes 1 and 22.

Supporting Consolidating/Combining Statements

Department of Defense
 Department of the Navy
COMBINING STATEMENT OF FINANCING
 As of September 30, 2002 and 2001
 (\$ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Periods:

	<u>Restated 2001</u>	<u>2001</u>
Increase in annual leave liability	\$ 0	\$ 0
Increase in environmental and disposal liability	0	0
Upward/Downward reestimates of credit subsidy expense	0	0
Increase in exchange revenue receivable from the public (-)	0	0
Other (+/-)	<u>1,186,409</u>	<u>1,186,409</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>\$ 1,186,409</u>	<u>\$ 1,186,409</u>

Components not Requiring or Generating Resources:

Depreciation and amortization	\$ 714,583	\$ 714,583
Revaluation of assets and liabilities (+/-)	0	0
Other (+/-)	<u>32,135</u>	<u>32,135</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 746,718</u>	<u>\$ 746,718</u>

Total components of Net Cost of Operations that will not require or generate resources in the current period
Net Cost of Operations

	<u>\$ 1,933,127</u>	<u>\$ 1,933,127</u>
	<u>\$ 95,308,782</u>	<u>\$ 95,308,782</u>



Department of the Navy

GENERAL FUND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION



MILITARY EQUIPMENT

Narrative Statement

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years (FY) 2003 and beyond and encouraged early implementation. Based on this, the Department terminated the reporting of quantities and condition of military equipment and will begin the process of capitalizing these assets on its Balance Sheet in FY 2002.



Required Supplementary Stewardship Information

HERITAGE ASSETS FOR FISCAL YEAR ENDED SEPTEMBER 2002

(a)	(b) Measurement Quantity	(c) As of 10/30/01	(d) Additions	(e) Deletions	(f) As of 9/30/02
Museums	Each	20	1	-	21
Monuments & Memorials	Each	475	9	1	483
Cemeteries	Sites	55	-	-	55
Archeological Sites	Sites	23,120	163	-	23,283
Buildings and Structures	Each	9,123	9	33	9,099
Major Collections (See Supplemental Reporting)					

Narrative Statement:

The Department of the Navy (DON) is required to report Heritage Assets in accordance with the following public laws:

- 10 USC 2721
- USC 483(b)
- Antiquities Act of 1906
- Historic Sites Act of 1935
- USC 470 National Historic Preservation Act of 1966
- National Environmental Policy Act of 1969
- American Indian Religious Freedom Act of 1978
- Archeological Resources Protection Act of 1979
- Native American Graves Protection & Repatriation Act of 1990
- Presidential Memorandum for Heads of Executive Departments and Agencies: Government to Government Relations with Native American Tribal Governments Act of 1994
- 36 CFR 79 — Curation of Federally Owned and Administered Archeological Collections

In general, the DON defines Heritage Assets as items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant architectural characteristics.

Explanation for adjustments, additions, and deletions. For DON historic buildings and structures, cemeteries, monuments, and memorials a new Heritage Assets data element series (DE 410) has been added to the internet Naval Facilities Asset Data Store (iNFADS). During FY 2003 DON staff will assess the availability of installation inventory and the technical ease of verifying and when necessary recording items in NFADS that are not already recorded. Therefore, balances will change as the DON staff works to reconcile installation records for historic buildings, structures, cemeteries, monuments and memorials with those in NFADS.



For Archaeological sites and artifacts, the DON is establishing a web-based data repository to collect archaeological site information by installation and will begin the data population effort in FY 2003. Archaeological site data provided for FY 2002 was derived through data collection effort within the heritage asset community.

The Department of the Navy Heritage Assets Management System (DONHAMS) has been implemented across the DON to improve and unify the collections management process that includes archival items, artwork, and historical artifacts are derived from DONHAMS. When implementing DONHAMS, data that was captured electronically was converted and placed into DONHAMS. The balances for the aforementioned items will change as DON museum and archive staffs continue to evaluate, accession and catalogue items for inclusion into DONHAMS.

The DON recognizes that there are items that it owns that may be classified as Heritage Assets as the items are evaluated, accessioned and catalogued.

Process used to establish assets as Heritage Assets. The processes used to establish items as having heritage significance varies between categories and type of assets being evaluated. Subject matter experts play a significant role in addition to other criteria such as listing on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

Multi-Use Heritage Assets. Per DoD FMR Volume 6B, Multi-Use Heritage Assets are reported both as Heritage Assets and on the Balance Sheet.

Information Pertaining to the Condition of DON Heritage Assets. The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to the DON collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

Museums

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value.

Monuments and Memorials

Monuments and Memorials have significant monetary and/or historical value to the DON.

The FY 2001 ending balance of 1,179 was adjusted downward by 704 resulting in an FY 2002 beginning balance of 475. This adjustment was the result of the DON beginning to utilize the NFADS to collect heritage asset information by installation.

Cemeteries

Cemeteries are government owned burial grounds located on DON Installations.

In FY 2001, Cemeteries and Archeological Sites were reported as one category with an ending balance of 23,258. This balance consisted of 138 Cemeteries and 23,120 Archeological Sites. The FY 2001 ending balance of 138 Cemeteries was adjusted downward by 83 resulting in an FY 2002 beginning balance of 55. This adjustment was the result of the DON beginning to utilize NFADS to collect heritage asset information by installation.



Required Supplementary Stewardship Information

Archeological Sites

Archeological Sites are lands on which items of significance are located.

In FY 2001, Cemeteries and Archeological Sites were reported as one category with an ending balance of 23,258. This balance consisted of 138 Cemeteries and 23,120 Archeological Sites.

Buildings and Structures

Buildings and Structures are listed on or determined eligible for listing on the National Register of Historic Places, including Multi-use Heritage Assets. Criteria for evaluating National Register eligibility of these sites may be referenced at 36 CFR 60.4.

Supplemental Reporting. In addition to the data presented in the table above, the following supplemental information was reported as of 9/30/02:

Category	Measurement Quantity	As of 10/01/01	Additions	Deletions	As of 9/30/02
Archeological Artifacts	Cubic Feet	13,619	80.5	-	13,699.5
Archival	Linear Feet	60,601	1,408	52	61,957
Artwork	Item	30,589	105	74	30,620
Historical Artifacts	Item	1,052,448	6,403	596	1,058,255

Archeological Artifacts

The FY 2001 ending balance of 12,739 was adjusted upward by 880 resulting in an FY 2002 beginning balance of 13,619. This adjustment was the result of a shift in reporting responsibility from ASN(I&E) to the Navy and Marine Corps Historical Centers.

Archival

The FY 2001 ending balance of 101,764 was adjusted downward by 41,163 resulting in an FY 2002 beginning balance of 60,601. This adjustment was the result of a shift in reporting responsibility from ASN(I&E) to the Navy and Marine Corps Historical Centers.

Artwork

The FY 2001 ending balance of 38,616 was adjusted downward by 8,027 resulting in an FY 2002 beginning balance of 30,589. This adjustment was the result of a shift in reporting responsibility from ASN(I&E) to the Navy and Marine Corps Historical Centers.

Historical Artifacts

The FY 2001 ending balance of 832,993 was adjusted upward by 219,455 resulting in an FY 2002 beginning balance of 1,052,448. This adjustment was the result of a shift in reporting responsibility from ASN(I&E) to the Navy and Marine Corps Historical Centers.



STEWARDSHIP LAND

For Fiscal Year Ended September 30, 2002
(Acres in Thousands)

<u>(a)</u> <u>Land Use</u>	<u>(b)</u> <u>As of 10/1/01</u>	<u>(c)</u> <u>Additions</u>	<u>(d)</u> <u>Deletions</u>	<u>(e)</u> <u>As of 9/30/02</u>
1. Mission	2,021	-	-	2,021
2. Parks & Historic Sites	-	-	-	-
Totals	2,021	-	-	2,021

Narrative Statement

The DON followed the definition of Stewardship Land per DoD Guidance to include Public Domain, Land Set Aside, and Donated Land. The NFADS was used to derive acres for Stewardship Land. Within the definition of Stewardship Land, land can be further defined as improved, semi-improved and other categories of land.



Required Supplementary Stewardship Information

NON-FEDERAL PHYSICAL PROPERTY

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

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Yearly Investment in Research and Development

For Fiscal Years 1998 through 2002

(In Millions of Dollars)

(a) Categories	(b) FY98	(c) FY99	(d) FY00	(e) FY01	(f) FY02
1. Basic Research	\$341	\$344	\$345	\$383	\$378
2. Applied Research	496	510	538	597	647
3. Development					
Advanced Technology Development	518	532	607	738	779
Demonstration and Validation	2,407	2,234	2,216	2,418	2,415
Engineering and Manufacturing Development	2,125	2,019	2,225	2,086	2,836
Research, Development, Test, and Evaluation Management Support	695	709	750	782	838
Operational Systems Development	1,556	1,696	2,047	2,266	2,417
Total	\$8,138	\$8,044	\$8,728	\$9,270	\$10,310

Narrative Statement

Investments in Research and Development

Investment values included in this Report are based on Research and Development (R&D) outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with FASAB standards.

1. Basic Research

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

The following are two representative program examples for the above major category.





Partial Differential Equation-Based Interpolation of Lost Image Regions

Scientists and researchers have developed computer techniques that can interpolate images of lost regions based on partial differential equations and computer algorithms. Utilizing the relationships between art, image processing, applied mathematics, and fluid dynamics, the computer techniques automatically fill-in the lost pieces of an image by using information from neighboring available regions. The technology may increase the quality of imagery and video surveillance by overcoming obstacles associated with bandwidth and noisy channels.

Controlled Biological and Biominetic Systems (Robotic Fly Project)

Scientists from a joint military and university research project to develop a tiny winged robot modeled after a housefly successfully invented the mechanical wings necessary to give the robotic fly flight. Upon completion of the robotic insect, the faux fly will likely become the lightest weight autonomous robot in existence at a mere tenth of a gram. The robotic fly project, is part of an overall study by the Defense Advanced Research Project Agency and the Office of Naval Research.

2. Applied Research

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts.

The following are two representative program examples for the above major category.

Robotic Gliders

Scientists and researchers are developing two gliders that move through the water instead of the air. The two ocean gliders, autonomous underwater vehicles powered by changes in their buoyancy or by different temperatures layers in the ocean, collect high resolution profiles of physical, chemical, and bio-optical properties of the ocean. The gliders could potentially provide data necessary for mine countermeasure and other tasks important to expeditionary warfare.

Supersonic Combustion Ramjet (SCRAMJET)

The SCRAMJET is a cruise missile engine capable of speeds of up to MACH 6.5 at an altitude of 90,000 feet and a range of 600 nautical miles. Ultimately, missiles powered by SCRAMJET will launch from ships, submarines, and aircraft. The SCRAMJET powered missiles will reach their targets more quickly, thus reducing the possibility that enemies will intercept them on the way in.

Required Supplementary Stewardship Information

3. Development

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advance Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and productibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.
2. Demonstration and Validation evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Demonstration and Validation are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.
3. Engineering Manufacturing and Development concludes the program or project and prepares it for production. It consists primarily of pre-production efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and development testing.
4. RDT&E Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.
5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are two representative program examples for the above major category.

High Strength, Low Alloy Steel (HSLA)

A new high strength, low alloy steel, HSLA-65, is undergoing certification tests to determine whether it could be used in the DON's next generation aircraft carrier. If the HSLA-65 passes the certification tests, the steel could provide equal or greater service life than traditional high-strength steel and weigh less. This will enable the carrier room for normal growth for new weapons, aircraft, sensors, communications, and maintenance equipment.

MV-22 Osprey

Technicians and engineers are continuing their development in support of the "Return to Flight" of the MV-22. The MV-22 has undergone a broad range of modifications per recommendations from the DoD and NASA panels. Chief among the modifications was to the 5,000-psi high-pressure hydraulic system and rerouting of electrical lines. Software upgrades will be a part of the next Osprey production blocks.



Department of the Navy

GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION



Department of Defense
Department of the Navy

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2002 and 2001
(\$ in thousands)

BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES	Other	Research Development, Test and Evaluation	Operation and Maintenance	Procurement
Budget Authority				
Appropriations Received	\$ 362,370	\$ 11,507,506	\$ 31,839,478	\$ 25,308,799
Net transfers (+/-)	(255,192)	47,996	1,736,519	185,767
Unobligated Balance:				
Beginning of period	31,023	851,026	1,074,476	11,120,006
Net transfers, actual (+/-)	0	650	2,652	680
Spending Authority from Offsetting Collections:				
Collected	0	151,829	4,642,835	1,014,086
Receivable from Federal sources	0	5,056	(136,853)	(96,644)
Advances received	0	0	1,900	0
Without advance from Federal sources	0	71,157	86,293	(8,375)
Subtotal	<u>\$ 0</u>	<u>\$ 228,042</u>	<u>\$ 4,594,175</u>	<u>\$ 909,067</u>
Recoveries of prior year obligations	\$ 14,006	\$ 111,884	\$ 1,395,298	\$ 339,812
Permanently not available	(4,033)	(246,613)	(377,902)	(515,885)
Total Budgetary Resources	<u>\$ 148,174</u>	<u>\$ 12,500,491</u>	<u>\$ 40,264,696</u>	<u>\$ 37,348,246</u>
 STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ 110,527	\$ 11,114,499	\$ 33,910,978	\$ 21,427,162
Reimbursable	109	269,855	5,411,652	6,867,204
Subtotal	<u>\$ 110,636</u>	<u>\$ 11,384,354</u>	<u>\$ 39,322,630</u>	<u>\$ 28,294,366</u>
Unobligated balance				
Apportioned	\$ 37,538	\$ 1,056,543	\$ 122,039	\$ 8,783,710
Unobligated Balances Not Available	0	59,594	820,027	270,170
Total, Status of Budgetary Resources	<u>\$ 148,174</u>	<u>\$ 12,500,491</u>	<u>\$ 40,264,696</u>	<u>\$ 37,348,246</u>
 RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net-beginning of period:	\$ 116,910	\$ 4,372,212	\$ 8,806,746	\$ 35,381,535
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	0	(30,134)	(1,476,191)	\$ (220,588)
Unfilled customer order from Federal sources	0	(177,343)	(1,286,287)	(18,110)
Undelivered Orders	80,873	5,179,514	11,281,055	36,408,075
Accounts Payable	18,221	85,653	1,485,143	1,327,183
OUTLAYS:				
Disbursements	\$ 114,446	\$ 10,510,778	\$ 36,780,918	\$ 25,944,548
Collections	0	(151,829)	(4,644,736)	(1,014,086)
Subtotal	<u>\$ 114,446</u>	<u>\$ 10,358,949</u>	<u>\$ 32,136,182</u>	<u>\$ 24,930,462</u>
Less: Offsetting receipts	(29,120)	0	(184,225)	0
Net Outlays	<u>\$ 85,326</u>	<u>\$ 10,358,949</u>	<u>\$ 31,951,957</u>	<u>\$ 24,930,462</u>



General Fund Required Supplementary Information

Department of Defense
Department of the Navy

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2002 and 2001

(\$ in thousands)

BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES	Military Personnel	Military Construction/Family Housing	2002 Combined	2001 Combined
Budget Authority				
Appropriations Received	\$ 29,011,847	\$ 1,531,202	\$ 99,561,202	\$ 94,848,409
Net transfers (+/-)	955,207	5,950	2,676,247	387,346
Unobligated Balance:				
Beginning of period	153,679	605,618	13,835,828	13,624,084
Net transfers, actual (+/-)	66,829	(19,750)	51,061	365,723
Spending Authority from Offsetting Collections:				
Collected	237,247	443,965	6,489,962	4,878,546
Receivable from Federal sources	54,702	(89,714)	(263,453)	915,971
Advances received	0	(614)	1,286	4,165
Without advance from Federal sources	(420)	37,863	186,518	(201,723)
Subtotal	<u>\$ 291,529</u>	<u>\$ 391,500</u>	<u>\$ 6,414,313</u>	<u>\$ 5,596,959</u>
Recoveries of prior year obligations	311,423	114,411	2,286,834	\$ 3,277,598
Permanently not available	(188,260)	(67,263)	(1,399,956)	(1,773,918)
Total Budgetary Resources	<u>\$ 30,602,254</u>	<u>\$ 2,561,668</u>	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>
 STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ 30,325,125	\$ 2,419,460	\$ 99,307,751	\$ 95,682,240
Reimbursable	149,818	(489,843)	12,208,795	6,807,699
Subtotal	<u>\$ 30,474,943</u>	<u>\$ 1,929,617</u>	<u>\$ 111,516,546</u>	<u>\$ 102,489,939</u>
Unobligated balance				
Apportioned	\$ 21,737	\$ 569,000	\$ 10,590,567	\$ 12,391,407
Unobligated Balances Not Available	105,574	63,051	1,318,416	1,444,855
Total, Status of Budgetary Resources	<u>\$ 30,602,254</u>	<u>\$ 2,561,668</u>	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>
 RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net-beginning of period:	\$ 1,989,955	\$ 1,666,491	\$ 52,333,849	\$ 48,385,598
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	(270,029)	(112,436)	(2,109,378)	(2,372,828)
Unfilled customer order from Federal sources	(728)	(544,725)	(2,027,193)	(1,840,675)
Undelivered Orders	496,528	2,187,710	55,633,755	50,942,279
Accounts Payable	1,512,623	174,177	4,603,000	5,604,765
OUTLAYS:				
Disbursements	\$ 30,360,798	\$ 1,828,822	\$ 105,540,310	\$ 94,550,149
Collections	(237,247)	(443,351)	(6,491,249)	(4,882,711)
Subtotal	<u>\$ 30,123,551</u>	<u>\$ 1,385,471</u>	<u>\$ 99,049,061</u>	<u>\$ 89,667,438</u>
Less: Offsetting receipts	0	0	(213,345)	0
Net Outlays	<u>\$ 30,123,551</u>	<u>\$ 1,385,471</u>	<u>\$ 98,835,716</u>	<u>\$ 89,667,438</u>



DEPARTMENT OF THE NAVY
 GENERAL PROPERTY, PLANT, AND EQUIPMENT
 Real Property Deferred Annual Sustainment and Restoration Tables
 As of September 30, 2002
 (\$ in Millions)

Annual Sustainment FY 2002			
	Required	Actual	Difference
Navy			
Marine Corps			
Building, Structures, and Utilities	1,522	1,482	40

Annual Deferred Sustainment Trend			
	FY 2000	FY 2001	FY 2002
Navy			
Marine Corps			
Building, Structures, and Utilities	-	501	40

Restoration and Modernization Requirements			
	End FY 2001	End FY 2002	Change
Navy			
Marine Corps			
Building, Structures, and Utilities	-	-	-

Narrative Statement:

In FY 2002, Department of the Navy, General Fund facilities transitioned to the Office of the Secretary of Defenses Facility Sustainment Model for calculating deferred sustainment and restoration. FY 2001 facility investments were programmed, budgeted, and executed before application of the Facility Sustainment Model. Therefore, the fluctuations between FY 2001 data and FY 2002 data are attributable to the revised reporting methodology.

The quality of data used in the Facility Sustainment Model continued to undergo quality checks in FY 2002, resulting in a more accurate accounting of deferred sustainment requirements.

Presently, a separate breakout between Navy and Marine Corps sustainment amounts cannot be provided. Due to this limitation, information in the Real Property Deferred Annual Sustainment and Restoration Tables are presented in total for the Department of the Navy (DON).

The Facility Sustainment Model calculates facility sustainment investment based on DON property inventory, facility type, key units of measure, geographic location and industry standards. These variables are constantly being examined to reduce errors and eliminate disconnects for unique DON facility requirements.

The DON General Fund has no material amounts of deferred sustainment for the General Property, Plant, and Equipment categories of Personal Property, Heritage Assets, or Stewardship Land.



General Fund Required Supplementary Information

MILITARY EQUIPMENT

Deferred Maintenance Amounts
As of September 30, 2002
(\$ in Thousands)

<u>Major Type</u>	<u>Amount</u>
1. Aircraft	\$ 148,470
2. Ships	243,615
3. Missiles	36,130
4. Combat Vehicles	41,950
5. Other Weapons Systems	<u>224,022</u>
6. Total	\$694,187

Narrative Statement:

Aircraft Deferred Maintenance

There are four sub-categories that comprise aircraft deferred maintenance: airframe rework and maintenance (active and reserve), engine rework and maintenance (active and reserve), component repair and software maintenance. The airframe rework deferred maintenance calculation reflects executable unfunded requirements, which represent aircraft that failed Aircraft Service Period Adjustment (ASPA) or reached fixed Period End Date (PED) at year-end. The engine rework deferred maintenance calculation reflects year-end actual requirements minus actual funded units. Generally, component repair deferred maintenance cost represents the difference between requirement and funding. Aircraft deferred maintenance reflects only executable deferred maintenance. Unexecutable deferred maintenance is not reported in the Exhibit OP-30, nor is it collected.

Ship Deferred Maintenance

Deferred Ship Maintenance data was provided by Fleet Type Commanders. Data was collected from the Current Ships' Maintenance Plan (CSMP) database, which captures maintenance actions at all levels (organizational, intermediate, depot) for active and reserve ships. Only depot level deferred maintenance has been provided in this report. This includes maintenance actions that were deferred from actual depot maintenance work packages as well as maintenance that was deferred prior to inclusion in a work package due to either fiscal, operational, or capacity constraints. Although there is a significant amount of deferred maintenance actions, there are no ships that fall into the category of "unacceptable operating condition". Any ship that would be at risk of being in unacceptable operating condition would receive priority for maintenance funding to maintain acceptable operating condition.

Ship deferred maintenance decreased from \$903,758 thousand in FY 2001 to \$243,615 thousand in FY 2002. This is due to the DON's funding a higher percentage of ship maintenance requirements in FY 2002.

Missile Maintenance

Four categories are used to determine missile maintenance: missiles, tactical missiles, software maintenance, and other. Deferred maintenance is defined as the difference between the total weapon maintenance requirement as determined by requirements modeling processes and the weapon maintenance that is funded in accordance with the annual budget controls for the Missile Maintenance program. The maintenance requirements model projects the quantity of missiles and missile components per weapon system that are required to be maintained (reworked) annually.



Combat Vehicles

The combat vehicles category is for vehicle overhaul for the active and reserve Marine Corps. Deferred Maintenance for Combat Vehicles increased from \$766 thousand in FY 2001 to \$41,950 thousand in FY 2002. This is primarily the result of improved reporting in light of the new methodology.

Other Weapons Systems

The "Other Weapons Systems" category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of repairables. Three categories define ordnance maintenance: ordnance maintenance, software maintenance and other. Although the various programs vary in the methodology in defining requirements, all programs define deferred maintenance as the difference between requirements and funding.

Software Maintenance

Software maintenance requirements and deferred maintenance for aircraft, missiles and other equipment are determined using the same methodology and, therefore will not be addressed separately for each Military Equipment Deferred Maintenance reporting categories. Software maintenance includes the operational and system test software that runs in the airborne avionics systems (e.g., mission computer, display computer, radar) and the software that runs the ground based support labs used to perform software sustainment (e.g., compilers, editors, simulation, configuration management). The deferred maintenance reported for the execution year are those requirements below the funding threshold and up to, but not exceeding, the capacity of the Software Support Activity (SSA) in that particular fiscal year. There may be deferred requirements that exceed the capacity of the SSA, but these are not reported in the Exhibit OP-30 for the execution year, but rather identified as an out year requirement.



General Fund Required Supplementary Information

Schedule, Part A DoD Intragovernmental Asset Balances (\$ Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		\$ 12,979			
Department of Agriculture	12		290			
Department of Commerce	13		56			
Department of the Interior	14		180			
Department of Justice	15		2,943			
Navy General Fund	17					
United States Postal Service	18		10			
Department of State	19		20,749			
Department of the Treasury	20	\$ 68,249,955	1,403		\$ 9,625	
Army General Fund	21		13,283			
Library of Congress	3		27			
Department of Veterans Affairs	36		2			
General Service Administration	47		23			
Air Force General Fund	57		60,070			\$ 555
Federal Emergency Management Agency	58		28			
Department of Transportation	69		4,252			
Department of Health and Human Services	75		67			
National Aeronautics and Space Administration	80		4,674			
Armed Forces Retirement Home	84		6			
Department of Housing and Urban Development	86		12			
Department of Energy	89		84			
US Army Corps of Engineers	96		1,177			
Other Defense Organizations General Funds	97		317,355			43
Other Defense Organizations Working Capital Funds	97-4930		43,718			
Army Working Capital Fund	97-4930.011		5,158			576
Navy Working Capital Fund	97-4930.002		253,581			65,900
Air Force Working Capital Fund	97-4930.003		341			8
TOTALS		\$ 68,249,955	\$ 742,468	\$ 0	\$ 9,625	\$ 67,082



Schedule, Part I DoD Intragovernmental Entity Liabilities (\$ Amounts In Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of Justice	15			
Department of labor	16			\$ 616,874
Department of the Treasury	20			2,839,957
Army General Fund	21	\$ 53,822		
Office of Personnel Management	24			32,672
Air Force General Fund	57	25,752		
US Army Corps of Engineers	96	2,073		
Other Defense Organizations General Funds	97	39,731	\$ 128	
Other Defense Organizations Working Capital Funds	97-4930	260,323		
Army Working Capital Fund	97-4930.001	4,802		
Navy Working Capital Fund	97-4930.002	348,895		
Air Force Working Capital Fund	97-4930.003	12,878		
TOTALS		\$ 748,276	\$ 128	\$ 3,489,503



General Fund Required Supplementary Information

Schedule, Part C DoD Intragovernmental Revenue and Related Costs (\$ Amounts in Thousands)	Treasury Index	Earned Revenue
Executive Office of the President	11	\$ 6,132
Department of Agriculture	12	187
Department of Commerce	13	172
Department of the Interior	14	499
Department of Justice	15	2,079
Department of Labor	16	22
United States Postal Service	18	21
Department of State	19	20,982
Department of the Treasury	20	1,777
Army General Fund	21	23,143
Library of Congress	3	27
Department of Veterans Affairs	36	8
General Service Administration	47	287
National Science Foundation	49	1
Air Force General Fund	57	73,145
Federal Emergency Management Agency	58	28
Department of Transportation	69	5,268
Department of Health and Human Services	75	67
National Aeronautics and Space Administration	80	5,197
Armed Forces Retirement Home	84	6
Department of Housing and Urban Development	86	12
Department of Energy	89	31
US Army Corps of Engineers	96	999
Other Defense Organizations General Funds	97	510,782
Other Defense Organizations Working Capital Funds	97-4930	53,331
Army Working Capital Fund	97-4930.001	5,187
Navy Working Capital Fund	97-4930.002	499,591
Air Force Working Capital Fund	97-4930.003	952
TOTALS		\$ 1,209,933



Schedule, Part E DoD Intragovernmental Non-Exchange Revenues (S Amounts in Thousands)	Treasury Index	Transfer -In	Transfer -Out
Air Force General Fund	57	\$ 4,733	
Navy Working Capital Fund	97-4930.002	4,291	\$ 3,153
TOTALS		\$ 9,024	\$ 3,153



Department of the Navy

OTHER ACCOMPANYING INFORMATION



APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE PRINCIPAL STATEMENTS

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

Revolving funds

17 4557	National Defense Sealift Fund, Navy
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Trust funds

17X8423	Midshipmen Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
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



General Fund Required Supplementary Information

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

Deposit funds

- 17X6001 Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
- 17X6002 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

