

Department of the Navy

# WORKING CAPITAL FUND PRINCIPAL STATEMENTS



## LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of 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.



# Principal Statements

## PRINCIPAL STATEMENTS

The FY 2002 Navy Working Capital 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 Navy Working Capital Fund for the fiscal year ending September 30, 2002, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2001. In accordance with SSFAS No. 21, the FY 2001 presentation has been restated to show the correction of a material error discovered in FY 2002 and is identified in the Financial Statement presentation in the column titled "Restated 2001".

The following statements are included in the Navy Working Capital 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  
Navy Working Capital Fund  
**CONSOLIDATED BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	<b>2002</b>	<b>Restated 2001</b>	<b>2001</b>
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 1,709,680	\$ 1,204,403	\$ 1,204,403
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	525,240	894,349	894,349
Other Assets (Note 6)	266	29,500	29,500
Total Intragovernmental Assets	<u>2,235,186</u>	<u>2,128,252</u>	<u>2,128,252</u>
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	80,901	109,737	109,737
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	17,655,864	17,345,710	17,885,914
General Property, Plant and Equipment (Note 10)	4,190,837	4,151,238	4,151,238
Other Assets (Note 6)	1,140,654	1,373,420	1,373,420
<b>TOTAL ASSETS</b>	<u>\$ 25,303,442</u>	<u>\$ 25,108,357</u>	<u>\$ 25,648,561</u>
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 434,772	\$ 462,946	\$ 462,946
Debt (Note 13)	750,725	888,306	888,306
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	177,808	119,102	119,102
Total Intragovernmental Liabilities	<u>1,363,305</u>	<u>1,470,354</u>	<u>1,470,354</u>
Accounts Payable (Note 12)	1,799,671	1,041,391	1,041,391
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	1,325,926	1,372,651	1,372,651
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	2,807,834	4,045,593	4,045,593
<b>TOTAL LIABILITIES</b>	<u>\$ 7,296,736</u>	<u>\$ 7,929,989</u>	<u>\$ 7,929,989</u>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	0	0	0
Cumulative Results of Operations	18,006,706	17,178,368	17,718,572
<b>TOTAL NET POSITION</b>	<u>\$ 18,006,706</u>	<u>\$ 17,178,368</u>	<u>\$ 17,718,572</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 25,303,442</u>	<u>\$ 25,108,357</u>	<u>\$ 25,648,561</u>

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



# Principal Statements

Department of Defense  
 Navy Working Capital Fund  
**CONSOLIDATED STATEMENT OF NET COST**  
 For the years ended September 30, 2002 and 2001  
 (\$ in thousands)

	<b>2002</b>	<b>Restated 2001</b>	<b>2001</b>
<b>Program Costs</b>			
Intragovernmental Gross Costs	\$ 5,382,324	\$ 6,189,093	\$ 6,189,093
(Less: Intragovernmental Earned Revenue)	<u>(20,916,260)</u>	<u>(18,328,658)</u>	<u>(18,328,658)</u>
Intragovernmental Net Costs	<u>(15,533,936)</u>	<u>(12,139,565)</u>	<u>(12,139,565)</u>
Gross Costs With the Public	18,837,402	16,928,798	14,436,194
(Less: Earned Revenue From the Public)	<u>(862,692)</u>	<u>(648,383)</u>	<u>(648,383)</u>
Net Costs With the Public	<u>17,974,710</u>	<u>16,280,415</u>	<u>13,787,811</u>
Total Net Cost	2,440,774	4,140,850	1,648,246
<b>Costs Not Assigned to Programs</b>	0	0	0
<b>(Less: Earned Revenue Not Attributable to Programs)</b>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Costs of Operations</b>	<u>\$ 2,440,774</u>	<u>\$ 4,140,850</u>	<u>\$ 1,648,246</u>

The accompanying notes are an integral part of these financial statements. See notes 1 and 19.



Department of Defense  
Navy Working Capital Fund

### CONSOLIDATED STATEMENT OF CHANGES IN THE NET POSITION

For the years ended September 30, 2002 and 2001

(\$ in thousands)

CUMULATIVE RESULTS OF OPERATION	2002	Restated 2001	2001
<b>Beginning Balances</b>	\$ 17,718,572	\$ 19,090,738	\$ 19,090,738
Prior period adjustments (+/-)	1,952,397	790,769	(1,161,631)
<b>Beginning Balances, as adjusted</b>	<u>19,670,969</u>	<u>19,881,507</u>	<u>17,929,107</u>
<b>Budgetary Financing Sources:</b>			
Appropriations Received	0	0	0
Appropriations transferred in/out (+/-)	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0
Appropriations used	0	145,530	145,530
Nonexchange revenue	0	11,352	11,352
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	312,060	771,249	771,249
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	(1,138)	36,187	36,187
Imputed financing from costs absorbed by others	465,589	473,393	473,393
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>776,511</u>	<u>1,437,711</u>	<u>1,437,711</u>
<b>Net Cost of Operations (+/-)</b>	2,440,774	4,140,850	1,648,246
<b>Ending Balances</b>	<u>\$ 18,006,706</u>	<u>\$ 17,178,368</u>	<u>\$ 17,718,572</u>

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



# Principal Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the years ended September 30, 2002 and 2001  
(\$ in thousands)

<b>BUDGETARY RESOURCES</b>	<b>2002 Budgetary Financing Accounts</b>	<b>Restated 2001 Budgetary Financing Accounts</b>	<b>2001 Budgetary Financing Accounts</b>
Budget Authority:			
Appropriations Received	\$ 0	\$ 145,530	\$ 145,530
Borrowing Authority	0	0	0
Contract Authority	818,950	612,962	612,962
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated Balance:			
Beginning of period	3,106,657	2,089,156	2,089,156
Net transfers, actual (+/-)	0	43,700	43,700
Anticipated Transfers Balances	0	0	0
Spending Authority from Offsetting Collections:			
Earned			
Collected	24,242,264	21,216,090	21,216,090
Receivable from Federal sources	(478,538)	177,613	177,613
Change in unfilled customer orders			
Advances received	58,673	(576,035)	(576,035)
Without advance from Federal sources	773,407	790,653	790,653
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	<u>24,595,806</u>	<u>21,608,321</u>	<u>21,608,321</u>
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(417,232)	(80,135)	(80,135)
<b>Total Budgetary Resources</b>	<u><u>\$ 28,104,181</u></u>	<u><u>\$ 24,419,534</u></u>	<u><u>\$ 24,419,534</u></u>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$ 0	\$ 0	\$ 0
Reimbursable	23,986,959	21,312,877	21,312,877
Subtotal	<u>23,986,959</u>	<u>21,312,877</u>	<u>21,312,877</u>
Unobligated balance:			
Apportioned	4,117,221	3,044,096	3,044,096
Exempt from apportionment	0	62,562	62,562
Other available	1	(1)	(1)
Unobligated Balances Not Available	0	0	0
<b>Total, Status of Budgetary Resources</b>	<u><u>\$ 28,104,181</u></u>	<u><u>\$ 24,419,534</u></u>	<u><u>\$ 24,419,534</u></u>

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



Department of Defense  
 Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the years ended September 30, 2002 and 2001  
 (\$ in thousands)

	<b>2002 Budgetary Financing Accounts</b>	<b>Restated 2001 Budgetary Financing Accounts</b>	<b>2001 Budgetary Financing Accounts</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>			
Obligated Balance, Net-beginning of period	\$ 2,421,105	\$ 3,630,862	\$ 3,630,862
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, net-end of period:			
Accounts Receivable	(773,326)	(1,251,862)	(1,251,862)
Unfilled customer order from Federal sources	(6,791,954)	(6,018,549)	(6,018,549)
Undelivered Orders	7,327,957	4,611,122	4,611,122
Accounts Payable	3,223,082	5,080,394	5,080,394
Outlays:			
Disbursements	23,127,436	21,554,367	21,554,367
Collections	(24,300,937)	(20,640,054)	(20,640,054)
Subtotal	<u>(1,173,501)</u>	<u>914,313</u>	<u>914,313</u>
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<b><u>\$ (1,173,501)</u></b>	<b><u>\$ 914,313</u></b>	<b><u>\$ 914,313</u></b>



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

# Principal Statements

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

	2002	Restated 2001	2001
<b>Resources Used to Finance Activities:</b>			
Budgetary Resources Obligated			
Obligations Incurred	\$ 23,986,959	\$ 21,312,876	\$ 21,312,876
Less: Spending Authority from offsetting collections and recoveries (-)	(24,595,804)	(21,608,321)	(21,608,321)
Obligations net of offsetting collections and recoveries	(608,845)	(295,445)	(295,445)
Less: Offsetting receipts (-)	0	0	0
Net obligations	(608,845)	(295,445)	(295,445)
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	(7,512)	(7,512)
Imputed financing from costs absorbed by others	465,589	473,394	473,394
Other (+/-)	0	0	0
Net other resources used to finance activities	465,589	465,882	465,882
<b>Total resources used to finance activities</b>	<b>\$ (143,256)</b>	<b>\$ 170,437</b>	<b>\$ 170,437</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered orders (-)	\$ (3,023,627)	\$ 2,802,411	\$ 2,802,411
Unfilled Customer Orders	832,080	214,618	214,618
Resources that fund expenses recognized in prior periods	(46,725)	(305)	(305)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0
Resources that finance the acquisition of assets	5,167,247	(520,950)	(3,013,554)
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 (+/-)	0	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>2,928,975</b>	<b>2,495,774</b>	<b>3,170</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 2,785,719</b>	<b>\$ 2,666,211</b>	<b>\$ 173,607</b>



Department of Defense  
Navy Working Capital Fund  
**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	\$ 0	\$ 0	\$ 0
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0
Other (+/-)	0	149,042	149,042
Total components of Net Cost of Operations that will require or generate resources in future periods	0	149,042	149,042

Components not Requiring or Generating Resources:

Depreciation and amortization	210,490	210,671	210,671
Revaluation of assets and liabilities (+/-)	(555,394)	1,114,926	1,114,926
Other (+/-)	(41)	0	0
Total components of Net Cost of Operations that will not require or generate resources	\$ (344,945)	\$ 1,325,597	\$ 1,325,597
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<b>\$ (344,945)</b>	<b>\$ 1,474,639</b>	<b>\$ 1,474,639</b>
<b>Net Cost of Operations</b>	<b>\$ 2,440,774</b>	<b>\$ 4,140,850</b>	<b>\$ 1,648,246</b>



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

Department of the Navy

# WORKING CAPITAL 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 Navy Working Capital Fund (NWCF), 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 the NWCF in accordance with the Department of Defense Financial Management Regulation (DoD FMR), 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 Principals (GAAP). However, the NWCF financial statements were affected by fiscal year (FY) 2000 and 2001 adjustments, made to facilitate the Department of Defense (DoD) and federal-wide financial statement consolidation process, that were not reversed at fiscal year-end as required by the DoD FMR. The NWCF was required to present financial statement balances that agreed with related balances reported by other DoD and other civilian agency balances. The adjusted balances reported by the NWCF then enabled DoD and the Department of Treasury to eliminate, at the DoD and federal government consolidated statement levels, the effects of all intra-DoD and intra-governmental transactions. The effect of these adjustments on the NWCF financial statements for FYs 2000 and 2001 was significant and pervasive. See Note 1.G., Accounting for Intragovernmental Activities, for additional disclosures on eliminating intra-governmental transactions.

The accompanying financial statements account for all resources for which the NWCF is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The NWCF financial statements are in addition to the financial reports also prepared by the NWCF pursuant to OMB directives that are used to monitor and control the NWCF use of budgetary resources.

The NWCF is unable to fully implement all elements of Federal GAAP and 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 the NWCF's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These 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, the NWCF cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The NWCF 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.

The amounts presented in the financial statements and notes are rounded to the nearest thousand of dollars.

### B. Mission of the Reporting Entity

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

The NWCF has prepared, for the 12th year, financial statements pursuant to CFO Act of 1990, as amended. The Act requires that financial statements be prepared and audited for each revolving fund and account that performed substantial commercial functions, such as those performed by the NWCF.

The NWCF financial statements include all activities previously financed through the Navy Industrial Fund and DON Stock Fund. DoD converted these activities to the Defense Business Operations Fund (DBOF) in



# Notes to the Principal Statements

October 1991. In December 1996, Under Secretary of Defense (Comptroller) (USD(C)) replaced the DBOF with four working capital funds, one of which is the NWCF. This action did not change the previous organizational reporting structure.

## **C. Appropriations and Funds**

The 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 the DON's missions.

Working capital funds (WCF) (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 Defense Working Capital Fund (DWCF) operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

## **D. Basis of Accounting**

The NWCF generally records transactions on an accrual accounting basis as is required by Federal GAAP. However, some of the NWCF's financial and nonfinancial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis. The NWCF has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP.

In addition, the NWCF identifies programs based upon the major appropriation groups provided by Congress. The NWCF 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.

## **E. Revenues and Other Financing Sources**

Revenue is recognized according to the percentage of completion method for depot maintenance and research and development WCF activities. Revenue is recognized when an inventory item is sold for supply management activities and at the time service is rendered for base support activities. Revenue for the transportation activity group is recognized on either a reimbursable or per diem basis.

## **F. Recognition of Expenses**

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

Operating expenses were adjusted as a result of the elimination of balances between DoD Components. See Note 19.1 Intragovernmental Expenses and Revenue, for disclosure of adjustment amounts.





### **G. Accounting for Intra-governmental Activities**

The NWCF, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the NWCF as though the agency was a stand-alone entity.

The DON's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The NWCF'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 DON 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.

The NWCF's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The NWCF 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). The NWCF 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.

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department 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 the NWCF must be eliminated. However, the NWCF cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the NWCF. For FYs 1999, 2000, and 2001, seller entities within the Department 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

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department 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. The NWCF, 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.

# Notes to the Principal Statements

## **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**

The NWCF's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, 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 the NWCF'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**

Not Applicable.

## **K. Accounts Receivable**

As presented in the Balance Sheet, 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 another federal agency are to be resolved between the agencies. Material disclosures are provided in Note 5.

## **L. Loans Receivable.**

Not Applicable.

## **M. Inventories and Related Property**

Federal accounting standards require that inventory and related property be appropriately categorized and valued using one of several historical-cost based methods. At present, inventories (exclusive of OM&S which are also considered part of the inventory and related property reporting line item) are reported at approximate historical cost using the Latest Acquisition Cost (LAC) adjusted for holding gains and losses. Past audit results identified uncertainties about the existence and completeness of quantities used to produce the reported values.

Inventory and related property reported on the financial statements are derived from logistics systems designed for material management purposes. Overall, these systems do not maintain the historical cost data necessary for proper valuation in compliance with federal accounting standards. In addition, while these logistics systems provide accountability and visibility for logistics purposes, they do not directly support the categorization of inventory and related property required by SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the United States Government Standard General Ledger (USSGL), as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208).



The law distinguishes between "Inventory held for sale" and "Inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, 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 DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. DoD holds material based on military need and support for contingencies. Therefore, DoD does not attempt to account separately for items held for "current" or "future" sale.

Related property includes Operating Materials and Supplies (OM&S) and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department 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.

In July 2001, DoD adopted the moving average cost (MAC) method for valuing all DoD inventory and related property. MAC is another acceptable valuation method consistent with federal accounting standards but avoids the complications presented by the Adjusted LAC method. The policy allows the DoD components to implement the MAC method as systems are replaced or renovated.

During FY 2002 DoD examined transaction-driven methods that impact how inventory and related property are categorized and reported. Policy released in August 2002 requires inventory and related property to be categorized based upon specific coding assigned by logisticians that dictates whether an asset is ready and available for use or sale, requires repair, or is being held for other reasons. This represents an improvement over previous years reporting methods where, for example, Excess, Obsolete, and Unserviceable amounts were derived for financial reports using imprecise estimates not originally intended to support financial reporting.

The Department's new policy accounts 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 now included in the Available and Purchased for Resale, Held for Use or Held for Repair categories according to its condition.

Material disclosures related to inventory and related property are provided in Note 9.

#### **N. Investments in U.S. Treasury Securities**

Not Applicable.

#### **O. General Property, Plant and Equipment**

General PP&E assets are 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 are required to be capitalized. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of \$15,000, \$25,000, and \$50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of two or more years was capitalized. These assets remain capitalized and reported on WCF financial statements. General PP&E previously capitalized at amounts below \$100,000 were written off General Fund financial statements in FY 1998.



# Notes to the Principal Statements

For WCF activities, all PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. Military Equipment, Heritage Assets and Stewardship Land owned or maintained on a WCF installation are reported in the Supplemental Stewardship Report of the applicable military department. To prevent duplicative reporting of the same Heritage Assets within DON, the total number of DON-wide Heritage Assets are reported in the Required Supplementary Stewardship Information (RSSI) of the Audited Financial Statements of the DON General Funds (Treasury Index 17).

The General Accounting Office (GAO) has determined that real property used by the NWCF, but under the jurisdiction of the Military Departments, represents an asset of the NWCF, and that such property should be reported on the financial statements as an entity asset to show the full costs of all resources and assets used in NWCF operations. DFAS is currently developing accounting and reporting procedures to allow NWCF to report finance sources and expenses associated with assets not acquired with NWCF resources (e.g., real property) as Other Revenues and Financing Sources and Depreciation and Amortization Expense.

Material disclosures are provided at Note 10.

## **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 asset's 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**

The NWCF 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, the NWCF provides financing payments. One type of financing payment that the NWCF makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," 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 FAR, the NWCF makes financing payments under fixed price contracts that are not based on a percentage of completion. The NWCF reports these financing payments as advances or prepayments in the "Other Assets" line item. The NWCF treats these payments as advances or prepayments because the NWCF becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the NWCF is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the NWCF for the full amount of the advance. The Department 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." The Department 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.

Material disclosures are provided at Note 6.





## **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 the NWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when 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. The NWCF'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.

## **T. Accrued Leave**

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

## **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 for WCF represents the excess of revenues over expenses less refunds to customers and returns to the U.S. Treasury since fund inception.

## **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 is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

## **W. Comparative Data**

The NWCF presents the current and previous year's financial data for comparative purposes. This data will be presented in the financial statements, as well as in the notes to the principal statements.

However, in FY 2002, the DFAS modified the financial statement presentation for the Statement of Net Cost, Statement of Changes in Net Position and the Statement of Financing. As a result, the corresponding NWCF statements during this reporting period may not provide data that can be used for comparative analysis. In some instances, amounts on the statements were reported on one financial statement line in FY 2001 and for FY 2002 have been split into multiple financial statement lines. This action was taken to ensure compliance with OMB guidance.

## **X. Unexpended Obligations**

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

# Notes to the Principal Statements

## NOTE 2. NONENTITY AND ENTITY ASSETS

As of September 30,  
(Amounts in thousands)

	2002			2001
	Nonentity	Entity	Total	
<b>1. Intra-governmental Assets:</b>				
A. Fund Balance with Treasury	\$ 0	\$ 1,709,680	\$ 1,709,680	\$ 1,204,403
B. Investments	0	0	0	0
C. Accounts Receivable	0	525,240	525,240	894,349
D. Other Assets	0	266	266	29,500
E. Total Intra-governmental Assets	\$ 0	\$ 2,235,186	\$ 2,235,186	\$ 2,128,252
<b>2. Non-Federal Assets:</b>				
A. Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0
B. Accounts Receivable	0	80,901	80,901	109,737
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	17,655,864	17,655,864	17,885,914
E. General Property, Plant and Equipment	0	4,190,837	4,190,837	4,151,238
F. Other Assets	0	1,140,654	1,140,654	1,373,420
G. Total Non-Federal Assets	\$ 0	\$ 23,068,256	\$ 23,068,256	\$ 23,520,309
<b>3. Total Assets:</b>	\$ 0	\$ 25,303,442	\$ 25,303,442	\$ 25,648,561

#### 4. Other Information:

Asset accounts are either categorized as 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, e.g., Accounts Payable. Nonentity accounts are assets that are held by an entity, but are not available for use in the operations of the entity, for example, cash held by a disbursing officer, as an agent of the Department of Treasury.

Included in the Entity Nonfederal Other Assets is an amount of \$1,256 thousand representing interest, penalties, fines & administrative fees. These fees do not belong to the NWCF and will be submitted to the Department of Treasury. These fees were reclassified from Non-Entity Nonfederal Other Assets as instructed by DFAS Arlington.

Detailed disclosures for Other Assets are provided in Note 6.



### 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	\$ 0	\$ 0
B. Revolving Funds	1,709,680	1,204,403
C. Trust Funds	0	0
D. Other Fund Types	0	0
<b>E. Total Fund Balances</b>	<b><u>\$ 1,709,680</u></b>	<b><u>\$ 1,204,403</u></b>

#### 2. Fund Balances Per Treasury Versus Agency:

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

A. Fund Balance per Treasury	\$ 1,709,680	\$ 1,204,403
B. Fund Balance per NWCF	1,709,680	1,204,403
<b>C. Reconciling Amount</b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>

#### 3. Explanation of Reconciliation Amount: None

#### 4. Other Information Related to Fund Balance with Treasury:

The Fund Balance with Treasury of \$1,709,680 thousand reflects the FY 2001 ending balance of \$1,204,403 thousand plus FY 2002 collections, disbursements, and non-expenditure transfers recorded in the NWCF Treasury sub-limit 97X4930.002. The following table details the amounts recorded in FY 2002:

Collections	\$ 23,771,581
Disbursements	(23,070,077)
Non-expenditure Transfers, Net	(196,227)

The non-expenditure transfers, as recorded on SF 1151, Non Expenditure Transfer Authorization, are comprised of Transfers-in of \$62,588 thousand and Transfers-out of \$(258,815) thousand. The transfers had an effect on the following NWCF Activities:

<u>Activity</u>	<u>(in thousands)</u> <u>Non-expenditure</u> <u>Transfers</u>
Transportation	\$ (196,227)
Information Services	(62,588)
Research & Development	18,776
Supply Management, Navy	43,812
<b>Total</b>	<b><u>\$ (196,227)</u></b>

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 September 30, 2001 and 2002, there was \$1,648 thousand and \$16,743 thousand, respectively, of IPAC differences greater than 180-days old. A majority of the differences represent internal DoD transactions and therefore do not affect the FBWT at the DoD consolidated level. For individual entity level statements, however, these differences would affect the amount reported for the FBWT. The Department is working with the DFAS sites, the Department of the Treasury, and a Treasury Department contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers established metrics and implemented monthly reporting requirements for FY 2001. These actions will aid the NWCF in clearing many of the old balances and establishing better internal controls over the IPAC process.

The Fund Balance with Treasury increased materially from FY 2001 to FY 2002 primarily as a result of an increase in customer work in FY 2002 for Research & Development's Space and Naval Warfare Systems Centers (SSCs).



# Notes to the Principal Statements

## NOTE 4. INVESTMENTS

Not Applicable.

## 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
<b>1. Intra-governmental Receivables:</b>	\$ 525,240	N/A	\$ 525,240	\$ 894,349
<b>2. Non-Federal Receivables (From the Public):</b>	\$ 80,901	\$ 0	\$ 80,901	\$ 109,737
<b>3. Total Accounts Receivable:</b>	<u>\$ 606,141</u>	<u>\$ 0</u>	<u>\$ 606,141</u>	<u>\$ 1,004,086</u>

### 4. Allowance method:

Under SFFAS No. 1, an allowance for uncollectible Accounts Receivable nonfederal should be recognized to reduce the gross amount of receivables to net realizable value. The DoD FMR cites the requirement of GAO and the Department of the Treasury that federal agencies establish allowances for uncollectible accounts. The NWCF is not in compliance with this requirement. The NWCF requires an advance payment from non-federal customers prior to starting work, therefore, the NWCF uses the direct write-off method for Accounts Receivable non-federal when an account is determined to be uncollectible. During FY 2002, there were \$190,435 thousand dollars written off for uncollectible amounts owed by nonfederal customers. Amounts reported for non-federal receivables represent bills that were produced at the end of the year for which payment has not been received or amounts that have not been matched with the prepayment and advance account.

### 5. Other information:

The amount of public receivables and intragovernmental receivables over 180-days old is \$24,384 thousand and \$64,541 thousand, respectively.

Intragovernmental Accounts Receivable decreased materially from FY 2001 to FY 2002 primarily as a result of the final billing for FY 2002 not being completed as of 30 September 2002 for Research and Development's Naval Surface Warfare Center (NSWC) and Naval Undersea Warfare Center (NUWC).

Accounts Receivable Nonfederal decreased materially from FY 2001 to FY 2002. This decrease is primarily due to a significant decrease in Foreign Military Sales (FMS) for Supply Management, Navy and a Defense Industrial Financial Management System (DIFMS) system change which automated the matching of advances to accounts receivable for the Industrial Fund activities.

Supported undistributed and unmatched collections were required to be reported against Accounts Receivable. In FY 2002, supported undistributed collections in the amount of \$307,831 thousand were applied against Accounts Receivable.

For the non-supply NWCF business areas, supported undistributed collections were allocated entirely among intragovernmental Accounts Receivable since the non-federal Accounts Receivable balances were immaterial. In contrast, the total supported undistributed collections for the Supply Management, Navy business area were allocated between intragovernmental and non-federal. This allocation was based on the ratio of the balances recorded for each category as of 30 September 2002.



Unsupported undistributed collections intragovernmental for Supply Management, Navy were offset against unsupported undistributed disbursements and posted to Accounts Payable - Disbursements in Transit. There were no unsupported undistributed collections for non-supply NWCF business areas.

Supply Management, Navy has several activities that report financial data from the Financial Inventory Reporting (FIR) System. In the system, cash sales are posted to current year collections instead of being recorded directly as an account receivable. However, since undistributed collections are netted to Accounts Receivable, the resulting balance in Accounts Receivable is correctly stated. This process results from the inability of the FIR System to report trial balance data. Currently, DFAS is in the process of converting the FIR System users to the Material Financial Control System (MFCS). Implementation dates of MFCS for the remaining users are as follows: Fleet and Industrial Supply Center Yokosuka – January 2003, Naval Submarine Support Facility New London, Construction Battalion Center Port Hueneme, and Trident Refit Facility Kings Bay – March 2003. MFCS will enable these activities to properly record cash sales as Accounts Receivable rather than influencing the balance of Accounts Receivable through undistributed collections.

The NWCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF 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.

For reporting purposes, the Accounts Receivable balance has been affected by adjustments made to facilitate the DoD and federal-wide consolidation process, which are discussed in Note 1.



# Notes to the Principal Statements

## NOTE 6. OTHER ASSETS

As of September 30,  
(Amounts in thousands)

	2002	2001
<b>1. Intra-governmental Other Assets:</b>		
A. Advances and Prepayments	\$ 266	\$ 29,500
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	<u>\$ 266</u>	<u>\$ 29,500</u>
<b>2. Non-Federal Other Assets:</b>		
A. Outstanding Contract Financing Payments	\$ 0	\$ 0
B. Other Assets (With the Public)	1,140,654	1,373,420
C. Total Non-Federal Other Assets	<u>\$ 1,140,654</u>	<u>\$ 1,373,420</u>
<b>3. Total Other Assets:</b>	<u>\$ 1,140,920</u>	<u>\$ 1,402,920</u>

#### 4. Other Information Related to Other Assets:

Intragovernmental Other Assets has decreased materially from FY 2001 to FY 2002 primarily due to the reversal of a prior year elimination adjustment to reflect Unearned Revenue – Advances from Others for Supply Management, Navy.

The Advances and Prepayments balance has been adjusted to reflect the “Advances from Others” balances as reported on the books of the sellers (other DoD reporting entities). These adjustments are made to facilitate the DoD and federal-wide consolidation process, which are discussed in Note 1.

Other Assets (With the Public) has decreased materially from FY 2001 to FY 2002 as a result of the FY 2002 reduction of the related outstanding debt principal amount reported for the Transportation Activity Group.

Other Assets (With the Public) includes an amount of \$739,280 thousand relating to the outstanding debt principal amount reported for the Transportation Activity Group involving Time Charter arrangements made by Military Sealift Command (MSC) for the long-term use of the Afloat Prepositioning Force – Navy (APF-N) Ships. The outstanding debt principal amount is reported in the NWCF Balance Sheet Other Assets (With the Public) in order to reconcile with the amount reported by the Federal Financing Bank through the trading partner elimination process. See Note 13 for material disclosures.

Other Assets (With the Public) also includes inventory returned to suppliers by Supply Management, Marine Corps with a credit pending in the amount of \$172,854 thousand, progress payments made by Supply Management, Navy amounting to \$110,670 thousand, and revenue earned but not billed by Depot Maintenance, Shipyards amounting to \$90,561 thousand. The remaining amounts of \$10,685 thousand, \$9,877 thousand, \$3,367 thousand, and \$3,358 thousand represents advances, deferred charges, PP&E awaiting disposal, and unallocated costs, respectively.



## NOTE 7. CASH AND OTHER MONETARY ASSETS

Not Applicable.

## NOTE 8. DIRECT LOANS AND LOAN GUARANTEES, NONFEDERAL BORROWERS

Not Applicable.

## NOTE 9. INVENTORY AND RELATED PROPERTY, NET

As of September 30,  
(Amounts in thousands)

	2002	2001
1. Inventory, Net (Note 9.A.)	\$ 17,012,566	\$ 17,290,476
2. Operating Materials & Supplies, Net (Note 9.B.)	643,298	595,438
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	<u>\$ 17,655,864</u>	<u>\$ 17,885,914</u>

### NOTE 9.A. INVENTORY, NET

As of September 30,  
(Amounts in thousands)

	2002			2001	
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Valuation Method
<b>1. Inventory Categories:</b>					
A. Available and Purchased for Resale	\$ 15,320,204	\$ (10,864,011)	4,456,193	\$ 6,410,049	LAC
B. Held for Repair	14,780,423	(2,984,304)	11,796,119	9,804,105	LAC
C. Excess, Obsolete, and Unserviceable	540,204	(540,204)	0	103,563	SP
D. Raw Materials	0	0	0	0	
E. Work in Process	760,253	0	760,254	972,759	AC
F. Total	<u>\$ 31,401,084</u>	<u>\$ (14,388,519)</u>	<u>17,012,566</u>	<u>\$ 17,290,476</u>	

#### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

#### 2. Restrictions of Inventory Use, Sale, or Disposition:

Generally, there are no restrictions with regard to the use, sale, or disposition to applicable DoD activities and personnel. Other than certain safety and war reserve levels, inventory may be sold to foreign, state and local governments, private parties and contractors in accordance with DoD, DFAS and DON policies and guidance or at the direction of the President.

#### 3. Other Information:

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

**Inventory Categories.** Inventory represents property that is (1) held for sale, (2) in the process of production for sale or (3) to be consumed in the production of goods for sale or in the provision of services for a fee.



# Notes to the Principal Statements

**Inventory Available and Purchase for Resale** includes consumable spare and repair parts and repairable items owned and managed by the DON. In some cases, the consumable and repairable items are managed by other Services, the Defense Logistics Agency (DLA), or the General Services Administration (GSA). Material available and purchased for resale includes material held due to a managerial determination that it should be retained to support military or national contingencies. Therefore, the DON is not able to designate in any meaningful or practical way those items held for "current" sale versus those held for "future" sale as required by federal accounting standards. However, based on budgetary projections, the value of inventory expected to be sold in the next fiscal year is \$4,186,910 thousand net, which could be described as "Inventory Held for Sale." The remainder of the inventory available for sale, \$269,282 thousand net, could be considered "Inventory Held for Future Sale." There is no management or valuation difference between the two categories. See footnote disclosure 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing inventory and related property.

The Supply Management, Navy value of War Reserve Material is \$207,144 thousand. The Supply Management, Marine Corps value of War Reserve Material is \$67,732 thousand. These values are included in Note 9.A. line, Available and Purchased for Resale.

**Inventory Held for Repair** is damaged inventory that requires repair to make suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because the DON often relies on weapon systems and machinery no longer in production, the DON supports a process that encourages the repair and rebuilding of certain items. This repair cycle is an essential part of maintaining a ready, mobile, and armed military force.

**Excess, Obsolete, and Unserviceable** inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. The DON does not anticipate recovering any significant costs as result of final disposal of these items. Therefore, beginning with the FY 2002 financial statements, Excess, Obsolete, and Unserviceable inventory will reflect a net realizable value of zero.

**Work in Process** balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in Process also includes the value of finished products or completed services pending billing to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered.

### **Significant Internal Control Weakness:**

The general ledger values in the accounting system do not reconcile with the supporting detail records in the Navy segment of the Supply Management Activity logistics system. Analysis of this out-of-balance condition revealed a net discrepancy of approximately \$1,935,285 thousand at LAC as of September 30, 2002. In FY 2002, Navy Supply Management established a team to identify and correct problems that are directly related to the reconciling differences. Journal vouchers have been provided by DFAS to correct the imbalance. Once approved, the accounting entries will be made to ensure the source records maintained in the logistic system reconcile to the accounting records.



**NOTE 9.B. OPERATING MATERIALS AND SUPPLIES, NET**

As of September 30,  
(Amounts in thousands)

	2002			2001	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
<b>1. OM&amp;S Categories</b>					
A. Held for Use	\$ 643,298	\$ 0	\$ 643,298	\$ 595,438	0
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unservicable	0	0	0	0	
D. Total	<u>\$ 643,298</u>	<u>\$ 0</u>	<u>\$ 643,298</u>	<u>\$ 595,438</u>	

**Legend for Valuation Methods:**

Adjusted LAC = Latest Acquisition Cost adjusted for holding gains and losses

NRV = Net Realizable Value

0 = Other

SP = Standard Price

AC = Actual Cost

**2. Restrictions on OM&S:**

Generally, there are no restrictions with regard to the use, sale, or disposition of Operating Materials and Supplies (OM&S) to applicable DoD activities.

**3. Other Information:**

**OM&S Held for Use** represents property that is consumed during the normal operations and includes consumable spare and repair parts for use on customer work by various activities. The items are primarily recorded at weighted average cost and charged as an expense when used, sold, or issued. This process is indicative of the consumption method of accounting and complies with federal accounting standards. The DON is not able to designate in any meaningful or practical way those items held for "current" use versus those held for "future" use as required by federal accounting standards. However, based on budgetary projections, the value of OM&S expected to be used in the next fiscal year is \$643,285 thousand, which could be described as "OM&S Held for Use." The remainder of the OM&S available for use, \$14,000 thousand, could be considered "OM&S Held for Future Use." There is no management or valuation difference between the two categories. See footnote 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.



# Notes to the Principal Statements

## NOTE 10. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30,  
(Amounts in thousands)

	2002				2001	
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes:</b>						
A. Land	N/A	N/A	\$ 63,773	N/A	\$ 63,773	\$ 63,833
B. Buildings, Structures, and Facilities	S/L	20 Or 40	6,464,963	\$ (4,023,692)	2,441,271	2,435,191
C. Leasehold Improvements	S/L	lease term	302	(103)	199	0
D. Software	S/L	2-5 Or 10	250,966	(158,703)	92,263	82,021
E. Equipment	S/L	5 Or 10	3,373,968	(2,425,058)	948,910	1,094,028
F. Assets Under Capital Lease <sup>1</sup>	S/L	lease term	0	0	0	0
G. Construction-in-Progress	N/A	N/A	644,421	N/A	644,421	476,165
H. Other			0	0	0	0
I. Total General PP&E			<u>\$ 10,798,393</u>	<u>\$ (6,607,556)</u>	<u>\$ 4,190,837</u>	<u>\$ 4,151,238</u>

<sup>1</sup>Note 15.B for additional information on Capital Leases

### Legend for Valuation Methods:

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

## 2. Other Information:

The acquisition value of fully depreciated assets included in the table above and reported in the Balance Sheet amount to \$2,704,709 thousand as of 30 September 2002.

Included in the Major Asset Classes disclosed in Note 10 are assets totaling \$335,873 thousand located Outside of the Continental United States (OCONUS).

For those activities with General PP&E real property in the possession of contractors, the value of this real property is included in the values reported above for the Major Asset Classes of Buildings, Structures, and Facilities. The value of personal property in Major Asset Classes of Automated Data Processing (ADP) Software and Equipment does not include all of the General PP&E 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. In accordance with an approved strategy with the OMB, the GAO, and the Inspector General, DoD, the Department is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal-wide accounting standards.

## NOTE 10.A. ASSETS UNDER CAPITAL LEASE

None.



## 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	
<b>1. Intra-governmental Liabilities:</b>				
A. Accounts Payable	\$ 434,772	\$ 0	\$ 434,772	\$ 462,946
B. Debt	750,725	0	750,725	888,306
C. Environmental Liabilities	0	0	0	0
D. Other	177,808	0	177,808	119,102
E. Total Intra-governmental Liabilities	\$ 1,363,305	\$ 0	\$ 1,363,305	\$ 1,470,354
<b>2. Non-Federal Liabilities:</b>				
A. Accounts Payable	\$ 1,799,671	\$ 0	\$ 1,799,671	\$ 1,041,391
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	1,325,926	1,325,926	1,372,651
C. Environmental Liabilities	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	2,807,834	0	2,807,834	4,045,593
F. Total Non-Federal Liabilities	\$ 4,607,505	\$ 1,325,926	\$ 5,933,431	\$ 6,459,635
<b>3. Total Liabilities:</b>	<u>\$ 5,970,810</u>	<u>\$ 1,325,926</u>	<u>\$ 7,296,736</u>	<u>\$ 7,929,989</u>

### 4. Other Information:

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.

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

Included in the Nonfederal Other Liabilities Covered by Budgetary Resources is an amount of \$1,256 thousand representing interest, penalties, fines & administrative fees. These fees do not belong to the NWCF and will be submitted to the Department of Treasury. These fees were reclassified from Nonfederal Other Liabilities Not Covered by Budgetary Resources as instructed by DFAS Arlington.

Detailed disclosures for Other Liabilities are provided in Note 15.A.



# Notes to the Principal Statements

## NOTE 12. ACCOUNTS PAYABLE

As of September 30,  
(Amounts in thousands)

	2002			2001
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
<b>1. Intra-governmental Payables:</b>	\$ 434,772	N/A	\$ 434,772	\$ 462,946
<b>2. Non-Federal Payables (to the Public):</b>	\$ 1,799,671	\$ 0	\$ 1,799,671	\$ 1,041,391
<b>3. Total</b>	<u>\$ 2,234,443</u>	<u>\$ 0</u>	<u>\$ 2,234,443</u>	<u>\$ 1,504,337</u>

### 4. Other Information:

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.

Accounts Payable Nonfederal increased materially from FY 2001 to FY 2002 due to the reclassification of (\$1,044,715) thousand of unsupported undistributed disbursements allocated from the DWCF Corporate Account to Other Liabilities Nonfederal. This allocation was reclassified from Accounts Payable Nonfederal to eliminate the distortion of the true NWCF undistributed amount. See Note 15 for detail disclosures.

In FY 2002, supported undistributed disbursements in the amount of \$399,780 thousand have been applied against Accounts Payable.

The majority of the undistributed disbursements represent Mechanization of Contract Administration Services (MOCAS) payments, which have not been liquidated. MOCAS payments represent those payments made to contractors for materials or services that are greater than \$2,500 dollars. Accruals are made when the service is performed and remains in this account until the provider submits an invoice for payment. Therefore, if a copy of the invoice is not received by the NWCF activity prior to DFAS making payment, the payment will go to undistributed disbursements. The amounts accrued to cover the anticipated materials and services are captured as Contract Accruals on the Other Accrued Expense line (Note 15.A., Other Liabilities, Nonfederal: Other Liabilities) and are not considered an Accounts Payable.

Unsupported undistributed disbursements were offset against unsupported undistributed collections and posted to Accounts Payable - Disbursements in Transit.

For the majority of intra-agency sales, NWCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF was unable to reconcile intragovernmental Accounts Payable to the related intragovernmental Accounts Receivable that generated the payable. The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

The DoD summary level seller Accounts Receivables were compared to NWCF's Accounts Payable. An adjustment was posted to the NWCF's Accounts Payable based on the comparison with the Accounts Receivable of the DoD Components providing goods and services to the NWCF's. The adjustments were posted to Navy Component Accounts Payable requiring a reclassification from Federal to Public. The adjustments are made to facilitate the DoD and federal-wide consolidation process, which are discussed in Note 1.



## NOTE 13. DEBT

As of September 30,  
(Amounts in thousands)

	2002			2001
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
<b>1. Public Debt:</b>				
A. Held by Government Accounts	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
<b>2. Agency Debt:</b>				
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	888,307	(137,582)	750,725	888,306
C. Debt to Other Federal Agencies	0	0	0	0
D. Total Agency Debt	<u>\$ 888,307</u>	<u>\$ (137,582)</u>	<u>\$ 750,725</u>	<u>\$ 888,306</u>
<b>3. Total Debt:</b>	<u>\$ 888,307</u>	<u>\$ (137,582)</u>	<u>\$ 750,725</u>	<u>\$ 888,306</u>
<b>4. Classification of Debt:</b>				
A. Intra-governmental Debt			\$ 750,725	\$ 888,306
B. Non-Federal Debt			N/A	N/A
C. Total Debt			<u>\$ 750,725</u>	<u>\$ 888,306</u>

### 5. Other Information:

The Afloat Prepositioning Force (APF-N) program, with Congressional approval, provides ships for Time Charter to meet requirements not available in the marketplace. These ships are built or converted by private Interim Vessel Owners using private, non-government financing obtained from various banking institutions. There were no payments made by the government during the building/conversion phase. APF-N Time Charters are for five years with four option renewal periods of five years each, for a total of 25 years. At the end of the contract, each ship returns to the vessel's owner.

The Federal Financing Bank (FFB) is one of the institutions that provided loans to the vessel owners. The FFB is reporting a debt in the amount of \$750,724 thousand, which represents an outstanding principal balance of \$739,280 thousand and accrued interest payable of \$11,444 thousand, for the Transportation Activity. This information is being presented in error as the transportation activity group does not owe this debt to the FFB. This debt is a public debt owed by the private vessel owners. In order to simplify the payments to the FFB and to meet their requirements, the FFB cross-disburses the semi-annual principal and interest payments directly from the NWCF. This is done instead of having the Military Sealift Command (MSC) make Capital Hire payments to the vessel owners, who would in turn make its loan obligation payments to the FFB.

The direction of the vessel owner to have the government make payments directly to a bank, in this case the FFB, is not an uncommon practice, and mirrors other Time Charters where payment is assigned directly to a bank. This is what occurred when the ownership of these vessels was transferred to private vessel owners; however, the FFB when establishing the loan coded the loan as a government debt.

As required by USD(C) memorandum of 22 January 1999, MSC is correctly recording these payments as an operating expense. However, the outstanding debt principal amount is reported in the NWCF Balance Sheet as an Other Asset in order to reconcile with the amount reported by the FFB through the trading partner elimination process. The misclassification by the FFB has generated this long-standing reporting problem. See Note 6 for additional disclosures.



# Notes to the Principal Statements

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

Intragovernmental Debt has decreased materially from FY 2001 to FY 2002 as a result of the FY 2002 reduction of the outstanding debt principal amount reported for the Transportation Activity Group.

## NOTE 14. ENVIRONMENTAL RESTORATION LIABILITIES AND ENVIRONMENTAL DISPOSAL LIABILITIES

Not Applicable.

## NOTE 15.A. OTHER LIABILITIES

As of September 30,  
(Amounts in thousands)

	2002			2001
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intra-governmental:</b>				
A. Advances from Others	\$ 141,318	\$ 0	\$ 141,318	\$ 81,416
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0	0
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	0	0	0	0
F. Nonenvironmental 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. Judgement Fund Liabilities	0	0	0	0
I. FECA Reimbursement to the Department of Labor	0	0	0	0
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	36,490	0	36,490	37,686
L. Total Intra-governmental Other Liabilities	\$ 177,808	\$ 0	\$ 177,808	\$ 119,102



As of September 30,  
(Amounts in thousands)

	2002			2001
	Current Liability	Noncurrent Liability	Total	Total
<b>2. Non-Federal:</b>				
A. Accrued Funded Payroll and Benefits	\$ 710,275	\$ 0	\$ 710,275	\$ 712,126
B. Advances from Others	138,651	0	138,651	141,466
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	0	0	0	0
H. Nonenvironmental 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
I. Accounts Payable--Cancelled Appropriations	0	0	0	0
J. Accrued Unfunded Annual Leave	0	0	0	0
K. Accrued Entitlement Benefits for Military Retiree and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	1,958,908	0	1,958,908	3,192,001
N. Total Non-Federal Other Liabilities	<u>2,807,834</u>	<u>0</u>	<u>2,807,834</u>	<u>4,045,593</u>
<b>3. Total Other Liabilities:</b>	<u>\$ 2,985,642</u>	<u>\$ 0</u>	<u>\$ 2,985,642</u>	<u>\$ 4,164,695</u>

**4. Other Information Pertaining to Other Liabilities:**

Intragovernmental Other Liabilities, represents liabilities of \$36,490 thousand for fringe benefits and the Voluntary Separation Incentive Program.

Non-federal Advances from Others, includes \$54,529 thousand in Advances from foreign governments under the Cooperative Logistics Supply Support Arrangements program. These Advances are used by the Supply Management, Navy to procure additional levels of inventory to support the military requirements of a foreign government. The additional level of inventory is necessary to both ensure timely response to the needs of the foreign customer and to preclude the satisfaction of foreign customer requirements from impacting the capability to satisfy DoD requirements.

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

Title	Amount (in thousands)
Accrual of Contractual Services	\$1,979,425
Depot Level Repairable Carcass Return Liability	1,351,267
Other Liabilities	(1,373,786)
Contract Holdback	2,002
Total, Nonfederal Other Liabilities	\$1,958,908



# Notes to the Principal Statements

The accrual of contractual services of \$1,979,425 thousand represents an accrued liability for direct work performed by contractors or material and supplies purchased for a direct order in which a request for payment has not been received. The accrual is based on the level of effort performed for the direct order on a monthly basis.

The Depot Level Repairable Carcass Return Liability of \$1,351,267 thousand represents the value of returned depot level repairable carcasses that have been received by an accountable activity from an end-use activity but for which an issue has not yet been processed.

The Other Liabilities amount of \$(1,373,786) thousand includes a \$(1,044,715) thousand allocation of unsupported undistributed disbursements. This allocation was based on a DFAS memorandum dated 10 October 1997 which directed the allocation of undistributed disbursements to the DoD services from their DWCF corporate account. As this allocation is not supported by specific transactional information, which would identify the value as belonging to the NWCF, the allocation continues to remain on the books at the Navy Component level. Continual effort is underway to obtain transactional information in order to allocate these funds to the appropriate NWCF activity.

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

Intragovernmental Other Liabilities increased materially from FY 2001 to FY 2002 primarily as a result of an increase in Advances from Others for Depot Maintenance Shipyards. Depot Maintenance Shipyards is allowed to bill up to their stabilized costs, however revenue is earned based on percentage of work completed. Therefore, there may be a difference (e.g. deferred charges or liability) between what is billed and what is recognized as earned. The increase in Advances from Others occurred since we have collected more than we have earned. Upon completion of work, the difference will clear.

Other Liabilities Nonfederal decreased materially from FY 2001 to FY 2002 due to the reclassification of the \$(1,044,715) thousand of unsupported undistributed disbursements allocated from the DWCF Corporate Account discussed above from Accounts Payable Nonfederal. This allocation was reclassified to Other Liabilities Nonfederal to eliminate the distortion of the true NWCF undistributed amount.

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

For reporting purposes, the other liabilities balance has been affected by adjustments made to facilitate the DoD and federal-wide consolidation process, which are discussed in Note 1.

## NOTE 15.B. CAPITAL LEASE LIABILITY

None.

## NOTE 16. COMMITMENTS AND CONTINGENCIES

Disclosures Related to Commitments and Contingencies:  
None.



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

As of September 30,  
(Amounts in Thousands)

	2002			2001
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate(%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability
<b>1. Pension and Health Benefits:</b>				
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0
C. Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Benefits	\$ 0		\$ 0	\$ 0
<b>2. Other:</b>				
A. FECA	\$ 1,325,926		\$ 0	\$ 1,325,926
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D.	0		0	0
E. Total Other	\$ 1,325,926		\$ 0	\$ 1,325,926
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	<u>\$ 1,325,926</u>		<u>\$ 0</u>	<u>\$ 1,325,926</u>
			<u>\$ 1,325,926</u>	<u>\$ 1,372,651</u>

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

Actuarial Cost Method Used: The liability for Workmen's Compensation (FECA) includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The Department of Labor (DOL) provided the amount of \$2,872,301 thousand to DoD as the actuarial liability estimate for DON's FECA. This amount was distributed between the NWCF \$1,325,926 thousand and DON General Funds \$1,546,375 thousand based upon the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System for FY 2002.

Assumptions: Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. In computing the projected annual benefit payments, the interest rate assumptions used in the discount calculations were as follows:

2002  
5.20% in year 1,  
5.20% in year 2, and thereafter

Market Value of Investments in Market-based and Marketable Securities: Not Applicable.

**NOTE 18. UNEXPENDED APPROPRIATIONS**

Not Applicable.



# Notes to the Principal Statements

## NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF THE NET COST

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

Disclosures Related to the Statement of Net Cost:

While the Navy's WCFs generally record transactions on an accrual basis as required by federal generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the Statement of Net Cost represent the net result of post-closing adjustments and eliminating entries made in compiling and consolidating the NWCF financial statements. These entries significantly affected the reported amounts of Intragovernmental Program Cost, Program Cost with the Public, Earned Revenue and Net Program Cost.

The post-closing adjustments were made in order to increase or decrease certain NWCF account balances reported as of 30 September 2002 to ensure agreement with related balances reported by other DoD and other federal reporting entities. Eliminating entries are required adjustments made as part of a process instituted to enable matching eliminating entries to be recorded at each financial statement consolidation level — the NWCF, DoD and Federal Government levels.

Additional details on procedures followed for adjustments and eliminating entries including the effects on the financial statements are provided in Notes 1.

The Statement of Net Cost was impacted by the recording of Prior Period Adjustments (PPAs) in the amount of (\$124,306) thousand as current year transactions. See Note 20 for detail disclosures.

The NWCF 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).

For FY 2002, Judgment Fund claims are reported in the Navy GF statements and notes.

### 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,  
(Amount in thousands)

	2002	2001
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 205,147	\$ 223,285
2. Civilian Health	259,494	249,179
3. Civilian Life Insurance	948	929
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	0	0
7. Total Imputed Expenses	<u>\$ 465,589</u>	<u>\$ 473,393</u>

#### 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

Disclosures Related to Stewardship Assets:  
Not Applicable.

#### NOTE 19.I. INTRA-GOVERNMENTAL REVENUE AND EXPENSE

Disclosures Related to Intra-governmental Revenue and Expense:

The NWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF 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 the 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.

The NWCF operating expenses were adjusted based on a comparison between the NWCF's Accounts Payable and the DoD summary level seller Accounts Receivables. Adjustments were posted to Accounts Payable and operating expenses to reflect the following reported balances: other trading partners; Federal Financing Bank payments for debt; prior period adjustment restatement to current years operations; interest, penalties, fines & administrative fees data call; and resolution of abnormal accounts payables in accordance with current guidance. The operating expenses of the NWCF were adjusted downwards in the net amount of \$725,488 thousand.



# Notes to the Principal Statements

OMB has established a working group to review the current business practices in place to capture the data exchanged between federal agencies; and to determine what changes need to be incorporated. DON NWCF has representation on the USD(C) group which is working directly with OMB to ensure that all aspects (e.g., financial, logistics and security) of the DoD are given full consideration. Based on the large volume of intragovernmental transactions that occur this project is a major undertaking and will take several years to complete with the ultimate goal of having this process totally automated.

## NOTE 19.J. SUBORGANIZATION PROGRAM COSTS

Not Applicable.

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

As of September 30,  
(Amount in thousands)

	Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position</b>				
<b>Beginning Balance:</b>				
A.Changes in Accounting Standards	\$ 0	\$ 0	\$ 0	\$ 0
B.Errors and Omissions in Prior Year Accounting Reports	1,952,397	0	(1,168,965)	0
C.Other Prior Period Adjustments	0	0	7,334	0
D.Total Prior Period Adjustments	<u>\$ 1,952,397</u>	<u>\$ 0</u>	<u>\$ (1,161,631)</u>	<u>\$ 0</u>
<b>2. Imputed Financing:</b>				
A.Civilian CSRS/FERS Retirement	\$ 205,147	\$ 0	\$ 223,285	\$ 0
B.Civilian Health	259,494	0	249,179	0
C.Civilian Life Insurance	948	0	929	0
D.Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgement Fund	0	0	0	0
G.Total Imputed Financing	<u>\$ 465,589</u>	<u>\$ 0</u>	<u>\$ 473,393</u>	<u>\$ 0</u>

### 3. Other Information:

The Errors and Omissions in Prior Year Accounting Reports line in the amount of \$1,952,397 thousand represents amounts calculated in the USD(C) inventory valuation model, which calculates a prior period adjustment to the cost of goods sold. See Note 1.M. for further discussion of the inventory revaluation model and significant accounting policies.

Prior Period Adjustments (PPAs) generated in the Navy Activity accounting systems in the amount of (\$124,306) thousand were reclassified to current year operations as directed by DFAS Arlington. DFAS Arlington determined the PPAs were immaterial at the Navy level or not of an infrequent nature therefore not justified PPAs. The DON requested the PPAs be posted to Navy Component to ensure integrity of the activities financial system data.

The Other Budgetary Financing Sources line on the Statement of Changes in Net Position includes \$470,621 thousand for amounts reclassified to Other Gains or Other Losses from Transfers-In and Transfers-Out. Transfers-In amounts are required to agree with Transfers-Out amounts received from seller-side data. Any amounts that could not be eliminated through the intragovernmental eliminations process were reclassified.



### Cumulative Results of Operations – Deferred:

Included in the NWCF's Net Position, Cumulative Results of Operations (CRO) are amounts that were approved by USD(C) as a deferral for recovery from, or return to, customers in later fiscal years' billing rates. As of 30 September 2002, the total NWCF amount of CRO-Deferred was (\$522,620) thousand. This amount primarily consists of system development costs incurred during FY 1992-FY 1998 totaling \$389,533 thousand by the Joint Logistics Service Center (JLSC). With the closure of JLSC, USD(C) directed in August 1998 that this JLSC system development cost be deferred from cost recovery. As instructed by the USD(C), DON distributed this amount among affected NWCF activities. The FY 2002 change in CRO Deferred amounts represents the write-off of liabilities from a Pilot Program at Navy Shipyards (NSY) Pearl Harbor. The following table displays all CRO – Deferred amounts through FY 2002:

(Amounts in thousands)	FY 2001 CRO Deferred Amounts	FY 2002 Change	FY 2002 CRO Deferred Amounts
JLSC	\$ (389,533)	\$ 0	\$ (389,533)
Depreciation	(4,569)	0	(4,569)
Explosive Incident	(4,829)	0	(4,829)
Material and Supplies – BRAC	(7,383)	0	(7,383)
Pilot Program – NSY Pearl Harbor	0	(116,306)	(116,306)
Total	\$ (406,314)	\$ (116,306)	\$ (522,620)

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

As of September 30,  
(Amounts in thousands)

1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period
2. Available Borrowing and Contract Authority at the End of the Period

	2002	2001
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 7,340,100	\$ 4,316,473
2. Available Borrowing and Contract Authority at the End of the Period	5,394,300	4,857,081

### 3. Other Information:

The Statement of Budgetary Resources is an image of the monthly Report on Budget Execution (SF 133). These reports should be produced using budgetary accounts. However, the NWCF uses proprietary accounts because its financial accounting systems were not designed to produce budgetary accounting data. The DON and DFAS continue with the implementation of new accounting systems designed to produce both proprietary and budgetary reports and use the USSGL. The Defense Industrial Financial Management System (DIFMS) has been fully implemented at all Research and Development (R&D) activities except two. One remaining activity is in the process of conversion and anticipates completion by April 2003. The other R&D activity has successfully implemented an Enterprise Resource Planning (ERP) pilot program. The Defense Working Capital Accounting System (DWAS) continues to be implemented at the Base Support activities. Once all systems have been implemented, the capability to produce the Statement of Budgetary Resources and SF 133 should be accomplished.

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



# Notes to the Principal Statements

For the SF 133, Supply Management’s revenue is defined as gross sales less credit returns. For these financial statements, revenue is defined as gross sales. Credit returns are used to the inventory valuation model to calculate the cost value of the inventory and cost of goods sold. The difference in “meanings” causes significant variances in the reports.

On these budgetary reports, the net outlays (collections and disbursements) year to date are reported based on the amounts reported to U.S. Treasury from the Centralized Expenditures/Reimbursement Processing System. In FY 2002, the differences between the U.S. Treasury and the NWCF activity ledgers have been minimal, and the cause is related to timing or the type of transactions. The differences are recorded as undistributed disbursements and collections on the departmental reports.

While there may be no impact upon the U.S. Treasury balance, the above differences have created distortions in the Accounts Receivable and Accounts Payable from a budgetary reporting perspective on the SF 133. In addition, Accounts Receivable and Accounts Payable are handled differently on the monthly SF 133 as compared to the monthly Accounting Report AR (M) 1307 and financial statements. Also, problems with undistributed collections and disbursements have created abnormal balances for Accounts Receivable and Accounts Payable on the SF 133.

DFAS and DON worked with USD(C) to correct abnormal balances and a new crosswalk has been implemented using proprietary accounts in order to improve budgetary reporting on the SF 133 as well as the Statement of Budgetary Resources. Once new accounting systems are deployed at NWCF activities, the budgetary account structure will replace the proprietary account crosswalk for the Statement of Budgetary Resources.

Intra-agency transactions have not been eliminated on the Statement of Budgetary Resources because the statements are presented as combined. Eliminating entries for this statement are deferred by OMB 01-09 bulletin.

See the Combining Statement of Budgetary Resources in the Supporting Consolidating/Combining Statements section of this report.

## 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 2001 to 2002
<b>1. Total Problem Disbursements</b>				
A. Absolute Unmatched Disbursements	\$ 376,000	\$ 204,317	\$ 165,500	\$ (37,817)
B. Negative Unliquidated Obligations	0	0	0	0
<b>2. Total In-transit Disbursements, Net</b>	\$ 271,181	\$ 0	\$ 0	\$ 0

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

Unmatched Disbursements (UMDs) occur when payments do not match to a corresponding accounts payable in the accounting system. Negative Unliquidated Obligations (NULO) occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regards to their sign. In transits represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but yet posted in an accounting system.



The NWCF had a problem disbursement absolute amount and net amount of \$166,562 thousand and \$101,020 thousand, respectively. NWCF problem disbursements continue to decrease from the prior years largely due to improving system functionality and business processes. Additional emphasis on further reducing NWCF problem disbursements by next year has resulted in corresponding efforts to analyze and improve DFAS processes, and determine solutions to reduce current inflow and their root causes.

#### 4. Suspense/Budget Clearing Accounts, Net

Account	September 2000	September 2001	September 2002	(Decrease)/ Increase
F3875	\$ 0	\$ 0	\$ 0	\$ 0
F3880	2,118	0	0	0
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
<b>Total</b>	<u>\$ 2,118</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

The NWCF Suspense/Budget Clearing Accounts are being reported under Navy General Funds, Index 17.

## NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

Disclosures Related to the Statement of Financing:

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

In FY 2002, the statement of financing was expanded to further articulate and detail the relationship between net 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.

Because DFAS NWCF accounting systems do not include budgetary accounts, the Statement of Budgetary Resources is produced using proprietary accounts. Additionally, current DFAS NWCF accounting systems may not contain the detail level information required to appropriately complete this Statement. Due to the system deficiencies, the Statement of Financing line, Costs Capitalized on the Balance Sheet, was adjusted downward by \$5,167,247 thousand. Therefore, the data presented on the Statement of Financing may not meet the intent of the DoD FMR.



# Notes to the Principal Statements

## NOTE 23. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY

Disclosures Related to the Statement of Custodial Activity:  
Not Applicable.

## NOTE 24. OTHER DISCLOSURES

### NOTE 24.A. OTHER DISCLOSURES: LEASES

ENTITY AS LESSEE-Operating Leases  
As of September 30,  
(Amounts in thousands)

	2002				2001
	Asset Category 1	Asset Category 2	Asset Category 3	Total	Total
Future payments Due: <u>Fiscal Year</u>					
2003	\$ 1,100	\$ 0	\$ 0	\$ 1,100	\$ 0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
2007	0	0	0	0	0
After 5 Years					
Total Future Lease Payments Due	<u>\$ 1,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,100</u>	<u>\$ 0</u>

#### Definition of Line Items:

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 expense over the lease term as it becomes payable.

#### Description of lease arrangements:

Asset Category 1, Plant Equipment, in the amount of \$1,100 thousand represents MSC's lease of corporate data center. The lease period is for one year with three option years and a buyout clause of 18% of original purchase price of equipment of \$3,942 thousand. There are no contingent rental restrictions.

Operating leases were inadvertently not reported in FY 2001. The operating lease commenced 1 December 1999. Payment for each year was \$1,100 thousand.

ENTITY AS LESSOR-Capital Leases  
None.

ENTITY AS LESSOR-Operating Leases  
None.

### NOTE 24.B. OTHER DISCLOSURES

None.



Department of the Navy

# NAVY WORKING CAPITAL FUND SUPPORTING CONSOLIDATING/COMBINING STATEMENTS



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

	Depot Maintenance, Shipyards	Depot Maintenance, Aviation	Depot Maintenance, Marine Corps	Ordnance
<b>ASSETS (Note 2)</b>				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	\$ 471,358	\$ (57,641)	\$ (1,287)	\$ 194,237
Investments (Note 4)	0	0	0	0
Accounts Receivable (Note 5)	10,572	111,362	8,744	963
Other Assets (Note 6)	13	0	21	0
Total Intragovernmental Assets	<u>481,943</u>	<u>53,721</u>	<u>7,478</u>	<u>195,200</u>
Cash and Other Monetary Assets (Note 7)	0	0	0	0
Accounts Receivable (Note 5)	572	1,497	991	199
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	251,241	726,392	42,818	864
General Property, Plant and Equipment (Note 10)	631,683	362,291	52,436	0
Other Assets (Note 6)	96,422	2,506	0	739
<b>TOTAL ASSETS</b>	<u>\$ 1,461,861</u>	<u>\$ 1,146,407</u>	<u>\$ 103,723</u>	<u>\$ 197,002</u>
<b>LIABILITIES (Note 11)</b>				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 13,873	\$ 231,447	\$ 0	\$ 6,707
Debt (Note 13)	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	71,595	4,146	550	0
Total Intragovernmental Liabilities	<u>85,468</u>	<u>235,593</u>	<u>550</u>	<u>6,707</u>
Accounts Payable (Note 12)	57,983	31,304	7,946	8,635
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	0	0	22,109	0
Environmental Liabilities (Note 14)	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	370,442	531,602	6,559	13,644
<b>TOTAL LIABILITIES</b>	<u>\$ 513,893</u>	<u>\$ 798,499</u>	<u>\$ 37,164</u>	<u>\$ 28,986</u>
<b>NET POSITION</b>				
Unexpended Appropriations (Note 18)	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	947,968	347,908	66,559	168,016
<b>TOTAL NET POSITION</b>	<u>\$ 947,968</u>	<u>\$ 347,908</u>	<u>\$ 66,559</u>	<u>\$ 168,016</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 1,461,861</u>	<u>\$ 1,146,407</u>	<u>\$ 103,723</u>	<u>\$ 197,002</u>

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



# Supporting Consolidating/Combining Statements

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

	Transportation	Base Support	Information Services	Research & Development
<b>ASSETS (Note 2)</b>				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	\$ 266,630	\$ 165,463	\$ 0	\$ 841,134
Investments (Note 4)	0	0	0	0
Accounts Receivable (Note 5)	95,632	181,654	0	115,320
Other Assets (Note 6)	0	0	0	0
Total Intragovernmental Assets	<u>362,262</u>	<u>347,117</u>	<u>0</u>	<u>956,454</u>
Cash and Other Monetary Assets (Note 7)	0	0	0	0
Accounts Receivable (Note 5)	13	28,664	0	35,349
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	25,606	47,238	0	309,393
General Property, Plant and Equipment (Note 10)	29,803	645,934	0	2,008,599
Other Assets (Note 6)	741,193	4,316	0	11,520
<b>TOTAL ASSETS</b>	<u>\$ 1,158,877</u>	<u>\$ 1,073,269</u>	<u>\$ 0</u>	<u>\$ 3,321,315</u>
<b>LIABILITIES (Note 11)</b>				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 39,310	\$ 12,774	\$ 0	\$ 89,227
Debt (Note 13)	750,725	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	456	2,466	0	99,024
Total Intragovernmental Liabilities	<u>790,491</u>	<u>15,240</u>	<u>0</u>	<u>188,251</u>
Accounts Payable (Note 12)	413,769	88,510	0	771,966
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	49,710	292,429	0	1,849,023
<b>TOTAL LIABILITIES</b>	<u>\$ 1,253,970</u>	<u>\$ 396,179</u>	<u>\$ 0</u>	<u>\$ 2,809,240</u>
<b>NET POSITION</b>				
Unexpended Appropriations (Note 18)	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	(95,093)	677,090	0	512,075
<b>TOTAL NET POSITION</b>	<u>\$ (95,093)</u>	<u>\$ 677,090</u>	<u>\$ 0</u>	<u>\$ 512,075</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 1,158,877</u>	<u>\$ 1,073,269</u>	<u>\$ 0</u>	<u>\$ 3,321,315</u>



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

<b>ASSETS (Note 2)</b>	<b>Supply Management</b>	<b>Component Level</b>	<b>Combined Total</b>	<b>Eliminations</b>
<b>Intragovernmental:</b>				
Fund Balance with Treasury (Note 3)	\$ 362,234	\$ (532,448)	\$ 1,709,680	\$ 0
Investments (Note 4)	0	0	0	0
Accounts Receivable (Note 5)	49,701	(48,708)	525,240	0
Other Assets (Note 6)	0	232	266	0
<b>Total Intragovernmental Assets</b>	<b>411,935</b>	<b>(580,924)</b>	<b>2,235,186</b>	<b>0</b>
Cash and Other Monetary Assets (Note 7)	0	0	0	0
Accounts Receivable (Note 5)	8,369	5,247	80,901	0
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	16,792,516	(540,204)	17,655,864	0
General Property, Plant and Equipment (Note 10)	460,091	0	4,190,837	0
Other Assets (Note 6)	283,958	0	1,140,654	0
<b>TOTAL ASSETS</b>	<b>\$ 17,956,869</b>	<b>\$ (1,115,881)</b>	<b>\$ 25,303,442</b>	<b>\$ 0</b>
<b>LIABILITIES (Note 11)</b>				
<b>Intragovernmental:</b>				
Accounts Payable (Note 12)	\$ 408,530	\$ (367,096)	\$ 434,772	\$ 0
Debt (Note 13)	0	0	750,725	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	1,191	(1,620)	177,808	0
<b>Total Intragovernmental Liabilities</b>	<b>409,721</b>	<b>(368,716)</b>	<b>1,363,305</b>	<b>0</b>
Accounts Payable (Note 12)	150,344	269,214	1,799,671	0
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	0	1,303,817	1,325,926	0
Environmental Liabilities (Note 14)	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	786,667	(1,092,242)	2,807,834	0
<b>TOTAL LIABILITIES</b>	<b>\$ 1,346,732</b>	<b>\$ 112,073</b>	<b>\$ 7,296,736</b>	<b>\$ 0</b>
<b>NET POSITION</b>				
Unexpended Appropriations (Note 18)	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	16,610,137	(1,227,954)	18,006,706	0
<b>TOTAL NET POSITION</b>	<b>\$ 16,610,137</b>	<b>\$ (1,227,954)</b>	<b>\$ 18,006,706</b>	<b>\$ 0</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 17,956,869</b>	<b>\$ (1,115,881)</b>	<b>\$ 25,303,442</b>	<b>\$ 0</b>

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



# Supporting Consolidating/Combining Statements

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

	2002	Restated 2001	2001
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 1,709,680	\$ 1,204,403	\$ 1,204,403
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	525,240	894,349	894,349
Other Assets (Note 6)	266	29,500	29,500
Total Intragovernmental Assets	<u>2,235,186</u>	<u>2,128,252</u>	<u>2,128,252</u>
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	80,901	109,737	109,737
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	17,655,864	17,345,710	17,885,914
General Property, Plant and Equipment (Note 10)	4,190,837	4,151,238	4,151,238
Other Assets (Note 6)	1,140,654	1,373,420	1,373,420
<b>TOTAL ASSETS</b>	<u>\$ 25,303,442</u>	<u>\$ 25,108,357</u>	<u>\$ 25,648,561</u>
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 434,772	\$ 462,946	\$ 462,946
Debt (Note 13)	750,725	888,306	888,306
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	177,808	119,102	119,102
Total Intragovernmental Liabilities	<u>1,363,305</u>	<u>1,470,354</u>	<u>1,470,354</u>
Accounts Payable (Note 12)	1,799,671	1,041,391	1,041,391
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	1,325,926	1,372,651	1,372,651
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	2,807,834	4,045,593	4,045,593
<b>TOTAL LIABILITIES</b>	<u>\$ 7,296,736</u>	<u>\$ 7,929,989</u>	<u>\$ 7,929,989</u>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	18,006,706	17,178,368	17,718,572
<b>TOTAL NET POSITION</b>	<u>\$ 18,006,706</u>	<u>\$ 17,178,368</u>	<u>\$ 17,718,572</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 25,303,442</u>	<u>\$ 25,108,357</u>	<u>\$ 25,648,561</u>

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



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

	2002 Total	Eliminations	2002	Restated 2001	2001
<b>Program Costs</b>					
<b>Base Support</b>					
Intragovernmental Gross Costs	\$ 1,634,739	\$ 0	\$ 1,634,739	\$ 216,127	\$ 216,127
(Less: Intragovernmental Earned Revenue)	<u>(1,627,848)</u>	<u>0</u>	<u>(1,627,848)</u>	<u>(1,405,416)</u>	<u>(1,405,416)</u>
Intragovernmental Net Costs	6,891	0	6,891	(1,189,289)	(1,189,289)
Gross Costs With the Public	19,753	0	19,753	1,447,582	1,447,582
(Less: Earned Revenue From the Public)	<u>(64,086)</u>	<u>0</u>	<u>(64,086)</u>	<u>(77,201)</u>	<u>(77,201)</u>
Net Costs With the Public	(44,333)	0	(44,333)	1,370,381	1,370,381
Net Program Cost	\$ (37,442)	\$ 0	\$ (37,442)	\$ 181,092	\$ 181,092
<b>Component Level</b>					
Intragovernmental Gross Costs	\$ (12,661,671)	\$ 0	\$ (12,661,671)	\$ 0	\$ 0
(Less: Intragovernmental Earned Revenue)	<u>2,152,034</u>	<u>0</u>	<u>2,152,034</u>	<u>0</u>	<u>0</u>
Intragovernmental Net Costs	(10,509,637)	0	(10,509,637)	0	0
Gross Costs With the Public	12,335,314	0	12,335,314	2,641,644	149,042
(Less: Earned Revenue From the Public)	<u>1,272</u>	<u>0</u>	<u>1,272</u>	<u>0</u>	<u>0</u>
Net Costs With the Public	12,336,586	0	12,336,586	2,641,644	149,042
Net Program Cost	\$ 1,826,949	\$ 0	\$ 1,826,949	\$ 2,641,644	\$ 149,042
<b>Depot Maintenance, Aviation</b>					
Intragovernmental Gross Costs	\$ 2,146,371	\$ 0	\$ 2,146,371	\$ 623,507	\$ 623,507
(Less: Intragovernmental Earned Revenue)	<u>(1,973,128)</u>	<u>0</u>	<u>(1,973,128)</u>	<u>(879,144)</u>	<u>(879,144)</u>
Intragovernmental Net Costs	173,243	0	173,243	(255,637)	(255,637)
Gross Costs With the Public	43,155	0	43,155	1,138,762	1,138,762
(Less: Earned Revenue From the Public)	<u>(50,214)</u>	<u>0</u>	<u>(50,214)</u>	<u>(31,372)</u>	<u>(31,372)</u>
Net Costs With the Public	(7,059)	0	(7,059)	1,107,390	1,107,390
Net Program Cost	\$ 166,184	\$ 0	\$ 166,184	\$ 851,753	\$ 851,753
<b>Depot Maintenance, Marine Corps</b>					
Intragovernmental Gross Costs	\$ 208,091	\$ 0	\$ 208,091	\$ 212,893	\$ 212,893
(Less: Intragovernmental Earned Revenue)	<u>(207,825)</u>	<u>0</u>	<u>(207,825)</u>	<u>(191,719)</u>	<u>(191,719)</u>
Intragovernmental Net Costs	266	0	266	21,174	21,174
Gross Costs With the Public	3,620	0	3,620	(76,501)	(76,501)
(Less: Earned Revenue From the Public)	<u>(4,327)</u>	<u>0</u>	<u>(4,327)</u>	<u>(3,941)</u>	<u>(3,941)</u>
Net Costs With the Public	(707)	0	(707)	(80,442)	(80,442)
Net Program Cost	\$ (441)	\$ 0	\$ (441)	\$ (59,268)	\$ (59,268)

The accompanying notes are an integral part of these financial statements. See notes 1 and 19.



# Supporting Consolidating/Combining Statements

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

	2002 Total	Eliminations	2002	Restated 2001	2001
<b>Depot Maintenance, Shipyards</b>					
Intragovernmental Gross Costs	\$ 2,726,318	\$ 0	\$ 2,726,318	\$ 487,062	\$ 487,062
(Less: Intragovernmental Earned Revenue)	<u>(2,534,914)</u>	<u>0</u>	<u>(2,534,914)</u>	<u>(2,001,472)</u>	<u>(2,001,472)</u>
Intragovernmental Net Costs	191,404	0	191,404	(1,514,410)	(1,514,410)
Gross Costs With the Public	107,251	0	107,251	1,576,165	1,576,165
(Less: Earned Revenue From the Public)	<u>(16,895)</u>	<u>0</u>	<u>(16,895)</u>	<u>(13,252)</u>	<u>(13,252)</u>
Net Costs With the Public	90,356	0	90,356	1,562,913	1,562,913
Net Program Cost	\$ 281,760	\$ 0	\$ 281,760	\$ 48,503	\$ 48,503
<b>Information Services</b>					
Intragovernmental Gross Costs	\$ 0	\$ 0	\$ 0	\$ 38,839	\$ 38,839
(Less: Intragovernmental Earned Revenue)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(28,293)</u>	<u>(28,293)</u>
Intragovernmental Net Costs	0	0	0	10,546	10,546
Gross Costs With the Public	0	0	0	36,112	36,112
(Less: Earned Revenue From the Public)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(26,582)</u>	<u>(26,582)</u>
Net Costs With the Public	0	0	0	9,530	9,530
Net Program Cost	\$ 0	\$ 0	\$ 0	\$ 20,076	\$ 20,076
<b>Ordnance</b>					
Intragovernmental Gross Costs	\$ (56,748)	\$ 0	\$ (56,748)	\$ 364	\$ 364
(Less: Intragovernmental Earned Revenue)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Intragovernmental Net Costs	(56,748)	0	(56,748)	364	364
Gross Costs With the Public	0	0	0	2,779	2,779
(Less: Earned Revenue From the Public)	<u>(604)</u>	<u>0</u>	<u>(604)</u>	<u>(2,393)</u>	<u>(2,393)</u>
Net Costs With the Public	(604)	0	(604)	386	386
Net Program Cost	\$ (57,352)	\$ 0	\$ (57,352)	\$ 750	\$ 750
<b>Transportation</b>					
Intragovernmental Gross Costs	\$ 1,383,045	\$ 0	\$ 1,383,045	\$ 588,593	\$ 588,593
(Less: Intragovernmental Earned Revenue)	<u>(1,516,715)</u>	<u>0</u>	<u>(1,516,715)</u>	<u>(1,337,799)</u>	<u>(1,337,799)</u>
Intragovernmental Net Costs	(133,670)	0	(133,670)	(749,206)	(749,206)
Gross Costs With the Public	4,103	0	4,103	1,107,829	1,107,829
(Less: Earned Revenue From the Public)	<u>(1,950)</u>	<u>0</u>	<u>(1,950)</u>	<u>0</u>	<u>0</u>
Net Costs With the Public	2,153	0	2,153	1,107,829	1,107,829
Net Program Cost	\$ (131,517)	\$ 0	\$ (131,517)	\$ 358,623	\$ 358,623

The accompanying notes are an integral part of these financial statements. See notes 1 and 19.



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

	<u>2002 Total</u>	<u>Eliminations</u>	<u>2002</u>	<u>Restated 2001</u>	<u>2001</u>
<b>Research and Development</b>					
Intragovernmental Gross Costs	\$ 9,030,982	\$ 0	\$ 9,030,982	\$ 1,289,772	\$ 1,289,772
(Less: Intragovernmental Earned Revenue)	<u>(9,119,274)</u>	<u>0</u>	<u>(9,119,274)</u>	<u>(7,527,316)</u>	<u>(7,527,316)</u>
Intragovernmental Net Costs	(88,292)	0	(88,292)	(6,237,544)	(6,237,544)
Gross Costs With the Public	127,598	0	127,598	7,903,542	7,903,542
(Less: Earned Revenue From the Public)	<u>(351,023)</u>	<u>0</u>	<u>(351,023)</u>	<u>(203,908)</u>	<u>(203,908)</u>
Net Costs With the Public	<u>(223,425)</u>	<u>0</u>	<u>(223,425)</u>	<u>7,699,634</u>	<u>7,699,634</u>
Net Program Cost	\$ (311,717)	\$ 0	\$ (311,717)	\$ 1,462,090	\$ 1,462,090
<b>Supply Management</b>					
Intragovernmental Gross Costs	\$ 971,197	\$ 0	\$ 971,197	\$ 2,731,936	\$ 2,731,936
(Less: Intragovernmental Earned Revenue)	<u>(6,088,590)</u>	<u>0</u>	<u>(6,088,590)</u>	<u>(4,957,499)</u>	<u>(4,957,499)</u>
Intragovernmental Net Costs	(5,117,393)	0	(5,117,393)	(2,225,563)	(2,225,563)
Gross Costs With the Public	6,196,608	0	6,196,608	1,150,883	1,150,883
(Less: Earned Revenue From the Public)	<u>(374,865)</u>	<u>0</u>	<u>(374,865)</u>	<u>(289,735)</u>	<u>(289,735)</u>
Net Costs With the Public	<u>5,821,743</u>	<u>0</u>	<u>5,821,743</u>	<u>861,148</u>	<u>861,148</u>
Net Program Cost	\$ 704,350	\$ 0	\$ 704,350	\$ (1,364,415)	\$ (1,364,415)
<b>Total Program Costs</b>					
Intragovernmental Gross Costs	\$ 5,382,324	\$ 0	\$ 5,382,324	\$ 6,189,093	\$ 6,189,093
(Less: Intragovernmental Earned Revenue)	<u>(20,916,260)</u>	<u>0</u>	<u>(20,916,260)</u>	<u>(18,328,658)</u>	<u>(18,328,658)</u>
Intragovernmental Net Costs	(15,533,936)	0	(15,533,936)	(12,139,565)	(12,139,565)
Gross Costs With the Public	18,837,402	0	18,837,402	16,928,798	14,436,194
(Less: Earned Revenue From the Public)	<u>(862,692)</u>	<u>0</u>	<u>(862,692)</u>	<u>(648,383)</u>	<u>(648,383)</u>
Net Costs With the Public	<u>17,974,710</u>	<u>0</u>	<u>17,974,710</u>	<u>16,280,415</u>	<u>13,787,811</u>
Net Program Cost	\$ 2,440,774	\$ 0	\$ 2,440,774	\$ 4,140,850	\$ 1,648,246
<b>Costs Not Assigned to Programs</b>	0	0	0	0	0
<b>(Less: Earned Revenue Not Attributable to Programs)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Costs of Operations</b>	<u>\$ 2,440,774</u>	<u>\$ 0</u>	<u>\$ 2,440,774</u>	<u>\$ 4,140,850</u>	<u>\$ 1,648,246</u>

The accompanying notes are an integral part of these financial statements. See notes 1 and 19.



# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund

## CONSOLIDATING STATEMENT OF CHANGES IN THE NET POSITION

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

<b>CUMULATIVE RESULTS OF OPERATION</b>	<b>Depot Maintenance Shipyards</b>	<b>Depot Maintenance Aviation</b>	<b>Depot Maintenance Marine Corps</b>	<b>Ordnance</b>
<b>Beginning Balances</b>	\$ 1,230,010	\$ 454,372	\$ 60,306	\$ 91,207
<b>Prior period adjustments (+/-)</b>	<u>(127,861)</u>	<u>0</u>	<u>(1,051)</u>	<u>253</u>
<b>Beginning Balances, as adjusted</b>	1,102,149	454,372	59,255	91,460
<b>Budgetary Financing Sources:</b>				
Appropriations Received	0	0	0	0
Appropriations transferred in/out (+/-)	0	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0	0
Appropriations used	0	0	0	0
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	16,160	2,642	0	19,048
<b>Other Financing Sources:</b>				
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	111,419	57,078	6,863	156
Other (+/-)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Financing Sources</b>	<u>127,579</u>	<u>59,720</u>	<u>6,863</u>	<u>19,204</u>
<b>Net Cost of Operations (+/-)</b>	281,760	166,184	(441)	(57,352)
<b>Ending Balances</b>	<u>\$ 947,968</u>	<u>\$ 347,908</u>	<u>\$ 66,559</u>	<u>\$ 168,016</u>



Department of Defense  
Navy Working Capital Fund

**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**

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

	Transportation	Base Support	Information Services	Research & Development
<b>CUMULATIVE RESULTS OF OPERATION</b>				
<b>Beginning Balances</b>	\$ (236,719)	\$ 588,305	\$ (7,266)	\$ 89,678
<b>Prior period adjustments (+/-)</b>	<u>2,695</u>	<u>3,724</u>	<u>(2,081)</u>	<u>13</u>
<b>Beginning Balances, as adjusted</b>	(234,024)	592,029	(9,347)	89,691
<b>Budgetary Financing Sources:</b>				
Appropriations Received	0	0	0	0
Appropriations transferred in/out (+/-)	0	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0	0
Appropriations used	0	0	0	0
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	1,823	10,871	0	(108,689)
<b>Other Financing Sources:</b>				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	9,347	(9,805)
Imputed financing from costs absorbed by others	5,591	36,748	0	229,161
Other (+/-)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Financing Sources</b>	<u>7,414</u>	<u>47,619</u>	<u>9,347</u>	<u>110,667</u>
<b>Net Cost of Operations (+/-)</b>	(131,517)	(37,442)	0	(311,717)
<b>Ending Balances</b>	<u>\$ (95,093)</u>	<u>\$ 677,090</u>	<u>\$ 0</u>	<u>\$ 512,075</u>



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

# Supporting Consolidating/Combining Statements

Department of Defense

Navy Working Capital Fund

## CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2002 and 2001

(\$ in thousands)

<b>CUMULATIVE RESULTS OF OPERATION</b>	<b>Supply Management</b>	<b>Component Level</b>	<b>Combined Total</b>	<b>Eliminations</b>
<b>Beginning Balances</b>	\$ 15,941,285	\$ (492,606)	\$ 17,718,572	\$ 0
<b>Prior period adjustments (+/-)</b>	868,137	1,208,568	1,952,397	0
<b>Beginning Balances, as adjusted</b>	16,809,422	715,962	19,670,969	0
<b>Budgetary Financing Sources:</b>				
Appropriations Received	0	0	0	0
Appropriations transferred in/out (+/-)	0	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0	0
Appropriations used	0	0	0	0
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	487,172	(116,967)	312,060	0
<b>Other Financing Sources:</b>				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	(680)	0	(1,138)	0
Imputed financing from costs absorbed by others	18,573	0	465,589	0
Other (+/-)	0	0	0	0
<b>Total Financing Sources</b>	<u>505,065</u>	<u>(116,967)</u>	<u>776,511</u>	<u>0</u>
<b>Net Cost of Operations (+/-)</b>	704,350	1,826,949	2,440,774	0
<b>Ending Balances</b>	<u>\$ 16,610,137</u>	<u>\$ (1,227,954)</u>	<u>\$ 18,006,706</u>	<u>\$ 0</u>



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

	<u>2002</u>	<u>Restated 2001</u>	<u>2001</u>
<b>CUMULATIVE RESULTS OF OPERATION</b>			
<b>Beginning Balances</b>	\$ 17,718,572	\$ 19,090,738	\$ 19,090,738
<b>Prior period adjustments (+/-)</b>	1,952,397	790,769	(1,161,631)
<b>Beginning Balances, as adjusted</b>	<u>19,670,969</u>	<u>19,881,507</u>	<u>17,929,107</u>
<b>Budgetary Financing Sources:</b>			
Appropriations Received	0	0	0
Appropriations transferred in/out (+/-)	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0
Appropriations used	0	145,530	145,530
Nonexchange revenue	0	11,352	11,352
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	312,060	771,249	771,249
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	(1,138)	36,187	36,187
Imputed financing from costs absorbed by others	465,589	473,393	473,393
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>776,511</u>	<u>1,437,711</u>	<u>1,437,711</u>
<b>Net Cost of Operations (+/-)</b>	2,440,774	4,140,850	1,648,246
<b>Ending Balances</b>	<u>\$ 18,006,706</u>	<u>\$ 17,178,368</u>	<u>\$ 17,718,572</u>



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

# Supporting Consolidating/Combining Statements

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

## BUDGETARY FINANCING ACCOUNTS

<b>BUDGETARY RESOURCES</b>	<b>Depot Maintenance Shipyards</b>	<b>Depot Maintenance Aviation</b>	<b>Depot Maintenance Marine Corps</b>
Budget Authority:			
Appropriations Received	\$ 0	\$ 0	\$ 0
Borrowing Authority	0	0	0
Contract Authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated Balance:			
Beginning of period	430,847	352,768	80,698
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending Authority from Offsetting Collections:			
Earned			
Collected	2,596,802	2,297,171	214,367
Receivable from Federal sources	(234,175)	(221)	(4,113)
Change in unfilled customer orders			
Advances received	35,810	1,810	(1,074)
Without advance from Federal sources	247,481	167,106	(24,340)
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	<u>2,645,918</u>	<u>2,465,866</u>	<u>184,840</u>
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(13,536)	(56,724)	0
<b>Total Budgetary Resources</b>	<u><u>\$ 3,063,229</u></u>	<u><u>\$ 2,761,910</u></u>	<u><u>\$ 265,538</u></u>



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

	<b>Depot Maintenance Shipyards</b>	<b>Depot Maintenance Aviation</b>	<b>Depot Maintenance Marine Corps</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$ 0	\$ 0	\$ 0
Reimbursable	2,641,766	2,121,523	202,349
Subtotal	<u>2,641,766</u>	<u>2,121,523</u>	<u>202,349</u>
Unobligated balance:			
Apportioned	421,463	640,387	63,189
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	0	0	0
<b>Total, Status of Budgetary Resources</b>	<u>\$ 3,063,229</u>	<u>\$ 2,761,910</u>	<u>\$ 265,538</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>			
Obligated Balance, Net-beginning of period	\$ 172,802	\$ 169,909	\$ (45,996)
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, net-end of period:			
Accounts Receivable	(9,316)	(106,899)	(9,736)
Unfilled customer order from Federal sources	(897,781)	(822,869)	(48,809)
Undelivered Orders	591,155	213,310	28,066
Accounts Payable	595,835	877,283	14,059
Outlays:			
Disbursements	2,521,369	1,963,723	201,225
Collections	(2,632,613)	(2,298,980)	(213,293)
Subtotal	<u>(111,244)</u>	<u>(335,257)</u>	<u>(12,068)</u>
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<u>\$ (111,244)</u>	<u>\$ (335,257)</u>	<u>\$ (12,068)</u>

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



# Supporting Consolidating/Combining Statements

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

## BUDGETARY FINANCING ACCOUNTS

<b>BUDGETARY RESOURCES</b>	<b>Ordnance</b>	<b>Transportation</b>	<b>Base Support</b>	<b>Information Services</b>
Budget Authority:				
Appropriations Received	\$ 0	\$ 0	\$ 0	\$ 0
Borrowing Authority	0	0	0	0
Contract Authority	0	0	0	0
Net transfers (+/-)	0	0	0	0
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	188,219	(27,741)	149,960	59,540
Net transfers, actual (+/-)	0	0	0	(59,540)
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,531	1,510,911	1,790,113	0
Receivable from Federal sources	1,764	6,855	(42,673)	0
Change in unfilled customer orders				
Advances received	(5)	0	2,391	0
Without advance from Federal sources	242,840	2,143	(50,057)	0
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	<u>246,130</u>	<u>151,909</u>	<u>1,699,774</u>	<u>0</u>
Recoveries of prior year obligations	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(1,066)	(140,517)	(18,334)	0
<b>Total Budgetary Resources</b>	<b><u>\$ 433,283</u></b>	<b><u>\$ 1,351,651</u></b>	<b><u>\$ 1,831,400</u></b>	<b><u>\$ 0</u></b>

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



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

<b>STATUS OF BUDGETARY RESOURCES</b>	<b>Ordnance</b>	<b>Transportation</b>	<b>Base Support</b>	<b>Information Services</b>
Obligations Incurred:				
Direct	\$ 0	\$ 0	\$ 0	\$ 0
Reimbursable	167,656	1,175,208	1,624,280	0
Subtotal	167,656	1,175,208	1,624,280	0
Unobligated balance:				
Apportioned	265,627	176,443	207,120	0
Exempt from apportionment	0	0	0	0
Other available	0	0	0	0
Unobligated Balances Not Available	0	0	0	0
<b>Total, Status of Budgetary Resources</b>	<b>\$ 433,283</b>	<b>\$ 1,351,651</b>	<b>\$ 1,831,400</b>	<b>\$ 0</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>				
Obligated Balance, Net-beginning of period	\$ 42,828	\$ 415,244	\$ 118,473	\$ 22,610
Obligated Balance transferred, net (+/-)	0	0	0	(22,610)
Obligated Balance, net-end of period:				
Accounts Receivable	(962)	(95,632)	(159,273)	0
Unfilled customer order from Federal sources	(17,580)	(35,133)	(261,774)	0
Undelivered Orders	11,602	29,994	239,282	0
Accounts Payable	(29,170)	342,046	286,873	0
Outlays:				
Disbursements	1,989	1,340,179	1,730,374	0
Collections	(1,525)	(1,510,911)	(1,792,504)	0
Subtotal	464	(170,732)	(62,130)	0
Less: Offsetting receipts	0	0	0	0
<b>Net Outlays</b>	<b>\$ 464</b>	<b>\$ (170,732)</b>	<b>\$ (62,130)</b>	<b>\$ 0</b>

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



# Supporting Consolidating/Combining Statements

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

## BUDGETARY FINANCING ACCOUNTS

<b>BUDGETARY RESOURCES</b>	<b>Research &amp; Development</b>	<b>Supply Management</b>	<b>Component Level</b>	<b>2002 Combined Total</b>
Budget Authority:				
Appropriations Received	\$ 0	\$ 0	\$ 0	\$ 0
Borrowing Authority	0	0	0	0
Contract Authority	0	818,950	0	818,950
Net transfers (+/-)	0	0	0	0
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	1,313,323	126,966	432,077	3,106,657
Net transfers, actual (+/-)	18,776	40,764	0	0
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	9,461,818	6,355,648	13,903	24,242,264
Receivable from Federal sources	(194,997)	2,925	(13,903)	(478,538)
Change in unfilled customer orders				
Advances received	19,874	(133)	0	58,673
Without advance from Federal sources	280,372	(92,138)	0	773,407
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	<u>9,567,067</u>	<u>6,266,302</u>	<u>0</u>	<u>24,595,806</u>
Recoveries of prior year obligations	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(154,195)	(32,860)	0	(417,232)
<b>Total Budgetary Resources</b>	<u><u>\$ 10,744,971</u></u>	<u><u>\$ 7,220,122</u></u>	<u><u>\$ 432,077</u></u>	<u><u>\$ 28,104,181</u></u>



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

<b>STATUS OF BUDGETARY RESOURCES</b>	<b>Research &amp; Development</b>	<b>Supply Management</b>	<b>Component Level</b>	<b>2002 Combined Total</b>
Obligations Incurred:				
Direct	\$ 0	\$ 0	\$ 0	\$ 0
Reimbursable	9,545,269	6,508,908	0	23,986,959
Subtotal	<u>9,545,269</u>	<u>6,508,908</u>	<u>0</u>	<u>23,986,959</u>
Unobligated balance:				
Apportioned	1,199,702	711,213	432,077	4,117,221
Exempt from apportionment	0	0	0	0
Other available	0	1	0	1
Unobligated Balances Not Available	0	0	0	0
<b>Total, Status of Budgetary Resources</b>	<u>\$ 10,744,971</u>	<u>\$ 7,220,122</u>	<u>\$ 432,077</u>	<u>\$ 28,104,181</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>				
Obligated Balance, Net-beginning of period	\$ (354,815)	\$ 3,088,289	\$ (1,208,239)	\$ 2,421,105
Obligated Balance transferred, net (+/-)	(15,250)	37,860	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	(131,730)	(267,811)	8,033	(773,326)
Unfilled customer order from Federal sources	(3,845,967)	(862,041)	0	(6,791,954)
Undelivered Orders	1,959,303	4,255,245	0	7,327,957
Accounts Payable	2,071,322	218,174	(1,153,340)	3,223,082
Outlays:				
Disbursements	9,036,900	6,380,706	(49,029)	23,127,436
Collections	(9,481,691)	(6,355,516)	(13,904)	(24,300,937)
Subtotal	<u>(444,791)</u>	<u>25,190</u>	<u>(62,933)</u>	<u>(1,173,501)</u>
Less: Offsetting receipts	0	0	0	0
<b>Net Outlays</b>	<u>\$ (444,791)</u>	<u>\$ 25,190</u>	<u>\$ (62,933)</u>	<u>\$ (1,173,501)</u>



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

# Supporting Consolidating/Combining Statements

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

## BUDGETARY FINANCING ACCOUNTS

<b>BUDGETARY RESOURCES</b>	<u>Restated 2001 Combined Total</u>	<u>2001 Combined Total</u>
Budget Authority:		
Appropriations Received	\$ 145,530	\$ 145,530
Borrowing Authority	0	0
Contract Authority	612,962	612,962
Net transfers (+/-)	0	0
Other	0	0
Unobligated Balance:		
Beginning of period	2,089,156	2,089,156
Net transfers, actual (+/-)	43,700	43,700
Anticipated Transfers Balances	0	0
Spending Authority from Offsetting Collections:		
Earned		
Collected	21,216,090	21,216,090
Receivable from Federal sources	177,613	177,613
Change in unfilled customer orders		
Advances received	(576,035)	(576,035)
Without advance from Federal sources	790,654	790,653
Anticipated for the rest of year, without advances	0	0
Transfers from trust funds	0	0
Subtotal	<u>21,608,321</u>	<u>21,608,321</u>
Recoveries of prior year obligations	0	0
Temporarily not available pursuant to Public Law	0	0
Permanently not available	(80,135)	(80,135)
<b>Total Budgetary Resources</b>	<u>\$ 24,419,534</u>	<u>\$ 24,419,534</u>



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

<b>STATUS OF BUDGETARY RESOURCES</b>	<b>Restated 2001 Combined Total</b>	<b>2001 Combined Total</b>
Obligations Incurred:		
Direct	\$ 0	\$ 0
Reimbursable	<u>21,312,877</u>	<u>21,312,877</u>
Subtotal	<u>21,312,877</u>	<u>21,312,877</u>
Unobligated balance:		
Apportioned	3,044,096	3,044,096
Exempt from apportionment	62,562	62,562
Other available	(1)	(1)
Unobligated Balances Not Available	<u>0</u>	<u>0</u>
<b>Total, Status of Budgetary Resources</b>	<b><u>\$ 24,419,534</u></b>	<b><u>\$ 24,419,534</u></b>

<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>		
Obligated Balance, Net-beginning of period	\$ 3,630,862	\$ 3,630,862
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, net-end of period:		
Accounts Receivable	1,251,862	1,251,862
Unfilled customer order from Federal sources	6,018,549	6,018,549
Undelivered Orders	(4,611,122)	(4,611,122)
Accounts Payable	(5,080,394)	(5,080,394)
Outlays:		
Disbursements	21,554,367	21,554,367
Collections	<u>(20,640,054)</u>	<u>(20,640,054)</u>
Subtotal	<u>914,313</u>	<u>914,313</u>
Less: Offsetting receipts	<u>0</u>	<u>0</u>
<b>Net Outlays</b>	<b><u>\$ 914,313</u></b>	<b><u>\$ 914,313</u></b>



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

# Supporting Consolidating/Combining Statements

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

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps
<b>Resources Used to Finance Activities:</b>			
Budgetary Resources Obligated			
Obligations Incurred	\$ 2,641,766	\$ 2,121,523	\$ 202,349
Less: Spending Authority from offsetting collections and recoveries (-)	<u>(2,645,918)</u>	<u>(2,465,866)</u>	<u>(184,840)</u>
Obligations net of offsetting collections and recoveries	(4,152)	(344,343)	17,509
Less: Offsetting receipts (-)	<u>0</u>	<u>0</u>	<u>0</u>
Net obligations	(4,152)	(344,343)	17,509
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	111,419	57,078	6,863
Other (+/-)	<u>0</u>	<u>0</u>	<u>0</u>
Net other resources used to finance activities	111,419	57,078	6,863
<b>Total resources used to finance activities</b>	<b>\$ 107,267</b>	<b>\$ (287,265)</b>	<b>\$ 24,372</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered orders (-)	\$ (97,940)	\$ 19,771	\$ (8,959)
Unfilled Customer Orders	283,291	168,916	(25,416)
Resources that fund expenses recognized in prior periods	0	0	(204)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0
Resources that finance the acquisition of assets	(50,218)	232,801	5,662
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>
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>135,133</b>	<b>421,488</b>	<b>(28,917)</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 242,400</b>	<b>\$ 134,223</b>	<b>\$ (4,545)</b>

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



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

<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>	<b>Depot Maintenance Shipyards</b>	<b>Depot Maintenance Aviation</b>	<b>Depot Maintenance Marine Corps</b>
<b>Components Requiring or Generating Resources in Future Periods:</b>			
Increase in annual leave liability	\$ 0	\$ 0	\$ 0
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0
Other (+/-)	0	0	0
<b>Total components of Net Cost of Operations that will require or generate resources in future periods</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Components not Requiring or Generating Resources:</b>			
Depreciation and amortization	39,360	31,961	4,104
Revaluation of assets and liabilities (+/-)	0	0	0
Other (+/-)	0	0	0
<b>Total components of Net Cost of Operations that will not require or generate resources</b>	<b>\$ 39,360</b>	<b>\$ 31,961</b>	<b>\$ 4,104</b>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<b>\$ 39,360</b>	<b>\$ 31,961</b>	<b>\$ 4,104</b>
<b>Net Cost of Operations</b>	<b>\$ 281,760</b>	<b>\$ 166,184</b>	<b>\$ (441)</b>



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

# Supporting Consolidating/Combining Statements

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

<b>Resources Used to Finance Activities:</b>	<b>Ordnance</b>	<b>Transportation</b>	<b>Base Support</b>	<b>Information Services</b>
<b>Budgetary Resources Obligated</b>				
Obligations Incurred	\$ 167,656	\$ 1,175,208	\$ 1,624,280	\$ 0
Less: Spending Authority from offsetting collections and recoveries (-)	(246,130)	(1,519,909)	(1,699,774)	0
Obligations net of offsetting collections and recoveries	(78,474)	(344,701)	(75,494)	0
Less: Offsetting receipts (-)	0	0	0	0
Net obligations	(78,474)	(344,701)	(75,494)	0
<b>Other Resources</b>				
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	156	5,591	36,748	0
Other (+/-)	0	0	0	0
Net other resources used to finance activities	156	5,591	36,748	0
<b>Total resources used to finance activities</b>	<b>\$ (78,318)</b>	<b>\$ (339,110)</b>	<b>\$ (38,746)</b>	<b>\$ 0</b>
 <b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered orders (-)	\$ (300,464)	\$ (334,679)	\$ (100,885)	\$ 0
Unfilled Customer Orders	242,835	2,143	(47,666)	(20,328)
Resources that fund expenses recognized in prior periods	0	0	0	0
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0	0
Resources that finance the acquisition of assets	78,595	536,484	132,570	20,328
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	0
Other (+/-)	0	0	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>20,966</b>	<b>203,948</b>	<b>(15,981)</b>	<b>0</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ (57,352)</b>	<b>\$ (135,162)</b>	<b>\$ (54,727)</b>	<b>\$ 0</b>



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

<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>	<b>Ordnance</b>	<b>Transportation</b>	<b>Base Support</b>	<b>Information Services</b>
<b>Components Requiring or Generating Resources in Future Periods:</b>	\$ 0	\$ 0	\$ 0	\$ 0
Increase in annual leave liability	0	0	0	0
Increase in environmental and disposal liability	0	0	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0	0
Other (+/-)	0	0	0	0
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Components not Requiring or Generating Resources:</b>	0	3,645	17,285	0
Depreciation and amortization	0	0	0	0
Revaluation of assets and liabilities (+/-)	0	0	0	0
Other (+/-)	0	0	0	0
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 0</u>	<u>\$ 3,645</u>	<u>\$ 17,285</u>	<u>\$ 0</u>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<u>\$ 0</u>	<u>\$ 3,645</u>	<u>\$ 17,285</u>	<u>\$ 0</u>
<b>Net Cost of Operations</b>	<u>\$ (57,352)</u>	<u>\$ (131,517)</u>	<u>\$ (37,442)</u>	<u>\$ 0</u>



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

# Supporting Consolidating/Combining Statements

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

	Research & Development	Supply Management	Component Level	2002 Combined Total
<b>Resources Used to Finance Activities:</b>				
Budgetary Resources Obligated				
Obligations Incurred	\$ 9,545,269	\$ 6,508,908	\$ 0	\$ 23,986,959
Less: Spending Authority from offsetting collections and recoveries (-)	(9,567,067)	(6,266,302)	0	(24,595,806)
Obligations net of offsetting collections and recoveries	(21,798)	242,606	0	(608,847)
Less: Offsetting receipts (-)	0	0	0	0
Net obligations	(21,798)	242,606	0	(608,847)
Other Resources				
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	229,161	18,573	0	465,589
Other (+/-)	0	0	0	0
Net other resources used to finance activities	229,161	18,573	0	465,589
<b>Total resources used to finance activities</b>	<b>\$ 207,363</b>	<b>\$ 261,179</b>	<b>\$ 0</b>	<b>\$ (143,258)</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered orders (-)	\$ (1,387,034)	\$ (466,996)	\$ (346,441)	\$ (3,023,627)
Unfilled Customer Orders	300,278	(71,975)	0	832,078
Resources that fund expenses recognized in prior periods	0	0	(46,521)	(46,725)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0	0
Resources that finance the acquisition of assets	463,513	1,527,601	2,219,911	5,167,247
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	0
Other (+/-)	0	0	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>(623,243)</b>	<b>988,630</b>	<b>1,826,949</b>	<b>2,928,973</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ (415,880)</b>	<b>\$ 1,249,809</b>	<b>\$ 1,826,949</b>	<b>\$ 2,785,715</b>



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

<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>	<b>Research &amp; Development</b>	<b>Supply Management</b>	<b>Component Level</b>	<b>2002 Combined Total</b>
<b>Components Requiring or Generating Resources in Future Periods:</b>				
Increase in annual leave liability	\$ 0	\$ 0	\$ 0	\$ 0
Increase in environmental and disposal liability	0	0	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0	0
Other (+/-)	0	0	0	0
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Components not Requiring or Generating Resources:</b>				
Depreciation and amortization	104,163	9,971	0	210,489
Revaluation of assets and liabilities (+/-)	0	(555,389)	0	(555,389)
Other (+/-)	0	(41)	0	(41)
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 104,163</u>	<u>\$ (545,459)</u>	<u>\$ 0</u>	<u>\$ (344,941)</u>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<u>\$ 104,163</u>	<u>\$ (545,459)</u>	<u>\$ 0</u>	<u>\$ (344,941)</u>
<b>Net Cost of Operations</b>	<u><u>\$ (311,717)</u></u>	<u><u>\$ 704,350</u></u>	<u><u>\$ 1,826,949</u></u>	<u><u>\$ 2,440,774</u></u>



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

# Supporting Consolidating/Combining Statements

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

	<b>Restated 2001 Combined Total</b>	<b>2001 Combined Total</b>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 21,312,876	\$ 21,312,876
Less: Spending Authority from offsetting collections and recoveries (-)	<u>(21,608,321)</u>	<u>(21,608,321)</u>
Obligations net of offsetting collections and recoveries	(295,445)	(295,445)
Less: Offsetting receipts (-)	<u>0</u>	<u>0</u>
Net obligations	(295,445)	(295,445)
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	(7,512)	(7,512)
Imputed financing from costs absorbed by others	473,394	473,394
Other (+/-)	<u>0</u>	<u>0</u>
Net other resources used to finance activities	465,882	465,882
<b>Total resources used to finance activities</b>	<b>\$ 170,437</b>	<b>\$ 170,437</b>
 <b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered orders (-)	\$ 2,802,411	\$ 2,802,411
Unfilled Customer Orders	214,618	214,618
Resources that fund expenses recognized in prior periods	(305)	(305)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		
Resources that finance the acquisition of assets	0	0
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations	(520,950)	(3,013,554)
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0
Other (+/-)	<u>0</u>	<u>0</u>
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>2,495,774</b>	<b>3,170</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 2,666,211</b>	<b>\$ 173,607</b>



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

<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>	<b>Restated 2001 Combined Total</b>	<b>2001 Combined Total</b>
<b>Components Requiring or Generating Resources in Future Periods:</b>		
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>149,042</u>	<u>149,042</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>149,042</u>	<u>149,042</u>
<b>Components not Requiring or Generating Resources:</b>		
Depreciation and amortization	210,671	210,671
Revaluation of assets and liabilities (+/-)	1,114,926	1,114,926
Other (+/-)	<u>0</u>	<u>0</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 1,325,597</u>	<u>\$ 1,325,597</u>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<u>\$ 1,474,639</u>	<u>\$ 1,474,639</u>
<b>Net Cost of Operations</b>	<u>\$ 4,140,850</u>	<u>\$ 1,648,246</u>



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

Department of the Navy

# WORKING CAPITAL FUND REQUIRED SUPPLEMENTARY INFORMATION



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

<b>Annual Sustainment FY 2002</b>			
	Required	Actual	Difference
Navy			
Marine Corps			
<b>Building, Structures, and Utilities</b>	306.9	306.9	0

<b>Annual Deferred Sustainment Trend</b>			
	FY 2000	FY 2001	FY 2002
Navy			
Marine Corps			
<b>Building, Structures, and Utilities</b>	-	72	0

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

**Narrative Statement:**

In FY 2002, Navy Working Capital Fund (NWCF) facilities transitioned to the Office of the Secretary of Defense's 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 NWCF has no material amounts of deferred sustainment for the General Property, Plant, and Equipment category of Personal Property.



## 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		\$ 19,496			
Department of Agriculture	12		174			
Department of Commerce	13		225			
Department of the Interior	14		60			
Department of Justice	15		910			
Department of Labor	16		121			
Navy General Fund	17		348,895			
Department of State	19		4,782			
Department of the Treasury	20	\$ 1,709,679	740			
Army General Fund	21		14,247			
Federal Trade Commission	29		289			
Department of Veterans Affairs	36		2,195			
General Service Administration	47		784			
National Science Foundation	49		1,012			
General Printing Office	5		840			
Air Force General Fund	57		11,688			
Tennessee Valley Authority	64		23			
Environmental Protection Agency	68		1,998			
Department of Transportation	69		10,548			
Small Business Administration	73		33			
Department of Health and Human Services	75		76			
National Aeronautics and Space Administration	80		769			
Department of Energy	89		1,810			
US Army Corps of Engineers	96		608			
Other Defense Organizations General Funds	97		79,495			
Other Defense Organizations Working Capital Funds	97-4930		17,382			
Army Working Capital Fund	97-4930.001		843			\$ 142
Navy Working Capital Fund	97-4930.002					
Air Force Working Capital Fund	97-4930.003		5,199			124
<b>TOTALS</b>		<b>\$ 1,709,679</b>	<b>\$ 525,242</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 266</b>





Schedule, Part I DoD Intragovernmental Entity Liabilities (\$ Amounts In Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Executive Office of the President	11			\$ 146
Department of Agriculture	12			1,478
Department of Commerce	13			4,400
Department of the Interior	14			298
Department of Justice	15			26,598
Navy General Fund	17	\$ 253,981		65,900
United States Postal Service	18			225
Department of State	19			3,952
Department of the Treasury	20		\$ 750,725	4,308
Army General Fund	21	9,680		
Office of Personnel Management	24			36,492
Social Security Administration	28			49
General Service Administration	47			89
National Science Foundation	49			10,817
Federal Emergency Management Agency	58			1,741
National Foundation on the Arts and Humanities	59			30
Environmental Protection Agency	68			80
Department of Transportation	69			3,683
Agency for International Development	72			4,292
Department of Health and Human Services	75			812
National Aeronautics and Space Administration	80			9,956
Department of Energy	89			2,105
Department of Education	91			358
US Army Corps of Engineers	96	84		
Other Defense Organizations General Funds	97	5,740		
Other Defense Organizations Working Capital Funds	97-4930	155,769		
Army Working Capital Fund	97-4930.001	1,823		
Air Force Working Capital Fund	97-4930.003	8,095		
<b>TOTALS</b>		<b>\$ 434,772</b>	<b>\$ 750,725</b>	<b>\$ 177,809</b>

## 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	\$ 98,581
Department of Agriculture	12	2,099
Department of Commerce	13	9,461
Department of the Interior	14	536
Department of Justice	15	37,466
Department of Labor	16	781
Navy General Fund	17	17,766,429
United States Postal Service	18	80
Department of State	19	15,629
Department of the Treasury	20	3,456
Army General Fund	21	187,088
Social Security Administration	28	103
Nuclear Regulatory Commission	31	133
Smithsonian Institution	33	18
Department of Veterans Affairs	36	4,261
General Service Administration	47	1,352
National Science Foundation	49	13,304
Air Force General Fund	57	268,628
Federal Emergency Management Agency	58	45
National Foundation on the Arts and Humanities	59	142
Tennessee Valley Authority	64	23
Environmental Protection Agency	68	2,722
Department of Transportation	69	39,241
Agency for International Development	72	8,334
Small Business Administration	73	139
Department of Health and Human Services	75	4,089
National Aeronautics and Space Administration	80	32,315
Department of Energy	89	36,214
Department of Education	91	4,966
US Army Corps of Engineers	96	846
Other Defense Organizations General Funds	97	1,962,778
Other Defense Organizations Working Capital Funds	97-4930	147,301
Army Working Capital Fund	97-4930.001	27,226
Air Force Working Capital Fund	97-4930.003	240,514
<b>TOTAL</b>		<b>\$ 20,916,260</b>



Department of the Navy

# NAVY WORKING CAPITAL FUND OTHER ACCOMPANYING INFORMATION



## APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE FINANCIAL STATEMENTS

### Reporting Entity

Navy Working Capital Fund

### Fund/Account Treasury Symbol and Title:

97X4930 002

### Navy Working Capital Fund Activity Group Treasury Symbol and Title:

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

### Notes

- \* The "\*" represents alpha or numeric characters which identify an activity or reporting segment of the activity group.
- <sup>a</sup> The Ordnance activity group became a part of the DON General Fund in FY 2000. The Ordnance information included in this report represents residual NWCF accounting for this group.
- <sup>b</sup> The Information Services activity group was dissolved at the end of FY 2001. The Information Services information included in this report represents residual NWCF accounting for this group.

